CNA FINANCIAL CORP
Form 10-Q
November 03, 2006

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

FORM 10-Q
[Ö] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2006
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 1-5823

CNA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**36-6169860**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
333 S. Wabash	
Chicago, Illinois	**60604**
(Address of principal executive offices)	(Zip Code)

(312) 822-5000
(Registrant s telephone number, including area code)

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 Ö No....

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer.... Accelerated filer Ö Non-accelerated filer....

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes... No Ö

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at October 27, 2006
Common Stock, Par value $2.50	270,929,753

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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In millions, except share data)	September 30, 2006	December 31, 2005
Assets		
Investments:		
Fixed maturity securities at fair value (amortized cost of $31,457 and $32,616)	$ 32,150	$ 33,234
Equity securities at fair value (cost of $395 and $511)	576	681
Limited partnership investments	1,723	1,509
Other invested assets	30	33
Short term investments at cost, which approximates fair value	8,460	4,238
Total investments	42,939	39,695
Cash	98	96
Reinsurance receivables (less allowance for uncollectible receivables of $535 and $519)	10,368	11,917
Insurance receivables (less allowance for doubtful accounts of $420 and $445)	1,872	1,866
Accrued investment income	326	312
Receivables for securities sold	899	565
Deferred acquisition costs	1,220	1,197
Prepaid reinsurance premiums	367	340
Federal income taxes recoverable (includes $0 and $68 due from Loews Corporation)	-	62
Deferred income taxes	912	1,105
Property and equipment at cost (less accumulated depreciation of $562 and $546)	239	197
Goodwill and other intangible assets	142	146
Other assets	650	737
Separate account business	525	551
Total assets	$ 60,557	$ 58,786
Liabilities and Stockholders Equity		
Liabilities:		
Insurance reserves:		
Claim and claim adjustment expense	$ 30,141	$ 30,938
Unearned premiums	3,871	3,706
Future policy benefits	6,552	6,297
Policyholders funds	1,049	1,495
Collateral on loaned securities	2,385	767
Payables for securities purchased	693	129

Participating policyholders funds		49		53
Short term debt		250		252
Long term debt		2,155		1,438
Federal income taxes payable (includes $85 and $0 due to Loews Corporation)		91		-
Reinsurance balances payable		886		1,636
Other liabilities		2,256		2,283
Separate account business		525		551
Total liabilities		50,903		49,545
Commitments and contingencies (Notes D, G, H, J and L)				
Minority interest		325		291
Stockholders equity:				
Preferred stock (12,500,000 shares authorized) Series H Issue (no par value; $100,000 stated value; no shares and 7,500 shares issued; held by Loews Corporation)		-		750
Common stock ($2.50 par value; 500,000,000 shares authorized; 273,040,543 and 258,177,285 shares issued; and 270,929,753 and 256,001,968 shares outstanding)		683		645
Additional paid-in capital		2,166		1,701
Retained earnings		6,157		5,621
Accumulated other comprehensive income		447		359
Treasury stock (2,110,790 and 2,175,317 shares), at cost		(65)		(67)
		9,388		9,009
Notes receivable for the issuance of common stock		(59)		(59)
Total stockholders equity		9,329		8,950
Total liabilities and stockholders equity	$	60,557	$	58,786

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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CNA FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions, except per share data)		Restated See Note T		Restated See Note T
Revenues				
Net earned premiums	$ 1,943	$ 1,873	$ 5,704	$ 5,684
Net investment income	600	500	1,722	1,345
Realized investment gains (losses), net of participating policyholders and minority interests	21	67	(68)	74
Other revenues	56	80	175	351
Total revenues	2,620	2,520	7,533	7,454
Claims, Benefits and Expenses				
Insurance claims and policyholders benefits	1,522	1,871	4,446	4,886
Amortization of deferred acquisition costs	390	416	1,132	1,168
Other operating expenses	224	241	723	766
Restructuring and other related charges	-	-	(13)	-
Interest	35	29	93	96
Total claims, benefits and expenses	2,171	2,557	6,381	6,916
Income (loss) before income tax and minority interest	449	(37)	1,152	538
Income tax (expense) benefit	(131)	51	(339)	(53)
Minority interest	(13)	(11)	(32)	(16)
Income from continuing operations	305	3	781	469
Income (loss) from discontinued operations, net of income tax benefit of $9, $0, $9 and $0	6	3	(2)	12
Net income	$ 311	$ 6	$ 779	$ 481
Basic and Diluted Earnings (Loss) Per Share				
Income (loss) from continuing operations	$ 1.13	$ (0.06)	$ 2.84	$ 1.63

Income (loss) from discontinued operations	0.02	0.02	(0.01)	0.05
Basic and diluted earnings (loss) per share available to common stockholders	$ 1.15	$ (0.04)	$ 2.83	$ 1.68
Weighted average outstanding common stock and common stock equivalents				
Basic	265.0	256.0	259.0	256.0
Diluted	265.2	256.0	259.2	256.0

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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CNA FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Nine months ended September 30 (In millions)	**2006**	**2005** Restated See Note T
Cash Flows from Operating Activities:		
Net income	$ 779	$ 481
Adjustments to reconcile net income to net cash flows provided by operating activities:		
(Income) loss from discontinued operations	2	(12)
Loss (gain) on disposal of property and equipment	-	(9)
Minority interest	32	16
Deferred income tax provision	163	(37)
Trading securities	391	112
Realized investment (gains) losses, net of participating policyholders and minority interests	68	(74)
Undistributed earnings of equity method investees	(70)	(46)
Net amortization of bond (discount) premium	(211)	(84)
Depreciation	35	41
Changes in:		
Receivables, net	1,543	1,571
Deferred acquisition costs	(23)	34
Accrued investment income	(14)	(20)
Federal income taxes recoverable/payable	153	(211)
Prepaid reinsurance premiums	(27)	214
Reinsurance balances payable	(750)	(331)
Insurance reserves	(315)	58
Other, net	27	(210)
Total adjustments	1,004	1,012
Net cash flows provided by operating activities-continuing operations	1,783	1,493
Net cash flows used by operating activities-discontinued operations	-	(33)
Net cash flows provided by operating activities-total	1,783	1,460
Cash Flows from Investing Activities:		
Purchases of fixed maturity securities	(32,425)	(46,204)
Proceeds from fixed maturity securities:		
Sales	30,942	41,418
Maturities, calls and redemptions	3,114	3,788

Purchases of equity securities	(267)	(361)
Proceeds from sales of equity securities	153	276
Change in short term investments	(4,381)	(896)
Change in collateral on loaned securities	1,618	1,088
Change in other investments	(139)	72
Purchases of property and equipment	(87)	(28)
Dispositions	7	12
Other, net	(49)	42
Net cash flows used by investing activities-continuing operations	(1,514)	(793)
Net cash flows provided (used) by investing activities-discontinued operations	24	(3)
Net cash flows used by investing activities-total	(1,490)	(796)

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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CNA FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(UNAUDITED)

Nine months ended September 30 (In millions)	**2006**	**2005** Restated See Note T
Cash Flows from Financing Activities:		
Proceeds from the issuance of long-term debt	759	-
Principal payments on debt	(44)	(507)
Return of investment contract account balances	(510)	(168)
Receipts of investment contract account balances	2	4
Payment to repurchase Series H Issue preferred stock	(993)	-
Proceeds from the issuance of common stock	499	-
Stock options exercised by officers	4	-
Other, net	1	4
Net cash flows used by financing activities-continuing operations	(282)	(667)
Net cash flows used by financing activities-discontinued operations	-	-
Net cash flows used by financing activities-total	(282)	(667)
Net change in cash	11	(3)
Net cash transactions from continuing operations to discontinued operations	15	(42)
Net cash transactions from discontinued operations to continuing operations	(15)	42
Cash, beginning of year	125	109
Cash, end of period	$ 136	$ 106
Cash-continuing operations	$ 98	$ 86
Cash-discontinued operations	38	20
Cash-total	136	106

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

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CNA FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(UNAUDITED)

Nine months ended September 30 (In millions)	2006	2005 Restated See Note T
Preferred Stock		
Balance, beginning of period	$ 750	$ 750
Repurchase of Series H Issue	(750)	-
Balance, end of period	-	750
Common Stock		
Balance, beginning of period	645	645
Issuance of common stock	38	-
Balance, end of period	683	645
Additional Paid-in Capital		
Balance, beginning of period	1,701	1,701
Issuance of common stock and other	465	-
Balance, end of period	2,166	1,701
Retained Earnings		
Balance, beginning of period	5,621	5,357
Net income	779	481
Liquidation preference in excess of par value on Series H Issue	(243)	-
Balance, end of period	6,157	5,838
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	359	661
Other comprehensive income (loss)	88	(273)
Balance, end of period	447	388
Treasury Stock		

Balance, beginning of period	(67)	(69)
Stock options exercised	2	-
Balance, end of period	(65)	(69)
Notes Receivable for the Issuance of Common Stock		
Balance, beginning of period	(59)	(71)
Decrease in notes receivable for the issuance of common stock	-	13
Balance, end of period	(59)	(58)
Total Stockholders Equity	$ 9,329	$ 9,195

The accompanying Notes are an integral part of these Condensed Consolidated Financial Statements (Unaudited).

CNA FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note A. Basis of Presentation

The Condensed Consolidated Financial Statements (Unaudited) include the accounts of CNA Financial Corporation (CNAF) and its controlled subsidiaries. Collectively, CNAF and its subsidiaries are referred to as CNA or the Company. CNA s property and casualty and the remaining life and group insurance operations are primarily conducted by Continental Casualty Company (CCC), The Continental Insurance Company (CIC) and Continental Assurance Company (CAC). Loews Corporation (Loews) owned approximately 89% of the outstanding common stock of CNAF as of September 30, 2006.

The accompanying Condensed Consolidated Financial Statements (Unaudited) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Certain financial information that is normally included in annual financial statements, including certain financial statement notes, prepared in accordance with GAAP, is not required for interim reporting purposes and has been condensed or omitted. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in CNAF s Form 10-K filed with the Securities and Exchange Commission (SEC) for the year ended December 31, 2005. Certain amounts applicable to prior periods have been conformed to the current period presentation. The preparation of Condensed Consolidated Financial Statements (Unaudited) in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

The interim financial data as of September 30, 2006 and for the three and nine months ended September 30, 2006 and 2005 is unaudited. However, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the Company s results for the interim periods. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. All significant intercompany amounts have been eliminated.

Note B. Accounting Pronouncements

In May of 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 154, Accounting Changes and Error Correction (SFAS 154). This standard is a replacement of Accounting Policy Board Opinion No. 20, Accounting Changes, and FASB Standard No. 3, Reporting Accounting Changes in Interim Financial Statements. Under the new standard, any voluntary changes in accounting principles should be adopted via a retrospective application of the accounting principle in the financial statements presented in addition to obtaining an opinion from the auditors that the new principle is preferred. In addition, adoption of a change in accounting principle required by the issuance of a new accounting standard would also require retroactive restatement, unless the new standard includes explicit transition guidelines. SFAS 154 was effective for fiscal years beginning after December 15, 2005 and was adopted by the Company as of January 1, 2006. Adoption of SFAS 154 did not have an impact on the results of operations or equity of the Company.

In November of 2005, the FASB issued FASB Staff Position No. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (FSP 115-1), as applicable to debt and equity securities that are within the scope of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115) and equity securities that are accounted for using the cost method specified in Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. FSP 115-1 nullifies certain requirements of The Emerging Issues Task Force Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments (EITF 03-01), which provided guidance on determining whether an impairment is other-than-temporary. FSP 115-1 replaces guidance set forth in EITF 03-01 with references to existing other-than-temporary impairment guidance and clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. FSP 115-1 carries forward the requirements in EITF 03-01 regarding required disclosures in the financial statements and requires additional disclosure related to factors considered in reaching the conclusion that the impairment is not other-than-temporary. In addition, in periods subsequent to the recognition of an other-than-temporary impairment loss for debt securities, the discount or reduced premium would be amortized over the

CNA FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
(UNAUDITED)

remaining life of the security based on future estimated cash flows. FSP 115-1 was effective for reporting periods beginning after December 15, 2005 and was adopted by the Company as of January 1, 2006. Adoption of this standard increased net income by approximately $2 million for the nine months ended September 30, 2006 related to the amortization of discount or reduced premium resulting from previously impaired securities. The Company has included the required additional disclosures in these financial statements.

In December of 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), that amends SFAS No. 123, Accounting for Stock-Based Compensation (SFAS 123), as originally issued in May of 1995. SFAS 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R supercedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). After the effective date of this standard, entities are not permitted to use the intrinsic value method specified in APB 25 to measure compensation expense and generally are required to measure compensation expense using a fair-value based method. The Company applied the modified prospective transition method. The modified prospective method requires a company to (a) record compensation expense for all awards it grants, modifies, repurchases or cancels after the date it adopts the standard and (b) record compensation expense for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS 123R was effective for the Company as of January 1, 2006. The Company applied the alternative transition method in calculating its pool of excess tax benefits available to absorb future tax deficiencies as provided by FSP FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards. Adoption of SFAS 123R decreased net income by $2 million for the nine months ended September 30, 2006.

Prior to 2006, the Company applied the intrinsic value method under APB 25, and related interpretations, in accounting for its stock-based compensation plan. Under the recognition and measurement principles of APB 25, no stock-based compensation cost was recognized, as the exercise price of the granted options equaled the market price of the underlying stock at the grant date.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132(R)) (SFAS 158). SFAS 158 requires a company who sponsors one or more single-employer defined benefit plans, to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. SFAS 158 requires a company to measure benefit plan assets and obligations as of the date of the company s fiscal year-end statement of financial position. SFAS 158 also requires a company to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact that adopting SFAS 158 will have on the Company s financial condition.

Note C. Earnings Per Share

Earnings per share available to common stockholders is based on weighted average outstanding shares. Basic and diluted earnings per share are computed by dividing net income available to common stockholders by the weighted average number of shares of common stock or common stock equivalents outstanding for the period. The weighted average number of shares outstanding for computing basic earnings per share was 265.0 million and 259.0 million for the three and nine months ended September 30, 2006. The weighted average number of shares outstanding for computing diluted earnings per share was 265.2 million and 259.2 million for the three and nine months ended

September 30, 2006. The weighted average number of shares outstanding for computing basic and diluted earnings per share was 256.0 million for the three and nine months ended September 30, 2005.

The Series H Cumulative Preferred Stock Issue (Series H Issue) was held by Loews and accrued cumulative dividends at an initial rate of 8% per year, compounded annually. In August 2006, the Company repurchased the Series H Issue from Loews for approximately $993 million, a price equal to the liquidation preference. The Series H Issue dividend amounts through the repurchase date for the three and nine months ended September 30, 2006 and 2005 have been subtracted from Income from Continuing Operations to determine income from continuing operations available to common stockholders.

Diluted earnings per share reflect 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, 2006 and 2005, approximately one million shares attributable to exercises under stock-based employee compensation plans were excluded from the calculation of diluted earnings per share because they were antidilutive.

CNA FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
(UNAUDITED)

The computation of earnings per share for the three and nine months ended September 30, 2006 and 2005 is as follows:

Earnings Per Share

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions, except per share amounts)				
Income from continuing operations	$ 305	$ 3	$ 781	$ 469
Less: undeclared preferred stock dividend through repurchase date	(8)	(17)	(46)	(52)
Income (loss) from continuing operations available to common stockholders	$ 297	$ (14)	$ 735	$ 417
Weighted average outstanding common stock and common stock equivalents	265.0	256.0	259.0	256.0
Effect of dilutive securities, employee stock options	0.2	-	0.2	-
Adjusted weighted average outstanding common stock and common stock equivalents assuming conversions	265.2	256.0	259.2	256.0
Basic and diluted earnings (loss) per share from continuing operations available to common stockholders	$ 1.13	$ (0.06)	$ 2.84	$ 1.63

The following table illustrates the effect on net income and earnings per share data if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation under the Company s stock-based compensation plans for the three and nine months ended September 30, 2005.

Pro Forma Effect of SFAS 123 on Results

Period ended September 30	**Three Months 2005**	**Nine Months 2005**
(In millions, except per share amounts)		
Income from continuing operations	$ 3	$ 469
Less: undeclared preferred stock dividend	(17)	(52)
Income (loss) from continuing operations available to common stockholders	(14)	417
Income from discontinued operations, net of tax	3	12

Net income (loss) available to common stockholders		(11)		429
Less: Total stock-based compensation cost determined under the fair value method, net of tax		-		(1)
Pro forma net income (loss) available to common stockholders	$	(11)	$	428
Basic and diluted earnings (loss) per share, as reported	$	(0.04)	$	1.68
Basic and diluted earnings (loss) per share, pro forma	$	(0.04)	$	1.68

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CNA FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
(UNAUDITED)
Note D. Investments
The significant components of net investment income are presented in the following table.

Net Investment Income

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
Fixed maturity securities	$ 477	$ 393	$ 1,372	$ 1,167
Short term investments	61	42	184	103
Limited partnerships	46	72	173	189
Equity securities	4	6	18	18
Income from trading portfolio (a)	30	41	63	25
Interest on funds withheld and other deposits	(10)	(50)	(65)	(139)
Other	2	5	10	16
Gross investment income	610	509	1,755	1,379
Investment expense	(10)	(9)	(33)	(34)
Net investment income	$ 600	$ 500	$ 1,722	$ 1,345

(a) The change in net unrealized gains (losses) on trading securities included in net investment income was $3 million and $(1) million for the three and nine months ended September 30, 2006 and $3 million and $(4) million for the three and nine months ended September 30, 2005.
The components of realized investment results for available-for-sale securities are presented in the following table.

Realized Investment Gains (Losses)

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
Fixed maturity securities:				
U.S. Government bonds	$ 18	$ 2	$ 22	$ (10)
Corporate and other taxable bonds	(18)	9	(114)	(36)
Tax-exempt bonds	40	4	51	38
Asset-backed bonds	(1)	7	(15)	18
Redeemable preferred stock	(2)	-	(3)	10
Total fixed maturity securities	37	22	(59)	20
Equity securities	(3)	6	3	45
Derivative securities	(12)	53	(7)	34
Short term investments	(2)	1	(6)	1
	1	(15)	(1)	(28)

Other, including disposition of businesses, net of participating policyholders interest				
Realized investment gains (losses) before allocation to participating policyholders and minority interests	21	67	(70)	72
Allocated to participating policyholders and minority interests	-	-	2	2
Realized investment gains (losses)	$ 21	$ 67	$ (68)	$ 74

For the three months ended September 30, 2006, other-than-temporary impairment (OTTI) losses of $46 million were recorded primarily in the corporate and other taxable bonds sector. This compared to OTTI losses for the three months ended September 30, 2005 of $17 million recorded across various sectors. The decrease in net realized investment results was primarily driven by an increase in interest related OTTI losses on securities for which the Company did not assert an intent to hold until an anticipated recovery in value.

For the nine months ended September 30, 2006, OTTI losses of $87 million were recorded primarily in the corporate and other taxable bonds sector. This compared to OTTI losses for the nine months ended September 30, 2005 of $71 million recorded across various sectors, including an OTTI loss of $34 million related to loans to a large national contractor. See Note R for additional information on loans to the large national contractor. The decrease in

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CNA FINANCIAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
(UNAUDITED)

net realized investment results was primarily driven by decreased gains on sales as a result of increasing interest rates between the two periods, the effect of interest rates on derivative positions and increases in interest related OTTI losses on securities for which the Company did not assert an intent to hold until an anticipated recovery in value.

The Company s investment policies for both the general account and separate account 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 following tables provide a summary of fixed maturity and equity securities investments.

Summary of Fixed Maturity and Equity Securities

September 30, 2006	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses Less than 12 Months	Gross Unrealized Losses Greater than 12 Months	Estimated Fair Value
(In millions)					
Fixed maturity securities available-for-sale:					
U.S. Treasury securities and obligations of government agencies	$ 2,293	$ 133	$ 1	$ 1	$ 2,424
Asset-backed securities	14,169	36	19	156	14,030
States, municipalities and political subdivisions tax-exempt	4,230	212	-	5	4,437
Corporate securities	6,450	309	10	15	6,734
Other debt securities	3,288	198	8	3	3,475
Redeemable preferred stock	828	25	2	-	851
Options embedded in convertible debt securities	1	-	-	-	1
Total fixed maturity securities available-for-sale	31,259	913	40	180	31,952
Total fixed maturity securities trading	198	-	-	-	198
Equity securities available-for-sale:					
Common stock	201	172	-	-	373
Preferred stock	138	9	-	-	147
Total equity securities available-for-sale	339	181	-	-	520
Total equity securities trading	56	-	-	-	56

Total	$ 31,852	$ 1,094	$ 40	$ 180	$ 32,726

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CNA FINANCIAL CORPORATION
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Summary of Fixed Maturity and Equity Securities

			Gross Unrealized Losses		
December 31, 2005	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Less than 12 Months**	**Greater than 12 Months**	**Estimated Fair Value**
(In millions)					
Fixed maturity securities available-for-sale:					
U.S. Treasury securities and obligations of government agencies	$ 1,355	$ 119	$ 4	$ 1	$ 1,469
Asset-backed securities	12,986	43	137	33	12,859
States, municipalities and political subdivisions tax-exempt	9,054	193	31	7	9,209
Corporate securities	5,906	322	52	11	6,165
Other debt securities	2,830	234	18	2	3,044
Redeemable preferred stock	213	4	-	1	216
Options embedded in convertible debt securities	1	-	-	-	1
Total fixed maturity securities available-for-sale	32,345	915	242	55	32,963
Total fixed maturity securities trading	271	-	-	-	271
Equity securities available-for-sale:					
Common stock	140	150	1	-	289
Preferred stock	322	22	1	-	343
Total equity securities available-for-sale	462	172	2	-	632
Total equity securities trading	49	-	-	-	49
Total	$ 33,127	$ 1,087	$ 244	$ 55	$ 33,915

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The following table summarizes, for fixed maturity and equity securities in an unrealized loss position at September 30, 2006 and December 31, 2005, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

Unrealized Loss Aging

	September 30, 2006		December 31, 2005	
	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
(In millions)				
Fixed maturity securities:				
Investment grade:				
0-6 months	$ 1,578	$ 8	$ 9,976	$ 142
7-12 months	3,477	26	2,739	61
13-24 months	5,774	147	1,400	45
Greater than 24 months	725	30	219	7
Total investment grade	11,554	211	14,334	255
Non-investment grade:				
0-6 months	622	5	632	29
7-12 months	30	1	118	10
13-24 months	70	3	122	3
Greater than 24 months	2	-	2	-
Total non-investment grade	724	9	874	42
Total fixed maturity securities	12,278	220	15,208	297
Equity securities:				
0-6 months	3	-	49	2
7-12 months	1	-	1	-
13-24 months	-	-	-	-
Greater than 24 months	3	-	3	-
Total equity securities	7	-	53	2

Total fixed maturity and equity securities	$ 12,285	$ 220	$ 15,261	$ 299

An investment is impaired if the fair value of the investment is less than its cost adjusted for accretion, amortization, previous OTTI and hedging, otherwise defined as an unrealized loss. When an investment is impaired, the impairment is evaluated to determine whether it is temporary or other-than-temporary.

A significant judgment in the valuation of investments is the determination of when an OTTI has occurred. The Company follows a consistent and systematic process for determining and recording an OTTI. The Company has established a committee responsible for the OTTI process. This committee, referred to as the Impairment Committee, is made up of three officers appointed by the Company s Chief Financial Officer. The Impairment Committee is responsible for analyzing watch list securities on at least a quarterly basis. The watch list includes individual securities that fall below certain thresholds or that exhibit evidence of OTTI indicators including, but not limited to, a significant adverse change in the financial condition and near term prospects of the issuer or a significant adverse change in legal factors, the business climate or credit ratings.

When a security is placed on the watch list, it is monitored for further market value changes and additional information related to the issuer s financial condition. The focus is on objective evidence that may influence the evaluation of OTTI factors.

The decision to record an OTTI incorporates both quantitative criteria and qualitative information. The Impairment Committee considers a number of factors including, but not limited to: (a) the length of time and the extent to which the fair value has been less than book value, (b) the financial condition and near term prospects of the issuer, (c) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for an anticipated

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recovery in value, (d) whether the debtor is current on interest and principal payments and (e) general market conditions and industry or sector specific factors.

The Impairment Committee s decision to record an OTTI loss is primarily based on whether the security s fair value is likely to recover to its book value in light of all of the factors considered. For securities considered to be OTTI, the security is adjusted to fair value and the resulting losses are recognized in realized gains/losses on the Condensed Consolidated Statements of Operations.

At September 30, 2006, the carrying value of the general account fixed maturities was $32,150 million, representing 75% of the total investment portfolio. The net unrealized gain position associated with the fixed maturity portfolio included $220 million in gross unrealized losses, consisting of asset-backed securities which represented 79%, corporate bonds which represented 11%, municipal securities which represented 3%, and all other fixed maturity securities which represented 7%. The gross unrealized loss for any single issuer was no greater than 0.1% of the carrying value of the total general account fixed maturity portfolio. The total fixed maturity portfolio gross unrealized losses of $220 million included 1,315 securities which were, in aggregate, 2% below amortized cost.

The gross unrealized losses on equities are less than $1 million, including 79 securities which, in aggregate, are below cost by 4%.

Given the current facts and circumstances, the Impairment Committee has determined that the securities presented in the above unrealized gain/loss tables were temporarily impaired when evaluated at September 30, 2006 or December 31, 2005, and therefore no related realized losses were recorded. A discussion of some of the factors reviewed in making that determination is presented below by major security type. The Company does not consider the unrealized loss related to any single issuer to be significant.

Asset-Backed Securities

The unrealized losses on the Company s investments in asset-backed securities were caused primarily by a change in interest rates. This category includes mortgage-backed pass-through securities guaranteed by an agency of the U.S. government. There were 425 agency mortgage-backed securities and 2 agency collateralized mortgage obligations (CMOs) in an unrealized loss position as of September 30, 2006. The aggregate severity of the unrealized loss on these securities was 4% of amortized cost. These securities do not tend to be influenced by the credit of the issuer but rather the characteristics and projected principal payments of the underlying collateral.

The remainder of the holdings in this category are corporate mortgage-backed pass-through, CMOs and corporate asset-backed structured securities. The holdings in these sectors include 412 securities in an unrealized loss position with over 93% of these unrealized losses related to securities rated AAA. The aggregate severity of the unrealized loss was 2% of amortized cost. The contractual cash flows on the asset-backed structured securities are pass-through but may be structured into classes of preference. The structured securities held are generally secured by over collateralization or default protection provided by subordinated tranches. The Company purchased the majority of those investments at a discount relative to their face amount. Within this category, securities subject to EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets (EITF 99-20), are monitored for adverse changes in cash flow projections. If there are adverse changes in cash flows the amount of accretable yield is prospectively adjusted and an OTTI loss is recognized. There was no adverse change in estimated cash flows noted for the EITF 99-20 securities, which have an aggregate unrealized loss of $6 million and an aggregate severity of the unrealized loss of 1% of amortized cost.

Because the decline in fair value was primarily attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold those investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at September 30, 2006.

Corporate Securities

The Company s portfolio management objective for corporate bonds focuses on sector and issuer exposures and value analysis within sectors. In order to maximize the total return objectives, corporate bonds are analyzed on a risk adjusted basis compared to other opportunities that are available in the market. Trading decisions may be made based on an issuer that may be overvalued in the Company s portfolio compared to a like issuer that may be

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
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undervalued in the market. The Company also monitors issuer exposure and broader industry sector exposures and may reduce exposures based on its current view of a specific issuer or sector.

Of the unrealized losses in this category, 67% relate to securities rated as investment grade (rated BBB or higher). The total holdings in this category are diversified across 10 industry sectors and 236 securities. The aggregate severity of the unrealized loss was less than 2% of amortized cost. Within corporate bonds, the largest industry sectors were financial, consumer cyclical, consumer non-cyclical and technology, which as a percentage of total gross unrealized losses were 52%, 16%, 8%, and 8% at September 30, 2006. The decline in market value is primarily attributable to changes in interest rates and macro conditions in certain sectors that the market views as temporarily out of favor. Because the decline is not related to specific credit quality issues, and because the Company has the ability and intent to hold those investments until an anticipated recovery of fair value, which may be maturity, the Company considers these investments to be temporarily impaired at September 30, 2006.

Investment Commitments

As of September 30, 2006 and December 31, 2005, the Company had committed approximately $137 million and $191 million to future capital calls from various third-party limited partnership investments in exchange for an ownership interest in the related partnerships.

The Company invests in multiple bank loan participations as part of its overall investment strategy and has committed to additional future purchases and sales. The purchase and sale of these investments are recorded on the date that the legal agreements are finalized and cash settlement is made. As of September 30, 2006 and December 31, 2005, the Company had commitments to purchase $80 million and $82 million, and sell $35 million and $12 million of various bank loan participations. When loan participation purchases are settled and recorded they may contain both funded and unfunded amounts. An unfunded loan represents an obligation by the Company to provide additional amounts under the terms of the loan participation. The funded portions are reflected on the Condensed Consolidated Balance Sheets, while any unfunded amounts are not recorded until a draw is made under the loan facility. As of September 30, 2006 and December 31, 2005, the Company had obligations on unfunded bank loan participations in the amount of $34 million and $21 million.

Note E. Derivative Financial Instruments

A summary of the recognized gains (losses) related to derivative financial instruments follows.

Derivative Financial Instruments Recognized Gains (Losses)

	Three Months		**Nine Months**	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
General account				
Without hedge designation				
Swaps	$ (14)	$ 52	$ (8)	$ 32
Futures sold, not yet purchased	(1)	1	1	1
Currency forwards	1	-	(1)	1
Options embedded in convertible debt securities	-	(6)	-	(33)
Trading activities				
Futures purchased	22	31	33	5
Futures sold, not yet purchased	(1)	-	1	-
Options purchased	-	(1)	-	(2)
Options written	-	1	-	2

Total	$ 7	$ 78	$ 26	$ 6

A summary of the aggregate contractual or notional amounts and estimated fair values related to derivative financial instruments follows. The contractual or notional amounts for derivatives are used to calculate the exchange of

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contractual payments under the agreements and are not representative of the potential for gain or loss on these instruments.

Derivative Financial Instruments

September 30, 2006 (In millions)	**Contractual/ Notional Amount**	**Estimated Fair Value Asset**	**Estimated Fair Value (Liability)**
General account			
Without hedge designation			
Swaps	$ 3,691	$ -	$ (17)
Currency forwards	92	-	-
Equity warrants	6	2	-
Options embedded in convertible debt securities	12	1	-
Trading activities			
Futures purchased	659	-	-
Futures sold, not yet purchased	62	-	-
Currency forwards	34	-	(1)
Total general account	$ 4,556	$ 3	$ (18)
Separate accounts			
Options written	$ 7	$ -	$ -
Total separate accounts	$ 7	$ -	$ -

Derivative Financial Instruments

December 31, 2005 (In millions)	**Contractual/ Notional Amount**	**Estimated Fair Value Asset**	**Estimated Fair Value (Liability)**
General account			
With hedge designation			
Swaps	$ 265	$ -	$ (1)
Without hedge designation			
Swaps	756	-	(8)
Currency forwards	15	-	-
Equity warrants	6	2	-

Options embedded in convertible debt securities		12		1		-
Trading activities						
Futures purchased		1,058		-		(4)
Futures sold, not yet purchased		166		-		-
Currency forwards		59		-		(1)
Commitments to purchase mortgage-backed securities		21		-		-
Options purchased		20		-		-
Options written		21		-		-
Total general account	$	2,399	$	3	$	(14)
Separate accounts						
Options written	$	7	$	-	$	-
Total separate accounts	$	7	$	-	$	-

Options embedded in convertible debt securities are classified as fixed maturity securities on the Condensed Consolidated Balance Sheets, consistent with the host instruments.

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Note F. Income Taxes

CNA and its eligible subsidiaries (CNA Tax Group) are included in the consolidated federal income tax return of Loews and its eligible subsidiaries.

For the nine months ended September 30, 2006, CNA received from Loews $37 million, while it paid Loews $272 million for the nine months ended September 30, 2005, related to federal income taxes. CNA s consolidated federal income taxes payable at September 30, 2006 reflects an $85 million payable to Loews and a $6 million payable related to affiliates less than 80% owned. At December 31, 2005, CNA s consolidated federal income taxes recoverable included a $68 million recoverable from Loews and a $6 million payable related to affiliates less than 80% owned.

The Loews consolidated federal income tax returns for 2002 through 2004 have been settled with the Internal Revenue Service (IRS), including related carryback claims for refund which were approved by the Joint Committee on Taxation in the third quarter of 2006. As a result, the Company recorded a federal income tax benefit of $10 million, including a $7 million tax benefit related to Discontinued Operations, resulting primarily from the release of federal income tax reserves, and net refund interest of $2 million, net of tax, in the third quarter of 2006. The net refund interest was included in Other Revenues on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006.

In 2006, the Company received from Loews $63 million related to the net tax settlement for the 2002-2004 tax returns and $4 million related to net refund interest. The net refund interest was included in Other Revenues on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006, and was reflected in the Corporate and Other Non-Core segment.

In 2005, the Loews consolidated federal income tax returns were settled with the IRS through 2001, as the tax returns for 1998-2001, including related carryback claims and prior claims for refund, were approved by the Joint Committee on Taxation. As a result, the Company recorded a federal income tax benefit of $36 million and net refund interest of $79 million, net of tax, in the second quarter of 2005. The tax benefit related primarily to the release of federal income tax reserves.

In 2005, the Company paid Loews $37 million related to the net tax deficiency for the 1998-2001 tax returns and received from Loews $121 million related to net refund interest. The net refund interest was included in Other Revenues on the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2005, and was reflected in the Corporate and Other Non-Core segment.

The federal income tax return for 2005 is currently under examination by the IRS. The Company believes the outcome of this examination will not have a material effect on the financial condition or results of operations of the Company.

Note G. Legal Proceedings and Contingent Liabilities

Insurance Brokerage Antitrust Litigation

On August 1, 2005, CNAF and several of its insurance subsidiaries were joined as defendants, along with other insurers and brokers, in multidistrict litigation pending in the United States District Court for the District of New Jersey, In re Insurance Brokerage Antitrust Litigation, Civil No. 04-5184 (FSH). The plaintiffs in this litigation allege improprieties in the payment of contingent commissions to brokers and bid rigging in connection with the sale of various lines of insurance. The plaintiffs further allege the existence of a conspiracy and assert claims for federal and state antitrust law violations, for violations of the federal Racketeer Influenced and Corrupt Organizations Act and for recovery under various state common law theories. By an order entered on October 3, 2006, the Court required the plaintiffs to supplement their pleadings with a statement setting forth the details of their claims. The Company believes it has meritorious defenses to this action and intends to defend the case vigorously.

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

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Global Crossing Limited Litigation

CCC has been named as a defendant in an action brought by the bankruptcy estate of Global Crossing Limited (Global Crossing) in the United States Bankruptcy Court for the Southern District of New York. In the Complaint, served on CCC on May 24, 2005, plaintiff seeks unspecified monetary damages from CCC and the other defendants for alleged fraudulent transfers and alleged breaches of fiduciary duties arising from actions taken by Global Crossing while CCC was a shareholder of Global Crossing. On August 3, 2006, the Court granted in part and denied in part CCC s motion to dismiss the Estate Representative s Amended Complaint. CCC believes it has meritorious defenses to the remaining claims in this action and intends to defend the case vigorously.

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

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.

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 Mutual Life Insurance Company (John Hancock) under four excess of loss reinsurance treaties (the Treaties) issued by CNA Re Ltd. While John Hancock has indicated that it is not able to accurately quantify its potential exposure to its cedents on business which is retroceded to CNA, John Hancock has reported $266 million of paid and unpaid losses under these Treaties. John Hancock is disputing portions of its assumed obligations resulting in these reported losses, and has advised CNA that it is, or has been, involved in multiple arbitrations with its own cedents, in which proceedings John Hancock is seeking to avoid and/or reduce risks that would otherwise arguably be ceded to CNA through the Treaties. John Hancock has further informed CNA that it has settled several of these disputes, but has not provided CNA with details of the settlements. To the extent that John Hancock is successful in reducing its liabilities in these disputes, that development may have an impact on the recoveries it is seeking under the Treaties from CNA.

As indicated, CNA arranged substantial reinsurance protection to manage its exposures under the IGI Program, including the United States workers compensation carve-out business ceded from John Hancock and other reinsurers. While certain reinsurers of CNA, including participants in the AAHRU Facility, disputed their liabilities under the reinsurance contracts with respect to the IGI Program, those disputes have been resolved and substantial reinsurance coverage exists for those exposures.

In addition, CNA has instituted arbitration proceedings against John Hancock in which CNA is seeking rescission of the Treaties as well as access to and the right to inspect the books and records relating to the Treaties. Discovery is ongoing in that arbitration proceeding and a hearing is currently scheduled for April 2007. Based on information known at this time, CNA believes it has strong grounds to successfully challenge its alleged exposure derived from John Hancock through the ongoing arbitration proceedings. CNA has also undertaken legal action seeking to avoid portions of the remaining exposure arising out of the IGI Program.

CNA has established reserves for its estimated exposure under the IGI 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. Although the results of the Company s various loss mitigation strategies with respect to the entire IGI Program to date support the recorded reserves, the estimate of ultimate losses is subject to considerable uncertainty due to the complexities

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described above, and the Company s inability to guarantee any outcome in the arbitration proceedings. As a result of these uncertainties, the results of operations in future periods may be adversely affected by potentially significant reserve additions. However, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time. Management does not believe that any such reserve additions would be material to the equity of the Company, although results of operations may be adversely affected. The Company s position in relation to the IGI Program was unaffected by the sale of CNA Re Ltd. in 2002.

New Jersey Wage and Hour Litigation

W. Curtis Himmelman, individually and on behalf of all others similarly situated v. Continental Casualty Company, Civil Action: 06-166, District Court of New Jersey (Trenton Division) is a purported class action and representative action brought on behalf of present and former CNA environmental claims analysts and workers compensation claims analysts asserting they worked hours for which they should have been compensated at a rate of one and one-half times their base hourly wage. The Complaint was filed on January 12, 2006. The claims were originally brought under both federal and New Jersey state wage and hour laws on the basis that the relevant jobs are not exempt from overtime pay because the duties performed are not exempt duties. On August 11, 2006, the Court dismissed plaintiff s New Jersey state law claims. Under federal law, plaintiff seeks to represent others similarly situated who opt in to the action and who also allege they are owed overtime pay for hours worked over eight hours per day and/or forty hours per workweek for the period January 5, 2003 to the entry of judgment. Plaintiff seeks overtime compensation, compensatory, punitive and statutory damages, interest, costs and disbursements and attorneys fees without specifying any particular amounts (as well as an injunction). The Company denies the material allegations of the Complaint and intends to vigorously contest the claims on numerous substantive and procedural grounds.

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

Voluntary Market Premium Litigation

CNA, along with dozens of other insurance companies, is currently a defendant in nine cases, including eight purported class actions, brought by large policyholders. The complaints differ in some respects, but generally allege that the defendants, as part of an industry-wide conspiracy, included improper charges in their retrospectively rated and other loss-sensitive insurance programs. Among the claims asserted are violations of state antitrust laws, breach of contract, fraud and unjust enrichment. The Company has denied the material allegations made in these cases and has entered into a settlement agreement which is subject to court approval. The Company previously recorded a liability in anticipation of this settlement, therefore resolution of this matter is not expected to have a material impact on results of operations.

Asbestos, Environmental Pollution and Mass Tort (APMT) Reserves

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

Other Litigation

CNA is also a party to other litigation arising in the ordinary course of business. Based on the facts and circumstances currently known, such other litigation will not, in the opinion of management, materially affect the results of operations or equity of CNA.

Note H. 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 (IBNR) as of the reporting date. The Company 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

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unpaid claims and product mix, as well as court decisions, economic conditions and public attitudes. All of these factors can affect the estimation of claim and claim adjustment expense reserves.

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

Catastrophes are an inherent risk of the property and casualty insurance business and have contributed to material period-to-period fluctuations in the Company s results of operations and/or equity. The level of catastrophe losses experienced in any period cannot be predicted and can be material to the results of operations and/or equity of the Company. Catastrophe losses, net of reinsurance, were $22 million and $437 million for the three months ended September 30, 2006 and 2005 and $40 million and $443 million for the nine months ended September 30, 2006 and 2005. The catastrophe losses in 2005 related primarily to Hurricanes Katrina, Dennis, Ophelia and Rita. There can be no assurance that CNA s ultimate cost for catastrophes will not exceed estimates.

Commercial catastrophe losses, gross of reinsurance, were $22 million and $797 million for the three months ended September 30, 2006 and 2005 and $40 million and $803 million for the nine months ended September 30, 2006 and 2005.

Claim and claim adjustment expense reserves are presented net of amounts due from insureds related to losses under high deductible policies. The Company has an allowance for uncollectible deductible amounts, which is presented as a component of the allowance for doubtful accounts for insurance receivables.

The following tables summarize the gross and net carried reserves as of September 30, 2006 and December 31, 2005.

September 30, 2006

Gross and Net Carried Claim and Claim Adjustment Expense Reserves (In millions)	**Standard Lines**	**Specialty Lines**	**Life and Group Non-Core**	**Corporate and Other Non-Core**	**Total**
Gross Case Reserves	$ 6,843	$ $1,724	$ 2,443	$ 2,766	$ 13,776
Gross IBNR Reserves	7,979	3,783	826	3,777	16,365
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 14,822	$ 5,507	$ 3,269	$ 6,543	$ 30,141
Net Case Reserves	$ 5,117	$ 1,352	$ 1,483	$ 1,390	$ 9,342

Net IBNR Reserves	6,484	2,813	388	2,023	11,708
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 11,601	$ 4,165	$ 1,871	$ 3,413	$ 21,050

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Gross and Net Carried
Claim and Claim Adjustment Expense Reserves

(In millions)	Standard Lines	Specialty Lines	Life and Group Non-Core	Corporate and Other Non-Core	Total
Gross Case Reserves	$ 7,033	$ 1,907	$ 2,542	$ 3,297	$ 14,779
Gross IBNR Reserves	8,051	3,298	735	4,075	16,159
Total Gross Carried Claim and Claim Adjustment Expense Reserves	$ 15,084	$ 5,205	$ 3,277	$ 7,372	$ 30,938
Net Case Reserves	$ 5,165	$ 1,442	$ 1,456	$ 1,554	$ 9,617
Net IBNR Reserves	6,081	2,352	381	1,902	10,716
Total Net Carried Claim and Claim Adjustment Expense Reserves	$ 11,246	$ 3,794	$ 1,837	$ 3,456	$ 20,333

The following provides discussion of the Company s Asbestos, Environmental Pollution and Mass Tort (APMT) and core reserves.

APMT Reserves

CNA s property and casualty insurance subsidiaries have actual and potential exposures related to APMT claims. Establishing reserves for APMT claim and claim adjustment expenses is subject to uncertainties that are greater than those presented by other claims. Traditional actuarial methods and techniques employed to estimate the ultimate cost of claims for more traditional property and casualty exposures are less precise in estimating claim and claim adjustment expense reserves for APMT, particularly in an environment of emerging or potential claims and coverage issues that arise from industry practices and legal, judicial and social conditions. Therefore, these traditional actuarial methods and techniques are necessarily supplemented with additional estimating techniques and methodologies, many of which involve significant judgments that are required of management. Accordingly, a high degree of uncertainty remains for the Company s ultimate liability for APMT claim and claim adjustment expenses.

In addition to the difficulties described above, estimating the ultimate cost of both reported and unreported APMT claims is subject to a higher degree of variability due to a number of additional factors, including among others: the number and outcome of direct actions against the Company; coverage issues, including whether certain costs are covered under the policies and whether policy limits apply; allocation of liability among numerous parties, some of whom may be in bankruptcy proceedings, and in particular the application of joint and several liability to specific insurers on a risk; inconsistent court decisions and developing legal theories; continuing aggressive tactics of plaintiffs lawyers; the risks and lack of predictability inherent in major litigation; enactment of federal legislation to address asbestos claims; an increase in asbestos, environmental pollution and mass tort claims which cannot now be anticipated; an increase in costs to defend asbestos, pollution and mass tort claims; expanding liability against the Company s policyholders in environmental and mass tort matters; broadened scope of clean-up resulting in increased liability to the Company s policyholders; a further increase of claims and claims payments that may exhaust underlying umbrella and excess coverage at accelerated rates; and future developments pertaining to the Company s ability to recover reinsurance for asbestos, pollution and mass tort claims.

CNA has annually performed ground up reviews of all open APMT claims to evaluate the adequacy of the Company s APMT reserves. In performing its comprehensive ground up analysis, the Company considers input from its professionals with direct responsibility for

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the claims, inside and outside counsel with responsibility for representation of the Company and its actuarial staff. These professionals review, among many factors, the policyholder s present and predicted future exposures, including such factors as claims volume, trial conditions, prior settlement history, settlement demands and defense costs; the impact of asbestos defendant bankruptcies on the policyholder; 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 following table provides data related to CNA s APMT claim and claim adjustment expense reserves.

APMT Reserves

	September 30, 2006		December 31, 2005	
(In millions)	Asbestos	Environmental Pollution and Mass Tort	Asbestos	Environmental Pollution and Mass Tort
Gross reserves	$ 2,735	$ 585	$ 2,992	$ 680
Ceded reserves	(1,255)	(220)	(1,438)	(257)
Net reserves	$ 1,480	$ 365	$ 1,554	$ 423

Asbestos

CNA s property and casualty insurance subsidiaries have exposure to asbestos-related claims. Estimation of asbestos-related claim and claim adjustment expense reserves involves limitations 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, 2006 and December 31, 2005, CNA carried approximately $1,480 million and $1,554 million of claim and claim adjustment expense reserves, net of reinsurance recoverables, for reported and unreported asbestos-related claims. The Company recorded $1 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development for the three months ended September 30, 2006 and 2005. The Company paid asbestos-related claims, net of reinsurance recoveries, of $26 million and $42 million for the three months ended September 30, 2006 and 2005. The Company recorded $2 million and $8 million of unfavorable asbestos-related net claim and claim adjustment expense reserve development for the nine months ended September 30, 2006 and 2005. The Company paid asbestos-related claims, net of reinsurance recoveries, of $76 million and $115 million for the nine months ended September 30, 2006 and 2005.

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

The ultimate cost of reported claims, and in particular APMT claims, is subject to a great many uncertainties, including future developments of various kinds that CNA does not control and that are difficult or impossible to foresee accurately. With respect to the litigation identified below in particular, numerous factual and legal issues remain unresolved. Rulings on those issues by the courts are critical to the evaluation of the ultimate cost to the Company. The outcome of the litigation cannot be predicted with any reliability. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

On February 13, 2003, CNA announced it had resolved asbestos related coverage litigation and claims involving A.P. Green Industries, A.P. Green Services and Bigelow Liptak Corporation. Under the agreement, CNA is required to pay $74 million, net of reinsurance recoveries, over a ten year period commencing after the final approval of a bankruptcy plan of reorganization. The settlement resolves CNA s liabilities for all pending and future asbestos and silica claims involving A.P. Green Industries, Bigelow Liptak Corporation and related subsidiaries, including alleged non-products exposures. The settlement received initial bankruptcy court approval on August 18, 2003 and the court is scheduled to consider confirmation of a bankruptcy plan containing an injunction to protect CNA from any future claims by the end of 2006.

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CNA is engaged in insurance coverage litigation in New York State Court, filed in 2003, with a defendant class of underlying plaintiffs who have asbestos bodily injury claims against the former Robert A. Keasbey Company (Keasbey) (Continental Casualty Co. v. Employers Ins. of Wausau et al., No. 601037/03 (N.Y. County)). Keasbey, a currently dissolved corporation, was a seller and installer of asbestos-containing insulation products in New York and New Jersey. Thousands of plaintiffs have filed bodily injury claims against Keasbey; however, Keasbey s involvement at a number of work sites is a highly contested issue. Therefore, the defense disputes the percentage of valid claims against Keasbey. CNA issued Keasbey primary policies for 1970-1987 and excess policies for 1972-1978. CNA has paid an amount substantially equal to the policies aggregate limits for products and completed operations claims in the confirmed CNA policies. Claimants against Keasbey allege, among other things, that CNA owes coverage under sections of the policies not subject to the aggregate limits, an allegation CNA vigorously contests in the lawsuit. In the litigation, CNA and the claimants seek declaratory relief as to the interpretation of various policy provisions. The court dismissed a claim alleging bad faith and seeking unspecified damages on March 21, 2004; that ruling was affirmed on March 31, 2005 by Appellate Division, First Department. The trial in the Keasbey coverage action commenced on July 13, 2005; closing arguments concluded on October 28, 2005. The Court reopened the record in January 2006 for additional evidentiary submissions and briefing, and additional closing arguments were held March 27, 2006. It is unclear when the Company will have a decision from the trial court. With respect to this litigation in particular, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include, among others: (a) whether the Company has any further responsibility to compensate claimants against Keasbey under its policies and, if so, under which policies; (b) whether the Company s responsibilities extend to a particular claimant s entire claim or only to a limited percentage of the claim; (c) whether the Company s responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (d) whether certain exclusions in some of the policies apply to exclude certain claims; (e) the extent to which claimants can establish exposures to asbestos materials as to which Keasbey has any responsibility; (f) the legal theories which must be pursued by such claimants to establish the liability of Keasbey and whether such theories can, in fact, be established; (g) the diseases and damages alleged by such claimants; and (h) the extent that such liability would be shared with other responsible parties. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CNA has insurance coverage disputes related to asbestos bodily injury claims against a bankrupt insured, Burns & Roe Enterprises, Inc. (Burns & Roe). These disputes are currently part of coverage litigation (stayed in view of the bankruptcy) and an adversary proceeding in In re: Burns & Roe Enterprises, Inc., pending in the U.S. Bankruptcy Court for the District of New Jersey, No. 00-41610. Burns & Roe provided engineering and related services in connection with construction projects. At the time of its bankruptcy filing, on December 4, 2000, Burns & Roe asserted that it faced approximately 11,000 claims alleging bodily injury resulting from exposure to asbestos as a result of construction projects in which Burns & Roe was involved. CNA allegedly provided primary liability coverage to Burns & Roe from 1956-1969 and 1971-1974, along with certain project-specific policies from 1964-1970. The litigation involves disputes over the confirmation of the Plan of Reorganization in bankruptcy, the scope and extent of coverage, if any, afforded to Burns & Roe for its asbestos liabilities. On December 5, 2005, Burns & Roe filed its Third Amended Plan of Reorganization (Plan). A confirmation hearing relating to that Plan is anticipated in 2007. Coverage issues will be determined in a later proceeding. With respect to both confirmation of the Plan and coverage issues, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include, among others: (a) whether the Company has any further responsibility to compensate claimants against Burns & Roe under its policies and, if so, under which; (b) whether the Company s responsibilities under its policies extend to a particular claimant s entire claim or only to a limited percentage of the claim; (c) whether the Company s responsibilities under its policies are limited by the occurrence limits or other provisions of the policies; (d) whether certain exclusions, including professional liability exclusions, in some of the Company s policies apply to exclude certain claims; (e) the extent to which claimants can establish exposure to asbestos materials as to which Burns & Roe has any responsibility; (f) the legal theories which must be pursued by such claimants to establish the liability of Burns & Roe and whether such theories can, in fact, be established; (g) the diseases and damages alleged by such claimants; (h) the extent that any liability of Burns & Roe would be shared with other potentially responsible parties; and (i) the impact of bankruptcy proceedings on claims and coverage issue resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

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Suits have also been initiated directly against two CNA companies and numerous other insurers in four jurisdictions: Ohio, Texas, West Virginia and Montana. In the approximately 70 Ohio actions filed to date, plaintiffs initially alleged that the defendants negligently performed duties undertaken to protect workers and the public from the effects of asbestos, spoliated evidence and conspired and acted in concert to harm the plaintiffs. (E.g. Varner v. Ford Motor Co., (Ohio Ct. Common Pl., filed June 12, 2003); Peplowski v. ACE American Ins. Co., (N.D. Ohio, filed April 1, 2004) and Cross v. Garlock, Inc. (Ohio Ct. Common Pl., filed September 1, 2004)). In the most recent of these cases, plaintiffs have made only negligent undertaking claims against the insurers. (E.g., Ball v. Goodyear Tire & Rubber Co. (Ohio Ct. Common Pl., filed May 16, 2005)). The Cuyahoga County court granted insurers, including CNA, dismissals against an initial group of plaintiffs, ruling that insurers had no duty to warn plaintiffs about the dangers of asbestos and that there was no basis for spoliation, conspiracy and concert of action claims. That ruling was affirmed on appeal. Bugg v. Am. Std., Inc., No. 84829 (Ohio Ct. App. May 26, 2005). The Cuyahoga County court has continued to dismiss substantially similar types of complaints and plaintiffs have either failed to appeal the dismissals or have voluntarily dismissed their appeals. Nonetheless, plaintiffs continued to file additional similar suits, although at this point, all cases in that court have been dismissed. The only case that remains pending at this time is Peplowski, which was transferred to the federal Multi-District Litigation court in October 2004 and has been dormant since then. With respect to this litigation, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the speculative nature and unclear scope of any alleged duties owed to individuals exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the fact that imposing such duties on all insurer and non-insurer corporate defendants would be unprecedented and, therefore, the legal boundaries of recovery are difficult to estimate; (c) the fact that many of the claims brought to date may be barred by various Statutes of Limitation and it is unclear whether future claims would also be barred; (d) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; and (e) the existence of hundreds of co-defendants in some of the suits and the applicability of the legal theories pled by the claimants to thousands of potential defendants. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

Similar lawsuits were filed in Texas beginning in 2002, against two CNA companies and numerous other insurers and non-insurer corporate defendants asserting liability for failing to warn of the dangers of asbestos (E.g. Boson v. Union Carbide Corp., (Nueces County, Texas)). During 2003, many of the Texas suits were dismissed as time-barred by the applicable Statute of Limitations. In other suits, the carriers argued that they did not owe any duty to the plaintiffs or the general public to advise the world generally or the plaintiffs particularly of the effects of asbestos and that Texas statutes precluded liability for such claims, and two Texas courts dismissed these suits. Certain of the Texas courts rulings were appealed, but plaintiffs later dismissed their appeals. More recently, a different Texas court denied similar motions seeking dismissal at the pleading stage, allowing limited discovery to proceed. After that court denied a related challenge to jurisdiction, the insurers transferred those cases, among others, to a state multi-district litigation court in Harris County charged with handling asbestos cases, and the cases remain in that court. The insurers have petitioned the appellate court in Houston for an order of mandamus, requiring the multi-district litigation court to dismiss the cases on jurisdictional and substantive grounds. With respect to this litigation in particular, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the speculative nature and unclear scope of any alleged duties owed to individuals exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the fact that imposing such duties on all insurer and non-insurer corporate defendants would be unprecedented and, therefore, the legal boundaries of recovery are difficult to estimate; (c) the fact that many of the claims brought to date are barred by various Statutes of Limitation and it is unclear whether future claims would also be barred; (d) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; and (e) the existence of hundreds of co-defendants in some of the suits and the applicability of the legal theories pled by the claimants to thousands of potential defendants. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

CCC was named in Adams v. Aetna, Inc., et al. (Circuit Court of Kanawha County, West Virginia, Nos, 0-2C-1708 to -1719, filed June 28, 2002), a purported class action against CCC and other insurers, alleging that the defendants violated West Virginia s Unfair Trade Practices Act (UTPA) in handling and resolving asbestos claims against five specifically named asbestos defendants. The Adams litigation had been stayed pending a planned motion by

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plaintiffs to file an amended complaint that reflected two June 2004 decisions of the West Virginia Supreme Court of Appeals. In June 2005, the court presiding over Adams and three similar putative class actions against other insurers, on its own motion, directed plaintiffs to file any amended complaints by June 13, 2005, and directed the parties to agree upon a case management order that would result in trial being commenced by July 2006. Plaintiffs Amended Complaint greatly expands the scope of the action against the insurers, including CCC. Under the Amended Complaint, the defendant insurers, including CCC, have now been sued for alleged violations of the UTPA in connection with handling and resolving asbestos personal injury and wrongful death claims in West Virginia courts against all their insureds if those claims were resolved before June 30, 2001. CCC, along with other insurer defendants removed the Adams case to Federal court, Adams v. Ins. Co. of North America (INA) et al. (S.D. W. Va. No. 2:05-CV-0527). A motion by plaintiffs to remand the case to state courts was granted on March 30, 2006. Following remand to state court, CCC s motion to dismiss the Amended Complaint was denied as to living plaintiffs, but granted as to claims brought by two estates, and CCC subsequently answered the Amended Complaint, as it had been narrowed by the plaintiffs in the interim. As narrowed, the Amended Complaint continues to seek compensatory damages for the alleged delay in resolving plaintiffs underlying asbestos claims and for aggravation allegedly caused by that delay and punitive damages, but no longer seeks damages for the difference between the amount plaintiffs received in their underlying asbestos settlement and what they claim they should have received, damages for increased attorneys fees and litigation expenses, and damages for loss by spouses of consortium. The trial court has stated that it intends for trial in the case to commence in July 2007. On September 18, 2006, CCC reached a settlement with plaintiffs conditioned upon court approval, and completion of satisfactory documentation, among other conditions. In the event the settlement is not consummated, numerous factual and legal issues would determine the final result in Adams, the outcome of which cannot be predicted with any reliability. These issues include: (a) the legal sufficiency and factual validity of the novel statutory claims pled by the claimants; (b) the applicability of claimants legal theories to insurers who issued excess policies and/or neither defended nor controlled the defense of certain policyholders; (c) the possibility that certain of the claims are barred by various Statutes of Limitation; (d) the fact that the imposition of duties would interfere with the attorney-client privilege and the contractual rights and responsibilities of the parties to the Company s insurance policies; (e) whether plaintiffs claims are barred in whole or in part by injunctions that have been issued by bankruptcy courts that are overseeing, or that have overseen, the bankruptcies of various insureds; (f) whether some or all of the named plaintiffs or members of the plaintiff class have released CCC from the claims alleged in the Amended Complaint when they resolved their underlying asbestos claims; (g) the appropriateness of the case for class action treatment; and (h) the potential and relative magnitude of liabilities of co-defendants. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

On March 22, 2002, a direct action was filed in Montana (Pennock, et al. v. Maryland Casualty, et al. First Judicial District Court of Lewis & Clark County, Montana) by eight individual plaintiffs (all employees of W.R. Grace & Co. (W.R. Grace)) and their spouses against CNA, Maryland Casualty and the State of Montana. This action alleges that the carriers failed to warn of or otherwise protect W.R. Grace employees from the dangers of asbestos at a W.R. Grace vermiculite mining facility in Libby, Montana. The Montana direct action is currently stayed because of W.R. Grace s pending bankruptcy. With respect to such claims, numerous factual and legal issues remain to be resolved that are critical to the final result, the outcome of which cannot be predicted with any reliability. These factors include: (a) the unclear nature and scope of any alleged duties owed to people exposed to asbestos and the resulting uncertainty as to the potential pool of potential claimants; (b) the potential application of Statutes of Limitation to many of the claims which may be made depending on the nature and scope of the alleged duties; (c) the unclear nature of the required nexus between the acts of the defendants and the right of any particular claimant to recovery; (d) the diseases and damages claimed by such claimants; (e) the extent that such liability would be shared with other potentially responsible parties; and (f) the impact of bankruptcy proceedings on claims resolution. Accordingly, the extent of losses beyond any amounts that may be accrued are not readily determinable at this time.

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

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Environmental Pollution and Mass Tort

As of September 30, 2006 and December 31, 2005, CNA carried approximately $365 million and $423 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 claim and claim adjustment expense reserve development recorded for the nine months ended September 30, 2006. There was $3 million of unfavorable environmental pollution and mass tort net claim and claim adjustment expense reserve development recorded for the nine months ended September 30, 2005. The Company recorded $30 million and $15 million of current accident year losses related to mass tort for the nine months ended September 30, 2006 and 2005. The Company paid environmental pollution-related claims and mass tort-related claims, net of reinsurance recoveries, of $88 million and $113 million for the nine months ended September 30, 2006 and 2005.

Net Prior Year Development

Favorable net prior year development of $1 million was recorded for the three months ended September 30, 2006, including $16 million of unfavorable claim and allocated claim adjustment expense reserve development and $17 million of favorable premium development. Unfavorable net prior year development of $56 million, including $49 million of unfavorable claim and allocated claim adjustment expense reserve development and $7 million of unfavorable premium development, was recorded for the three months ended September 30, 2005.

Unfavorable net prior year development of $1 million was recorded for the nine months ended September 30, 2006, including $96 million of unfavorable claim and allocated claim adjustment expense reserve development and $95 million of favorable premium development. Unfavorable net prior year development of $216 million, including $344 million of unfavorable claim and allocated claim adjustment expense reserve development and $128 million of favorable premium development, was recorded for the nine months ended September 30, 2005.

The development discussed below includes premium development due to its direct relationship to claim and claim adjustment expense reserve development. The development discussed below excludes the impact of the provision for uncollectible reinsurance. See Note I for further discussion of the provision for uncollectible reinsurance.

In 2005, the Company recorded favorable or unfavorable premium and claim and claim adjustment expense reserve development related to the corporate aggregate reinsurance treaties as movements in the claim and allocated claim adjustment expense reserves for the accident years covered by the corporate aggregate reinsurance treaties indicate such development was required. While the available limit of these treaties was fully utilized in 2003, the ceded premiums and losses for an individual segment may have changed in subsequent years because of the re-estimation of the subject losses or commutations of the underlying contracts. In 2005, the Company commuted a significant corporate aggregate reinsurance treaty and in the third quarter of 2006, the Company commuted its remaining corporate aggregate reinsurance treaty. See Note I for further discussion of the corporate aggregate reinsurance treaties.

The following discussion includes the net prior year development recorded for Standard Lines, Specialty Lines and Corporate and Other Non-Core. Unfavorable net prior year development of $10 million and $31 million was recorded in the Life and Group Non-Core segment for the three months ended September 30, 2006 and 2005. Unfavorable net prior year development of $8 million and favorable net prior year development of $11 million was recorded in the Life and Group Non-Core segment for the nine months ended September 30, 2006 and 2005.

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Net Prior Year Development
For the three months ended September 30, 2006

(In millions)	Standard Lines	Specialty Lines	Corporate and Other Non-Core	Total
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense development:				
Core (Non-APMT)	$ 6	$ (4)	$ 2	$ 4
APMT	-	-	1	1
Pretax unfavorable (favorable) net prior year development before impact of premium development	6	(4)	3	5
Total unfavorable (favorable) premium development	(19)	6	(3)	(16)
Total unfavorable (favorable) net prior year development (pretax)	$ (13)	$ 2	$ -	$ (11)

Net Prior Year Development
For the three months ended September 30, 2005

(In millions)	Standard Lines	Specialty Lines	Corporate and Other Non-Core	Total
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense development excluding the impact of the corporate aggregate reinsurance treaties:				
Core (Non-APMT)	$ 18	$ (7)	$ (1)	$ 10
APMT	-	-	1	1
Pretax unfavorable (favorable) net prior year development before impact of premium	18	(7)	-	11

development								
Unfavorable premium development, excluding impact of corporate aggregate reinsurance treaties		8		6		1		15
Ceded premiums related to corporate aggregate reinsurance treaties		(1)		-		-		(1)
Total premium development		7		6		1		14
Total unfavorable (favorable) net prior year development (pretax)	$	25	$	(1)	$	1	$	25

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Net Prior Year Development
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(In millions)	Standard Lines	Specialty Lines	Corporate and Other Non-Core	Total
Pretax unfavorable (favorable) net prior year claim and allocated claim adjustment expense development excluding the impact of the corporate aggregate reinsurance treaty:				
Core (Non-APMT)	$ 70	$ (1)	$ 13	$ 82
APMT	-	-	2	2
Total	70	(1)	15	84
Ceded losses related to corporate aggregate reinsurance treaty	-	-	-	-
Pretax unfavorable (favorable) net prior year development before impact of premium development	70	(1)	15	84
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaty	(92)	-	1	(91)
Ceded premiums related to corporate aggregate reinsurance treaty	-	-	-	-
Total premium development	(92)	-	1	(91)
Total unfavorable (favorable) net prior year development (pretax)	$ (22)	$ (1)	$ 16	$ (7)

Net Prior Year Development
For the nine months ended September 30, 2005

Standard	Specialty	Corporate and Other

(In millions)	Lines	Lines	Non-Core	Total
Pretax unfavorable net prior year claim and allocated claim adjustment expense development excluding the impact of the corporate aggregate reinsurance treaties:				
Core (Non-APMT)	$ 183	$ 56	$ 57	$ 296
APMT	-	-	11	11
Total	183	56	68	307
Ceded losses related to corporate aggregate reinsurance treaties	19	(25)	6	-
Pretax unfavorable net prior year development before impact of premium development	202	31	74	307
Unfavorable (favorable) premium development, excluding impact of corporate aggregate reinsurance treaties	(99)	(9)	11	(97)
Ceded premiums related to corporate aggregate reinsurance treaties	(6)	19	4	17
Total premium development	(105)	10	15	(80)
Total unfavorable net prior year development (pretax)	$ 97	$ 41	$ 89	$ 227

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Three Month Comparison
2006 Net Prior Year Development
Standard Lines
Favorable net prior year development of $13 million was recorded for the three months ended September 30, 2006, including $6 million of unfavorable claim and allocated claim adjustment expense reserve development and $19 million of favorable premium development.

Approximately $21 million of unfavorable claim and allocated claim adjustment expense reserve development was due to higher frequency and severity on claims related to excess workers compensation, in accident years 2005 and prior. The primary drivers of the higher frequency and severity were increasing medical inflation and advances in medical care. Medical inflation and advances in medical care result in additional claims reaching the excess layers covered by the Company and increases the size of claims already in the excess layers.

Approximately $8 million of unfavorable claim and allocated claim adjustment expense reserve development related to continued increases in individual claim reserve estimates on commercial auto business, in accident years 2005 and 2004. The increase is primarily due to larger claims. These changes in individual claim estimates result in higher projections of ultimate loss from the incurred development and average loss methods used by the Company s actuaries.

Approximately $30 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity on claims related to monoline and package liability, primarily in accident years 2002 and prior. The change was driven by decreased incurred losses as a result of changes in individual claim reserve estimates. The lower incurred losses were less than expected based on the loss development factors selected by the Company s actuaries.

Approximately $14 million of the favorable premium development was due to additional premium primarily resulting from audits and changes to premium on several ceded reinsurance agreements. Businesses impacted included various middle market liability coverages, workers compensation, property, and large accounts. Unfavorable claim and allocated claim adjustment expense reserve development of approximately $9 million was recorded as a result of this favorable premium development.

Specialty Lines
Unfavorable net prior year development of $2 million was recorded for the three months ended September 30, 2006, including $4 million of favorable claim and allocated claim adjustment expense reserve development and $6 million of unfavorable premium development.

Corporate and Other Non-Core
There was $3 million of unfavorable claim and allocated claim adjustment expense reserve development and $3 million of favorable premium development, resulting in no net prior year development for the three months ended September 30, 2006.

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2005 Net Prior Year Development

Standard Lines

Unfavorable net prior year development of $25 million was recorded for the three months ended September 30, 2005, including $18 million of unfavorable claim and allocated claim adjustment expense reserve development and $7 million of unfavorable premium development.

Approximately $33 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from increased claim cost inflation for workers compensation, primarily in accident year 2001 and prior. The primary drivers of the increased claim cost inflation were increasing medical inflation and advances in medical care. Approximately $23 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to continued improvement in the severity and number of claims for property coverages, primarily in accident year 2004. The improvements in severity and frequency are substantially due to underwriting actions taken by the Company that have significantly improved the results on this business. Underwriting actions taken included efforts to write more business in non-catastrophe prone areas.

Approximately $35 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was attributed to increased severity in liability coverages for large account policies. These increases are driven by increasing medical inflation and larger verdicts than anticipated, both of which increased the severity of these claims beyond the amount indicated by previous incurred development methods. The remainder of the favorable net prior year claim and allocated claim adjustment expense reserve development was primarily a result of improved experience on several coverages on middle market business mainly in accident year 2004.

Specialty Lines

Favorable net prior year development of $1 million was recorded for the three months ended September 30, 2005, including $7 million of favorable claim and allocated claim adjustment expense reserve development and $6 million of unfavorable premium development.

Corporate and Other Non-Core

Unfavorable premium development of $1 million was recorded for the three months ended September 30, 2005. There was no claim and allocated claim adjustment expense reserve development recorded for the three months ended September 30, 2005.

Nine Month Comparison

2006 Net Prior Year Development

Standard Lines

Favorable net prior year development of $22 million was recorded for the nine months ended September 30, 2006, including $70 million of unfavorable claim and allocated claim adjustment expense reserve development and $92 million of favorable premium development.

Approximately $41 million of unfavorable claim and allocated claim adjustment expense reserve development was primarily due to continued claim cost inflation for workers compensation in older accident years, primarily 2002 and prior. The primary drivers of the continuing claim cost inflation are medical inflation and advances in medical care.

Approximately $21 million of unfavorable claim and allocated claim adjustment expense reserve development was due to higher frequency and severity on claims related to excess workers compensation, in accident years 2005 and prior. The primary drivers of the higher frequency and severity were increasing medical inflation and advances in medical care. Medical inflation and advances in medical care result in additional claims reaching the excess layers covered by the Company and increases the size of claims already in the excess layers.

Approximately $16 million of unfavorable claim and allocated claim adjustment expense reserve development related to continued increases in individual claim reserve estimates on commercial auto business, in accident years 2005 and 2004. The increase is primarily due to a higher than expected number of large claims. These changes in

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individual claim estimates result in higher projections of ultimate loss from the incurred development and average loss methods used by the Company s actuaries.

Approximately $15 million of unfavorable claim and allocated claim adjustment expense reserve development was due to increased severity in liability coverages for large account policies. These increases were driven by increasing medical inflation and larger verdicts than anticipated, both of which increase the severity of these claims resulting in higher case incurred losses and higher ultimate estimates.

Approximately $11 million of unfavorable claim and allocated claim adjustment expense reserve development was due to the Company s share of an assessment from various Windstorm Underwriting Authority Pools.

Approximately $45 million of favorable claim and allocated claim adjustment expense reserve development was related to continued improvement in the severity and frequency of claims for property coverages, primarily in accident year 2005. The improvements in severity and frequency are substantially due to underwriting actions taken by the Company that have significantly improved the results on this business. Underwriting actions taken include efforts to write more business in non-catastrophe prone areas.

Approximately $21 million of favorable claim and allocated claim adjustment expense reserve development was due to decreased frequency and severity on claims related to monoline and package liability, primarily in accident years 2002 and prior. The change was driven by decreased incurred losses resulting from favorable outcomes on individual claims. The lower incurred losses were less than expected based on the loss development factors selected by the Company s actuaries.

Approximately $16 million of favorable claim and allocated claim adjustment expense reserve development was related to lower severities on the excess and surplus lines business in accident years 2000 and subsequent. These severity changes were driven primarily by judicial decisions and settlement activities on individual cases. The severity changes led to lower case incurred loss and lower ultimate estimates.

Approximately $16 million of favorable claim and allocated claim adjustment expense reserve development was due to umbrella products. The change covers several accident years. Initial reserves are normally estimated using the loss ratio expected for this business due to the long-tail nature of this business. The long-tail nature of the business is due to the long period of time that passes between the time the business is written and the time when all claims are known and settled. The favorable change on the recent accident years is the result of giving greater weight to projections that rely on case incurred loss thereby recognizing the low level of case incurred loss. The favorable change in older years is driven by favorable outcomes on individual claims.

Approximately $12 million of favorable claim and allocated claim adjustment expense reserve development was due to improved experience for marine business, primarily in accident years 2005 and 2004. The case incurred loss (paid loss plus case reserve estimates for known claims) for these accident years has been less than expected. The expected case incurred loss was primarily based on the loss ratio expected for this business. The lower level of actual case incurred loss is driven by lower claim frequency and indicates a lower ultimate loss. The remainder of the favorable change in marine business is due to lowered individual case estimates from older accident years.

Approximately $66 million of the favorable premium development was due to additional premium primarily resulting from audits and changes to premium on several ceded reinsurance agreements. Businesses impacted included various middle market liability coverages, workers compensation, property, and large accounts. This favorable premium development was partially offset by approximately $48 million of unfavorable claim and allocated claim adjustment expense reserve development recorded as a result of this favorable premium development.

Specialty Lines

Favorable claim and allocated claim adjustment expense reserve development of $1 million was recorded for the nine months ended September 30, 2006. There was no premium development recorded for the nine months ended September 30, 2006.

Approximately $40 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded due to increased claim adjustment expenses and increased severities in the architects and engineers book of business in accident years 2003 and prior. Previous reviews assumed that incurred severities had increased, at least

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in part, due to increases in the adequacy of case reserve estimates with relatively minor changes in underlying severity. Subsequent changes in paid and case incurred losses have shown that more of the change was due to underlying increases in verdict and settlement size for these accident years rather than increases in case reserve adequacy, resulting in higher ultimate losses. One of the primary drivers of these larger verdicts and settlements is the continuing general increase in commercial and private real estate values.

Approximately $40 million of favorable claim and allocated claim adjustment expense reserve development was due to improved claim severity and claim frequency in the healthcare professional liability business, primarily in dental, nursing home liability, physicians and other healthcare facilities. The improved severity and frequency are due to underwriting changes. The Company no longer writes large national nursing home chains and focuses on smaller insureds in selected areas of the country. These changes have resulted in business that experiences fewer large claims.

Approximately $15 million of unfavorable claim and allocated claim adjustment expense reserve development was primarily related to increased severity on large claims from large law firm errors and omissions, and directors and officers (D&O) coverages. These increases result in higher ultimate loss projections from the average loss methods used by the Company s actuaries.

Approximately $17 million of favorable claim and allocated claim adjustment expense reserve development was recorded in the warranty line of business for the most recent accident year. The reserves for this business are initially estimated based on the loss ratio expected for the business. Subsequent estimates rely more heavily on the actual case incurred losses due to the short-tail nature of this business. The short-tail nature of the business is due to the short period of time that passes between the time the loss occurs and the time when all claims are known and settled. Case incurred loss for the most recent accident year has been lower than indicated by the initial loss ratio.

Corporate and Other Non-Core

Unfavorable net prior year development of $16 million was recorded for the nine months ended September 30, 2006. This amount consisted of $15 million of unfavorable claim and allocated claim adjustment expense reserve development and $1 million of unfavorable premium development.

The unfavorable claim and allocated claim adjustment expense reserve development was primarily related to the financial guarantee line of business, and an adverse arbitration ruling that was offset by a release of a previously established allowance for uncollectible reinsurance. Reserves for the financial guarantee line of business are driven by individual claim estimates. This unfavorable claim and allocated claim adjustment expense reserve development was partially offset by the favorable loss development impact of an assumed reinsurance commutation. The unfavorable premium development was also related to this reinsurance commutation.

2005 Net Prior Year Development

Standard Lines

Unfavorable net prior year development of $97 million was recorded for the nine months ended September 30, 2005. This amount consisted of $202 million of unfavorable claim and allocated claim adjustment expense reserve development and $105 million of favorable premium development.

Approximately $141 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development resulted from increased severity trends for workers compensation, primarily in accident years 2002 and prior. The primary drivers of the increased claim cost inflation were increasing medical inflation and advances in medical care.

Approximately $135 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to improvement in the severity and number of claims for property coverages and marine business, primarily in accident year 2004. The improvements in severity and frequency are substantially due to underwriting actions taken by the Company that have significantly improved the results on this business. Underwriting actions taken include efforts to write more business in non-catastrophe prone areas.

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Approximately $90 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $83 million of favorable net prior year premium development resulted from an unfavorable arbitration ruling on two reinsurance treaties.

Approximately $76 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was attributed to increased severity in liability coverages for large account policies. These increases are driven by increasing medical inflation and larger verdicts than anticipated, both of which increased the severity of these claims beyond the amount indicated by previous incurred development methods.

Approximately $51 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was related to reviews of liquor liability, trucking and habitational business that indicated that the number of large claims was higher than previously expected in recent accident years. The remainder of the favorable net prior year claim and allocated claim adjustment expense reserve development was primarily a result of improved experience on several coverages on middle market business mainly in accident year 2004.

Favorable net prior year premium development was recorded primarily as a result of additional premium resulting from audits on recent policies, primarily workers compensation.

Additionally, there was $19 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development and $6 million of favorable premium development related to the corporate aggregate reinsurance treaties.

Specialty Lines

Unfavorable net prior year development of $41 million was recorded for the nine months ended September 30, 2005, including $31 million of unfavorable claim and allocated claim adjustment expense reserve development and $10 million of unfavorable premium development.

Approximately $60 million of unfavorable claim and allocated claim adjustment expense reserve development was recorded due to increased claim adjustment expenses and increased severities in the architects and engineers book of business, in accident years 2000 through 2003. Previous reviews assumed that severities had increased, at least in part, due to increases in the adequacy of case reserve estimates. Subsequent changes in paid and incurred loss have shown that more of the change was due to larger verdicts and settlements during these accident years. One of the primary drivers of these larger verdicts and settlements is the continuing general increase in real estate values. Favorable net prior year premium development of approximately $10 million was recorded in relation to this unfavorable claim and allocated claim adjustment expense reserve development.

Approximately $27 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was related to large D&O claims assumed from a London syndicate, primarily in accident years 2001 and prior. Approximately $40 million of unfavorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to large claims resulting from excess coverages provided to health care facilities. The claim severity estimates for this business are driven by individual case by case reviews. Reviews of the individual cases underlying the excess coverages provided by the Company resulted in significant increases to the individual case estimates.

Approximately $17 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded due to lower severity in the dental program. The lower severity is driven by efforts to resolve a higher percentage of claims without a resulting indemnity payment.

Approximately $24 million of favorable net prior year claim and allocated claim adjustment expense reserve development was recorded as a result of improvements in the claim severity and claim frequency, mainly in recent accident years, from nursing home businesses. The improved severity and frequency are due to underwriting changes in this business. The Company no longer writes large national chains and focuses on smaller insureds in selected areas of the country. These changes have resulted in business that experiences fewer large claims. The remainder of the favorable net prior year claim and allocated claim adjustment expense reserve development was primarily attributed to favorable experience in the warranty line of business, partially offset by unfavorable net prior year claim and allocated claim adjustment expense reserve development attributed to other large D&O claims.

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Additionally, there was approximately $25 million of favorable net prior year claim and allocated claim adjustment expense reserve development and $19 million of unfavorable premium development related to the corporate aggregate reinsurance treaties in the first nine months of 2005.

Corporate and Other Non-Core

Unfavorable net prior year development of $89 million was recorded for the nine months ended September 30, 2005, including $74 million of unfavorable claim and allocated claim adjustment expense reserve development and $15 million of unfavorable premium development.

Approximately $56 million of unfavorable claim and allocated claim adjustment expense reserve development was a result of a commutation recorded in the second quarter of 2005. Approximately $6 million of unfavorable claim and allocated claim adjustment expense reserve development was related to the corporate aggregate reinsurance treaties. The unfavorable premium development was primarily driven by $10 million of additional ceded reinsurance premium on agreements where the ceded premium depends on the ceded loss and $4 million of additional premium ceded to the corporate aggregate reinsurance treaties.

Note I. Reinsurance

CNA cedes insurance to reinsurers to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks and to exit certain lines of business. The ceding of insurance does not discharge the primary liability of the Company. 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 their obligations or to the extent that the reinsurer disputes the liabilities assumed under reinsurance agreements. Property and casualty reinsurance coverages are tailored to the specific risk characteristics of each product line and CNA s retained amount varies by type of coverage. Reinsurance contracts are purchased to protect specific lines of business such as property, workers compensation and professional liability. Corporate catastrophe reinsurance is also purchased for property and workers compensation exposure. Most reinsurance contracts are purchased on an excess of loss basis. CNA also utilizes facultative reinsurance in certain lines. In addition, CNA assumes reinsurance as a member of various reinsurance pools and associations.

The following table summarizes the amounts receivable from reinsurers at September 30, 2006 and December 31, 2005.

Components of reinsurance receivables	**September 30, 2006**	**December 31, 2005**
(In millions)		
Reinsurance receivables related to insurance reserves:		
Ceded claim and claim adjustment expense	$ 9,091	$ 10,605
Ceded future policy benefits	1,070	1,193
Ceded policyholders funds	54	56
Billed reinsurance receivables	688	582
Reinsurance receivables	10,903	12,436
Allowance for uncollectible reinsurance	(535)	(519)
Reinsurance receivables, net of allowance for uncollectible reinsurance	$ 10,368	$ 11,917

The Company attempts to mitigate its credit risk related to reinsurance by entering into reinsurance arrangements with reinsurers that have credit ratings above certain levels and by obtaining substantial amounts of collateral. The primary methods of obtaining collateral are through reinsurance trusts, letters of credit and funds withheld balances. On a more limited basis, CNA may enter into reinsurance agreements with reinsurers that are not rated.

In 2001, the Company entered into a one-year corporate 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 CCC Cover was fully utilized in 2003 and interest charges accrued on the related funds held balance at 8% per annum. Effective July 25, 2006, the Company commuted the CCC Cover resulting in a reduction of Reinsurance Receivables of approximately $761 million and a corresponding reduction of $761 million in the funds withheld liability, which was included in Reinsurance Balances Payable on the Condensed Consolidated

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Balance Sheet. This commutation had no impact on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2006.

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

Components of Earned Premiums

Three months ended September 30 (In millions)	**Direct**	**Assumed**	**Ceded**	**Net**
2006				
Property and casualty	$ 2,342	$ 19	$ 577	$ 1,784
Accident and health	186	15	42	159
Life	18		18	
Total earned premiums	$ 2,546	$ 34	$ 637	$ 1,943
2005				
Property and casualty	$ 2,548	$ 13	$ 856	$ 1,705
Accident and health	245	18	96	167
Life	27		26	1
Total earned premiums	$ 2,820	$ 31	$ 978	$ 1,873

Components of Earned Premiums

Nine months ended September 30 (In millions)	**Direct**	**Assumed**	**Ceded**	**Net**
2006				
Property and casualty	$ 6,795	$ 47	$ 1,620	$ 5,222
Accident and health	550	44	114	480
Life	76		74	2
Total earned premiums	$ 7,421	$ 91	$ 1,808	$ 5,704
2005				
Property and casualty	$ 7,600	$ 72	$ 2,526	$ 5,146
Accident and health	805	42	311	536
Life	109		107	2

Total earned premiums	$ 8,514	$ 114	$ 2,944	$ 5,684

Included in the direct and ceded earned premiums for the three months ended September 30, 2006 and 2005 are $376 million and $699 million, and for the nine months ended September 30, 2006 and 2005 are $1,087 million and $2,299 million, related to business that is 100% reinsured as a result of business dispositions and a significant captive program.

Life and accident and health premiums are primarily from long duration contracts; property and casualty premiums are primarily from short duration contracts.

Reinsurance accounting allows for contractual cash flows to be reflected as premiums and losses, as compared to deposit accounting, which requires cash flows to be reflected as assets and liabilities. To qualify for reinsurance accounting, reinsurance agreements must include risk transfer. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. Reinsurance contracts that include both significant risk sharing provisions, such as adjustments to premiums or loss coverage based on loss experience, and relatively low policy limits as evidenced by a high proportion of maximum premium assessments to loss limits, may require considerable judgment to determine whether or not risk transfer requirements are met. For such contracts, often referred to as finite products, the Company assesses risk transfer for each contract generally by developing quantitative analyses at

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contract inception which measure the present value of potential reinsurer losses as compared to the present value of the related premium.

Reinsurance contracts that do not effectively transfer the underlying economic risk of loss on policies written by the Company are recorded using the deposit method of accounting, which requires that premium paid or received by the ceding company or assuming company be accounted for as a deposit asset or liability. The Company primarily records these deposits as either Reinsurance Receivables or Other Assets for ceded recoverables and Reinsurance Balances Payable or Other Liabilities for assumed liabilities.

Funds Withheld Reinsurance Arrangements

The Company s overall reinsurance program has included certain property and casualty contracts, such as the commuted CCC Cover discussed in more detail above, that are entered into and accounted for on a funds withheld basis. Under the funds withheld basis, the Company recorded 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 not remitted in cash is recorded as funds withheld liabilities. The Company 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 the Company in excess of the Company 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 on the Condensed Consolidated Balance Sheets.

Interest cost on reinsurance contracts accounted for on a funds withheld basis is incurred during all periods in which a funds withheld liability exists, and is included in net investment income. The amount subject to interest crediting rates on such contracts was $320 million and $1,050 million at September 30, 2006 and December 31, 2005. The decrease is due to the commutation of the CCC Cover discussed above. Certain funds withheld reinsurance contracts require interest on additional premiums arising from ceded losses as if those premiums were payable at the inception of the contract. 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. The Company expects that it will continue to incur interest costs on these contracts for several years.

As of September 30, 2006 and December 31, 2005, there were 12 and 13 ceded reinsurance treaties inforce that the Company considers to be finite reinsurance. These treaties provide reinsurance protection for individual accident years 1999 through 2002 on specified portions of the Company s domestic property and casualty business. All of these contracts are accounted for on a funds withheld basis. In 2003, the Company discontinued purchases of such contracts. The following table summarizes the pretax impact of these contracts, including the commuted CCC Cover discussed in further detail above. Effective October 1, 2005, the Aggregate Cover, which was a corporate aggregate reinsurance treaty related to the 1999 through 2001 accident years and covered substantially all of the Company s property and casualty lines of business, was commuted.

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Three months ended September 30 (In millions)	Aggregate Cover	CCC Cover	All Other	Total
2006				
Ceded earned premium	$	$	$	$
Ceded claim and claim adjustment expense				
Ceding commissions				
Interest charges		(5)	(4)	(9)
Pretax expense	$	$ (5)	$ (4)	$ (9)
2005				
Ceded earned premium	$ 1	$	$ (9)	$ (8)
Ceded claim and claim adjustment expense			15	15
Ceding commissions			3	3
Interest charges	(15)	(17)	(16)	(48)
Pretax expense	$ (14)	$ (17)	$ (7)	$ (38)

Nine months ended September 30 (In millions)	Aggregate Cover	CCC Cover	All Other	Total
2006				
Ceded earned premium	$	$	$ (12)	$ (12)
Ceded claim and claim adjustment expense			17	17
Ceding commissions				
Interest charges		(40)	(20)	(60)
Pretax expense	$	$ (40)	$ (15)	$ (55)
2005				
Ceded earned premium	$ (17)	$	$ 56	$ 39
Ceded claim and claim adjustment expense			(52)	(52)
Ceding commissions			(27)	(27)
Interest charges	(57)	(49)	(26)	(132)

Pretax expense	$ (74)	$ (49)	$ (49)	$ (172)

Included in All Other above for the nine months ended September 30, 2005 is approximately $24 million of pretax expense related to Standard Lines which resulted from an unfavorable arbitration ruling on two reinsurance treaties impacting ceded earned premiums, ceded claim and claim adjustment expenses, ceding commissions and interest charges. This unfavorable outcome was partially offset by a release of previously established reinsurance bad debt reserves resulting in a net impact from the arbitration ruling of $10 million pretax expense for the nine months ended September 30, 2005.

The pretax impact by operating segment of the Company s funds withheld reinsurance arrangements, including the corporate aggregate reinsurance treaties, was as follows:

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
Standard Lines	$ (7)	$ (24)	$ (31)	$ (120)
Specialty Lines		(3)	(4)	(10)
Corporate and Other	(2)	(11)	(20)	(42)
Pretax benefit (expense)	$ (9)	$ (38)	$ (55)	$ (172)

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Note J. Debt
Debt is composed of the following obligations.

Debt

(In millions)	September 30, 2006	December 31, 2005
Variable rate debt:		
Credit facility CNA Surety, due June 30, 2008	$	$ 20
Debenture CNA Surety, face amount of $31, due April 29, 2034	31	31
Senior notes:		
6.750%, face amount of $250, due November 15, 2006	250	250
6.450%, face amount of $150, due January 15, 2008	149	149
6.600%, face amount of $200, due December 15, 2008	199	199
6.000%, face amount of $400, due August 15, 2011	398	
8.375%, face amount of $70, due August 15, 2012	69	69
5.850%, face amount of $549, due December 15, 2014	546	546
6.500%, face amount of $350, due August 15, 2016	348	
6.950%, face amount of $150, due January 15, 2018	149	149
Debenture, 7.250%, face amount of $243, due November 15, 2023	241	241
Other debt, 1.000%-6.850%, due through 2019	25	36
Total debt	$ 2,405	$ 1,690
Short term debt	$ 250	$ 252
Long term debt	2,155	1,438
Total debt	$ 2,405	$ 1,690

In August of 2006, CNAF sold $400 million of 6.0% five-year senior notes and $350 million of 6.5% ten-year senior notes in a public offering.

In July of 2005, CNA Surety, a 63% owned and consolidated subsidiary of CNA, refinanced $30 million of outstanding borrowings under its $50 million credit agreement with a new credit facility (the 2005 Credit Facility). The 2005 Credit Facility provides a $50 million revolving credit facility that matures on June 30, 2008. In November of 2005, CNA Surety repaid $10 million of outstanding borrowings. During the third quarter of 2006, the outstanding 2005 Credit Facility balance of $20 million was repaid. Subsequently, in September of 2006, CNA Surety reduced the available aggregate revolving credit facility to $25 million in borrowings.

The combined aggregate maturities for debt at September 30, 2006 are presented in the following table.

Maturity of Debt

(In millions)	
2006	$ 250
2007	
2008	350
2009	
2010	
Thereafter	1,817
Less original issue discount	(12)
Total	$ 2,405

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Note K. Benefit Plans
Pension and Postretirement Healthcare and Life Insurance Benefit Plans

CNAF and certain subsidiaries sponsor noncontributory pension plans typically covering full-time employees age 21 or over who have completed at least one year of service. In 2000, the CNA Retirement Plan was closed to new participants; instead, retirement benefits are provided to these employees under the Company s savings plans. While the terms of the pension plans vary, benefits are generally based on years of credited service and the employee s highest 60 consecutive months of compensation. CNA uses December 31 as the measurement date for the majority of its plans.

CNA s funding policy is to make contributions in accordance with applicable governmental regulatory requirements. The assets of the plans are invested primarily in mortgage-backed securities, short term investments, equity securities and limited partnerships.

CNA provides certain healthcare and life insurance benefits to eligible retired employees, their covered dependents and their beneficiaries. The funding for these plans is generally to pay covered expenses as they are incurred.

The components of net periodic benefit costs are presented in the following table.

Net Periodic Benefit Costs

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
Pension Benefits				
Service cost	$ 6	$ 6	$ 19	$ 20
Interest cost on projected benefit obligation	35	34	107	106
Expected return on plan assets	(40)	(38)	(120)	(115)
Prior service cost amortization		1	1	2
Actuarial loss	4	4	21	15
Net periodic pension cost	$ 5	$ 7	$ 28	$ 28
Postretirement benefits				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost on projected benefit obligation	3	3	7	8
Prior service cost amortization	(7)	(7)	(20)	(21)
Actuarial loss	1	1	3	3
Net periodic postretirement benefit	$ (2)	$ (2)	$ (8)	$ (8)

At December 31, 2005, CNA expected to contribute $7 million to its pension plans and $14 million to its postretirement healthcare and life insurance benefit plans in 2006. As of September 30, 2006, $71 million of contributions have been made to its pension plans and $10 million to its postretirement healthcare and life insurance benefit plans. CNA plans to contribute an additional $1 million to its pension plans and $4 million to its postretirement healthcare and life insurance benefit plans during the remainder of 2006.

Stock-Based Compensation

The CNA Long Term Incentive Plan (the LTI Plan) authorizes the grant of options and stock appreciation rights (SARs) to certain management personnel for up to 4 million shares of the Company s common stock. All options and SARs granted have ten-year terms and vest ratably over the four-year period following the date of grant. The number of shares available for the granting of options and SARs under the LTI Plan as of September 30, 2006, was approximately 2 million.

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The following table presents activity under the LTI Plan during the nine months ended September 30, 2006.

Options and SARs Plan Activity

	Number of Awards	Weighted Average Option Price per Award
Balance at January 1, 2006	1,628,600	$ 28.71
Awards granted	327,000	30.98
Awards exercised	(61,000)	28.91
Awards forfeited	(19,900)	28.53
Balance at September 30, 2006	1,874,700	$ 29.10
Awards exercisable at September 30, 2006	1,136,150	$ 29.50

During 2006, the Company awarded SARs totaling 327,000 shares. The SARs balance at September 30, 2006 was 320,600 shares with 6,400 shares forfeited.

At September 30, 2006, the Company s non-vested portion of a restricted stock grant totaled 28,329 shares with a grant-date fair value of $842 thousand.

The weighted average grant-date fair value of awards granted during the nine months ended September 30, 2006 was $10.72 per award. The weighted average remaining contractual term of awards outstanding and exercisable as of September 30, 2006, were 6.71 years and 5.52 years. The aggregate intrinsic values of awards outstanding and exercisable at September 30, 2006 were $13 million and $7 million. The total intrinsic value of awards exercised during the nine months ended September 30, 2006 was $415 thousand.

The fair value of granted options and SARs was estimated at the grant date using the Black-Scholes option-pricing model. The Black-Scholes model incorporates a risk free rate of return and various assumptions, regarding the underlying common stock and the expected life of the securities granted. Different interest rates and assumptions were used for each grant, as appropriate at that date. The risk free interest rates used ranged from 2.7% to 4.6%. The estimates of the underlying common stock s volatility ranged from 22.3% to 25.2%, and the expected dividend yield was 0% for all valuations. The expected life of the securities granted ranged from 5.0 to 6.3 years.

CNA Surety has reserved shares of its common stock for issuance to directors, officers and employees of CNA Surety through incentive stock options, non-qualified stock options and SARs under separate plans (CNA Surety Plans). The CNA Surety Plans have in the aggregate 3.3 million shares available for which options may be granted. At September 30, 2006, approximately 1.1 million options were outstanding under these plans. The data provided in the preceding paragraphs does not include CNA Surety s stock-based compensation plans.

The Company recorded stock-based compensation expense of $817 thousand and $66 thousand during the three months ended September 30, 2006 and 2005. The related income tax benefit recognized was $286 thousand and $23 thousand. The Company recorded stock-based compensation expense of $2.5 million and $303 thousand during the nine months ended September 30, 2006 and 2005. The related income tax benefit recognized was $862 thousand and $106 thousand. These amounts also include compensation in the form of restricted stock grants awarded by the

Company and expense recorded by CNA Surety for these periods. At September 30, 2006, the compensation cost related to nonvested awards not yet recognized was $4.9 million and the weighted average period over which it is expected to be recognized is 1.49 years.

Note L. Commitments, Contingencies and Guarantees

Commitments and Contingencies

In the normal course of business, CNA has provided letters of credit in favor of various unaffiliated insurance companies, regulatory authorities and other entities. At September 30, 2006 and December 31, 2005, there were approximately $27 million and $30 million of outstanding letters of credit.

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The Company is obligated to make future payments totaling $248 million for non-cancelable operating leases primarily for office space and data processing, office and transportation equipment. Estimated future minimum payments under these contracts are as follows: $19 million in 2006; $48 million in 2007; $42 million in 2008; $34 million in 2009; $30 million in 2010; and $75 million in 2011 and beyond. Additionally, the Company has entered into a limited number of guaranteed payment contracts, primarily relating to telecommunication and software services, amounting to approximately $19 million as of September 30, 2006. Estimated future minimum payments under these contracts are as follows: $7 million in 2006, $10 million in 2007 and $2 million in 2008.

The Company currently has an agreement in place for services to be rendered in relation to employee benefits, administration and consulting. If the Company terminates this agreement without cause, or the agreement is terminated due to the Company s default, prior to the end of any renewal term, the Company shall pay the greater of fifteen percent of the average monthly fees related to such services for the remainder of the term, or the specified minimum termination fee for the year. The minimum termination fee for the year ending December 31, 2006 is $8 million.

Guarantees

The Company holds an investment in a real estate joint venture. In the normal course of business, CNA, on a joint and several basis with other unrelated insurance company shareholders, has committed to continue funding the operating deficits of this joint venture. Additionally, CNA and the other unrelated shareholders, on a joint and several basis, have guaranteed an operating lease for an office building, which expires in 2016.

The guarantee of the operating lease is a parallel guarantee to the commitment to fund operating deficits; consequently, the separate guarantee to the lessor is not expected to be triggered as long as the joint venture continues to be funded by its shareholders and continues to make its annual lease payments.

In the event that the other parties to the joint venture are unable to meet their commitments in funding the operations of this joint venture, the Company would be required to assume the obligation for the entire office building operating lease. The maximum potential future lease payments at September 30, 2006 that the Company could be required to pay under this guarantee are approximately $235 million. If CNA were required to assume the entire lease obligation, the Company would have the right to pursue reimbursement from the other shareholders and would have the right to all sublease revenues.

CNA has provided guarantees of the indebtedness of certain of its independent insurance producers. These guarantees expire in 2008. The Company would be required to remit prompt and complete payment when due, should the primary obligor default. In the event of default on the part of the primary obligor, the Company has a right to any and all shares of common stock of the primary obligor. The maximum potential amount of future payments that CNA could be required to pay under these guarantees was approximately $6 million at September 30, 2006.

In the course of selling business entities and assets to third parties, the Company has agreed to indemnify purchasers for losses arising out of breaches of representation and warranties with respect to the business entities or assets being sold, including, in certain cases, losses arising from undisclosed liabilities or certain named litigation. Such indemnification provisions generally survive for periods ranging from nine months following the applicable closing date to the expiration of the relevant statutes of limitation. As of September 30, 2006 the aggregate amount of quantifiable indemnification agreements in effect for sales of business entities, assets and third party loans was $923 million.

In addition, the Company has agreed to provide indemnification to third party purchasers for certain losses associated with sold business entities or assets that are not limited by a contractual monetary amount. As of September 30, 2006, the Company had outstanding unlimited indemnifications in connection with the sales of certain of its business entities or assets that included tax liabilities arising prior to a purchaser s ownership of an entity or asset, defects in title at the time of sale, employee claims arising prior to closing and in some cases losses arising from certain litigation and undisclosed liabilities. These indemnification agreements survive until the applicable statutes of limitation expire, or until the agreed upon contract terms expire. The liabilities related to these indemnification agreements were approximately $25 million and $65 million as of September 30, 2006 and December 31, 2005.

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In connection with the issuance of preferred securities by CNA Surety Capital Trust I, CNA Surety issued a guarantee of $75 million to guarantee the payment by CNA Surety Capital Trust I of annual dividends of $1.5 million over 30 years and redemption of $30 million of preferred securities.

Note M. Stockholders Equity and Statutory Financial Information

Capital stock (in whole numbers) is composed of the following:

Summary of Capital Stock

	September 30, 2006	December 31, 2005
Preferred stock, without par value, non-voting		
Authorized	12,500,000	12,500,000
Issued and outstanding:		
Series H (stated value $100,000 per share, held by Loews)		7,500
Common stock, par value $2.50		
Authorized	500,000,000	500,000,000
Issued	273,040,543	258,177,285
Outstanding	270,929,753	256,001,968
Treasury stock	2,110,790	2,175,317

The Series H Issue was held by Loews and accrued cumulative dividends at an initial rate of 8% per year, compounded annually. In August 2006, the Company repurchased the Series H Issue for approximately $993 million, a price equal to the liquidation preference.

The Company financed the repurchase of the Series H Issue with the proceeds from the sales of: (i) 7.0 million shares of its common stock in a public offering for approximately $235.5 million; (ii) $400 million of new 6.0% five-year senior notes and $350 million of new 6.5% ten-year senior notes in a public offering; and (iii) 7.86 million shares of its common stock to Loews in a private placement for approximately $264.5 million.

Statutory Accounting Practices

CNA s domestic insurance subsidiaries maintain their accounts in conformity with accounting practices prescribed or permitted by insurance regulatory authorities, which vary in certain respects from GAAP. In converting from statutory to GAAP, typical adjustments include deferral of policy acquisition costs and the inclusion of net unrealized holding gains or losses in shareholders equity relating to certain fixed maturity securities. The National Association of Insurance Commissioners (NAIC) has codified statutory accounting principles to foster more consistency among the states for accounting guidelines and reporting.

CNA s insurance subsidiaries are domiciled in various jurisdictions. These subsidiaries prepare statutory financial statements in accordance with accounting practices prescribed or permitted by the respective jurisdictions insurance regulators. Prescribed statutory accounting practices are set forth in a variety of publications of the NAIC as well as state laws, regulations and general administrative rules.

CCC follows a permitted practice related to the statutory provision for reinsurance, or the uncollectible reinsurance reserve. This permitted practice allows CCC to record an additional uncollectible reinsurance reserve amount through a different financial statement line item than the prescribed statutory convention. This permitted practice had no effect on CCC s statutory surplus as of September 30, 2006 or December 31, 2005.

CNAF s ability to pay dividends and other credit obligations is significantly dependent on receipt of dividends from its subsidiaries. The payment of dividends to CNAF 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 by the respective state insurance departments.

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 of Financial and Professional Regulation Division of Insurance (the Department), may be paid only

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from earned surplus, which is calculated by removing unrealized gains from unassigned surplus. As of September 30, 2006, CCC is in a positive earned surplus position, enabling CCC to pay approximately $568 million of dividend payments for the remainder of 2006 that would not be subject to the Department s prior approval. The actual level of dividends paid in any year is determined after an assessment of available dividend capacity, holding company liquidity and cash needs as well as the impact the dividends will have on the statutory surplus of the applicable insurance company.

Combined statutory capital and surplus and net income, determined in accordance with accounting practices prescribed or permitted by insurance regulatory authorities for the property and casualty and the life and group insurance subsidiaries, were as follows.

Preliminary Statutory Information

	Statutory Capital and Surplus		Statutory Net Income (Loss) Three months ended September 30		Statutory Net Income (Loss) Nine months ended September 30	
(In millions)	September 30, 2006	December 31, 2005	2006	2005	2006	2005
Property and casualty companies (a)	$ 7,827	$ 6,940	$ 351	$ (19)	$ 614	$ 849
Life and group insurance companies	701	627	29	(5)	71	49

(a) *Surplus includes the property and casualty companies equity ownership of the life and group company s capital and surplus.*

Note N. Comprehensive Income (Loss)

Comprehensive income (loss) is composed of all changes to stockholders equity, except those changes resulting from transactions with stockholders in their capacity as stockholders. The components of comprehensive income (loss) are shown below.

Comprehensive Income (Loss)

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
Net income	$ 311	$ 6	$ 779	$ 481
Other comprehensive income (loss):				
Change in unrealized gains/losses on general account investments:				
Holding gains/losses arising during the period, net of tax benefit (expense) of ($315), $207, ($35) and $88	586	(386)	66	(164)
	(1)	(3)	(9)	(114)

Net unrealized gains/losses at beginning of period included in realized gains/losses during the period, net of tax benefit of $2, $2, $6 and $62				
Net change in unrealized gains/losses on general account investments, net of tax benefit (expense) of ($313), $209, ($29) and $150	585	(389)	57	(278)
Net change in unrealized gains/losses on discontinued operations and other, net of tax benefit (expense) of ($2), $13, $0 and $13	(1)	7		7
Net change in foreign currency translation adjustment	5	9	32	(15)
Net change in minimum pension liability, net of tax benefit of $0, $0, $0 and $0			(1)	
Allocation to participating policyholders and minority interests	(15)	13		13
Other comprehensive income (loss), net of tax benefit (expense) of ($315), $222, ($29) and $163	574	(360)	88	(273)
Total comprehensive income (loss)	$ 885	$ (354)	$ 867	$ 208

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Note O. Business Segments

CNA s core property and casualty insurance operations are reported in two business segments: Standard Lines and Specialty Lines. CNA s non-core operations are managed in two segments: Life and Group Non-Core and Corporate and Other Non-Core. These segments reflect the way CNA manages its operations and makes business decisions.

The Company manages most of its assets on a legal entity basis, while segment operations are conducted across legal entities. As such, only insurance and reinsurance receivables, insurance reserves and deferred acquisition costs are readily identifiable by individual segment. Distinct investment portfolios are not maintained for each segment; accordingly, allocation of assets to each segment is not performed. Therefore, net investment income and realized investment gains or losses are allocated primarily based on each segment s net carried insurance reserves, as adjusted. Income taxes have been allocated on the basis of the taxable income of the segments.

In the following tables, certain financial measures are presented to provide information used by management to monitor the Company s operating performance. Management utilizes these financial measures to monitor the Company s insurance operations and investment portfolio. Net operating income, which is derived from certain income statement amounts, is used by management to monitor performance of the Company s insurance operations. The Company s investment portfolio is monitored through analysis of various quantitative and qualitative factors and certain decisions related to the sale or impairment of investments that produce realized gains and losses. Net realized investment gains and losses are comprised of after-tax realized investment gains and losses net of participating policyholders and minority interests.

Net operating income is calculated by excluding from net income the after-tax effects of 1) net realized investment gains or losses, 2) income or loss from discontinued operations and 3) cumulative effects of changes in accounting principles. In the calculation of net operating income, management excludes after-tax net realized investment gains or losses because net realized investment gains or losses related to the Company s investment portfolio are largely discretionary, except for losses related to other-than-temporary impairments, 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 insurance operations.

The Company s investment portfolio is monitored by management through analyses of various factors including unrealized gains and losses on securities, portfolio duration and exposure to interest rate, market and credit risk. Based on such analyses, the Company may impair an investment security in accordance with its policy, or sell a security. Such activities will produce realized gains and losses.

The significant components of the Company s continuing operations and selected balance sheet items are presented in the following tables.

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For the three months ended September 30, 2006 (In millions)	Standard Lines	Specialty Lines	Life and Group Non-Core	Corporate and Other Non-Core	Eliminations	Total
Net earned premiums	$ 1,128	$ 654	$ 160	$ 3	$ (2)	$ 1,943
Net investment income	239	101	179	81		600
Other revenues	16	38	8	6	(12)	56
Total operating revenues	1,383	793	347	90	(14)	2,599
Claims, benefits and expenses:						
Net incurred claims and benefits	776	397	314	31		1,518
Policyholders dividends	4	1	(1)			4
Amortization of deferred acquisition costs	249	137	4			390
Other insurance related expenses	89	31	48	8	(1)	175
Other expenses	20	35	14	28	(13)	84
Total claims, benefits and expenses	1,138	601	379	67	(14)	2,171
Operating income (loss) from continuing operations before income tax and minority interest	245	192	(32)	23		428
Income tax (expense) benefit on operating income (loss)	(78)	(64)	17	(7)		(132)
Minority interest	(4)	(9)				(13)
Net operating income (loss) from continuing operations	163	119	(15)	16		283
Realized investment gains (losses), net of participating policyholders and minority interests	18	6	(10)	7		21
	(7)	(1)	3	6		1

Income tax (expense) benefit on realized investment gains (losses)											
Income (loss) from continuing operations	$	174	$	124	$	(22)	$	29	$		$ 305

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, Continued
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For the three months ended September 30, 2005 (In millions)	**Standard Lines**	**Specialty Lines**	**Life and Group Non-Core**	**Corporate And Other Non-Core**	**Eliminations**	**Total**
Net earned premiums	$ 1,080	$ 628	$ 169	$ (1)	$ (3)	$ 1,873
Net investment income	186	74	179	61		500
Other revenues	26	34	20	16	(16)	80
Total operating revenues	1,292	736	368	76	(19)	2,453
Claims, benefits and expenses:						
Net incurred claims and benefits	1,148	366	342	12		1,868
Policyholders dividends	4	1	(1)	(1)		3
Amortization of deferred acquisition costs	281	128	5	2		416
Other insurance related expenses	76	45	69	(4)	(3)	183
Other expenses	23	28	13	39	(16)	87
Total claims, benefits and expenses	1,532	568	428	48	(19)	2,557
Operating income (loss) from continuing operations before income tax and minority interest	(240)	168	(60)	28		(104)
Income tax (expense) benefit on operating income (loss)	100	(53)	25	4		76
Minority interest	(4)	(7)				(11)
Net operating income (loss) from continuing operations	(144)	108	(35)	32		(39)
Realized investment gains (losses), net of participating policyholders and minority interests	51	16	(2)	2		67
	(18)	(5)	1	(3)		(25)

Income tax (expense) benefit on realized investment gains (losses)						
Income (loss) from continuing operations	$ (111)	$ 119	$ (36)	$ 31	$	$ 3

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For the nine months ended September 30, 2006 (In millions)	Standard Lines	Specialty Lines	Life and Group Non-Core	Corporate and Other Non-Core	Eliminations	Total
Net earned premiums	$ 3,310	$ 1,915	$ 482	$ 1	$ (4)	$ 5,704
Net investment income	705	287	504	226		1,722
Other revenues	49	112	44	8	(38)	175
Total operating revenues	4,064	2,314	1,030	235	(42)	7,601
Claims, benefits and expenses:						
Net incurred claims and benefits	2,297	1,157	886	90	1	4,431
Policyholders dividends	12	3				15
Amortization of deferred acquisition costs	725	395	12			1,132
Other insurance related expenses	293	109	141	24	(4)	563
Restructuring and other related charges				(13)		(13)
Other expenses	58	103	40	91	(39)	253
Total claims, benefits and expenses	3,385	1,767	1,079	192	(42)	6,381
Operating income (loss) from continuing operations before income tax and minority interest	679	547	(49)	43		1,220
Income tax (expense) benefit on operating income (loss)	(207)	(181)	36	(14)		(366)
Minority interest	(9)	(23)				(32)
Net operating income (loss) from continuing operations	463	343	(13)	29		822
Realized investment losses, net of participating policyholders and minority interests	(6)	(4)	(56)	(2)		(68)

Income tax benefit on realized investment gains (losses)	2	2	19	4		27
Income (loss) from continuing operations	$ 459	$ 341	$ (50)	$ 31	$	$ 781
As of September 30, 2006 (In millions)						
Reinsurance receivables	$ 3,333	$ 1,415	$ 2,537	$ 3,618	$	$ 10,903
Insurance receivables	$ 1,856	$ 425	$ 41	$ (30)	$	$ 2,292
Insurance reserves:						
Claim and claim adjustment expense	$ 14,822	$ 5,507	$ 3,268	$ 6,544	$	$ 30,141
Unearned premiums	2,083	1,614	170	5	(1)	3,871
Future policy benefits			6,552			6,552
Policyholders funds	32		1,017			1,049
Deferred acquisition costs	$ 433	$ 284	$ 503	$	$	$ 1,220

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For the nine months ended September 30, 2005 (In millions)	**Standard Lines**	**Specialty Lines**	**Life and Group Non-Core**	**Corporate and Other Non-Core**	**Eliminations**	**Total**
Net earned premiums	$ 3,333	$ 1,831	$ 539	$ (10)	$ (9)	$ 5,684
Net investment income	540	197	431	177		1,345
Other revenues	74	94	78	156	(51)	351
Total operating revenues	3,947	2,122	1,048	323	(60)	7,380
Claims, benefits and expenses:						
Net incurred claims and benefits	2,750	1,158	860	102	(2)	4,868
Policyholders dividends	16	3	(1)			18
Amortization of deferred acquisition costs	757	390	18	3		1,168
Other insurance related expenses	318	93	194	6	(7)	604
Other expenses	82	81	43	103	(51)	258
Total claims, benefits and expenses	3,923	1,725	1,114	214	(60)	6,916
Operating income (loss) from continuing operations before income tax and minority interest	24	397	(66)	109		464
Income tax (expense) benefit on operating income (loss)	41	(121)	37	20		(23)
Minority interest	(8)	(8)				(16)
Net operating income (loss) from continuing operations	57	268	(29)	129		425
Realized investment gains (losses), net of participating policyholders and minority interests	71	25	(8)	(14)		74
	(29)	(6)	3	2		(30)

Income tax (expense) benefit on realized investment gains (losses)						
Income (loss) from continuing operations	$ 99	$ 287	$ (34)	$ 117	$	$ 469
As of December 31, 2005 (In millions)						
Reinsurance receivables	$ 3,968	$ 1,493	$ 2,707	$ 4,268	$	$ 12,436
Insurance receivables	$ 1,826	$ 375	$ 105	$ 5	$	$ 2,311
Insurance reserves:						
Claim and claim adjustment expense	$ 15,084	$ 5,205	$ 3,277	$ 7,372	$	$ 30,938
Unearned premiums	1,952	1,577	168	9		3,706
Future policy benefits			6,297			6,297
Policyholders funds	30		1,465			1,495
Deferred acquisition costs	$ 408	$ 274	$ 515	$	$	$ 1,197

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The following table provides revenue by line of business for each reportable segment. Revenues are comprised of operating revenues and realized investment gains and losses, net of participating policyholders and minority interests.

Revenue by Line of Business

	Three Months		Nine Months	
Period ended September 30	**2006**	**2005**	**2006**	**2005**
(In millions)				
Standard Lines				