UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from ____________ to ____________

Commission file number 1-6541

LOEWS CORPORATION

(Exact name of registrant as specified in its charter)

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

667 MADISON AVENUE, NEW YORK, N.Y. 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 November 1, 2002
Common Stock, $1.00 par value	185,441,200 shares
Carolina Group Stock, $.01 par value	39,910,000 shares

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Balance Sheets

(In millions)	September 30, 2002	December 31, 2001
~~Assets:~~		
~~Investments:~~		
~~Fixed maturities, amortized cost of $28,447.7 and $31,004.1~~	~~$29,093.0~~	~~$31,191.0~~
~~Equity securities, cost of $1,460.4 and $1,457.3~~	~~1,393.4~~	~~1,646.0~~
~~Other investments~~	~~1,694.4~~	~~1,587.3~~
~~Short term investments~~	~~10,509.3~~	~~6,734.8~~
~~Total investments~~	~~42,690.1~~	~~41,159.1~~
~~Cash~~	~~308.8~~	~~181.3~~
~~Receivables-net~~	~~18,416.7~~	~~19,452.8~~
~~Property, plant and equipment-net~~	~~3,042.8~~	~~3,075.3~~
~~Deferred income taxes~~	~~595.0~~	~~607.0~~
~~Goodwill and other intangible assets-net~~	~~202.3~~	~~323.8~~
~~Other assets~~	~~4,558.5~~	~~4,229.8~~
~~Deferred acquisition costs of insurance subsidiaries~~	~~2,547.8~~	~~2,423.9~~
~~Separate account business~~	~~3,147.3~~	~~3,798.1~~
~~Total assets~~	~~$75,509.3~~	~~$75,251.1~~
~~Liabilities and Shareholders' Equity:~~		
~~Insurance reserves:~~		
~~Claim and claim adjustment expense~~	~~$29,724.8~~	~~$31,266.2~~
~~Future policy benefits~~	~~7,285.7~~	~~7,306.4~~
~~Unearned premiums~~	~~5,002.3~~	~~4,505.3~~
~~Policyholders' funds~~	~~567.3~~	~~546.0~~
~~Total insurance reserves~~	~~42,580.1~~	~~43,623.9~~
~~Payable for securities purchased~~	~~1,733.1~~	~~1,365.6~~
~~Securities sold under agreements to repurchase~~	~~1,211.7~~	~~1,602.4~~
~~Long term debt, less unamortized discount~~	~~5,914.9~~	~~5,920.3~~
~~Reinsurance balances payable~~	~~3,031.9~~	~~2,722.9~~
~~Other liabilities~~	~~4,892.0~~	~~4,595.2~~
~~Separate account business~~	~~3,147.3~~	~~3,798.1~~
~~Total liabilities~~	~~62,511.0~~	~~63,628.4~~
~~Minority interest~~	~~1,891.3~~	~~1,973.4~~
~~Shareholders' equity~~	~~11,107.0~~	~~9,649.3~~
~~Total liabilities and shareholders' equity~~	~~$75,509.3~~	~~$75,251.1~~

~~See accompanying Notes to Consolidated Condensed Financial Statements.~~

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Operations

(In millions, except per share data)	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Revenues:				
Insurance premiums	$ 2,261.4	$ 2,514.5	$ 7,922.9	$ 6,598.1
Investment income, net of expenses . .	396.8	515.4	1,399.7	1,563.0
Investment gains (losses)	26.5	72.2	(145.0)	1,063.8
Manufactured products (including excise taxes of $161.5, $165.3, $518.0 and $476.4).	1,004.1	1,093.6	3,076.4	3,052.7
Other	388.7	471.7	1,258.5	1,458.9
Total	4,077.5	4,667.4	13,512.5	13,736.5
Expenses:				
Insurance claims and policyholders' benefits	1,850.1	2,420.3	6,542.4	8,765.9
Amortization of deferred acquisition costs	447.9	423.1	1,349.9	1,297.2
Cost of manufactured products sold . .	552.7	612.0	1,760.0	1,765.4
Other operating expenses	734.7	848.8	2,388.9	2,768.1
Restructuring and other related charges				62.1
Interest	77.1	77.1	231.8	256.1
Total	3,662.5	4,381.3	12,273.0	14,914.8
	415.0	286.1	1,239.5	(1,178.3)
Income tax expense (benefit)	157.6	113.7	453.6	(326.2)
Minority interest	17.0	11.3	59.7	(121.5)
Total	174.6	125.0	513.3	(447.7)
Income (loss) from continuing operations	240.4	161.1	726.2	(730.6)
Discontinued operations-net		4.6	(31.0)	6.7
Cumulative effect of changes in accounting principles-net			(39.6)	(53.3)
Net income (loss)	$ 240.4	$ 165.7	$ 655.6	$ (777.2)

(In millions, except per share data)	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002	Nine Months Ended September 30, 2001
Net income (loss) attributable to:				
Loews Common Stock:				
Income (loss) from continuing operations	$ 196.0	$ 161.1	$ 622.4	$ (730.6)
Discontinued operations-net		4.6	(31.0)	6.7
Cumulative effect of changes in accounting principles-net			(39.6)	(53.3)
Loews Common Stock	196.0	165.7	551.8	(777.2)
Carolina Group Stock	44.4		103.8	
Total	$ 240.4	$ 165.7	$ 655.6	$ (777.2)
Income (loss) per Loews common share:				
Income (loss) from continuing operations	$ 1.06	$ 0.83	$ 3.30	$ (3.71)
Discontinued operations		0.02	(0.16)	0.03
Cumulative effect of changes in				

accounting principles			(0.21)	(0.27)
Net income (loss)	$ 1.06	$ 0.85	$ 2.93	$ (3.95)
Net income per Carolina Group common share	$ 1.10		$ 2.58	
Weighted average number of shares outstanding:				
Loews Common Stock	185.71	195.41	188.31	196.62
Carolina Group Stock	40.19		40.23	

See accompanying Notes to Consolidated Condensed Financial Statements.

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Cash Flows

(In millions)	Nine Months Ended September 30, 2002	2001
Operating Activities:		
Net income (loss)	$ 655.6	$ (777.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities net	300.4	(1,406.8)
Loss on disposal of discontinued operations	32.8	
Cumulative effect of changes in accounting principles . .	39.6	53.3
Changes in assets and liabilities net:		
Reinsurance receivable	167.3	(3,914.2)
Other receivables	540.4	1,214.8
Federal income taxes	845.7	(813.4)
Prepaid reinsurance premiums	(196.1)	95.7
Deferred acquisition costs	(129.7)	(54.4)
Insurance reserves and claims	(664.3)	4,339.1
Reinsurance balances payable	309.0	1,302.7
Other liabilities	56.4	602.3
Trading securities	(529.1)	108.5
Other net	(28.7)	(309.3)
	1,399.3	441.1
Investing Activities:		
Purchases of fixed maturities	(61,756.9)	(56,344.3)
Proceeds from sales of fixed maturities	59,354.8	52,665.8
Proceeds from maturities of fixed maturities	4,520.8	2,834.7
Securities sold under agreements to repurchase	(390.7)	(293.1)
Purchase of equity securities	(746.1)	(1,065.8)
Proceeds from sales of equity securities	816.4	1,928.8
Change in short term investments	(3,102.3)	1,119.8
Purchases of property, plant and equipment	(325.8)	(347.4)
Proceeds from sales of property, plant and equipment . . .	102.2	287.4
Change in other investments	(234.3)	(235.6)
	(1,761.9)	550.3
Financing Activities:		
Dividends paid to Loews shareholders	(120.8)	(83.8)
Dividends paid to minority interests	(30.1)	(30.6)
Issuance of Loews Common Stock	0.5	
Issuance of Carolina Group Stock	1,069.6	
Issuance of common stock by subsidiary		50.2
Purchases of Loews treasury shares	(351.2)	(279.6)
Purchases of treasury shares by subsidiaries	(30.6)	(24.3)
Issuance of long term debt	65.0	449.1
Principal payments on long term debt	(85.4)	(1,060.2)
Receipts credited to policyholders	0.4	1.5
Withdrawals of policyholders account balances	(36.4)	(50.4)
Other	9.1	
	490.1	(1,028.1)
Net change in cash	127.5	(36.7)
Cash, beginning of period	181.3	195.2
Cash, end of period	$ 308.8	$ 158.5

See accompanying Notes to Consolidated Condensed Financial Statements.

(Dollars in millions, except per share data)

1. Basis of Presentation:

Loews Corporation is a holding company. Its subsidiaries are engaged in the following lines of business: property, casualty and life insurance (CNA Financial Corporation ("CNA"), a 90% owned subsidiary); the production and sale of cigarettes (Lorillard, Inc. ("Lorillard"), a wholly owned subsidiary); the operation of hotels (Loews Hotels Holding Corporation ("Loews Hotels"), a wholly owned subsidiary); the operation of offshore oil and gas drilling rigs (Diamond Offshore Drilling, Inc. ("Diamond Offshore"), a 54% owned subsidiary); and the distribution and sale of watches and clocks (Bulova Corporation ("Bulova"), a 97% owned subsidiary).

Unless the context otherwise requires, the terms "Company" and "Registrant" as used herein mean Loews Corporation excluding its subsidiaries.

On February 6, 2002, the Company sold 40,250,000 shares of a new class of its common stock, referred to as Carolina Group Stock, for net proceeds of $1,069.6. This stock is designed to track the performance of the Carolina Group, which consists of: the Company's ownership interest in Lorillard; $2,500.0 of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; any and all liabilities, costs and expenses of the Company and Lorillard arising out of the past, present or future business of Lorillard, and all net income or net losses from the assets and liabilities attributed to the Carolina Group. Each outstanding share of Carolina Group stock has 1/10 of a vote per share. Holders of Carolina Group stock are common stockholders of the Company.

The issuance of Carolina Group Stock has resulted in a two class common stock structure for the Company. During the three months ended September 30, 2002, the Company purchased, for the account of the Carolina Group, 340,000 shares of Carolina Group Stock. As of September 30, 2002, the outstanding Carolina Group Stock represents a 23.01% economic interest in the economic performance of the Carolina Group. The Loews Group consists of all of the Company's assets and liabilities other than the assets and liabilities attributable to the Carolina Group, and includes as an asset the notional, intergroup debt of the Carolina Group, and a 76.99% intergroup interest in the Carolina Group.

Reference is made to the Notes to Consolidated Financial Statements in the 2001 Annual Report to Shareholders which should be read in conjunction with these consolidated condensed financial statements.

Accounting Changes

In 2002, the Company implemented the provisions of the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-14, "Accounting for Certain Sales Incentives" and EITF Issue No. 00-25, "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." EITF Issue No. 00-14 addresses the recognition, measurement, and income statement characterization of sales incentives,

including rebates, coupons and free products or services, offered voluntarily by a vendor without charge to the customer that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. EITF Issue No. 00-25 addresses whether consideration from a vendor to a reseller of the vendor's products is (i) an adjustment of the selling prices of the vendor's products and, therefore, should be deducted from revenue when recognized in the vendor's income statement or (ii) a cost incurred by the vendor for assets or services received from the reseller and, therefore, should be included as a cost or an expense when recognized in the vendor's income statement. As a result of both issues, promotional expenses historically included in other operating expenses were reclassified to cost of manufactured products sold, or as

~~reductions of revenues from manufactured products. Prior period amounts were reclassified for comparative purposes. Adoption of these provisions did not have a material impact on the financial position or results of operations of the Company.~~

~~In June of 2001, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 changed the accounting for goodwill and intangible assets with indefinite lives from an amortization method to an impairment-only approach. Amortization of goodwill and intangible assets with indefinite lives recorded in past business combinations ceased effective January 1, 2002 upon adoption of SFAS No. 142. Net income for the nine months ended September 30, 2002 does not include amortization expense on goodwill. Had the Company not amortized goodwill in 2001, pro forma net income (loss) and the related basic and diluted earnings per share amounts for Loews Common Stock would have been as follows:~~

	September 30, 2001			
(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	Net income	Per share	Net income	Per share
Results as reported in prior year	$165.7	$0.85	$(777.2)	$(3.95)
Add goodwill amortization, after tax and minority interest	4.0	0.02	14.1	0.07
Adjusted reported results to include the impact of the non amortization provisions of SFAS No. 142	$169.7	$0.87	$(763.1)	$(3.88)

~~During the third quarter of 2002, the Company completed its initial goodwill impairment testing and recorded a $39.6 impairment charge, as adjusted to reflect purchase accounting adjustments, net of income taxes and minority interest of $5.8 and $6.4, respectively. In accordance with SFAS No. 142, the impairment charge, which primarily relates to CNA's Specialty Lines and Life Operations, was recorded as a cumulative effect of a change in accounting principle as of January 1, 2002. Any impairment losses incurred after the initial application of this standard will be reported in operating results.~~

~~The impact of the goodwill impairment charge on net income and the related basic and diluted per share amounts for Loews Common Stock for the~~

~~three months ended March 31, 2002 and the six months ended June 30, 2002, is presented in the following table.~~

~~Restatement of 2002 Prior Period Results in Accordance with SFAS No. 142~~

(In millions, except per share amounts)	Three Months Ended March 31, 2002		Six Months Ended June 30, 2002	
	Net income	Per share	Net income	Per share
Results as reported in prior periods . . .	$234.9	$1.23	$395.4	$2.09
Less cumulative effect of adopting SFAS No. 142, net of tax and minority interest	(39.6)	(0.21)	(39.6)	(0.21)
Results as restated	$195.3	$1.02	$355.8	$1.88

~~Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." SFAS No. 144 essentially applies one accounting model for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and broadens the presentation of discontinued operations to include more disposal transactions. Adoption of these provisions did not have a~~

material impact on the equity or results of operations of the Company; however, it did impact the income statement presentation of certain operations sold in 2002.

In June of 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". The Company adopted the provisions of SFAS No. 146 for all disposal activities initiated after June 30, 2002. The adoption of SFAS No. 146 did not have a significant impact on the results of operations or equity of the Company.

In the first quarter of 2001, the Company adopted 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 charge to 2001 earnings of $53.3, net of income taxes and minority interest of $33.0 and $8.0, respectively, to reflect the change in accounting principle. Of this transition amount, approximately $50.5, net of income 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). The remainder of the transition adjustment is attributable to collateralized debt obligation products that are derivatives under SFAS No. 133. See Note 4 of the Notes to Consolidated Financial Statements in the Company's 2001 Annual Report on Form 10-K.

In June of 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Adoption of these provisions will not have a material impact on the equity or results of operations of the Company.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes to shareholders' equity, except those resulting from investments by shareholders and distributions to shareholders. For the three and nine months ended September 30, 2002 and 2001, comprehensive income (loss) totaled $438.5, $338.7, $861.7 and $(1,118.8), respectively. Comprehensive income (loss) includes net income (loss), unrealized appreciation (depreciation) of investments and foreign currency translation gains or losses.

Reclassifications

Certain amounts applicable to prior periods have been reclassified to conform to the classifications followed in 2002.

2. Earnings Per Share Attributable to Loews Common Stock and Carolina Group Stock:

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 (loss) attributable to each class of common stock by the weighted average number of common shares of each class of common stock 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. For the three and nine months ended September 30, 2002 and 2001, income (loss) per common share assuming dilution is the same as basic income (loss) per share because the impact of securities that could potentially dilute basic income (loss) per common share is insignificant or antidilutive for the periods presented.

The attribution of income to each class of common stock, for the three and nine months ended September 30, 2002, was as follows:

	September 30, 2002	
	Three Months, Ended	Nine Months Ended
Loews Common Stock:		
Consolidated net income	$240.4	$ 655.6
Less income attributable to Carolina Group Stock	(44.4)	(103.8)
Income attributable to Loews Common Stock	$196.0	$ 551.8
Carolina Group Stock:		
Carolina Group net income	$191.7	$521.2
Less net income for January 2002		73.1
Income available to Carolina Group Stock	191.7	448.1
Weighted average economic interest of the Carolina Group Stock	23.14%	23.16%
Income attributable to Carolina Group Stock . . .	$ 44.4	$103.8

3. Consolidating Financial Information:

The Consolidating Condensed Balance Sheets of Loews Corporation as of September 30, 2002 and December 31, 2001 and the Consolidating Statements of Operations for the three and nine months ended September 30, 2002 and 2001 and Cash Flows for the nine months ended September 30, 2002 and 2001, are as follows:

CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$ 2,261.4		$ 2,261.4
Investment income, net of expenses	$ 13.8	433.0	$ (50.0) (a)	396.8
Investment gains	22.1	4.4		26.5
Manufactured products	963.4	40.7		1,004.1
Other	1.2	387.5		388.7
Total	1,000.5	3,127.0	(50.0)	4,077.5
Expenses:				
Insurance claims and policyholders' benefits		1,850.1		1,850.1
Amortization of deferred acquisition costs		447.9		447.9
Cost of manufactured products sold	534.1	18.6		552.7
Other operating expenses	98.3	636.4		734.7
Interest	50.0	77.1	(50.0)(a)	77.1
Total	682.4	3,030.1	(50.0)	3,662.5
	318.1	96.9		415.0
Income taxes	126.4	31.2		157.6
Minority interest		17.0		17.0

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Total	126.4	48.2		174.6
Income from operations	191.7	48.7		240.4
Equity in earnings of the Carolina Group		147.3	(147.3)(b)	
Net income	$ 191.7	$ 196.0	$ (147.3)	$ 240.4

(a) To eliminate interest on the intergroup notional debt.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

Nine Months Ended September 30, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$ 7,922.9		$ 7,922.9
Investment income, net of expenses	$ 35.6	1,493.1	$(129.0)(a)	1,399.7
Investment (losses) gains.	32.7	(177.7)		(145.0)
Manufactured products	2,963.4	113.0		3,076.4
Other	1.9	1,256.6		1,258.5
Total	3,033.6	10,607.9	(129.0)	13,512.5
Expenses:				
Insurance claims and policyholders' benefits		6,542.4		6,542.4
Amortization of deferred acquisition costs		1,349.9		1,349.9
Cost of manufactured products sold	1,707.0	53.0		1,760.0
Other operating expenses (b) . . .	337.3	2,051.6		2,388.9
Interest	129.0	231.8	(129.0)(a)	231.8
Total	2,173.3	10,228.7	(129.0)	12,273.0
	860.3	379.2		1,239.5
Income taxes	339.1	114.5		453.6
Minority interest		59.7		59.7
Total	339.1	174.2		513.3
Income from operations	521.2	205.0		726.2
Equity in earnings of the Carolina Group		417.4	(417.4)(c)	
Income from continuing operations	521.2	622.4	(417.4)	726.2
Discontinued operations net . . .		(31.0)		(31.0)
Cumulative effect of changes in accounting principles net		(39.6)		(39.6)
Net income	$ 521.2	$ 551.8	$(417.4)	$ 655.6

(a) To eliminate interest on the intergroup notional debt.
(b) Includes $0.2 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.2 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a services agreement, which eliminate in these consolidating statements.
(c) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$ 2,514.5		$ 2,514.5
Investment income, net of expenses	$ 18.3	497.1		515.4
Investment gains		72.2		72.2
Manufactured products	1,058.9	34.7		1,093.6
Other	1.2	470.5		471.7
Total	1,078.4	3,589.0		4,667.4
Expenses:				
Insurance claims and policyholders' benefits		2,420.3		2,420.3
Amortization of deferred acquisition costs		423.1		423.1
Cost of manufactured products sold	595.8	16.2		612.0
Other operating expenses (a) . . .	106.0	742.8		848.8
Interest	0.3	76.8		77.1
Total	702.1	3,679.2		4,381.3
	376.3	(90.2)		286.1
Income taxes (benefit)	146.7	(33.0)		113.7
Minority interest		11.3		11.3
Total	146.7	(21.7)		125.0
Income (loss) from operations . .	229.6	(68.5)		161.1
Equity in earnings of the Carolina Group		229.6	$(229.6)(b)	
Income from continuing operations		161.1		161.1
Discontinued operations-net . . .		4.6		4.6
Net income	$ 229.6	$ 165.7	$(229.6)	$ 165.7

(a) Includes $0.2 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.1 expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a service agreement, which eliminate in these consolidating statements.

(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING CONDENSED STATEMENTS OF OPERATIONS

Nine Months Ended September 30, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Revenues:				
Insurance premiums		$ 6,598.1		$ 6,598.1
Investment income, net of expenses	$ 64.9	1,498.1		1,563.0
Investment gains	2.1	1,061.7		1,063.8
Manufactured products	2,955.2	97.5		3,052.7
Other	6.9	1,452.0		1,458.9
Total	3,029.1	10,707.4		13,736.5

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Expenses:				
Insurance claims and policyholders' benefits		8,765.9		8,765.9
Amortization of deferred acquisition costs		1,297.2		1,297.2
Cost of manufactured products sold	1,719.7	45.7		1,765.4
Other operating expenses (a) . . .	526.0	2,242.1		2,768.1
Restructuring and other related charges		62.1		62.1
Interest	0.6	255.5		256.1
Total	2,246.3	12,668.5		14,914.8
	782.8	(1,961.1)		(1,178.3)
Income taxes (benefit)	307.4	(633.6)		(326.2)
Minority interest		(121.5)		(121.5)
Total	307.4	(755.1)		(447.7)
Income (loss) from operations . .	475.4	(1,206.0)		(730.6)
Equity in earnings of the Carolina Group		475.4	$(475.4) (b)	
Income (loss) from continuing operations	475.4	(730.6)	(475.4)	(730.6)
Discontinued operations net . . .		6.7		6.7
Cumulative effect of changes in accounting principles net		(53.3)		(53.3)
Net income (loss)	$ 475.4	$ (777.2)	$(475.4)	$ (777.2)

(a) Includes $0.6 of expenses allocated by the Carolina Group to the Loews Group for computer related charges and $0.2 of expenses allocated by Loews Group to the Carolina Group for services provided pursuant to a service agreement, which eliminate in these consolidating statements.
(b) To eliminate the Loews Group's intergroup interest in the earnings of the Carolina Group.

CONSOLIDATING CONDENSED BALANCE SHEET

September 30, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Assets:				
Investments	$ 2,055.0	$40,635.1		$42,690.1
Cash	1.3	307.5		308.8
Receivables net	42.9	18,407.4	$ (33.6)(a)	18,416.7
Property, plant and equipment net	191.0	2,851.8		3,042.8
Deferred income taxes	451.1	143.9		595.0
Goodwill and other intangible assets net		202.3		202.3
Other assets	467.4	4,091.1		4,558.5
Investment in combined attributed net assets of the Carolina Group		1,756.5	(2,500.0)(a)	
			743.5 (b)	
Deferred acquisition costs of insurance subsidiaries		2,547.8		2,547.8
Separate account business		3,147.3		3,147.3
Total assets	$ 3,208.7	$74,090.7	$(1,790.1)	$75,509.3
Liabilities and Shareholders' Equity:				
Insurance reserves		$42,580.1		$42,580.1
Payable for securities purchased		1,733.1		1,733.1
Securities sold under agreements to repurchase		1,211.7		1,211.7
Long term debt, less unamortized				

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
discount	$ 2,500.0	5,914.9	$(2,500.0)(a)	5,914.9
Reinsurance balances payable . .		3,031.9		3,031.9
Other liabilities	1,674.5	3,251.1	(33.6)(a)	4,892.0
Separate account business		3,147.3		3,147.3
Total liabilities	4,174.5	60,870.1	(2,533.6)	62,511.0
Minority interest		1,891.3		1,891.3
Shareholders' equity:				
Loews Common stock, $1.00 par value			191.5 (c)	191.5
Carolina Group Stock, $0.01 par value			0.4 (c)	0.4
Additional paid-in capital . . .			1,115.7 (c)	1,115.7
Earnings retained in the business			9,749.8 (c)	9,749.8
Accumulated other comprehensive income			400.8 (c)	400.8
Combined attributed net assets .	(965.8)	11,329.3	743.5 (b)	
			(11,107.0)(c)	
	(965.8)	11,329.3	1,094.7	11,458.2
Less treasury stock, at cost . .			(351.2)(c)	(351.2)
Total shareholders' equity .	(965.8)	11,329.3	743.5	11,107.0
Total liabilities and shareholders' equity . . .	$ 3,208.7	$74,090.7	$(1,790.1)	$75,509.3

(a) To eliminate the intergroup notional debt and interest payable/receivable.
(b) To eliminate the Loews Group's 76.99% equity interest in the combined attributed net assets of the Carolina Group.
(c) To record the Loews Corporation consolidated equity accounts at the balance sheet date.

CONSOLIDATING CONDENSED BALANCE SHEET

December 31, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Assets:				
Investments	$1,628.9	$39,530.2		$41,159.1
Cash	1.7	179.6		181.3
Receivables-net	45.9	19,406.9		19,452.8
Property, plant and equipment-net	181.2	2,894.1		3,075.3
Deferred income taxes	426.6	180.4		607.0
Goodwill and other intangible assets-net		323.8		323.8
Other assets	485.1	3,744.7		4,229.8
Investment in combined attributed net assets of the Carolina Group		1,274.5	$ (1,274.5)(a)	
Deferred acquisition costs of insurance subsidiaries		2,423.9		2,423.9
Separate account business		3,798.1		3,798.1
Total assets	$2,769.4	$73,756.2	$ (1,274.5)	$75,251.1
Liabilities and Shareholders' Equity:				
Insurance reserves		$43,623.9		$43,623.9
Payable for securities purchased		1,365.6		1,365.6
Securities sold under agreements to repurchase		1,602.4		1,602.4
Long-term debt, less unamortized discount		5,920.3		5,920.3
Reinsurance balances payable . .		2,722.9		2,722.9
Other liabilities	$1,494.9	3,100.3		4,595.2
Separate account business		3,798.1		3,798.1

	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Total liabilities	1,494.9	62,133.5		63,628.4
Minority interest		1,973.4		1,973.4
Shareholders' equity:				
Loews Common stock, $1.00 par value			$ 191.5 (b)	191.5
Additional paid-in capital . . .			48.2 (b)	48.2
Earnings retained in the business			9,214.9 (b)	9,214.9
Accumulated other comprehensive income			194.7 (b)	194.7
Combined attributed net assets .	1,274.5	9,649.3	(1,274.5)(a) (9,649.3)(b)	
Total shareholders' equity .	1,274.5	9,649.3	(1,274.5)	9,649.3
Total liabilities and shareholders' equity . . .	$2,769.4	$73,756.2	$ (1,274.5)	$75,251.1

(a) To eliminate the Loews Group's 100% equity interest in the combined attributed net assets of the Carolina Group.
(b) To record the Loews Corporation consolidated equity accounts at the balance sheet date.

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2002	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Net cash provided by operating activities	$ 624.0	$ 994.1	$ (218.8)	$ 1,399.3
Investing activities:				
Purchases of property and equipment	(40.3)	(285.5)		(325.8)
Proceeds from sales of property and equipment	6.0	96.2		102.2
Change in short-term investments	(327.9)	(2,774.4)		(3,102.3)
Other investing activities		1,564.0		1,564.0
	(362.2)	(1,399.7)		(1,761.9)
Financing activities:				
Dividends paid to shareholders . .	(254.6)	(85.0)	218.8	(120.8)
Other financing activities	(7.6)	618.5		610.9
	(262.2)	533.5	218.8	490.1
Net change in cash	(0.4)	127.9		127.5
Cash, beginning of period	1.7	179.6		181.3
Cash, end of period	$ 1.3	$ 307.5		$ 308.8

Nine Months Ended September 30, 2001	Carolina Group	Loews Group	Adjustments and Eliminations	Consolidated Loews Corporation
Net cash provided by operating activities	$1,015.9	$ (74.8)	$ (500.0)	$ 441.1
Investing activities:				
Purchases of property and equipment	(25.6)	(321.8)		(347.4)
Proceeds from sales of property and equipment	9.1	278.3		287.4
Change in short-term investments .	(498.9)	1,618.7		1,119.8
Other investing activities		(509.5)		(509.5)
	(515.4)	1,065.7		550.3
Financing activities:				

Dividends paid to shareholders . .	(500.0)	(83.8)	500.0	(83.8)
Other financing activities		(944.3)		(944.3)
	(500.0)	(1,028.1)	500.0	(1,028.1)
Net change in cash	0.5	(37.2)		(36.7)
Cash, beginning of period	1.4	193.8		195.2
Cash, end of period	$ 1.9	$ 156.6		$ 158.5

4. Reinsurance:

CNA assumes and cedes reinsurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. Reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Generally, property risks are reinsured on an excess of loss, per risk basis. Liability coverages are generally reinsured on a quota share basis in excess of CNA's retained risk. CNA's life reinsurance includes coinsurance, yearly renewable term and facultative programs.

CNA's overall reinsurance program includes certain property and casualty contracts, such as the corporate aggregate reinsurance treaties discussed in more detail later in this section, that are entered into and accounted for on a "funds withheld" basis. Under the funds withheld basis, CNA records the cash remitted to the reinsurer for the reinsurer's margin, or cost of the reinsurance contract, as ceded premiums. The remainder of the premiums ceded under the reinsurance contract is recorded as funds withheld liability. CNA is required to increase the funds withheld balance at stated interest crediting rates applied to the funds withheld balance or as otherwise specified under the terms of the contract. The funds withheld liability is reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability is exhausted, interest crediting will cease and additional claim payments are recoverable from the reinsurer. The funds withheld liability is recorded in reinsurance balances payable in the Consolidated Condensed Balance Sheets.

Interest cost on these contracts is credited during all periods in which a funds withheld liability exists. Interest cost, which is included in investment income, net of expenses was $53.0 and $84.0 for the three months ended September 30, 2002 and 2001 and $168.0 and $206.0 for the nine months ended September 30, 2002 and 2001. The amount subject to interest crediting rates on such contracts was $2,904.0 and $2,724.0 at September 30, 2002 and December 31, 2001.

The amount subject to interest crediting on these funds withheld contracts will vary over time based on a number of factors, including the timing of loss payments and ultimate gross losses incurred. CNA expects that it will continue to incur significant interest costs on these contracts for several years.

The ceding of insurance does not discharge the primary liability of CNA. Therefore, a credit exposure exists with respect to property and casualty and life reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under reinsurance agreements.

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

	Direct	Assumed	Ceded	Net
	Nine Months Ended September 30, 2002			
Property and casualty	$ 7,243.0	$ 872.0	$3,022.0	$ 5,093.0
Accident and health	2,225.0	166.0	61.0	2,330.0
Life	804.0	(10.0)	294.0	500.0

Total	$10,272.0	$1,028.0	$3,377.0	$ 7,923.0

	Nine Months Ended September 30, 2001			
Property and casualty	$ 6,188.0	$ 937.0	$3,781.0	$ 3,344.0
Accident and health	2,727.0	121.0	104.0	2,744.0
Life	865.0	155.0	510.0	510.0
Total	$ 9,780.0	$1,213.0	$4,395.0	$ 6,598.0

~~For 2002, CNA has entered into an aggregate reinsurance treaty covering substantially all of CNA's property and casualty lines of business (the "2002 Cover"). The loss protection provided by the 2002 Cover is dependent on the level of subject premium, but there is a maximum aggregate limit of $1,125.0 of ceded losses. Maximum ceded premium under the contract is $683.0, and premiums, claims recoveries and interest charges other than the reinsurer's margin and related fees are made on a funds withheld basis. Interest is credited on funds withheld at 8.0% per annum, and all premiums are deemed to have been paid as of January 1, 2002. Ceded premium related to the reinsurer's margin in the amount of $2.5 and $7.5 was recorded for the 2002 Cover for the three and nine months ended September 30, 2002.~~

~~The aggregate reinsurance protection from the 2002 Cover attaches at a defined accident year loss and allocated loss adjustment expense (collectively, losses) ratio. Under the contract, CNA has the right to elect to cede losses to the 2002 Cover when its recorded accident year losses exceed the attachment point. This election period expires March 31, 2004. If no losses are ceded by this date, the contract is considered to be commuted. If CNA elects to cede any losses to the 2002 Cover, it must continue to cede all losses subject to the terms of the contract. As of September 30, 2002, CNA has not recorded any ceded losses related to this cover.~~

~~In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property and 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 of ceded losses with an aggregate limit of $1,000.0 of ceded losses for the~~

~~three year period. The ceded premiums are a percentage of ceded losses and for each $500.0 of limit the ceded premium is $230.0. The second section of the Aggregate Cover, which was only utilized for accident year 2001, provides additional coverage of up to $510.0 of ceded losses for a maximum ceded premium of $310.0. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum commencing in 2006.~~

~~The coverage under the second section of the Aggregate Cover was triggered for the 2001 accident year. As a result of losses related to the September 11, 2001 World Trade Center disaster and related events ("WTC event"), the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded in the second quarter of 2001, the $500.0 limit on the 1999 accident year under the first section was also fully utilized. No losses have been ceded to the remaining $500.0 of aggregate limit on accident years 2000 and 2001 under the first section of the Aggregate Cover.~~

~~The impact of the Aggregate Cover on pretax operating results was as follows:~~

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001

Ceded earned premiums		$ (83.0)		$ (543.0)
Ceded claim and claim adjustment expenses . .		288.0		1,010.0
Interest charges (included in investment income, net of expenses)	$(13.0)	(11.0)	$(38.0)	(70.0)
Pretax impact on operating results	$(13.0)	$ 194.0	$(38.0)	$ 397.0

~~In 2001, CNA entered into a one year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property and casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 of ceded losses. The ceded premiums are a percentage of ceded losses. The ceded premium related to full utilization of the $760.0 limit is $456.0. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of $618.0 have been ceded under the CCC Cover through September 30, 2002.~~

~~The impact of the CCC Cover on pretax operating results was as follows:~~

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Ceded earned premiums	$(39.0)	$(232.0)	$(100.0)	$(234.0)
Ceded claim and claim adjustment expenses . .	55.0	427.0	148.0	427.0
Interest charges (included in investment income, net of expenses)	(11.0)	(15.0)	(27.0)	(15.0)
Pretax impact on operating results	$ 5.0	$ 180.0	$ 21.0	$ 178.0

~~5. Other Investments:~~

~~Other invested assets include investments in limited partnerships and certain derivative securities. The Company's limited partnership investments are recorded at fair value, typically reflecting a reporting lag of up to three months, with changes in fair value reported in investment income, net of expenses. Fair value of the Company's limited partnership investments represents the Company's equity in the partnership's net assets as determined by the general partner. The carrying value of the Company's limited partnership investments was $1,430.3 and $1,307.0 as of September 30, 2002 and December 31, 2001.~~

~~Limited partnerships are a relatively small portion of the Company's overall investment portfolio. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. The Company is a passive investor in such partnerships and does not have influence over the partnerships' management, who are committed to operate them according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships.~~

~~As of September 30, 2002, the Company had committed approximately $157.0 for future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.~~

~~6. Receivables:~~

	September 30, 2002	December 31, 2001
Reinsurance	$13,656.1	$13,823.4
Other insurance	3,546.5	4,006.4
Security sales	911.1	648.1
Accrued investment income	392.2	398.3
Federal income taxes		586.6
Other	291.6	353.7
Total	18,797.5	19,816.5
Less allowance for doubtful accounts and cash discounts	380.8	363.7
Receivables-net	$18,416.7	$19,452.8

7. Claim and Claim Adjustment Expense Reserves:

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

Establishing loss reserves, including loss reserves for catastrophic events that have occurred, is an estimation process. Many factors can ultimately affect the final settlement of a claim and, therefore, the necessary reserve. Changes in the law, results of litigation, medical costs, the cost of repair materials and labor rates can all affect ultimate claim costs. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably estimable than long-tail claims, such as general liability and professional liability claims. Adjustments to prior year reserve estimates, if necessary, are reflected in the operating results in the period that the need for such adjustments is determined.

Catastrophes are an inherent risk of the property and casualty insurance business, which have contributed to material period-to-period fluctuations in the Company's results of operations and equity. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and equity.

During the third quarter of 2001, CNA experienced a severe catastrophe loss estimated at $468.0 pretax, net of reinsurance, related to the WTC event. The loss estimate is based on a total industry loss of $50,000.0 and includes all lines of insurance. The estimate takes into account CNA's substantial reinsurance agreements, including its catastrophe reinsurance program and corporate reinsurance programs. CNA has closely monitored reported losses as well as the collection of reinsurance on WTC event claims. Based on experience to date, CNA believes its recorded reserves are adequate.

During the first quarter of 2002, CNA Re revised its estimate of premiums and losses related to the WTC event. In estimating CNA Re's WTC event losses, CNA performed a treaty by treaty analysis of exposure. CNA's loss estimate was based on a number of assumptions including the loss to the industry, the loss to individual lines of business and the market share of CNA Re's cedants. Information available in the first quarter of 2002 resulted in CNA Re increasing its estimate of WTC event related premiums and losses on its property facultative and property catastrophe business. The impact of increasing the estimate of gross WTC event losses by $144.0 was fully offset on a net of reinsurance basis (before the impact of the CCC Cover) by higher reinstatement premiums and a reduction of return premiums.

The following table provides management's estimate of pretax losses related to this catastrophe on a gross basis (before reinsurance) and a net basis (after reinsurance) by line of business for the three and nine months ended September 30, 2001.

	Gross Basis	Net Basis
Property and casualty reinsurance	$662.0	$ 465.0
Property	282.0	159.0
Workers compensation	112.0	25.0
Airline hull	194.0	6.0
Commercial auto	1.0	1.0
Total property and casualty	1,251.0	656.0
Group	322.0	60.0
Life	75.0	22.0
Total group and life	397.0	82.0
Total loss before corporate aggregate reinsurance treaties and reinstatement and additional premiums and other	1,648.0	738.0
Reinstatement and additional premiums and other		(11.0)
Corporate aggregate reinsurance treaties		(259.0)
Total		$ 468.0

Environmental Pollution and Mass Tort and Asbestos Reserves ("APMT")

CNA's property and casualty insurance subsidiaries have actual and potential exposures related to environmental pollution and mass tort and

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

	September 30, 2002		December 31, 2001	
	Environmental Pollution and Mass Tort	Asbestos	Environmental Pollution and Mass Tort	Asbestos
Gross reserves	$ 730.0	$1,536.0	$ 820.0	$1,590.0
Less ceded reserves	(204.0)	(320.0)	(203.0)	(386.0)
Net reserves	$ 526.0	$1,216.0	$ 617.0	$1,204.0

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 upon 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") and included on its National Priorities List ("NPL"). 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. The vast majority of 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 what is referred to in the industry as 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 2001 or the first nine months of 2002, and it is unclear what positions 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 or the effect upon the Company's results of operations and/or equity.~~

~~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.~~

~~As of September 30, 2002 and December 31, 2001, CNA carried approximately $526.0 and $617.0 of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was no environmental pollution and mass tort net development for the three and nine months ended September 30, 2002 and the three months ended September 30, 2001. Unfavorable environmental pollution and mass tort development for the nine months ended September 30, 2001 amounted to $453.0. CNA paid environmental pollution related claims and other mass tort related claims, net of reinsurance recoveries, of $91.0 and $153.0 for the nine months ended September 30, 2002 and 2001.~~

~~CNA's property and casualty insurance subsidiaries also have exposure to asbestos-related claims. Estimation of asbestos-related 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 and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos-related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future, and the uncertainties inherent in predicting the number of future claims.~~

~~As of September 30, 2002 and December 31, 2001, CNA carried approximately $1,216.0 and $1,204.0 of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. There was no asbestos net claim and claim adjustment expense development for the three and nine months ended September 30, 2002 and the three months ended September 30, 2001. Unfavorable asbestos net claim and claim adjustment reserve development for the nine months ended September 30, 2001 amounted to $769.0. CNA had a net $12.0 receipt of cash related to asbestos in the first nine months of 2002 as reinsurance recoveries collected exceeded claim payments. CNA made asbestos-related claim payments, net of reinsurance recoveries, of $78.0 for the nine months ended September 30, 2001.~~

~~In the past several years, CNA has experienced significant increases in claim counts for asbestos-related claims. The factors that led to these increases included, among other things, intensive advertising campaigns by lawyers for asbestos claimants, mass medical screening programs sponsored by plaintiff lawyers, and the addition of new defendants such as the distributors and installers of products containing asbestos. Currently,~~

~~the majority of asbestos bodily injury claims are filed by persons exhibiting few, if any, disease symptoms. It is estimated that approximately 90.0% of the current non malignant asbestos claimants do not meet the American Medical Association's definition of impairment. Some~~

~~courts, including the federal district court responsible for pre-trial proceedings in all federal asbestos bodily injury actions, have ordered that so-called "unimpaired" claimants may not recover unless at some point the claimant's condition worsens to the point of impairment.~~

~~Since 1982, at least sixty-two companies that mined asbestos, or manufactured or used asbestos-containing products, have filed for bankruptcy. Of these sixty-two companies, twenty-six companies have filed bankruptcy since January 1, 2000. This phenomenon has prompted plaintiff attorneys to file claims against companies that had only peripheral involvement with asbestos. Many of these defendants were users or distributors of asbestos-containing products, or manufacturers of products in which asbestos was encapsulated. These defendants include equipment manufacturers, brake, gasket, and sealant manufacturers, and general construction contractors. According to a comprehensive report on asbestos litigation recently released by the Rand Corporation, over 6,000 companies have been named as defendants in asbestos lawsuits, with 75 out of 83 different types of industries in the United States impacted by asbestos litigation. The study found that a typical claimant names 70 to 80 defendants, up from an average of 20 in the early years of asbestos litigation.~~

~~Some asbestos related defendants have asserted that their claims for insurance are not subject to aggregate limits on coverage. CNA has such claims from a number of insureds. Some of these claims involve insureds facing exhaustion of products liability aggregate limits in their policies, who have asserted that their asbestos related claims fall within so called "non products" liability coverage contained within their policies rather than products liability coverage, and that the claimed "non products" coverage is not subject to any aggregate limit. It is difficult to predict the ultimate size of any of the claims for coverage purportedly not subject to aggregate limits or predict to what extent, if any, the attempts to assert "non products" claims outside the products liability aggregate will succeed. CNA is currently attempting to achieve settlements of several of these claims for coverage purportedly not subject to aggregate limits. Nevertheless, there can be no assurance any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to CNA. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on the Company's results of operations and/or equity.~~

~~Policyholders have also initiated litigation directly against CNA and other insurers. CNA has been named in Adams v. Aetna, Inc., et. al. (Circuit Court of Kanhwha County, West Virginia), a purported class action against CNA and other insurers, alleging that the defendants violated West Virginia's Unfair Trade Practices Act in handling and resolving asbestos claims against their policyholders. In addition, lawsuits have been filed in Texas against CNA and other insurers and non insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos. (Boston v. Union Carbide Corp., et al., (District Court of Nueces County, Texas)). It is difficult to predict the outcome or financial exposure represented by this type of litigation in light of the broad nature of the relief requested and the novel theories asserted.~~

~~Due to the uncertainties created by volatility in claim numbers and settlement demands, the effect of bankruptcies, the extent to which non-impaired claimants can be precluded from making claims and the efforts by insureds to obtain coverage not subject to aggregate limits, the ultimate liability of CNA for asbestos related claims may vary substantially from~~

~~the amount currently recorded. Other variables that will influence CNA's ultimate exposure to asbestos related claims will be medical inflation trends, jury attitudes, the strategies of plaintiff attorneys to broaden the scope of defendants, the mix of asbestos related diseases presented, CNA's abilities to recover reinsurance, future court decisions and the possibility of legislative reform. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on the Company's results of operations and/or equity.~~

~~CNA reviews each active asbestos account every six months to determine whether changes in reserves may be warranted. CNA considers input from its analyst professionals with direct responsibility for the claims, inside~~

~~and outside counsel with responsibility for representation of CNA, and its actuarial staff. These professionals review, among many factors, the policyholder's present and future exposures (including such factors as claims volume, disease mix, trial conditions, settlement demands and defense costs); the policies issued by CNA (including such factors as aggregate or per occurrence limits, whether the policy is primary, umbrella or excess, and the existence of policyholder retentions and/or deductibles); the existence of other insurance; and reinsurance arrangements.~~

~~The results of operations and equity of the Company in future years may be adversely affected by environmental pollution and mass tort and asbestos claim and claim adjustment expenses. Management will continue to review and monitor these liabilities and make further adjustments, including the potential for further reserve strengthening, as warranted.~~

~~Second Quarter 2001 Prior Year Reserve Strengthening~~

~~During the second quarter of 2001, CNA noted the continued emergence of adverse loss experience across several lines of business related to prior years, which are discussed in further detail below. CNA completed a number of reserve studies during the second quarter of 2001 for many of its lines of business, including those in which these adverse trends were noted.~~

~~The second quarter 2001 prior year reserve strengthening and related items comprising the amounts noted above, for the three months ended June 30, 2001, are detailed in the following table.~~

~~Net reserve strengthening, excluding the impact of the corporate aggregate reinsurance treaty~~	
~~APMT . . . .~~	~~$1,197.0~~
~~Non APMT . . . .~~	~~1,594.0~~
~~Total . . . .~~	~~2,791.0~~
~~Pretax benefit from corporate aggregate reinsurance treaty on accident year 1999 (1) . .~~	~~(223.0)~~
~~Accrual for insurance-related assessments . . . .~~	~~48.0~~
~~Net reserve strengthening and related accruals~~	~~2,616.0~~
~~Change in estimate of premium accruals . . . . .~~	~~616.0~~
~~Reduction of related commission accruals. . . . .~~	~~(50.0)~~
~~Net premium and related accrual reductions. . .~~	~~566.0~~
~~Total reserve strengthening and related accruals~~	~~$3,182.0~~

~~(1) $500.0 of ceded losses reduced by $230.0 of ceded premiums and $47.0 of interest charges.~~

~~With respect to environmental and mass tort reserves, commencing in 2000 and continuing into the first and second quarters of 2001, CNA received a number of new reported claims, some of which involved declaratory judgment actions premised on court decisions purporting to expand insurance coverage for pollution claims. In these decisions, several courts adopted rules of insurance policy interpretation which established joint and several liability for insurers consecutively on a risk during a period of alleged property damage; and in other instances adopted interpretations of the "absolute pollution exclusion," which weakened its effectiveness in most circumstances. In addition to receiving new claims and declaratory judgment actions premised upon these unfavorable legal precedents, these court decisions also impacted CNA's pending pollution and mass tort claims and coverage litigation. During the spring of 2001, CNA reviewed specific claims and litigation, as well as general trends, and concluded reserve strengthening in this area was warranted.~~

~~In the area of mass torts, several well-publicized verdicts arising out of bodily injury cases related to allegedly toxic mold led to a significant increase in mold-related claims in 2000 and the first half of 2001. CNA's reserve increase in the second quarter of 2001 was caused in part by this increased area of exposure.~~

~~With respect to other court cases and how they might affect CNA's~~

~~reserves and reasonable possible losses, the following should be noted. State and federal courts issue numerous decisions each year, which potentially impact losses and reserves in both a favorable and unfavorable manner. Examples of favorable developments include decisions to allocate~~

~~defense and indemnity payments in a manner so as to limit carriers' obligations to damages taking place during the effective dates of their policies; decisions holding that injuries occurring after asbestos operations are completed are subject to the completed operations aggregate limits of the policies; and decisions ruling that carriers' loss control inspections of their insured's premises do not give rise to a duty to warn third parties to the dangers of asbestos.~~

~~Examples of unfavorable developments include decisions limiting the application of the "absolute pollution exclusion;" and decisions holding carriers liable for defense and indemnity of asbestos and pollution claims on a joint and several basis.~~

~~Throughout 2000, and into 2001, CNA experienced significant increases in new asbestos bodily injury claims. In light of this development, CNA formed the view that payments for asbestos claims could be higher in future years than previously estimated. Moreover, in late 2000 through mid 2001, industry sources such as rating agencies and actuarial firms released analyses and studies commenting on the increase in claim volumes and other asbestos liability developments. For example, A.M. Best released a study in May 2001 increasing its ultimate asbestos reserve estimate 63.0% from $40,000.0 to $65,000.0, citing an unfunded insurance industry reserve shortfall of $33,000.0. In June 2001, Tillinghast raised its asbestos ultimate exposure from $55,000.0 to $65,000.0 for the insurance industry and its estimate of the ultimate asbestos liability for all industries was raised to $200,000.0.~~

~~Also in the 2000 to 2001 time period, a number of significant asbestos defendants filed for bankruptcy, increasing the likelihood that excess layers of insurance coverage could be called upon to indemnify policyholders and creating the potential that novel legal doctrines could be employed which could accelerate the time when such indemnification payments could be due.~~

~~These developments led CNA's claims management to the conclusion that its asbestos reserves required strengthening.~~

~~The non-APMT adverse reserve development was the result of analyses of several lines of business. This development related principally to commercial insurance coverages including automobile liability and multiple peril, as well as assumed reinsurance and health care related coverages. A brief summary of these lines of business and the associated reserve development is discussed below.~~

~~Approximately $600.0 of the adverse loss development is a result of several coverages provided to commercial entities. Reserve analyses performed during 2001 showed unexpected increases in the size of claims for several lines, including commercial automobile liability, general liability and the liability portion of commercial multiple peril coverages. In addition, the number of commercial automobile liability claims was higher than expected and several state specific factors resulted in higher than anticipated losses, including developments associated with commercial automobile liability coverage in Ohio and general liability coverage provided to contractors in New York.~~

~~The commercial automobile liability analysis indicated increased ultimate loss and allocated loss adjustment expense across several accident years due to higher paid and reported loss and allocated loss adjustment expense resulting from several factors. These factors include~~

~~uninsured/underinsured motorists coverage in Ohio, a change in the rate at which the average claim size is increasing and a lack of improvement in the ratio of the number of claims per exposure unit, the frequency. First, Ohio courts have significantly broadened the population covered through the uninsured/underinsured motorists' coverage. The broadening of the population covered by this portion of the policy, and the retrospective nature of this broadening of coverage, resulted in additional claims for older years. Second, in recent years, the average claim size has been increasing at less than a 2.0% annual rate. The most recent available data indicates that the rate of increase is now closer to 8.0% with only a portion of this increase explainable by a change in mix of business. Finally, the review completed during the second quarter of 2001 indicated~~

that the frequency for the 2000 accident year was 6.0% higher than 1999. Expectations were that the 2000 frequency would show an improvement from the 1999 level.

The analyses of general liability and the liability portion of commercial multiple peril coverages showed several factors affecting these lines. Construction defect claims in California and a limited number of other states have had a significant impact. It was expected that the number of claims being reported and the average size of those claims would fall quickly due to the decrease in business exposed to those losses. However, the number of claims reported during the first six months of 2001 increased from the number of claims reported during the last six months of 2000. In addition to the effects of construction defect claims, the average claim associated with New York labor law has risen to more than one hundred twenty five thousand dollars from less than one hundred thousand dollars, which was significantly greater than previously expected.

An analysis of assumed reinsurance business showed that the paid and reported losses for recent accident years were higher than expectations, which resulted in management recording net unfavorable development on prior year loss reserves of approximately $560.0. Because of the long and variable reporting pattern associated with assumed reinsurance as well as uncertainty regarding possible changes in the reporting methods of the ceding companies, the carried reserves for assumed reinsurance are based mainly on the pricing assumptions until experience emerges to show that the pricing assumptions are no longer valid. The reviews completed during the second quarter of 2001, including analysis at the individual treaty level, showed that the pricing assumptions were no longer appropriate. The classes of business with the most significant changes include excess of loss liability, professional liability and proportional and retrocessional property.

Approximately $320.0 of adverse loss development was due to adverse experience in all other lines, primarily in coverages provided to healthcare related entities. The level of paid and reported losses associated with coverages provided to national long term care facilities were higher than expected. The long term care facility business had traditionally been limited to local facilities. In recent years, CNA began to provide coverage to large chains of long term care facilities. Original assumptions were that these chains would exhibit loss ratios similar to the local facilities. The most recent review of these large chains indicated an overall loss ratio in excess of 500.0% versus approximately 100.0% for the remaining business. In addition, the average size of claims resulting from coverages provided to physicians and institutions providing healthcare related services increased more than expected. The most recent review indicated that the average loss had increased to over three hundred

thirty thousand dollars. Prior to this review, the expectation for the average loss was approximately two hundred fifty thousand dollars.

Concurrent with CNA's review of loss reserves, CNA completed comprehensive studies of estimated premium receivable accruals on retrospectively rated insurance policies and involuntary market facilities. These studies included ground up reviews of retrospective premium accruals utilizing a more comprehensive database of retrospectively rated contracts. This review included application of the policy retrospective rating parameters to the revised estimate of ultimate loss ratio and consideration of actual interim cash settlement. This study resulted in a change in the estimated retrospective premiums receivable balances.

As a result of this review and changes in premiums associated with the change in estimates for loss reserves, CNA recorded a pretax reduction in premium accruals of $566.0. The effect on net earned premiums was $616.0 offset by a reduction of accrued commissions of $50.0. The studies included the review of all such retrospectively rated insurance policies and the estimate of ultimate losses.

Approximately $188.0 of this amount resulted from a change in estimate in premiums related to involuntary market facilities, which had an offsetting impact on net losses and therefore had no impact on the net operating results in 2001. Accruals for ceded premiums related to other reinsurance treaties increased $83.0 due to the reserve strengthening. The remainder of the decrease in premium accruals relates to the change in estimate of the amount of retrospective premium receivables as discussed above.

8. Shareholders' equity:

	September 30, 2002	December 31, 2001
Preferred stock, $0.10 par value, Authorized - 100,000,000 shares		
Common stock:		
Loews Common Stock, $1.00 par value:		
Authorized - 600,000,000 shares		
Issued 191,506,800 and 191,493,300 shares	$ 191.5	$ 191.5
Carolina Group Stock, $0.01 par value:		
Authorized - 600,000,000 shares		
Issued 40,250,000 shares	0.4	
Additional paid-in capital	1,115.7	48.2
Earnings retained in the business	9,749.8	9,214.9
Accumulated other comprehensive income . . .	400.8	194.7
	11,458.2	9,649.3
Less treasury stock, at cost (6,065,600 shares of Loews Common Stock and 340,000 shares of Carolina Group Stock).	351.2	
Total shareholders' equity	$11,107.0	$ 9,649.3

Investments in securities, which are held principally by insurance subsidiaries of CNA are considered available for sale, and are carried at fair value. Changes in fair value are recorded as a component of accumulated other comprehensive income in shareholders' equity, net of applicable deferred income taxes and participating policyholders' and minority interest. Investments are written down to estimated fair values and impairment losses are recognized in income when a decline in value is determined to be other than temporary.

Realized investment losses for the three and nine months ended September 30, 2002, included $223.2 and $534.2 of pretax impairment losses as compared with $41.0 and $124.0 of pretax impairment losses for the same periods in 2001.

The impairment losses recorded in 2002 and 2001 were primarily the result of the continued deterioration in the bond and equity markets and the effects on such markets due to the overall slowing of the economy. These impairment losses were related principally to corporate bonds in the taxable securities asset class of fixed maturity securities and in equity securities.

For the three months ended September 30, 2002, the impairment losses related primarily to corporate bonds in the communications sector of the market and equities in the financial industry sector. On an aggregate basis these impairment losses were more than offset by the realized gains in the overall investment portfolio.

For the three months ended September 30, 2001, the impairment losses related to corporate bonds primarily in the internet communications sector of the market.

For the nine months ended September 30, 2002, the impairment losses included $130.2 related to debt securities issued by WorldCom Inc., $74.0 related to Adelphia Communications Corporation, and $57.0 for AT&T Canada, all of which have recently filed for bankruptcy. The remainder of the impairment losses were primarily in the communications sector. If the deterioration in this and other industry sectors continues in future periods and the Company continues to hold these securities, the Company is likely to have additional impairment losses in the future.

For the nine months ended September 30, 2001 the impairment losses were primarily in corporate bonds and included $61.0 related to the internet communications industry sector. The remainder of the impairment losses were primarily in the equity sector within the medical services industry.

9. Restructuring and Other Related Charges:

2001 Restructuring

In 2001, CNA finalized and approved two separate restructuring plans.

The first plan related to CNA's Information Technology operations (the "IT Plan"). The second plan related to restructuring the property and casualty segments and life operations, discontinuation of the variable life and annuity business and consolidation of real estate locations (the "2001 Plan").

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function and throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitate a strong focus on enterprise-wide system initiatives. The IT Plan had two main components, which included the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that included common architecture and platform standards that directly support CNA's strategies.

For the nine months ended September 30, 2001 CNA incurred $62.0 pretax of restructuring and other related charges for the IT Plan primarily related to employee severance charges and the write-off of impaired assets. There were no charges recorded during the three months ended September 30, 2001.

No restructuring and other related charges related to the IT Plan have been incurred in 2002; however, payments were made during the nine months ended September 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining IT Plan accrual at September 30, 2002 and the activity in that accrual since inception.

IT Plan Accrual

	Employee Termination And Related Benefit Costs	Impaired Asset Charges	Other Costs	Total
IT Plan initial accrual	$ 29.0	$ 32.0	$1.0	$ 62.0
Costs that did not require cash in 2001		(32.0)		(32.0)
Payments charged against liability in 2001 . . .	(19.0)			(19.0)
Accrued costs at December 31, 2001	10.0		1.0	11.0
Payments charged against liability in 2002 . . .	(1.0)			(1.0)
Accrued costs at September 30, 2002	$ 9.0		$1.0	$ 10.0

The IT Plan is not expected to result in decreased operating expenses in the foreseeable future because savings from the workforce reduction have been used to fund new technology related initiatives. Employee termination and related benefit payments will continue through 2004 due to employment contract obligations.

2001 Plan

The overall goal of the 2001 Plan was to create a simplified and leaner organization for customers and business partners. The major components of the plan included a reduction in the number of strategic business units ("SBUs") in the property and casualty operations, changes in the strategic focus of the Life Operations and consolidation of real estate locations. The reduction in the number of property and casualty SBUs resulted in consolidation of SBU functions, including underwriting, claims, marketing and finance. The strategic changes in Life Operations included a decision to discontinue writing variable life and annuity business.

No restructuring and other related charges related to the 2001 Plan have been incurred in 2002; however, payments were made during the nine months ended September 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining 2001 Plan accrual as of September 30, 2002 and the activity in that accrual since inception.

2001 Plan Accrual

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Other Costs	Total
2001 Plan initial accrual	$ 68.0	$ 56.0	$ 30.0	$ 35.0	$189.0
Costs that did not require cash in 2001				(35.0)	(35.0)
Payments charged against liability in 2001	(2.0)				(2.0)
Accrued costs at December 31, 2001 .	66.0	56.0	30.0		152.0
Costs that did not require cash in 2002			(25.0)		(25.0)
Payments charged against liability in 2002	(50.0)	(11.0)	(1.0)		(62.0)
Accrued costs at September 30, 2002 .	$ 16.0	$ 45.0	$ 4.0	$	$ 65.0

10. Significant Transactions:

National Postal Mail Handlers Union Contract Termination

During the second quarter of 2002, CNA announced the sale of the Claims Administration Corporation and the transfer of the National Postal Mail Handlers Union group benefits plan (the "Mail Handlers Plan") to First Health Group Corporation, effective July 1, 2002. In the third quarter of 2002, CNA recognized a $5.0 pretax realized loss on the sale of the Claims Administration Corporation and $14.0 pretax of non recurring fee income related to the transfer of the Mail Handlers Plan.

The assets and liabilities of the Claims Administration Corporation and the Mail Handlers Plan were $352.0 and $350.0 at December 31, 2001. The revenues of the Claims Administration Corporation and the Mail Handlers Plan were $3.0 and $613.0 for the three months ended September 30, 2002 and 2001 and $1,157.0 and $1,663.0 for the nine months ended September 30, 2002 and 2001.

Net operating income from the Claims Administration Corporation and the Mail Handlers Plan was $4.5, including the non-recurring fee income, and $2.6 for the three months ended September 30, 2002 and 2001 and $10.7 and $7.8 for the nine months ended September 30, 2002 and 2001.

CNA Vida Disposition

In March of 2002, CNA completed the sale of the common stock of CNA Holdings Limited and its subsidiaries ("CNA Vida"), CNA's life operations in Chile, to Consorcio Financiero S.A. ("Consorcio"). In connection with the sale, CNA received proceeds of $73.0 and recorded a loss from

discontinued operations of $31.0. This loss is composed of $32.8 realized loss on the sale of CNA Vida and income of $1.8 from CNA Vida's operations for 2002.

CNA Vida's assets and liabilities at December 31, 2001 were $442.0 and $337.0. CNA Vida's net earned premiums were $14.0 for the three months ended September 30, 2001 and $24.0 and $63.0 for the nine months ended September 30, 2002 and 2001. Net operating income was $4.6 for the three months ended September 30, 2001 and $1.8 and $6.7 for the nine months ended September 30, 2002 and 2001. CNA Vida's results of operations, including the loss on sale, are presented as discontinued operations in all periods presented.

Other Dispositions and Planned Dispositions of Certain Businesses

During the second quarter of 2001, CNA announced its intention to sell certain businesses. The assets being held for disposition included the U.K. subsidiaries of CNA Re ("CNA Re U.K.") and certain other businesses. Based upon the impairment analyses performed at that time, CNA anticipated that it would realize losses in connection with those planned sales. In determining the anticipated loss from these sales, CNA estimated the net realizable value of each business being held for sale. An estimated loss of $278.4 (after-tax and minority interest) was initially recorded in the second quarter of 2001. This loss was reported as investment losses in the

~~Statement of Operations.~~

~~CNA continues to monitor the impairment losses recorded for these businesses and perform updated impairment analyses. Based on the analyses, the impairment loss has been reduced by approximately $170.0, primarily because the net assets of the businesses had been significantly diminished by their operating losses, including adverse loss reserve development recognized by CNA Re U.K. in the fourth quarter of 2001.~~

~~In the fourth quarter of 2001, CNA sold certain businesses as planned. The realized loss after-tax and minority interest applicable to these businesses, recognized in the second quarter of 2001, was $33.1. Revenues of these businesses included in the three and nine months ended September 30, 2001 totaled approximately $6.0 and $28.0. These businesses contributed approximately $2.6 of net operating income and $12.2 of losses in the three and nine months ended September 30, 2001.~~

~~At September 30, 2002, CNA Re U.K. remained held for sale. On October 31, 2002, CNA completed the sale of CNA Re U.K. to Tawa U.K. Limited, a subsidiary of Artemis Group, a diversified French based holding company. The sale includes business underwritten since inception by CNA Re U.K., except for certain risks retained by CCC as discussed below. In October, the sale was approved in the United Kingdom by the Financial Services Authority ("FSA") and by the Illinois Insurance Department. This sale does not impact CNA Re's on going U.S. based operations.~~

~~CNA Re U.K. was sold for one dollar, subject to adjustments that are primarily driven by certain operating results and changes in interest rates between January 1, 2002 and October 31, 2002, and realized foreign currency losses recognized by CNA Re U.K. prior to December 31, 2002. CNA has also committed to contribute up to $9.6 to CNA Re U.K. over a four-year period beginning in 2010 should the FSA deem CNA Re U.K. to be undercapitalized. Due to the various components of the completion adjustments, which are initially prepared by the buyer, the final settlement can not yet be determined. However, based upon information~~

~~currently available to CNA, management believes there will be a reduction in the previously recognized impairment loss, which will be reflected as a realized gain when the completion adjustments are finalized.~~

~~Concurrent with the sale, several reinsurance agreements under which CCC had provided retrocessional protection to CNA Re U.K. will be terminated. As part of the sale, CNA Re U.K.'s net exposure to all IGI Program liabilities will be ceded to CCC. Further, CCC will provide a $100.0 stop loss cover attaching at carried reserves on CNA Re U.K.'s 2001 underwriting year exposures for which CCC received premiums of $25.0.~~

~~The statutory surplus of CNA Re U.K. was below the required regulatory minimum surplus level at December 31, 2001. CCC contributed $120.0 of capital on March 25, 2002 bringing the capital above the regulatory minimum.~~

~~CNA Re U.K. contributed revenues of approximately $14.0 and $57.0 for the three months ended September 30, 2002 and 2001, and $57.0 and $220.0 for the nine months ended September 30, 2002 and 2001. CNA Re U.K. contributed net operating income of $8.1 and net operating losses of $94.9 for the three months ended September 30, 2002 and 2001 and net operating income of $11.6 and net operating losses of $153.2 for the nine months ended September 30, 2002 and 2001. The assets and liabilities of CNA Re U.K., including the effects of planned concurrent transactions, were approximately $2,700.0 and $2,700.0 as of September 30, 2002 and $2,900.0 and $2,900.0 as of December 31, 2001.~~

~~The businesses sold in 2002, excluding CNA Vida, Claims Administration Corporation and the Mail Handlers Plan, and those that continue to be held for disposition as of September 30, 2002, excluding CNA Re U.K., contributed revenues of approximately $6.0 and $28.0 for the three months ended September 30, 2002 and 2001, and $35.0 and $95.0 for the nine months ended September 30, 2002 and 2001. Additionally, these businesses contributed net operating losses of $1.8 and $1.7 for the three months ended September 30, 2002 and 2001 and $12.5 and $10.4 for the nine months ended September 30, 2002 and 2001. The assets and liabilities of these businesses were approximately $96.0 and $83.0 as of September 30, 2002 and $126.0 and $109.0 as of December 31, 2001. All anticipated sales are expected to be completed in 2002.~~

~~11. Discontinued Operations:~~

The Company reports CNA's net assets of discontinued operations, which primarily consist of run off operations discontinued in the mid 1990's, in other assets in the Consolidated Condensed Balance Sheets. The following table provides more detailed information regarding those net assets.

	September 30, 2002	December 31, 2001
Total investments	$ 471.0	$ 467.0
Other assets	279.0	264.0
Insurance reserves	(424.0)	(412.0)
Other liabilities	(25.0)	(25.0)
Net assets of discontinued operations	$ 301.0	$ 294.0

12. Business Segments:

CNA's insurance products include property and casualty coverages; life, accident and health insurance; and retirement products and annuities. CNA's services include risk management, information services, health care management and claims administration. CNA's products and services are marketed through agents, brokers, managing general agents and direct sales.

During the second quarter of 2002, Group Reinsurance, the business which assumes reinsurance from unaffiliated entities on group life, accident and health products as well as excess medical risk coverages for self funded employers, was transferred from Group Operations to the Other Insurance segment to be included as part of run off insurance operations. Also, CNA Trust, a limited operations bank specializing in 401(k) plan administration, was transferred from Life Operations to Group Operations. Segment disclosures of prior periods have been restated to conform to the current period presentation.

The Other Insurance segment is comprised primarily of losses and expenses related to the centralized adjusting and settlement of APMT claims, certain run-off insurance operations and other operations. This segment's results also include interest expense on CNA's corporate borrowings, eBusiness initiatives and CNA UniSource.

Lorillard's principal products are marketed under the brand names of Newport, Kent, True, Maverick and Old Gold with substantially all of its sales in the United States.

Loews Hotels owns and/or operates 18 hotels, 16 of which are in the United States and two are in Canada. There is also a property in the United States under development with an opening date scheduled in 2004.

Diamond Offshore's business primarily consists of operating 45 offshore drilling rigs that are chartered on a contract basis for fixed terms by companies engaged in exploration and production of hydrocarbons. Offshore rigs are mobile units that can be relocated based on market demand. As of

September 30, 2002, 28 of these rigs were located in the Gulf of Mexico, 5 were located in Brazil and the remaining 12 were located in various other foreign markets.

Bulova distributes and sells watches and clocks under the brand names of Bulova, Wittnauer, Caravelle and Accutron with substantially all of its sales in the United States and Canada. All watches and clocks are purchased from foreign suppliers.

Each of the Company's operating subsidiaries are headed by a chief executive officer who is responsible for the operation of its business and has the duties and authority commensurate with that position.

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, 2001. 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 September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues (a):				
CNA Financial:				
Property and casualty	$ 1,908.9	$ 1,691.1	$ 5,960.5	$ 5,027.6
Life	411.8	419.8	1,230.4	1,387.0
Group	356.8	968.6	2,178.9	2,696.6
Other Insurance	113.5	46.1	186.7	291.1
Total CNA Financial	2,791.0	3,125.6	9,556.5	9,402.3
Lorillard	977.8	1,078.4	3,000.0	3,027.1
Loews Hotels	70.4	71.1	229.6	247.1
Diamond Offshore	180.4	244.1	572.3	707.8
Bulova	40.9	35.4	114.5	100.0
Corporate	17.0	112.8	39.6	252.2
Total	$ 4,077.5	$ 4,667.4	$13,512.5	$13,736.5

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Income (loss) before taxes, minority interest, discontinued operations and cumulative effect of changes in accounting principles:				
CNA Financial:				
Property and casualty	$ (30.0)	$ (168.9)	$ 202.3	$(1,286.1)
Life	32.6	14.2	82.5	257.8
Group	47.4	(16.1)	98.6	36.7
Other Insurance	32.0	(64.6)	(79.9)	(1,302.6)
Total CNA Financial	82.0	(235.4)	303.5	(2,294.2)
Lorillard	345.5	376.8	955.9	781.2
Loews Hotels	(0.4)	(0.4)	19.4	23.4
Diamond Offshore	8.3	71.4	44.6	175.7
Bulova	4.5	2.7	12.1	10.3
Corporate	(24.9)	71.0	(96.0)	125.3
Total	$ 415.0	$ 286.1	$ 1,239.5	$(1,178.3)
Net income (loss) (a):				
CNA Financial:				
Property and casualty	$ (14.2)	$ (90.2)	$ 127.0	$ (761.5)
Life	18.8	6.5	47.6	144.6
Group	28.2	(9.3)	58.8	23.9
Other Insurance	18.9	(44.2)	(44.2)	(763.7)
Total CNA Financial	51.7	(137.2)	189.2	(1,356.7)
Lorillard	207.0	229.9	577.6	474.4
Loews Hotels	(0.1)	0.1	12.6	15.2
Diamond Offshore	2.8	22.7	13.2	55.2
Bulova	2.3	1.5	6.5	5.7
Corporate	(23.3)	44.1	(72.9)	75.6
Income from continuing operations	240.4	161.1	726.2	(730.6)
Discontinued operations-net		4.6	(31.0)	6.7

Cumulative effect of changes in accounting principles net			(39.6)	(53.3)
Total	$ 240.4	$ 165.7	$ 655.6	$ (777.2)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
CNA Financial:				
Property and casualty	$ (47.8)	$ (22.7)	$ (99.5)	$ 590.6
Life	(22.8)	11.4	(83.4)	153.5
Group	8.4	13.8	9.7	26.8
Other Insurance	86.1	(2.2)	35.8	167.2
Total CNA Financial	23.9	0.3	(137.4)	938.1
Corporate and other	2.6	71.9	(7.6)	125.7
Total	$ 26.5	$ 72.2	$(145.0)	$ 1,063.8
Net income (loss):				
CNA Financial:				
Property and casualty	$ (27.1)	$ (13.6)	$ (55.4)	$ 290.1
Life	(13.2)	6.3	(47.9)	85.0
Group	4.9	7.7	5.7	15.1
Other Insurance	50.2	(0.3)	20.7	88.5
Total CNA Financial	14.8	0.1	(76.9)	478.7
Corporate and other	(5.7)	44.7	(16.1)	75.7
Total	$ 9.1	$ 44.8	$ (93.0)	$ 554.4

13. Legal Proceedings and Contingent Liabilities:

INSURANCE RELATED

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 determined that a portion of the premiums assumed under the IGI Program related to United States workers compensation "carve-out" business. Some of these premiums were received from John Hancock Financial

Services, Inc. ("John Hancock"). CNA is aware that a number of reinsurers with workers compensation carve-out insurance exposure, including John Hancock, 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 potential liability will also be reduced. Moreover, based on information known at this time, CNA believes it has strong grounds to successfully challenge its alleged exposure on a substantial portion of its United States workers compensation carve-out business, including all purported exposure derived from John Hancock, 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. However, certain reinsurers dispute their liabilities to CNA, and CNA has commenced arbitration proceedings against such reinsurers.~~

~~CNA has established reserves for its estimated exposure under the program, other than that derived from John Hancock, and an estimate for recoverables from retrocessionaires. CNA has not established any reserve for any exposure derived from John Hancock because, as indicated, CNA believes the contract will be rescinded.~~

~~CNA is pursuing a number of loss mitigation strategies with respect to the entire IGI Program. Although the results of these various actions to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty due to the complexities described above. 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 reserve additions will be material to the equity of the Company, although results of operations may be adversely affected.~~

~~California Wage and Hour Litigation~~

~~In Ernestine Samora, et al. v. CCC, Case No. BC 242487, Superior Court of California, County of Los Angeles, California and Brian Wenzel v. Galway Insurance Company, Superior Court of California, County of Orange No. BC01CC08868 (coordinated), two former CNA employees, filed lawsuits in Los Angeles Superior Court on behalf of purported classes of CNA employees asserting they worked hours for which they should have been compensated at a rate of 1 1/2 times their base hourly wage over a four-year period. The cases were coordinated and an amended complaint was filed which alleges overtime claims under California law over a four year period. In June 2002, CNA filed a responsive pleading denying the material allegations of the amended complaint. CNA intends to defend this case vigorously. Due to the recent commencement of discovery and the uncertainty of California law as applied to the facts of these cases, the extent of losses beyond any amounts that may be accrued is not readily determinable at this time. Based on facts and circumstances currently known, however, in the opinion of management, the outcome will not materially affect the equity of the Company, although results of operations may be adversely affected.~~

~~Voluntary Market Premium Litigation~~

~~CNA, along with dozens of other insurance companies, is a defendant in sixteen purported class action cases brought by large policyholders, which~~

~~generally allege that the defendants, as part of an industry-wide conspiracy, included improper charges in their retrospectively rated and other loss sensitive insurance premiums. Fourteen lawsuits were brought as class actions in state courts and one in federal court. Among the claims asserted were violations of state antitrust laws, breach of contract, fraud and unjust enrichment. In two of the cases, the defendants won dismissals on motions and, in three others, class certification was denied after hearing. Plaintiffs voluntarily dismissed their claims in three states. In the federal court case, Sandwich Chef of Texas, Inc., et al. v. Reliance National Indemnity Insurance Company, et al., Civil Action No. H-98-1484, United States District Court for the Southern District of Texas, the district court certified a multi-state class. The U.S. Court of Appeals for the Fifth Circuit granted leave for an interlocutory appeal. Due to the uncertainty of how the courts may interpret state and federal law as applied to the facts of the cases, the extent of potential losses beyond any amounts that may be accrued is not readily determinable at this time. Based on facts and circumstances presently known, however, in the opinion of management, the outcome will not materially affect the equity of the Company, although the results of operations may be adversely affected.~~

~~Other~~

See Note 7 for information with respect to claims and litigation involving CNA related to environmental pollution, asbestos and mass torts.

NON INSURANCE

TOBACCO RELATED

Approximately 4,575 product liability cases are pending against cigarette manufacturers in the United States; Lorillard is a defendant in approximately 4,150 of these cases. Lawsuits continue to be filed against Lorillard and other manufacturers of tobacco products. Some of the lawsuits also name the Company as a defendant. Among the 4,575 product liability cases are approximately 1,200 cases pending in a West Virginia court. Another group of approximately 2,800 cases has been 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 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 250 cases. The Company is a defendant in approximately 40 of these actions, although it has not received service of process in approximately 10 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 theories, theories of negligence, fraud, misrepresentation, strict liability, breach of warranty, enterprise liability (including claims asserted under the Racketeering Influenced and Corrupt Organizations Act), civil conspiracy, intentional infliction of harm, violation of consumer protection statutes, violation of antitrust

statutes, and failure to warn of the harmful and/or addictive nature of tobacco products.

Some cases have been brought by individual plaintiffs who allege cancer and/or other health effects resulting from an individual's use of cigarettes and/or smokeless tobacco products, addiction to smoking or exposure to environmental tobacco smoke. These cases are generally referred to as "conventional product liability 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. These cases are generally referred to as purported "class action cases." In other cases, plaintiffs are U.S. and foreign governmental entities or entities such as labor unions, private companies, hospitals or hospital districts, American 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. These cases are generally referred to as "reimbursement cases." 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. These cases are generally referred to as "claims for contribution."

In addition to the above, claims have been brought against Lorillard seeking damages resulting from alleged exposure to asbestos fibers which were incorporated into filter material used in one brand of cigarettes manufactured by Lorillard for a limited period of time, ending more than 40 years ago. These cases are generally referred to as "filter cases." Approximately 50 filter cases are pending against Lorillard. The number of pending filter cases has approximately doubled during 2002. The Company is a defendant in three of the pending filter cases.

Lorillard believes that it has valid defenses to the cases pending against it. Lorillard also believes it has valid bases for appeal of the adverse verdicts against it. To the extent the Company is a defendant in any of the lawsuits described in this section, the Company believes that it is not a proper defendant in these matters and has moved or plans to move for dismissal of all such claims against it. Litigation is subject to many uncertainties and it is possible that some of these actions could be decided unfavorably. 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.

While Lorillard intends to defend vigorously all smoking and health related 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, and it is possible that some of these actions could be decided unfavorably.

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 adverse outcomes in pending cases, could have adverse effects on the ability of Lorillard to prevail in smoking and health litigation and could prompt the filing of additional litigation.

Except for the impact of the State Settlement Agreements as described below, Lorillard 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 affected by an unfavorable outcome of certain pending litigation.

SIGNIFICANT RECENT DEVELOPMENTS

Conventional Product Liability Cases -

During October of 2002, the California Supreme Court remanded to the California Court of Appeal the case of Henley v. Philip Morris Incorporated, a matter in which a California jury awarded damages to a smoker following a 1999 trial. The Supreme Court directed the Court of Appeal to vacate its 2001 ruling in which it affirmed the judgment entered in plaintiff's favor and directed that the Court of Appeal reconsider its decision in light of the August 2002 order entered by the California Supreme Court that is discussed below. In its 1999 verdict, the jury awarded the plaintiff $1.5 in actual damages and $50.0 in punitive damages, although the trial court reduced the punitive damages award to $25.0. Neither the Company nor Lorillard is a defendant in this matter.

During September and October of 2002, a jury impaneled by the Superior Court of California, Los Angeles County, returned verdicts in favor of the plaintiff and awarded her $0.9 in actual damages and $28,000.0 in punitive damages in the case of Bullock v. Philip Morris Incorporated. Neither the Company nor Lorillard are defendants in this matter. The court denied Philip Morris' motion to stay entry of the judgment based on the nationwide punitive damages class action certified by the U.S. District Court for the Eastern District of New York that is discussed below under "Significant Recent Developments - Class Action Cases." Philip Morris, the only defendant in the suit at trial, has filed a motion for new trial and a motion for judgment notwithstanding the verdict. The court had not issued a ruling as to these two motions as of November 6, 2002.

During September of 2002, a jury impaneled by the U.S. District Court for the District of Puerto Rico returned a verdict in favor of the plaintiffs and awarded them $1.0 in actual damages in the case of Figueroa v. R.J. Reynolds Tobacco Company. Plaintiffs were not permitted to present evidence as to punitive damages as such claims are not permitted in Puerto Rico. Neither the Company nor Lorillard were defendants in this matter. During October of 2002, the U.S. District Judge granted a motion for judgment as a matter of law that was filed by the only defendant in the suit, R.J. Reynolds, and entered a final judgment in favor of the defendant. As of November 6, 2002, plaintiffs had not noticed an appeal from the final judgment.

During August of 2002, the Florida Second District Court of Appeal affirmed a ruling that granted the defendant's motion for new trial following a jury's verdict in favor of the plaintiff in the case of Jones v. R.J. Reynolds Tobacco Company. The court of appeal subsequently denied plaintiff's petition for rehearing. Plaintiff has asked the Florida Supreme Court to review these rulings, but the Supreme Court had not granted review as of November 6, 2000. In a 2000 trial, a jury awarded the plaintiff $0.2 in actual damages but declined to award punitive damages. Neither the Company nor Lorillard are defendants in this suit.

During August of 2002, the California Supreme Court issued two rulings in separate conventional product liability cases in which it addressed the

~~effect of an amendment to a statute in effect in the state between January 1, 1988, and December 31, 1997 (the "immunity period"). In one of its rulings, the California Supreme Court held that the amendment conferred immunity to cigarette manufacturers in product liability actions for conduct engaged in during the immunity period, regardless of when a plaintiff may have sustained or discovered an injury allegedly caused by the cigarette manufacturers. In the second decision issued during August of 2002, the California Supreme Court held that, within the immunity period, immunity does not extend to allegations that the cigarette manufacturers "used additives that exposed smokers to dangers beyond those commonly known to be associated with cigarette smoking." The California Supreme Court did not precisely define the term "additives," nor did it expressly state how the phrase "dangers beyond those commonly known to be associated with cigarette smoking" should be considered. The California Supreme Court's rulings are expected to govern future litigation brought against cigarette manufacturers in California.~~

~~During March of 2002, a jury impaneled by the Circuit Court of Multnomah County, Oregon, returned a verdict in favor of the plaintiff in Schwarz v. Philip Morris Incorporated. The jury awarded plaintiff approximately one hundred nineteen thousand dollars in economic damages, fifty thousand dollars in non economic damages and $150.0 in punitive damages. Many of plaintiff's claims were directed to allegations that the defendant had made false representations regarding the low tar cigarettes smoked by the decedent. The court granted in part the defendant's motion for elimination or reduction of the punitive damages award and reduced the punitive damages verdict to $100.0. The court denied the defendant's motion for new trial and for judgment notwithstanding the verdict. Philip Morris has noticed an appeal to the Oregon Court of Appeals. Neither the Company nor Lorillard are defendants in this matter.~~

~~During March of 2002, a jury impaneled by the U.S. District Court for the District of Rhode Island returned a verdict in favor of the only defendant in Hyde v. Philip Morris Incorporated. The court denied plaintiffs' motion for new trial. Plaintiffs did not notice an appeal from the judgment in favor of Philip Morris Incorporated. Neither the Company nor Lorillard were defendants in this matter.~~

~~During February of 2002, a jury impaneled by the U.S. District Court for the District of Kansas returned a verdict in favor of the plaintiff in Burton v. R.J. Reynolds Tobacco Company, et al. The jury awarded plaintiff approximately $0.2 in actual damages and found that plaintiff had presented evidence that entitled him to an award of punitive damages from one of the two defendants in the case. Pursuant to Kansas law, the amount plaintiff was awarded in punitive damages was set by the court. During June of 2002, the court awarded plaintiff $15.0 in punitive damages from R.J. Reynolds. R.J. Reynolds' post-trial motions were denied and it has noticed an appeal to the U.S. Court of Appeals for the Tenth Circuit. Neither the Company nor Lorillard are defendants in this matter.~~

~~Flight Attendant Cases -~~

~~As of November 6, 2002, verdicts had been returned during 2002 in three flight attendant cases, all of which were tried in the Circuit Court of Dade County, Florida. Defendants, including Lorillard, prevailed in two of the matters, Janoff v. Philip Morris Incorporated, et al. and Tucker v. Philip Morris Incorporated, et al. In the third case, French v. Philip Morris Incorporated, et al., the jury found in favor of the plaintiff and awarded her $5.5 in actual damages, but the trial court granted in part~~

~~defendants' motion for reduction or elimination of the verdict amount and reduced the award to $0.5. Defendants have noticed an appeal and plaintiff has filed a cross appeal to the Florida Third District Court of Appeal.~~

~~Class Action Cases -~~

~~The Florida Third District Court of Appeal heard argument in defendants' appeal in the case of Engle v. R.J. Reynolds Tobacco Company, et al. on November 6, 2002, and took the appeal under advisement. Defendants' appeal is from the final judgment that reflects the jury's verdicts in favor of the plaintiffs, including its award of approximately $145.0 billion in punitive damages.~~

~~During October of 2002, the Louisiana Supreme Court stayed trial until it resolved two writ applications filed by the plaintiffs in the case of Scott v. The American Tobacco Company, et al. In one of the two applications, plaintiffs are seeking review of a ruling that reversed the trial court's decision removing comparative fault from the case. In the~~

~~second writ application, the plaintiffs' writ is from a ruling by the Louisiana Court of Appeals holding that individual issues, such as injury, reliance, causation and defendants' affirmative defenses, could not be tried on a class wide basis. The Supreme Court heard argument of the two petitions during October of 2002 and had not issued a ruling as of November 6, 2002. The trial court impaneled a jury during September of 2002 but it had not begun hearing evidence as of November 6, 2002.~~

~~The Superior Court of California, San Diego County, issued rulings in the case of Daniels v. Philip Morris Incorporated, et al. during September and November of 2002 that granted defendants' motion for summary judgment and denied plaintiffs' motion for relief from the summary judgment ruling. As of November 6, 2002, the parties were negotiating the form of the final judgment to be entered in favor of the defendants.~~

~~During September of 2002, a federal judge in the U.S. District Court for the Eastern District of New York certified the case of In re Simon II as a nationwide, non-opt out class action of punitive damages claims asserted by U.S. residents alleging various specific injuries or medical conditions allegedly caused by smoking cigarettes. Certain individuals were excluded from the class, including those who allege membership in the class certified in the case of Engle v. R.J. Reynolds Tobacco Company, et al., discussed above. The district judge denied defendants' motion to reconsider the class certification ruling. Defendants have sought leave to pursue an interlocutory appeal to the U.S. Court of Appeals for the Second Circuit from the class certification order. As of November 6, 2002, the Second Circuit Court of Appeals had not ruled as to whether it would grant review of the defendants' petition. Trial of this matter has been scheduled for January of 2003, although the district judge has stayed the case. Lorillard is a defendant in this matter. The Company is not a named defendant in plaintiffs' pending amended complaint.~~

~~Reimbursement Cases~~

~~During July of 2002, the U.S. District Court for the Eastern District of New York issued a ruling in a reimbursement suit filed by private citizens, Mason v. The American Tobacco Company, Inc., et al., that denied plaintiffs' motion for class certification on behalf of U.S. taxpayers and granted defendants' motion to dismiss the case. Plaintiffs have noticed an appeal to the U.S. Court of Appeals for the Second Circuit.~~

~~During February of 2002, the U.S. District Court for the Eastern District of New York entered an order in the case of Blue Cross and Blue Shield of New Jersey, et al. v. Philip Morris Incorporated, et al., a health plan reimbursement case, that awarded plaintiffs' counsel approximately $38.0 in attorneys' fees from the defendants, including Lorillard. The award of attorneys' fees followed from a 2001 verdict in favor of one of the plan plaintiffs that is asserting claims in the case, Empire Blue Cross and Blue Shield. Defendants are pursuing a single appeal from the judgment reflecting the verdict and from the order awarding attorneys' fees.~~

~~Tobacco Related Antitrust Cases~~

~~During July of 2002, the U.S. District Court for the Northern District of Georgia granted defendants' motion for summary judgment in a case brought against Lorillard and other domestic and international cigarette manufacturers by tobacco product wholesalers for violations of U.S. antitrust laws. The decision entirely dismissed nine cases that were consolidated for pre-trial purposes. The plaintiffs have filed a notice of appeal in the U.S. Court of Appeals for the Eleventh Circuit.~~

~~During April of 2002, the U.S. District Court for the Middle District of North Carolina granted a motion for class certification on behalf of tobacco farmers in the case of DeLoach v. Philip Morris Inc., et al. The class members contend that U.S. cigarette manufacturers conspired to set the prices they offered to U.S. growers for tobacco. An estimated 500,000 farmers are members of the class. Defendants sought permission to appeal the District Court's class certification decision to the Fourth Circuit Court of Appeals, and in June of 2002 a three judge panel of that court declined to accept the appeal. A motion for reconsideration by the full court was also denied, and discovery is proceeding in the case.~~

~~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 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 to settle the asserted and unasserted health care cost recovery and certain other claims of those states. These settling entities are generally referred to as the "Settling States." The Original Participating Manufacturers had previously settled similar claims brought by Mississippi, Florida, Texas and Minnesota, which together with the Master Settlement Agreement are generally referred to as the "State Settlement Agreements."~~

~~The State Settlement Agreements provide that the agreements are not admissions, concessions or evidence of any liability or wrongdoing on the part of any party, and were entered into by the Original Participating Manufacturers to avoid the further expense, inconvenience, burden and uncertainty of litigation.~~

~~Lorillard recorded pretax charges of $255.2, $309.0, $842.9 and $890.3 million ($153.7, $188.2, $510.6 and $542.2 million after taxes), for the quarter and nine months ended September 30, 2002 and 2001, 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.~~

~~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: 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 2002 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.~~

~~In addition, as part of the Master Settlement Agreement, the Original Participating Manufacturers committed to work cooperatively with the tobacco growing community to address concerns about the potential adverse economic impact on that community. On January 21, 1999, the Original Participating Manufacturers reached an agreement to establish a $5,200.0 trust fund payable between 1999 and 2010 to compensate the tobacco growing communities in 14 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 paid more than its market share in 1999 but will have its payment obligations reduced in 2009 and 2010 to make up for the overpayment. Of the total $5,200.0, a total of $1,211.0 was paid since 1999 through September 30, 2002, of which $113.0 was paid by Lorillard. Lorillard believes its remaining payments under the agreement will total approximately $402.0. All payments will be adjusted for inflation, changes in the unit volume of domestic cigarette shipments, and the effect of new increases in state or federal excise taxes on tobacco products that benefit the tobacco 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 U.S. cigarette sales in the premium price and discount price segments, Lorillard's share of the domestic premium price and discount price cigarette segments, and the effect of any resulting cost advantage of manufacturers not subject to significant payment obligations under the State Settlement Agreements. Almost all domestic manufacturers have agreed to become subject to the terms of the Master Settlement Agreement, however, under the terms of the Master Settlement Agreement, manufacturers other than the Original Participating Manufacturers retain much of their cost advantage.~~

~~CONVENTIONAL PRODUCT LIABILITY CASES - Conventional product liability cases are cases 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 cigarette or nicotine dependence or addiction. Plaintiffs in most conventional product liability cases seek unspecified amounts in compensatory damages and punitive damages. Lorillard is a defendant in~~

~~approximately 1,275 of these cases. This total includes approximately 1,100 cases pending in West Virginia that are part of a consolidated~~

~~proceeding. Additional cases are pending against other cigarette manufacturers. The Company is a defendant in six of the cases filed by individuals, although five of the cases have not been served on the Company. The Company is not a defendant in any of the conventional product liability cases pending in West Virginia.~~

~~Since January 1, 2000, 19 cases filed by individual plaintiffs have been tried. Lorillard was a defendant in three of the 19 cases, and juries returned verdicts in favor of the defendants in each of these three matters. The Company was not a defendant in any of the 19 conventional product liability cases tried since January 1, 2000. As of November 6, 2002, trial was proceeding in one matter brought by an individual. Neither the Company nor Lorillard is a defendant in this matter.~~

~~Lorillard was not a defendant in 16 of the individual cases tried since January 1, 2000. Juries have returned verdicts in favor of the defendants in six of the cases. In another of the suits, a court granted the motion for directed verdict filed by the defendant at the conclusion of plaintiff's evidence. Juries have returned verdicts in favor of the plaintiffs in nine cases since January 1, 2000. See "Significant Recent Developments - Conventional Product Liability Cases" above for reports on those cases tried to a verdict during 2002.~~

~~In addition to the case of Henley v. Philip Morris Incorporated that is discussed in "Significant Recent Developments - Conventional Product Liability Cases" above, an appeal is pending in one case in which an adverse verdict was returned prior to January 1, 2000. In the case of Williams v. Philip Morris Incorporated, the Oregon Court of Appeals issued an order during June of 2002 that affirmed the jury's verdict in favor of the plaintiff and reinstated the full amount of the $79.5 punitive damages award. The Oregon Court of Appeals denied the defendant's petition for rehearing. The defendant has noticed an appeal to the Oregon Supreme Court. As of November 6, 2002, the Supreme Court had not ruled as to whether it would grant review of the petition. Neither the Company nor Lorillard is a defendant in this matter.~~

~~Some cases against U.S. cigarette manufacturers and manufacturers of smokeless tobacco products are scheduled for trial during the remainder of 2002 and beyond. These trials include a consolidated trial of the cases brought by approximately 1,200 West Virginia smokers or users of smokeless tobacco products that is scheduled to begin during June of 2003. Lorillard is a defendant in some of the cases set for trial, including the consolidated West Virginia trial. The trial dates are subject to change.~~

~~FLIGHT ATTENDANT CASES - There are approximately 2,800 cases pending in the Circuit Court of Dade County, Florida against Lorillard and three other U.S. cigarette manufacturers in which the plaintiffs are present or former flight attendants, or the estates of deceased flight attendants, who allege injury as a result of exposure to environmental tobacco smoke in aircraft cabins. The Company is not a defendant in any of the flight attendant cases.~~

~~The suits were filed as a result of a settlement agreement on October 10, 1997 by the parties to Broin v. Philip Morris Companies, Inc., et al. (Circuit Court, Dade County, Florida, filed October 31, 1991), a class action brought on behalf of flight attendants claiming injury as a result of exposure to environmental tobacco smoke. The trial court approved the settlement agreement 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 permitted the plaintiff class members to file individual suits. These individuals may not seek punitive damages for injuries that arose prior to January 15, 1997.~~

~~During October of 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. The Florida Third District Court of Appeal and the Florida Supreme Court rejected defendants' attempts to appeal this ruling without prejudice as premature. Defendants may seek redress of the October 2000 order in subsequent appeals, including their appeal from the 2002 verdict in favor of the plaintiff in the cases of French v. Philip Morris Incorporated, et al.~~

~~As of November 6, 2002, approximately 10 flight attendant cases were scheduled for trial between January of 2003 and April of 2003. It is possible that several of the flight attendant cases will be tried during 2003 and thereafter.~~

~~CLASS ACTION CASES - Certain cases have been filed against cigarette manufacturers, including Lorillard, in which plaintiffs purport to seek class certification on behalf of groups of cigarette smokers. Lorillard is a defendant in approximately 30 of these cases, two of which also name the Company as a defendant. As of November 6, 2002, three of the purported class actions were on appeal. The remaining purported class actions are in the pre-trial, discovery stage, except that trial proceedings are under way in the case of Scott v. The American Tobacco Company, et al. Most of the suits seek class certification on behalf of residents of the states in which the purported class action cases have been filed, although some suits seek class certification on behalf of residents of multiple states. Plaintiffs in all but two of the purported class action cases seek class certification on behalf of individuals who smoked cigarettes or were exposed to environmental tobacco smoke. In one of the two remaining purported class action cases, plaintiffs seek class certification on behalf of individuals who paid insurance premiums. Plaintiffs in the other remaining suit seek class certification on behalf of U.S. residents under the age of 22 who purchased cigarettes as minors and who do not have personal injury claims. Neither Lorillard nor the Company are defendants in approximately 20 additional class action cases pending against other cigarette manufacturers, many of which assert claims on behalf of smokers of "light" cigarettes. Plaintiffs in a few of the reimbursement cases, which are discussed below, also seek certification of such cases as class actions.~~

~~Various courts have ruled on motions for class certification in smoking and health related cases. In 12 state court cases, which were pending in five states and the District of Columbia, courts have denied plaintiffs' class certification motions. In another 15 cases, cigarette manufacturers have defeated motions for class certification before either federal trial courts or courts of appeal from cases pending in 13 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. In seven 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, or, in one case, plaintiffs' claims were resolved through a settlement agreement. These seven cases are Broin (which is the matter concluded by a settlement agreement and discussed under "Flight Attendant Cases"), Engle, Blankenship, Scott, Daniels, Brown and In re Simon II.~~

~~Theories of liability asserted in the purported class action cases 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 some of the purported class action cases are represented by a well funded and coordinated consortium of law firms from throughout the United States.~~

~~The Engle case: 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 been injured 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 began during July of 1998 and 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, including Lorillard, 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 Punitive Damages Order, the trial judge amended the trial plan with respect to the manner of determining punitive damages. The Punitive Damages Order provided that the jury would determine punitive damages, if any, on a lump sum dollar amount basis for the entire qualified class. The Florida Third District Court of Appeal rejected as premature defendants' appeals from the Punitive Damages Order, and the Florida Supreme Court declined to review the Punitive Damages Order at that 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 final judgment entered by the trial court on November 6, 2000 reflected the damages award, and held that 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 and considered evidence as to the punitive damages to be awarded to the class. On July 14, 2000, the jury awarded approximately $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 final judgment in favor of the plaintiffs. The judgment also provides that the jury's awards bear interest at the rate of 10% per year. The court's final judgment 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 final judgment to the Florida Third District Court of Appeal and has posted its appellate bond in the amount of $100.0 pursuant to Florida legislation enacted in May of 2000 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. While Lorillard believes this legislation is valid and that any challenges to the possible application or constitutionality of this legislation would fail, during May of 2001, Lorillard and two other defendants jointly contributed a total of $709.0 to a fund (held for the benefit of the Engle plaintiffs) that will not be recoverable by them even if challenges to the judgment are resolved in favor of the defendants. As a result, the class has agreed to a stay of execution, referred to as the Engle agreement, on its punitive damages judgment until appellate review is completed, including any review by the U.S. Supreme Court. Lorillard contributed a total of $200.0 to this fund, which included the $100.0 that was posted as collateral for its appellate bond. Accordingly, Lorillard recorded a pretax charge of $200.0 in the second quarter of the year ended December 31, 2001.~~

~~In the event that Lorillard, Inc.'s balance sheet net worth falls below $921.2 (as determined in accordance with generally accepted accounting principles in effect as of July 14, 2000), the stay granted in favor of Lorillard in the Engle agreement would terminate and the class would be free to challenge the Florida legislation. As of September 30, 2002, Lorillard, Inc. had a balance sheet net worth of approximately $1,434.2.~~

~~In addition, the Engle agreement requires Lorillard to obtain the written consent of class counsel or the court prior to selling any trademark of or formula comprising a cigarette brand having a U.S. market share of 0.5% or more during the preceding calendar year. The Engle agreement also requires Lorillard to obtain the written consent of the Engle class counsel or the court to license to a third party the right to manufacture or sell such a cigarette brand unless the cigarettes to be manufactured under the license will be sold by Lorillard.~~

~~Now that the jury has awarded punitive damages and final judgment has been entered, Lorillard believes that it is unclear how the Punitive Damages Order will be implemented. The Punitive Damages Order provides that the lump sum punitive damages 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 damages amount, if any, determined for the entire qualified class, would be divided equally among those plaintiffs who are ultimately successful. The Punitive Damages Order does not address whether defendants would be required to pay the punitive damages 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 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 is a defendant in eight separate lawsuits that are pending in the Florida courts in which the plaintiffs claim that they are members of the Engle class, that all liability issues associated with their claims were resolved in the earlier phases of the Engle proceedings, and that trials on their claims should proceed immediately. Lorillard is opposing trials of these actions on the grounds that they should be considered during Phase Three of the Engle case and should be stayed while the Engle appeal is proceeding. Trial has been held in one of the cases in which Lorillard was not a party. During June of 2002, a jury in the Circuit Court of Dade County, Florida returned a verdict in favor of the plaintiffs and awarded them $0.5 in economic damages, $24.5 in noneconomic damages and $12.5 in damages for loss of consortium. No post trial motions are scheduled to be filed as a final judgment reflecting the verdict will not be entered until the Engle appeal is resolved.~~

~~Lorillard remains of the view that the Engle case should not have been certified as a class action. Lorillard believes that class certification in the Engle case is inconsistent with the 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 numerous other legal errors that it believes occurred during the trial. The Florida Third District Court of Appeal heard argument in defendants' appeal on November 6, 2002. The Court of Appeal took the appeal under advisement and it is not known when a ruling will be issued. Lorillard believes that an appeal of these issues on the merits should prevail.~~

~~Other Class Action Cases - On November 14, 2001, a jury in the Circuit Court of Ohio County, West Virginia returned a verdict in favor of the defendants, including Lorillard, in the case of Blankenship v. American Tobacco Company, et al. (Circuit Court, Ohio County, West Virginia, filed January 31, 1997). The court denied plaintiffs' motion for new trial. Plaintiff has noticed an appeal to the Supreme Court of Appeals of West Virginia. During 2000, the court granted plaintiffs' motion for class certification. The court ruled that the class consisted of West Virginia residents who were cigarette smokers on or after January 31, 1995; who had a minimum of a five pack year smoking history as of December 4, 2000; who had not been diagnosed with certain medical conditions; and who had not received health care funded by the State of West Virginia. The West Virginia Supreme Court of Appeals declined to review defendants' petition for a writ of prohibition against the class certification ruling. Plaintiffs sought the creation of a fund, the purpose of which would be to pay for class members to receive medical monitoring for chronic~~

~~obstructive pulmonary disease, emphysema and lung cancer. Lorillard is a defendant in the case.~~

~~In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), the trial court certified a class 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 began smoking prior to May 24, 1996 and allege that defendants undermined compliance with the warnings on cigarette packages. Lorillard is a defendant in the case. Also see "Significant Recent Developments - Class Action Cases" above.~~

~~During December of 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. Also see "Significant Recent Developments - Class Action Cases" above. Lorillard is a defendant in the case.~~

~~During April of 2001, the Superior Court of San Diego County, California in the case of Brown v. The American Tobacco Company, Inc., et al., granted in part plaintiff's motion for class certification and certified a class comprised of adult residents of California who smoked at least one of defendants' cigarettes during the applicable time 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 subsequently defined the applicable class period for plaintiff's claims, pursuant to a stipulation submitted by the parties, as June 10, 1993 through April 23, 2001. Trial is scheduled to begin during March of 2003. Lorillard is a defendant in the case.~~

~~During September of 2002, the U.S. District Court for the Eastern District of New York entered an order in the case of In re Simon II that certified a nationwide non opt out class comprised of the punitive damages claims asserted by individuals who allege certain injuries or medical conditions allegedly caused by smoking. Also see "Significant Recent Developments - Class Action Cases" above.~~

~~REIMBURSEMENT CASES - In addition to the cases settled by the State Settlement Agreements described above, approximately 45 other suits are pending, comprised of cases brought by the U.S. federal government, county governments, city governments, unions, American 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 in some of these actions seek certification as class actions. 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 some of the cases seek medical monitoring. Lorillard is named as a defendant in all of the reimbursement cases except for a few of those filed in U.S. courts by foreign governments. The Company is named as a~~

~~defendant in approximately 25 of the pending reimbursement cases, although it has not received service of three of these matters.~~

~~U.S. Federal Government Action - The U.S. federal government filed a reimbursement suit on September 22, 1999 in the U.S. 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 asserted claims under the Medical Care Recovery Act, the Medicare as 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 several 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 other 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 of 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 the Medicare as Secondary Payer provisions of the Social Security Act. The court denied the motion as to plaintiff's claims under the Racketeering Influenced and Corrupt Organizations Act. Plaintiff sought modification of the trial court's order as it related to the dismissal of the Medical Care Recovery Act claim. In an amended complaint filed during February of 2001, plaintiff attempted to replead the Medicare as Secondary Payer claim. In a July 2001 decision, the court reaffirmed its dismissal of the Medical Care Recovery Act claims. The court also~~

~~dismissed plaintiff's reasserted claims under the Medicare as Secondary Payer Act. The court has denied a motion for intervention and a proposed complaint in intervention filed by the Cherokee Nation Tribe on behalf of a purported nationwide class of American Indian tribes. Trial in this matter is schedule to begin during September of 2004.~~

~~In June of 2001, the government invited defendants in the lawsuit, including Lorillard, to meet to discuss the possibility of a settlement of the government's case. Lorillard participated in one such meeting and no further meetings are scheduled.~~

~~Reimbursement Cases filed by Foreign Governments in U.S. Courts - Cases have been brought in U.S. courts by 13 nations, 11 Brazilian states, 11 Brazilian cities and one Canadian province. Both the Company and Lorillard are named as defendants in most of the cases. The Company has not received service of process of the cases filed by one of the nations and by one of the Brazilian states. Four of the cases have been voluntarily dismissed. During 2001, a federal court of appeal affirmed orders dismissing three of the cases, and the U.S. Supreme Court denied plaintiffs' petitions for writ of certiorari. During 2001, a Florida court dismissed two of the suits, and the plaintiff in one of the two actions has noticed an appeal. During 2002, the appellate court affirmed the dismissal order. During November 2002, a Texas court dismissed one of the cases filed by a Brazilian state. In addition, Lorillard and the Company were dismissed from three suits that remain pending against other defendants.~~

~~In 1977, Lorillard sold substantially all of its cigarette trademarks outside of the United States and the international business associated~~

~~with those brands. Performance by Lorillard of obligations under the 1977 agreement reflecting the sale 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 American Indian Tribes - American Indian tribes are the plaintiffs in three pending reimbursement suits. Each of the 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. The three cases are in the pre-trial discovery stage.~~

~~Reimbursement Cases by Private Companies and Health Plans or Hospitals and Hospital Districts - Two cases are pending against cigarette manufacturers in which the plaintiffs are not-for-profit insurance companies. Lorillard is a defendant in both pending cases. The Company is not a defendant in either matter. In addition, three cases are pending in which plaintiffs are hospitals or hospital districts. Lorillard is named as a defendant in each of the cases. The Company is not named as a defendant in any of the cases filed by hospitals or hospital districts. In one additional suit, a city governmental entity and several hospitals or hospital districts are plaintiffs. The Company is a defendant in this case.~~

~~On June 4, 2001, the jury in the U.S. District Court for the Eastern District of New York in the case of Blue Cross and Blue Shield of New Jersey, Inc., et al. v. Philip Morris, Incorporated, et al., returned a verdict awarding damages against the defendants, including Lorillard. In this trial, the jury heard evidence as to the claims of only one of the plan plaintiffs, Empire Blue Cross and Blue Shield, referred to as "Empire." In its June 4, 2001 verdict, the jury found in favor of the defendants on some of Empire's claims. One of the jury's findings precluded it from considering Empire's claims for punitive damages. The jury found in favor of Empire on certain other of plaintiff's claims. As a result of these findings, Empire is entitled to an award of approximately $17.8 in total actual damages, including approximately $1.5 attributable to Lorillard. The court denied plaintiff's post verdict application for trebling of the damages awarded by the jury. On November 1, 2001, the court entered a final judgment that reflects the jury's verdict. In the final judgment, Empire was awarded approximately $1.5 in actual damages and approximately fifty-five thousand dollars in pre-judgment interest for a total award against Lorillard of approximately $1.6. The court has awarded plaintiff's counsel approximately $38.0 in attorneys' fees. The defendants, including Lorillard, have noticed an appeal to the U.S. Court of Appeals for the Second Circuit from the final judgment and from the order awarding plaintiff's counsel attorneys' fees.~~

~~In addition to the above, the District Court of Jerusalem, Israel, has permitted a private insurer in Israel, Clalit Health Services, to attempt service on the Company and Lorillard with a suit in which Clalit Health Services seeks damages for providing treatment to individuals allegedly injured by cigarette smoking. The Company and Lorillard have separately moved to set aside the order that permitted plaintiff to attempt service of the summonses. As of November 6, 2002, the court had not ruled on the motions to set aside the service.~~

~~Reimbursement Cases by Labor Unions - One case is pending in which the plaintiffs are the trust funds of several labor unions. The Company is not a defendant in this action. Approximately 75 union cases have been dismissed in recent years. Some of these cases were dismissed voluntarily, while others were dismissed as a result of defendants' motions. Appeals were sought from some of these dismissal rulings and defendants have prevailed in each of these appeals. 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. In addition, the Circuit Court of Appeals for the District of Columbia entered a ruling in 2001 that found in favor of the defendants on an appeal they filed from a ruling by a trial court that refused to dismiss four union cases. During 2001, an intermediate California court of appeal affirmed the final judgment entered in favor of the defendants in a union case, and the California Supreme Court has accepted plaintiffs' appeal. Several cases pending in state courts also have been dismissed.~~

~~CONTRIBUTION CLAIMS - In addition to the foregoing cases, approximately ten 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 in one of the cases. The Company is named as a defendant in two of the cases but has not received service of process in one of them.~~

~~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 40 years ago, into the filter material used in one of the brands of cigarettes manufactured by Lorillard. Approximately 50 filter cases are pending in federal and state courts against Lorillard. The Company is a defendant in three of the pending filter cases. The number of pending filter cases has approximately doubled during 2002. 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 15 such cases, including three since January 1, 2000. Juries have returned verdicts in favor of Lorillard in 11 of the 15 trials. Four verdicts have been returned in plaintiffs' favor. In a 1995 trial, a California jury awarded plaintiffs approximately $1.2 in actual damages and approximately $0.7 in punitive damages. In a 1996 trial, another California jury awarded plaintiff approximately $0.1 in actual damages. In a 1999 trial, a Maryland jury awarded plaintiff approximately $2.2 in actual damages. In a 2000 trial, a California 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 Purchaser 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 1993 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. On July 11, 2002, the Court granted motions for summary judgment filed by Lorillard and all other defendants dismissing the~~

~~actions in their entirety. Plaintiffs have filed a notice of appeal in the U.S. Court of Appeals for the Eleventh Circuit.~~

~~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 all but one of these indirect purchaser cases. One indirect purchaser suit, in New York, has been dismissed in its entirety. The Arizona indirect purchaser suit was dismissed by the trial court, but the dismissal was reversed on appeal in May 2002. While one court has granted plaintiff's motion to certify a class of consumers, two other courts have refused to do so, and other motions seeking class certification have been deferred by other courts pending resolution of the federal case discussed above. In Kansas, a Motion to Compel against Lorillard (and one other defendant) seeking certain documents for which Lorillard has claimed privilege is pending before the court. 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. 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. On April 3, 2002 the court certified a class consisting of all persons holding a quota (the licenses that a farmer must either own or rent to sell the crop) to grow, and all domestic producers who sold, flue cured or burley tobacco at anytime from February 1996 to present. Defendants' petition to the United States Court of Appeals for the Fourth Circuit seeking permission to appeal the District Court's decision on class certification was denied on June 12, 2002. Pre-trial discovery has commenced and is currently scheduled to be completed on or before July 1, 2003. A trial date has not yet been scheduled.~~

~~REPARATION CASES - During 2002, the Company has been named as a defendant in three cases in which plaintiffs seek reparations for the alleged financial benefits derived from the uncompensated use of slave labor. The Company was named as a defendant in these matters as a result of conduct purportedly engaged in by Lorillard and its predecessor corporations. Plaintiffs in these suits seek various types of damages including disgorgement of profits, restitution and punitive damages. Plaintiffs seek class certification on behalf of the descendants of enslaved African Americans. An attempt to serve the Company has been made in one of these~~

~~matters. During October of 2002, an order was entered by the Judicial Panel on Multidistrict Litigation that transferred certain reparations matters to the U.S. District Court for the Northern District of Illinois for coordinated and consolidated pretrial proceedings. The Company is not a party to these matters, although the Judicial Panel, in its October 2002 order, advised that the cases in which the Company has been named as a defendant may be treated as potential tag-along actions in the Multidistrict Litigation proceeding.~~

~~* * * *~~

~~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.~~

~~Contingencies~~

~~- CNA has a commitment to purchase a $100.0 floating rate note issued by the California Earthquake Authority in the event California earthquake-related insurance losses exceed $4,900.0 prior to December 31, 2002.~~

~~- As of September 30, 2002, the Company and its subsidiaries are obligated to make future payments totaling $605.0 for non-cancelable operating leases expiring from 2002 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum~~

payments under these contracts are as follows: $30.1 in 2002; $103.4 in 2003; $84.1 in 2004; $75.2 in 2005; and $312.2 in 2006 and beyond.

14. 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 September 30, 2002 and December 31, 2001 and the statements of operations for the three and nine months and changes in cash flows for the nine months ended September 30, 2002 and 2001.

Results of operations for the quarter and the first nine 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

Three Months Ended September 30, 2002 compared with 2001

The Company reported consolidated net income (including both the Loews Group and Carolina Group) for the 2002 third quarter of $240.4 million, compared to $165.7 million in 2001.

Consolidated net operating income, which excludes net investment gains and discontinued operations, for the quarter ended September 30, 2002 was $231.3 million, compared to $116.3 million in the third quarter of 2001.

Net operating income is calculated by deducting net investment gains or losses, discontinued operations and the cumulative effect of a change in accounting principle (after deduction of related income taxes and minority interests), from net income (loss). Analysts following the Company's stock have advised the Company that such information is meaningful in assisting them in measuring the performance of its insurance subsidiaries. In addition, it is used in management's discussion of the results of operations for the insurance related segments due to the significance of the amount of net investment gains or losses. Net operating income is also a common measure throughout the insurance industry. Net realized investment gains are excluded from this operating measure because investment gains or losses related to CNA's available-for-sale investment portfolio are largely discretionary, are generally driven by economic factors that are not necessarily consistent with key drivers of underwriting performance, and are therefore not an indication of trends in operations.

Net income attributable to Loews Common Stock for the third quarter of 2002 amounted to $196.0 million or $1.06 per share, compared to $165.7 million or $0.85 per share in the comparable period of the prior year. Net income in the third quarter of 2002 includes net investment gains attributable to Loews Common Stock of $5.8 million or $0.03 per share, compared to $44.8 million or $0.23 per share in the comparable period of the prior year.

Net operating income attributable to Loews Common Stock, which excludes net investment gains and discontinued operations, for the quarter ended September 30, 2002, was $190.2 million or $1.03 per share, compared to $116.3 million or $0.60 per share in the comparable period of the prior year. Net income attributable to Carolina Group Stock for the 2002 third quarter amounted to $44.4 million or $1.10 per Carolina Group share.

Net income and net income attributable to Loews Common Stock for the third quarter of 2001 included losses at CNA of $264.6 million, after taxes and minority interest, related to the September 11, 2001 World Trade Center disaster and related events ("WTC event").

Nine Months Ended September 30, 2002 compared with 2001

For the nine months ended September 30, 2002 consolidated net income (including both the Loews Group and Carolina Group) amounted to $655.6 million, compared to a net loss of $777.2 million in the comparable period of the prior year.

The first nine months of 2002 included a loss for discontinued operations at CNA of $31.0 million or $0.16 per share of Loews Common Stock, compared to income from discontinued operations of $6.7 million or $0.03 per share of Loews Common Stock in the comparable period of the prior year. The first nine months of 2002 also included a charge for accounting changes of $39.6 million or $0.21 per share of Loews Common Stock, related to accounting for goodwill and other intangible assets, compared to a charge of $53.3 million or $0.27 per share of Loews Common Stock in the comparable period of the prior year, related to accounting for derivative instruments at CNA.

- Consolidated net operating income, which excludes net investment gains (losses), discontinued operations and accounting changes, was $819.2 million in the first nine months of 2002, compared to a loss of $1,285.0 million in the comparable period of the prior year.

- Net operating income attributable to Loews Common Stock, which excludes net investment (losses) gains, discontinued operations and accounting changes, for the first nine months of 2002, was $720.2 million or $3.82 per share, compared to a loss of $1,285.0 million or $6.54 per share in the comparable period of the prior year.

- The net loss and net loss attributable to Loews Common Stock for the nine months ended September 30, 2001 included a $1.8 billion charge at CNA, after taxes and minority interest, related to a change in estimate of prior year net loss and allocated loss adjustment expense reserves and retrospective premium accruals, the WTC event charge of $264.6 million discussed above, and a $121.0 million after tax charge at Lorillard related to an agreement with the class in the Engle case.

- Net income attributable to Carolina Group Stock for the first nine months of 2002 amounted to $103.8 million or $2.58 per Carolina Group share.

- At September 30, 2002, the book value per share of Loews Common Stock was $61.09, compared to $50.39 at December 31, 2001. The increase in book value per share of Loews Common Stock is primarily due to proceeds from the issuance of the Carolina Group Stock in February 2002 and the Loews Group's net economic interest in the notional intergroup debt receivable from the Carolina Group.

Classes of Common Stock

- The issuance of Carolina Group Stock has resulted in a two class common stock structure for Loews Corporation. Carolina Group Stock, commonly called a tracking stock, is intended to reflect the economic performance of a defined group of assets and liabilities of the Company referred to as the Carolina Group. The principal assets and liabilities attributed to the Carolina Group are (a) the Company's 100% stock ownership interest in Lorillard, Inc.; (b) $2.5 billion of notional, intergroup debt owed by the Carolina Group to the Loews Group, bearing interest at the annual rate of 8.0% and, subject to optional prepayment, due December 31, 2021; and (c) any and all liabilities, costs and expenses arising out of or related to tobacco or tobacco-related businesses.

- As of September 30, 2002, the outstanding Carolina Group Stock represents a 23.01% economic interest in the economic performance of the Carolina Group. The Loews Group, reflecting the earnings attributable to Loews Common Stock, consists of all the Company's assets and liabilities other than the 23.01% economic interest represented by the outstanding Carolina Group Stock, and includes as an asset the notional, intergroup debt of the Carolina Group.

- The existence of separate classes of common stock could give rise to occasions where the interests of the holders of Loews Common Stock and Carolina Group Stock diverge or conflict or appear to diverge or conflict. Subject to its fiduciary duties, the Company's board of directors could, in its sole discretion, from time to time, make determinations or implement policies that affect disproportionately the groups or the different classes of stock. For example, Loews's board of directors may decide to reallocate assets, liabilities, revenue, expenses and cash flows between groups, without the consent of shareholders. The board of directors would not be required to select the option that would result in the highest value for holders of Carolina Group Stock.

- As a result of the flexibility provided to Loews's board of directors, it might be difficult for investors to assess the future prospects of the Carolina Group based on the Carolina Group's past performance.

- The creation of the Carolina Group and the issuance of Carolina Group Stock does not change the Company's ownership of Lorillard, Inc. or Lorillard, Inc.'s status as a separate legal entity. The Carolina Group and the Loews Group are notional groups that are intended to reflect the performance of the defined sets of assets and liabilities of each such group as described above. The Carolina Group and the Loews Group are not separate legal entities and the attribution of assets and liabilities to the Loews Group or the Carolina Group does not affect title to the assets or responsibility for the liabilities.

Holders of the Company's common stock and of Carolina Group stock are shareholders of Loews Corporation and are subject to the risks related to an equity investment in Loews Corporation.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

CNA Financial

Insurance operations are conducted by subsidiaries of CNA Financial Corporation ("CNA"). CNA is a 90% owned subsidiary of the Company.

CNA conducts its operations through five operating groups: Standard Lines, Specialty Lines and CNA Re (these groups comprise the Company's Property-Casualty segment); Group Operations and Life Operations. In addition to these five operating segments, certain other activities are reported in the Other Insurance segment. The Other Insurance segment consists of royalty and administrative service activities related to the personal insurance business that was sold to The Allstate Corporation in 1999, losses and expenses related to centralized adjusting and settlement of asbestos, pollution and mass tort claims, certain insurance operations that are operating in run off and not conducting new underwriting, interest expense on corporate debt, e-Business initiatives, and intercompany eliminations. These segments reflect the way CNA manages its operations and makes business decisions.

During the second quarter of 2002, Group Reinsurance, the business which assumes reinsurance from unaffiliated entities on group life, accident and health products as well as excess medical risk coverages for self funded employers, was transferred from Group Operations to the Other Insurance segment to be included as part of run off insurance operations. Also, CNA Trust, a limited operations bank specializing in 401(k) plan administration, was transferred from Life Operations to Group Operations. Segment disclosures

of prior periods have been modified to conform with the current period presentation.

The consolidated operations for the three and nine months ended September 30, 2001 were significantly impacted by the second quarter 2001 prior year reserve strengthening, WTC event, corporate aggregate reinsurance treaties, and restructuring and other related charges. A discussion of these items, along with CNA's current terrorism exposure and description of reserves is presented before the results of operations by business segment.

WTC Event

During the third quarter of 2001, CNA experienced a severe catastrophe loss estimated at $468.0 million pretax, net of reinsurance, related to the WTC event. The loss estimate is based on a total industry loss of $50.0 billion and includes all lines of insurance. The estimate takes into account CNA's substantial reinsurance agreements, including its catastrophe reinsurance program and corporate reinsurance programs. CNA has closely monitored reported losses as well as the collection of reinsurance on WTC event claims. Based on experience to date, CNA believes its recorded reserves are adequate.

During the first quarter of 2002, CNA Re revised its estimate of premiums and losses related to the WTC event. In estimating CNA Re's WTC event losses, CNA performed a treaty by treaty analysis of exposure. CNA's loss estimate was based on a number of assumptions including the loss to the industry, the loss to individual lines of business and the market share of CNA Re's cedants. Information available in the first quarter of 2002 resulted in CNA Re increasing its estimate of WTC event related premiums and losses on its property facultative and property catastrophe business. The impact of increasing the estimate of gross WTC event losses by $144.0 million was fully offset on a net of reinsurance basis (before the impact of the CCC Cover) by higher reinstatement premiums and a reduction of return premiums.

The WTC event and related items comprising the amounts noted above, for the three and nine months ended September 30, 2001, are detailed by segment in the following table.

	Gross Losses	Pretax Net Impact*	Pretax Corporate Aggregate Reinsurance Benefit	Total Pretax Impact	Total After-tax Impact

(In millions)

Standard Lines	$ 375.0	$ 185.0	$ 108.0	$ 77.0	$ 44.0
Specialty Lines	214.0	30.0	12.0	18.0	11.0
CNA Re	662.0	410.0	139.0	271.0	153.0
Total property and casualty	1,251.0	625.0	259.0	366.0	208.0
Group Operations	235.0	53.0		53.0	31.0
Life Operations	75.0	22.0		22.0	12.0
Corporate and Other	87.0	27.0		27.0	14.0
Total	$ 1,648.0	$ 727.0	$ 259.0	$ 468.0	$265.0

*Pretax impact of the WTC event before the corporate aggregate reinsurance treaties. The pretax net impact includes $85.0 million of reinstatement and additional premiums.

Second Quarter 2001 Prior Year Reserve Strengthening

During the second quarter of 2001, CNA noted the continued emergence of adverse loss experience across several lines of business related to prior years that are discussed in further detail below. CNA completed a number of reserve studies during the second quarter of 2001 for many of its lines of business, including those in which these adverse trends were noted.

With respect to environmental and mass tort reserves, commencing in 2000 and continuing into the first and second quarters of 2001, CNA received a number of new reported claims, some of which involved declaratory judgment actions premised on court decisions purporting to expand insurance coverage for pollution claims. In these decisions, several courts adopted rules of insurance policy interpretation which established joint and several liability for insurers consecutively on a risk during a period of alleged property damage; and in other instances adopted interpretations of the "absolute pollution exclusion," which weakened its effectiveness in most circumstances. In addition to receiving new claims and declaratory judgment actions premised upon these unfavorable legal precedents, these court decisions also impacted CNA's pending pollution and mass tort claims and coverage litigation. During the spring of 2001, CNA reviewed specific claims and litigation, as well as general trends, and concluded reserve strengthening in this area was warranted.

In the area of mass torts, several well-publicized verdicts arising out of bodily injury cases related to allegedly toxic mold led to a significant increase in mold-related claims in 2000 and the first half of 2001. CNA's reserve increase in the second quarter of 2001 was caused in part by this increased area of exposure.

With respect to other court cases and how they might affect CNA's reserves and reasonable possible losses, the following should be noted. State and federal courts issue numerous decisions each year, which potentially impact losses and reserves in both a favorable and unfavorable manner. Examples of favorable developments include decisions to allocate defense and indemnity payments in a manner so as to limit carriers' obligations to damages taking place during the effective dates of their policies; decisions holding that injuries occurring after asbestos operations are completed are subject to the completed operations aggregate limits of the policies; and decisions ruling that carriers' loss control inspections of their insured's premises do not give rise to a duty to warn third parties to the dangers of asbestos.

Examples of unfavorable developments include decisions limiting the application of the "absolute pollution" exclusion; and decisions holding carriers liable for defense and indemnity of asbestos and pollution claims and on a joint and several basis.

Throughout 2000, and into 2001, CNA experienced significant increases in new asbestos bodily injury claims. In light of this development, CNA formed the view that payments for asbestos claims could be higher in future years than previously estimated. Moreover, in late 2000 through mid-2001, industry sources such as rating agencies and actuarial firms released analyses and studies commenting on the increase in claim volumes and other asbestos liability developments. For example, A.M. Best released a study in May 2001 increasing its ultimate asbestos reserve estimate 63.0% from $40.0 billion to

~~$65.0 billion, citing an unfunded insurance industry reserve shortfall of $33.0 billion. In June 2001, Tillinghast raised its asbestos ultimate exposure from $55.0 billion to $65.0 billion for the insurance industry and its estimate of the ultimate asbestos liability for all industries was raised to $200.0 billion.~~

~~Also in the 2000 to 2001 time period, a number of significant asbestos defendants filed for bankruptcy, increasing the likelihood that excess layers of insurance coverage could be called upon to indemnify policyholders and creating the potential that novel legal doctrines could be employed which could accelerate the time when such indemnification payments could be due.~~

~~These developments led CNA's claims management to the conclusion that its asbestos reserves required strengthening.~~

~~The non-APMT adverse reserve development was the result of analyses of several lines of business. This development related principally to commercial insurance coverages including automobile liability and multiple-peril, as well as assumed reinsurance and healthcare related coverages. A brief summary of these lines of business and the associated reserve development is discussed below.~~

~~Approximately $600.0 million of the adverse loss development is a result of several coverages provided to commercial entities. Reserve analyses performed during 2001 showed unexpected increases in the size of claims for several lines, including commercial automobile liability, general liability and the liability portion of commercial multiple peril coverages. In addition, the number of commercial automobile liability claims was higher than expected and several state specific factors resulted in higher than anticipated losses, including developments associated with commercial automobile liability coverage in Ohio and general liability coverage provided to contractors in New York.~~

~~The commercial automobile liability analysis indicated increased ultimate loss and allocated loss adjustment expense across several accident years due to higher paid and reported loss and allocated loss adjustment expense resulting from several factors. These factors include uninsured/underinsured motorists coverage in Ohio, a change in the rate at which the average claim size is increasing and a lack of improvement in the ratio of the number of claims per exposure unit, the frequency. First, Ohio courts have significantly broadened the population covered through the uninsured/underinsured motorists' coverage. The broadening of the population covered by this portion of the policy, and the retrospective nature of this broadening of coverage, resulted in additional claims for older years. Second, in recent years, the average claim size has been increasing at less than a 2.0% annual rate. The most recent available data indicates that the rate of increase is now closer to 8.0% with only a portion of this increase explainable by a change in mix of business. Finally, the review completed during the second quarter of 2001 indicated that the frequency for the 2000 accident year was 6.0% higher than 1999. Expectations were that the 2000 frequency would show an improvement from the 1999 level.~~

~~The analyses of general liability and the liability portion of commercial multiple peril coverages showed several factors affecting these lines. Construction defect claims in California and a limited number of other states have had a significant impact. It was expected that the number of claims being reported and the average size of those claims would fall quickly due to the decrease in business exposed to those losses. However, the number of claims reported during the first six months of 2001 increased from the number of~~

~~claims reported during the last six months of 2000. In addition to the effects of construction defect claims, the average claim associated with New York labor law has risen to more than $125,000 from less than $100,000, which was significantly greater than previously expected.~~

~~An analysis of assumed reinsurance business showed that the paid and reported losses for recent accident years were higher than expectations, which resulted in management recording net unfavorable development on prior year loss reserves of approximately $560.0 million. Because of the long and variable reporting pattern associated with assumed reinsurance as well as uncertainty regarding possible changes in the reporting methods of the ceding companies, the carried reserves for assumed reinsurance are based mainly on the pricing assumptions until experience emerges to show that the pricing assumptions are no longer valid. The reviews completed during the second quarter of 2001, including analysis at the individual treaty level, showed that the pricing assumptions were no longer appropriate. The classes of business with the most significant changes include excess of loss liability, professional liability and proportional and retrocessional property.~~

~~Approximately $320.0 million of adverse loss development was due to adverse experience in all other lines, primarily in coverages provided to healthcare-related entities. The level of paid and reported losses associated with coverages provided to national long term care facilities were higher than expected. The long term care facility business had traditionally been limited to local facilities. In recent years, CNA began to provide coverage to large chains of long term care facilities. Original assumptions were that these chains would exhibit loss ratios similar to the local facilities. The most recent review of these large chains indicated an overall loss ratio in excess of 500.0% versus approximately 100.0% for the remaining business. In addition, the average size of claims resulting from coverages provided to physicians and institutions providing healthcare related services increased more than expected. The most recent review indicated that the average loss had increased to over $330,000. Prior to this review, the expectation for the average loss was approximately $250,000.~~

~~Concurrent with CNA's review of loss reserves, CNA completed comprehensive studies of estimated premium receivable accruals on retrospectively rated insurance policies and involuntary market facilities. These studies included ground up reviews of retrospective premium accruals utilizing a more comprehensive database of retrospectively rated contracts. This review included application of the policy retrospective rating parameters to the revised estimate of ultimate loss ratio and consideration of actual interim cash settlement. This study resulted in a change in the estimated retrospective premiums receivable balances.~~

~~As a result of this review and changes in premiums associated with the change in estimates for loss reserves, CNA recorded a pretax reduction in premium accruals of $566.0 million. The effect on net earned premiums was $616.0 million offset by a reduction of accrued commissions of $50.0 million. The studies included the review of all such retrospectively rated insurance policies and the estimate of ultimate losses.~~

~~Approximately $188.0 million of this amount resulted from a change in estimate in premiums related to involuntary market facilities, which had an offsetting impact on net losses and therefore had no impact on the net operating results. Accruals for ceded premiums related to other reinsurance treaties increased $83.0 million due to the reserve strengthening. The remainder of the decrease in premium accruals relates to the change in~~

~~estimate of the amount of retrospective premium receivables as discussed above.~~

~~Reinsurance~~

~~CNA assumes and cedes reinsurance with other insurers and reinsurers and members of various reinsurance pools and associations. CNA utilizes reinsurance arrangements to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. Reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA's retained amount varies by type of coverage. Generally, property risks are reinsured on an excess of loss, per risk basis. Liability coverages are generally reinsured on a quota share basis in excess of CNA's retained risk. CNA's life reinsurance includes coinsurance, yearly renewable term and facultative programs.~~

~~Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves or future policy benefit reserves and are reported as a reinsurance receivable in the Consolidated Condensed Balance Sheets. CNA has a credit risk exposure with respect to these receivables and has established an estimated allowance for doubtful accounts. The allowance is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.~~

~~In the event that a specific reinsurer is experiencing difficulties, CNA may engage in commutation discussions. The outcome of such discussions may result in a settlement that is less than the recoverable, net of the allowance for doubtful accounts, and could have an adverse material impact on the Company's results of operations and/or financial condition.~~

~~CNA's overall reinsurance program includes certain property and casualty contracts, such as the corporate aggregate reinsurance treaties discussed in more detail later in this section, that are entered into and accounted for on a "funds withheld" basis. Under the funds withheld basis, CNA records the cash remitted to the reinsurer for the reinsurer's margin, or cost of the reinsurance contract, as ceded premiums. The remainder of the premiums ceded under the reinsurance contract is recorded as a funds withheld liability. CNA is required to increase the funds withheld balance at stated interest~~

~~crediting rates applied to the funds withheld balance or as otherwise specified under the terms of the contract. The funds withheld liability is reduced by any cumulative claim payments made by CNA in excess of CNA's retention under the reinsurance contract. If the funds withheld liability is exhausted, interest crediting will cease and additional claim payments are recoverable from the reinsurer. The funds withheld liability is recorded in reinsurance balances payable in the Consolidated Condensed Balance Sheets.~~

~~Interest cost on these contracts is credited during all periods in which a funds withheld liability exists. Interest cost, which is included in other net investment income, was $53.0 million and $84.0 million for the third quarter of 2002 and 2001 and $168.0 million and $206.0 million for the nine months ended September 30, 2002 and 2001. The amount subject to interest crediting rates on such contracts was $2,904.0 million and $2,724.0 million at September 30, 2002 and December 31, 2001.~~

~~The amount subject to interest crediting on these funds withheld contracts will vary over time based on a number of factors, including the timing of loss payments and ultimate gross losses incurred. CNA expects that it will continue to incur significant interest costs on these contracts for several years.~~

~~For 2002, CNA has entered into an aggregate reinsurance treaty covering substantially all of CNA's property and casualty lines of business (the "2002 Cover"). The loss protection provided by the 2002 Cover is dependent on the level of subject premium, but there is a maximum aggregate limit of $1,125.0 million of ceded losses. Maximum ceded premium under the contract is $683.0 million, and premiums, claims recoveries and interest charges other than the reinsurer's margin and related fees are made on a funds withheld basis. Interest is credited on funds withheld at 8.0% per annum, and all premiums are deemed to have been paid as of January 1, 2002. Ceded premium related to the reinsurer's margin in the amount of $2.5 million and $7.5 million was recorded for the 2002 Cover for the three months and nine months ended September 30, 2002.~~

~~The aggregate reinsurance protection from the 2002 Cover attaches at a defined accident year loss and allocated loss adjustment expense (collectively, losses) ratio. Under the contract, CNA has the right to elect to cede losses to the 2002 Cover when its recorded accident year losses exceed the attachment point. This election period expires March 31, 2004. If no losses are ceded by this date, the contract is considered to be commuted. If CNA elects to cede any losses to the 2002 Cover, it must continue to cede all losses subject to the terms of the contract. As of September 30, 2002 CNA has not recorded any ceded losses related to this cover.~~

~~In 1999, CNA entered into an aggregate reinsurance treaty related to the 1999 through 2001 accident years covering substantially all of CNA's property and 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 million of ceded losses with an aggregate limit of $1.0 billion of ceded losses for the three year period. The ceded premiums are a percentage of ceded losses and for each $500.0 million of limit the ceded premium is $230.0 million. The second section of the Aggregate Cover, which was only utilized for accident year 2001, provides additional coverage of up to $510.0 million of ceded losses for a maximum ceded premium of $310.0 million. Under the Aggregate Cover, interest charges on the funds withheld accrue at 8.0% per annum. If the aggregate loss ratio for the three-year period exceeds certain thresholds, additional premiums may be payable and the rate at which interest charges are accrued would increase to 8.25% per annum commencing in 2006.~~

~~The coverage under the second section of the Aggregate Cover was triggered for the 2001 accident year. As a result of losses related to the WTC event, the limit under this section was exhausted. Additionally, as a result of the significant reserve additions recorded in the second quarter of 2001, the $500.0 million limit on the 1999 accident year under the first section was also fully utilized. No losses have been ceded to the remaining $500.0 million of aggregate limit on accident years 2000 and 2001 under the first section.~~

~~The impact of the Aggregate Cover on pretax operating results was as follows:~~

	~~Three Months Ended September 30,~~	~~Nine Months Ended September 30,~~

	2002	2001	2002	2001
		(In millions)		
Ceded earned premiums		$ (83.0)		$ (543.0)
Ceded claim and claim adjustment expense . .		288.0		1,010.0
Interest charges (included in investment income, net of expenses)	$(13.0)	(11.0)	$(38.0)	(70.0)
Pretax impact on operating results	$(13.0)	$ 194.0	$(38.0)	$ 397.0

In 2001, CNA entered into a one year aggregate reinsurance treaty related to the 2001 accident year covering substantially all property and casualty lines of business in the Continental Casualty Company pool (the "CCC Cover"). The loss protection provided by the CCC Cover has an aggregate limit of approximately $760.0 million of ceded losses. The ceded premiums are a percentage of ceded losses. The ceded premium related to the full utilization of the $760.0 million of limit is $456.0 million. The CCC Cover provides continuous coverage in excess of the second section of the Aggregate Cover discussed above. Under the CCC Cover, interest charges on the funds withheld generally accrue at 8.0% per annum. The interest rate increases to 10.0% per annum if the aggregate loss ratio exceeds certain thresholds. Losses of $618.0 million have been ceded under the CCC Cover through September 30, 2002.

The impact of the CCC Cover on pretax operating results was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
		(In millions)		
Ceded earned premiums	$(39.0)	$(232.0)	$(100.0)	$ (234.0)
Ceded claim and claim adjustment expense . .	55.0	427.0	148.0	427.0
Interest charges (included in investment income, net of expenses)	(11.0)	(15.0)	(27.0)	(15.0)
Pretax impact on operating results	$ 5.0	$180.0	$ 21.0	$ 178.0

The impact by operating segment of the 2002 Cover, Aggregate Cover and the CCC Cover on pretax operating results was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
		(In millions)		
Standard Lines	$(15.0)	$ 201.0	$ (43.0)	$383.0
Specialty Lines	8.0	32.0	3.0	26.0
CNA Re				
Corporate and Other	(3.0)	141.0	16.0	166.0
Pretax impact on operating results	$(10.0)	$ 374.0	$ (24.0)	$575.0

2001 Restructuring

In 2001, CNA finalized and approved two separate restructuring plans. The first plan related to the Company's Information Technology operations (the "IT Plan"). The second plan related to restructuring the property and casualty segments and Life Operations, discontinuation of the variable life and annuity business and consolidation of real estate locations (the "2001 Plan").

IT Plan

The overall goal of the IT Plan was to improve technology for the underwriting function and throughout CNA and to eliminate inefficiencies in the deployment of IT resources. The changes facilitated a strong focus on enterprise-wide system initiatives. The IT Plan had two main components, which included the reorganization of IT resources into the Technology and Operations Group with a structure based on centralized, functional roles and the implementation of an integrated technology roadmap that included common architecture and platform standards that directly support CNA's strategies.

For the nine months ended September 30, 2001 CNA incurred $62.0 million pretax of restructuring and other related charges for the IT Plan primarily related to employee severance charges and the write-off of impaired assets. There were no charges recorded during the three months ended September 30, 2001.

The following table summarizes the pretax effect of these costs for the nine months ended September 30, 2001 on CNA's operating segments.

	(In millions)
Property and Casualty Operations	$ 8.0
Life Operations	17.0
Other Insurance	37.0
Total	$62.0

No restructuring and other related charges related to the IT Plan have been incurred in 2002; however, payments were made during the nine months ended September 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining IT Plan accrual at September 30, 2002 and the activity in that accrual since inception. Approximately $5.0 million of the remaining accrual is expected to be paid during the remainder of 2002.

	Employee Termination and Related Benefit Costs	Impaired Asset Charges	Other Costs	Total
		(In millions)		
IT Plan initial accrual	$ 29.0	$ 32.0	$1.0	$ 62.0
Costs that did not require cash in 2001		(32.0)		(32.0)
Payments charged against liability in 2001	(19.0)			(19.0)
Accrued costs at December 31, 2001	10.0		1.0	11.0
Payments charged against liability in 2002	(1.0)			(1.0)
Accrued costs at September 30, 2002	$ 9.0		$1.0	$ 10.0

The IT Plan is not expected to result in decreased operating expenses in the foreseeable future because savings from the workforce reduction will be used to fund new technology related initiatives. Employee termination and related benefit payments will continue through 2004 due to employment contract obligations.

2001 Plan

The overall goal of the 2001 Plan was to create a simplified and leaner organization for customers and business partners. The major components of the plan included a reduction in the number of strategic business units ("SBU"s) in the property and casualty operations, changes in the strategic focus of the Life Operations and consolidation of real estate locations. The reduction in the number of property and casualty SBUs resulted in consolidation of SBU functions, including underwriting, claims, marketing and finance. The strategic changes in Life Operations included a decision to discontinue writing variable life and annuity business.

No restructuring and other related charges related to the 2001 Plan have been incurred in 2002; however, payments were made during the nine months ended September 30, 2002 related to amounts accrued as of December 31, 2001. The following table summarizes the remaining 2001 Plan accrual as of September 30, 2002 and the activity in that accrual since inception. Approximately $29.0 million of the remaining accrual is expected to be paid during the remainder of 2002.

2001 Plan Accrual

	Employee Termination and Related Benefit Costs	Lease Termination Costs	Impaired Asset Charges	Other Costs	Total
	(In millions)				
2001 Plan initial accrual	$ 68.0	$ 56.0	$ 30.0	$ 35.0	$189.0
Costs that did not require cash in 2001				(35.0)	(35.0)
Payments charged against liability in 2001	(2.0)				(2.0)
Accrued costs at December 31, 2001 .	66.0	56.0	30.0		152.0
Costs that did not require cash in 2002			(25.0)		(25.0)
Payments charged against liability in 2002	(50.0)	(11.0)	(1.0)		(62.0)
Accrued costs at September 30, 2002	$ 16.0	$ 45.0	$ 4.0		$ 65.0

Reserves - Estimates and Uncertainties

CNA maintains loss reserves ("reserves") to cover its estimated ultimate unpaid liability for losses and loss adjustment expenses, including the estimated cost of the claims adjudication process, for claims that have been reported but not yet settled and claims that have been incurred but not reported. Reserves are reflected as liabilities on the Consolidated Condensed Balance Sheets under the heading "Insurance Reserves." Changes in estimates of reserves are reflected in the Company's Consolidated Condensed Statements of Operations, as incurred losses in the period in which the change arises.

The level of reserves maintained by CNA represents management's best estimate, as of a particular point in time, of what the ultimate settlement and administration of claims will cost based on its assessment of facts and circumstances known at that time. Reserves are not an exact calculation of liability but instead are estimates that are derived by CNA, generally utilizing a variety of actuarial reserve estimation techniques, from numerous assumptions and expectations about future events, both internal and external, many of which are highly uncertain. Some of the many uncertain future events about which CNA makes assumptions and estimates are claims severity, frequency of claims, economic inflation, the impact of underwriting policy and claims handling practices and the lag time between the occurrence of an insured event and the time it is ultimately settled (referred to in the insurance industry as the "tail").

CNA's experience has been that the inherent uncertainties of estimating insurance reserves are generally greater for casualty coverages (particularly long tail casualty risks such as APMT losses) than for property coverages. Estimates of the cost of future APMT claims are highly complex and include an assessment of, among other things, whether certain costs are covered under the policies and whether recovery limits apply, allocation of liability among numerous parties, some of whom are in bankruptcy proceedings, inconsistent court decisions and developing legal theories and tactics of plaintiffs' lawyers. Reserves for property-related catastrophes, both natural disasters and man made catastrophes such as terrorist acts, are also difficult to

estimate. See the discussion of Environmental Pollution and Mass Tort and Asbestos Reserves below, for further information on APMT.

~~In addition to the uncertainties inherent in estimating APMT and catastrophe losses, CNA is subject to the uncertain effects of emerging or potential claims and coverage issues, which arise as industry practices and legal, judicial, social, and other environmental conditions change. These issues can have a negative effect on CNA's business by either extending coverage beyond the original underwriting intent or by increasing the number or size of claims. Either development could require material increases in reserves. Examples of emerging or potential claims and coverage issues include: (i) increases in the number and size of water damage claims related to expenses for testing and remediation of mold conditions; (ii) increases in the number and size of claims relating to injuries from medical products, and exposure to lead and radiation related to cellular phone usage; (iii) expected increases in the number and size of claims relating to accounting and financial reporting, including director and officer and errors and omissions insurance claims, in an environment of major corporate bankruptcies; and (iv) a growing trend of plaintiffs targeting insurers in class action litigation relating to claims-handling and other practices. The future impact of these and other unforeseen emerging or potential claims and coverage issues is extremely hard to predict and could materially adversely affect the adequacy of CNA's reserves and could lead to future reserve additions.~~

~~CNA's current reserve levels reflect management's best estimate of CNA's ultimate claims and claim adjustment expenses at September 30, 2002, based upon known facts and current law. However, in light of the many uncertainties associated with making the estimates and assumptions necessary to establish reserve levels, CNA reviews its reserve estimates on a regular and ongoing basis and makes changes as experience develops. CNA may in the future determine that its recorded reserves are not sufficient and may increase its reserves by amounts that may be material, which could materially adversely affect the Company's business and financial condition. Any such increase in reserves would be recorded as a charge against CNA's earnings for the period in which the change in estimate arises.~~

~~Terrorism Exposure~~

~~CNA and the insurance industry incurred substantial losses related to the WTC event. For the most part, CNA believes the industry was able to absorb the loss of capital from these losses, but the capacity to withstand the effect of any additional terrorism events was significantly diminished. The public debate following the WTC event centered on the role, if any, the U.S. federal government should play in providing a "terrorism backstop" for the industry. On October 17, 2002, a conference committee of the U.S. Congress produced a bill reconciling two bills formerly passed by the U.S. Senate and House of Representatives. The bill, entitled The Terrorism Risk Insurance Act (the "Act"), establishes a program within the Department of the Treasury, under which the federal government would share the risk of loss from future terrorist attacks with the insurance industry. The Act terminates on December 31, 2005. Each participating insurance company would pay a deductible before federal assistance becomes available. This deductible is based on a percentage of direct premiums for commercial insurance lines from the previous calendar year, and rises from 7.0 percent during the first year to 10.0 percent in year two and 15.0 percent in year three. For losses above a company's deductible, the federal government will cover 90.0%, while companies contribute 10.0%. Losses covered by the program will be capped at $100.0 billion; above this amount, Congress is to determine the procedures for and the source of any payments. Insurance companies providing commercial property and casualty~~

~~insurance are required to participate in the program. The Act does not cover life or health insurance products. During the first two years of the program, the bill has a mandatory offer requirement for terrorism coverage by insurers. The Secretary of Treasury has discretion to extend this requirement to the third year of the program.~~

~~The Act, if it becomes law, would provide the property and casualty industry with a greater ability to withstand the effect of any terrorist event in the next three years. In addition, the Act may help to encourage reinsurers to offer terrorism coverage on a broader basis than they have been writing following the WTC event.~~

~~To date, however, the U.S. Congress has not enacted the Act. Without any federal backstop in place, CNA is exposed to potentially material losses arising from a future terrorism event. Accordingly, the Company's results of operations and equity could be materially adversely impacted by a future terrorism event. CNA is attempting to mitigate this exposure through its underwriting practices, policy terms and conditions, and the use of reinsurance. CNA is generally prohibited from excluding terrorism exposure from its primary workers compensation, individual life and group life and health policies. CNA's current reinsurance arrangements either exclude~~

terrorism coverage or significantly limit the level of coverage.

Property and Casualty

CNA conducts its property and casualty operations through the following operating segments: Standard Lines, Specialty Lines and CNA Re. The discussion of underwriting results and ratios reflect the underlying business results of CNA's property and casualty insurance subsidiaries. Underwriting ratios are industry measures of property and casualty underwriting results. The loss ratio is the percentage of net incurred claim and claim adjustment expenses to net earned premiums. The expense ratio is the percentage of underwriting and acquisition expenses, including the amortization of deferred acquisition costs, to net earned premiums. The dividend ratio is the ratio of dividends incurred to net earned premiums.

The following table summarizes key components of the Property Casualty segment operating results for the three and nine months ended September 30, 2002 and 2001.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In millions)			
Net written premiums.	$1,828.0	$ 1,390.0	$5,406.0	$ 3,863.0
Net earned premiums	1,700.0	1,362.0	5,096.0	3,375.0
Underwriting loss	(133.0)	(388.0)	(358.0)	(2,612.0)
Net investment income	145.0	227.0	600.0	718.0
Net operating income (loss)	12.9	(76.6)	182.4	(1,051.6)
Ratios:				
Loss and loss adjustment expense	75.5%	84.6%	74.6%	125.6%
Expense	30.8	41.1	31.2	49.2
Dividend	1.5	2.8	1.2	2.6
Combined	107.8%	128.5%	107.0%	177.4%
2001 adjusted underwriting loss*		$ (39.0)		$ (348.0)
2001 adjusted ratios*				
Loss and loss adjustment expense		63.3%		68.2%
Expense		36.8		37.6
Dividend		2.5		2.0
Combined		102.6%		107.8%

* The 2001 adjusted underwriting loss and adjusted ratios exclude the impact of the second quarter 2001 reserve strengthening, the WTC event, net of the related corporate aggregate reinsurance treaties and restructuring and other related charges.

Net operating results improved $89.5 million for the third quarter of 2002 as compared with the same period in 2001. The impact of the third quarter 2001 WTC event, net of the related corporate aggregate reinsurance treaties benefit, was $207.2 million (after tax and minority interest).

Excluding these 2001 significant items, net operating results decreased $117.7 million for the third quarter of 2002 as compared with the same period in 2001. This decrease was due primarily to a decline in net investment income, including a $47.7 million decrease in limited partnership investment income and decreased underwriting results.

The combined ratio increased 5.2 points for the third quarter of 2002 as compared with the adjusted combined ratio for the same period in 2001, and underwriting results decreased by $94.0 million as compared with the adjusted underwriting results for the same period in 2001. This decline was due to an increase in the loss ratio, partially offset by decreases in both the expense and dividend ratio. The loss ratio increased 12.2 points due to unfavorable

~~net prior year loss reserve development in Specialty Lines, primarily for medical professional business, and CNA Re, primarily for professional liability and fiduciary liability business, and a decreased benefit from the~~

~~use of reinsurance, including the corporate aggregate reinsurance treaties, partially offset by improved current accident year results primarily related to rate increases and new business across property and casualty operations and favorable net prior year loss reserve development in Standard Lines for involuntary markets and new claims initiatives. The expense ratio decreased 6.0 points primarily as a result of reduced underwriting expenses resulting from decreased head count as a result of the 2001 Plan and other expense reduction initiatives and an increase in the net earned premium base. Also contributing to the decrease in expense ratio was a shift in business mix resulting in a lower commission rate in CNA Re. The dividend ratio decreased 1.0 points due primarily to favorable current accident year dividends and lower adverse dividend reserve development recorded in 2002 in Standard Lines.~~

~~Net written premiums increased $438.0 million for the third quarter of 2002 as compared with the same period in 2001. Third quarter results for 2001 included reductions in net written premiums totaling $229.0 million related to both the WTC event and the corporate aggregate reinsurance treaties from core operations. Excluding these 2001 significant items, net written premiums increased $209.0 million. This increase was due primarily to strong rate increases across the property and casualty operations, lower ceded premiums in Standard Lines, and clients increasing their premium writings above original estimates in CNA Re. These increases were partially offset by the decision made in the third quarter of 2001 to cease new and renewal business writings in the CNA Re U.K. subsidiary, and increased ceded premiums related to the additional cessions to the CCC Cover in CNA Re in 2002.~~

~~Net earned premiums increased $338.0 million for the third quarter of 2002 as compared with the same period in 2001. Third quarter results for 2001 included reductions in net earned premiums totaling $229.0 million related to both the WTC event and the corporate aggregate reinsurance treaties from core operations. Excluding these 2001 significant items, net earned premiums increased $109.0 million due primarily to the increases in net written premiums noted above.~~

~~Net operating results improved $1,234.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001. The impact of the third quarter 2001 WTC event, net of the related corporate aggregate reinsurance treaties benefit, was $207.2 million (after-tax and minority interest). The impact of the third quarter 2001 reserve strengthening, net of the related corporate aggregate reinsurance treaty benefit, was $1,114.9 million (after-tax and minority interest). In addition, net operating results for the nine months ended September 30, 2001 included a $4.4 million loss for restructuring and other related charges.~~

~~Excluding these 2001 significant items, net operating results decreased $92.5 million for the nine months ended September 30, 2002 as compared with the same period in 2001. This decrease was due primarily to a decline in net investment income, including a $48.2 million decrease in limited partnership investment income and decreased underwriting results.~~

~~The combined ratio decreased 0.8 points for the nine months ended September 30, 2002 as compared with the adjusted combined ratio for the same period in 2001, and underwriting results decreased by $10.0 million as compared with the adjusted underwriting results for the same period in 2001. This change was due to decreases in both the expense and dividend ratios, partially offset by an increase in the loss ratio. The loss ratio increased 6.4 points due to unfavorable prior year loss reserve development in Specialty Lines, primarily for medical professional business, and CNA Re, primarily for professional liability and fiduciary liability business, and a decreased benefit from the~~

~~use of reinsurance, partially offset by improved current accident year results related to rate increases and new business across property and casualty operations. The expense ratio decreased 6.4 points primarily as a result of reduced underwriting expenses resulting from decreased head count as a result of the 2001 Plan and other expense reduction initiatives. Also contributing to the decrease in expense ratio was a shift in business mix resulting in a lower commission rate in CNA Re. The dividend ratio decreased 0.8 points due primarily to favorable current accident year dividends in Standard Lines.~~

~~Net written premiums increased $1,543.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001. The nine months ended September 30, 2001 included reductions in net written premiums totaling $965.0 million related to the corporate aggregate reinsurance treaties,~~

additional ceded premiums arising from the reserve strengthening and the WTC event and a change in estimate for involuntary market premium accruals. Excluding these 2001 significant items, net written premiums increased $578.0 million. This increase was due principally to strong rate increases across the property and casualty operating units, a higher level of new business in Standard Lines and Specialty Lines and clients increasing their premium writings above original estimates in CNA Re. These increases were partially offset by the decision made in the third quarter of 2001 to cease new and renewal business writings in CNA Re U.K.

Net earned premiums increased $1,721.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001. The nine months ended September 30, 2001 included reductions in net earned premiums totaling $1,251.0 million related to the corporate aggregate reinsurance treaties, additional ceded premiums and a change in estimate for retrospective premium accruals arising from the reserve strengthening and WTC event and a change in estimate for involuntary market premium accruals. Excluding these 2001 significant items, net earned premiums increased $470.0 million due primarily to the increases in net written premiums noted above.

Group

During the second quarter of 2002, CNA announced the sale of the Claims Administration Corporation and the transfer of the National Postal Mail Handlers Union group benefits plan (the "Mail Handlers Plan") to First Health Group Corporation, effective July 1, 2002. In the third quarter of 2002, CNA recognized a $5.0 million pretax realized loss on the sale of Claims Administration Corporation and $14.0 million pretax of non-recurring fee income related to the transfer of the Mail Handlers Plan.

Net operating results improved $40.3 million for the third quarter of 2002 as compared with the same period in 2001. Included in the 2001 results was a $30.5 million (after tax and minority interest) loss related to the WTC event. Excluding this 2001 significant item, net operating results improved $9.8 million due primarily to increased net investment income and the non-recurring fee income related to the transfer of the Mail Handlers Plan. Net earned premiums decreased $552.7 million for the third quarter of 2002 as compared with the same period in 2001. This decline was due primarily to the transfer of the Mail Handlers Plan.

Net operating income improved $44.3 million for the nine months ended September 30, 2002 as compared with the same period in 2001. Included in the 2001 results was a $30.5 million loss related to the WTC event. Excluding this 2001 significant item, net operating results improved $13.8 million due

primarily to increased net investment income and the non-recurring fee income related to the transfer of the Mail Handlers Plan.

Net earned premiums decreased $508.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001. This decline was due primarily to the transfer of the Mail Handlers Plan partially offset by an increase in premiums in the disability and long term care products within Group Benefits.

Life

Net operating results improved $31.8 million for the third quarter of 2002 as compared with the same period in 2001. Included in the 2001 results was a $12.2 million (after tax and minority interest) loss related to the WTC event. Excluding this 2001 significant item, net operating results improved $19.6 million due primarily to improved 2002 Individual Life mortality experience and a decrease in reinsurance charges as compared with 2001, partially offset by unfavorable Long Term Care morbidity in 2002.

Sales volume decreased $117.0 million for the third quarter of 2002 as compared with the same period in 2001. This decrease was attributable primarily to lower sales of synthetic guaranteed investment contracts and structured settlement annuities, along with reduced sales in the variable products business, which CNA decided to exit in the fourth quarter of 2001. These decreases were partially offset by increased sales in the Long Term Care business. Net earned premiums increased $2.0 million for the third quarter of 2002 as compared with the same period in 2001, attributable primarily to growth in the Long Term Care business partially offset by sales declines in structured settlements.

Net operating results improved $35.9 million for the nine months ended September 30, 2002 as compared with the same period in 2001. Included in the

2001 results was a $12.2 million (after tax and minority interest) loss related to the WTC event and an $9.6 million loss related to restructuring and other related charges. Excluding these 2001 significant items, net operating results improved $14.1 million (after tax and minority interest) due primarily to higher net investment income and a decrease in reinsurance charges as compared with 2001, partially offset by unfavorable Long Term Care morbidity in 2002.

Sales volume decreased $695.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001. This decrease was attributable primarily to lower sales of synthetic guaranteed investment contracts and structured settlement annuities, along with reduced sales in the variable products business, which CNA decided to exit in the fourth quarter 2001. These decreases were partially offset by increased sales in the Long Term Care business. Net earned premiums increased $34.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001 attributable primarily to growth in the Long Term Care business partially offset by sales declines in structured settlements and the Retirement Services business.

Other Insurance

Net operating results improved $12.6 million for the third quarter of 2002 as compared with the same period in 2001. Included in the 2001 results was a $14.8 million (after tax and minority interest) loss related to the WTC event

related to Group Reinsurance. Excluding the impact of the WTC event, net operating results were comparable to the same period in the prior year. Reduced expenses for e-Business initiatives and improved results for Group Reinsurance were offset by lower net investment income, higher losses related to CNA UniSource and severance and other costs related to changes in senior management during the third quarter of 2002.

Operating revenues decreased $39.0 million for the third quarter of 2002 as compared with the same period in 2001. This decrease was due primarily to reduced revenues for CNA UniSource and reduced net investment income partially offset by increased net earned premiums in Group Reinsurance.

Net operating results improved $787.3 million for the nine months ended September 30, 2002 as compared with the same period in 2001. Included in the 2001 results were $695.2 million related to the second quarter 2001 reserve strengthening, including $644.7 million for APMT, $14.8 million related to the WTC event and $20.9 million of restructuring and other related charges. Excluding these 2001 significant items, net operating results improved $56.4 million (after-tax and minority interest) for the nine months ended September 30, 2002 as compared with the same period in 2001. Reduced expenses for e-Business initiatives and improved results for Group Reinsurance were offset by lower net investment income, higher losses related to CNA UniSource and severance and other costs related to changes in senior management during the third quarter of 2002.

Operating revenues decreased $15.0 million for the nine months ended September 30, 2002 as compared with the same period in 2001. This decrease was due primarily to reduced revenues for CNA UniSource and reduced net investment income partially offset by increased net earned premiums in Group Reinsurance.

In the second quarter of 2001, CNA planned the disposition of CNA UniSource, a payroll processor and professional employer organization ("PEO"). After exploring possible transactions to dispose of its PEO business, CNA UniSource exited the PEO business as of March 31, 2002. As of that date, substantially all existing PEO client contracts were terminated. After exploring possible transactions to dispose of its payroll business, CNA UniSource has decided to exit the payroll processing business as of December 31, 2002. All obligations related to the PEO operation are being run off in an orderly manner and the associated costs are included in continuing operations. CNA anticipates additional operating losses from the PEO run off and payroll operations run-off for the remainder of 2002 and into the first half of 2003.

Environmental Pollution and Mass Tort and Asbestos Reserves

CNA's property and casualty insurance subsidiaries have actual and potential exposures related to environmental pollution and 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" ("PRP"s). 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 upon 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") and included on its National Priorities List ("NPL"). 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. The vast majority of 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 what is referred to in the industry as 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 2001 or the first nine months of 2002, and it is unclear what positions 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 or the effect upon the Company's results of operations and/or equity.~~

~~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.~~

~~As of September 30, 2002 and December 31, 2001, CNA carried approximately $526.0 and $617.0 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported environmental pollution and mass tort claims. There was no environmental pollution and mass tort net development for the three and nine months ended September 30, 2002 and the three months ended September 30, 2001. Unfavorable environmental pollution and mass tort development for the nine months ended September 30, 2001 amounted to $453.0 million. CNA made environmental pollution related claim payments and other mass tort related claim payments, net of reinsurance recoveries, of $91.0 and $153.0 million for the nine months ended September 30, 2002 and 2001.~~

~~CNA's property and casualty insurance subsidiaries also have exposure to asbestos related claims. Estimation of asbestos related 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 and insureds, and additional factors such as missing policies and proof of coverage. Furthermore, estimation of asbestos related claims is difficult due to, among other reasons, the proliferation of bankruptcy proceedings and~~

~~attendant uncertainties, the targeting of a broader range of businesses and entities as defendants, the uncertainty as to which other insureds may be targeted in the future, and the uncertainties inherent in predicting the number of future claims.~~

~~As of September 30, 2002 and December 31, 2001, CNA carried approximately $1,216.0 million and $1,204.0 million of net claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos related claims. There was no asbestos net claim and claim adjustment~~

~~expense development for the three and nine months ended September 30, 2002 and the three months ended September 30, 2001. Unfavorable asbestos net claim and claim adjustment reserve development for the nine months ended September 30, 2001 amounted to $769.0 million. CNA had a net $12.0 million receipt of cash related to asbestos in the first nine months of 2002 as reinsurance recoveries collected exceeded claim payments. CNA made asbestos-related claim payments, net of reinsurance recoveries, of $78.0 million for the nine months ended September 30, 2001.~~

~~In the past several years, CNA has experienced significant increases in claim counts for asbestos-related claims. The factors that led to these increases included, among other things, intensive advertising campaigns by lawyers for asbestos claimants, mass medical screening programs sponsored by plaintiff lawyers, and the addition of new defendants such as the distributors and installers of products containing asbestos. Currently, the majority of asbestos bodily injury claims are filed by persons exhibiting few, if any, disease symptoms. It is estimated that approximately 90.0% of the current non-malignant asbestos claimants do not meet the American Medical Association's definition of impairment. Some courts, including the federal district court responsible for pre-trial proceedings in all federal asbestos bodily injury actions, have ordered that so-called "unimpaired" claimants may not recover unless at some point the claimant's condition worsens to the point of impairment.~~

~~Since 1982, at least sixty-two companies that mined asbestos, or manufactured or used asbestos-containing products, have filed for bankruptcy. Of these sixty-two companies, twenty-six companies have filed bankruptcy since January 1, 2000. This phenomenon has prompted plaintiff attorneys to file claims against companies that had only peripheral involvement with asbestos. Many of these defendants were users or distributors of asbestos-containing products, or manufacturers of products in which asbestos was encapsulated. These defendants include equipment manufacturers, brake, gasket, and sealant manufacturers, and general construction contractors. According to a comprehensive report on asbestos litigation recently released by the Rand Corporation, over 6,000 companies have been named as defendants in asbestos lawsuits, with 75 out of 83 different types of industries in the United States impacted by asbestos litigation. The study found that a typical claimant names 70 to 80 defendants, up from an average of 20 in the early years of asbestos litigation.~~

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

~~outside the products liability aggregate will succeed. CNA is currently attempting to achieve settlements of several of these claims for coverage not subject to aggregate limits. Nevertheless, there can be no assurance any of these settlement efforts will be successful, or that any such claims can be settled on terms acceptable to CNA. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on the Company's results of operations and/or equity.~~

~~Policyholders have also initiated litigation directly against CNA and other insurers. CNA has been named in Adams v. Aetna, Inc., at. al. (Circuit Court of Kanhwha County, West Virginia), a purported class action against CNA and other insurers, alleging that the defendants violated West Virginia's Unfair Trade Practices Act in handling and resolving asbestos claims against their policyholders. In addition, lawsuits have been filed in Texas against CNA and other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos. (Boston v. Union Carbide Corp., et al., (District Court of Nueces County, Texas)). It is difficult to predict the outcome or financial exposure represented by this type of litigation in light of the broad nature of the relief requested and the novel theories asserted.~~

~~Due to the uncertainties created by volatility in claim numbers and settlement demands, the effect of bankruptcies, the extent to which non-impaired claimants can be precluded from making claims and the efforts by insureds to obtain coverage not subject to aggregate limits, the ultimate liability of CNA for asbestos-related claims may vary substantially from the amount currently recorded. Other variables that will influence CNA's ultimate exposure to asbestos-related claims will be medical inflation trends, jury attitudes, the strategies of plaintiff attorneys to broaden the scope of~~

~~defendants, the mix of asbestos related diseases presented, CNA's abilities to recover reinsurance, future court decisions and the possibility of legislative reform. Adverse developments with respect to such matters discussed in this paragraph could have a material adverse effect on CNA's results of operations and/or equity.~~

~~CNA reviews each active asbestos account every six months to determine whether changes in reserves may be warranted. CNA considers input from its analyst professionals with direct responsibility for the claims, inside and outside counsel with responsibility for representation of CNA, and its actuarial staff. These professionals review, among many factors, the policyholder's present and future exposures (including such factors as claims volume, disease mix, trial conditions, settlement demands and defense costs); the policies issued by CNA (including such factors as aggregate or per occurrence limits, whether the policy is primary, umbrella or excess, and the existence of policyholder retentions and/or deductibles); the existence of other insurance; and reinsurance arrangements.~~

~~The results of operations and equity of CNA in future years may be adversely affected by environmental pollution and mass tort and asbestos claim and claim adjustment expenses. Management will continue to review and monitor these liabilities and make further adjustments, including the potential for further reserve strengthening, as warranted.~~

~~Lorillard~~

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

~~During the first quarter of 2002, Lorillard adopted Emerging Issues Task Force ("EITF") No. 00-25 and No. 00-14 relating to the classification of vendor consideration and certain sales incentives. As a result, promotional expenses historically included in other operating expenses have been reclassified primarily as reductions of revenues from manufactured products, or to cost of manufactured products sold. Prior period amounts have been reclassified for comparative purposes. Adoption of the EITF issues had no impact on the results of operations and cash flows of Lorillard.~~

~~Revenues decreased by $100.6 and $27.1 million, or 9.3% and 0.9%, and net income decreased by $22.9 million, or 10.0%, and increased by $103.2 million or 21.8%, respectively, for the quarter and nine months ended September 30, 2002, as compared to the corresponding periods of the prior year.~~

~~Revenues and net income for the quarter decreased due to lower net sales and lower investment income. Net sales decreased by $95.5 million for the quarter ended September 30, 2002, as compared to 2001, due to lower unit sales volume of approximately $160.9 million, or 15.2%, assuming prices were unchanged from the prior year. The decline in unit sales volume was partially offset by higher average unit prices which increased revenues by approximately $65.4 million, or 6.2%, including $24.9 million from an increase in federal excise taxes effective January 1, 2002.~~

~~Net income for the nine months ended September 30, 2001, included a charge of $121.0 million related to an agreement with the class in the Engle case. Excluding this charge, net income decreased by $17.8 million, or 3.0%. Revenues and net income for the nine month period decreased due to lower investment income and lower unit sales, partially offset by increased unit prices. Investment income declined by approximately $30.1 million due to lower invested cash balances and reduced yields on investments. Net sales increased by $8.2 million due to higher average unit prices which resulted in an aggregate increase of approximately $177.7 million, or 6.0%, including $71.5 million from an increase in federal excise taxes effective January 1, 2002. The increased unit prices were partially offset by a decline in unit sales volume of approximately $169.5 million, or 5.7%.~~

~~During the quarter and nine months ended September 30, 2002, Lorillard increased its net wholesale price of cigarettes by an average of $5.22 and $6.88 per thousand cigarettes ($0.10 and $0.14 per pack of 20 cigarettes), respectively, or 4.3% and 5.8%, before the impact of any promotional activities. Federal excise taxes are included in the price of cigarettes and on January 1, 2002, the federal excise tax on cigarettes increased by $2.50 per thousand cigarettes ($0.05 per pack of 20 cigarettes) to $19.50 per thousand cigarettes. All of the states also levy excise taxes on cigarettes. Various states and municipalities have proposed, and some have recently passed, increases in their tobacco excise taxes. Such actions may adversely affect Lorillard's volume, net sales and net income.~~

~~The increased unit prices reflect the increase in net wholesale prices,~~

~~partially offset by promotional expenses, mostly in the form of coupons and other discounts provided to retailers and passed through to the consumer. Increased promotional expenses for the nine months ended September 30, 2002,~~

~~as compared to the corresponding period of the prior year, partially offset the higher average unit prices in 2002.~~

~~Lorillard's overall unit sales volume decreased 13.2% and 5.0% for the quarter and nine months ended September 30, 2002, as compared to 2001. Newport's unit sales volume decreased by 11.0% and 1.1% for the quarter and nine months ended September 30, 2002. Continued decreases in unit volume for Old Gold and Maverick in the discount segment were also contributing factors.~~

~~The unit volume decrease for the 2002 third quarter, as compared to the corresponding period of the prior year, reflects increased wholesale purchases in June 2002 in anticipation of an increase in State excise taxes. Additionally, the 2002 third quarter as compared with the prior year quarter was negatively impacted by increased wholesale shipments beginning in September 2001 prior to the commencement of a federal excise tax increase in January 2002.~~

~~In addition to the impact of variances in wholesale purchase patterns quarter over quarter, the 2002 third quarter unit volume was adversely impacted by the continued growth of deep discounted brands at the expense of discount brands and premium priced brands; the generally weak economic climate; lower promotional spending in the third quarter of 2002 as compared to the prior year's quarter and ongoing limitations imposed by Philip Morris' merchandising arrangements.~~

~~The decline in unit volume for the 2002 nine month period compared with the 2001 nine month period reflects increased unit volume in the 2001 period in anticipation of the January 2002 increase in the federal excise tax and the generally weak economic conditions, continued market share gains of deep discount products at the expense of discount brands and premium brands and ongoing limitations imposed by Philip Morris' merchandising arrangements.~~

~~Overall, industry unit sales volumes decreased by 2.6% for the nine months ended September 30, 2002. Lorillard's share of wholesale cigarette shipments was 9.33% for the nine months ended September 30, 2002, as compared to 9.57% for 2001. Newport, a premium brand, accounted for approximately 88% of Lorillard's unit sales for the nine months ended September 30, 2002, compared to 85% for the year ended December 31, 2001. Newport's market share of the premium segment was 11.2% for the nine months ended September 30, 2002, compared to 10.9% for the year ended December 31, 2001. The premium brand market share amounted to 73.1% of industry sales for the nine months ended September 30, 2002, as compared to 74.2% in the corresponding period of the prior year.~~

~~Lorillard recorded pretax charges of $255.2, $309.0, $842.9 and $890.3 million ($153.7, $188.2, $510.6 and $542.2 million after taxes), for the quarter and nine months ended September 30, 2002 and 2001, respectively, to accrue its obligations under various settlement agreements. Lorillard's portion of ongoing adjusted settlement payments and related legal fees are 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 for these payment obligations have been provided by Lorillard's operating activities.~~

~~The State Settlement Agreements impose a stream of future payment obligations on Lorillard and the other major U.S. cigarette manufacturers and place significant restrictions on their ability to market and sell cigarettes. 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 U.S. cigarette sales in the premium and discount segments, Lorillard's share of the domestic premium and discount segments, and the effect of any resulting cost advantage of manufacturers not subject to all of the payments of the State Settlement Agreements. See Note 13 of the Notes to Consolidated Condensed Financial Statements in Part I.~~

~~Loews Hotels~~

~~Loews Hotels Holding Corporation and subsidiaries ("Loews Hotels"). Loews~~

Hotels Holding Corporation is a wholly owned subsidiary of the Company.

Revenues decreased by $0.7 and $17.5 million, or 1.0% and 7.1%, and net income decreased by $0.2 and $2.6 million, for the quarter and nine months ended September 30, 2002, as compared to the corresponding periods of the prior year.

Revenues decreased for the quarter ended September 30, 2002, as compared to the corresponding period of the prior year, due primarily to lower other hotel operating revenues and reduced investment income, partially offset by an increase in revenue per available room. Revenue per available room increased by $0.77, or 0.7%, to $110.63 due to higher occupancy rates, partially offset by lower average room rates.

Revenue per available room is an industry measure of the combined effect of occupancy rates and average room rates on room revenues. Other hotel operating revenues include, among other items, guest charges for food and beverages, telecommunication services, garage and parking fees.

Revenues decreased for the nine months ended September 30, 2002, as compared to the corresponding period of the prior year, due primarily to lower other hotel operating revenues, reduced investment income and a decline in revenue per available room. Revenue per available room decreased by $8.19, or 6.4%, to $119.08, primarily due to lower average room rates, partially offset by higher occupancy rates.

Net income decreased for the quarter and nine month periods due to the lower revenues, partially offset by improved results at the Loews Philadelphia Hotel, lower interest expense, and for the quarter ended September 30, 2002, improved results at the Universal Orlando properties.

Diamond Offshore

Diamond Offshore Drilling, Inc. and subsidiaries ("Diamond Offshore"). Diamond Offshore Drilling, Inc. is a 54% owned subsidiary of the Company.

Revenues decreased by $63.7 and $135.5 million, or 26.1% and 19.1%, and net income decreased by $19.9 and $42.0 million, or 87.7% and 76.1%, for the quarter and nine months ended September 30, 2002, respectively, as compared to the corresponding periods of the prior year.

Revenues from high specification floaters and other semisubmersible rigs decreased by $29.2 and $54.0 million, or 12.0% and 7.6%, for the quarter and nine months ended September 30, 2002, as compared to the corresponding periods of the prior year. The decrease reflects lower dayrates ($17.9 and $26.7

million) and lower utilization ($24.2 and $54.1 million) partially offset by revenues generated by the Ocean Baroness which completed a conversion to a high specification semisubmersible drilling unit ($12.9 and $26.8 million), for the quarter and nine months ended September 30, 2002, as compared to the corresponding periods of the prior year.

Revenues from jack up rigs decreased by $29.6 and $64.2 million, or 12.1% and 9.1%, due primarily to decreased dayrates ($17.0 and $41.1 million) and lower utilization ($12.6 and $23.1 million) for the quarter and nine months ended September 30, 2002.

Revenues from investment income for the quarter and nine months ended September 30, 2002, decreased by $6.5 and $12.5 million, respectively, as compared to the corresponding periods of the prior year, due primarily to lower yields.

Net income decreased due primarily to the decreased revenues discussed above, and for the nine months ended September 30, 2002, partially offset by lower interest expenses related to a premium paid on early extinguishment of debt in 2001.

Bulova

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

Revenues increased by $5.5 and $14.5 million, or 15.5% and 14.5%, respectively, for the quarter and nine months ended September 30, 2002. Net income increased $0.8 and $0.8 million or 53.3% and 14.0% for the quarter and nine months ended September 30, 2002. Revenues and net income increased due primarily to the addition of the Wittnauer watch brand, acquired in the third quarter of 2001, increased sales of Harley Davidson licensed product associated with the license agreement signed in May 2001, and increased clock unit sales volume as compared to the corresponding periods of the prior year. These increases were partially offset by unit volume decreases in the Bulova brand as compared to 2001, and a pretax charge of $0.7 and $1.1 million for the quarter and nine months ended September 30, 2002 related to an accrual for environmental remediation costs.

Corporate

Corporate operations consist primarily of investment income, including investment gains (losses) from non-insurance subsidiaries, as well as equity earnings from a shipping joint venture, corporate interest expenses and other corporate administrative costs.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In millions)			
Revenues:				
Derivative instruments	$ (16.3)	$ 0.3	$(19.5)	$ 4.5
Fixed maturities	28.0	12.4	35.2	24.3
Equity securities, including short positions	(52.0)	50.8	(90.3)	75.8
Short term investments, primarily U.S. government securities	42.9	8.4	67.0	21.1
	2.6	71.9	(7.6)	125.7
Income tax (expense) benefit	(1.7)	(25.2)	1.8	(44.0)
Minority interest	(6.6)	(2.0)	(10.3)	(6.0)
Net income (loss)	$ (5.7)	$ 44.7	$ (16.1)	$ 75.7

Exclusive of investment gains (losses), revenues decreased $26.5 and $79.3 million and net loss increased $17.0 and $56.7 million for the quarter and nine months ended September 30, 2002, compared to the corresponding periods of the prior year, due primarily to lower revenues from a shipping joint venture reflecting reduced demand and charter rates in the crude oil tanker markets, and lower investment income.

Liquidity and Capital Resources:

CNA Financial

The principal operating cash flow sources of CNA's property and 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 nine months ended September 30, 2002 net cash provided by operating activities was $807.0 million as compared with net cash used by operating activities of $698.0 million for the same period in 2001. The improvement related primarily to federal tax refunds received in 2002 as compared to taxes paid in 2001, and decreased net payments for insurance claims in the first nine months of 2002 as compared to 2001.

Cash flows from investing activities include purchases and sales of financial instruments, as well as the purchase and sale of land, buildings, equipment and other assets not generally held for resale.

For the nine months ended September 30, 2002, net cash used by investing activities was $636.0 million as compared with net cash provided by investing activities of $345.0 million for the same period in 2001. This decrease was due primarily to purchases of fixed maturity securities and $264.0 million of

~~net proceeds related to the sale of 180 Maiden Lane, New York facility in 2001.~~

~~Cash flows from financing activities include proceeds from the issuance of debt or equity securities, outflows for dividends or repayment of debt and outlays to reacquire equity instruments.~~

~~For the nine months ended September 30, 2002, net cash used by financing activities was $54.0 million as compared with net cash provided by financing activities of $310.0 million for the same period in 2001. Cash provided by financing activities in 2001 includes the completion of a common stock rights offering by CNA on September 26, 2001, successfully raising $1.0 billion (40.3 million shares sold at $25.00 per share). The Company purchased 38.3 million shares issued in connection with the rights offering for $957.0 million. Additionally, CNA repaid debt of $646.0 million in 2001.~~

~~CNA is monitoring the cash flows related to claims and reinsurance recoverables from the WTC event. It is anticipated that significant claim payments will be made prior to receipt of the corresponding reinsurance recoverables. CNA does not anticipate any liquidity problems resulting from these payments. Approximately 37.0%, 36.0% and 22.0% of the reinsurance recoverables on the estimated losses related to the WTC event are from companies with S&P ratings of AAA, AA or A, respectively. As of November 1, 2002, CNA has paid $438.0 million in claims and recovered $229.0 million from reinsurers.~~

~~CNA is currently evaluating various capital raising alternatives. Any capital raised in the near term would be used to refinance debt, which matures in 2003, and to enhance the overall capital position of CNA's insurance subsidiaries. The effects on net income of any near term capital raising activities on future operations is currently uncertain.~~

~~On September 30, 2002, CNA Surety Corporation ("CNA Surety"), a 64.0% owned and consolidated subsidiary of CNA, entered into a $65.0 million credit agreement with one bank, which consists of a $35.0 million 364 day revolving credit facility and a $30.0 million term loan. As of September 30, 2002, the facility was fully utilized. The credit agreement replaced a $130.0 million revolving credit facility that terminated September 30, 2002. Under the new agreement, CNA Surety pays a facility fee of 12.5 basis points, interest at LIBOR plus 45.0 basis points, and for utilization greater than 50.0% of the amount available to borrow an additional fee of 5.0 basis points. On the term loan, CNA Surety pays interest at LIBOR plus 62.5 basis points.~~

~~Under the former agreement, CNA Surety paid interest on outstanding borrowings based on, among other rates, LIBOR plus the applicable margin. The applicable margin was determined by CNA Surety's leverage ratio (debt to total capitalization). At the termination date of the facility, the applicable margin was 30.0 basis points, including the 10.0 basis point facility fee.~~

~~The terms of the agreement require the assumption by a second bank of $15.0 million of the credit risk by November 30, 2002 or CNA Surety will be required to repay $15.0 million to reduce the amount of the credit facility commitment from $35.0 million to $20.0 million. CNA and CNA Surety have entered into an agreement whereby CNA will lend CNA Surety the amount needed to repay its bank loans, if necessary. CNA Surety is exploring other capital opportunities to repay or refinance $15.0 million of loans, and currently believes that it is reasonably possible that CNA may be required to perform on some portion of its guaranty.~~

~~The terms of CNA's and CNA Surety's credit facilities require CNA and CNA Surety to maintain certain financial ratios and combined property and casualty company statutory surplus levels. At September 30, 2002 and December 31, 2001, CNA and CNA Surety were in compliance with all restrictive debt covenants.~~

~~In the normal course of business, CNA has obtained letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At September 30, 2002 there were approximately $282.0 million of outstanding letters of credit.~~

~~As of September 30, 2002, CNA had committed approximately $157.0 million for future capital calls from various third party limited partnership investments in exchange for an ownership interest in the related partnerships.~~

~~CNA has a commitment to purchase a $100.0 million floating rate note issued by the California Earthquake Authority in the event California earthquake-related insurance losses exceed $4.9 billion prior to December 31, 2002.~~

As of September 30, 2002, CNA is obligated to make future payments totaling $470.0 million for non cancelable operating leases expiring from 2002 through 2014 primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: $27.0 million in 2002; $94.0 million in 2003; $75.0 million in 2004; $66.0 million in 2005; and $208.0 million in 2006 and beyond. Additionally, CNA has entered into a limited number of guaranteed payment contracts, primarily relating to telecommunication services, amounting to approximately $25.0 million. Estimated future minimum purchases under these contracts are as follows: $4.0 million in 2002; $11.0 million in 2003; $8.0 million in 2004; and $2.0 million in 2005.

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. CNA's insurance company subsidiaries are rated by major rating agencies, and these ratings reflect the rating agency's opinion of the insurance company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating. One or more of these agencies could take action in the future to change the ratings of CNA's insurance subsidiaries. If those ratings were downgraded as a result, the Company's results of operations and/or equity could be materially adversely affected.

The table below reflects ratings issued by A.M. Best, S&P, Moody's and Fitch as of November 13, 2002 for the CCC Pool, the Continental Insurance Company ("CIC") Pool, Continental Assurance Corporation ("CAC") Pool and CNA Group Life Assurance Company ("CNAGLA"). Also rated were CNA's senior debt and The Continental Corporation ("Continental") senior debt.

	Insurance Financial Strength Ratings				Debt Ratings	
	Property & Casualty		Life & Group		CNA	Continental
	CCC Pool	CIC Pool	CAC Pool	CNAGLA	Senior Debt	Senior Debt
A.M. Best	A	A	A	A	BBB	BBB-
Fitch	A	A	AA-	A+	BBB	BBB
Moody's	A3	A3	A2 (Negative)*	NR	Baa2	Baa3
S&P	A-	A	A+	NR	BBB-	BBB-

NR = Not Rated
* CAC and Valley Forge Life Insurance Company ("VFL") are rated separately by Moody's and both have an A2 rating.

During the second quarter, the assignment of a new insurance financial strength rating to CNAGLA was the only rating action. A.M. Best assigned an "A" rating and Fitch assigned an "A+" rating with a stable outlook to CNAGLA. Currently, group life and health policies are written in CCC, CAC, and VFL and then assumed through reinsurance by CNAGLA. With the addition of these separate entity specific ratings, CNAGLA has commenced direct writing group insurance policies.

CNA's ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNA by its insurance subsidiaries without prior approval of the insurance department of each subsidiary's domiciliary jurisdiction is limited by formula. Dividends in excess of these amounts are subject to prior approval of the respective state insurance departments.

Corporate bonds comprise a significant portion of CNA's investment portfolio. CNA regularly reviews the market value of these securities, and challenges whether an other than temporary decline in value has occurred for securities that are trading below cost. In light of the current volatility in the financial markets and the dramatic impact that several recent accounting scandals have had on specific issuers, the Company may be subject to future impairment losses that could materially adversely impact its results of operations. Any future impairment losses would not have a material impact on the Company's overall equity. See the discussion of CNA's impairment committee in "Investments-Insurance" below.

~~CCC is the lead insurance company subsidiary within the CCC Pool and is the main source of CNA dividends. All other insurance companies within the CCC Pool are subsidiaries of CCC and are subject to the dividend rules of their applicable state of domicile. Dividends from CCC are subject to the insurance holding company laws of the State of Illinois, the domiciliary state of CCC. Under these laws, ordinary dividends, or dividends that do not require prior approval of the Illinois Department, may be paid only from earned surplus, which is calculated by removing unrealized gains (under which statutory accounting includes cumulative earnings of CCC's subsidiaries) from unassigned surplus. As of September 30, 2002, CCC is in a negative earned surplus position. In February 2002, the Illinois Department approved an extraordinary dividend in the amount of $117.0 million to be used to fund CNA's 2002 debt~~

~~service requirements. Until CCC is in a positive earned surplus position, all dividends require prior approval of the Illinois Department.~~

~~Prompted, in part, by the negative earned surplus position described above, CNA has embarked on a capital realignment initiative within the CCC Pool, which is excepted to restore CCC's earned surplus to a positive position. This initiative involves the payment of dividends to CCC from the cumulative undistributed earnings of its insurance subsidiaries during the fourth quarter of 2002. This capital realignment initiative is pending regulatory approval from the applicable domiciliary state insurance department of CCC's insurance subsidiaries. As a result of this initiative, it is anticipated that CCC's earned surplus will be restored to a positive level by December 31, 2002.~~

~~In addition, by agreement with the New Hampshire Insurance Department ("New Hampshire Department"), as well as certain other state insurance departments, dividend paying capacity for the subsidiary companies within the CIC Pool are restricted to internal (intercompany) and external debt service requirements through September 2003, up to a maximum of $85.0 million annually, without the prior approval of the New Hampshire Department.~~

~~Lorillard~~

~~Lorillard and other cigarette manufacturers continue to be confronted with substantial litigation and regulatory issues. Approximately 4,575 product liability cases are pending against cigarette manufacturers in the United States. Of these, approximately 1,200 cases are pending in a West Virginia court, and approximately 2,800 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. The judgment also provides that the jury's awards bear interest at the rate of 10% per year. Lorillard remains of the view that the Engle case should not have been certified as a class action. Lorillard believes that class certification in the Engle case is inconsistent with the 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 numerous other legal errors that it believes occurred during the trial. The Florida Third District Court of Appeal heard argument in defendants' appeal on November 6, 2002. The Court of Appeal took the appeal under advisement. The Company and Lorillard believe that an appeal of these issues on the merits should prevail.~~

~~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. Lorillard expects its cash payment under the State Settlement Agreements in 2002 to be approximately $1.1 billion. See Note 13 of the Notes to Consolidated Condensed Financial Statements in Part I of this Report for additional information regarding this settlement and other litigation matters.~~

~~The principal source of liquidity for Lorillard's business and operating needs is internally generated funds from its operations. Lorillard's cash provided by operating activities amounted to $681.6 million for the nine months ended September 30, 2002, compared to $1,015.9 million for the prior year. Cash provided by operating activities declined primarily due to the timing of estimated tax payments. Lorillard believes, based on current~~

~~conditions, that cash flows from operating activities will be sufficient to enable it to meet its obligations under the State Settlement Agreements and to fund its capital expenditures. Lorillard cannot predict the impact on its cash~~

~~flows of cash requirements related to future settlements or judgments, including cash required to bond any appeals, if necessary, or the impact of subsequent legislative actions, and thus can give no assurance that it will be able to meet all of those requirements.~~

~~Loews Hotels~~

~~In 2002, Loews Hotels, with its partners, opened a third hotel at Universal Orlando in Florida. Capital expenditures in relation to this hotel project were 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~~

~~At September 30, 2002, cash and marketable securities totaled $946.9 million, down from $1.1 billion at December 31, 2001. Cash provided by operating activities for the nine months ended September 30, 2002 decreased by $17.6 million to $246.9 million, as compared to $264.5 million in 2001.~~

~~During 2002, Diamond Offshore purchased 1,716,700 shares of its common stock at an aggregate cost of $43.4 million. Depending on market conditions Diamond Offshore may, from time to time, purchase shares of its common stock in the open market or otherwise.~~

~~During the first nine months of 2002, Diamond Offshore spent $150.8 million, including capitalized interest expense, for rig upgrades, of which $81.3 million was for the conversion of the Ocean Rover and $31.5 million was for the completion of the conversion of the Ocean Baroness. Diamond Offshore also spent $33.9 million in the first nine months of 2002 to upgrade six jack up rigs. Diamond Offshore expects to spend approximately $242.0 million for rig upgrade capital expenditures during 2002.~~

~~Diamond Offshore took delivery of the Ocean Baroness in January 2002 and began operating offshore Malaysia in March 2002. The approximate cost of the upgrade was $170.0 million. In January 2002, the Ocean Rover arrived at a shipyard in Singapore for a major upgrade to water depths and specifications similar to the enhanced Ocean Baroness. The estimated cost of this upgrade is approximately $200.0 million with approximately $125.0 million to be spent in 2002. The upgrade is expected to take approximately 19 months to complete with delivery estimated in the third quarter of 2003.~~

~~Diamond Offshore also plans to spend approximately $100.0 million over a two year period to upgrade six of its jack-up rigs. Diamond Offshore expects to finance these upgrades through the use of existing cash balances or internally generated funds.~~

~~During the nine months ended September 30, 2002, Diamond Offshore expended $55.3 million for its continuing rig enhancement program and to meet other corporate capital expenditure requirements. Diamond Offshore expects to spend~~

~~$100.0 million for 2002 capital expenditures associated with these items (other than rig upgrades) and other corporate requirements.~~

~~Diamond Offshore currently expects to finance these capital expenditures through the use of existing cash balances or internally generated funds.~~

~~Cash required to meet Diamond Offshore's capital commitments is determined by evaluating the need to upgrade rigs to meet specific customer requirements and by evaluating Diamond Offshore's ongoing rig equipment replacement and enhancement programs, including water depth and drilling capability upgrades. It is management's opinion that operating cash flows and Diamond Offshore's cash reserves will be sufficient to meet these capital commitments; however, Diamond Offshore will continue to make periodic assessments based on industry conditions. In addition, Diamond Offshore may, from time to time, issue debt or equity securities, or a combination thereof, to finance capital expenditures, the acquisition of assets and businesses, or for general corporate purposes. Diamond Offshore's ability to effect any such issuance will be dependent on its results of operations, its current financial and market conditions, and other factors beyond its control.~~

~~On November 5, 2002, Diamond Offshore announced that it signed a memorandum of agreement to purchase the semisubmersible drilling rig Omega for $65.0 million. The agreement is subject to certain conditions and the purchase is~~

expected to be completed in the first quarter of 2003.

Bulova

For the nine months ended September 30, 2002, net cash used from operating activities was $7.1 million as compared with net cash provided of $12.2 million in the comparable period of 2001. The decrease in net cash flow is primarily the result of an increase in the level of accounts receivable related to higher net sales resulting primarily from the introduction of the new Wittnauer brand product line and Harley Davidson licensed product, and an increase in inventory purchases, partially offset by a change in the timing of accounts payable and accrued expenses. Bulova's cash and cash equivalents, and investments amounted to $11.4 million at September 30, 2002, compared to $18.9 million at December 31, 2001.

Bulova and the Company have a credit agreement which provides, under terms and conditions set forth therein, for unsecured loans to Bulova by the Company from time to time, in principal amounts aggregating up to $50.0 million. Bulova has not utilized this credit agreement since 1995 and there are no amounts outstanding thereunder. Bulova may require working capital advances under this credit agreement to fund its capital expenditures and working capital requirements associated with product line extensions and international expansion efforts.

Majestic Shipping

Subsidiaries of Hellespont Shipping Corporation ("Hellespont"), a 49% owned subsidiary of Majestic Shipping Corporation ("Majestic"), a wholly owned subsidiary of the Company, entered into agreements with a Korean shipyard for the new building of four 442,500 deadweight ton, ultra large crude carrying ships. These subsidiaries were purchased by Hellespont from Majestic at the Company's carrying value, excluding pretax capitalized interest expense of $3.1 million, in March 2002. In partial consideration for this purchase, Hellespont issued to Majestic a promissory note in the principal amount of

$57.5 million, which remains outstanding. The total cost of the ships is estimated to amount to approximately $360.0 million, to be financed in part by up to an aggregate amount of $200.0 million of bank debt, guaranteed by Hellespont as successor to Majestic. As of September 30, 2002, $100.0 million principal amount of this debt was outstanding. The Company has agreed to provide credit support for this bank debt by making available to the borrowers an operating cash flow credit facility of up to an aggregate amount of $25.0 million, none of which is outstanding.

Parent Company

On February 6, 2002, the Company sold 40,250,000 shares of a new class of its common stock referred to as Carolina Group Stock for net proceeds of $1.1 billion. Proceeds from this sale have been allocated to the Loews Group and will be used for general corporate purposes.

As of September 30, 2002, there were 185,441,200 shares of Loews Common Stock outstanding. During the quarter and nine months ended September 30, 2002, the Company purchased 664,000 and 6,065,600 shares of Loews Common Stock at an aggregate cost of $33.4 and $343.5 million, respectively. During the quarter and nine months ended September 30, 2002, the Company purchased 53,500 and 2,717,876 shares of CNA common stock at an aggregate cost of $1.4 and $73.1 million, respectively. The Company also purchased 340,000 shares of Carolina Group Stock during the quarter ended September 30, 2002, for the account of the Carolina Group, at an aggregate cost of $7.7 million. Depending on market conditions, the Company from time to time may purchase shares of its, and its subsidiaries', outstanding common stock in the open market or otherwise.

The Company continues to pursue conservative financial strategies while seeking opportunities for responsible growth. These include the expansion of existing businesses, full or partial acquisitions and dispositions, and opportunities for efficiencies and economies of scale.

The Company is a holding company and derives substantially all of its cash flow from its subsidiaries, principally, Lorillard. The Company relies upon its invested cash balances and distributions from its subsidiaries to generate the funds necessary to meet its obligations and to declare and pay any dividends to its stockholders. The ability of the Company's subsidiaries to pay dividends is subject to, among other things, the availability of sufficient funds in such subsidiaries, applicable state laws, including in the case of the insurance subsidiaries of CNA, laws and rules governing the payment of dividends by regulated insurance companies. Claims of creditors of the Company's subsidiaries will generally have priority as to the assets of such subsidiaries over the claims of the Company and its creditors and stockholders.

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) asset and liability management activities, (ii) income enhancements for its portfolio management strategy, and (iii) to benefit from anticipated future movements in the underlying markets. If such movements do not occur as anticipated, then significant losses may occur.

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

The 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 2001 Annual Report on Form 10-K.

Insurance

The components of CNA's net investment income are presented in the following table.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In millions)			
Fixed maturity securities:				
Bonds:				
Taxable	$ 412.0	$ 438.0	$1,284.0	$1,247.0
Tax exempt	49.0	24.0	120.0	86.0
Limited Partnerships	(72.0)	20.0	(28.0)	52.0
Short term investments	17.0	34.0	44.0	113.0
Other, including interest on funds withheld and other deposits	(21.0)	(50.0)	(81.0)	(94.0)
Gross investment income	385.0	466.0	1,339.0	1,404.0
Investment expense	(21.0)	(18.0)	(47.0)	(47.0)
Investment income, net of expense	$ 364.0	$ 448.0	$1,292.0	$1,357.0

CNA experienced lower net investment income for the three and nine months ended September 30, 2002 as compared with the same periods in 2001. The decrease was due primarily to decreased limited partnership results and lower investment yields, partially offset by reduced interest costs on funds withheld reinsurance contracts. Other investment income includes interest costs on funds withheld reinsurance contracts. (See "Results of Operations by Business Segment - CNA Financial - Reinsurance," above for additional information). The interest cost on these contracts increased significantly in the second and third quarters of 2001 due to ceded losses resulting from the second quarter 2001 reserve strengthening and the WTC event. The decline in limited partnership income was primarily attributable to many of the same factors that impacted the broader financial markets. Limited partnership investment performance, particularly high yield bond and equity strategies, was adversely affected by overall market volatility including concerns over corporate accounting practices and credit deterioration. Based upon current trends, CNA expects limited partnership losses in the fourth quarter of 2002 will likely be less than that reported in the third quarter of 2002. In future quarters, CNA expects to reallocate a portion of its investment in limited partnerships to other investments. The bond segment of the investment portfolio yielded 6.0% in the first nine months of 2002 as compared with 6.4% during the same period in 2001.

The components of CNA's net investment (losses) gains are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
	(In millions)			
Investment gains (losses):				
Fixed maturity securities:				
U.S. Government bonds	$ 214.0	$ 49.0	$ 263.0	$ 156.0
Corporate and other taxable bonds	(165.0)	(73.0)	(414.0)	(80.0)
Tax exempt bonds	41.0	7.0	57.0	45.0
Asset backed bonds	14.0		42.0	55.0
Redeemable Preferred Stock	(13.0)		(28.0)	(21.0)
Total fixed maturity securities	91.0	(17.0)	(80.0)	155.0
Equity securities	(17.0)	39.0	32.0	1,126.0
Derivative securities	(44.0)	(29.0)	(78.0)	(26.0)
Other invested assets	(6.0)	8.0	(11.0)	(316.0)
Total realized investment (losses) gains .	24.0	1.0	(137.0)	939.0
Income tax benefit (expense)	(8.0)	(1.0)	50.0	(390.0)
Minority interest	(1.0)		10.0	(71.0)
Net investment (losses) gains	$ 15.0		$(77.0)	$ 478.0

Net realized investment gains increased $15.0 million for the three months ended September 30, 2002 compared with the same period in 2001. This increase was due primarily to gains on sales fixed maturity and equity securities, partially offset by increased investment impairment losses.

Net realized investment gains decreased $555.0 million for the nine months ended September 30, 2002 compared with the same period in 2001. This decline was due primarily to a $237.5 million (after tax and minority interest) increase in impairment losses recorded in 2002 principally on corporate bonds,

contrasted with large gains realized in the second quarter of 2001 from closing out the hedge agreements, entered into in early 2000, related to CNA's investment in Global Crossing Ltd. common stock.

A primary objective in the management of the fixed maturity and equity securities portfolios is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities or credit and tax considerations. This activity will produce realized gains and losses.

~~Substantially all of CNA's invested assets are marketable securities classified as available for sale in the accompanying financial statements. Accordingly, changes in fair value for these securities are reported in other comprehensive income.~~

~~Invested assets are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain invested assets and the level of uncertainty related to changes in the value if these assets, it is possible that changes in risks in the near term may materially affect the amounts reported in the Consolidated Condensed Balance Sheets and the Consolidated Condensed Statements of Operations.~~

~~CNA's Impairment Committee (the "Committee") reviews the investment portfolio no less frequently than quarterly for potentially troubled securities. The Committee (comprised of representatives appointed by CNA's Chief Financial Officer) determines which securities are impaired and the extent of the impairment. Each quarter a screening list is prepared, consisting of the securities which fall below certain thresholds. Each security on the list is analyzed by the Committee in light of specific facts and circumstances that may be unique to that security including, but not limited to, the current market value relative to book value, the length of time that the security's market value has been less than book value, the current view of the security's market sector, its underlying circumstances and near term prospects, and CNA's intended holding period. The Committee evaluates available information and concludes if impairment losses are warranted.~~

~~Realized investment losses for the three and nine months ended September 30, 2002, included $222.0 million and $533.0 million pretax of impairment losses as compared with $41.0 million and $124.0 million of pretax impairment losses for the same periods in 2001.~~

~~The impairments recorded in 2002 and 2001 were primarily the result of the continued deterioration in the bond and equity markets and the effects on such markets due to the overall slowing of the economy. These impairment losses were related principally to corporate bonds in the taxable securities asset class of fixed maturity securities and in equity securities.~~

~~For the three months ended September 30, 2002, the impairment losses related primarily to corporate bonds in the communications sector of the market and equities in the financial industry sector. On an aggregate basis, these impairment losses were more than offset by the realized gains in the overall investment portfolio.~~

~~For the three months ended September 30, 2001, the impairment losses related to corporate bonds primarily in the internet communications sector of the market.~~

~~For the nine months ended September 30, 2002, the impairment losses included $129.0 million related to debt securities issued by WorldCom Inc., $74.0 million related to Adelphia Communications Corporation, and $57.0 million for AT&T Canada, all of which recently filed for bankruptcy. The remainder of the impairment losses were primarily in the communications sector. If the deterioration in this and other industry sectors continues in future periods and CNA continues to hold these securities, CNA is likely to have additional impairment losses in the future.~~

~~For the nine months ended September 30, 2001 the impairment losses were primarily in corporate bonds and included $61.0 million related to the internet communications industry sector. The remainder of the impairment losses were primarily in the equity class and medical services industry sectors.~~

~~During the second quarter of 2001, CNA announced its intention to sell certain businesses. The assets being held for disposition included the U.K. subsidiaries of CNA Re ("CNA Re U.K.") and certain other businesses. Based upon the impairment analyses performed at that time, CNA anticipated that it would realize losses in connection with those planned sales. In determining the anticipated loss from these sales, CNA estimated the net realizable value of each business being held for sale. An estimated after-tax and minority interest loss of $278.4 million was initially recorded in the second quarter of 2001. This loss was reported in other realized investment losses.~~

~~CNA continues to monitor the impairment losses analyses recorded for these businesses and perform updated impairment analyses. Based on these analyses the impairment loss has been reduced by approximately $170.0 million, primarily because the net assets of the businesses had been significantly diminished by their operating losses, including adverse development recognized by CNA Re U.K. in the fourth quarter of 2001.~~

In the fourth quarter of 2001, CNA sold certain businesses as planned. The realized after tax and minority interest loss applicable to these businesses recognized in the second quarter of 2001 was $33.1 million. Revenues of these businesses included in the three and nine months ended September 30, 2001 totaled approximately $6.0 and $28.0 million. These businesses contributed approximately $2.6 million of net operating income and $12.2 million of losses in the three and nine months ended September 30, 2001.

At September 30, 2002, CNA Re U.K. remained held for sale. On October 31, 2002, CNA completed the sale of CNA Re U.K. to Tawa U.K. Limited, a subsidiary of Artemis Group, a diversified French based holding company. The sale includes business underwritten since inception by CNA Re U.K., except for certain risks retained by CCC as discussed below. In October, the sale was approved in the United Kingdom by the Financial Services Authority ("FSA") and by the Illinois Insurance Department. This sale does not impact CNA Re's on-going U.S. based operations.

CNA Re U.K. was sold for one dollar, subject to adjustments that are primarily driven by certain operating results and changes in interest rates between January 1, 2002 and October 31, 2002, and realized foreign currency losses recognized by CNA Re U.K. prior to December 31, 2002. CNA has also committed to contribute up to $9.6 million to CNA Re U.K. over a four year period beginning in 2010 should the FSA deem CNA Re U.K. to be undercapitalized. Due to the various components of the completion adjustments, which are initially prepared by the buyer, the final settlement cannot yet be determined. However, based upon information currently available to CNA, management believes there will be a reduction in the previously recognized

impairment loss, which will be reflected as a realized gain when the completion adjustments are finalized.

Concurrent with the sale, several reinsurance agreements under which CCC had provided retrocessional protection to CNA Re U.K. will be terminated. As part of the sale, CNA Re U.K.'s net exposure to all IGI Program liabilities will be ceded to CCC. Further, CCC will provide a $100.0 million stop loss cover attaching at carried reserves on CNA Re U.K.'s 2001 underwriting year exposures for which CCC received premiums of $25.0 million.

The statutory surplus of CNA Re U.K., was below the required regulatory minimum surplus level at December 31, 2001. CCC contributed $120.0 million of capital on March 25, 2002 bringing the capital above the regulatory minimum.

CNA Re U.K. contributed revenues of approximately $14.0 and $57.0 million for the three months ended September 30, 2002 and 2001, and $57.0 and $220.0 million for the nine months ended September 30, 2002 and 2001. CNA Re U.K. contributed net operating income of $8.1 million and net operating losses of $94.9 million for the three months ended September 30, 2002 and 2001 and net operating income of $11.6 million and net operating losses of $153.2 million for the nine months ended September 30, 2002 and 2001. The assets and liabilities of CNA Re U.K., after including the effects of planned concurrent transactions, were approximately $2.7 and $2.7 billion as of September 30, 2002 and $2.9 and $2.9 billion as of December 31, 2001.

The businesses sold in 2002, excluding CNA Vida, Claims Administration Corporation and the Mail Handlers Plan, and those that continue to be held for disposition as of September 30, 2002, excluding CNA Re U.K., contributed revenues of approximately $6.0 and $28.0 million for the three months ended September 30, 2002 and 2001, and $35.0 and $95.0 million for the nine months ended September 30, 2002 and 2001. Additionally, these businesses contributed net operating losses of $1.8 and $1.7 million for the three months ended September 30, 2002 and 2001 and $12.5 and $10.4 million for the nine months ended September 30, 2002 and 2001. The assets and liabilities of these businesses were approximately $96.0 and $83.0 million as of September 30, 2002 and $126.0 and $109.0 million as of December 31, 2001. All anticipated disposals are expected to be completed in 2002.

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

	September 30, 2002	December 31, 2001	Change in Unrealized Gains (Losses)
	(In millions)		

Fixed maturity securities:			
U.S. Treasury securities and obligations of government agencies	$ 3,697.0	$ 5,081.0	$ 250.0
Asset-backed securities	7,643.0	7,723.0	199.0
Tax exempt securities	4,785.0	2,720.0	233.0
Corporate securities	8,389.0	9,587.0	(13.0)
Other debt securities	3,781.0	3,816.0	(213.0)
Redeemable preferred stock	26.0	48.0	(1.0)
Options embedded inconvertible debt securities	122.0	189.0	
Total fixed maturity securities	28,443.0	29,164.0	455.0
Equity securities	932.0	1,338.0	(155.0)
Short term and other investments	6,805.0	5,324.0	19.0
Total	$36,180.0	$35,826.0	$ 319.0

	September 30, 2002	December 31, 2001
	(In millions)	
Short term and other investments:		
Commercial paper	$ 775.0	$ 1,194.0
Money market funds	918.0	1,641.0
U.S. Treasury securities	2,254.0	175.0
Others	1,238.0	730.0
Other investments	1,620.0	1,584.0
Total short term and other investments	$ 6,805.0	$ 5,324.0

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 gain of the general account investments was $664.0 million at September 30, 2002 compared with $345.0 million at December 31, 2001. The unrealized position at September 30, 2002 was composed of a net unrealized gain $650.0 million for fixed maturities and a net unrealized gain of $14.0 million for equity securities. The unrealized position at December

31, 2001 was composed of a net unrealized gain of $194.0 million for fixed maturities, a net unrealized gain of $170.0 million for equity securities and a net unrealized loss of $19.0 million for short term securities.

Unrealized Gains (Losses) Fixed Maturity and Equity Securities

	September 30, 2002			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain (Loss)
	(In millions)			
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 3,369.0	$ 328.0		$ 328.0
Asset-backed securities	7,323.0	345.0	$ 25.0	320.0
Tax exempt securities	4,580.0	242.0	37.0	205.0
Corporate securities	8,384.0	496.0	491.0	5.0
Other debt securities	3,989.0	162.0	370.0	(208.0)
Redeemable preferred stock	26.0			
Options embedded in convertible debt securities	122.0			
Total fixed maturity securities	27,793.0	1,573.0	923.0	650.0

Equity securities:				
Common stock	580.0	188.0	135.0	53.0
Non redeemable preferred stock	338.0	4.0	43.0	(39.0)
Total equity securities	918.0	192.0	178.0	14.0
Total fixed maturity and equity securities	$ 28,711.0	$ 1,765.0	$1,101.0	$ 664.0

Unrealized Gains (Losses) on Fixed Maturity and Equity Securities

	December 31, 2001			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain (Loss)
	(In millions)			
Fixed maturity securities:				
U.S. Treasury securities and obligations of government agencies	$ 5,002.0	$ 109.0	$ 30.0	$ 79.0
Asset backed securities	7,603.0	139.0	19.0	120.0
Tax exempt securities	2,748.0	19.0	47.0	(28.0)
Corporate securities	9,569.0	247.0	229.0	18.0
Other debt securities	3,811.0	152.0	147.0	5.0
Redeemable preferred stock	48.0	1.0	1.0	
Options embedded in convertible debt Securities	189.0			
Total fixed maturity securities	28,970.0	667.0	473.0	194.0
Equity Securities:				
Common Stock	820.0	326.0	150.0	176.0
Non redeemable preferred stock	348.0	17.0	23.0	(6.0)
Total equity securities	1,168.0	343.0	173.0	170.0
Total fixed maturity and equity securities	$ 30,138.0	$ 1,010.0	$ 646.0	$ 364.0

At September 30, 2002 CNA held fixed maturity and equity securities with a net unrealized gain of $664.0 million. Included in this amount were gross unrealized losses of $1,101.0 million which were more than offset by gross unrealized gains of $1,765.0 million. As previously described, CNA's Impairment Committee continually reviews the makeup of securities in an unrealized position for potential impairments. At September 30, 2002 the average market value of the securities in an unrealized loss position was 82.0% of cost or amortized cost as applicable.

At December 31, 2001 CNA held fixed maturity and equity securities with an aggregate net unrealized gain of $364.0 million. Included in this amount were gross unrealized losses of $646.0 million, which were more than offset by gross unrealized gains of $1,010.0 million. At December 31, 2001 the average market value of the securities in an unrealized loss position was 94.0% of cost or amortized cost as applicable.

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% of which were rated as investment grade at both September 30, 2002 and December 31, 2001.

At both September 30, 2002 and December 31, 2001, approximately 97.0% of the general account portfolio were U.S. Government agencies or were rated by Standard & Poor's ("S&P") or Moody's Investors Service ("Moody's"). The

remaining bonds were rated by other rating agencies, outside brokers or CNA

~~management.~~

~~Below investment grade bonds are high yield securities rated below BBB by 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 September 30, 2002 are $7,643.0 million of asset-backed securities, at fair value, consisting of approximately 73.0% in collateralized mortgage obligations ("CMOs"), 13.0% in corporate asset-backed obligations 9.0% in U.S. Government agency issued pass-through certificates, and 5.0% in corporate mortgage-backed pass-through certificates. The majority of CMOs held are actively traded in liquid markets and are priced by broker-dealers.~~

~~Other invested assets include investments in limited partnerships and certain derivative securities. CNA's limited partnership investments are recorded at fair value and typically reflect a reporting lag of up to three months. Fair value of CNA's limited partnership investments represents CNA's equity in the partnership's net assets as determined by the general partner. The carrying value of CNA's limited partnership investments was $1,334.0 and $1,307.0 million as of September 30, 2002 and December 31, 2001.~~

~~Limited partnerships are a relatively small portion of CNA's overall investment portfolio. The majority of the limited partnerships invest in a substantial number of securities that are readily marketable. CNA is a passive investor in such partnerships and does not have influence over the partnerships' management, who are committed to operate them according to established guidelines and strategies. These strategies may include the use of leverage and hedging techniques that potentially introduce more volatility and risk to the partnerships.~~

~~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.~~

~~Most 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 June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to the accounting and reporting obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. Adoption of this Statement is required for fiscal years beginning after June 15, 2002. Adoption~~

~~of these provisions will not have a material impact on the equity or results of operations of the Company.~~

~~In June of 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and supercedes EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". CNA adopted the provisions of SFAS No. 146 for all disposal activities initiated after June 30, 2002. The adoption of SFAS No. 146 did not have a significant impact on the results of operations or equity of the Company.~~

~~Forward-Looking Statements~~

~~Certain statements made or incorporated by reference by the Company in this Report are "forward-looking" statements within the meaning of the federal securities laws. Forward-looking statements include, without limitation, any statement that may project, indicate or imply future results, events, performance or achievements, and may contain the words "expect", "intend",~~

~~"plan", "anticipate", "estimate", "believe", "will be", "will continue", "will likely result", and similar expressions. Statements in this report that contain forward looking statements include, but are not limited to, statements regarding CNA's insurance business relating to asbestos, pollution and mass tort claims, expected cost savings and other results from restructuring activities; statements regarding insurance reserves and statements regarding planned disposition of certain businesses; statements regarding litigation and developments affecting Lorillard's tobacco business including, among other things statements regarding claims, litigation and settlement, and statements regarding regulation of the industry; statements regarding Diamond Offshore's business including, without limitation, statements with respect to expenditures for rig conversion and upgrade, oil and gas price levels, exploration and production activity, and statements concerning actual or potential damage, periods of inactivity and recovery and remediation efforts with respect to the Ocean Baroness.~~

~~Such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those anticipated or projected. Such risks and uncertainties include, among others, the impact of competitive products, policies and pricing; product and policy availability and demand and market responses, including the effect of the absence of applicable terrorism legislation on coverages; development of claims and the effect on loss reserves; exposure to liabilities due to claims made by insured and others relating to asbestos remediation and health based asbestos impairments, and exposure to liabilities for environmental pollution and mass tort claims; the sufficiency of CNA's loss reserves and the possibility of future increases in reserves; the performance of reinsurance companies under reinsurance contracts; the effects of corporate bankruptcies and/or accounting restatements (such as Enron and WorldCom) on the financial markets, and the resulting decline in value of securities held by the Company which may result in additional charges for impairment; the effects of corporate bankruptcies and/or accounting restatements on the markets for directors and officers and errors and omissions coverages; limitations upon CNA's ability to receive dividends from its insurance subsidiaries imposed by state regulatory agencies; regulatory limitations and restrictions upon CNA and its insurance subsidiaries generally; judicial decisions and rulings; the possibility of downgrades in CNA's ratings by ratings agencies and changes in rating agency policies and practices, and the results of financing efforts.~~

~~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.~~

~~In addition to the factors noted above, all aspects of the operations of the Company and its subsidiaries are affected by the impact of 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 domestic and foreign political, social and economic conditions, the economic effects of the September 11, 2001 terrorist attacks, the impact of judicial rulings and jury verdicts, regulatory initiatives and compliance with governmental regulations and various other matters, many of which are beyond the control of the Company and its subsidiaries.~~

~~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 anticipated or projected by or on behalf of the Company and its subsidiaries. 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 Consolidated Condensed Statements of Income. Market risk exposure is presented for each class of financial instrument held by the Company at September 30, 2002 and December 31, 2001, 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.~~

~~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.~~

~~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 September 30, 2002 and December 31, 2001, 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 September 30, 2002 and December 31, 2001 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 as of September 30, 2002 and December 31, 2001 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 $380.8 and $395.0 million at September 30, 2002 and December 31, 2001, respectively. A 100 basis point decrease would result in an increase in market value of $448.7 and $464.6 million at September 30, 2002 and December 31, 2001, respectively.~~

~~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 September 30, 2002 and December 31, 2001, 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 September 30, 2002 and December 31, 2001.

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	
	September 30, 2002	December 31, 2001	September 30, 2002	December 31, 2001
(Amounts in millions)				
Equity markets (1):				
Equity securities	$ 434.1	$ 290.1	$(109.0)	$(73.0)
Options purchased	27.0	17.5	1.0	6.0
written	(26.4)	(7.8)	6.0	(3.0)
Index futures long			(1.0)	(2.0)
Short sales	(171.0)	(193.4)	43.0	48.0
Separate Accounts - Equity securities (a)	9.4	11.7		(2.0)
- Other invested assets	317.5	342.1	(6.0)	(6.0)
Interest rate (2):				
Fixed maturities	285.5	677.8	(14.0)	(27.0)
Short sales on government securities . .	(501.8)		(43.0)	
Options on government securities - short		(2.5)		(2.0)
Euro futures - long			19.0	
- short			(43.0)	
Separate Accounts:				
Fixed maturities	172.3	308.4	4.0	(5.0)
Short-term investments	108.8			
Commodities:				
Gold (3):				
Options purchased	1.2	2.6	(1.0)	(3.0)
written	(1.3)	(0.4)	1.0	

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%, (2) a decrease in interest rates of 100 basis points at September 30, 2002 and an increase in interest rates of 100 basis points at December 31, 2001 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 $(132.0) and $(217.0) at September 30, 2002 and December 31, 2001, respectively. This market risk would be offset by decreases in liabilities to customers under variable insurance contracts.

Other than trading portfolio:

Category of risk exposure:	Fair Value Asset (Liability)		Market Risk	
	September 30, 2002	December 31, 2001	September 30, 2002	December 31, 2001
(Amounts in millions)				

Equity markets (1):				
Equity securities:				
General accounts (a)	$ 932.3	$ 1,338.4	$ (230.0)	$ (322.0)
Separate accounts	105.8	148.6	(26.0)	(37.0)
Other invested assets	1,430.7	1,306.9	(161.0)	(134.0)
Separate accounts - Other invested assets	384.3	533.0	(96.0)	(133.0)
Interest rate (2):				
Fixed maturities (a) (b)	28,807.5	30,513.2	(1,763.0)	(1,533.0)
Short-term investments (a)	10,509.3	6,734.8	(8.0)	(1.0)
Other derivative securities	5.3	16.3	46.0	(19.0)
Separate accounts (a):				
Fixed maturities	1,947.3	2,038.8	(105.0)	(120.0)
Short-term investments	104.0	98.0		
Long-term debt	(5,756.2)	(5,399.0)		

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 $(288.0), and $(114.0) at September 30, 2002 and December 31, 2001, respectively.

(b) Certain fixed maturities positions include options embedded in convertible debt securities. A decrease in underlying equity prices of 25% would result in market risk amounting to $(18.0) and $(50.0) at September 30, 2002 and December 31, 2001, respectively.

Item 4. Controls and Procedures

The Company maintains a system of disclosure controls and procedures which are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the federal securities laws, including this report, is recorded, processed, summarized and reported on a timely basis. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed under the federal securities laws is accumulated and communicated to the Company's management on a timely basis to allow decisions regarding required disclosure.

The Company's principal executive officer and principal financial officer have conducted an evaluation of the Company's disclosure controls and procedures as of a date within 90 days prior to the date of this report. Based on this evaluation, the Company's principal executive officer and principal financial officer have each concluded that the Company's disclosure controls and procedures are adequate for their intended purpose.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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, 2001, 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 13 of the Notes to Consolidated Condensed Financial Statements in Part I.

CLASS ACTIONS -

In the case of Anderson v. The American Tobacco Company, Inc., et al. (U.S. District Court, Middle District, Tennessee, filed May 23, 1997), the case has been transferred from the District Court for the Eastern District of Tennessee to the Middle District. Plaintiffs have amended their complaint and now assert

~~reimbursement claims on behalf of Tennessee taxpayers and no longer assert claims on behalf of Tennessee smokers. In their amended complaint, plaintiffs withdrew their claims against the Company.~~

~~In the case of Badillo v. American Tobacco Company, et al. (U.S. District Court, Nevada, filed October 8, 1997), the court has dismissed the case.~~

~~In the case of Blankenship v. American Tobacco Company, et al. (Circuit Court, County, West Virginia, filed January 31, 1997), the plaintiffs have noticed an appeal to the Supreme Court of Appeals of West Virginia from the judgment entered in favor of the defendants following a 2001 trial.~~

~~In the case of Christensen v. Philip Morris Companies, Inc., et al. (U.S. District Court, Nevada, filed April 3, 1998), the court has dismissed the case.~~

~~In the case of Cole v. The Tobacco Institute, et al. (U.S. District Court, Eastern District, Texas, Texarkana Division, filed May 5, 1997), plaintiffs did not file a petition for writ of certiorari with the U.S. Supreme Court and no further appellate options are available to the plaintiffs.~~

~~In the case of Connor v. The American Tobacco Company, et al. (Second Judicial District Court, Bernalillo County, New Mexico, filed October 10, 1996), the court has entered the parties' stipulation of dismissal with prejudice, concluding the case.~~

~~In the case of Creekmore v. Brown & Williamson Tobacco Corporation, et al. (Superior Court, Buncombe County, North Carolina, filed July 31, 1998), the court has entered an order granting plaintiffs' motion to voluntarily dismiss the case pursuant to a tolling agreement. The dismissal order tolls the individual claims of the purported class representatives for one year.~~

~~In the case of Daniels v. Philip Morris Companies, Inc., et al. (Superior Court, San Diego County, California, filed April 2, 1998), this matter is~~

~~discussed under "Legal Proceedings and Contingent Liability   Non Insurance, Tobacco Related   Class Actions."~~

~~In the case of Decie v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed April 21, 2000), plaintiffs have voluntarily dismissed the case.~~

~~In the case of Ebert v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed August 9, 2000), the plaintiffs have voluntarily dismissed the suit. The Company was named as a defendant in this matter. None of the defendants ever received service of process.~~

~~In the case of Engle v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Dade County, Florida, filed May 5, 1994), this matter is discussed under "Legal Proceedings and Contingent Liability   Non Insurance, Tobacco Related   Class Actions."~~

~~In the case of In re Simon II (U.S. District Court, Eastern District, New York, filed   2000), this matter is discussed under "Legal Proceedings and Contingent Liability   Non Insurance, Tobacco Related   Significant Recent Developments   Class Action Cases."~~

~~In the case of Johnson v. Newport Lorillard, et al. (U.S. District Court, Southern District, New York, filed October 31, 2001), the court has entered an order dismissing the case.~~

~~In the case of Norton v. RJR Nabisco Holdings Corporation, et al. (Superior Court, Madison County, Indiana, filed May 3, 1996), the court has granted plaintiffs' motion to voluntarily dismiss the case. The Company was a defendant in the case.~~

~~In the case of Scott v. The American Tobacco Company, et al. (District Court, Orleans Parish, Louisiana, filed May 24, 1996), this matter is discussed under "Legal Proceedings and Contingent Liabilities   Non Insurance, Tobacco Related   Significant Recent Developments   Class Action Cases."~~

~~In the case of Simon v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed April 9, 1999), the court has entered the parties' stipulation of dismissal of the matter.~~

~~In the case of Trivisonno v. Philip Morris, Incorporated, et al. (U.S. District Court, Northern District, Ohio, filed on or about January 14, 2002), the court entered an order during July of 2002 that granted defendants' motion to dismiss the case and entered final judgment in favor of the defendants.~~

~~In the case of Vandermeulen v. Philip Morris Companies, Inc., et al. (Circuit Court, Wayne County, Michigan, filed September 18, 2000), the court entered the parties' stipulation of dismissal.~~

~~The following additional Class Action Cases have been filed:~~

~~The case of Birchall v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed July 10, 2002).~~

~~The case of Goldfarb v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed July 25, 2002).~~

~~The case of Ellington v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed July 31, 2002).~~

~~The case of Vandina v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed July 31, 2002).~~

~~The case of Vavrek v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed July 31, 2002).~~

~~The case of Martinez v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 4, 2002).~~

~~The case of Ginsburg v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 6, 2002).~~

~~The case of Hamil v. Philip Morris Incorporated, et al (U.S. District Court, Nevada, filed September 6, 2002).~~

~~The case of Ramsden v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 6, 2002).~~

~~The case of Deller v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 9, 2002).~~

~~The case of Hudson v. Philip Morris Incorporated, et al. (U.S. District Court, Nevada, filed September 9, 2002).~~

~~REIMBURSEMENT CASES -~~

~~U.S. Local Governmental Reimbursement Cases -~~

~~In the case of County of Wayne v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, Michigan, filed December 6, 1999), the court has entered the parties' stipulation of dismissal with prejudice.~~

~~Reimbursement Cases Filed in U.S. Courts by Foreign Governments -~~

~~In the case of Republic of Venezuela v. Philip Morris Companies, et al. (Circuit Court, Dade County, Florida, filed January 27, 1999), the Florida Third District Court of Appeal has affirmed the final judgment entered in favor of the defendants by the trial court. Plaintiff has filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. As of November 6, 2002, the court had not issued a ruling on plaintiff's petition. The Company is a defendant in the case but never received service of process.~~

~~In the case of State of Rio de Janeiro of the Federative Republic of Brazil v. Philip Morris Companies, et al. (District Court, Angelina County, Texas, filed July 12, 1999), the court granted all motions filed separately by each defendant that contested the court's jurisdiction over the defendants under the claims asserted by the plaintiff. The Company was a defendant in this matter. As of November 6, 2002, the deadline for the plaintiff to seek any relief from the rulings that dismissed the case had not expired.~~

~~Private Citizens' Reimbursement Cases -~~

~~In the case of Anderson v. The American Tobacco Company, Inc., et al. (U.S. District Court, Middle District, Tennessee, filed as a smoking and health class action on May 23, 1997; amended complaint filed in order to pursue claims on behalf of Tennessee tax payers filed July 26, 2002), plaintiffs amended their complaint and now assert reimbursement claims on behalf of Tennessee tax payers and no longer assert claims on behalf of Tennessee~~

~~smokers. In their amended complaint, plaintiffs withdrew their claims against the Company.~~

~~- In the case of Mason v. The American Tobacco Company, et al. (filed in U.S. District Court, Northern District, Texas; transferred to U.S. District Court, Eastern District, New York, filed December 23, 1997), the court entered an order during July of 2002 that denied plaintiffs' motion for class certification and granted defendants' motion to dismiss the complaint. Plaintiffs have noticed an appeal to the U.S. Court of Appeals for the Second Circuit.~~

~~- In the case of Temple v. The State of Tennessee, et al. (U.S. District Court, Middle District, Tennessee, filed as individual smoking and health case on February 7, 2000; amended complaint filed in order to expand plaintiffs' claims, September 11, 2000), plaintiffs have amended their complaint and have withdrawn their claims against the Company.~~

~~Reimbursement Case Filed by American Indian Tribes -~~

~~- In the case of The Alabama Coushatta Tribe of Texas v. American Tobacco Company, et al. (U.S. District Court, Eastern District, Texas, filed August 30, 2000), the U.S. Court of Appeals for the Fifth Circuit entered an order during 2002 that affirmed the final judgment entered in defendants' favor by the trial court during 2001. The Court of Appeals subsequently denied plaintiff's petition for rehearing.~~

~~Reimbursement Cases Filed by Hospital District -~~

~~The following additional Hospital District Reimbursement Case has been filed:~~

~~- Jefferson County [Alabama] v. Philip Morris, Inc., et al. (Circuit Court, Jefferson County, Alabama, filed October 10, 2002).~~

~~Reimbursement Cases Filed by Private Companies -~~

~~- In the case of Group Health Plan, Inc., et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Minnesota, filed March 11, 1998), plaintiffs have noticed an appeal to the U.S. Court of Appeal for the Eighth Circuit from the trial court's order that granted defendants' motion for summary judgment.~~

~~The following additional Private Company Reimbursement Case has been filed:~~

~~- Clalit Health Services v. Philip Morris Inc., et al. (District Court, Jerusalem, Israel, motion to issue summons to Loews and Lorillard granted during 2002). The Company is a purported defendant in this action. The Company and Lorillard have filed motions to set aside the court's order that permitted attempted service of the summonses directed to them.~~

~~Reimbursement Cases Filed by Labor Unions -~~

~~- In the case of Bergeron, et al. v. Philip Morris Incorporated, et al. (U.S. District Court, Eastern District, New York, filed September 29, 1999), the court has entered the parties' stipulation of dismissal with prejudice. The Company was a defendant in the case. Plaintiffs were the trustees of the Massachusetts State Carpenters Health Benefits Fund.~~

~~- In the case of Central Laborers Welfare Fund, et al. v. Philip Morris, Inc., et al. (Circuit Court, Madison County, Illinois, filed on June 9, 1997), plaintiffs voluntarily dismissed the case during April of 2002.~~

~~- In the case of Holland, et al., Trustees of United Mine Workers v. Philip Morris Incorporated, et al. (U.S. District Court, District of Columbia, filed July 9, 1998), an order dismissing the case has been entered.~~

~~- 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), plaintiffs have voluntarily dismissed the case. The Company was a defendant in the case.~~

~~- In the case of S.E.I.U. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed June 22, 1998), an order dismissing the case has been entered.~~

~~- In the case of Service Employees International Union Health & Welfare Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed March 19, 1998), an order dismissing the case has been entered.~~

~~- In the case of Sheet Metal Workers Trust Fund, et al. v. Philip Morris, Inc., et al. (U.S. District Court, District of Columbia, filed August 31,~~

~~1999), an order dismissing the case has been entered.~~

~~CONTRIBUTION CASES --~~

~~-- In the case of Gasket Holdings, Inc., et al. v. RJR Nabisco, Inc., et al. (Chancery Court, Claiborne County, Mississippi, filed April 18, 2001), plaintiffs have voluntarily dismissed the case without prejudice.~~

~~-- In the case of Keene Creditors Trust v. Brown & Williamson Tobacco Corporation, et al. (Supreme Court, New York County, New York, filed December 19, 1997), plaintiff has voluntarily dismissed the case. The Company was a defendant in this matter.~~

~~-- In the case of Raymark Industries v. R.J. Reynolds Tobacco Company, et al. (Circuit Court, Duval County, Florida, filed September 15, 1997), plaintiff has voluntarily dismissed the case. The Company was a defendant in the case but never received service of process.~~

~~-- In the case of Raymark Industries v. R.J. Reynolds Tobacco Co., et al. (Circuit Court, Duval County, Florida, filed December 31, 1997), plaintiff has voluntarily dismissed the case.~~

~~-- In the case of Raymark Industries v. The American Tobacco Company, et al. (U.S. District Court, Eastern District, New York, filed January 30, 1998), the court has entered the parties' stipulation of dismissal with prejudice.~~

~~TOBACCO RELATED ANTITRUST CASES --~~

~~Wholesalers And Direct Purchaser Suits --~~

~~-- In the case of Holiday Markets, Inc., et al. v. Philip Morris Companies, Inc., et al (U.S. District Court, Northern District, Georgia, filed March 17, 2000), and eight other separate cases that were brought in federal courts by tobacco product wholesalers against cigarette manufacturers alleging violations of antitrust laws, and consolidated together for pre trial purposes~~

~~in the U.S. District Court for the Northern District of Georgia, the court granted defendants motion for summary judgment and dismissed the cases in their entirety.~~

~~Indirect Purchaser Suits --~~

~~-- In the case of Shafer v. Philip Morris Companies, Inc. et al. (District Court, South Central Judicial District, Morton County, North Dakota, filed April 18, 2000), the court denied defendants' motion to dismiss.~~

~~In the case of Del Serrone v. Philip Morris Companies, Inc. et al, (Circuit Court, Wayne County, Michigan, filed February 8, 2000) the court denied plaintiff's motion for class certification.~~

~~-- In the case of Gray v. Philip Morris Companies, Inc., et al. (Superior Court, Pima County, Arizona, filed February 11, 2000), the court dismissed the case in its entirety as to all defendants. On appeal, the appellate court reversed the dismissal and reinstated the case.~~

~~Reparation cases:~~

~~The following Reparation Cases have been filed:~~

~~Bankhead v. Lloyd's of London, et al. (U.S. District Court, Southern District, New York, filed September 3, 2002). The Company has not received service of process of this matter.~~

~~Hurdle v. Fleetboston Financial Corporation, et al. (U.S. District Court, Northern District, California, filed September 10, 2002). The Company has not received service of process of this matter.~~

~~Johnson v. AETNA Life Insurance Company, et al. (U.S. District Court, Eastern District, Louisiana, filed September 3, 2002). The Company is a named defendant in this matter.~~

~~Item 5. Other Information~~

~~-- On October 31, 2002 CNA consummated the sale of its wholly owned United Kingdom subsidiaries of CNA Re ("CNA Re U.K.") to Tawa U.K. Limited, a subsidiary of Artemis Group, a French conglomerate, pursuant to the share purchase agreement dated July 15, 2002. The Company has prepared pro forma financial statements in accordance with Item 2 of Form 8-K, which are included~~

~~as exhibits to this Report.~~

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

~~(a) Exhibits--~~

~~Description of Exhibit~~	~~Number~~
~~Share Purchase Agreement dated as of October 31, 2002 by and between CNA and Tawa U.K. Limited~~	~~2.1~~
~~Pro Forma Financial Statements and Footnotes~~	~~99.1~~
~~Pro Forma Consolidated Condensed Balance Sheet at September 30, 2002 (Unaudited)~~	
~~Pro Forma Consolidated Condensed Statements of Operations for the Year Ended December 31, 2001 (Unaudited)~~	
~~Pro Forma Consolidated Condensed Statements of Operations for the Nine Months Ended September 30, 2002 (Unaudited)~~	

~~(b) Current reports on Form 8-K -- On August 13, 2002, Registrant filed a report on Form 8-K regarding statements under oath of the Principal Executive Officer and Principal Financial Officer in connection with the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2002.~~

~~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: November 13, 2002~~ ~~By /s/ Peter W. Keegan~~

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

~~CERTIFICATIONS~~

~~I, James S. Tisch, certify that:~~

~~1. I have reviewed this quarterly report on Form 10-Q of Loews Corporation;~~

~~2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;~~

~~3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;~~

~~4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:~~

~~a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;~~

~~b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and~~

~~c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;~~

~~5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):~~

~~a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and~~

~~b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and~~

~~6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.~~

~~Dated: November 13, 2002~~ ~~By /s/ James S. Tisch~~

~~JAMES S. TISCH~~
~~President and~~
~~Chief Executive Officer~~

~~CERTIFICATIONS~~

~~I, Peter W. Keegan, certify that:~~

~~1. I have reviewed this quarterly report on Form 10-Q of Loews Corporation;~~

~~2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;~~

~~3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;~~

~~4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:~~

~~a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;~~

~~b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and~~

~~c) Presented in this quarterly report our conclusions about the~~

effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 13, 2002 By /s/ Peter W. Keegan

PETER W. KEEGAN
Senior Vice President and
Chief Financial Officer

EXHIBIT 2.1

CONFORMED COPY
(AS AMENDED ON 30.08.02)

DATED 15TH JULY 2002

CONTINENTAL CASUALTY COMPANY

AND

TAWA UK LIMITED

SHARE PURCHASE AGREEMENT

for the sale and purchase of
the entire issued share capital of

CNA RE MANAGEMENT COMPANY LIMITED

LEBOEUF, LAMB, GREENE & MACRAE

UNITED STATES LAWYERS & ENGLISH SOLICITORS

TABLE OF CONTENTS

~~AGREED FORM DOCUMENTS~~

~~1. Tax Deed~~

~~2. Management Fee Security Deed~~

~~3. Distribution Security Deed~~

~~4. Stop Loss Contract~~

~~5. Pro Forma Balance Sheet~~

~~6. Management Agreement~~

~~7. Settlement with respect to Allianz Stop Loss from 1999, 2000 and 2001 accident years~~

~~8. Settlement of 100 per cent quota share for 1987 and prior underwriting years~~

~~9. Settlement of aggregate stop loss providing $125,000,000 of cover in respect of underwriting years 1997, 1998 and 1999~~

~~10. Commutation of CRG reinsurance facility~~

~~11. Commutation of BU2 reinsurance facility~~

~~12. Retrocession contract in respect of CNA Re (UK) net exposure in respect of the IGI portfolio~~

~~13. Agreement with respect to Underwriters Re Stop Loss for 2000 and 2001 accident years~~

~~14. 2002 outwards reinsurance treaty where cover does not survive change of control (Swiss Re)~~

~~15. 2002 outwards reinsurance treaty where cover does not survive change of control (other)~~

~~16. Retrocession contract in respect of CNA Re (UK) net exposure in respect of liabilities settled under the PPG settlement agreement~~

~~17. Trade Mark Licence Agreement~~

~~18. Broker Ledger Settlement Deed~~

~~19. IGI Transfer of Balance Agreement~~

~~THIS AGREEMENT is made on 15th July 2002~~

~~BETWEEN:~~

~~(1) CONTINENTAL CASUALTY COMPANY, a corporation incorporated under the laws of the State of Illinois, USA, whose principal place of business is at CNA Plaza, 333 South Wabash Avenue, Chicago, Illinois 60685, USA (the "SELLER"); and~~

~~(2) TAWA UK LIMITED, a company incorporated under the laws of England and Wales under number 4200676, whose registered office is at No.1 Minster Court, Mincing Lane, London EC3R 7AA (the "BUYER").~~

~~RECITAL:~~

~~The Seller wishes to sell and the Buyer wishes to purchase the entire issued share capital of CNA Re Management Company Limited (the "TARGET COMPANY") on the terms and subject to the conditions of this Agreement.~~

~~IT IS AGREED as follows:~~

~~1. DEFINITIONS AND INTERPRETATION~~

~~1.1 SPECIFIC DEFINITIONS~~

~~In this Agreement:~~

~~"ACCOUNTS" means each Target Group Company's individual accounts (as that term is used in section 226 of the Companies Act) and the Target Group's group accounts (as that term is used in section 227 of the Companies Act) for the financial year ended on the Last Accounting Date, the auditors' reports on those accounts and the directors' report of each Target Group Company for that year;~~

~~"ADDITIONAL CONSIDERATION" means the additional consideration referred to in Clause 3.5.1;~~

~~"ANNUAL REGULATORY RETURNS" means the returns of the Target Subsidiary for the years ended 31 December 2001, 31 December 2000 and 31 December 1999 together with all exhibits and schedules thereto, as furnished to HM Treasury or the FSA, as the case may be, pursuant to the ICA or FSMA, as appropriate;~~

~~"ALLIANZ CONTRACT" means the agreement with respect to the Allianz Stop Loss Contract from the 1999, 2000 and 2001 accident years in the Agreed Form;~~

~~"APPROVED" is defined in paragraph 19.1 of Schedule 3;~~

~~"APPROVED SETTLEMENTS" is defined in Clause 4.6.2(d);~~

~~"ASSUMED REINSURANCE" means reinsurance assumed by the Target Subsidiary from any ceding insurer or reinsurer;~~

~~"BUYER'S ADDITIONAL CAPITAL" is defined in Clause 3.1.1(a);~~

~~"BUYER'S SOLICITORS" means LeBoeuf, Lamb, Greene & MacRae of No. 1 Minster Court, Mincing Lane, London EC3R 7AA;~~

~~"CEDED REINSURANCE" means reinsurance ceded by the Target Subsidiary to any reinsurer;~~

~~"CHF" shall mean Swiss Franc;~~

~~"CLOSING F/X ADJUSTMENT" shall mean the sum of (i) the lesser of (a) one half of the Net F/X Losses or (b) one half of the foreign currency loss/gain shown in Ending Foreign Currency Statement and (ii) the Excess Net F/X Loss if the Seller has given an undertaking to contribute the Excess Net F/X Loss in order to avoid a Material Adverse Change.~~

~~"COMPLETION" means completion of the sale and purchase of the Sale Shares in accordance with this Agreement;~~

~~"COMPLETION ACCOUNTS" is defined in Clause 1(b) of Schedule 7;~~

~~"COMPLETION ADJUSTMENT" is defined in Clause 4.2.1 of Schedule 7;~~

~~"COMPLETION BALANCE" is defined in Clause 3.1.1(b);~~

~~"COMPLETION DATE" means the date on which Completion takes place in accordance with Clause 5.1;~~

~~"COMPUTER PROGRAMS" means current versions of existing (i) computer programs, including all object code, all executables, and all available source code, (ii) descriptions, flow charts and other work product used to design, plan, organise and develop any of the foregoing, and (iii) documentation, including user manuals and training materials, relating to any of the foregoing;~~

~~"CONFIDENTIAL BUSINESS INFORMATION" means all information relating to the business written by the Target Subsidiary and all claims arising thereunder;~~

~~"CONVERTED REVALUED AMOUNTS" shall mean the aggregate of the negative amounts set out against the line "Excess assets over liabilities at 31/12/01" in Appendix 1 to the First Amendment Letter converted into the amounts of their respective Foreign Currencies using the exchange rate as at 31 December 2001 set out in Appendix 1 to the First Amendment Letter, and then reconverted to a USD amount using the Prescribed Exchange Rate;~~

~~"CURRENT USE" means in relation to each Real Property, the use specified as the current use of that Real Property in Schedule 5;~~

~~6~~

~~"DATA" means any data or information solely used by or for the sole benefit of a Target Group Company at any time and stored electronically at any time;~~

~~"DATA ROOM" means the forty seven files of documents and information relating to the Target Group identified as such and initialled by the parties for identification on the front of each such file and the index of such files also initialled by the parties for identification~~

~~"DEFAULTING PARTY" is defined in Clause 7.1;~~

~~"DISCLOSED SCHEME" is defined in paragraph 19.1 of Schedule 3;~~

~~"DISCLOSURE LETTER" means the letter from the Seller to the Buyer in relation to the Warranties having the same date as this Agreement;~~

~~"DISTRIBUTIONS" means:~~

~~(a) all profits of the Target Subsidiary available for distribution and resolved to be distributed in accordance with applicable laws and any required approvals of the relevant authorities; and~~

~~(b) all repayments of capital (including reductions which result in repayments of capital) of the Target Subsidiary and all repurchases of shares by the Target Subsidiary made in accordance with applicable laws and any required approvals of the relevant authorities and, if necessary, sanctioned by a court;~~

~~"DISTRIBUTION SECURITY" means the security deed in the Agreed Form pursuant to which the Buyer grants the Seller a first charge over the Sale Shares;~~

~~"DKK" shall mean Danish Krone;~~

~~"EMPLOYEE" is defined in paragraph 19.1 of Schedule 3;~~

~~"ENDING FOREIGN CURRENCY STATEMENT" shall mean the statement referred to in paragraph 4.1 of Schedule 4;~~

~~"ESCROW AMOUNT" is defined in Clause 3.8.1(a);~~

~~"ESTIMATED COMPLETION ADJUSTMENT" means the amount which the Completion Adjustment would be if the criteria in paragraph 4 of Schedule 7 were applied on the last day of the month preceding the delivery of the calculation pursuant to Clause 4.4.1;~~

~~"EUR" shall mean Euros;~~

~~"EXCESS NET F/X LOSS" shall mean the amount of the Net F/X Losses in excess of $40 million ($40,000,000);~~

~~7~~

~~"FIRST AMENDMENT LETTER" shall mean the letter between the Buyer and the Seller dated 30 August 2002 amending this Agreement;~~

~~"FOREIGN CURRENCY" shall mean a currency other than USD displayed in Appendix 1 of the First Amendment Letter;~~

~~"GBP" shall mean pounds Sterling;~~

~~"HARDWARE" means any computer equipment owned by and solely used by or for the sole benefit of a Target Group Company at any time including, without limitation, PCs, servers, mainframes, screens, terminals, keyboards, disks, printers, cabling, associated and peripheral electronic equipment but excluding all Computer Programs;~~

~~"IGI RETROCESSION" means the Aggregate Retrocession Agreement of the IGI~~

~~Loss Portfolio in the Agreed Form;~~

~~"INITIAL CONSIDERATION" means the initial consideration referred to in Clause 2.2.2;~~

~~"INSURANCE CONTRACT" means any contract by which a person has provided insurance to another person;~~

~~"INVESTED ASSETS" means transferable shares and other transferable variable yield securities and transferable units in unit trusts, transferable debt securities and other transferable fixed income securities;~~

~~"INVESTMENT INCOME ADJUSTMENT" is defined in Clause 3.1.1(d);~~

~~"INVESTMENT INCOME DEDUCTION" is defined in Clause 3.1.1(c);~~

~~"INVESTMENT POLICIES" means the overall investment policies used in the management of a person's investment portfolio, including policies with respect to duration, liquidity, currency, asset allocation and asset quality;~~

~~"KEY EMPLOYEES" means Cathy Pierce, Debra Lynn McClenahan, Ralph Richard Mueller and Marcia Munn provided that such persons are employed by the Seller or one of its Affiliates at the time that their services are required under this Agreement, and such other persons as may be agreed between the Buyer and the Seller from time to time;~~

~~"LAST ACCOUNTING DATE" means 31 December 2001;~~

~~"LEASE" is defined in paragraph 11.9 of Schedule 3;~~

~~"LICENSED COMPUTER PROGRAMS" shall have the meaning given in paragraph 7.4.2(b) of Schedule 3;~~

~~"LOSS CALCULATION" means the adjustment for any loss which would be recognised if the criteria in paragraph 5.2(c)(ii) of Schedule 7 were applied on the last day of the month preceding the delivery of the calculation pursuant to Clause 4.5;~~

~~"LOSS TERMINATION NOTICE" is defined in Clause 4.5.2;~~

~~"MAC MANAGEMENT ACCOUNTS" is defined in Clause 4.6.2;~~

~~"MAJOR CLAIM" means any Relevant Claim or a claim for a breach of Clause 6.4(a) which exceeds $6,000,000 (six million dollars);~~

~~"MANAGEMENT ACCOUNTS" means the Target Group's unaudited profit and loss account for the period starting on the day after the Last Accounting Date and ending on, and the Target Group's unaudited balance sheet as at, 31 March 2002;~~

~~"MANAGEMENT AGREEMENT" means the agreement in the Agreed Form to be entered into between the Manager, the Target Company and the Target Subsidiary for the management of the run off of the Target Subsidiary;~~

~~"MANAGEMENT AGREEMENT VARIATION" is defined in Clause 3.11.1;~~

~~"MANAGEMENT FEE" means the gross amount of all payments (whether in respect of fees, charges, interest, costs, disbursements or howsoever otherwise characterised) made by the Target Subsidiary to the Manager, the Target Company or any Affiliate of the Buyer whether pursuant to the Management Agreement or any other agreement or arrangement whatsoever including fees due to the Manager pursuant to paragraph 1.1 of Schedule 2 to the Management Agreement but excluding:~~

~~(i) third party costs and expenses incurred by the Target Subsidiary in accordance with paragraph 3.1 of Schedule 2 to the Management Agreement provided that such costs and expenses have been necessarily and properly incurred and in the case of Affiliates are at rates no less favourable to the Target Subsidiary than arms length rates;~~

~~(ii) costs necessarily and properly incurred by the Target Company in providing services pursuant to the Management~~

~~Agreement and reimbursable by the Target Subsidiary to the Target Company pursuant to paragraph 1.1 of Schedule 3 to the Management Agreement, provided that such costs are at commercially reasonable rates;~~

~~(iii) any fees and expenses paid by the Target Subsidiary to an Affiliate in respect of services (including legal services) falling outside the scope of the Management Agreement and which are necessarily and properly incurred by the Target Subsidiary at rates no less favourable to the Target Subsidiary than: (a) arms length rates; or (b) inter company rates charged for similar services to other Affiliates of the Buyer and provided such rates are commercially reasonable;~~

~~(iv) any amounts due under the VATA; and~~

~~(v) Distributions made by the Target Subsidiary, including distributions as are otherwise made to the shareholders of the Target Subsidiary, whether of~~

~~profits or capital, made by any unlawful means (including pursuant to a members' voluntary winding up).~~

~~For the purposes of this definition, "AFFILIATE" includes any associated undertaking of the Buyer or any holding company of the Buyer;~~

~~"MANAGEMENT FEE SECURITY" means the security deed in the Agreed Form pursuant to which the Manager assigns by way of security to the Seller, and grants the Seller a first charge over, certain of its rights to payment of the Management Fee;~~

~~"MANAGER" means Tawa Management Limited;~~

~~"MARK TO MARKET" is defined in paragraph 1(c) of Schedule 7;~~

~~"MATERIAL ADVERSE CHANGE" means either:~~

~~(a) any material adverse change in the business, operations, assets, liabilities or financial condition of the Target Group Companies taken as a whole but excluding:~~

~~(i) any adverse change or effect that is caused by or that arises out of conditions affecting the economy or financial, banking, currency or capital markets in general; and~~

~~(ii) any adverse change or effect that is caused by or that arises out of an event or conditions affecting the insurance and reinsurance industry generally unless that adverse change or effect falls outside paragraph (i) and materially impairs the ability of the Seller or any of the Seller's Affiliates or any other reinsurer of the Target Subsidiary which individually represents 5% or more of the reinsurers' share of the Target Subsidiary's technical provisions as at the Last Accounting Date to fulfill its obligations in respect of reinsurance contracts ceded by the Target Subsidiary and remaining in force at Completion; and~~

~~(iii) any adverse change or effect resulting from the proposal or announcement of the transaction as contemplated by this Agreement; or~~

~~(b) a material adverse change having been deemed to have occurred in accordance with Clause 4.6; or~~

~~(c) where (i) the Net F/X Losses exceed $40 million and (ii) the Seller has not, within two business days of the determination of the Net F/X Losses, given an irrevocable undertaking to contribute the Net F/X Losses in excess of $40 million ($40,000,000) as provided by Schedule 4;~~

~~"NET F/X LOSSES" shall mean the aggregate of (i) the Converted Revalued Amounts, (ii) the Net Settled Gains and Losses and (iii) the Option Fee;~~

~~"NET SETTLED GAINS AND LOSSES" shall mean USD 1,501,175 or such other figure as the parties shall agree in respect of the lines "Other forex gains" and "Forex sales in 2002" in Appendix 1 of the First Amendment Letter;~~

~~"NET SETTLEMENTS" is defined in Clause 4.6.3;~~

~~"NEW BUYER" is defined in Clause 13.1;~~

~~"NEWCO" is defined in Clause 14.1.1;~~

~~"NOK" shall mean Norway Krone;~~

~~"NON DEFAULTING PARTY" is defined in Clause 7.1;~~

~~"NON UK PENSION ARRANGEMENT" is defined in paragraph 19.1 of Schedule 3;~~

~~"OPTION FEE" shall mean the fee, if any, paid by the Target Subsidiary on option contracts comprised in the Hedge Transactions;~~

~~"OUTSTANDING COMPLETION BALANCE" is defined in Clause 3.1.1(e);~~

~~"OWNER" means in relation to each Real Property, the company that is named as the owner in Schedule 5;~~

~~"PAYMENT AMOUNT" is defined in Clause 3.1.1(f);~~

~~"PAST SUBSIDIARIES" means CNA Underwriting Agencies Limited, CNA Corporate Capital Limited and London Market Reinsurance Services Limited;~~

~~"PERMIT" means a permit, licence, consent, approval, certificate, qualification, specification, registration or other authorisation, or a filing of a notification, report or assessment, necessary in any jurisdiction for the effective operation of a Target Group Company's business, its ownership, possession, occupation or use of an asset or its execution or performance of this Agreement;~~

~~"POLICIES" is defined in paragraph 10.1 of Schedule 3;~~

~~"POST COMPLETION 1987 AND PRIOR AMOUNTS" is defined in Clause 3.13.1(b);~~

~~"POST COMPLETION OTHER AMOUNTS" is defined in Clause 3.1.1(h);~~

~~"PRE COMPLETION 1987 AND PRIOR AMOUNTS" is defined in Clause 3.13.1(a);~~

~~"PRE COMPLETION OTHER AMOUNTS" is defined in Clause 3.1.1(g);~~

~~"PRE CONTRACT AGREEMENTS" means the letter of intent dated 15 March 2002 between the Seller and the Buyer, the confidentiality agreement dated 12 October 2001 between the Seller and the Buyer and the exclusivity agreement (and each extension thereto), dated 29 January 2002 between the Seller and the Buyer;~~

~~"PRESCRIBED EXCHANGE RATE" shall mean:~~

~~(i) for GBP and EUR, the weighted average strike value of the Hedge Transactions for that Foreign Currency; or~~

~~(ii) for other Foreign Currencies, the foreign exchange rate against USD provided by Bloomberg on the historical pricing screen on the date the last Hedge Transaction is effected;~~

~~"PRO FORMA BALANCE SHEET" means the pro forma balance sheet for the Target Group Companies in the Agreed Form;~~

~~"REAL PROPERTY" means the property or properties details of which are set out in Schedule 5 and includes an individual property and a part of an individual property but for the purposes of paragraphs 11.2 to 11.9 of Schedule 3, means only the properties at the London Underwriting Centre and the Corn Exchange London;~~

~~"REINSURANCE CONTRACT" means any contract, treaty or associated trust agreement, by which a person has provided reinsurance to any ceding insurer;~~

~~"REINSURANCE RECOVERABLES" is defined in Clause 3.1.1(i);~~

~~"RELEVANT CLAIM" means a claim by the Buyer in respect of a breach of Clause 6.1;~~

~~"RELEVANT CONTRACT" is defined in paragraph 8.1.1 of Schedule 3;~~

~~"RELEVANT F/X PERIOD" shall mean the period from 1 January 2002 to 6 January 2003 inclusive, or, if any of the Hedge Transactions are terminated prior to 31 December 2002 without the Seller's written consent, the period from 1 January 2002 to the date three days after the date of the first such termination;~~

~~"RELEVANT MONTH END" is defined in Clause 4.6.1;~~

~~"RELEVANT PERCENTAGE" is defined in Clause 3.1.1(j);~~

~~"RELEVANT PERIOD" means (i) the period from the Completion Date to the last day of the Quarter in which the Completion Date occurs, inclusive of each date; and (ii) each subsequent Quarter;~~

~~"RESTRUCTURING" is defined in Clause 14.1;~~

~~"RETROCESSION CONTRACT" means any contract, treaty or associated trust agreement, by which any person has reinsured a Reinsurance Contract;~~

~~"SALE SHARES" means 332,067,741 fully paid ordinary shares of Pound Sterling 1.00 each of the Target Company comprising the whole of the issued share capital of the Target Company;~~

~~"SECTION 107 TAX LOSSES" means the reduction in tax losses attributable to the making of an election by the Target Subsidiary under Section 107 of the Finance Act 2000;~~

~~"SEK" shall mean Swedish Krona;~~

~~"SELLER'S ADDITIONAL CAPITAL" is defined in Clause 3.1.1(k);~~

~~"SELLER'S SCHEME" is defined in Clause 19.1 of Schedule 3;~~

~~"SELLER'S SOLICITORS" means Lovells of 65 Holborn Viaduct, London EC1A 2DY;~~

~~"SHRINK WRAP COMPUTER PROGRAMS" shall have the meaning given in paragraph 7.4.2(c) of Schedule 3;~~

~~"STAKEHOLDER" is defined in Clause 3.7.1;~~

~~"STOP LOSS CONTRACT" means the stop loss contract between the Seller and the Target Subsidiary in the Agreed Form;~~

~~"SUBSCRIPTION AMOUNT" is defined in Clause 3.1.1(l);~~

~~"TARGET COMPANY" means CNA Re Management Company Limited, a company incorporated in England and Wales (registered number 1681059), whose registered office is at Corn Exchange, Mark Lane, London EC3R 7NE;~~

~~"TARGET GROUP" means the Target Company and the Target Subsidiary;~~

~~"TARGET GROUP COMPANY" means the Target Company or the Target Subsidiary;~~

~~"TARGET SUBSIDIARY" means CNA Reinsurance Company Limited, a company incorporated in England and Wales (registered number 1086556), whose registered office is at Corn Exchange, Mark Lane, London EC3R 7NE;~~

~~"TAX AUTHORITY" is defined in the Tax Deed;~~

~~"TAX DEED" means the tax deed between the Seller and the Buyer in the Agreed Form;~~

~~"TERMINATION NOTICE" is defined in Clause 4.4.2;~~

~~"TERMINATION OBJECTION NOTICE" is defined in Clause 4.4.3;~~

~~"THRESHOLD AMOUNT" is defined in Clause 3.1.1(m);~~

~~"TOTAL CASH FLOW" is defined in Clause 4.6.2(a);~~

~~"TOTAL SETTLEMENTS" is defined in Clause 4.6.2(b);~~

~~"TRIGGER DISTRIBUTIONS" means Distributions (and distributions as are otherwise made to the shareholders of the Target Subsidiary, whether of profits or capital, made by any~~

~~lawful means, including pursuant to a members' voluntary winding up) which have actually been received by the Target Company and are either:~~

~~(i) paid by the Target Company to the Buyer; or~~

~~(ii) legally capable of being paid by the Target Company to the Buyer and which the Target Company has resolved to distribute in accordance with Clause 10.1;~~

~~"UNDERWRITERS RE CONTRACT" means the Agreement with respect to the Underwriters Re Stop Loss Contract from the 2000 and 2001 accident years in the Agreed Form;~~

~~"USD" shall mean United States Dollars;~~

~~"W" is defined in Clause 3.1.1(n);~~

~~"WARRANTY" means a statement contained in Schedule 3; and~~

~~"WTC SETTLEMENTS" is defined in Clause 4.6.2(c).~~

~~1.2 GENERAL DEFINITIONS~~

~~In this Agreement:~~

~~"AFFILIATE" means, in relation to a company:~~

~~(a) a company which is, on or after the date of this Agreement, its subsidiary or holding company, or a subsidiary of such holding company; and~~

~~(b) an undertaking which is, on or after the date of this Agreement, its subsidiary undertaking or parent undertaking, or a subsidiary undertaking of such parent undertaking;~~

~~an "AGREED FORM" document means the form of the document most recently agreed by the parties and initialled and dated by them for identification on or prior to the date of this Agreement;~~

~~"THIS AGREEMENT" means this agreement together with all its recitals and its Schedules;~~

~~"BUSINESS DAY" means a day (other than a Saturday and a Sunday) on which banks generally are open for business in London and Chicago, and (if the phrase is used in the context of a reference to a day on which the payment or purchase of any sum in any currency is due) in the principal financial centre of the country of such currency;~~

~~"COMPANIES ACT" means the Companies Act 1985;~~

~~"COMPANIES ACTS" means the Companies Act 1985, the Companies Consolidation (Consequential Provisions) Act 1985, the Companies Act 1989 and Part V of the Criminal Justice Act 1993;~~

~~"CONTROLLING INTEREST" means, with respect to a person that is a corporation having voting securities, the beneficial ownership, directly or indirectly, of more than 50 per cent of the voting securities of such~~

~~person or, with respect to a person that is not such a corporation, the power to direct the management or policies of such person, whether by operation of law, by contract or otherwise;~~

~~"CREDIT INSTITUTION" has the meaning attributed to it in section 262(1) of the Companies Act;~~

~~"CRTP ACT" is defined in Clause 16.12.3;~~

~~"DAY" means a period of 24 hours beginning and ending on 00.00 midnight;~~

~~"DISPUTE" means a dispute between the parties under, arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination;~~

~~"$" and "DOLLARS" denote the lawful currency of the United States of America;~~

~~"ENCUMBRANCE" means a mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person or any other type of preferential arrangement (including title transfer and retention arrangements) having a similar effect;~~

~~"ERA" means Employment Rights Act 1996;~~

~~"EXPERT" means an independent firm of chartered accountants or consulting actuaries agreed upon by the parties or (failing agreement) selected (at the instance of either party) by, in the case of a firm of chartered accountants, the President for the time being of the Institute of Chartered Accountants for England and Wales, and in the case of a firm of consulting actuaries, the President for the time being of the Institute of Actuaries;~~

~~"FSA" means the Financial Services Authority;~~

~~"FSMA" means the Financial Services and Markets Act 2000;~~

~~"HOLDING COMPANY" is as defined in section 736 of the Companies Act;~~

~~"ICA" means the Insurance Companies Act 1982;~~

~~"INDEBTEDNESS" means and includes any obligation (whether incurred as principal or surety) for the payment or repayment of money, whether present or future, actual or contingent;~~

~~"INSURANCE REGULATIONS" means any regulations, orders or rules made pursuant to the Companies Act, ICA or FSMA in each case insofar as they apply to insurance companies or the carrying on of insurance business;~~

~~"IPT" means insurance premium tax;~~

~~"LIBOR" means, in respect of each Relevant Period, the rate per annum equal to the arithmetic mean (rounded upwards, if not already such a multiple, to the nearest whole multiple of one sixteenth per cent.) of the average of the offered quotations of the Reference Banks, which appear on the relevant page (as defined in Clause 1.3.3) for a 12 month period at or about 11.00 am on the second business day before the first day of such Relevant Period;~~

~~"MONTH" means a calendar month;~~

~~"PART IV PERMISSION" means permission to carry on one or more regulated activities pursuant to Part IV of FSMA;~~

~~"PAYMENT ACCOUNT DETAILS" means, in relation to any payment to be made under or pursuant to this Agreement, the same account number, sort code, account location and other details specified by the payee and necessary to effect payment (whether by cheque, bankers draft, telegraphic or other electronic means of transfer) to the payee;~~

~~"PARENT UNDERTAKING" shall be construed in accordance with section 258 of the Companies Act;~~

~~"PARTY" means, subject to any express contrary indication, a party to this Agreement;~~

~~"PERSON" means any person, firm, company, corporation, society, trust, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) or two or more of these;~~

~~"PROCEEDINGS" means any suit, action or proceedings arising out of or in connection with this Agreement;~~

~~"QUARTER" means each period of three months commencing on 1 January, 1 April, 1 July and 1 October in each year;~~

~~"REFERENCE BANKS" means the relevant principal offices of the National Westminster Bank Plc, Barclays Bank PLC and HSBC Bank plc (or such other bank or banks as the parties may from time to time select with the approval of the other party, such approval not to be unreasonably withheld, conditioned or delayed), provided that, if any Reference Bank does not give a quotation required at the time relevant for the purposes of calculating any exchange rate or interest rate hereunder, then such exchange rate or, as the case may be, interest rate shall be determined by reference to the quotations which are so given by the remaining Reference Banks;~~

~~"REFERENCE EXCHANGE RATE" means the average of the quotations given, at approximately 11:00 hours time 2 business days before the relevant date, by the~~

~~Reference Banks for the rate (including all commission, charges, fees and expenses payable) at which each of them would sell the first currency (as defined in Clause 1.3.1(j)) in exchange for the second currency (as defined in Clause 1.3.1(j)) on the relevant date, in the relevant amount;~~

~~"SERVICE DOCUMENT" means a writ, application, claim, summons, petition, order, award, judgment or other document relating to any Proceedings;~~

~~"POUND STERLING" and "STERLING" denote the lawful currency of the United Kingdom;~~

~~"SUBSIDIARY" is as defined in section 736 of the Companies Act;~~

~~"SUBSIDIARY UNDERTAKING" shall be construed in accordance with section 258 of the Companies Act;~~

~~"TAX" and "TAXATION" each mean any form of tax or taxation as contained in the definition of "Taxation" in the Tax Deed;~~

~~"TAXES ACT" means the Income and Corporation Taxes Act 1988;~~

~~"TCGA" means the Taxation of Chargeable Gains Act 1992;~~

~~"TRADE UNION" is as defined in section 1 TULRCA;~~

~~"TULRCA" means the Trade Union and Labour Relations (Consolidation) Act 1992;~~

~~"TUPE" means the Transfer of Undertakings (Protection of Employment) Regulations 1981;~~

~~"VATA" means, in the United Kingdom, the Value Added Tax Act 1994 and, in a jurisdiction outside the United Kingdom, any equivalent legislation; and~~

~~"WEEK" means a period of 7 consecutive days from a defined date.~~

~~1.3 INTERPRETATION~~

~~1.3.1 In this Agreement, subject to any express contrary indication:~~

~~(a) words (including the definitions in Clauses 1.1 and 1.2) importing the singular shall include the plural and vice versa;~~

~~(b) any reference to a person shall be construed as including a reference to its successors, permitted transferees and permitted assignees in accordance with their respective interests;~~

~~(c) any reference to this Agreement or any other agreement or~~

~~document shall be construed as a reference to that agreement or document as it may have been, or may from time to time be, amended, varied, novated, replaced or supplemented;~~

~~(d) any reference to a "CLAUSE" shall be construed as a reference to a Clause of this Agreement;~~

~~(e) "INCLUDE" and "INCLUDING" shall be construed without limitation and general words shall not be given a restrictive meaning by reason of the fact that they are followed by particular examples intended to be embraced by the general words;~~

~~(f) any references to "IN WRITING" shall include any modes of reproducing words in a legible and non transitory form;~~

~~(g) any reference to a "PARAGRAPH" shall be construed as a reference to a paragraph of the Schedule in which such reference appears;~~

~~(h) any reference to a "SCHEDULE" shall be construed as a reference to a Schedule to this Agreement;~~

~~(i) any reference to a statute or enactment shall be construed as a reference to such statute as it may have been, or may from time to time be, amended or re-enacted and any subordinate legislation made or thing done, or may from time to time be done, under the statute or enactment;~~

~~(j) any reference to the "EQUIVALENT" on any given date in any currency (the "FIRST CURRENCY") of an amount denominated in another currency (the "SECOND CURRENCY") is a reference to the amount of the second currency which could be purchased with the amount of the first currency at the Reference Exchange Rate;~~

~~(k) any reference to any English legal term for any action, remedy, method of judicial proceeding, legal document, legal status, court, official, or any legal concept or thing shall in respect of any jurisdiction other than England be deemed to include what most nearly approximates in that jurisdiction to the English legal term;~~

~~(l) references to times of day are to London time; and~~

~~(m) where any of the Warranties is qualified by the expression "so far as the Seller is aware" or any other similar expression in determining whether the Seller has the knowledge referred to in that Warranty it shall be treated as knowing only those matters that are known to any of its directors or to the following persons: Debra McClenahan, Ralph Richard Mueller, Cathy Pierce, Marcia Munn, Kenneth S. De Vries, Edward J. Lavin, Dennis R. Hemme, Stephen Baxter and Ron Swanstrom.~~

~~1.3.2 Tables of contents and all headings in this Agreement are for ease of reference only and shall not affect the interpretation of this Agreement.~~

~~1.3.3 For the purposes of the definition of LIBOR "RELEVANT PAGE" means the page of the Reuters Monitor Rates Service designated for the display of London Interbank Offered Rates for the currency of the relevant amount (being currently "LIBO" in the case of Dollars) or, if such page or such service ceases to be available, such other page or such~~

~~other service (as the case may be) for the purpose of displaying London Interbank Offered Rates for such currency as the parties may agree or, in the absence of agreement, as the Expert, after consultation with the parties shall, on the application of either party, select.~~

~~2. SALE AND PURCHASE~~

~~2.1 AGREEMENT TO SELL THE SALE SHARES~~

~~2.1.1 The Seller agrees to sell with full title guarantee and the Buyer agrees to buy the Sale Shares and all rights attaching or accruing to the Sale Shares (including the right to receive all dividends, distributions or any return on capital declared, paid or made by the Target Company) at or after the date of this Agreement, free of any encumbrance.~~

~~2.1.2 The Seller waives all rights of pre-emption over any of the Sale Shares conferred on it by the articles of association of the Target Company or in any other way and undertakes to take, and procure the taking of, all steps necessary to ensure that any rights of pre-emption are waived.~~

~~2.2 PURCHASE PRICE~~

~~2.2.1 The purchase price of the Sale Shares shall be the aggregate of the Initial Consideration and, if any, the Additional Consideration.~~

~~2.2.2 The Initial Consideration shall be $1.00 payable on Completion to the Seller in the manner prescribed by Clause 5.3(a).~~

~~2.2.3 The Additional Consideration (if any) shall be calculated in accordance with Clause 3.2 or Clause 3.3.3 or Clause 2A.3(2) of the Tax Deed (as appropriate) and be payable in accordance with Clause 3.6 provided that the Additional Consideration and any interest thereon shall not exceed $118,999,999 (one hundred and eighteen million, nine hundred and ninety nine thousand and nine hundred and ninety nine dollars).~~

~~2.3 STAMP DUTY~~

~~2.3.1 The Seller shall pay any stamp duty in respect of the transfer of the Sale Shares to the Buyer.~~

~~2.3.2 At Completion, the Seller shall retain the executed transfer(s) in respect of the Sale Shares to the Buyer or its nominee(s). The Seller undertakes that it shall within 10 business days of execution of the transfer(s) of the Sale Shares apply for adjudication for stamp duty in respect of the transfer(s). The Seller undertakes to discharge promptly any stamp duty payable in respect of the transfer(s) and to deliver to the Buyer the duly stamped transfer(s) on receipt of the same from the Stamp Office.~~

~~2.3.3 The Seller shall have conduct of the application for adjudication in respect of stamp duty on the transfer(s) of the Sale Shares and in respect of any dispute in relation to such application subject to considering any reasonable comments or requests of the Buyer. The Seller shall provide copies of all correspondence with the Inland Revenue in relation to the application and any related dispute to the Buyer. The Buyer shall provide the Seller (at Seller's cost) with such assistance as may be reasonably required for the purposes of the application and any related dispute.~~

~~3. COMPLETION ADJUSTMENTS~~

~~3.1 DEFINITIONS~~

~~3.1.1 For the purposes of this Clause 3, the following definitions shall apply:~~

~~(a) "BUYER'S ADDITIONAL CAPITAL" means any ordinary shares which may be required to be subscribed by the Buyer pursuant to Clause 3.2;~~

~~(b) "COMPLETION BALANCE" means the amount by which the Completion Adjustment is greater than zero;~~

~~(c) "INVESTMENT INCOME DEDUCTION" means the amount by which the Investment Income Adjustment is greater than $15,000,000 (fifteen million dollars);~~

~~(d) "INVESTMENT INCOME ADJUSTMENT" means Investment Income (as defined in paragraph 4.2.2(a) of Schedule 7) less Administrative Expenses (as defined in paragraph 4.2.2(b) of Schedule 7) taken into account in the Completion Accounts;~~

~~(e) "OUTSTANDING COMPLETION BALANCE" means, at any point in time:~~

~~(i) the Completion Balance which has not been paid by the Buyer to the Seller under Clause 3.3.3; plus~~

~~(ii) interest which has been accrued at that time in accordance with Clause 3.5.1 (if any); plus~~

~~(iii) any amount outstanding from the Buyer to the Seller pursuant to clause 2A.3(2) of the Tax Deed; plus~~

~~(iv) the aggregate Post Completion Other Amounts to be included pursuant to clause 3.4; plus~~

~~(v) the amount of any net gain shown in the Closing F/X Adjustment;~~

~~(f) "PAYMENT AMOUNT" means the amount by which the Investment Income Adjustment is greater than $27,000,000 (twenty seven million dollars);~~

~~(g) "PRE COMPLETION OTHER AMOUNTS" means the amount of Reinsurance Recoverables arising in relation to underwriting years 1988 and subsequent received by the Target Subsidiary prior to or on the Completion Date;~~

~~(h) "POST COMPLETION OTHER AMOUNTS" means:~~

~~(i) 100 per cent. of the amount of any Reinsurance Recoverables arising in relation to underwriting years 1988 and subsequent, where the reinsurer is the Seller or an Affiliate of the Seller, which is received by the Target Subsidiary after the Completion Date; and~~

~~(ii) 90 per cent. of the amount of any Reinsurance Recoverables arising in relation to underwriting years 1988 and subsequent, where the reinsurer is an entity other than the Seller or an Affiliate of the Seller, which is received by the Target Subsidiary after the Completion Date;~~

~~(i) "REINSURANCE RECOVERABLES" means any amount recoverable from a reinsurer as a result of corrections to the Senator proportional reinsurance module included in Schedule 11;~~

~~(j) "RELEVANT PERCENTAGE" means:~~

~~(i) 80 per cent., to the extent that the Buyer has not yet paid to the Seller at least $25,000,000 (twenty five million dollars) of the principal of the Completion Balance; or~~

~~(ii) 50 per cent., to the extent that the Buyer has paid to the Seller $25,000,000 (twenty five million dollars) or more of the principal of the Completion Balance;~~

~~(k) "SELLER'S ADDITIONAL CAPITAL" is defined in Clause 3.3.2(a);~~

~~(l) "SUBSCRIPTION AMOUNT" means $25,000,000 (twenty five million dollars), less the Pre Completion Other Amounts;~~

~~(m) "THRESHOLD AMOUNT" shall be as provided in Clause 3.2.1(b), 3.2.2(b), 3.2.3(c) or 3.2.4(b), as appropriate; and~~

~~(n) "W" shall be as provided in Clause 3.2.1(c), 3.2.2(c), 3.2.3(d) or 3.2.4(c), as appropriate.~~

~~3.2 INVESTMENT INCOME ADJUSTMENT~~

~~3.2.1 If the Investment Income Adjustment is equal to or less than $15,000,000 (fifteen million dollars):~~

~~(a) the Buyer shall subscribe for one ordinary share in the Target Company at par for every Pound Sterling1.00 (or its equivalent)~~

~~of the Subscription Amount;~~

~~(b) the Buyer shall pay to the Seller an amount equal to the Pre Completion Other Amounts up to a maximum amount of $25,000,000 (twenty five million dollars);~~

~~(c) the Threshold Amount shall be $12,000,000 (twelve million dollars); and~~

~~(d) "W" shall be $20,200,000 (twenty million and two hundred thousand dollars) plus an amount equal to the amount (if any) by which the Pre-Completion Other Amounts exceeds $25,000,000 (twenty five million dollars).~~

~~3.2.2 If the Investment Income Adjustment is greater than $15,000,000 (fifteen million dollars) but is less than or equal to $27,000,000 (twenty seven million dollars):~~

~~(a) the Buyer shall subscribe for one ordinary share in the Target Company at par for every Pound Sterling1.00 (or its equivalent) of the Subscription Amount;~~

~~(b) the Buyer shall pay to the Seller an amount equal to the Pre Completion Other Amounts up to a maximum amount of $25,000,000 (twenty five million dollars);~~

~~(c) the Threshold Amount shall be $12,000,000 (twelve million dollars) less the Investment Income Deduction; and~~

~~(d) "W" shall be $32,200,000 (thirty two million two hundred thousand dollars) less the Threshold Amount, and plus an amount equal to the amount (if any) by which the Pre Completion Other Amounts exceeds $25,000,000 (twenty five million dollars).~~

~~3.2.3 If the Investment Income Adjustment is greater than $27,000,000 (twenty seven million dollars) but is less than or equal to $52,000,000 (fifty two million dollars):~~

~~(a) the Buyer shall subscribe for one ordinary share in the Target Company at par for every Pound Sterling1.00 (or its equivalent) of the Subscription Amount less the Payment Amount;~~

~~(b) the Buyer shall pay to the Seller an amount equal to the aggregate of the Payment Amount and the Pre-Completion Other Amounts up to an aggregate maximum of $25,000,000 (twenty five million dollars);~~

~~(c) the Threshold Amount shall be nil; and~~

~~(d) "W" shall be $32,200,000 (thirty two million two hundred thousand dollars) plus an amount equal to the amount (if any) by which the sum of the Pre Completion Other Amounts and the Payment Amount exceeds $25,000,000 (twenty five million dollars).~~

~~3.2.4 If the Investment Income Adjustment is greater than $52,000,000 (fifty two million dollars):~~

~~(a) the Buyer shall pay to the Seller $25,000,000 (twenty five million dollars);~~

~~(b) the Threshold Amount shall be nil; and~~

~~(c) "W" shall be $32,200,000 (thirty two million two hundred thousand dollars) plus the amount by which the Investment Income Adjustment exceeds an amount which is equal to the difference of $52,000,000 (fifty two million dollars) less the Pre Completion Other Amounts.~~

~~3.2.5 If the Buyer is required to subscribe for the Buyer's Additional Capital pursuant to this Clause 3.2, the Buyer shall procure that, immediately upon the issue of the Buyer's Additional Capital, the Target Company subscribes for ordinary shares in the Target Subsidiary of an amount equal to the Buyer's Additional Capital.~~

~~3.3 COMPLETION ADJUSTMENT~~

~~3.3.1 The Buyer and the Seller shall agree and/or there shall be determined the Completion Adjustment in accordance with Schedule 7.~~

~~3.3.2 If the Completion Adjustment is less than zero:~~

~~(a) the Seller shall subscribe for one ordinary share in the Target Company at a premium equal to the absolute value of the amount of the Completion Adjustment (or its equivalent) (the "SELLER'S ADDITIONAL CAPITAL");~~

~~(b) the Buyer shall procure that the Target Company issues the Seller's Additional Capital to the Seller upon payment. Immediately upon issue of the Seller's Additional Capital the Seller shall transfer the Seller's Additional Capital to the Buyer in consideration for the payment by the Buyer to the Seller of $1.00; and~~

~~(c) the Buyer shall procure that the Target Company subscribes for one ordinary share in the Target Subsidiary at a premium equal to the total amount received by the Target Company for the Seller's Additional Capital.~~

~~3.3.3 If at any time following the Completion Date the Outstanding Completion Balance is greater than zero and:~~

~~(a) the Target Subsidiary pays a Management Fee, then the Buyer shall, subject to Clause 3.3.4, within 5 business days of the receipt by the Manager of the Management Fee, pay to the Seller an amount equal to 50 per cent. of the Management Fee; and/or~~

~~(b) the Target Subsidiary pays a Trigger Distribution, then the Buyer shall, subject to Clause 3.3.4, within 5 business days of such payment, pay to the Seller an amount equal to the Relevant Percentage of such Trigger Distribution;~~

~~(c) the Buyer or any of its Affiliates disposes of a controlling interest in the Target Company (other than pursuant to clause 13 or clause 14) then the Buyer shall, within 5 business days of the receipt of the consideration, pay 100 per cent. of the consideration received for any such controlling interest; and/or~~

~~(d) the Target Company or any of its Affiliates:~~

~~(i) disposes of a controlling interest in the Target Subsidiary; and/or~~

~~(ii) disposes of all or substantially all of its assets; and/or~~

~~(iii) procures that the Target Subsidiary disposes of all or substantially all of its assets,~~

~~(in each case other than pursuant to clause 13 or clause 14) then the Buyer shall, within 5 business days of the receipt of the consideration, whether by the Buyer,~~

~~the Target Company or the Target Subsidiary, pay to the Seller 100 per cent. of the consideration received for any such controlling interest or assets,~~

~~provided that, the aggregate of the payments made by the Buyer to the Seller pursuant to this Clause 3.3.3 shall not exceed the Outstanding Completion Balance.~~

~~3.3.4 The Buyer shall only be obliged to make payments to the Seller pursuant to Clauses 3.3.3(a) and 3.3.3(b) to the extent that the aggregate of the payments by the Target Subsidiary described in Clauses 3.3.3(a) and 3.3.3(b) exceed the Threshold Amount plus an amount in respect of interest on the Threshold Amount calculated from the Completion Date and in accordance with Clause 3.5.1.~~

3.4 POST COMPLETION OTHER AMOUNTS

3.4.1 If any Post Completion Other Amounts arise after the Completion Date, the amount of those Post Completion Other Amounts shall be added to the amount of the Outstanding Completion Balance on the day which is two business days after the receipt of those Post Completion Other Amounts by the Target Subsidiary.

3.5 INTEREST

3.5.1 The Outstanding Completion Balance and/or any Additional Consideration will bear interest from the Completion Date to the date of payment (inclusive of each date) at a rate equal to the one-year LIBOR plus 1.00 per cent. per annum. The interest shall accrue daily and be calculated at the end of each Relevant Period on the actual number of days elapsed in that Relevant Period and a 360 day year. The interest shall be compounded quarterly in arrears on the last day of each Relevant Period. The one-year LIBOR shall be re-set at the Completion Date and on each anniversary date of the Completion Date and such rate shall be used for all subsequent calculations until the next anniversary date. The Seller shall determine the one year LIBOR at each re-set date and shall give the Buyer written notice of each such determination on the first business day following the Completion Date and each anniversary thereafter. Any payments in accordance with Clauses 3.3.2, 3.3.3 and 3.6.1 shall be applied first to outstanding interest calculated in accordance with this Clause 3.5.1.

3.6 ADDITIONAL CONSIDERATION

3.6.1 Any amount payable by the Buyer to the Seller pursuant to Clause 3.2 or Clause 3.3.3 or Clause 2A.3(2) of the Tax Deed is deemed to be additional consideration for the purchase of the Sale Shares and is, in each case, referred to as "ADDITIONAL CONSIDERATION".

3.7 PAYMENTS

3.7.1 Within 5 business days after the Completion Adjustment being agreed or finally determined pursuant to the provisions of Schedule 7, the Additional Consideration payable pursuant to clause 3.2 shall be paid (net of any applicable withholding tax) in

accordance with Clause 16.15. The Additional Consideration will bear interest calculated in accordance with Clause 3.5.1.

3.7.2 No withholding tax shall be deducted from any payment under this Clause 3.7 where the payor has been directed by the Inland Revenue under Regulation 2 of the Double Taxation Relief (Taxes or Income) (General) Regulations 1970 that tax shall not be deducted or may be deducted at a lower rate of withholding tax or where the Inland Revenue has issued a provisional authority for interest to be paid gross or at a lower rate of withholding tax and whilst such provisional authority remains in force.

3.7.3 The recipient of any payment shall cooperate with the payer in obtaining any clearances and complying with any procedural formalities necessary in order for the payer to make such payment without deduction of any withholding tax or at a lower rate of withholding tax under the applicable double taxation agreement. The recipient of the payment shall provide to the payer copies of all documents obtained from the relevant Tax Authority responsible for the double taxation agreement in both countries which are relevant to the payer making such payment without deduction of any withholding tax or at a lower rate of withholding tax under the applicable double taxation agreement.

3.8 ESCROW

3.8.1 At Completion the Subscription Amount shall be paid by the Buyer to the Buyer's solicitors as stakeholder (the "STAKEHOLDER"), who shall, at the same time, be irrevocably instructed by the Seller and the Buyer:

(a) to place $25,000,000 (twenty five million dollars) (the "ESCROW AMOUNT") in an interest bearing designated bank deposit account maintained in a branch of an English high street clearing bank in the name of the Stakeholder;

~~(b) within 5 business days after the Completion Adjustment being agreed or finally determined pursuant to the provisions of Schedule 7:~~

~~(i) if Clauses 3.2.1 or 3.2.2 apply:~~

~~(1) pay that part of the Escrow Amount which is equal to the Subscription Amount to the Target Company (which shall be deemed to be payment in fulfilment of the Buyer's obligations under Clauses 3.2.1(a) or 3.2.2(a) as appropriate);~~

~~(2) pay the balance of the Escrow Amount to the Seller (which shall be deemed to be payment in fulfilment of the Buyer's obligations under Clauses 3.2.1(b) or 3.2.2(b) as appropriate)~~

~~(ii) if Clause 3.2.3 applies, pay that part of the Escrow Amount which is equal to the amount calculated in accordance with Clause 3.2.3(a) to the Target~~

~~Company (which shall be deemed to be payment in fulfilment of the Buyer's obligation under Clause 3.2.3(a)), and pay the balance of the Escrow Amount to the Seller (which shall be deemed to be payment in fulfilment of the Buyer's obligations under Clause 3.2.3(b); and~~

~~(iii) if Clause 3.2.4 applies, pay the Escrow Amount to the Seller (which shall be deemed to be payment in fulfilment of the Buyer's obligations under Clause 3.2.4(a)); and~~

~~(c) to pay an amount equal to any interest received by the Stakeholder on the Escrow Amount (less any tax thereon for which the Stakeholder may be accountable and any charges and expenses incurred by the Stakeholder) to the Buyer (or as it may direct) and/or to the Seller (or as it may direct) in proportion to the amounts finally payable to them respectively, otherwise than in respect of costs.~~

~~3.9 SUBSCRIPTIONS~~

~~3.9.1 The Buyer's Additional Capital shall be subscribed for and paid for in full within 5 business days of receipt of the amounts to be paid to it by the Stakeholder under Clause 3.8.1(b)(i) or (ii), as appropriate.~~

~~3.9.2 The Seller's Additional Capital shall be subscribed for and paid for in full within 5 business days after the Completion Adjustment being finally agreed or finally determined pursuant to the provisions of Schedule 7.~~

~~3.10 COMPLETION BALANCE SECURITY~~

~~3.10.1 If Clause 3.3.3 shall apply, the Buyer shall:~~

~~(a) execute the Distribution Security in favour of the Seller; and~~

~~(b) procure that the Manager executes the Management Fee Security in favour of the Seller,~~

~~within 5 business days after the Completion Adjustment has been agreed or finally determined pursuant to the provisions of clause 3.3.1 and Schedule 7.~~

~~3.11 MANAGEMENT FEE~~

~~3.11.1 The Buyer shall provide a statement of the amounts paid to the Affiliates of the Buyer (as defined in the definition of "MANAGEMENT FEE") and of the amounts so paid not falling within the Management Fee together with a copy of the audited accounts of the Target Subsidiary within 120 days of the end of each financial year and a certificate of an officer of the Target Subsidiary of the accuracy of the statement.~~

~~3.12 MANAGEMENT FEE VARIATION~~

~~3.12.1 If, at any time during the term of the Management Agreement, the board of directors of the Target Subsidiary determines that the amount of the Management Fee to be paid by the Target Subsidiary is too high having regard to the financial condition of the Target Subsidiary or any requirements of the Financial Services Authority, then the Buyer shall immediately notify the Seller in writing and the Target Subsidiary may seek to reach agreement with the Manager to reduce the Management Fee by an agreed amount over an agreed period.~~

~~If the Target Subsidiary and the Manager reach such an agreement (a "MANAGEMENT AGREEMENT VARIATION") the Buyer shall immediately notify the Seller and shall provide the Seller with a detailed and reasoned explanation for the Management Agreement Variation and the Seller hereby agrees:~~

~~(a) to agree to the Management Agreement Variation in its capacity as assignee of the rights to payment of the Management Fee under the terms of the Management Fee Security; and~~

~~(b) not to enforce its rights under the Management Fee Security in connection with the Management Agreement Variation,~~

~~Provided that the Seller shall not be obliged to agree to that variation if:~~

~~(i) the result of the variation is that any provider of debt or equity finance to the Target Subsidiary would rank ahead of the Seller with respect to payments or distributions;~~

~~(ii) any Affiliate of the Target Subsidiary receives payments or distributions from the Target Subsidiary during the period for which the variation is effective ("VARIATION PERIOD") other than payments excluded from the definition of Management Fee and permitted to be paid under the Management Fee Security and the Distribution Security; or~~

~~(iii) the Seller has not received $25,000,000 or more of the Completion Balance and the financial condition of the Target Subsidiary or the requirements of the Financial Services Authority, which have brought about the reduction in the Management Fee, has resulted from requirements of operations in which the Target Subsidiary was not engaged as at the date of Completion,~~

~~and provided also that, at the end of the Variation Period, the Management Fee shall be restored to the original amount.~~

~~3.13 1987 AND PRIOR AMOUNTS~~

~~3.13.1 For the purposes of this Clause 3.13, the following definitions shall apply:~~

~~(a) "PRE COMPLETION 1987 AND PRIOR AMOUNTS" means the amount of Reinsurance Recoverables arising in respect of the Target Subsidiary's underwriting years~~

~~1987 and prior which is received by the Target Subsidiary after the date of this Agreement but prior to or on the Completion Date; and~~

~~(b) "POST-COMPLETION 1987 AND PRIOR AMOUNTS" means:~~

~~(i) 100 per cent. of the amount of any Reinsurance Recoverables arising in respect of the Target Subsidiary's underwriting years 1987 and prior, where the reinsurer is the Seller or an Affiliate of the Seller, which is received by the Target Subsidiary after the Completion Date; and~~

~~(ii) 90 per cent. of the amount of any Reinsurance Recoverables arising in respect of the Target Subsidiary's underwriting years 1987 and prior where the reinsurer is an entity other than the Seller or an Affiliate of the Seller, which is received by the Target Subsidiary after the Completion Date.~~

~~3.13.2 The Buyer acknowledges that prior to Completion the Seller may procure that the Target Subsidiary shall pay to the Seller any Pre-Completion 1987 and Prior Amounts within two business days of receipt by the Target Subsidiary of the same.~~

~~3.13.3 The Buyer agrees to procure that the Target Subsidiary shall pay to the Seller any Post Completion 1987 and Prior Amounts within two business days of receipt by the Target Subsidiary of the same.~~

~~3.13.4 The payments to be made pursuant to Clause 13.3.2 and 13.3.3 are to be made to the Seller as corrections of billing errors which arose in relation to the 100 per cent. quota share for 1987 and prior underwriting years between the Seller and the Target Subsidiary.~~

~~4. CONDITIONS TO COMPLETION~~

~~4.1 CONDITIONS~~

~~Completion is conditional on the following conditions being satisfied, or in the case of the conditions in paragraphs (b), (d) or (f) below, waived by the Buyer, on or before the Completion Date:~~

~~(a) the Buyer having received a notice of approval from the FSA of all persons who will acquire control of the Target Subsidiary on Completion in accordance with section 184 FSMA (on such terms or conditions, if any, as are reasonably acceptable to the Seller and the Buyer in so far as such terms or conditions affect the Seller and the Buyer respectively) and such approval not having been revoked and being in full force and effect on the Completion Date or, in the absence of receipt of such notice, the period during which the FSA may serve notice of objection pursuant to section 186 FSMA having elapsed without the FSA having served any such notice of objection on the Buyer;~~

~~(b) subject to Clause 4.2.6 an application having been made by the Target Subsidiary to the FSA to vary the Target Subsidiary's permission under FSMA ("PART IV PERMISSION") so as to remove its permission to effect contracts of insurance on the basis that such variation shall only be effective if Completion takes place;~~

~~(ba) the FSA having confirmed to the Target Subsidiary (on such terms or conditions, if any, as are reasonably acceptable to the Seller and the Buyer in so far as such conditions affect the Seller and the Buyer respectively) that the FSA has no objections to the Target Subsidiary and the Seller entering into the Settlement of 100 per cent. quota share for 1987 and prior underwriting years in the Agreed Form, the Settlement of aggregate stop loss providing $125,000,000 of cover in respect of underwriting years 1997, 1998, and 1999 in the Agreed Form, the CRG Commutation in the Agreed Form and the BU2 Commutation in the Agreed Form having been notified of the same pursuant to the Notice of Requirements dated 26 November 2001 addressed to the Target Subsidiary, and no condition of the FSA excludes or unduly burdens performance by the Target Subsidiary of the Allianz Contract and the Underwriters Re Contract;~~

~~(c) the FSA not:~~

~~(i) withdrawing or giving notice to withdraw any permission (except in relation to the variation of the Target Subsidiary's Part IV Permission referred to in paragraph (b) above) required for, or in connection with, the carrying on of the business of the Target Subsidiary;~~

~~(ii) imposing, or giving notice that it intends to impose, any restriction or requirement on, or on the business of, the Target Subsidiary other than that which (aa) might reasonably be expected for a transaction of this~~

~~type and size and (bb) would not have a material adverse effect on the ability of the~~

~~Buyer to carry on the business of the Target Subsidiary after Completion in the same manner as it is carried on at the date of this Agreement; or~~

~~(iii) requiring additional capital to be contributed to the Target Subsidiary by Seller;~~

~~(d) the Target Subsidiary having made an election under section 107 of the Finance Act 2000 in respect of the years ended 31 December 2000 and 31 December 2001;~~

~~(e) the Seller having received a written notice of approval from the Illinois Department of Insurance in respect of the matters referred to in this Agreement, including, but not limited to, approval of the entry by the Seller into any of the Agreed Form documents for which Illinois regulatory approval is required (on such terms or conditions, if any, as are reasonably acceptable to the Seller and the Buyer in so far as such terms or conditions affect the Seller and the Buyer respectively); and~~

~~(f) there having been no Material Adverse Change.~~

~~4.2 SATISFACTION OF CONDITIONS~~

~~4.2.1 The Buyer hereby undertakes to the Seller to make, as soon as is reasonably practicable, an application to the FSA pursuant to section 178 FSMA in respect of all persons who will acquire control of the Target Subsidiary on Completion.~~

~~4.2.2 Subject to Clauses 4.2.6 and 4.2.7, the Seller agrees that it will use its reasonable endeavours to procure that the Target Subsidiary will apply for the variation of the Target Subsidiary's Part IV Permission described in Clause 4.1(b) above.~~

~~4.2.3 The Seller and the Buyer hereby undertake, each to the other, to use their respective reasonable endeavours to procure that the conditions set out in Clause 4.1(a), (b) and (ba) are fulfilled as soon as reasonably practicable after the date hereof and in any event within 120 days of the date of this Agreement.~~

~~4.2.4 The Buyer shall give notice to the Seller of the satisfaction of the condition of Clause 4.1(a) within two business days of becoming aware of the same.~~

~~4.2.5 The Seller shall give notice to the Buyer of the satisfaction of the conditions of Clauses 4.1(b), (ba), (d) and (e) within two business days of becoming aware of the same.~~

~~4.2.6 If the Seller acting reasonably determines that in respect of Insurance Contracts or Reinsurance Contracts which have been entered into by the Target Subsidiary at or before the date of this Agreement there is a requirement of the FSA that the Target Subsidiary's Part IV Permission continue to include permission to effect contracts of insurance, the Seller may give notice of this fact to the Buyer and upon the giving of such notice:~~

~~(a) the condition in Clause 4.1(b) shall be deemed to have been satisfied; and~~

~~(b) the Seller's obligations under Clause 4.2.2 shall cease to apply.~~

~~In the event that the Seller makes such a determination, it shall provide the Buyer with reasonable details of the basis upon which it has made such a determination.~~

~~4.2.7 If the Seller or the Buyer acting reasonably determines that the application to vary the Target Subsidiary's Part IV Permission pursuant~~

~~to Clause 4.1(b) having been made shall cause satisfaction of any of the other conditions in Clause 4.1 to be delayed beyond the period that would be expected if such application had not been made and that withdrawal of the application would remove such delay, the party making such determination may give notice of this fact to the other and upon the giving of such notice the Seller shall procure that the Target Subsidiary shall promptly notify the FSA of the withdrawal of its application to vary its Part IV Permission. In the event that a party makes such a determination, it shall provide to the other reasonable details of the basis upon which it has made such a determination. For the avoidance of doubt, the making of an application pursuant to Clause 4.1(b) shall be sufficient to satisfy the condition in Clause 4.1(b) even if the application has been withdrawn pursuant to this Clause 4.2.7.~~

~~4.3 WAIVER OR TERMINATION~~

~~4.3.1 At any time the Buyer may waive a condition set out in paragraphs (b), (d) or (f) of Clause 4.1 by notice to the Seller, on any terms it decides.~~

~~4.3.2 If a condition set out in Clause 4.1 has not been satisfied (or, in the case of the conditions set out in Clause 4.1(b), (d) or (f), waived by the Buyer) by 5 pm on 31 December 2002 this Agreement shall terminate and have no further effect (subject only to Clauses 15 (Governing law and disputes) and 16 (Miscellaneous) which shall continue in force).~~

~~4.3.3 If this Agreement terminates pursuant to Clause 4.3.2 each party's further rights and obligations under this Agreement will (save as mentioned in Clause 4.3.2) cease immediately on termination, but termination will not affect any liability of either party to the other arising from a breach of this Agreement before the date of such termination.~~

~~4.4 SELLER'S CONDITION~~

~~4.4.1 On any one occasion during the period from the date of this Agreement to the tenth business day before the Completion Date the Seller may give the Buyer its calculation of the Estimated Completion Adjustment, together with the management accounts upon which the Estimated Completion Adjustment is based and such working papers used in connection with the preparation of the same as are necessary or appropriate to understand and agree the calculation of the Estimated Completion Adjustment.~~

~~4.4.2 If the Estimated Completion Adjustment is greater than $50,000,000 (fifty million dollars) or less than zero, the Seller may at the same time as it provides the Buyer with its calculation of the Estimated Completion Adjustment, give the Buyer notice that it wishes to terminate this Agreement (the "TERMINATION NOTICE").~~

~~4.4.3 Unless the Buyer shall within seven business days of receipt of the Termination Notice (and the related management accounts and working papers) serve a notice in writing on the Seller that it objects to the Estimated Completion Adjustment (identifying the reason for any objection and the amount(s) or item(s) in the Estimated Completion Adjustment calculation, the relevant management accounts and/or associated working papers which is/are in dispute) (such notification being, for the purposes of this Clause 4.4, a "TERMINATION OBJECTION NOTICE") the Buyer shall be deemed to have agreed the Estimated Completion Adjustment and this Agreement shall automatically terminate in accordance with Clause 4.4.8.~~

~~4.4.4 The Buyer shall only be entitled to serve a Termination Objection Notice if the basis of its objection is that the calculation of the Estimated Completion Adjustment should result in an amount which is greater than zero and equal to or less than $50,000,000 (fifty million dollars).~~

~~4.4.5 If, within the period referred to in Clause 4.4.3, the Buyer shall give the Seller a Termination Objection Notice then the Buyer or the Seller shall be entitled, within five business days of the date of such a notice, to refer the matter(s) in dispute to Ernst & Young, unless Ernst & Young are not at the relevant time independent of each of the parties in which case the matter(s) shall be referred to an independent firm of chartered accountants agreed upon between them or (failing agreement within four days of one party giving notice to the other that it desires~~

~~an independent expert to be appointed) to be selected (at the instance of either party) by the President for the time being of the Institute of Chartered Accountants for England and Wales.~~

~~4.4.6 Ernst & Young or such other independent firm of chartered accountants shall act as experts not as arbitrators and shall determine the matter or matters in dispute and their decision shall, save in the event of fraud or manifest error, be binding. The independent firm of accountants shall have the right to seek such professional assistance and advice as it may require in fulfilling its duties. The cost of the independent firm of accountants shall be borne by the Seller and the Buyer equally.~~

~~4.4.7 Upon the resolution of any dispute by the independent firm of accountants, the Estimated Completion Adjustment shall be amended to accord with such resolution and the Estimated Completion Adjustment shall thereafter be final and binding as between the parties, for the purposes of this Agreement. If, on this basis, the Estimated Completion Adjustment is less than zero or exceeds $50,000,000 (fifty million dollars) this Agreement shall automatically terminate in accordance with Clause 4.4.8. Otherwise this Agreement shall continue in full force and effect.~~

~~4.4.8 If this Agreement terminates pursuant to Clause 4.4.3 or Clause 4.4.7 each party's further rights and obligations under this Agreement will cease immediately on termination (subject only to Clause 15 (Governing law and disputes) and 16 (Miscellaneous) which shall continue in force), but termination will not affect any liability of either party to the other arising from a breach of this Agreement before the date of such termination.~~

~~4.4.9 If the Buyer serves a Termination Objection Notice and, but for the provisions of this Clause 4.4.9, the Completion Date would have occurred before the resolution of any~~

~~dispute as provided for in Clause 4.4.5, the Completion Date shall be automatically postponed to the last business day in the month in which the Estimated Completion Adjustment is finally determined in accordance with Clause 4.4.5.~~

~~4.5 BUYER'S CONDITION~~

~~4.5.1 On any one occasion during the period from the date of this Agreement to the tenth business day before the Completion Date the Buyer may require the Seller to give the Buyer sufficient information (including the management accounts for the Target Group Companies for the immediately preceding month end) as will enable the Buyer to carry out the Loss Calculation. Seller shall be allowed twenty days from the date of Buyer's notice to provide the requested information. As soon as the Buyer has received such information and calculated the loss calculation the Buyer shall give the Seller its calculation of the Loss Calculation, together with the management accounts upon which the Loss Calculation is based and such working papers used in connection with the preparation of the same as are necessary or appropriate to understand and agree the calculation of the Loss Calculation.~~

~~4.5.2 If the Loss Calculation is greater than $14,000,000 (fourteen million dollars) the Buyer may at the same time as it provides the Seller with its calculation of the Loss Calculation, give the Seller notice that it wishes to terminate this Agreement (the "LOSS TERMINATION NOTICE").~~

~~4.5.3 Unless the Seller shall within seven business days of receipt of the Loss Termination Notice (and the related working papers) serve a notice in writing on the Buyer that it objects to the Loss Calculation (identifying the reason for any objection and the amount(s) or item(s) in the Loss Calculation and/or associated working papers which is/are in dispute) (such notification being, for the purposes of this Clause 4.5, a "LOSS TERMINATION OBJECTION NOTICE") the Seller shall be deemed to have agreed the Loss Calculation and this Agreement shall automatically terminate in accordance with Clause 4.5.8.~~

~~4.5.4 The Seller shall only be entitled to serve a Loss Termination Objection Notice if the basis of its objection is that the calculation of the Loss Calculation should result in an amount which is equal to or less than $14,000,000 (fourteen million dollars).~~

~~4.5.5 If, within the period referred to in Clause 4.5.3, the Seller shall give~~

~~the Buyer a Loss Termination Objection Notice then the Buyer or the Seller shall be entitled, within five business days of the date of such a notice, to refer the matter(s) in dispute to Ernst & Young, unless Ernst & Young are not at the relevant time independent of each of the parties in which case the matter(s) shall be referred to an independent firm of chartered accountants agreed upon between them or (failing agreement within four days of one party giving notice to the other that it deserves an independent expert to be appointed) to be selected (at the instance of either party) by the President for the time being of the Institute of Chartered Accountants for England and Wales.~~

~~4.5.6 Ernst & Young or such other independent firm of chartered accountants shall act as experts not as arbitrators and shall determine the matter or matters in dispute and their decision shall, save in the event of fraud or manifest error, be binding. The~~

~~independent firm of accountants shall have the right to seek such professional assistance and advice as it may require in fulfilling its duties. The cost of the independent firm of accountants shall be borne by the Seller and the Buyer equally.~~

~~4.5.7 Upon the resolution of any dispute by the independent firm of accountants, the Loss Calculation shall be amended to accord with such resolution and the Loss Calculation shall thereafter be final and binding as between the parties, for the purposes of this Agreement. If, on this basis, the Loss Calculation exceeds $14,000,000 (fourteen million dollars) this Agreement shall automatically terminate in accordance with Clause 4.5.8. Otherwise this Agreement shall continue in full force and effect.~~

~~4.5.8 If this Agreement terminates pursuant to Clause 4.5.3 or Clause 4.5.7 each party's further rights and obligations under this Agreement will cease immediately on termination (subject only to Clause 15 (Governing law and disputes) and 16 (Miscellaneous) which shall continue in force), but termination will not affect any liability of either party to the other arising from a breach of this Agreement before the date of such termination.~~

~~4.5.9 If the Buyer serves a request for information to enable Buyer to carry out the Loss Calculation, or if Seller serves a Loss Termination Objection Notice and, but for the provisions of this Clause 4.5.9, the Completion Date would have occurred before the completion of the Loss Calculation and expiration of Seller's right to object thereto in accordance with Clause 4.5.3, or, if applicable, the resolution of any dispute as provided for in Clause 4.5.5, the Completion Date shall be automatically postponed to the last business day in the month in which the Loss Calculation is finally determined in accordance with Clause 4.5.5.~~

~~4.6 DEEMED MATERIAL ADVERSE CHANGE~~

~~4.6.1 The Seller shall procure that the Target Group Companies prepare and provide the Buyer with the MAC Management Accounts within three business days of the last business day of each month between the date of this Agreement and the Completion Date (the "RELEVANT MONTH END"), provided that where the last Relevant Month End is also the Completion Date, such Relevant Month End shall be deemed to end five business days before the Completion Date.~~

~~4.6.2 For the purposes of this Clause 4.6, the "MAC MANAGEMENT ACCOUNTS" shall mean the management accounts prepared by the Target Group with due care and attention which show an accurate view of:~~

~~(a) the actual cumulative cash flows (excluding those arising from Invested Assets) of the Target Group in the form of the tab "MAC" in the spread sheet entitled "MAC 4.6 ILLUSTRATION 19_6.XLS" set out in Schedule 9 from the end of the period starting on the Last Accounting Date and ending on the relevant Month End (the "TOTAL CASH FLOW");~~

~~(b) the aggregate amount of the Total Cash Flow which is attributable to LPC, Other Inwards, Outwards Expenses/other inwards in the format given in the tab "ACT CASH OUTFLOWS TO 17 MAY" in the spread sheet entitled "MAC 4.6 ILLUSTRATION~~

~~19_6.XLS" set out in Schedule 9 plus actual cash flows from 18 May through the Completion Date determined in the same manner as that shown in the tab "ACT CASH OUTFLOWS TO 17 MAY" in that spread sheet (collectively the "TOTAL SETTLEMENTS");~~

~~(c) the aggregate amount of the Total Settlements which has been paid by the Target Group Companies in respect of claims arising as a direct consequence of the terrorist attacks on the Pentagon and the World Trade Centre on 11 September 2001 (the "WTC SETTLEMENTS"); and~~

~~(d) the aggregate amount of the Total Settlements which have been paid by the Target Group Companies:~~

~~(i) following the written approval of that payment by the Buyer; or~~

~~(ii) in accordance with paragraph (n) of Schedule 4,~~

~~(the "APPROVED SETTLEMENTS").~~

~~4.6.3 For the purposes of this Clause 4.6, in respect of each set of MAC Management Accounts, the Total Settlements, less the sum of the WTC Settlements and the Approved Settlements, is referred to as the "NET SETTLEMENTS".~~

~~4.6.4 If, either:~~

~~(a) the Seller fails to comply with its obligations under this Clause 4.6; or~~

~~(b) the MAC Management Accounts for 30 June 2002 show that the Net Settlements exceed $195m; or~~

~~(c) the MAC Management Accounts for 31 July 2002 show that the Net Settlements exceed $227.5m; or~~

~~(d) the MAC Management Accounts for 31 August 2002 show that the Net Settlements exceed $260m; or~~

~~(e) the MAC Management Accounts for 30 September 2002 show that the Net Settlements exceed $292.5m; or~~

~~(f) The MAC Management Accounts 31 October 2002 show that the Net Settlements exceed $325m; or~~

~~(g) The MAC Management Accounts for 30 November 2002 show that the Net Settlements exceed $357.5m; or~~

~~(h) the MAC Management Accounts for 31 December 2002 show that the Net Settlements exceed $390m,~~

~~then a material adverse change shall be deemed to have occurred.~~

~~5. COMPLETION~~

~~5.1 TIME AND VENUE~~

~~Completion shall take place at the London offices of the Seller's Solicitors on the last business day of the month during which the conditions set out in Clause 4.1 are satisfied or waived (or, if the last of such conditions to be satisfied or waived is satisfied or waived in the last five business days of such month) on the last business day of the next following month.~~

~~5.2 SELLER'S COMPLETION OBLIGATIONS~~

~~5.2.1 At Completion the Seller shall:~~

~~(a) give to the Buyer each item specified in Schedule 2; and~~

~~(b) with the Buyer, give the Stakeholder the instructions set out in~~

~~Clause 3.7.~~

~~5.2.2 At Completion the Seller shall procure that:~~

~~(a) the Target Company's directors hold a meeting of the board of directors of the Target Company at which the directors:~~

~~(i) vote in favour of the registration of the Buyer or its nominee(s) as member(s) of the Target Company in respect of the Sale Shares (subject to the production of properly stamped transfers);~~

~~(ii) if requested by the Buyer, change the Target Company's registered office to a place nominated by the Buyer; and~~

~~(iii) appoint a person nominated by the Buyer as secretary of the Target Company with effect from the end of the meeting;~~

~~(b) such persons as the Buyer may nominate are appointed as directors of the Target Company;~~

~~(c) the Target Subsidiary's directors hold a meeting of the board of directors of the Target Subsidiary at which the directors:~~

~~(i) if requested by the Buyer, change the Target Subsidiary's registered office to a place nominated by the Buyer; and~~

~~(ii) appoint a person nominated by the Buyer as secretary of the Target Subsidiary with effect from the end of the meeting; and~~

~~(d) such persons as the Buyer may nominate are appointed as directors of the Target Subsidiary provided that the Buyer has provided the Seller with evidence~~

~~acceptable to the Seller, acting reasonably, that such persons have been approved by the FSA to perform such controlled functions.~~

~~5.3 BUYER'S COMPLETION OBLIGATIONS~~

~~At Completion the Buyer shall give to the Seller evidence in a form reasonably satisfactory to the Seller (by way of a certificate of the Buyer's Solicitors or otherwise) of satisfaction of the conditions set out in paragraph (a) of Clause 4.1 and shall:~~

~~(a) pay the amount stated in Clause 2.2.2 to the Seller or as the Seller directs in writing in cash;~~

~~(b) with the Seller, give the Stakeholder the instructions set out in Clause 3.7;~~

~~(c) pay the Subscription Amount to the Stakeholder in accordance with Clause 3.7; and~~

~~(d) give the Seller the Tax Deed executed by the Buyer and the Management Agreement executed by the parties thereto.~~

~~5.4 RIGHT TO DEFER OR TERMINATE~~

~~5.4.1 Neither the Seller nor the Buyer is obliged to complete this Agreement unless:~~

~~(a) the other complies with all its obligations under Clause 5.2 or 5.3 (as the case may be); and~~

~~(b) the purchase of all the Sale Shares is completed simultaneously.~~

~~5.4.2 If Completion does not take place on the Completion Date because either party (the "FIRST PARTY") fails to comply with any material obligation under Clause 5.2 or 5.3 (as the case may be), the other party (the "SECOND PARTY") may by notice to the First Party:~~

~~(a) postpone Completion to a date not more than 20 business days~~

after the Completion Date; or

(b) terminate this Agreement.

5.4.3 If the Second Party postpones Completion to another date in accordance with Clause 5.4.2(a), the provisions of this Agreement apply as if that other date is the Completion Date.

5.4.4 If the Second Party terminates the Agreement pursuant to Clause 5.4.2(b), each party's further rights and obligations under this Agreement will cease immediately on termination (subject only to Clauses 15 (Governing law and disputes) and 16 (Miscellaneous) which shall continue in force), but termination will not affect any liability of either party to the other arising from a breach of this Agreement before the date of such termination.

6. SELLER'S WARRANTIES

6.1 WARRANTIES

6.1.1 The Seller warrants to the Buyer in the terms of the Warranties. Immediately before the time of Completion, the Seller is deemed to warrant to the Buyer in the terms of the Warranties at the date of Completion. For this purpose only, where in a Warranty there is an express or implied reference to the "DATE OF THIS AGREEMENT", that reference is to be construed as a reference to the "COMPLETION DATE".

6.1.2 Each Warranty is to be construed independently and (except where this Agreement expressly provides to the contrary) is not limited by a provision of this Agreement or another Warranty.

6.1.3 The Seller acknowledges that the Buyer is entering into this Agreement in reliance on each Warranty.

6.2 DISCLOSURE LETTER

The Warranties other than those set out in paragraphs 1.1, 1.2, 3.1, 3.2.2 or 3.2.3 of Schedule 3 are qualified by the matters fairly disclosed in the Disclosure Letter and/or in the Data Room in sufficient detail to enable a reasonable purchaser to evaluate their relevance to the Warranties. No other knowledge of the Buyer (or an agent or Affiliate) relating to a Target Group Company (actual, constructive or imputed) prevents or limits a claim made by the Buyer for breach of Clause 6.1. The Seller may not invoke the Buyer's knowledge (or the knowledge of the Buyer's agents or Affiliates) (actual, constructive or imputed) of a fact or circumstances which might make a Warranty untrue, inaccurate, incomplete or misleading as a defence to a claim for a breach of Clause 6.1. However, the Buyer acknowledges and confirms that it and its advisers have carried out such due diligence as is reasonably necessary and at the time of entering into this Agreement it is not aware of any matter or thing which constitutes a breach of any of the Warranties as qualified in accordance with this Clause 6.2.

6.3 WAIVER OF RIGHTS

The Seller waives and may not enforce a right which it may have in respect of a misrepresentation, inaccuracy or omission in or from information or advice supplied or given by a Target Group Company or a director, officer or employee of a Target Group Company for the purpose of assisting the Seller to make a representation, give a Warranty, prepare the Disclosure Letter or covenant under the Tax Deed.

6.4 SELLER'S OBLIGATIONS

Between the execution of this Agreement and Completion the Seller shall:

(a) procure that each Target Group Company complies with Schedule 4;

(b) notify the Buyer immediately if it becomes aware of a fact or circumstance which constitutes a breach of Clause 6.1.1 or paragraph (a) above or has caused, or will or might cause, a

~~Warranty to become untrue, inaccurate, incomplete or misleading at any time before Completion;~~

~~(c) procure that the Buyer and its agents will, at the Buyer's expense and upon reasonable notice, be allowed access to, and to take copies of, the books and records of each Target Group Company in the possession or control of either Target Group Company or the Seller provided that the obligations of the Seller under this Clause shall not extend to allowing access to information which is reasonably regarded as confidential to the activities of the Seller otherwise than in connection with the Target Group Companies; and~~

~~(d) procure that such representatives and advisers as the Buyer requests may be designated to work with the Seller at the sole expense of the Buyer with regard to the management and operations of the Target Group Companies. The Seller will consult, and will cause the Target Group Companies to consult, with such representatives and advisers with respect to any action that may materially affect the Target Group. The Seller will furnish and will cause the Target Group Companies to provide to such representatives and advisers such information as they may reasonably request for this purpose.~~

~~6.5 UPDATES TO DISCLOSURE LETTER~~

~~6.5.1 Each party shall give prompt notice to the other party of (i) the occurrence, or failure to occur, of any event or the existence of any condition that has caused or could reasonably be expected to cause any of its representations or warranties contained in this Agreement to be untrue or inaccurate in any material respect at any time after the date of this Agreement, up to and including the Completion Date (except to the extent such representations and warranties are given as of a particular date or period and relate solely to such particular date or period), and (ii) any failure on its part to comply with or satisfy, in any material respect, any covenant, condition or agreement to be complied with or satisfied by it under this Agreement.~~

~~6.5.2 The Seller may, no less than 5 business days prior to Completion by written notice to the Buyer, supplement the Disclosure Letter to reflect:~~

~~(a) retirements and replacements of a Target Group Company's assets, including normal upgrades or replacements of Computer Programs (other than replacements of Computer Programs constituting the lead applications for key line operations such as in line business functions of the business of the Target Subsidiary including but not limited to processing Reinsurance Contracts, underwriting and recording and processing losses);~~

~~(b) the hiring, resignation and termination of employees;~~

~~(c) any act which the Seller is required to perform under the terms of this Agreement;~~

~~(d) any act which the Seller is required to perform in order to comply with any applicable law; and~~

~~(e) actions specified in Schedule 4 which have been effected without breaching the obligations of the Seller pursuant to Clause 6.4(a) and Schedule 4 in any material respect;~~

~~which:~~

~~(i) in the case of paragraphs (a) and (b) above are in the normal course of business of the Target Group Companies;~~

~~(ii) occur after the date of this Agreement; and~~

~~(iii) in the case of paragraphs (a) and (b) above are otherwise in accordance with terms of this Agreement, and in particular the Seller's obligations under Clause 6.4(a) and Schedule 4; and~~

~~provided that any such supplements to the Disclosure Letter shall only be effective to qualify the Warranties given at the date of Completion.~~

~~7. REMEDIES FOR BREACH~~

~~7.1 NON DEFAULTING PARTY'S RIGHTS~~

~~If, on or before the Completion Date, a party (the "NON DEFAULTING PARTY") considers that the other party (the "DEFAULTING PARTY") is in breach of any provision of this Agreement, the Non Defaulting Party shall promptly notify the Defaulting Party in writing, specifying the relevant breach. If the relevant breach is capable of being remedied the Defaulting Party may prior to the Completion Date remedy such breach to the satisfaction of the Non Defaulting Party, acting reasonably. If the breach is not capable of remedy or, if capable of remedy, is not remedied to the satisfaction of the Non Defaulting Party acting reasonably prior to the Completion Date, then the Non Defaulting Party may by notice to the Defaulting Party elect to proceed to Completion or, if the breach would result in a valid Major Claim, terminate this Agreement.~~

~~7.2 TERMINATION BY NON DEFAULTING PARTY~~

~~If the Non Defaulting Party terminates this Agreement pursuant to Clause 7.1:~~

~~(a) the Defaulting Party shall indemnify the Non Defaulting Party against all its costs up to but not exceeding $1,500,000 (one million five hundred thousand dollars) in the aggregate incurred at any time after 15 March 2002 relating to the negotiation, preparation, execution or termination of this Agreement or the satisfaction of a condition set out in Clause 4.1; and~~

~~(b) each party's further rights and obligations under this Agreement will cease immediately on termination (subject only to Clauses 15 (Governing law and disputes) and 16 (Miscellaneous) which shall continue in force), but termination will not affect any liability of either party to the other arising from a breach of this Agreement before the date of such termination.~~

~~7.3 INDEMNIFICATION BY SELLER~~

~~7.3.1 If the Buyer proceeds to Completion and there is a breach of Clause 6.1 or there is a breach of Clause 5.2.1 and:~~

~~(a) the value of an asset of a Target Group Company is or becomes less than the value would have been had the breach not occurred; or~~

~~(b) a Target Group Company is subject to or incurs a liability or an increase in a liability which it would not have been subject to or would not have incurred had the breach not occurred,~~

~~the Buyer shall be entitled to recover from the Seller by way of indemnity (as its sole remedy) in relation to the breach an amount equal to the reduction in the value of the asset or, as the case may be, the liability or increased liability.~~

~~8. LIMITATIONS ON SELLER'S LIABILITY~~

~~8.1 MINIMUM CLAIM THRESHOLD~~

~~The Seller shall not be liable in respect of any Relevant Claim or a claim under Clause 2 of the Tax Deed unless:~~

~~(a) the amount payable in respect of that claim exceeds $100,000 (one hundred thousand dollars) in which case the whole amount of that claim and not just the excess over $100,000 (one hundred thousand dollars) shall, subject to the limitation in paragraph (b) below, be recoverable; and~~

~~(b) the amounts payable in respect of that claim and all other Relevant Claims and claims under Clause 2 of the Tax Deed in aggregate exceed $2,000,000 (two million dollars) (the "AGGREGATE THRESHOLD") and, subject to the limitation in paragraph (a) above, the Seller shall only be liable in respect of the amount by which the amounts payable in aggregate exceed the Aggregate Threshold.~~

~~For the purposes of determining whether the Aggregate Threshold has been reached or exceeded, there shall be disregarded:~~

~~(i) the limitation in paragraph (a) above; and~~

~~(ii) the first $10,000 (ten thousand dollars) of the amount of any Relevant Claim or any claim under Clause 2 of the Tax Deed.~~

~~8.2 MAXIMUM LIABILITY~~

~~The Seller's total liability in respect of all Relevant Claims and claims under the Tax Deed is limited to an aggregate of $100,000,000 (one hundred million dollars) (or its equivalent), but the amount of a claim under Clause 2A.1 of the Tax Deed is not counted for this purpose.~~

~~8.3 TIME LIMITS~~

~~The Seller is not liable for a claim for a breach of this Agreement or the Tax Deed unless the Buyer has given the Seller notice of the claim, stating in reasonable detail the nature of the claim and, if practicable, the amount claimed:~~

~~(a) in respect of a claim under the Tax Deed or for breach of a Warranty contained in paragraph 24 of Schedule 3:~~

~~(i) no later than one month after the expiry of the period during which a Target Group Company may be assessed by a Tax Authority in respect of Tax for which the Target Group Company would not have been liable but for the Target Group Company having been a member of a group for Tax purposes, or controlled by any person, at any time before Completion (and~~

~~for this purpose "control" has the same meaning as in section 767A of the Taxes Act); and~~

~~(ii) except where Clause 8.3(a)(i) applies, on or before 31 January 2009; and~~

~~(b) in respect of any other Relevant Claim, on or before 30 June 2004,~~

~~and has in any such case served proceedings in respect thereof within 12 months of the date of such written notice.~~

~~8.4 RECOVERY FROM THIRD PARTIES~~

~~If the Seller pays to or for the benefit of the Buyer an amount in respect of any Relevant Claim and any of the Buyer, or a Target Group Company subsequently receives from any other person any payment in respect of the matter giving rise to the Relevant Claim, the Buyer shall thereupon pay to the Seller an amount equal to the payment received, after having taken into account any cost, liability (including tax liability) or expense in respect thereof and except to any extent that the liability of the Seller in respect of the Relevant Claim was reduced to take account of such payment.~~

~~8.5 NO REPRESENTATIONS~~

~~The Buyer confirms that it has not entered into this Agreement or any document entered into hereunder or referred to herein in reliance upon any representation, warranty or undertaking other than those expressly contained herein and acknowledges that it has not relied on, and will make no Relevant Claim in respect of any such representation, warranty or undertaking made or supplied by or on behalf of the Seller. Without limiting the general nature of the foregoing, the Buyer confirms that it has not relied on and will make no claim in respect of any budget,~~

~~forecast or other projection of any nature made or supplied by or on behalf of the Seller.~~

~~8.6 ACTIONS AFTER COMPLETION~~

~~The Seller shall have no liability in respect of any Relevant Claim to the extent that such Relevant Claim arises or is increased in circumstances in which the Buyer or a Target Group Company acts or omits to act, other than pursuant to a legally binding commitment created on or before Completion by a Target Group Company and it or any of its advisers, employees, directors, officers or agents knows that such act or omission would give rise to or increase such Relevant Claim and a reasonable alternative course of action was available to the Buyer or the relevant Target Group Company which could have been expected not to have given rise to such Relevant Claim or to a Relevant Claim of such amount and which would not require the Buyer to incur any expenditure or any liability or otherwise materially prejudice it, on or after Completion.~~

~~8.7 SUBSEQUENT LEGISLATION, ETC.~~

~~The Seller shall not be liable in respect of any Relevant Claim to the extent that liability for such Relevant Claim occurs or is increased as a result of any legislation,~~

~~regulation or regulatory requirement not in force on or prior to the Completion Date or as a result of the withdrawal of any published extra statutory concession or other published agreement or arrangement having general application on the Completion Date granted by or made with any governmental or regulatory authority or any tax authority or as a result of any change, after the Completion Date, of any generally accepted interpretation or application of any legislation, regulation or regulatory requirement or as a result of the introduction of, or any change in, any enforcement policy, practice or requirement of any relevant authority after the Completion Date or as a result of the withdrawal after the Completion Date of any extra-statutory concession or any other formal agreement or arrangements with any tax authority (whether or not having the force of law) currently granted by or made with any tax authority, unless in respect of any of the above events the Seller was at the date of this Agreement actively supporting or attempting to secure the enactment or adoption thereof.~~

~~8.8 INSURANCE CLAIMS~~

~~If, in respect of any matter that would give rise to a Relevant Claim, either Target Group Company is entitled to coverage under any policy of insurance, any net recovery on behalf of the Target Group Company shall reduce the amount of the Relevant Claim which the Seller is obligated to pay to the Buyer. The Buyer shall when giving notice of the Relevant Claim to the Seller provide the Seller with notice of the policies of insurance under which coverage of such Relevant Claim may be provided, but the potential availability of insurance coverage shall not relieve or delay the Seller's obligation to pay the Relevant Claim.~~

~~The appropriate member of the Buyer's group shall make a claim against such insurer or insurers with respect to the Relevant Claim and shall notify the Seller of such claim. The Buyer shall use reasonable endeavours to collect such claim. The Seller may, upon not less than 5 business days' notice, assume the collection of the insurance claim and upon such assumption the Buyer shall execute such assignments or other documents as are necessary to enable the Seller to assume such collection or, if such assignment is not recognised by the insurer, will facilitate the Seller's collection in the Buyer's name, including, but not limited to, representation in litigation.~~

~~8.9 RESERVES, ETC.~~

~~For the avoidance of doubt, none of the Warranties, nor the Tax Deed, nor any other provision of this Agreement shall be construed as a representation or warranty of any judgment based on actuarial principles by whomsoever made or as to the fulfilment of any assumption. In particular, and without prejudice to the generality of the foregoing, the Buyer acknowledges and agrees with the Seller that based on information provided by the Seller and its advisers the Buyer has made its own assessment of the adequacy of the amount of the technical reserves of the Target Subsidiary ("RESERVES") as at the Last Accounting~~

~~Date and thereafter. No representation or warranty is made by the Seller or any of the Seller's Affiliates as to the adequacy of the Reserves to meet the liabilities of the Target Subsidiary to which the Reserves relate (the "RESERVING ADEQUACY"). Notwithstanding anything otherwise contained in this Agreement, no provision of this Agreement or the Tax Deed shall be construed as constituting or~~

~~implying, directly or indirectly, the Reserving Adequacy and neither the Seller nor any of the Seller's Affiliates nor any of their respective officers, employees or advisers shall be under any liability to the Buyer or any other person if (for whatever reason) the amount of the Reserves is not adequate. However, this Clause 8.9 shall not operate to exclude any liability that the Seller may have in respect of the failure of the records of the Target Subsidiary (in respect of the Reserves, which the Seller has made available to the Buyer) to reflect each contract and claim which should in accordance with generally accepted UK actuarial standards have been reflected in such records. In the event of any conflict between the provisions of this Clause 8.9 and any other provision in this Agreement, the provisions of this Clause 8.9 shall prevail.~~

~~8.10 DEBTORS~~

~~For the avoidance of doubt, none of the Warranties, nor the Tax Deed, nor any other provision of this Agreement shall be construed as a representation or warranty as to the recoverability of any amount from any debtor of the Target Subsidiary. Neither the Seller nor any of the Seller's Affiliates shall be under any liability to the Buyer or any other person (for whatever reason) in respect of any sum not being recoverable from any debtor of the Target Subsidiary. However, this Clause 8.10 shall not operate to exclude any liability that the Seller may have in respect of the failure of the records of the Target Subsidiary (in respect of the debtors of the Target Subsidiary) which the Seller has made available to the Buyer to record such debtors in accordance with generally accepted UK accounting standards. In the event of any conflict between the provisions of this Clause 8.10 and any other provision in this Agreement, the provisions of this Clause 8.10 shall prevail.~~

~~8.11 CONTINGENT LIABILITIES~~

~~If any breach of the Warranties arises by reason of some liability of any Target Group Company which, at the time such breach or Relevant Claim is notified to the Seller, is contingent only or otherwise not capable of being quantified, then the Seller shall not be under any obligation to make any payment in respect of such breach or Relevant Claim unless and until such liability ceases to be contingent or becomes capable of being quantified, as the case may be provided that this clause shall not operate to avoid a claim made in reasonable particularity in respect of a contingent liability within the applicable time limit specified in Clause 8.3.~~

~~8.12 BUYER'S ASSISTANCE~~

~~If the Buyer becomes aware of any circumstance which gives rise to a Relevant Claim and if the claim in question is as a result of or in connection with a claim by or liability to a third party (a "THIRD PARTY CLAIM"), the Buyer shall give written notice of that circumstance to the Seller forthwith and, the Seller shall be entitled, by a notice in writing addressed to the Buyer, to require the Buyer to take or to procure that the Target Group takes all such reasonable steps and proceedings as the Seller may consider necessary in order to obtain any payment, or relief in respect of or in connection with the Third Party Claim, and the Buyer will, at the request of the Seller allow the Seller at its expense to have the conduct of all correspondence and/or proceedings arising in connection with the Third Party Claim. The Seller may~~

~~thereafter require the Target Group or the Buyer to take all such reasonable steps or proceedings as the Seller may consider necessary in order to mitigate any loss arising in connection with the Third Party Claim and the Buyer undertakes to procure that the Target Group shall so~~

act. For the purpose of enabling the Seller to exercise its rights under this Clause 8.12, the Buyer shall:

(a) make or procure to be made available to the Seller or its duly authorised representatives, and (if so requested by the Seller) provide copies of, all relevant books of account, records and correspondence of the Target Group and permit the Seller to ascertain or extract any relevant information therefrom; and

(b) not admit any liability or agree any Third Party Claim which may give rise or has given rise to a Relevant Claim without the prior written consent of the Seller

provided that:

(i) for the purposes of this clause 8.12, a "Relevant Claim" does not include a Relevant Claim for a breach of a warranty contained in paragraph 24 of Schedule 3; and

(ii) the Seller shall indemnify the Buyer or the Target Group Companies concerned against all properly incurred costs, charges and expenses and all liabilities that such companies may incur as a result of the Seller exercising its rights under this Clause 8.12. The Seller agrees to keep the Buyer fully informed as to the progress of any such Third Party Claim and the defence thereof.

8.13 NO DOUBLE COUNTING - TAX DEED

The Seller shall not be liable in respect of any breach of any Warranty or in respect of any claim under the Tax Deed if and to the extent that the loss occasioned thereby has been recovered under the same or any other Warranty or under the Tax Deed or has otherwise been made good or compensated for without cost to the Buyer or the Target Group.

8.14 NO DOUBLE COUNTING - ACCOUNTS AND COMPLETION ACCOUNTS

The Seller shall not be liable in respect of a Relevant Claim to the extent of:

(a) any amount which is included as a liability which is the subject matter of such Relevant Claim; or

(b) any amount by which the valuation of any asset has been reduced to take account of the subject matter of such Relevant Claim;

in the Accounts or in the Completion Accounts. If any Relevant Claim is made the Buyer shall use all its endeavours to procure that the Seller and its advisers are given

reasonable access to the working papers underlying the Accounts and the Completion Accounts for the purposes of ascertaining whether any, and if so what, amount is applicable to the Relevant Claim for the purposes of this Clause 8.14.

8.15 CHANGE IN ACCOUNTING POLICY

The Seller shall not be liable in respect of any Relevant Claim in respect of any matters resulting from a change of accounting policy or practice or the length of any accounting period of the Buyer or the Target Group introduced after Completion.

8.16 EXCLUSION OF LIABILITY IN RESPECT OF IGI

Save as provided in the IGI Retrocession, the Seller shall have no liability whatsoever whether to the Buyer, any Target Group Company or otherwise under this Agreement including the Warranties (save in respect of the Warranty contained in paragraph 1 of Schedule 3) or the documents referred to herein (other than the IGI Retrocession) in respect of the business referred to in the definition of "Business Covered" in the IGI Retrocession. In the event of any conflict between the provisions of this Clause 8.16 and any other provision in this Agreement, the provisions of this Clause 8.16 shall prevail.

8.17 MITIGATION OF LOSS

~~Nothing contained in this Clause 8 shall limit the Buyer's obligation at common law or the obligation of the Target Group to mitigate any loss or damage resulting from or arising as a consequence of any circumstances giving rise to any Relevant Claim.~~

~~8.18 UNLIMITED LIABILITY~~

~~8.18.1 This Clause 8 shall not apply in relation to any Relevant Claim arising out of any fraud or dishonesty on the part of the Seller or its agents or advisers or in respect of a Relevant Claim involving or relating to breach of Clause 6.1 in respect of a Warranty contained in paragraphs 1 or 3 of Schedule 3.~~

~~9. SELLER'S UNDERTAKINGS~~

~~9.1 CONFIDENTIAL BUSINESS INFORMATION~~

~~9.1.1 Before and after Completion the Seller shall:~~

~~(a) not disclose to a person Confidential Business Information it has or acquires; and~~

~~(b) make every effort to prevent the disclosure by its employees of Confidential Business Information.~~

~~9.1.2 The Seller shall procure that each of its Affiliates complies with Clause 9.1.1.~~

~~9.1.3 Clause 9.1.1 does not apply to:~~

~~(a) disclosure of Confidential Business Information to a director, officer or employee of the Buyer or a Target Group Company whose function requires him to have the Confidential Business Information;~~

~~(b) disclosure of Confidential Business Information required to be disclosed by law or any applicable regulation having the force of law;~~

~~(c) disclosure of Confidential Business Information to an adviser for the purpose of advising the Seller but only on terms that Clause 9.1.1 applies to disclosure by the adviser; or~~

~~(d) Confidential Business Information that becomes publicly known except by the Seller's breach of Clause 9.1.1 or 9.1.2.~~

~~9.2 NON-COMPETITION~~

~~9.2.1 The Seller shall not directly or indirectly:~~

~~(a) seek to induce any reinsurer, cedent or other business relation of a Target Group Company to cease doing business with a Target Group Company or interfere with any such relationship; or~~

~~(b) for two years starting on the date of this Agreement engage, employ, solicit, or contact with a view to his engagement or employment by another person, any individual who is at that time a director, officer, employee or manager of a Target Group Company.~~

~~9.2.2 Each restriction in Clause 9.2.1 constitutes an entirely independent restriction on the Seller.~~

~~9.2.3 The Seller shall use reasonable endeavours to procure that each of its Affiliates complies with Clause 9.2.1.~~

~~9.2.4 On receiving the Buyer's reasonable request the Seller shall give to the Buyer all information it possesses as at the date of this Agreement and which it still possesses as at the date of such request relating solely to a Target Group Company's business and allow the Buyer to copy any document containing that information, provided the obligations of the Seller under this Clause shall not extend to allowing access to, or the copying of, information which is, in the reasonable opinion of the~~

~~Seller, regarded as confidential to the activities of the Seller otherwise than in connection with the Target Group Companies. Each party shall bear its own costs in respect of the provision of such information to the Buyer, unless the Seller provides services beyond simply supplying available information (such as processing or analysing such information or preparing any reports) in which case the Buyer shall reimburse the Seller for its reasonable costs.~~

~~9.3 POST COMPLETION ASSISTANCE~~

~~9.3.1 For the period of one year after the Completion Date, the Seller shall allow, and procure that each Affiliate of the Seller shall allow, the Buyer's representatives reasonable access, upon 48 hours' written notice, to the Key Employees, and shall procure that such Key Employees assist the Buyer with its enquiries and provide the Buyer with such information about the Target Group Companies held by the Seller or its Affiliates as the Buyer may reasonably require to assist it to run off the business of the Target Subsidiary in an efficient manner or otherwise conduct the affairs of the Target Group Companies properly, provided the obligations of the Seller under this clause shall not extend to allowing access to information which is in the reasonable opinion of the Seller regarded as confidential to the activities of the Seller otherwise than in connection with the Target Group Companies.~~

~~9.3.2 The Buyer shall:~~

~~(a) bear all of its own costs in implementing clause 9.3.1; and~~

~~(b) subject to clause 9.3.3 reimburse the Seller and/or its Affiliates for its reasonable out of pocket expenses incurred in implementing clause 9.3.1 provided that: (i) such costs are agreed in advance in writing with the Buyer and the Seller and/or its Affiliates, as applicable; and (ii) the Seller shall provide reasonable evidence of such costs before the Buyer shall be obliged to reimburse it or its Affiliates.~~

~~9.3.3 To the extent that the Buyer requires any Key Employees to prepare reports or similar work beyond responding to brief routine enquiries, the Buyer shall pay to the Seller or its Affiliates, as appropriate, the then amount of the Key Employee's hourly pay rate multiplied by 130 per cent. (for these purposes such hourly rate being equal to the employee's then current annualised salary, including any target bonus, divided by 2080) for the services of the relevant Key Employees as agreed between the Buyer and the Seller in writing in advance.~~

~~9.4 COMPUTER PROGRAMS~~

~~9.4.1 The obligations of the Seller and the Buyer with respect to Computer Programs used in the business of the Target Subsidiary shall be satisfied on Completion as follows:~~

~~(a) with respect to each Licensed Computer Program and Shrink Wrap Computer Program that is licensed by the licensor thereof to the Seller or any of the Seller's Affiliates (except those Computer Programs that are solely licensed to a Target Group Company), the Seller shall provide to the Target Subsidiary the rights described in Paragraph 7.4.2(d) of Schedule 3;~~

~~(b) the Seller shall be responsible for 50% of the expenses related to obtaining such rights provided that the aggregate of such shared expenses, whether incurred prior to or after Completion shall not exceed $500,000 unless the Buyer and Seller mutually agree;~~

~~(c) the Target Group shall be exclusively responsible for payment of continuing use charges, upgrade fees and maintenance fees, and for performance of other contractual obligations arising with respect to use by the Buyer and the Target Group after the Completion Date of the Computer Programs licensed or assigned to the Target Subsidiary pursuant to this Clause 9.4.~~

~~9.5 INTRA GROUP CONTRACTS~~

~~9.5.1 The Seller undertakes to the Buyer that, after the date of Completion in respect of any Relevant Contracts entered into between the Target Subsidiary and the Seller or any of the Seller's Affiliates, it will not~~

~~adopt a position in relation to any claim against the Target Subsidiary or defence to a claim brought by the Target Subsidiary which is (i) materially different to the position it has adopted before the date of this Agreement; and (ii) detrimental to the position of the Target Subsidiary.~~

~~9.5.2 The Buyer shall procure that, after the date of Completion in respect of any Relevant Contracts entered into between the Target Subsidiary and the Seller or any of the Seller's Affiliates, the Target Subsidiary will not adopt a position in relation to any claim against the Seller or any of the Seller's Affiliates or a defence to a claim brought by the Seller or any of the Seller's Affiliates, which is: (i) materially different to the position it has adopted before the date of this Agreement; and (ii) detrimental to the position of the Seller, or, as the case may be, the Seller's Affiliates.~~

~~9.6 ACCOUNTS~~

~~The Seller shall provide the Buyer with a copy of each bank mandate of each Target Group Company and details of each bank account of each Target Group Company at least three business days before Completion.~~

~~9.7 CLAIMS~~

~~9.7.1 From the date of this Agreement until Completion, in paying claims, the Seller shall procure that the Target Subsidiary shall, unless prior notice is given to the Buyer and the Buyer's consent is obtained:~~

~~(a) follow the claim settlements approved by the lead reinsurer on any contract of Assumed Reinsurance;~~

~~(b) adhere to the Target Subsidiary's internal claim authorisation limits as disclosed to the Buyer prior to the date of this Agreement; and~~

~~(c) determine settlement amounts consistently with the Target Subsidiary's practices in effect during the 2002 calendar year prior to the date of this Agreement.~~

~~9.8 PRE COMPLETION TRANSACTIONS~~

~~9.8.1 For the purposes of this Clause 9.8:~~

~~"LUC GUARANTEE" means the guarantee given by the Target Subsidiary (and others) in respect of the obligations of Marketing Building Limited, LUC Holdings Limited and London Underwriting Centre Limited contained in the superior lease of the London Underwriting Centre dated 17 March 1994 and made between (1) The Prudential Assurance Company Limited (2) Market Building Limited and (3) the 20 guarantors listed therein, the Development Agreement dated 27 February 1990 made between (1) The Prudential Assurance Company Limited (2) Market Building Limited (3) Market Building Management Services Limited (4) the 20 guarantors listed therein and (5) Prudential Development Management Limited, the underlease of the Common Parts dated 17 March 1994 made between (1) Market Building Limited and (2) The London Underwriting Centre Limited and in the Shareholder's Agreement relating to LUC Holdings Limited (registered number 3182700) and in any documents supplemental or collateral to them;~~

~~"OVERSEAS PROPERTIES" means the Real Property situated outside the UK, the details of which are set out in Schedule 5;~~

~~"RESIDENTIAL PROPERTIES" means those properties at Millers Wharf in London registered under Title Numbers EGL 299483 (6 Miller's Wharf) and EGL 271573 (11 Miller's Wharf); and~~

~~"COMPAQ LEASE AGREEMENT" means the Master Lease Agreement number UKCHQ0206 dated 22 August 2000 between Compaq Financial Services Company and the Target Subsidiary (including each schedule and any amendments to that agreement).~~

~~9.8.2 Prior to Completion the Seller shall use reasonable endeavours to procure that:~~

~~(a) each Target Group Company:~~

~~(i) transfers any interests that it may have in the Overseas Properties to the Seller, one of the Seller's Affiliates or a third party, or surrenders any interest it holds in any such Overseas Properties back to the owner of the superior interest in that Overseas Property;~~

~~(ii) transfers any interests that it may have in the Residential Properties to the Seller, one of the Seller's Affiliates or a third party for an aggregate price equal to $2,300,000;~~

~~(iii) obtains a release from any obligations that it may have under the LUC Guarantee; and~~

~~(iv) transfers all of the shares held by any Target Group Company in LUC Holdings Limited to the Seller or as the Seller shall direct and obtains a complete discharge and release of the relevant Target Group Company from any liabilities and claims under the shareholders agreement referred to in the definition of LUC Guarantee in Clause 9.8.1 above (the "SHAREHOLDERS AGREEMENT") in consideration for the payment by the Target Subsidiary to the Seller (or an Affiliate of the Seller) of $1,000,000 (one million dollars); and~~

~~(b) the Target Subsidiary obtains consent from Compaq Financial Services Company to the change in control of the Target Subsidiary pursuant to Clause 17.1(e) of the Compaq Lease Agreement.~~

~~9.8.3 If, at Completion, notwithstanding the use of its reasonable endeavours, the Seller has been unable to procure any of the events described in Clause 9.8.2 (the "OUTSTANDING EVENTS") the Seller shall be required to continue to use reasonable endeavours, after Completion, to enable the Target Subsidiary and/or the Target Company, as appropriate to fulfil the Outstanding Events on terms not materially adverse to the Buyer.~~

~~9.8.4 If, following Completion, the Buyer or a Target Group Company incurs or is subject to any costs, claims, damages, expenses, losses, liabilities or penalties or is required to make any payment (including any rent or other outgoings) in connection with the Overseas Properties, the Residential Properties, the LUC Guarantee, the Shareholders Agreement or the failure of the Seller to obtain the consent referred to under Clause 9.8.2 in relation to the Compaq Lease Agreement, the Seller hereby agrees to pay to the Buyer on demand an amount equal to any such costs, claims, damages, expenses, losses, liabilities, penalties or payments. The Seller shall be entitled to deduct from such amount such sums as the Buyer has received from any third parties in respect of the same matters and shall be entitled to recover from the Buyer any amounts paid by the Seller to the Buyer that the Buyer recovers from any third parties in respect of the same matters.~~

~~9.8.5 The Buyer shall at the request and cost of the Seller provide the Seller with and procure that the Target Subsidiary offers the Seller all reasonable assistance in connection with the fulfilment of any Outstanding Event.~~

~~9.8.6 The Seller's obligation to use its reasonable endeavours to procure the release referred to in clause 9.8.2(c) shall include the obligation to enter into a guarantee in the place of the Target Subsidiary on the same or similar terms to the LUC Guarantee.~~

~~9.9 INVESTED ASSETS~~

~~9.9.1 Seven days before Completion the Seller shall provide the Buyer with a list of the Invested Assets in which the Target Subsidiary has a beneficial interest. The list shall include details of the issuer, the relevant security, its CUSIP, its nominal value, its~~

~~credit ratings by the Credit Raters as at the date of the list, and such other information as the Seller shall reasonably require.~~

9.9.2 The Seller shall procure that on the Completion Date the Target Subsidiary does not have a beneficial interest in any Invested Asset which has a rating of below BBB- by Standard & Poor's a division of the McGraw Hill Companies and Baa3 by Moody's Investors Services, Inc (together the "CREDIT RATERS") .

10. BUYER'S UNDERTAKINGS

10.1 POLICY FOR DISTRIBUTIONS

The Buyer agrees that, following Completion, and until the payment in full of the Completion Balance, it will use all reasonable endeavours to maximise the amount of Distributions and as and when Distributions or such distributions as are otherwise made to the shareholders of the Target Subsidiary, whether of profits or of capital, made by any lawful means, including pursuant to a members' voluntary winding up are paid by the Target Subsidiary to the Target Company, it will use its best endeavours in its capacity as a shareholder in the Target Company to procure that the Target Company pays such amounts to the Buyer either by way of dividend or by a share repurchase or reduction and repayment of capital, but in each case subject to applicable laws and after making appropriate provision for its tax and appropriate reserves for working capital and provided always that if it is not possible for a Target Group Company to pay a Distribution by way of dividend, the Buyer's obligations under this Clause 10.1 shall be subject to the Buyer's reasonable discretion in determining the timing of the implementation of any other mechanism for the payment of the Distribution having regard to the amount of the potential Distribution and the time and cost of implementing the relevant mechanism.

10.2 CHANGE OF NAME

10.2.1 The Buyer shall procure that as soon as reasonably practicable after the Completion Date, and in any event within 30 days of the Completion Date, all of the business letters, notices, bills, cheques, orders, invoices, receipts and other correspondence of the Target Group Companies are amended so as to remove any trading name or trade mark which: (i) includes the acronym "CNA" or any acronym or words similar thereto; or (ii) is likely to cause a third party to believe that the Target Group Companies are connected with or have an interest in the business of the Seller. The Buyer shall further procure that, as soon as reasonably practicable after the Completion Date (but in no event more than 30 days after the Completion Date), the names of the Target Group Companies are changed so as not to include the acronym "CNA" or any acronym or words similar thereto.

10.2.2 The Seller shall grant the Buyer the right to use the acronym "CNA" on the terms of the Trade Mark Licence Agreement in the Agreed Form for the specific use set out therein.

10.2.3 The Buyer agrees that prior to the Completion Date the Seller shall be entitled to arrange for the transfer from the Target Group Companies to the Seller or its Affiliates of any and all registered trade marks and domain names currently registered or held in the name of the Target Company or the Target Subsidiary.

10.3 SELLER'S ACCESS TO RECORDS

For a period of one year after the Completion Date, the Buyer shall procure that the Target Group Companies shall allow the Seller's representatives reasonable access upon 48 hours written notice, to the books and records of the Target Group to the extent that such access may reasonably be required by the Seller in connection with matters related to or affected by the operations of the Target Group prior to the Completion Date (provided that such access shall be procured by the Buyer for a period of six years after Completion where such access may be required by the Seller in connection with the taxation of the Seller or any of its Affiliates). Such access shall be afforded during normal business hours. The obligations of the Buyer under this clause shall not extend to allowing access to information which is in the reasonable opinion of the Buyer regarded as confidential to the activities of the

~~Target Group or is otherwise than in connection with the Target Group Companies. The Seller shall:~~

~~(a) bear all of its own costs in implementing this Clause 10.3; and~~

~~(b) reimburse the Buyer and/or its Affiliates for its out of pocket expenses properly incurred in implementing this Clause 10.3 provided that:~~

~~(i) such costs are agreed in advance in writing with the Seller and/or its Affiliates, as applicable; and~~

~~(ii) the Buyer shall provide reasonable evidence of such costs before the Seller shall be obliged to reimburse it or its Affiliate.~~

~~If the Buyer wishes to dispose of any of such books and records prior to the expiration of the six year period referred to above the Buyer shall, prior to doing so, give the Seller a reasonable opportunity, at the Seller's expense, to segregate and remove such books and records as the Seller may select.~~

~~11. BUYER'S WARRANTIES~~

~~The Buyer warrants that:~~

~~11.1 INCORPORATION AND EXISTENCE~~

~~The Buyer is a limited company incorporated under English law and has been in continuous existence since incorporation.~~

~~11.2 RIGHT, POWER, AUTHORITY AND ACTION~~

~~11.2.1 The Buyer has the right, power and authority and has taken all action necessary to execute and deliver, and to exercise its rights and perform its obligations under, this Agreement and each document to be executed at or before Completion.~~

~~11.2.2 The Buyer has the right, power and authority to conduct its business as conducted at the date of this Agreement.~~

~~11.3 BINDING AGREEMENTS~~

~~The Buyer's obligations under this Agreement and each document to be executed at or before Completion are, or when the relevant document is executed will be, enforceable in accordance with their terms.~~

~~11.4 WINDING UP AND ADMINISTRATION~~

~~No order has been made, petition presented or resolution passed for the winding up of the Buyer or for the appointment of a provisional liquidator to the Buyer or for an administration order in respect of the Buyer.~~

~~11.5 RECEIVERSHIP~~

~~No receiver or receiver and manager has been appointed of the whole or part of the Buyer's business or assets.~~

~~11.6 VOLUNTARY ARRANGEMENTS~~

~~No voluntary arrangement has been proposed under section 1 of the Insolvency Act 1986 in respect of the Buyer. No compromise or arrangement has been proposed, agreed to or sanctioned under section 425 of the Act in respect of the Buyer.~~

~~11.7 INSOLVENCY~~

~~The Buyer is not insolvent or unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986.~~

~~11.8 PAYMENT OF DEBTS~~

~~The Buyer has not stopped paying its debts as they fall due.~~

~~11.9 DISTRESS ETC.~~

~~No distress, execution or other process has been levied on an asset of the Buyer.~~

~~11.10 UNSATISFIED JUDGMENTS~~

~~There is no unsatisfied judgment or court order outstanding against the Buyer.~~

~~11.11 STRIKING OUT~~

~~No action is being taken by the registrar of companies to strike the Buyer off the register under section 652 of the Companies Act.~~

~~11.12 FSA~~

~~In respect of the Buyer's application to the FSA which is to be made pursuant to Clause 4.2.1 of this Agreement, the Buyer knows of no matter not described in the letter from the Buyer to the Seller of even date herewith relating to any proposed controller, director of a proposed controller or proposed approved person in respect of whom details are to be given to the FSA by the Buyer which might cause the FSA to refuse to give its approval for the purposes of Clause 4.1(a) of this Agreement.~~

~~12. PENSIONS~~

~~12.1 A deed substituting CNA Europe Holdings Limited for the Target Company as principal employer in relation to the CNA Re Management Company Limited Retirement Benefits Plan (1977) is attached to this Agreement, signed by the trustees of the Seller's Scheme and will take effect on Completion. The Seller shall procure that the Target Company and CNA Europe Holdings Limited execute this deed before Completion. The Seller shall use its best endeavours and take whatever steps may be necessary to procure that the approval of the Inland Revenue is given to the substitution prior to Completion.~~

~~12.2 If the Inland Revenue shall confirm that the substitution is satisfactory from their point of view and does not affect the Seller's Scheme's exempt approved status then, following Completion, the Seller shall procure that the Inland Revenue Contributions Agency is notified of the cessation of participation of the Target Company and that the contracting out certificate held by the Target Company shall, from Completion, be held by CNA Europe Holdings Limited. The Buyer shall, and shall procure that the Target Company shall, co operate with the Seller to procure this result.~~

~~12.3 If the Inland Revenue confirms that the substitution is not satisfactory from their point of view, then the Target Company shall remain the principal employer of the Seller's Scheme. However:~~

~~(a) accrual of benefits under the Seller's Scheme shall cease effective on Completion and the parties shall give (or procure the giving of) such notices to effect this as may be required;~~

~~(b) the Buyer shall procure that the Target Company shall take such steps, sign such notices and deeds and resolutions as the Seller shall require in relation to the Seller's Scheme and shall generally act in accordance with the instructions of the Seller in relation to the Seller's Scheme, in each case provided that such actions would not be in breach of any applicable laws, Inland Revenue requirements or any duties of the Target Company to the members of the Seller's Scheme.~~

~~12.4 In either case (but provided, if Clause 12.3 applies, that the Target Company has materially complied with the Seller's instructions) the Seller shall indemnify the Buyer and the Buyer as trustee for the Target Company against any liability (including any liability under section 75 of the Pensions Act 1995) on the Buyer or the Target Company to make any further payments to the Seller's Scheme or to the trustees of the Seller's Scheme on or after the Completion Date and, if clause 12.3 applies, against any liability which may otherwise arise on the Target~~

~~Company in relation to the Seller's Scheme, including the Target Company's own reasonable costs and expenses and any liability to pay expenses incurred by the trustees.~~

~~13. NOVATION~~

~~13.1 If, following Completion, the Buyer at its sole election notifies the Seller that it intends to transfer the Sale Shares to one of its Affiliates (the "NEW BUYER") and to exercise its rights if it so desires to novate this Agreement to the New Buyer in accordance with Clause 16.5.4, notwithstanding any other provision of this Agreement:~~

~~13.1.1 at the request of the Buyer the Seller shall promptly take all steps necessary to release the Sale Shares from the Distribution Security; and~~

~~13.1.2 upon the transfer of the Sale Shares to the New Buyer the Buyer shall procure that the New Buyer executes a security deed pursuant to which the New Buyer will grant the Seller a first charge over the Sale Shares in the same form as the Distribution Security,~~

~~Provided that the Seller shall not be obliged to agree to that novation:~~

~~(a) if the result of the novation is that any provider of debt or equity finance to the Target Subsidiary would rank ahead of the Seller with respect to payments or distributions; and~~

~~(b) unless the Buyer provides the Seller with a legal opinion of a reputable law firm in terms reasonably satisfactory to the Seller confirming that the new distribution security to be granted by the New Buyer will be a valid first charge and enforceable in accordance with its terms.~~

~~13.2 In the event that the Buyer transfers the Sale Shares to the New Buyer and exercises its rights to novate this Agreement to the New Buyer pursuant to Clause 13.1 (the "BUYER'S TRANSFER"), then where:~~

~~13.2.1 the New Buyer is required by law to make a deduction or withholding when the Buyer would not have been required by law to have made such deduction or withholding had the Buyer made the payment where the Buyer's Transfer had not occurred, then the New Buyer shall pay to the Seller a sum equal to the amount that the Seller would otherwise have received in the absence of any such deduction or withholding; and~~

~~13.2.2 any payment made by the New Buyer to the Seller is subject to tax in the hands of the Seller, then where such payment would not have been subject to tax if it had been made by the Buyer where the Buyer's Transfer had not occurred, then the New Buyer shall pay to the Seller such amount as will ensure that the net amount received in respect of such payment by the Seller after such tax is the same as it would have been were the payment not so subject to such tax.~~

~~14. RESTRUCTURING~~

~~14.1 Following Completion, the Buyer may wish at its sole election to implement a restructuring involving one or more of the following actions (the "RESTRUCTURING"):~~

~~14.1.1 the incorporation of a new company ("NEWCO") by the Buyer or one of its Affiliates;~~

~~14.1.2 the novation of the Management Agreement from the Manager, the Target Company and the Target Subsidiary to the Manager, NewCo and the Target Subsidiary;~~

~~14.1.3 the transfer of employees and certain operating assets of the Target Company to NewCo;~~

~~14.1.4 the transfer by the Target Company to the Buyer of all of the shares it holds in the Target Subsidiary; and~~

~~14.1.5 the member's voluntary winding up of the Target Company.~~

~~14.2 The Seller acknowledges that the Buyer may wish to implement the Restructuring, and the parties hereby agree that, in connection with a Restructuring and, notwithstanding any other provision of this Agreement:~~

~~14.2.1 at the request of the Buyer, the Seller shall promptly take all steps necessary to release the Sale Shares from the Distribution Security;~~

~~14.2.2 promptly following the Restructuring, the Buyer shall execute a Security Deed pursuant to which the Buyer will grant to the Seller a first charge over the entire issued share capital of the Target Subsidiary in the same form as the Distribution Security;~~

~~14.2.3 if appropriate the definition of "MANAGEMENT AGREEMENT" in Clause 1.1 of this Agreement shall be substituted by the following:~~

~~""MANAGEMENT AGREEMENT" means the agreement entered into between the Target Subsidiary, the Manager and NewCo;"~~

~~14.2.4 at the request of the Buyer, the Seller shall take all steps necessary to re-assign the rights assigned by the Manager to the Seller pursuant to the Management Fee Security and shall release and discharge the Management Fee Security;~~

~~14.2.5 if appropriate promptly following the Re-structuring, the Manager shall execute a security deed pursuant to which the Manager will assign by way of security to the Seller, and grant the Seller a first charge over, certain of its rights to payment of the Management Fee in the same form as the Management Fee Security;~~

~~14.2.6 if appropriate the definition of "MANAGEMENT FEE" in Clause 1.1 of this Agreement shall be amended by substituting paragraph (ii) of that definition by the following:~~

~~"costs necessarily and properly incurred by NewCo in providing services pursuant to the Management Agreement and reimbursement by the Target Subsidiary to NewCo pursuant to Paragraph 1.1 of Schedule 3 to the Management Agreement provided that such costs are at commercially reasonable rates;"~~

~~14.2.7 if appropriate the definition of "TRIGGER DISTRIBUTIONS" in Clause 1.1 of this Agreement shall be substituted by the following:~~

~~"TRIGGER DISTRIBUTIONS" means Distributions (and distributions as are otherwise made to the shareholders of the Target Subsidiary, whether of profits or capital, made by any lawful means, including pursuant to a members' voluntary winding-up);"~~

~~14.2.8 if appropriate Clause 10.1 of this Agreement shall be substituted by the following:~~

~~"The Buyer agrees that, following Completion and until the payment in full of the Completion Balance, it will use all reasonable endeavors to maximize the amount of Distributions provided always that if it is not possible for the Target Subsidiary to pay a Distribution by way of dividend, the Buyer's obligations under this Clause 10.1 shall be subject to the Buyer's reasonable discretion in determining the timing of the implementation of any other mechanism for the payment of the Distribution having regard to the amount of the potential Distribution and the time and cost of implementing the relevant mechanism."~~

~~14.2.9 The Seller shall not be obliged to agree to any restructuring:~~

~~(a) if the result of the Restructuring is that any provider of debt or equity finance to the Target Subsidiary would rank ahead of the Seller with respect to payments or distributions; and~~

~~(b) unless the Buyer provides the Seller with a legal opinion of a reputable law firm in terms reasonably satisfactory to the Seller confirming that the new distribution security to be granted by the Buyer and the new management fee security will each be a valid first charge and enforceable in accordance with its terms.~~

~~15. GOVERNING LAW AND DISPUTES~~

~~15.1 GOVERNING LAW~~

~~This Agreement and all matters arising from or connected with it are governed by, and shall be construed in accordance with, the laws of England.~~

~~15.2 RESOLUTION BY THE COURTS~~

~~15.2.1 Save where this Agreement provides for the reference of disputed matters to an Expert, the courts of England shall have exclusive jurisdiction to settle any Disputes and hear and decide any Proceedings.~~

~~15.2.2 The parties agree that the courts referred to in Clause 15.2.1 are the most appropriate and convenient courts to settle any Disputes and hear and decide any Proceedings and, accordingly, that they will not argue to the contrary.~~

~~15.3 SERVICE OF PROCESS~~

~~15.3.1 The Seller irrevocably agrees with the Buyer that any Service Document may be sufficiently and effectively served on it in connection with any Proceedings in England and Wales by service on its process agent provided that a copy of the Service Document is also sent by fax on the same day and in accordance with Clause 16.16 to the General Counsel of the Seller.~~

~~15.3.2 For the purposes of this Clause, the Seller appoints as its process agent in connection with Proceedings in England and Wales, Sisec Limited of 21 Holborn Viaduct, London EC1A 2DY.~~

~~15.3.3 The Seller agrees to maintain the appointment of its process agent (and any replacement process agent appointed pursuant to this Clause) and that it shall not withdraw the appointment of any such process agent until its replacement shall have been validly appointed and the name and address of the replacement process agent notified to the Buyer.~~

~~15.3.4 If the process agent referred to in Clause 15.3.2 (or any replacement process agent appointed pursuant to this Clause) at any time ceases for any reason to act as such, the Seller shall appoint a replacement process agent with an address for service in England or Wales, and shall notify the Buyer of the name and address of the replacement process agent. If the Seller fails to appoint a replacement process agent or notify the Buyer of the name and address of a replacement process agent as required by this Clause, the Buyer shall be entitled by notice to the Seller to appoint such a replacement process agent to act on the Seller's behalf. The Seller shall bear all the costs and expenses of appointing a replacement process agent by the Buyer in these circumstances.~~

~~15.3.5 Any Service Document served pursuant to this Clause shall be marked for the attention of the process agent appointed pursuant to this Clause and addressed to the address set out in Clause 15.3.2 or to his address notified pursuant to Clause 15.3.4.~~

~~15.3.6 Any Service Document marked for the attention of the process agent and addressed to the address set out in Clause 15.3.2 or at the address notified pursuant to Clause 15.3.4 shall be deemed to have been duly served if:~~

~~(a) left at such address, when it is left; or~~

~~(b) sent by first class post to such address, 2 business days after the date of posting.~~

~~15.3.7 The Buyer shall send by post to the Seller in accordance with Clause 16.16 a copy of any Service Document served by it (or on its behalf) on a process agent pursuant to this Clause, but no failure or delay in doing so shall prejudice the effectiveness of service of the Service Document in accordance with this Clause.~~

~~15.3.8 The Seller agrees that failure by any process agent to give notice of any process to it or give a copy of any Service Document served on it shall not impair the validity of such service or of any Proceedings based on that process.~~

~~15.3.9 Nothing contained in Clause 15.3.1 affects the right to serve a Service Document in another manner permitted by law.~~

~~15.4 CONSENT TO ENFORCEMENT~~

~~Each party hereby consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including the making, enforcement or execution against any property (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.~~

~~15.5 CURRENCY INDEMNITY~~

~~15.5.1 If any sum due from one party (the "FIRST PARTY") to the other party (the "SECOND PARTY") under this Agreement or any award, order or judgment given or made in relation to this Agreement has to be converted from the currency (the "FIRST CURRENCY") in which it is payable under this Agreement or under such order or judgment into another currency (the "SECOND CURRENCY") for the purposes of:~~

~~(a) making or filing a claim or proof against either party; or~~

~~(b) obtaining an award, order or judgment in any court or other tribunal; or~~

~~(c) enforcing any award, order or judgment given or made in relation to this Agreement,~~

~~then, the first party shall, if practicable, on the day of receipt of such sum paid to it in satisfaction, in whole or in part of such award, order or judgment, or if not practicable~~

~~on such day, as soon as is reasonably practicable thereafter, convert such sum from the second currency into the first currency at the best rate or rates of exchange (taking into account the amount to be exchanged and the location in which such exchange is effected) reasonably available to the second party on the day of conversion, and if the amount resulting from such conversion (net of all commissions, charges, fees and expenses paid):~~

~~(i) is less than the amount of the award, order or judgment in the first currency, then the second party shall pay such difference to the first party within 15 days of a demand for it; or~~

~~(ii) is more than the amount of the award, order or judgment in the first currency, then the first party shall pay such difference to the second party within 15 days of a demand for the same.~~

~~15.5.2 Each demand submitted by a party pursuant to Clause 15.5.1 shall be accompanied by a calculation of the computation made together with such supporting evidence to substantiate the demand.~~

~~16. MISCELLANEOUS PROVISIONS~~

~~16.1 ANNOUNCEMENTS~~

~~16.1.1 Neither party may, during the period commencing on the date of this Agreement and ending on the Completion Date or earlier termination of this Agreement, make or send a public announcement, communication or circular concerning the transactions referred to in this Agreement or in relation to its provisions unless it has first obtained the other party's written consent.~~

~~16.1.2 The restrictions in this Clause shall not apply to a public announcement, communication or circular:~~

~~(a) if made or sent to any Affiliate of such party; or~~

~~(b) if made or sent to any outside consultants or advisers engaged by or on behalf of such party and acting in that capacity; or~~

~~(c) to the extent required by the rules of a relevant and recognised stock exchange or regulatory or governmental body to which the relevant party submits, whether or not the requirement for information has the force of law, if the party required to make or send it has, if practicable, first consulted and taken into account the reasonable requirements of the other party; or~~

~~(d) to the extent required by any applicable laws or pursuant to an order of any court of competent jurisdiction if the party required to make or send it has, if practicable, first consulted and taken into account the reasonable requirements of the other party; or~~

~~(e) if made or sent to any insurer under a policy of insurance; or~~

~~(f) if made or sent to directors, employees and officers of such party or of its Affiliates.~~

~~16.2 CONFIDENTIALITY~~

~~16.2.1 Each party shall at all times:~~

~~(a) use its reasonable endeavours to keep all data or information (whether technical, commercial or financial) acquired under or pursuant to this Agreement (including information relating to the other party's products, operations, processes, plans or intention, product information, know how, trade secrets, market opportunities and business affairs) strictly confidential and shall not disclose this to any other person; and~~

~~(b) not use any data or information referred to in paragraph (a) above for any purpose other than in relation to the proper performance of its obligations and exercise of its rights under this Agreement.~~

~~16.2.2 The provisions of this Clause shall not apply to:~~

~~(a) any information in the public domain at the time of disclosure, otherwise than by breach of this Agreement;~~

~~(b) information which passes into the public domain after disclosure through no act or default of the recipient party;~~

~~(c) information in the possession of, or independently generated by, a party before that information was disclosed to it by or on behalf of the other party and which was not obtained under, or generated in breach of, any obligation of confidentiality; and~~

~~(d) information obtained from a third party who is free to disclose the same, and which is not obtained under any obligation of confidentiality.~~

~~16.2.3 Following Completion, the Buyer shall not, and shall procure that its Affiliates do not, disclose information contained in the CNA Re Pricing Handbook, an example of which, dated October 2000, has been made available to the Buyer during its investigation of the Target Group to any third party or use such information other than for the purpose of running off the business of the Target Subsidiary.~~

~~16.2.4 A party shall be entitled to disclose any data or information referred to above without the prior written consent of the other party if such disclosure is made in good faith:~~

~~(a) to any Affiliate of such party, having made it aware of the requirements of this Clause; or~~

~~(b) to any outside consultants or advisers engaged by or on behalf of such party and acting in that capacity, having made them aware of the requirements of this Clause; or~~

~~(c) to the extent required by the rules of a relevant and recognised~~

~~stock exchange or regulatory or governmental body to which the relevant party submits, whether or not the requirement for information has the force of law; or~~

~~(d) to the extent required by any applicable laws or pursuant to an order of any court of competent jurisdiction; or~~

~~(e) to any insurer under a policy of insurance; or~~

~~(f) to directors, employees and officers of such party having made them aware of the requirements of this Clause,~~

~~provided that:~~

~~(i) any such information disclosed pursuant to paragraph (c) or (d) above, shall be disclosed only if the party has, if practicable, first consulted and taken into account the reasonable requirements of the other party; and~~

~~(ii) such disclosure is necessary to enable such party to perform this Agreement or to protect or enforce its rights under this Agreement or any other agreement referred to in it.~~

~~16.2.5 The restrictions contained in this Clause 16.2 shall continue to apply after the date of this Agreement without limit in time.~~

~~16.3 THE EURO~~

~~16.3.1 In this Clause:~~

~~(a) the "EURO" means the single or unified European currency (whether known as the euro or otherwise) as contemplated in the Treaty of Rome of 25 March 1957, as amended by the Single European Act 1986 and the Treaty on European Union which was signed at Maastricht on 1 February 1992;~~

~~(b) the "EMU REGULATIONS" means Regulation No. 1103/97 adopted by the European Council on 20 June 1997 and Regulation No. 974/98 adopted by the European Council on 2 May 1998; and~~

~~(c) the expression "EXTENSION OF EMU" means:~~

~~(i) the extension of European economic and monetary union to any part of the European Union;~~

~~(ii) the extension of the introduction at any time of the euro to any part of the European Union; or~~

~~(iii) any events associated with any of the matters described in paragraphs (a) and (b) above,~~

~~in each case, as contemplated in the Treaty of Rome of 25 March 1957, as amended by the Single European Act 1986 and the Treaty on European union which was signed at Maastricht on 1 February 1992 and "NON EXTENSION OF EMU" shall be construed accordingly.~~

~~16.3.2 The parties agree that the extension of EMU (or the non extension of EMU) shall not result in the discharge, cancellation, rescission or termination, in whole or in part, of this Agreement or give any party the right to cancel, rescind, terminate or vary this Agreement, in whole or in part.~~

~~16.3.3 Unless the parties agree otherwise, at any time at which it is so permitted under any relevant law (including the EMU Regulations), a party may not make any payment under or in connection with this Agreement which is expressed to be payable in dollars in euro.~~

~~16.3.4 If at any time the euro is introduced to the United Kingdom and as a result sterling is replaced by the euro, then the amounts of sterling referred to in this Agreement shall be deemed converted into units of~~

~~the euro at the rate prescribed by the EMU Regulations or any other implementing regulation or directive which prescribes the rate of such conversion.~~

~~16.3.5 The parties shall from time to time amend the provisions of this Agreement, if either party notifies the other that any amendments are necessary (including with respect to the definitions of "Business Day", "Reference Banks", and "Reference Exchange Rate") as a result of the occurrence of EMU. All such amendments shall be made on the basis that, following such amendments, each party will be in the same financial position as it would have been had the occurrence of EMU not taken place.~~

~~16.3.6 If the parties are unable to agree any amendments to this Agreement to be made pursuant to this Clause, either party may refer the matter in dispute to the Expert for determination in accordance with this Agreement.~~

~~16.4 LATE PAYMENTS AND DEFAULT INTEREST~~

~~If a party fails to pay any amount payable by it under this Agreement, it shall forthwith on demand by the party to whom the payment was due to be made pay interest on the overdue amount from the due date up to the date of actual payment, after as well as before judgment, at LIBOR plus 3 per cent. Such interest shall accrue on a daily basis and be compounded quarterly.~~

~~16.5 ASSIGNMENTS AND NOVATION~~

~~16.5.1 Except as provided in Clauses 16.5.2, 16.5.3 and 16.5.4, a party shall not assign, transfer, create any encumbrance in or over, or deal in any other manner with this Agreement or a right or obligation under this Agreement (or purport to do any of these things) without having first obtained the other party's written consent (which consent shall not be unreasonably withheld, conditioned or delayed). Each party is entering into this Agreement for its benefit and not for the benefit of another person.~~

~~16.5.2 The Buyer shall be entitled at any time after Completion to assign its rights under this Agreement to any of its Affiliates provided that such party shall procure that any such Affiliate to whom it assigns any of its rights under this Agreement shall assign such rights back to that party immediately prior to it ceasing to be an Affiliate. Any assignment by a party under this Clause shall:~~

~~(a) be subject to the condition that the assigning party shall not be relieved of any of its obligations under this Agreement; and~~

~~(b) be made on terms that the assignee acknowledges that the other party may continue to deal exclusively with the assigning party in respect of all matters relating to this Agreement at all times unless and until the assignee notifies both parties that it is exercising its rights as assignee.~~

~~16.5.3 This Agreement shall be binding upon, and inure to the benefit of the parties and their respective successors and their permitted assignees.~~

~~16.5.4 Subject to Clauses 13 and 14, the Seller agrees that, upon the request of the Buyer of its successors or permitted assignees, this Agreement may be novated (in whole) in favour of any Affiliate of the Buyer (which, if such novation is completed after the Completion Date, is the beneficial owner for the time being of the Sale Shares) and the Seller shall execute a novation agreement substantially in the terms set out in Schedule 8.~~

~~16.6 FURTHER ASSURANCE~~

~~Each party shall do and execute, or arrange for the doing and executing of, each necessary act, document and thing reasonably within its power and as may be reasonably requested of it by the other party by written notice to implement this Agreement.~~

~~16.7 COSTS~~

~~Except where this Agreement provides otherwise, each party shall pay its own costs relating to the negotiation, preparation, execution and implementation by it of this Agreement and of each document referred to~~

~~in it.~~

~~16.8 AMENDMENTS~~

~~This Agreement may not be amended except by written agreement between the parties and no other purported amendment shall be effective.~~

~~16.9 NO WAIVER~~

~~16.9.1 No waiver by either party of any default or defaults by the other party in the performance of any of the provisions of this Agreement:~~

~~(a) shall operate or be construed as a waiver of any other or further default or defaults whether of a like or different character; or~~

~~(b) shall be effective unless in writing duly executed by a duly authorised representative of such party.~~

~~16.9.2 Neither the failure by either party to insist on any occasion upon the performance of the terms, conditions, and provisions of this Agreement nor time or other indulgence granted by one party to the other shall act as a waiver of such breach or acceptance of any variation or the relinquishment of any such right or any other right under this Agreement, which shall remain in full force and effect.~~

~~16.10 DISCRETION~~

~~Except where this Agreement expressly requires a party to act fairly or reasonably (including any provision which does not allow a party to unreasonably withhold,~~

~~condition or delay its consent or approval), a party may exercise any discretion given to it under this Agreement in its absolute discretion and the exercise of that discretion shall not be challengeable on grounds that the party did not exercise its discretion fairly or reasonably and shall not be subject to the dispute resolution procedures in this Agreement.~~

~~16.11 ENTIRETY~~

~~16.11.1 This Agreement and the Schedules are intended by the parties as the final expression of their agreement and are intended also as a complete and exclusive statement of the terms of their agreement.~~

~~16.11.2 All prior written or oral understandings, offers or other communications of every kind pertaining to this Agreement are abrogated and withdrawn.~~

~~16.11.3 The Pre Contract Agreements shall cease to have effect from the date of this Agreement except that termination does not affect any liability of either party to the other arising from a breach of any legally binding provision of a Pre Contract Agreement before the date of such termination.~~

~~16.12 LIABILITIES, RIGHTS AND REMEDIES~~

~~16.12.1 Except where this Agreement expressly provides to the contrary, the rights and remedies contained in this Agreement are cumulative and not exclusive of rights and remedies provided by law.~~

~~16.12.2 Except to the extent they have been performed and except where this Agreement expressly provides to the contrary, the obligations (including all warranties, representations and indemnities) contained in this Agreement remain in force notwithstanding Completion of this Agreement.~~

~~16.12.3 The parties do not intend any term of this Agreement to be enforceable pursuant to the Contracts (Rights of Third Parties) Act 1999 (the "CRTP ACT") by any person who is not a party to this Agreement.~~

~~16.13 COUNTERPARTS~~

~~16.13.1 This Agreement may be executed in any number of counterparts each of which when executed and delivered is an original, but all the counterparts together constitute the same document.~~

~~16.13.2 If this Agreement is subject to stamp duty and counterparts or~~

~~duplicates of this Agreement are executed, the Buyer shall, as soon as practicable after the date of this Agreement, procure that all the counterparts or duplicates are duly stamped and as soon as they are so stamped shall deliver a counterpart or duplicate to the Seller.~~

~~16.14 SEVERABILITY~~

~~If any provision of this Agreement is held to be illegal or unenforceable, wholly or partly, under any applicable law, such provision, or, as the case may be, part of such provision, shall to that extent be deemed not to form part of this Agreement. The enforceability of the remainder of this Agreement, however, shall not be affected.~~

~~16.15 PAYMENTS~~

~~Wherever in this Agreement provision is made for the payment by one party to another, such payment shall be effected by crediting the account specified in the Payment Account Details of the party entitled to payment by way of CHAPS on or before the due date for payment unless the payee by notice to the payer, not later than three business days prior to the due date for payment, elects to be paid by banker's draft drawn on any international bank reasonably acceptable to the payer and having an office in London. Payment of such sum shall be a good discharge to the payer of its obligation to make such payment.~~

~~16.16 NOTICES~~

~~16.16.1 Save as otherwise provided in this Agreement, all notices which are required or permitted under this Agreement shall:~~

~~(a) be in writing;~~

~~(b) be in the English language; and~~

~~(c) be delivered personally or sent by registered post or pre-paid recorded delivery or fax, addressed as follows:~~

~~If to the Seller: CNA Plaza~~

~~333 South Wabash Avenue~~

~~Chicago~~

~~Illinois 60685~~

~~USA~~

~~Attention: The Secretary~~

~~Fax No.: 001 312 822 1297~~

~~If to the Buyer: Tawa UK Limited~~

~~10 Fenchurch Avenue~~

~~London EC3M 5BN~~

~~Attention: (1) The Chairman; and (2) The Chief Executive Officer~~

~~Fax No.: +44 20 7665 6501~~

~~with a copy to: LeBoeuf, Lamb, Greene & MacRae~~

~~No. 1 Minster Court~~

~~Mincing Lane~~

~~London EC3R 7AA~~

~~Fax No.: +44 20 7459 5099~~

~~Attention: William C. Marcoux~~

~~16.16.2 In the absence of evidence of earlier receipt, a notice or communication shall be deemed given:~~

~~(a) if delivered personally, when left at the address referred to above;~~

~~(b) if sent by prepaid recorded delivery, or registered post at 10.00 a.m. on the third business day following the date of posting; and~~

~~(c) if sent by fax, at the time of transmission (provided that the transmission is validly receipted).~~

~~16.16.3 A party may by notice of at least 10 business days to the other party change the address or fax numbers to which such notices and communications to it are to be delivered.~~

~~16.17 EXECUTION AND DELIVERY OF DOCUMENTS~~

~~All agreements or certificates delivered in connection with the transactions contemplated by this Agreement shall be deemed to be delivered by the companies executing the same, and the individual officers executing the same shall not be personally liable thereon.~~

~~SCHEDULE 1~~

~~INFORMATION ABOUT THE TARGET COMPANY AND THE TARGET SUBSIDIARY~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 2~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~ITEMS FOR DELIVERY BY THE SELLER AT COMPLETION~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 3~~

~~WARRANTIES~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 4~~

~~ACTION PENDING COMPLETION~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 5~~

~~THE REAL PROPERTIES~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 6~~

~~INTELLECTUAL PROPERTY~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 7~~

PART I

COMPLETION ADJUSTMENT

1. INTERPRETATION

In this Schedule, where the context admits:

(a) the "ACCOUNTS" and the "PRO FORMA BALANCE SHEET" and any other defined term used in this Schedule shall have the same meanings as in the Agreement and the Schedules;

(b) "COMPLETION ACCOUNTS" means the accounts prepared in accordance with Clause 2 and agreed or determined in accordance with Clause 3.5;

(c) the "MARK TO MARKET" of Invested Assets on any particular day means the determination of a market price of Invested Assets agreed or determined in accordance with Clause 3.2:

(i) in a consistent process to that employed by the Seller at 31 December, 2001, by reference to the respective pricing source (trustee or money manager), except that all such pricing sources shall be directed to utilize a bid price methodology ; or

(ii) to the extent that the pricing source is unable to provide a bid price they shall be directed to utilize a generally recognised approximation of a bid price methodology

and "MARKED TO MARKET" shall be construed accordingly; and

(d) "CLAUSE" refers to the relevant paragraph of this Schedule 7, unless otherwise stated.

2. COMPLETION ACCOUNTS

2.1 PREPARATION

The Buyer shall as soon as practicable, and in any event within 45 days after Completion, procure that accounts be prepared as of the Completion Date (which shall be as of the last day of a calendar month) for the Target Group Companies in accordance with this Schedule 7.

2.2 DESCRIPTION

The Completion Accounts shall consist of a consolidated balance sheet (which shall be in the form of the Pro Forma Balance Sheet, analysed between the relevant headings/columns as shown in tab "Treatment of Proforma Balance Sheet" in the Worked Example, unless agreed otherwise in writing by the Buyer and the Seller) of the Target Company and the Target Subsidiary as at the close of business on the Completion Date and a consolidated profit and loss account of the Target Company and the Target Subsidiary in respect of the period from 1 January 2002 to the Completion Date (both dates inclusive).

2.3 REQUIREMENTS

2.3.1 Except to the extent otherwise expressly required or provided in the Agreement, or in the Pro Forma Balance Sheet, the Completion Accounts shall:

(a) subject to Clauses 2.3.1(f) to (h), 2.3.2 and 2.3.3:

(i) be prepared on a proper basis and consistent with the bases and policies of accounting as

~~applied or adopted in preparing the Accounts (including, for the avoidance of doubt, those bases and policies applied or adopted in establishing the bad debt allowance in the Accounts);~~

~~(ii) be prepared in accordance with the law and applicable standards, principles and practices generally accepted in the United Kingdom (including the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in 1998); and~~

~~(iii) be prepared in accordance with the applicable requirements of the Companies Act applying to insurance companies as interpreted by the Target Company and Target Subsidiary as at 31 December 2001, excluding required notes and related disclosures thereto (subject to Clause 2.3.1(d) below);~~

~~(b) show a true and fair view of the consolidated assets, liabilities and state of affairs of the Target Group as at the Completion Date and the consolidated profit (or loss) of the Target Company and the Target Subsidiary for the period from 1 January 2002 to the Completion Date;~~

~~(c) contain the reconciliation between the consolidated audited balance sheet of the Target Group as at 31 December 2001 and the Pro Forma Balance Sheet and the Completion Accounts shall assume the opening position as at 1 January 2002 for calculating the consolidated profit (or loss) of the Target Group for the period 1 January 2002 to the Completion Date as the Pro Forma Balance Sheet;~~

~~(d) include the information necessary for the calculation of the Completion Adjustment, including a version of tab "Illustrative unwinding of proforma balance sheet" in the worked example using actual data;~~

~~(e) identify and take into account inwards payments and outwards receipts arising from all commutations;~~

~~(f) value the Invested Assets (excluding accrued but unpaid interest) of the Target Group Companies as at the Completion Date at their Marked to Market value as determined in accordance with Clause 3.2;~~

~~(g) not include any deferred tax assets; and~~

~~(h) not include any equalisation provision as required by Schedule 9A to the Companies Act 1985.~~

~~2.3.2 The liability for restructuring of $6,500,000 (six million and five hundred thousand dollars) included in the Target Group's Accounts will be recalculated in the Completion Accounts as follows:~~

~~(a) the provisions in respect of the continuing obligations under or related to Overseas Properties will be released to the profit and loss account (as the Buyer and the Seller have reached an agreement) in respect of such obligations as set out in Clause 9.8 of the Agreement);~~

~~(b) the provisions in respect of all of the leases of space in the London Underwriting Centre shall be included at $151,000 per month multiplied by the number of months remaining on the relevant lease, discounted at a rate of 5.0%;~~

~~(c) the provision in respect of the book loss on sales of excess Hardware and payments to be made by the Target Company in respect of lease obligations in relation to Hardware shall be included at $200,000; and~~

~~(d) the provision for employee redundancy payments will be calculated to take into account employees (if any) that the Buyer has determined, prior to Completion, will be made redundant within ninety days (or their contractual notice period if longer) after Completion. The redundancy payment calculation will be consistent with Target Group's policy in effect prior to Completion, and the Buyer will represent that actual payments to the relevant employees will be so calculated. Settlement of all employee redundancy and other termination benefits paid in the period 1 January 2002 to the Completion Date will be charged against the portion of the provision for restructuring included in the Target Group's Accounts that relates to redundancy and other termination benefits (totalling $1.8 million). Any amounts paid relating to this Clause 2.3.2(d) that exceed such provision as at 31 December 2001 will be provided for in the Completion Accounts;~~

~~2.3.3 The only employee incentive costs accrued in the Completion Accounts will be as follows:~~

~~(a) amounts accrued as at the Completion Date under the Annual Incentive Bonus Plan, the Supplemental Annual Incentive Bonus Plan, Staff Incentive Plan, the Supplementary Staff Incentive Plan, the Deferred Profit Sharing Plan, and the Long Term Incentive Plan which will be determined by the Seller for each employee employed by the Target Group at the Completion Date and will be communicated to the Buyer within five business days after the Completion Date. Such amounts will be paid to employees in accordance with their entitlement under the relevant scheme or plan as and when due following the Completion Date;~~

~~(b) amounts accrued as at the Completion Date under the Performance Incentive and Loyalty Scheme will be limited to any unpaid amounts achieved, and not deferred, in accordance with the relevant scheme (being the 4% of base salary achieved during the quarter in which Completion occurs). Amounts achieved for each employee will be determined by the Seller and will be communicated to Buyer within five business days after the Completion Date. Such amounts will be paid to the employees in accordance with their entitlement under the Performance Incentive and Loyalty Scheme as and when due following the Completion Date; and~~

~~2.3.4 No accruals will be made in the Completion Accounts for amounts payable under the Performance Incentive and Loyalty Scheme for amounts achieved after the Completion Date (being the 20% of base salary achieved after the Completion Date) and those amounts achieved prior to the Completion Date but which payments are deferred. Amounts achieved for each employee will be determined by the Buyer and will be communicated to the Seller 15 days prior to payment to the relevant employee. Such amounts will be paid to the employees in accordance with their entitlement under the Performance Incentive and Loyalty Scheme as and when due following the Completion Date. The Seller will reimburse the Target Group for these amounts payable under these schemes within 14 days after payment to the relevant employees.~~

~~2.3.5 Any unreconciled difference between the Peoplesoft general ledger and the Senator broker ledger systems as at the Completion Date will be eliminated through adjustment of the Peoplesoft general ledger. The Comfort letter provided by the Seller to the Target Subsidiary in respect of such unreconciled difference will be terminated.~~

~~2.3.6 The Completion Adjustment shall not be taken into account in preparing the Completion Accounts.~~

~~3. PROCEDURE~~

~~3.1 SUBMISSION OF DRAFT~~

~~(a) As soon as the Completion Accounts have been prepared, the Buyer shall calculate the Completion Adjustment and the Buyer shall send a copy of the Completion Accounts and the calculation of the Completion Adjustment to the Seller together with such working papers used in connection with the preparation of the same to understand and agree the Completion Accounts and the calculation of the Completion Adjustment.~~

~~(b) Unless the Seller shall within 28 days of receipt of the Completion Accounts and Completion Adjustment calculation (and associated papers as provided in Clause 3.1(a)) serve a notice in writing on the Buyer that it objects to the Completion Accounts and/or the Completion Adjustment calculation (identifying the reason for any objection and the amount(s) or item(s) in the Completion Accounts and/or Completion Adjustment calculation which is/are in dispute, provided always that no objection shall be raised in relation to the Mark to Market and Realised Investment Gain/Loss Adjustment in the Completion Accounts other than pursuant to, and in accordance with Clause 3.2 below), (such notification being, for the purposes of this Clause 3, an "OBJECTION NOTICE") the Seller shall be deemed to have agreed to the Completion Accounts and the Buyer's calculation of the Completion Adjustment for all purposes of this Agreement.~~

~~3.2 AGREEMENT OF MARKED TO MARKET VALUATIONS~~

~~(a) As soon as practicable after Completion, however in any event within 14 days, the Buyer shall determine and/or shall procure Marked to Market valuation of each of the Invested Assets as at the Completion Date. Upon receipt of the Marked to Market valuations of each of the Invested Assets, the Buyer shall aggregate those valuations (the "INITIAL PRICING");~~

~~(b) As soon as the Buyer has the Initial Pricing it shall send a copy of the Initial Pricing to the Seller, together with such working papers used in connection with the preparation of the same as are necessary or appropriate to understand the Initial Pricing. Unless the Seller and/or the Buyer shall within 14 days of the Seller's receipt of the Initial Pricing serve a notice in writing on the other (a "PRICING NOTICE") that it wishes to obtain an independent Marked to Market valuation of the Invested Assets (an "INDEPENDENT PRICING"), the Seller and the Buyer shall be deemed to have agreed to the Initial Pricing for the purposes of the Mark to Market and Realised Investment Gain/Loss Adjustment in the Completion Accounts, and the Initial Pricing shall be final and binding on the parties.~~

~~(c) If the Buyer and/or the Seller serves a Pricing Notice the Buyer and/or Seller may, as appropriate, within 14 days of the service of the Pricing Notice obtain a Marked to Market valuation of the Invested Assets from an independent reputable investment manger, bank or securities house (such~~

~~valuation being the "BUYER'S PRICING" or the "SELLER'S PRICING", as appropriate). If the aggregate difference between the Initial Pricing on the one hand and either the Buyer's Pricing or the Seller's Pricing on the other:~~

~~(i) exceeds 25 basis points of the aggregate value of the Initial Pricing then either the Buyer and/or the Seller, as appropriate, may elect to follow the procedure under Clause 3.2(d) below to determine the Marked to Market valuation of the Invested Assets; or~~

~~(ii) does not exceed 25 basis points of the aggregate value of the Initial Pricing, then the Initial Pricing shall be used for the purposes of Mark to Market and Realised Investment Gain/Loss Adjustment in the Completion Accounts and the Initial Pricing shall be final and binding on the parties.~~

~~(d) If Clause 3.2(c)(i) applies, and the Buyer and/or the Seller elects to implement this Clause:~~

~~(i) the Buyer and Seller shall appoint two mutually acceptable independent third parties (the "INDEPENDENT VALUERS"). For the avoidance of doubt, each party is not prohibited from proposing the entity it used to obtain its own pricing under paragraph (c) above as an Independent Valuer, Independent Valuers may obtain prices or pricing information from other third party professionals in their absolute discretion;~~

~~(ii) if the parties fail to reach agreement on the identity of either one or both of the Independent Valuers within 10 days of an election to implement this Clause, then, at the instance of each party such Independent Valuers that have not been agreed shall be selected by the President for the time being of the Institute of Chartered Accountants for England and Wales;~~

~~(iii) a list of individual securities prioritised based on the absolute difference measured in market value and with a price difference in excess of 25 basis points between the Initial Pricing and the Buyer's Pricing and/or the Initial Pricing and the Seller's Pricing will be provided by the Buyer and/or Seller to the Independent Valuers (the "RELEVANT SECURITIES");~~

~~(iv) the Independent Valuers will each Mark to Market each of the Relevant Securities as at the Completion Date in sequence starting with the largest absolute market value difference, subject to the following, for each Relevant Security the average of the two Independent Valuers' valuations will become the new valuation for that Relevant Security and the Initial Pricing will be recalculated to reflect that valuation;~~

~~(v) the Initial Pricing as adjusted by the valuation of each such Relevant Security is referred to as the "ADJUSTED INITIAL PRICING". The process of such valuation will continue until the sooner of (x) the difference between the Initial Pricing and the Adjusted Initial Pricing becomes less than 25 basis points, and (y) all of the Relevant Securities have been priced (the "FINAL ADJUSTED INITIAL PRICING"); and~~

~~(vi) the Final Adjusted Initial Pricing shall be deemed to have been agreed upon completion of this process and for the purposes of the Mark to Market and Realised Investment Gain Loss Adjustment in the Completion Accounts and the Final Adjustment Initial Pricing shall be final and binding on the parties.~~

~~3.3 REPORT~~

~~If the Seller accepts, or is deemed to accept, that the said draft Completion Accounts comply with Clause 2, and the draft Completion Adjustment is correctly calculated in accordance with Clauses 4 and 5,~~

the Seller shall sign a report to that effect and any Completion Accounts and Completion Adjustment so reported on, or (if Clause 3.6 shall apply) the final draft of the Completion Accounts and the Completion Adjustment as determined by the independent accountant, shall be the Completion Accounts and the Completion Adjustment for the purposes of this Agreement and shall be final and binding on the parties.

3.4 INFORMATION AND EXPLANATIONS

The Buyer shall provide such cooperation, information, documentation and written and verbal explanations from appropriate personnel relating to the draft Completion Accounts and the Completion Adjustment and their preparation as the Seller, or any independent chartered accountant appointed pursuant to Clause 3.6, shall reasonably require.

3.5 AGREEMENT OF DRAFT

If within the period referred to in Clause 3.1(b), the Seller shall give the Buyer an Objection Notice then the Buyer and the Seller shall use their best endeavours to reach agreement upon adjustments to the draft and the value of the Completion Adjustment.

3.6 INDEPENDENT ACCOUNTANT

If the Seller and the Buyer are unable to reach agreement within 28 days following service of the Objection Notice, either the Seller or the Buyer shall be entitled to refer the matter or matters in dispute, only to the extent that such matters may potentially impact the Completion Adjustment, to Ernst & Young, unless Ernst & Young are not at the relevant time independent of each of the parties in which case the matter or matters shall be referred to an independent firm of chartered accountants agreed upon between them or (failing agreement within seven days of one party giving notice to the other that it desires an independent expert to be appointed) to be selected (at the

instance of either party) by the President for the time being of the Institute of Chartered Accountants for England and Wales. Ernst & Young or such other independent firm of chartered accountants shall act as experts not as arbitrators and shall determine the matter or matters in dispute and their decision shall, save in the event of fraud or manifest error, be binding.

The parties will use all reasonable endeavours to co-operate with the independent firm of accountants in resolving such disagreement or dispute. The independent firm of accountants shall have the right to seek such professional assistance and advice as it may require in fulfilling its duties. The costs of the independent firm of accountants shall be borne by the Seller and the Buyer equally.

Upon the resolution of any dispute by the independent firm of accountants, the Completion Accounts and the calculation of the Completion Adjustment shall be amended to accord with such resolution and the Completion Accounts and the Completion Adjustment as so amended shall thereafter be final and binding as between the parties for all purposes of this Agreement.

4. COMPLETION ADJUSTMENT

4.1 GENERAL

4.1.1 The following provisions of this Clause 4.1.1 set out the general methodology relating to the calculation of the Completion Adjustment which is subject to the specific calculations and methodology provided for in Clauses 4.2, 5.2 and 5.3.

(a) The Buyer's purchase price for the Target Group is predicated upon:

(i) the Target Group holding at the Completion Date Invested Assets (which, on Marked to Market valuations, could be used to purchase Risk Free Investments, exclusive of transactional costs), cash and net Non Technical Assets and Liabilities sufficient to meet the Buyer's estimate of the net present value, as at the

~~Completion Date, of the Actual Matched Portfolio, and~~

~~(ii) Adjustment "W" in Clause 4.2.~~

~~(b) The amount of any difference between:~~

~~(i) the aggregate Marked to Market value of the Invested Assets, cash and Non-Technical Assets and Liabilities at the Completion Date, and~~

~~(ii) the Actual Matched Portfolio,~~

~~is to be a completion adjustment, calculated in accordance with this Clause 4 and settled in accordance with Clause 3 of the Agreement.~~

~~(c) This is achieved through Adjustment "W" and the Mark to Market and Realised Investment Gain / Loss Adjustment set out in this Clause 4 and the Matched Portfolio Adjustment set out in Clause 5;~~

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~~(d) The Assumed Matched Portfolio was calculated as at 31 December 2001 in accordance with Clause 5.2(a). The Target Group has continued to trade in the period 1 January 2002 to the Completion Date inclusive. During this period, it is agreed that profits and losses of the Target Group are for the Buyer's account, except as provided in this Agreement.~~

~~(e) Profits and losses recognised in the period 1 January 2002 to the Completion Date inclusive with respect to Non Technical Assets and Liabilities (except to the extent that such profits and losses arise from accrued Investment Income, which is dealt with in Adjustment "W" in Clause 4.2, and commutations, which are for the Buyer's account) are for the Seller's account, in accordance with Clause 5 below.~~

~~4.2 CALCULATION~~

~~4.2.1 Upon preparation of the Completion Accounts, the Buyer shall calculate the completion adjustment (the "COMPLETION ADJUSTMENT") as follows:~~

~~W + X + Y = Z~~

~~where:~~

~~"W" is as provided in Clause 3.2.1(d), 3.2.2(d), 3.2.3(d) or 3.2.4(c) of the Agreement as appropriate~~

~~"X" is the Matched Portfolio Adjustment~~

~~"Y" is the Mark to Market and Realised Investment Gain / Loss Adjustment~~

~~"Z" is the Completion Adjustment~~

~~A worked example of the above formula, together with certain schedules relevant in format and/or content to the Agreement, is set out in Part II of this Schedule 7 (the "WORKED EXAMPLE"). The Completion Adjustment shall be calculated in accordance with the principles and definitions described in Clause 2.3 above, and amounts determined shall therefore be gross of any withholding or other taxes.~~

~~4.2.2 For the purposes of this Clause 4.2:~~

~~(a) "INVESTMENT INCOME" is the amount disclosed as such in the notes to the Completion Accounts, which comprises income received from Invested Assets, plus the change in accrued investment income between 31 December 2001 and Completion Date inclusive, gross of any withholding or income tax;~~

~~(b) "ADMINISTRATIVE EXPENSES" is the amount disclosed as such in the notes to the Completion Accounts (which includes depreciation, but this shall exclude any profit~~

~~and loss in respect of Non Technical Assets and Liabilities of the Target Group as at 31 December 2001, recognised in the~~

~~period from 1 January 2002 to the Completion Date which is adjusted in accordance with Clause 5.2(e)(ii) below);~~

~~(c) "MATCHED PORTFOLIO ADJUSTMENT" means the adjustment determined in accordance with Clause 5 below;~~

~~(d) "MARK TO MARKET AND REALISED INVESTMENT GAIN / LOSS ADJUSTMENT" means the aggregate of unrealized investment gains / losses and realised investment gains / losses as disclosed in consolidated profit and loss of the Completion Accounts, where a net credit to the profit and loss account is treated as a positive and a net debit to the profit and loss account is treated as a negative; and~~

~~(e) "NON TECHNICAL ASSETS AND LIABILITIES" means those items identified as such in the tab "Treatment of Proforma Balance Sheet" in the Worked Example.~~

~~5. MATCHED PORTFOLIO ADJUSTMENT~~

~~5.1 GENERAL~~

~~For the purposes of this Clause 5, "RISK FREE INVESTMENT" means investments in US Dollars which are bonds, debentures, treasury bills, notes or any other security representing a first rank debt of, and issued or directly and unconditionally guaranteed by the government of the United States of America.~~

~~5.2 METHODOLOGY~~

~~The Buyer and Seller agree that the following is the methodology to be used to calculate the Matched Portfolio Adjustment:~~

~~(a) The Buyer has estimated, as at 31 December 2001, all future cash flows of the Target Subsidiary, but excluding those arising from Investment Income and realizations of Invested Assets and Non-Technical Assets and Liabilities, after taking into account the adjustments made in deriving the Pro Forma Balance Sheet (the "ASSUMED PAYMENT PROFILE").~~

~~(b) On the basis of the Assumed Payment Profile, the Buyer has assumed a portfolio consisting of Risk Free Investments and cash the cashflows of which (together with the assumed cashflows arising from realizations of the Non Technical Assets and Liabilities of the Target Subsidiary) will exactly match the Assumed Payment Profile (the "ASSUMED MATCHED PORTFOLIO").~~

~~(c) The Buyer has calculated the net present value of the Assumed Matched Portfolio as $1,519,800,000 (one billion, five hundred and nineteen million and eight hundred thousand dollars), being the net present value of the Assumed Matched Portfolio based on an average weighted investment yield of 4.5 per cent per annum as at 31 December 2001 (the "NPV OF THE ASSUMED MATCHED PORTFOLIO").~~

~~(d) The Buyer shall calculate the Actual Matched Portfolio (in accordance with Clause 5.2(e) below) and the NPV of the Actual Matched Portfolio (in accordance with Clause 5.2(g) below).~~

~~(e) The "ACTUAL MATCHED PORTFOLIO" shall be calculated in the same way as the Assumed Matched Portfolio using:~~

~~(i) the Assumed Payment Profile; and~~

~~(ii) an adjustment for the profit or loss recognised in respect of Non Technical Assets and Liabilities as at 31 December 2001 of the Target Subsidiary in the period from 1 January 2002 to the Completion Date (excluding the change in accrued investment income in that period, which is adjusted through Clause 5.2(g)(iii) below) so that any such profit reduces, and any such loss increases, the amount of the Actual Matched Portfolio.~~

~~(f) For the purposes of Clause 5.2(e)(ii) above:~~

~~(i) an adjustment for profit or loss in respect of Non Technical Assets and Liabilities in relation to bad debts will only be recognised if:~~

~~(1) the principal debtor or creditor concerned becomes Insolvent ("INSOLVENT" shall mean a reinsurer that has been declared insolvent by any court with competent jurisdiction or has been placed into liquidation or receivership (whether voluntary or involuntary) or there has been instituted against the reinsurer proceedings for the appointment of a receiver, liquidator (including a provisional liquidator), administrator (subsequent to formal court proceedings, and only for the time that such reinsurer is in administration), rehabilitator, conservator, or trustee in bankruptcy, or other agent known by whatever name, to take possession of the reinsurer's assets or control of the reinsurer's operation) between 1 January 2002 and the Completion Date inclusive;~~

~~(2) it arises due to a new claims position that the London market has adopted between 1 January 2002 and the Completion Date;~~

~~(3) it arises in accordance with Clause 2.3.5 above;~~

~~(4) it arises from an amount due from or to an Affiliate of the Seller not being realised at book value as at 31 December 2001 (except to the extent recognised under Clause 5.2(f)(i)(3);~~

~~(ii) The stipulated accounting treatment of restructuring provisions and employee incentive payments set out in Clauses 2.3.2 and 2.3.3 above applies.~~

~~(iii) Except in relation to 5.2(f)(i)(4) and (ii) above, the maximum net loss to be taken into account will be $14 million, with the first $7 million of loss to~~

~~be disregarded (i.e., the maximum loss adjustment to the Completion Adjustment is $7 million).~~

~~(g) The "NPV OF THE ACTUAL MATCHED PORTFOLIO" shall be the net present value of the Actual Matched Portfolio as at 31 December 2001, calculated as the sum of (i) and (ii) less (iii) below:~~

~~(i) for years 2003 and subsequent the respective assumed cash flows, which are assumed to occur~~

~~on 30 June of each calendar year, contained in the Actual Matched Portfolio, discounted as at the Completion Date using the U.S. Government Treasury strip yield curve (interpolated on a straight line basis for dates not identified on the curve), annualized, as reported by Bloomberg on the Fair Market Yield Curve History Page as at close of business on the Completion Date or the last business day prior to the Completion Date if the Completion Date is not on a business day;~~

~~(ii) for 2002 the Assumed Payment Profile cash flow of $376,800,000 (three hundred and seventy six million and eight hundred thousand dollars), will be divided equally into 12 amounts of $31,400,000 (thirty one million and four hundred thousand dollars) ("MONTHLY Payment"). For 2002 the net present value is the sum of (a) the numbers of months in 2002 through completion multiplied by the undiscounted Monthly Payment, and (b) the remaining Monthly Payments assumed to occur on the fifteenth day of the month, discounted to the Completion Date using the U.S. Government Treasury strip yield curve, derived as in Clause 5.2(g)(i) above, except using the relevant monthly rate (interpolated on a straight line basis as appropriate);~~

~~(iii) the amount of the actual Investment Income reported in the Completion Accounts for the period from 1 January 2002 to the Completion Date inclusive.~~

~~5.3 CALCULATION~~

~~5.3.1 If the NPV of the Assumed Matched Portfolio is:~~

~~(a) greater than the NPV of the Actual Matched Portfolio, then the amount of the difference shall be the Matched Portfolio Adjustment, which for the purposes of the formula in Clause 4.1 shall be deemed to be a positive; or~~

~~(b) less than the NPV of the Actual Matched Portfolio, then the amount of the difference shall be the Matched Portfolio Adjustment, which for purposes of the formula in Clause 4.1 shall be deemed to be a negative.~~

~~5.4 PAYMENT~~

~~The Completion Adjustment shall be paid by the Buyer or the Seller (as appropriate) in accordance with the provisions of Clause 3 of this Agreement.~~

~~5.5 MANIFEST ERROR~~

~~In the event of a manifest error in the Pro Forma Balance Sheet or Worked Example, correcting adjustments will be made.~~

~~5.6 INTERACTION WITH OTHER PROVISIONS~~

~~5.6.1 Subject to the due performance of Clause 3.6, if either party shall have any claim against the other party under this Agreement in respect of any liability or deficiency which is taken into account in the Completion Accounts the amount of such liability or deficiency so taken into account shall be deducted from the amount of such party's claim but, save as aforesaid, preparation and acceptance of the Completion Accounts by either party shall be without prejudice to any claim which either party may have against the other party under or in respect of any breach of this Agreement.~~

~~PART II~~

~~WORKED EXAMPLE~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 8~~

~~NOVATION AGREEMENT~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 9~~

~~MAC THRESHOLDS - (MAC 4.6 ILLUSTRATION 19_6.XLS)~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 10~~

~~PENSION SUBSTITUTION DEED~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~SCHEDULE 11~~

~~REINSURANCE RECOVERABLES~~

~~[Exhibit/Schedule omitted. Registrant undertakes to provide a copy of said Exhibit/Schedule to the Commission upon request.]~~

~~EXECUTED by the parties:~~

~~Signed by~~

~~ROBERT DEUTSCH~~

~~duly authorised representative of /for and on behalf of~~

~~CONTINENTAL CASUALTY COMPANY~~

~~Signed by~~

~~COLIN GRAHAM BIRD~~

~~duly authorised representative of /for and on behalf of~~

~~TAWA UK LIMITED~~

~~LN235275.15~~

Exhibit 99.1

Loews Corporation
Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information presents Loews Corporation's (the "Company") pro forma unaudited Consolidated Condensed Balance sheet as of September 30, 2002 and the Company's pro forma unaudited Consolidated Condensed Statements of Operations for the year ended December 31, 2001 and for the nine months ended September 30, 2002.

On October 31, 2002, CNA Financial Corporation ("CNA"), a 90% owned subsidiary, completed the sale of the shares of CNA Re Management Company Limited and its wholly owned subsidiary CNA Reinsurance Company Limited (collectively referred to hereinafter as CNA Re U.K.) to Tawa U.K. Limited. The sale includes business underwritten since inception by CNA Re U.K. except for certain risks retained by Continental Casualty Company ("CCC"), a wholly owned subsidiary of CNA, as discussed below. This sale does not impact CNA Re's on-going U.S. based operations.

CNA Re U.K. was sold for $1, subject to adjustments that are primarily driven by certain operating results and changes in interest rates between January 1, 2002 and October 31, 2002, and realized foreign currency losses recognized by CNA Re U.K. prior to December 31, 2002. Due to the various components of the completion adjustments, which are initially prepared by the buyer, the final purchase price cannot yet be determined. However, based upon information currently available to CNA, management believes there will be a reduction in the previously recognized impairment loss, which will be reflected as a realized gain when the completion adjustments are finalized. The anticipated realized gain on sale is not reflected in the pro forma adjustments.

Concurrent with the sale, several reinsurance agreements under which CCC provided retrocessional protection to CNA Re U.K. will be terminated. As part of the sale, CNA Re U.K.'s net exposure to all IGI Program liabilities, as described in note B2 below, will be ceded to CCC. Further, CCC will provide a $100 million stop loss reinsurance cover attaching at carried reserves on CNA Re U.K.'s 2001 underwriting year exposures for which CCC received premiums of $25 million.

The pro forma adjustments are presented as if they had occurred, as of September 30, 2002, for the purposes of the pro forma unaudited Consolidated Condensed Balance Sheet, and as of the beginning of the respective period presented for the purposes of the pro forma unaudited Consolidated Condensed Statements of Operations.

This pro forma unaudited financial information does not purport to represent what the Company's actual financial position and results of operations would have been had such events actually occurred on the aforementioned dates. The pro forma unaudited financial information also does not purport to serve as a forecast of the Company's financial position or results of operations for any future periods.

The pro forma adjustments are based on currently available information and upon certain assumptions that management believes are reasonable in the circumstances. This pro forma financial information should be read in conjunction with the Company's audited consolidated financial statements as of and for the year ended December 31, 2001 appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and the unaudited consolidated condensed financial statements as of September 30, 2002 and for the nine month period then ended appearing in the Company's Quarterly Report on Form 10-Q for the quarter then ended.

Loews Corporation and Subsidiaries
Pro Forma Consolidated Condensed Balance Sheets (Unaudited)

(In millions)	September 30, 2002				
		Pro Forma Adjustments Decrease (Increase)			
	Historical	CNA RE U.K. (A)	Other (B)	Notes	Pro Forma
Assets:					

Investments and cash . .	$ 42,998.9	$ 1,115.8	$ 286.1	(B1),(B2),(B3)	$41,597.0
Receivables net	18,416.7	1,330.2	(76.8)	(B2)	17,163.3
Other assets	8,398.6	27.7			8,370.9
Deferred acquisition costs of insurance subsidiaries	2,547.8	0.9			2,546.9
Separate account business	3,147.3				3,147.3
Total assets . . .	$ 75,509.3	$ 2,474.6	$ 209.3		$72,825.4
Liabilities and Shareholders' Equity:					
Insurance reserves . .	$ 42,580.1	$ 2,179.3	$ 307.5	(B1),(B2)	$40,093.3
Long-term debt, less unamortized discount	5,914.9				5,914.9
Reinsurance balances payable	3,031.9	104.2	(34.6)	(B2)	2,962.3
Other liabilities . . .	7,836.8	191.1	(63.6)	(B1),(B2),(B3)	7,709.3
Separate account business	3,147.3				3,147.3
Total liabilities	62,511.0	2,474.6	209.3		59,827.1
Minority interest . . .	1,891.3		3.0	(G)	1,888.3
Shareholders' equity .	11,107.0		(3.0)	(G)	11,110.0
Total liabilities and shareholders' equity	$ 75,509.3	$ 2,474.6	$ 209.3		$72,825.4

Loews Corporation and Subsidiaries
Consolidated Condensed Statements of Operations (Unaudited)

(In millions)	Year Ended December 31, 2001			
		Pro Forma Adjustments Decrease (Increase)		
	Restated Historical(C)	CNA RE U.K. (D)	Other (E)(G)	Pro Forma
Revenues:				
Insurance premiums	$ 9,285.1	$ 223.4		$ 9,061.7
Investment income, net of expenses	2,103.8	58.9	$ 15.0	2,029.9
Investment gains (losses) . .	1,390.4	(2.8)		1,393.2
Manufactured products	4,584.1			4,584.1
Other	1,933.0	0.2		1,932.8
Total	19,296.4	279.7	15.0	19,001.7
Expenses:				
Insurance claims and policyholders' benefits . .	11,279.4	466.8		10,812.6
Amortization of deferred acquisition costs	1,803.9	63.1		1,740.8
Cost of manufactured products sold	2,237.1			2,237.1
Other operating expenses . .	4,218.7	50.5		4,168.2
Restructuring and other related charges	251.0	6.0		245.0
Interest	332.0			332.0
Total	20,122.1	586.4		19,535.7
	(825.7)	(306.7)	15.0	(534.0)
Income tax expense (benefit)	(177.2)	67.2	5.0	(249.4)
Minority interest	(103.1)		(45.5)	(57.6)
Total	(280.3)	67.2	(40.5)	(307.0)

Loss from continuing operations	$ (545.4)	$ (373.9)	$ 55.5	$ (227.0)
Basic and diluted loss from continuing operations per Loews common share	$ (2.79)			$ (1.16)
Weighted average number of shares outstanding Loews Common Stock	195.33			195.33

Loews Corporation and Subsidiaries
Pro Forma Consolidated Condensed Statements of Operations (Unaudited)

(In millions, except per share data)

	Nine Months Ended September 30, 2002			
		Pro Forma Adjustments Decrease (Increase)		
	Historical	CNA RE U.K. (D)	Other (F)(G)	Pro Forma
Revenues:				
Insurance premiums	$ 7,922.9	$ 13.2		$ 7,909.7
Investment income, net of expenses	1,399.7	32.4	$ 7.0	1,360.3
Investment gains (losses) . .	(145.0)	11.1		(156.1)
Manufactured products	3,076.4			3,076.4
Other	1,258.5			1,258.5
Total	13,512.5	56.7	7.0	13,448.8
Expenses:				
Insurance claims and policyholders' benefits . .	6,542.4	15.0		6,527.4
Amortization of deferred acquisition costs	1,349.9	4.9		1,345.0
Cost of manufactured products sold	1,760.0			1,760.0
Other operating expenses . .	2,388.9	11.9		2,377.0
Interest	231.8			231.8
Total	12,273.0	31.8		12,241.2
	1,239.5	24.9	7.0	1,207.6
Income tax expense (benefit)	453.6	1.0	3.0	449.6
Minority interest	59.7		3.0	56.7
Total	513.3	1.0	6.0	506.3
Income from continuing operations	$ 726.2	$ 23.9	$ 1.0	$ 701.3
Income from continuing operations attributable to:				
Loews Common Stock	$ 622.4	$ 23.9	$ 1.0	$ 597.5
Carolina Group Stock	103.8			103.8
	$ 726.2	$ 23.9	$ 1.0	$ 701.3
Basic and diluted income from continuing operations per common share:				
Loews common share	$ 3.30			$ 3.17
Carolina Group common share .	$ 2.58			$ 2.58
Weighted average number of shares outstanding:				

~~Loews Common Stock . . . . .~~	~~188.31~~	~~188.31~~
	~~=========~~	~~===========~~
~~Carolina Group Stock . . . .~~	~~40.23~~	~~40.23~~
	~~=========~~	~~===========~~

~~Notes To Unaudited Pro Forma Consolidated Condensed Financial Statements~~

~~[A] This column of pro forma adjustments represents the balance sheet of CNA Re U.K. as included in the Company's Consolidated Condensed Balance Sheet as of September 30, 2002 as reported.~~

~~[B] This column of pro forma adjustments includes the transfer of certain assets and liabilities between CNA Re U.K. and its parent, CCC, arising from several concurrent completion transactions as more fully described below.~~

~~[B1] Represents the impact of the termination of four intercompany reinsurance agreements under which CNA Re U.K. ceded losses to CCC. These terminations result in a transfer of insurance reserves of $337.0 million and cash of $262.0 million from CCC to CNA Re U.K.~~

~~[B2] In 1997, CNA Re U.K. 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").~~

~~This pro forma adjustment reflects the retrocession to CCC of CNA Re U.K.'s remaining net exposure relating to the IGI Program. This retrocession includes a transfer of insurance reserves of $29.0 million, receivables of $77.0 million, related liabilities of $35.0 million and cash of $2.0 million.~~

~~[B3] Represents the impact of other aspects of the transaction including estimated foreign currency losses and other estimated future completion adjustments, which decreases cash by $22.0 million and decreases other liabilities by $22.0 million.~~

~~[C] The Company's Consolidated Condensed Statement of Operations for the year ended December 31, 2001 is restated to reclassify the results of CNA Vida as discontinued operations.~~

~~[D] These columns of pro forma adjustments represent the results of operations of CNA Re U.K. as included in the Company's Consolidated Condensed Statements of Operations for the respective periods presented.~~

~~[E] This column of pro forma adjustments represents the estimated reduction of investment income assuming the cash related to CNA's completion transactions in pro forma note B, was transferred to CNA Re U.K. as of January 1, 2001. The estimated reduction of interest income totals $15.0 million, which is based on the approximate two year U.S. Treasury yield of 5.0% as of January 1, 2001.~~

~~[F] This column of pro forma adjustments represents the estimated reduction of investment income assuming the cash related to CNA's completion transactions in pro forma note B, was transferred to CNA Re U.K. as of January 1, 2002. This estimated reduction of interest income totals $7.0 million, which is based on the approximate two year U.S. Treasury yield of 3.0% as of January 1, 2002.~~

~~[G] Minority interest expense (benefit) related to the pro forma adjustments was $3.0 and $(45.5) for the nine months ended September 30, 2002 and year ended December 31, 2001, respectively.~~