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# CNA Financial Corporation Fourth Quarter 2020 Results

February 8, 2021

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# Fourth Quarter and Full Year Overview

**Fourth Quarter**

- Net income of $387 million or $1.42 per share; record core income of $335 million or $1.23 per share.
- Net and core income includes a non-economic A&EP charge of $39 million, $0.14 per share.
- The P&C combined ratio was 93.5% compared with 95.6% in the PY quarter, including 0.8 points of catastrophe loss impact compared with 2.9 points in the PY quarter. No change to COVID-19 catastrophe loss estimate.
- The underlying combined ratio was 92.7% compared with 94.9% in the PY quarter. The underlying loss ratio was 60.5% compared with 60.9% in the PY quarter and the expense ratio was 32.0% compared with 33.7% in the PY quarter.
- P&C segments, excluding third party captives, generated GWP growth of 15% and NWP growth of 12% from strong rate of +12% and new business growth of 17%.
- Net investment income of $555 million pretax includes $114 million of income from LPs and common stock compared with $545 million of pretax net investment income which included $69 million of income from LPs and common stock in the PY quarter.

**Full Year**

- Net income of $690 million or $2.53 per share; core income of $735 million or $2.70 per share.
- The P&C combined ratio was 100.9% compared with 96.7% in the PY, including 7.7 points of catastrophe loss impact compared with 2.6 points in the PY.
- The underlying combined ratio was 93.1% compared with 94.8% in the PY. The underlying loss ratio was 60.2% compared with 61.0% in the PY and the expense ratio was 32.6% compared with 33.5% in the PY.
- P&C segments, excluding third party captives, generated GWP growth of 9% and NWP growth of 6% from strong rate of +11% and new business growth of 6%.
- Net investment income of $1,935 million pretax includes $144 million of income from LPs and common stock compared with $2,118 million of pretax net investment income which included $226 million of income from LPs and common stock in the PY.

**Shareholders' Equity**

- Book value per share (BVPS) of $46.82; ex. AOCI of $43.86.
    - 6% increase from year-end 2019, adjusting for $3.48 dividends per share, ex. AOCI.
- Increased quarterly dividend 3% to $0.38 per share; special dividend of $0.75 per share.

# Financial Performance

Record quarterly Core income of $335M; Core ROE of 11.4%

| *(In millions, except ratios and per share data)* | Fourth Quarter | | | Year to Date | | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Revenues | **$2,931** | $2,777 | 6 % | **$10,808** | $10,767 | — % |
| Core income | **335** | 265 | 26 % | **735** | 979 | (25)% |
| Net income | **387** | 273 | 42 % | **690** | 1,000 | (31)% |
| Diluted earnings per common share: | | | | | | |
| Core income | **$1.23** | $0.97 | 27 % | **$2.70** | $3.59 | (25)% |
| Net income | **1.42** | 1.00 | 42 % | **2.53** | 3.67 | (31)% |
| Core ROE | **11.4 %** | 8.8 % | 2.6 pts | **6.1 %** | 8.1 % | (2.0) pts |

# Property & Casualty Operations

Strong growth and profitability in the quarter

| *(In millions, except ratios)* | Fourth Quarter | | Year to Date | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| GWP ex. 3rd party captives | **$2,169** | $1,892 | **$8,422** | $7,735 |
| *GWP change (% year over year)* | **15 %** | | **9 %** | |
| Net written premium | **$1,952** | $1,746 | **$7,566** | $7,134 |
| *NWP change (% year over year)* | **12 %** | | **6 %** | |
| Underwriting gain (loss) | **$122** | $76 | **($63)** | $227 |
| Loss ratio excl. catastrophes and development | **60.5 %** | 60.9 % | **60.2 %** | 61.0 % |
| Impact of catastrophes | **0.8 %** | 2.9 % | **7.7 %** | 2.6 % |
| Impact of development-related items | **— %** | (2.2)% | **0.1 %** | (0.7)% |
| Loss ratio | **61.3 %** | 61.6 % | **68.0 %** | 62.9 % |
| Expense ratio | **32.0 %** | 33.7 % | **32.6 %** | 33.5 % |
| Combined ratio | **93.5 %** | 95.6 % | **100.9 %** | 96.7 % |
| Combined ratio excl. catastrophes and development | **92.7 %** | 94.9 % | **93.1 %** | 94.8 % |

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# Specialty

Continued strong profitability and significant premium growth

| *(In millions, except ratios)* | Fourth Quarter | | Year to Date | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| GWP ex. 3rd party captives | **$883** | $752 | **$3,296** | $3,015 |
| *GWP change (% year over year)* | **17 %** | | **9 %** | |
| Net written premium | **$809** | $705 | **$3,040** | $2,848 |
| *NWP change (% year over year)* | **15 %** | | **7 %** | |
| Underwriting gain | **$81** | $83 | **$187** | $271 |
| Loss ratio excl. catastrophes and development | **60.0 %** | 60.7 % | **59.9 %** | 60.3 % |
| Impact of catastrophes | **0.7 %** | (0.2)% | **4.3 %** | 0.5 % |
| Impact of development-related items | **(1.9)%** | (4.9)% | **(2.1)%** | (3.3)% |
| Loss ratio | **58.8 %** | 55.6 % | **62.1 %** | 57.5 % |
| Expense ratio | **30.4 %** | 32.4 % | **31.3 %** | 32.5 % |
| Combined ratio | **89.4 %** | 88.2 % | **93.5 %** | 90.2 % |
| Combined ratio excl. catastrophes and development | **90.6 %** | 93.3 % | **91.3 %** | 93.0 % |

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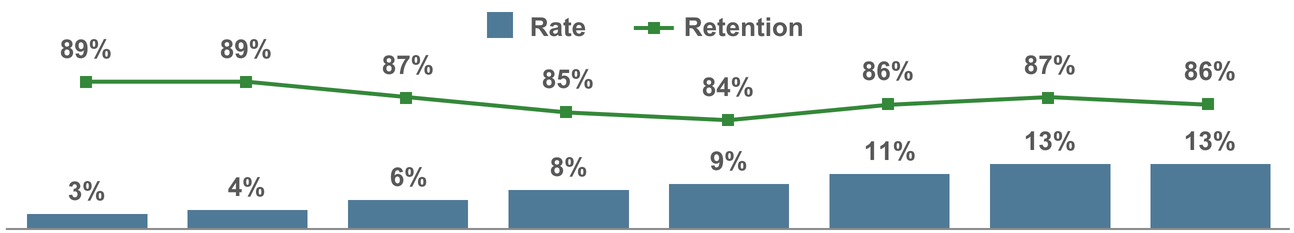
# Specialty Production Metrics

New business growth of +23% and effective rate/retention execution

| Specialty Rate & Retention | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2019 | | | | 2020 | | | |
| Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |




| | 2019 Q1 | 2019 Q2 | 2019 Q3 | 2019 Q4 | 2020 Q1 | 2020 Q2 | 2020 Q3 | 2020 Q4 |
|---|---|---|---|---|---|---|---|---|
| **GWP ex. 3rd party captives ($M)** | **$730** | **$755** | **$778** | **$752** | **$741** | **$811** | **$861** | **$883** |
| **New Business ($M)** | **$86** | **$97** | **$91** | **$93** | **$74** | **$96** | **$105** | **$114** |
| **Healthcare** | | | | | | | | |
| **Rate** | 10% | 13% | 17% | 19% | 31% | 28% | 32% | 26% |
| **Retention** | 85% | 83% | 79% | 68% | 63% | 73% | 76% | 76% |
| **Mgmt & Prof Liability** | | | | | | | | |
| **Rate** | 1% | 2% | 4% | 5% | 5% | 8% | 9% | 10% |
| **Retention** | 90% | 90% | 89% | 90% | 90% | 89% | 90% | 89% |
| **Surety** | | | | | | | | |
| **Net Written Premiums** | $134 | $136 | $130 | $117 | $141 | $133 | $130 | $121 |
| **Warranty & Alt. Risks** | | | | | | | | |
| **Revenues** | $323 | $326 | $332 | $342 | $337 | $348 | $356 | $371 |

Note: Rate and retention metrics on renewed business are not applicable for Surety and Warranty. Large Warranty Programs & Captives business is mostly reinsured.

# Commercial

Improved profitability in the quarter and double-digit GWP growth in the quarter and full year

| *(In millions, except ratios)* | Fourth Quarter | | Year to Date | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| GWP ex. 3rd party captives | **$975** | $867 | **$3,993** | $3,609 |
| *GWP change (% year over year)* | **13 %** | | **11 %** | |
| Net written premium | **$862** | $779 | **$3,565** | $3,315 |
| *NWP change (% year over year)* | **11 %** | | **8 %** | |
| Underwriting gain (loss) | **$33** | ($8) | **($228)** | ($28) |
| Loss ratio excl. catastrophes and development | **61.1 %** | 61.4 % | **60.6 %** | 61.7 % |
| Impact of catastrophes | **0.5 %** | 6.5 % | **10.7 %** | 4.9 % |
| Impact of development-related items | **1.7 %** | (1.3)% | **2.1 %** | 0.7 % |
| Loss ratio | **63.3 %** | 66.6 % | **73.4 %** | 67.3 % |
| Expense ratio | **32.7 %** | 33.6 % | **33.0 %** | 32.9 % |
| Combined ratio | **96.2 %** | 100.6 % | **106.9 %** | 100.8 % |
| Combined ratio excl. catastrophes and development | **94.0 %** | 95.4 % | **94.1 %** | 95.2 % |

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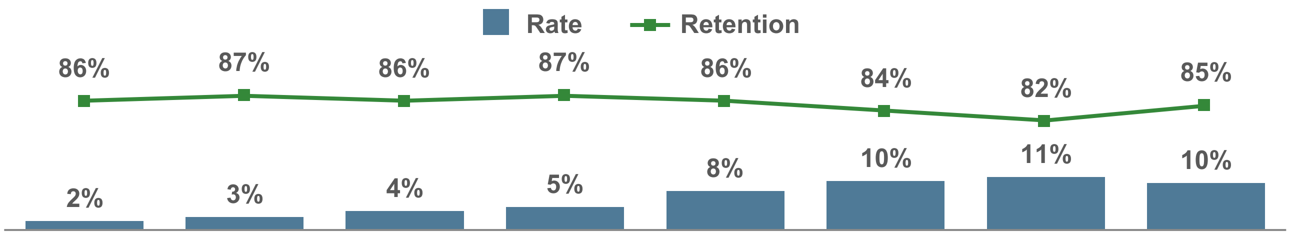
# Commercial Production Metrics

Third consecutive quarter of double-digit rate increases and new business growth of +22%

| Commercial Rate & Retention | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2019 | | | | 2020 | | | |
| Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |




| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **GWP ex. 3rd party captives ($M)** | **$933** | **$958** | **$852** | **$867** | **$1,059** | **$1,044** | **$915** | **$975** |
| **New Business ($M)** | **$163** | **$186** | **$172** | **$161** | **$199** | **$198** | **$167** | **$197** |
| **Middle Market** | | | | | | | | |
| **Rate** | 1% | 3% | 2% | 3% | 5% | 7% | 9% | 8% |
| **Retention** | 85% | 87% | 86% | 86% | 86% | 82% | 80% | 83% |
| **Construction[1]** | | | | | | | | |
| **Rate** | 2% | 3% | 5% | 4% | 6% | 8% | 10% | 10% |
| **Retention** | 86% | 88% | 86% | 92% | 87% | 85% | 84% | 91% |
| **Small Business** | | | | | | | | |
| **Rate** | (3)% | (2)% | (1)% | (1)% | (1)% | (1)% | —% | —% |
| **Retention** | 84% | 84% | 85% | 84% | 85% | 88% | 86% | 85% |
| **Other** | | | | | | | | |
| **Rate** | 6% | 8% | 11% | 12% | 23% | 25% | 27% | 23% |
| **Retention** | 87% | 86% | 85% | 82% | 84% | 82% | 80% | 79% |

[1] Effective January 1, 2020, the Construction line of business is presented separately in the Commercial segment to better align with our underwriting expertise and the manner in which the products are sold. Prior period information has been conformed to the new line of business presentation.

# International

Strong growth in International fueled by 18 points of rate

| *(In millions, except ratios)* | Fourth Quarter | | Year to Date | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Gross written premium | **$311** | $274 | **$1,133** | $1,111 |
| *GWP change (% year over year)* | **14 %** | | **2 %** | |
| Net written premium | **$281** | $262 | **$961** | $971 |
| *NWP change (% year over year)* | **7 %** | | **(1)%** | |
| Underwriting gain (loss) | **$8** | $1 | **($22)** | ($16) |
| Loss ratio excl. catastrophes and development | **60.1 %** | 59.7 % | **60.1 %** | 60.9 % |
| Impact of catastrophes | **2.1 %** | — % | **7.1 %** | 1.1 % |
| Impact of development-related items | **(0.3)%** | 2.6 % | **(0.3)%** | 2.1 % |
| Loss ratio | **61.9 %** | 62.3 % | **66.9 %** | 64.1 % |
| Expense ratio | **35.0 %** | 38.0 % | **35.5 %** | 37.7 % |
| Combined ratio | **96.9 %** | 100.3 % | **102.4 %** | 101.8 % |
| Combined ratio excl. catastrophes and development | **95.1 %** | 97.7 % | **95.6 %** | 98.6 % |

# Life & Group

Positive Core income in the quarter reflects continuation of favorable morbidity trends

| *(In millions)* | Fourth Quarter | | Year to Date | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net earned premiums | $124 | $130 | $504 | $520 |
| Net investment income | 229 | 204 | 851 | 820 |
| Other revenues | — | — | — | — |
| **Total operating revenues** | **$353** | **$334** | **$1,355** | **$1,340** |
| Total claims, benefits and expenses | 334 | 354 | 1,402 | 1,539 |
| Income tax benefit | 7 | 16 | 56 | 90 |
| **Core income (loss)** | **$26** | **($4)** | **$9** [1] | **($109)** [2] |

[1] Includes a $59M after-tax charge related to the Q3 2020 active life reserve unlocking
[2] Includes a $170M after-tax charge related to the Q3 2019 active life reserve unlocking

# Financial Strength

Strong capital position

| *(In millions, except per share data)* | Dec 31, 2020 | Dec 31, 2019 |
|---|---|---|
| Debt | **$2,776** | $2,679 |
| Stockholders' Equity | **12,707** | 12,215 |
| Total capital | **$15,483** | $14,894 |
| BVPS ex AOCI | **$43.86** | $44.81 |
| Dividends per share (YTD) | **$3.48** | $3.40 |
| Debt-to-capital | **17.9%** | 18.0% |
| Holding company cash | **$522** | $522 |
| Total investments | **$50,293** | $47,744 |
| Statutory surplus | **$10,708** | $10,787 |

## Capital

- Capital remains above target levels required for all current ratings
- Adjusting for dividends, book value per share ex AOCI increased 6%

## Leverage

- Low debt-to-capital ratio
- Well balanced debt maturity profile

## Liquidity

- Liquidity profile remains very strong
- $367 million Q4 operating cash flow

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# Liquidity Profile

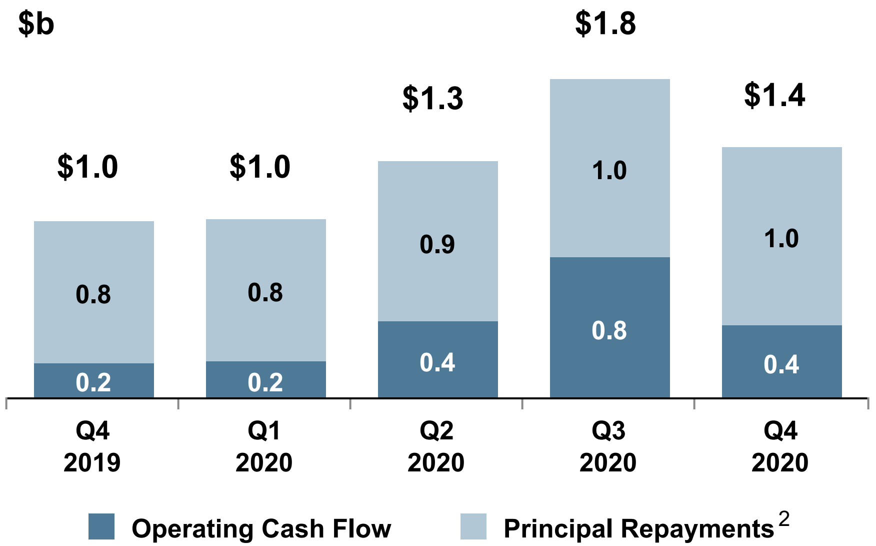
Significant increase in operating cash flows and strong liquidity position

## Holding Co. Liquidity & Obligations

**$M**

| As of Dec 31, 2020 | |
|---|---|
| 2020 Operating company dividend capacity | $1,078 |
| Less: Last twelve months dividends | (975) |
| Current operating company dividend capacity | 103 |
| Holding company cash | 522 |
| Availability under credit facility | 250 |
| **Net corporate sources** | **$875** |
| | |
| Interest expense on outstanding debt | $109 |
| Common quarterly dividends (**$0.38**/share) | 413 |
| **Estimated annual pretax corporate obligations** | **$522** |

## Operating Company Liquidity[1]




[1] Excludes availability under Federal Home Loan Bank facility
[2] Principal repayments from investments include maturities, prepayments from structured securities, calls and bank debt pay-downs

# Investment Portfolio

Diversified and liquid investment portfolio

| December 31, 2020 | Carrying Value | | Net Unrealized G/(L) |
|---|---|---|---|
| **Asset Class ($M)** | **$** | **%** | **$** |
| Investment Grade Corp | 22,093 | 44 % | 3,418 |
| Municipals | 11,592 | 23 % | 1,863 |
| CMBS and ABS | 4,218 | 8 % | 123 |
| Agency RMBS | 3,308 | 7 % | 118 |
| Below Investment Grade Corp | 2,259 | 4 % | 138 |
| Short Term | 1,907 | 4 % | — |
| Limited Partnerships / Other | 1,695 | 3 % | — |
| Mortgage Loans | 1,068 | 2 % | — |
| Preferred Equity | 797 | 2 % | — |
| Foreign Government | 544 | 1 % | 32 |
| US Government | 338 | 1 % | (1) |
| Non Agency RMBS | 279 | 1 % | 27 |
| Common Equity | 195 | — % | — |
| **Total Invested Assets** | **50,293** | **100 %** | **5,718** |
| ***Q4 Change in Net Unrealized G/(L)*** | | | ***739*** |

## Highlights

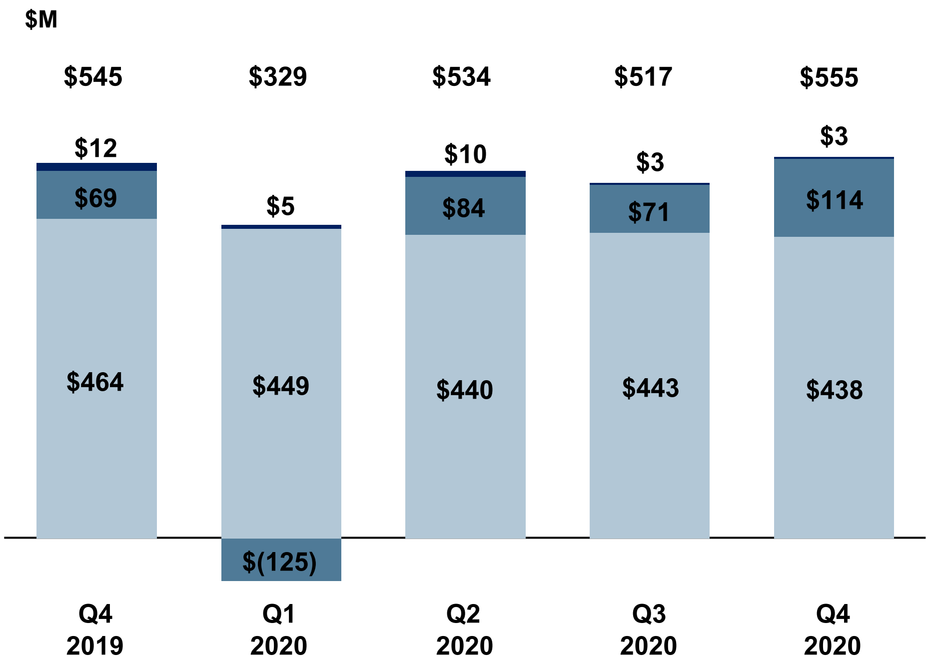
- High-quality portfolio with an average credit rating of "A"
- Liquidity supports underlying liability characteristics
- Net unrealized gain position continues to increase as market yields have fallen

| Effective Portfolio Duration | |
|---|---|
| Life & Group | 9.2 yrs |
| P&C and Corporate | 4.5 yrs |
| **Total** | **6.3 yrs** |

| Fixed Maturities by Rating | % of Portfolio |
|---|---|
| AAA | 16% |
| AA | 16% |
| A | 22% |
| BBB | 40% |
| **Investment Grade** | **94%** |
| Below Investment Grade | 6% |
| **Total Fixed Maturities** | **100%** |

# Pretax Net Investment Income

Solid net investment income results driven by limited partnership and common stock returns




| | | | | |
|---|---|---|---|---|
| **Effective income yield for fixed income securities, pretax:** | | | | |
| 4.7% | 4.6% | 4.6% | 4.5% | 4.4% |
| **Limited partnership and common equities return, pretax:** | | | | |
| 3.7% | (7.0)% | 5.0% | 4.1% | 6.5% |

- Fixed Income
- Limited Partnership & Common Equities
- Other, Net of Investment Expense

## Highlights

- Q4 2020 limited partnership and common equity returns driven by continued equity market appreciation
- The fixed income portfolio continues to provide consistent earnings despite headwinds from lower rate environment

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