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CNA SURETY CORP
Form 10-K
March 26, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

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

COMMISSION FILE NUMBER: 1-13277

CNA SURETY CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF INCORPORATION OR
ORGANIZATION)

36-4144905
(I.R.S. EMPLOYER IDENTIFICATION NO.)

CNA PLAZA, CHICAGO, ILLINOIS
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

60685
(ZIP CODE)

(312) 822-5000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, \$0.01 PAR VALUE
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to the
best of the Registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. []

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The aggregate market value of voting stock held by nonaffiliates was \$198.4 million based upon the closing price of \$12.97 per share on March 9, 2001, using beneficial ownership of stock rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude voting stock owned by Directors, Officers and Major Stockholders, some of whom may not be held to be affiliates upon judicial determination.

At March 9, 2001, 42,723,758 shares of the Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the CNA Surety Corporation 2000 Annual Report to Shareholders are incorporated by reference into Part II of this report.

Portions of the CNA Surety Corporation Proxy Statement prepared for the 2001 annual meeting of shareholders, pursuant to Regulation 14A, are incorporated by reference into Part III of this report.

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CNA SURETY CORPORATION AND SUBSIDIARIES

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CNA SURETY CORPORATION AND SUBSIDIARIES

PART I

ITEM 1. BUSINESS

GENERAL

CNA Surety Corporation ("CNA Surety" or "Company") is an insurance holding company in the United States formed through the September 30, 1997 combination of the surety business of CNA Financial Corporation with Capsure Holdings Corp.'s ("Capsure") insurance subsidiaries. CNA Surety is currently one of the largest surety providers in the United States with approximately an 8.4% market share (based upon 1999 A.M. Best written premium data). Its wide selection of products range from very small commercial bonds to large contract bonds.

FORMATION OF CNA SURETY AND MERGER

In December 1996, CNA Financial Corporation ("CNAF") and Capsure Holdings Corp. ("Capsure") agreed to merge (the "Merger") the surety business of CNAF with Capsure's insurance subsidiaries, Western Surety Company ("Western Surety") and Universal Surety of America ("USA"), into CNA Surety Corporation ("CNA Surety" or the "Company"). CNAF, through its operating subsidiaries, writes multiple lines of property and casualty insurance, including surety business that is reinsured by Western Surety. CNAF owns approximately 64% of the outstanding common stock of CNA Surety. Loews Corporation owns approximately 87% of the outstanding common stock of CNAF. The principal operating subsidiaries of CNAF that wrote the surety line of business for their own account prior to the Merger were Continental Casualty Company and its property and casualty affiliates (collectively, "CCC") and The Continental Insurance Company and its property and casualty affiliates (collectively, "CIC"). CIC was acquired by CNAF on May 10, 1995. The combined surety operations of CCC and CIC are referred to herein as CCC Surety Operations ("Predecessor").

Pursuant to a reorganization agreement, CCC Surety Operations and Capsure merged their respective operations at the close of business on September 30, 1997 ("Merger Date"). CNAF, through its property and casualty subsidiaries, CCC and CIC, contributed \$52.25 million of capital to CNA Surety. Through reinsurance agreements, CCC and CIC ceded to Western Surety all of their net unearned premiums and loss and loss adjustment expense reserves, as of the Merger Date, and will cede to Western Surety all surety business written or renewed by CCC and CIC for a period of five years thereafter. Further, CCC and CIC have agreed to assume the obligation for any adverse development on recorded reserves for CCC Surety Operations as of the Merger Date, to limit the loss ratio on certain defined business written by CNA Surety through December 31, 2000 and to provide certain additional excess of loss reinsurance.

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PROPOSED TENDER OFFER

On March 20, 2000, CCC proposed a cash tender offer to purchase the remaining common stock of CNA Surety that it and its affiliates did not own for \$13.00 per share. On May 26, 2000, CCC informed CNA Surety that CCC did not intend to pursue a proposed tender offer to acquire the remaining equity interests of the Company not currently owned by CCC. The Company recorded a non-recurring charge of \$0.5 million before income taxes, or \$0.3 million after tax (1 cent per share), for costs incurred with respect to the proposed tender offer by CCC.

As reported in CNAF public filings, CCC and other insurance subsidiaries of CNAF that own shares of CNA Surety may review their respective positions of CNA Surety shares from time to time and may acquire additional shares or dispose of shares depending upon market conditions or other factors existing at the time of such review, resulting in increases or decreases in their respective ownership positions.

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DESCRIPTION OF BUSINESS

CNA Surety's insurance subsidiaries write surety and fidelity bonds in all 50 states through a combined network of approximately 37,000 independent agencies. CNA Surety's principal insurance subsidiaries are Western Surety and USA. The insurance subsidiaries write, on a direct basis or as business assumed from CCC and CIC, small fidelity and non-contract surety bonds, referred to as commercial bonds; small, medium and large contract bonds; international surety and credit insurance; and errors and omissions ("E&O") liability insurance. Western Surety is a licensed insurer in all 50 states and the District of Columbia. USA is licensed in 44 states and the District of Columbia. Western Surety's affiliated company, Surety Bonding Company of America ("SBCA"), is licensed in 25 states and the District of Columbia.

FINANCIAL STRENGTH RATINGS

A.M. BEST COMPANY, INC. ("A.M. BEST")

Western Surety and USA are both currently rated A+ (Superior), by A.M. Best. An A+ (Superior) rating is assigned to those companies which A.M. Best believes have achieved superior overall performance when compared to the norms of the property and casualty insurance industry. A+ (Superior) rated insurers have been shown to be among the strongest in ability to meet policyholder and other contractual obligations. Through intercompany reinsurance and related agreements, CNA Surety's customers will continue to have access to CCC's broader underwriting capacity. CCC is currently rated A by A.M. Best. A.M. Best's letter ratings range from A++ (Superior) to D (Poor) with A++ being highest.

STANDARD AND POOR'S ("S&P")

Western Surety and USA are both currently rated A (Strong), by S&P. CCC is currently rated A by S&P. S&P's letter ratings range from AAA+ (Extremely Strong) to CC (Extremely Weak) with AAA+ being highest. An insurer rated 'A' has strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

PRODUCT INFORMATION

According to the Surety Association of America ("SAA") industry estimates, approximately 80% of the \$3.3 billion United States surety market is represented

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by bonds required by federal statutes, state laws, and local ordinances. These bonding requirements range from federal construction projects, where the contractor is required to post performance and payment bonds which guarantee performance of contracts to the government as well as payment of bills to subcontractors and suppliers, to license and permit bonds which guarantee compliance with legal requirements for business operations.

PRODUCTS AND POLICIES

Unlike a standard, two-party insurance policy, surety bonds are three-party agreements in which the issuer of the bond (the surety) joins with a second party (the principal) in guaranteeing to a third party (the owner/obligee) the fulfillment of some obligation on the part of the principal. The surety is the party who guarantees fulfillment of the principal's obligation to the obligee. In addition, sureties are generally entitled to recover from the principal any losses and expenses paid to third parties. The surety's responsibility is to evaluate the risk and determine if the principal meets the underwriting requirements for the bond. Accordingly, surety bond premiums primarily reflect the type and class of risk and related costs associated with both processing the bond transaction and investigating the applicant including, if necessary, an analysis of the applicant's creditworthiness and ability to perform.

There are two broad types of surety products -- contract surety and commercial surety bonds. Contract surety bonds secure a contractor's performance and/or payment obligation generally with respect to a construction project. Contract surety bonds are generally required by federal, state and local governments for public works projects. Commercial surety bonds include all surety bonds other than contract and cover obligations typically required by law or regulation.

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Contract bond guarantee obligations include the following:

Bid bonds: used by contractors submitting proposals on potential contracts.

Performance bonds: guarantee to the owner the performance of the contractor's obligations according to the terms and conditions of the contract.

Payment bonds: guarantee payment of the contractor's obligations under the contract for labor, subcontractors, and materials supplied to the project. Payment bonds are utilized in public projects where liens are not permitted.

Other examples of contract bonds are completion, maintenance and supply bonds.

Commercial surety business is comprised of bonds covering obligations typically required by law or regulation, such as the following:

License and Permit bonds: required by statutes or ordinances for a number of purposes including guaranteeing the payment of certain taxes and fees and providing consumer protection as a condition to granting licenses related to selling real estate or motor vehicles and contracting services.

Judicial and Fiduciary bonds: required by statutes, courts or legal documents for the protection of those on whose behalf a fiduciary acts. Examples of such fiduciaries include executors and administrators of estates, and guardians of minors and incompetents.

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Public Official bonds: required by statutes and ordinances to guarantee the lawful and faithful performance of the duties of office by public officials.

International and Other: in 1997, CNA Surety expanded into the international surety and credit insurance market through a 50% U.S. dollar denominated quota share treaty with an affiliate of CCC, CNA Reinsurance Company, Limited (London) ("CNA Re"). In 2000, CNA Re made a mid-year decision to discontinue writing assumed international credit and surety business. Assumed international surety and credit business from CNA Re for the year ended December 31, 2000 decreased to \$6.0 million from \$11.3 million in 1999.

CNA Surety also writes direct contract and commercial surety bonds for international risks. Such bonds are written to satisfy the international bond requirements of our domestic customers and for foreign clients.

In December 2000, CNA Surety purchased an equity interest in De Montfort Insurance Company PLC, a United Kingdom-based insurance company, which specializes in providing surety bonds and credit insurance. The investment in De Montfort further supports CNA Surety's international growth strategy by enhancing the company's international distribution capabilities in the European surety marketplace.

In addition, the Company markets surety related products such as fidelity bonds and errors and omissions ("E&O") insurance. Fidelity bonds cover losses arising from employee dishonesty. Examples of purchasers of fidelity bonds are law firms, insurance agencies and janitorial service companies. CNA Surety writes E&O policies for three classes of insureds: notaries public, tax preparers and insurance agents and brokers. The notary public E&O policy is marketed as a companion product to the notary public bond and the tax preparer E&O policy is marketed to small tax return preparation firms. The insurance agents' and brokers' E&O insurance product is marketed directly to the Company's independent agency force.

Although all of its products are sold through the same independent insurance agent and broker distribution network, the Company's underwriting and management reporting are organized by the two broad types of surety products -- contract surety and commercial surety, which also includes fidelity bonds and other insurance products for these purposes. These two operating segments have been aggregated into one reportable business segment for financial reporting purposes because of their similar economic and operating characteristics.

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The following tables set forth, for each principal class of bonds, gross written premiums, net written premiums and number of domestic bonds and policies in force and the respective percentages of the total for the past three years (amounts in thousands, except average bond amounts):

	GROSS WRITTEN PREMIUMS				
	2000	% OF TOTAL	1999	% OF TOTAL	1998
Contract.....	\$161,539	51.0%	\$150,022	48.9%	\$132,24
Commercial:					

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License and permit.....	79,114	25.0	80,413	26.2	66,39
Judicial and fiduciary.....	25,669	8.1	29,485	9.6	26,55
Public official.....	18,000	5.7	17,658	5.7	16,43
International and other.....	5,773	1.8	2,946	1.0	11,66
	-----	-----	-----	-----	-----
Total commercial.....	128,556	40.6	130,502	42.5	121,04
	-----	-----	-----	-----	-----
Fidelity and other.....	26,572	8.4	26,335	8.6	24,93
	-----	-----	-----	-----	-----
	\$316,667	100.0%	\$306,859	100.0%	\$278,22
	=====	=====	=====	=====	=====
Domestic.....	\$300,079	94.8%	\$286,253	93.3%	\$266,99
International.....	16,588	5.2	20,606	6.7	11,22
	-----	-----	-----	-----	-----
	\$316,667	100.0%	\$306,859	100.0%	\$278,22
	=====	=====	=====	=====	=====

NET WRITTEN PREMIUMS

	2000	% OF TOTAL	1999	% OF TOTAL	1998
	----	-----	----	-----	----
Contract.....	\$150,504	49.4%	\$145,616	48.7%	\$127,11
Commercial.....	126,923	41.7	128,834	43.1	120,63
Fidelity and other.....	27,041	8.9	24,537	8.2	22,85
	-----	-----	-----	-----	-----
	\$304,468	100.0%	\$298,987	100.0%	\$270,60
	=====	=====	=====	=====	=====
Domestic.....	\$289,049	94.9%	\$280,463	93.8%	\$260,50
International.....	15,419	5.1	18,524	6.2	10,09
	-----	-----	-----	-----	-----
	\$304,468	100.0%	\$298,987	100.0%	\$270,60
	=====	=====	=====	=====	=====

DOMESTIC BOND/POLICIES IN FORCE

	2000	% OF TOTAL	1999	% OF TOTAL	1998
	----	-----	----	-----	----
Contract.....	217	10.2%	153	8.1%	20
Commercial.....	1,498	70.2	1,368	72.2	1,27
Fidelity and other.....	418	19.6	374	19.7	33
	-----	-----	-----	-----	-----
	2,133	100.0%	1,895	100.0%	1,80
	=====	=====	=====	=====	=====
Average domestic bond penalty/policy limit(1).....	\$ 31,190		\$ 32,224		\$ 29,37
	=====		=====		=====

(1) The average bond penalty is a measure of the average limit of liability associated with in force contract and commercial surety bonds at each reporting period.

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In 2000, no individual agency generated more than 1.3% of aggregate gross written premiums. Approximately \$63.1 million, or 19.9%, of gross written premiums were generated from national insurance brokers in 2000 with the single largest national broker production comprising \$22.8 million, or 7.2%, of gross written premiums.

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MARKETING

The Company principally markets its products in all 50 states, as well as the District of Columbia and Puerto Rico. Its products are marketed primarily through independent producers, including multi-line agents and brokers such as surety specialists, many of whom are members of the National Association of Surety Bond Producers. CNA Surety enjoys broad national distribution of its products, which are marketed through approximately 37,000 of the approximately 44,000 independent property and casualty insurance agencies in the United States. In addition, the Company employs 59 full-time salaried marketing representatives to continually service its vast producer network. Relationships with these independent producers are maintained through the Company's 47 local branch offices.

The following table sets forth the distribution of the domestic business of CNA Surety, by state based upon gross written premiums in each of the last three years:

	YEARS ENDED DECEMBER 31,		
	2000	1999	1998
	----	----	----
Gross Written Premiums by State:			
Texas.....	11.7%	12.6%	13.1%
California.....	8.1	8.4	7.4
Florida.....	6.0	5.6	5.5
New York.....	5.1	4.8	4.5
Illinois.....	4.3	4.5	4.9
Georgia.....	3.7	3.0	3.1
Pennsylvania.....	3.5	3.5	3.8
Massachusetts.....	3.0	3.0	2.7
Michigan.....	3.0	3.0	3.2
All Other.....	51.6	51.6	51.8
	-----	-----	-----
Total.....	100.0%	100.0%	100.0%
	=====	=====	=====

Contract Surety

With respect to standard contract surety, the core focus for the Company is contractors with less than \$50 million in contracted work in progress. This segment is comprised of small contractors (less than \$5 million in work in progress), medium contractors (\$5-\$25 million) and the lower end of the large contractors (greater than \$25 million). These small and medium contractors, as a group, represent a significant portion of the United States construction market. The Company has a small number of accounts with contracted work in progress in excess of \$150 million, the majority of which have been clients of the Company

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for more than ten years. Some of these accounts are maintained on a "co-surety" or joint insurer basis with other sureties in order to manage aggregate exposure.

In addition to standard contract surety, the Company has underwriters that focus on serving the bond requirements of small and emerging and specialty contractors. These contractors typically have limited operating history, financial resources or other special characteristics that require different underwriting techniques than standard contract surety. For example, CNA Surety participates in the non-standard contract surety market, through the federal government's Small Business Administration ("SBA") surety bond guarantee programs. These programs provide that the SBA assumes 70% -- 90% of the coverage in exchange for 10% -- 30% of the premium.

Commercial Surety

A large portion of the commercial surety market is comprised of small obligations represented by licenses and permits that are routine in nature and require minimal underwriting. Customers are focused principally on prompt and efficient service.

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The Company continues to focus its marketing efforts on this small commercial bond market through its Sioux Falls service center. In this market segment, CNA Surety emphasizes one-day response service, easy-to-use forms and an extensive array of commercial bond products. In addition, independent agents are provided pre-executed bond forms, powers of attorney, and facsimile authorizations that allow them to issue many standard bonds in their offices.

While a large portion of the commercial surety market is represented by small entities, CNA Surety also seeks to service the bonding needs of middle market and "Fortune 1000" firms, where a high level of technical and underwriting skill is required. These larger customers are sophisticated, professional buyers of commercial surety bonds who demand exceptional service and business expertise at a reasonable cost. CNA Surety maintains a specific underwriting staff in its Chicago home office and other underwriting centers across the country dedicated to the middle market and "Fortune 1000" market.

CNA Surety's insurance subsidiaries direct their marketing to particular industries or classes of bonds on a broad basis. For instance, the Company maintains programs directed at notary bonds, mortgage broker compliance bonds and grain warehouse dealer bonds (protecting funds associated with grain storage).

UNDERWRITING

The underwriting philosophy of CNA Surety is disciplined, and focused on consistent underwriting profitability. The extent and sophistication of underwriting activity varies by type of risk. Contractor accounts and large commercial surety customers undergo extensive credit, financial and managerial review and analysis on a regular basis. Certain classifications of bonds, such as fiduciary and court appeal bonds, also require more extensive underwriting.

CNA Surety also targets various products in the surety and fidelity bond market which are characterized by relatively low-risk exposure and small bond amounts. The underwriting criteria, including the extent of bonding authority granted to independent agents, varies depending on the class of business and the type of bond. For example, relatively little underwriting information is typically required of certain low-exposure risks such as notary bonds.

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COMPETITION

The surety and fidelity market is highly competitive. According to 1999 data from A.M. Best, the U.S. market aggregates approximately \$4.1 billion in direct written premiums, comprised of approximately \$3.3 billion in surety premiums and approximately \$0.8 billion in fidelity premiums. The large diversified insurance companies hold the largest market shares. For example, the 20 largest surety companies account for nearly 77% of the domestic surety market and 89% of the domestic fidelity market. In 1999, CNA Surety was the second largest surety provider with an 8.4% market share.

Primary competitors of CNA Surety are approximately 20 national, multi-line companies participating in the surety market throughout the country. Management believes that its principal strengths are capacity, diverse product offerings, service and accessibility and long-term relationships with agents and accounts.

While the surety industry has experienced slow premium growth, competition has increased as a result of ten years of profitable underwriting experience. This competition has typically manifested itself through reduced premium rates and greater tolerance for relaxation of underwriting standards. Management believes such competition will continue.

REINSURANCE

The Company's insurance subsidiaries, in the ordinary course of business, cede reinsurance to other insurance companies to limit their exposure to loss. Reinsurance arrangements are used to limit maximum loss, provide greater diversification of risk and minimize exposure on larger risks. Reinsurance contracts do not ordinarily relieve the Company of its primary obligations to claimants. Therefore, a contingent liability exists with respect to reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed

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under reinsurance contracts. The Company evaluates the financial condition of its reinsurers, establishes allowances for uncollectible amounts and monitors concentrations of credit risk.

For contract and commercial surety business an excess of loss reinsurance program is in effect. The Excess of Loss Contract provides the insurance subsidiaries of CNA Surety with the capacity to underwrite large surety bond exposures by providing reinsurance support from CCC. The Excess of Loss Contract provides \$75 million of coverage in excess of the \$55 million of coverage provided to the insurance subsidiaries by third party reinsurers, which is in turn in excess of the \$5 million of coverage per principal to be retained by the CNA Surety insurance subsidiaries. Subsequent to the Merger Date, the Company entered into a second excess of loss contract with CCC ("Second Excess of Loss Contract"). The Second Excess of Loss Contract provides additional coverage for principal losses that exceed the foregoing coverage of \$75 million per principal provided by the Excess of Loss Contract, or aggregate losses per principal in excess of \$135 million. The two Excess of Loss Contracts collectively provide coverage for losses discovered on surety bonds in force as of the Merger Date and for losses discovered on new and renewal business written during the term of the Excess of Loss Contracts. CCC is also obligated to act as a joint insurer, or "co-surety," for business covered by the Excess of Loss Contracts when requested by the CNA Surety insurance subsidiaries. In consideration for the reinsurance coverage provided by the Excess of Loss Contracts, the insurance subsidiaries pay to CCC, on a quarterly basis, a premium equal to 1% of the net written premiums applicable to the Excess of Loss Contract, subject to a minimum premium of \$20,000 and \$5,000 per quarter under the Excess of Loss Contract and Second Excess of Loss Contract, respectively. The CNA Surety insurance

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subsidiaries paid \$80,000 for all minimum quarterly premiums due for the Excess of Loss Contract and \$20,000 in minimum quarterly premiums for the Second Excess of Loss Contract during the year ended December 31, 2000. There were no amounts due to CCC under the Excess of Loss Contract and Second Excess of Loss Contract as of December 31, 2000. Both Excess of Loss Contracts have been made effective immediately following the Merger Date and continue for a period of five years from the Merger Date.

At December 31, 2000, CNA Surety's largest reinsurance receivable was approximately \$13.3 million with a company rated A++ (Superior) by A.M. Best.

RESERVES FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES

CNA Surety's insurance subsidiaries employ generally accepted reserving approaches in establishing the estimated liability for unpaid losses and loss adjustment expenses that give consideration to the inherent difficulty and variability in the estimation process. In addition, CNA Surety utilizes an independent actuarial firm of national standing to conduct periodic reviews of loss reserving practices, and annually obtains actuarial certification as to the reasonableness of actuarial assumptions used and the sufficiency of year-end reserves for each of its principal insurance subsidiaries.

The estimated liability for unpaid losses and loss adjustment expenses includes, on an undiscounted basis, estimates of (a) the ultimate settlement value of reported claims, (b) incurred but not reported ("IBNR") claims, (c) future expenses to be incurred in the settlement of claims and (d) claim recoveries, exclusive of reinsurance recoveries which are reported as an asset. These estimates are determined based on the Company's and surety industry loss experience as well as consideration of current trends and conditions. The estimated liability for unpaid losses and loss adjustment expenses is an estimate and there is the potential that actual future loss payments will differ significantly from initial estimates. The methods of determining such estimates and the resulting estimated liability are regularly reviewed and updated. Changes in the estimated liability are reflected in operating income in the year in which such changes are determined to be needed.

A table is included in Note 8 to the Consolidated Financial Statements of the 2000 Annual Report to Shareholders which presents the activity in the reserves for unpaid losses and loss adjustment expenses for the Company and the Predecessor. This table highlights the impact of revisions to the estimated liability established in prior years.

The following table sets forth a reconciliation of the consolidated loss reserves reported in accordance with generally accepted accounting principles ("GAAP"), and the reserves reported to state insurance

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regulatory authorities in accordance with statutory accounting principles ("SAP") for the year ended December 31, 2000 (dollars in thousands):

Net reserves at end of year, GAAP basis.....	\$134,298
Ceded reinsurance, net of salvage and subrogation.....	70,159

Gross reserves at end of year, GAAP basis.....	204,457
Estimated salvage and subrogation recoverable (gross of reinsurance), not anticipated under SAP.....	18,153
Estimated reinsurance recoverable netted against gross reserves for SAP.....	(80,439)

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Gross reserves at end of year, SAP basis..... \$142,171
=====

The loss reserve development table below illustrates the change over time of reserves established for the Company's estimated losses and loss adjustment expenses at the end of various calendar years. The first section shows the reserves as originally reported at the end of the stated year. The second section shows the cumulative amounts paid as of the end of successive years with respect to that reserve liability. The third section shows re-estimates of the original recorded reserve as of the end of each successive year which is the result of management's expanded awareness of additional facts and circumstances that pertain to the unsettled claims. The last section compares the latest re-estimated reserve to the reserve originally established, and indicates whether or not the original reserve was adequate or inadequate to cover the estimated costs of unsettled claims.

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The loss reserve development table is cumulative as of each December 31, and, therefore, ending balances should not be added since the amount at the end of each calendar year includes activity for both the current and prior years. The loss reserve development table reflects, on a pro forma basis, the reserves of the CCC Surety Operations and Capsure since 1990 and CIC since its acquisition in May of 1995. Such historical development is not necessarily indicative of the financial results that would have occurred under the ownership and management of CNA Surety nor of future operating results.

	AS OF DECEMBER 31,							
	1990	1991	1992	1993	1994	1995	1996	
	----	----	----	----	----	----	----	
	(DOLLARS IN THOUSANDS)							
Net reserves for losses and loss adjustment expenses.....	\$69,733	\$60,425	\$61,998	\$64,627	\$70,398	\$147,911	\$137,064	\$1
Net Paid (Cumulative) as of:								
One year later.....	13,456	16,287	17,636	12,923	12,018	42,552	9,866	
Two years later....	22,330	24,295	25,854	19,671	18,149	43,179	20,171	
Three years later.....	26,835	29,857	29,495	21,990	21,229	46,782	25,206	
Four years later...	31,591	31,273	30,582	23,070	22,313	48,960	32,918	
Five years later...	32,133	31,909	30,817	23,864	24,776	56,891	--	
Six years later....	32,352	32,354	32,150	24,706	24,102	--	--	
Seven years later.....	32,993	32,419	32,811	23,180	--	--	--	
Eight years later.....	33,033	34,344	31,126	--	--	--	--	
Nine years later...	34,805	32,456	--	--	--	--	--	
Ten years later....	32,610	--	--	--	--	--	--	
Net Reserves Re-estimated as of:								
End of initial year.....	69,733	60,425	61,998	64,627	70,398	147,911	137,064	1
One year later.....	50,822	58,644	58,603	54,568	51,471	132,267	96,178	1
Two years later....	51,330	51,511	54,585	44,749	44,135	103,466	90,796	1

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Three years								
later.....	46,439	46,826	47,911	38,972	38,829	101,745	77,086	
Four years later...	42,946	42,212	42,542	28,094	38,628	89,348	62,217	
Five years later...	40,747	39,945	33,699	30,335	31,362	77,477	--	
Six years later....	38,131	36,164	37,188	27,842	27,327	--	--	
Seven years								
later.....	36,179	37,695	34,966	26,010	--	--	--	
Eight years								
later.....	37,853	37,014	31,672	--	--	--	--	
Nine years later...	37,252	33,749	--	--	--	--	--	
Ten years later....	33,941	--	--	--	--	--	--	
	=====	=====	=====	=====	=====	=====	=====	=====
Total net								
(deficiency)								
redundancy.....	\$35,792	\$26,676	\$30,326	\$38,617	\$43,071	\$ 70,434	\$ 74,847	\$
	=====	=====	=====	=====	=====	=====	=====	=====
Cumulative redundancy								
(deficiency) as a								
percentage of								
original								
estimate.....	51.3%	44.1%	48.9%	59.8%	61.2%	47.6%	54.6%	
	=====	=====	=====	=====	=====	=====	=====	=====
AS OF DECEMBER 31,								

	1998	1999	2000					
	----	----	----					
(DOLLARS IN THOUSANDS)								
Net reserves for								
losses and loss								
adjustment								
expenses.....	\$142,034	\$137,469	\$134,298					
Net Paid (Cumulative)								
as of:								
One year later....	32,428	35,825	--					
Two years later....	52,524	--	--					
Three years								
later.....	--	--	--					
Four years later...	--	--	--					
Five years later...	--	--	--					
Six years later....	--	--	--					
Seven years								
later.....	--	--	--					
Eight years								
later.....	--	--	--					
Nine years later...	--	--	--					
Ten years later....	--	--	--					
Net Reserves								
Re-estimated as of:								
End of initial								
year.....	142,034	137,469	134,298					
One year later....	128,949	130,376	--					
Two years later....	114,605	--	--					
Three years								
later.....	--	--	--					
Four years later...	--	--	--					
Five years later...	--	--	--					
Six years later....	--	--	--					
Seven years								
later.....	--	--	--					

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Eight years later.....	--	--	--
Nine years later...	--	--	--
Ten years later....	--	--	--
	=====	=====	=====
Total net (deficiency) redundancy.....	\$ 27,429	\$ 7,093	\$ --
	=====	=====	=====
Cumulative redundancy (deficiency) as a percentage of original estimate.....	19.3%	5.2%	--
	=====	=====	=====

CLAIMS

Proactive claims management is an important factor for the profitable underwriting of surety and fidelity products. The Company maintains an experienced and dedicated staff of in-house claim specialists. Claim handling is performed in two locations -- Chicago and Sioux Falls. The disposition of claims and other claim-related activity is done in accordance with established policies, procedures and expense controls designed to minimize loss costs and maximize salvage and subrogation recoveries. Indemnity and subrogation rights exist on a significant portion of the business written, enabling the Company to pursue loss recovery from the principal.

ASBESTOS AND ENVIRONMENTAL CLAIMS

The Company does not typically bond contractors that specialize in hazardous environmental remediation work. The Company does however bond several accounts that have incidental environmental exposure with

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respect to which the Company provides bonding programs. In the commercial surety market, the Company provides bonds to large corporations that are in the business of mining various minerals and are obligated to post reclamation bonds that guarantee that property which was disturbed during mining is returned to an acceptable condition when the mining is completed. The company also provides court and other surety bonds for large corporations wherein the underlying action involves environmental related issues. While no environmental responsibility is overtly provided by commercial or contract bonds, some risk of environmental exposure may exist if the surety were to assume certain rights in the completion of a defaulted project or through salvage recovery.

Any claim notices that are received are reported and handled in the regular course of claim handling. The company estimates its net case incurred losses on known claims of this nature to be \$9.1 million as of December 31, 2000.

REGULATION

The Company's insurance subsidiaries are subject to varying degrees of regulation and supervision in the jurisdictions in which they transact business under statutes which delegate regulatory, supervisory and administrative powers to state insurance regulators. In general, an insurer's state of domicile has principal responsibility for such regulation which is designed generally to protect policyholders rather than investors and relates to matters such as the standards of solvency which must be maintained; the licensing of insurers and their agents; the examination of the affairs of insurance companies, including

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periodic financial and market conduct examinations; the filing of annual and other reports, prepared on a statutory basis, on the financial condition of insurers or for other purposes; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. Licensed or admitted insurers generally must file with the insurance regulators of such states, or have filed on its behalf, the premium rates and bond and policy forms used within each state. In some states, approval of such rates and forms must be received from the insurance regulators in advance of their use.

Western Surety is domiciled in South Dakota and licensed in all 50 states and the District of Columbia. SBCA is domiciled in South Dakota and licensed in 25 states and the District of Columbia. USA is domiciled in Texas and licensed in 44 states and the District of Columbia.

Insurance regulations generally also require registration and periodic disclosure of certain information concerning ownership, financial condition, capital structure, general business operations and any material transactions or agreements by or among affiliates. Such regulation also typically restricts the ability of any one person to acquire 10% or more, either directly or indirectly, of a company's stock without prior approval of the applicable insurance regulatory authority. In addition, dividends and other distributions to stockholders generally may be paid only out of unreserved and unrestricted statutory earned surplus. Such distributions may be subject to prior regulatory approval, including a review of the implications on Risk-Based Capital requirements. A discussion of Risk-Based Capital requirements for property and casualty insurance companies is included in both Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 14 to the Consolidated Financial Statements of the 2000 Annual Report to Shareholders. Without prior regulatory approval in 2001, CNA Surety's insurance subsidiaries may pay stockholder dividends of \$60.2 million in the aggregate. For the year ended December 31, 2000, CNA Surety received \$56.5 million in dividends from its insurance subsidiaries.

In March of 1998, the National Association of Insurance Commissioners ("NAIC") adopted the Codification of Statutory Accounting Principles ("Codification"). Codification, which intended to standardize regulatory accounting and reporting to state insurance departments, is effective January 1, 2001.

However, statutory accounting principles will continue to be established by individual state laws and permitted practices. The states in which CNA Surety's insurance subsidiaries conduct business will require adoption of Codification for the preparation of statutory financial statements effective January 1, 2001. The Company estimates that the adoption of Codification will increase statutory capital and surplus as of January 1, 2001 by approximately \$21.9 million.

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CNA Surety's insurance subsidiaries are subject to periodic financial and market conduct examinations. These examinations are generally performed by the domiciliary state insurance regulatory authorities. The South Dakota Department of Commerce and Regulation -- Division of Insurance (the "South Dakota Department") conducted its financial and market conduct examination of Western Surety for the five year period ended December 31, 1996. The South Dakota Department made a finding of non-compliance with respect to the Company's practices regarding return of premiums and recommended that Western Surety change its current procedures regarding the return of premiums. The regulation in question was subsequently amended to exclude surety products which eliminated any non-compliance by the Company. The Texas Department of Insurance conducted its last examination of USA's financial matters as of December 31, 1996. There were no significant issues noted which required corrective action by any of the

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insurance subsidiaries.

Certain states in which CNA Surety's insurance subsidiaries conduct their business require insurers to join a guaranty association. Guaranty associations provide protection to policyholders of insurers licensed in such states against the insolvency of those insurers. In order to provide the associations with funds to pay certain claims under policies issued by insolvent insurers, the guaranty associations charge members assessments based on the amount of direct premiums written in that state. Such assessments were not material to CNA Surety's results of operations in 2000.

Western Surety and USA each qualifies as an acceptable surety for federal and other public works project bonds pursuant to U.S. Department of Treasury regulations. The underwriting limitations of Western Surety and USA, based on each insurer's statutory surplus, are currently \$17.3 million and \$1.6 million, respectively. Through intercompany reinsurance and related agreements with CCC, CNA Surety has access to CCC's \$588.1 million U.S. Department of Treasury underwriting limitation.

INVESTMENTS

Insurance company investment practices must comply with insurance laws and regulations and must also comply with certain covenants under CNA Surety's \$130 million revolving credit facility. Generally, insurance laws and regulations prescribe the nature and quality of, and set limits on, the various types of investments which may be made by CNA Surety's insurance subsidiaries.

The Company's investment portfolio generally is managed to maximize after-tax investment return, while minimizing credit risk with investments concentrated in high quality income securities. CNA Surety's portfolio is managed to provide diversification by limiting exposures to any one industry, issue or issuer, and to provide liquidity by investing in the public securities markets. The portfolio is structured to support CNA Surety's insurance underwriting operations and to consider the expected duration of liabilities and short-term cash needs.

An investment committee of CNA Surety's Board of Directors establishes investment policy and oversees the management of each portfolio. A professional independent investment adviser has been engaged to assist in the management of each insurance subsidiary investment portfolio pursuant to established investment committee guidelines. The insurance subsidiaries pay an advisory fee based on the market value of the assets under management.

EMPLOYEES

As of December 31, 2000, the Company employed 817 persons. CNA Surety has not experienced any work stoppages. Management of CNA Surety believes its relations with its employees are good.

ITEM 2. PROPERTIES

CNA Surety leases its executive offices and its shared branch locations with CCC under an Administrative Services Agreement. CNA Surety currently uses approximately 116,000 square feet and related personal property at 39 branch locations and its home and executive offices (24,800 square feet), in Chicago, Illinois. CNA Surety's annual rent for this space is approximately \$2.3 million. CNA Surety may terminate its use of

these locations as set forth in the Administrative Services Agreement, without

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penalty, by providing CCC with 30 days written notice.

CNA Surety leases office space for its primary processing and service center at 101 South Phillips Avenue, Sioux Falls, South Dakota, under a lease expiring in 2012. CNA Surety's office space, consisting of approximately 82,900 square feet, is leased from a partnership in which the Company owns a 50% interest. The annual rent, which is subject to annual adjustments, was \$1.5 million as of December 31, 2000. CNA Surety also leases space for large contract and commercial branch offices in Dallas, Texas and New York, New York. Annual rent for these offices was \$0.3 million with leases terminating in 2004 and 2007, respectively. CNA Surety leases office space for its small and specialty contract home office at 950 Echo Lane, Suite 250, Houston, Texas, under a lease terminating in 2001 with an annual rent of \$0.3 million. The Company also leases space for one small and specialty contract branch office for an additional annual rent of approximately \$0.1 million.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to various lawsuits arising in the normal course of business, some seeking material damages. The Company believes the resolution of these lawsuits will not have a material adverse effect on its financial condition or its results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock ("Common Stock") trades on the New York Stock Exchange under the symbol SUR. On March 9, 2001, the last reported sale price for the Common Stock was \$12.97 per share. The following table shows the range of high and low sales prices for shares of the Common Stock as reported on the New York Stock Exchange during 2000 and 1999.

	HIGH	LOW
	----	---
2000		
1st Quarter.....	\$14.50	\$10.50
2nd Quarter.....	\$14.94	\$10.75
3rd Quarter.....	\$12.25	\$10.38
4th Quarter.....	\$14.50	\$11.00
1999		
1st Quarter.....	\$16.00	\$10.19
2nd Quarter.....	\$15.56	\$12.31
3rd Quarter.....	\$15.50	\$12.13
4th Quarter.....	\$13.00	\$ 9.75

The number of stockholders of record of Common Stock on March 9, 2001, was approximately 944.

DIVIDENDS

Effective March 6, 2001, the Company's quarterly dividend rate was raised to 9 cents per share or 36 cents on an annual basis. The declaration and payment of dividends to holders of Common Stock, including the amount and frequency of

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such dividends, is at the discretion of the Board and depends upon many factors, including CNA Surety's financial condition, operating characteristics, projected earnings and growth, capital

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requirements of its insurance subsidiaries, debt service obligations and such other factors as the Board deems relevant.

ITEM 6. SELECTED FINANCIAL DATA

The following financial information has been derived from the Consolidated Financial Statements and Notes thereto which appear in the 2000 Annual Report to Shareholders and are incorporated herein by reference.

CNA Surety Corporation is a holding company for the combined surety business of CNAF and Capsure. Pursuant to a reorganization agreement, CNAF and Capsure merged their respective operations at the close of business on September 30, 1997. The surety operations of CNAF are referred to as CCC Surety Operations ("Predecessor"). For a more detailed description of the merger transactions and their effects on the Company's financial data, see the Consolidated Financial Statements and related Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the 2000 Annual Report to Shareholders which are incorporated herein by reference.

The following information presented for CNA Surety is for the years ended December 31, 2000, 1999 and 1998 and the period from September 30, 1997 (date of inception) through December 31, 1997 and as of December 31, 2000, 1999, 1998 and 1997. Selected financial data of the Predecessor is presented on the following page.

	2000 ----	1999 ----	1998 ----	
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE)			
Total revenues(1).....	\$332,273	\$309,405	\$283,840	\$
	=====	=====	=====	=
Gross written premiums.....	\$316,667	\$306,859	\$278,224	\$
	=====	=====	=====	=
Net written premiums.....	\$304,468	\$298,987	\$270,602	\$
	=====	=====	=====	=
Net earned premiums.....	\$301,819	\$283,540	\$258,737	\$
	=====	=====	=====	=
Underwriting income(2).....	\$ 64,481	\$ 71,894	\$ 61,773	\$
Net investment income.....	29,897	25,850	24,259	
Net realized investment gains.....	557	15	844	
Interest expense.....	6,956	5,846	7,218	
Non-recurring charges.....	500	--	--	
Amortization of intangible assets.....	6,097	5,982	5,900	
	-----	-----	-----	--
Income before income taxes.....	81,382	85,931	73,758	
Income taxes.....	27,780	29,433	28,243	
	-----	-----	-----	--
Net income.....	\$ 53,602	\$ 56,498	\$ 45,515	\$
	=====	=====	=====	=
Basic and diluted earnings per common share.....	\$ 1.25	\$ 1.28	\$ 1.04	\$
	=====	=====	=====	=
Loss ratio(2).....	18.4%	15.7%	17.4%	
Expense ratio.....	60.2	58.9	58.7	
	-----	-----	-----	--

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Combined ratio(2).....	78.6%	74.6%	76.1%	
	=====	=====	=====	=====
Invested assets and cash.....	\$555,975	\$499,400	\$505,355	\$4
Intangible assets, net of amortization.....	149,882	155,980	156,062	1
Total assets.....	950,568	851,575	819,370	7
Insurance reserves.....	406,636	357,233	333,728	3
Debt.....	101,556	101,900	113,000	1
Total liabilities.....	576,536	525,271	509,473	4
Stockholders' equity.....	374,032	326,304	309,897	2
Book value per share.....	\$ 8.76	\$ 7.59	\$ 7.03	\$
Dividends paid per share.....	\$ 0.32	\$ 0.32	\$ 0.08	\$

(1) Includes investment income and investment gains for CNA Surety for the year ended December 31, 2000, 1999 and 1998 and for the period from September 30, 1997 (date of inception) through December 31, 1997.

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(2) Includes the effect of recording revisions of prior year reserves. The dollar amount and the percentage point effect on the loss ratio of these reserve revisions, all of which were favorable, were \$7,093, or 2.4%, for the year ended December 31, 2000, \$13,085, or 4.6%, for the year ended December 31, 1999 and \$4,352, or 1.7%, for the year ended December 31, 1998 and \$647, or 1.0%, for the period from September 30, 1997 (date of inception) through December 31, 1997.

The following information of the Predecessor is presented for the three months ended December 31, 1996, for the nine months ended September 30, 1997 and 1996 and for the year ended December 31, 1996. The selected financial information of the Predecessor does not include data with respect to assets, liabilities (other than insurance reserves) and equity because CNAF did not customarily allocate the investment portfolio or equity of its operating subsidiaries to its business units like CCC Surety Operations.

	THREE MONTHS ENDED 12/31/96 -----	NINE MONTHS ENDED SEPTEMBER 30, ----- 1997 1996 -----		YEA ENDE DECEMBE 199 -----
		(DOLLARS IN THOUSANDS)		
Gross written premiums.....	\$ 40,654	\$116,075	\$114,554	\$155,
	=====	=====	=====	=====
Net written premiums.....	\$ 37,641	\$108,630	\$106,263	\$143,
	=====	=====	=====	=====
Net earned premiums.....	\$ 36,767	\$108,564	\$112,302	\$149,
Net loss and LAE(1).....	9,394	(11,516)	23,612	33,
Amortization of deferred policy acquisition costs(2).....	16,665	48,075	49,717	66,
Other direct expenses.....	4,631	10,173	8,637	13,
Policyholders' dividends.....	324	1,426	1,641	1,
	-----	-----	-----	-----
Excess of net earned premiums over direct operating expenses before income taxes(1) (2)....	\$ 5,753	\$ 60,406	\$ 28,695	\$ 34,
	=====	=====	=====	=====
Loss ratio(1).....	25.6%	(10.6)%	21.0%	2
Expense ratio(2).....	58.8	55.0	53.4	5

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Combined ratio(1)(2).....	84.4%	44.4%	74.4%	7
Insurance reserves(3).....	\$214,828	\$183,491	\$210,340	\$214,

-
- (1) Includes the effect of recording releases of prior year loss reserves. The dollar amount and the percentage point effect on the loss ratio of these reserve revisions, all of which were net reductions, were \$1,232, or 3.4%, for the three months ended December 31, 1996, \$35,000, or 32.2%, and \$8,510, or 7.6%, for the nine months ended September 30, 1997 and 1996, respectively, and \$9,742, or 6.5%, for the year ended December 31, 1996.
- (2) Does not include the effects of certain general and administrative expenses, which are indirect or overhead in nature, since such costs were not historically allocated to the CCC Surety Operations by CNAF or its subsidiaries. Accordingly, the comparability of this data to other data that include such costs is affected.
- (3) The insurance reserves include both loss and loss adjustment expense and unearned premium reserves. These reserves are shown before the effects of ceded reinsurance. In accordance with the reorganization and related reinsurance agreements, these reserves, as of the Merger Date, were transferred to Western Surety, net of reinsurance which totaled \$9,979 and \$23,876 for the nine months ended September 30, 1997 and 1996 and \$21,779 at December 31, 1996.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Incorporated herein by reference from pages 14 through 26 of the 2000 Annual Report to Shareholders.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCUSSIONS ABOUT MARKET RISK

Incorporated herein by reference from pages 21 through 24 of the 2000 Annual Report to Shareholders.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FINANCIAL:

Consolidated Balance Sheets as of December 31, 2000 and 1999

Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998

Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2000, 1999 and 1998

Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998

Notes to Consolidated Financial Statements

Independent Auditors' Report

The above Consolidated Financial Statements, the related Notes to the

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Consolidated Financial Statements and the Independent Auditors' Report are incorporated herein by reference from pages 27 through 46 of the 2000 Annual Report to Shareholders.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEMS 10, 11, 12, AND 13. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT, EXECUTIVE COMPENSATION, SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company will file a definitive proxy statement with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") relating to the Company's Annual Meeting of Stockholders to be held on May 15, 2001, not later than 120 days after the end of the fiscal year covered by this Form 10-K. Information required by Items 10 through 13 will appear in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	PAGE ----
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November 13, 2000: CNA Surety reports third quarter 2000 results.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
CNA Surety Corporation

We have audited the consolidated financial statements of CNA Surety Corporation as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000 and have issued our report thereon dated February 12, 2001; such financial statements and report are included in your 2000 Annual Report to Shareholders and are incorporated herein by reference. Our audits also included the financial statement schedules listed in Item 14. These financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

Deloitte & Touche LLP
Chicago, Illinois
February 12, 2001

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SCHEDULE I

CNA SURETY CORPORATION AND SUBSIDIARIES

SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES

	AS OF DECEMBER 31, 2000		
	COST OR AMORTIZED COST	FAIR VALUE	CARRYING VALUE
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
Fixed Income Securities:			
U.S. Government and government agencies and authorities...	\$115,639	\$117,485	\$117,485
States, municipalities and political subdivisions.....	208,423	212,630	212,630

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All other corporate bonds.....	129,508	128,169	128,169
	-----	-----	-----
Total fixed income securities.....	453,570	\$458,284	458,284
	-----	=====	-----
Equity securities.....	37,761	33,927	33,927
Short-term investments.....	52,660		52,660
Other investments.....	5,623		5,154
	-----		-----
Total investments.....	\$549,614		\$550,025
	=====		=====

AS OF DECEMBER 31, 1999

	COST OR AMORTIZED COST	FAIR VALUE	CARRYING VALUE
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
Fixed Income Securities:			
U.S. Government and government agencies and authorities...	\$116,185	\$112,739	\$112,739
States, municipalities and political subdivisions.....	229,499	218,153	218,153
All other corporate bonds.....	91,006	87,064	87,064
	-----	-----	-----
Total fixed income securities.....	436,690	\$417,956	417,956
	-----	=====	-----
Equity securities.....	23,968	25,897	25,897
Short-term investments.....	43,033		43,033
Other investments.....	5,626		5,277
	-----		-----
Total investments.....	\$509,317		\$492,163
	=====		=====

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SCHEDULE II

CNA SURETY CORPORATION

CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY) BALANCE SHEETS

	DECEMBER 31,	
	2000	1999
	----	----
	(AMOUNTS IN THOUSANDS)	
ASSETS		
Investments in and advances to subsidiaries.....	\$439,636	\$428,232
Fixed income securities.....	5,051	--
Short-term investments.....	43,984	11,618
Cash.....	1,965	1,437
Other assets.....	1,440	1,543

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Total assets.....	\$492,076	\$442,830
	=====	=====
LIABILITIES		
Debt.....	\$100,000	\$100,000
Other liabilities.....	18,044	16,526
	-----	-----
Total liabilities.....	118,044	116,526
	-----	-----
STOCKHOLDERS' EQUITY		
Common stock.....	441	441
Additional paid-in capital.....	253,497	253,366
Retained earnings.....	135,308	95,419
Accumulated other comprehensive income (loss).....	267	(11,150)
Treasury stock, at cost.....	(15,481)	(11,772)
	-----	-----
Total stockholders' equity.....	374,032	326,304
	-----	-----
Total liabilities and stockholders' equity.....	\$492,076	\$442,830
	=====	=====

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SCHEDULE II

CNA SURETY CORPORATION

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY) -- (CONTINUED)
STATEMENTS OF INCOME

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR DECEMBER 1
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
Revenues:			
Net investment income.....	\$ 2,046	\$ 787	\$
	-----	-----	-----
Total revenues.....	2,046	787	
	-----	-----	-----
Expenses:			
Interest expense.....	6,869	5,806	7
Corporate expense.....	3,489	4,100	3
	-----	-----	-----
Total expenses.....	10,358	9,906	10
	-----	-----	-----
Loss from operations before income taxes and equity in net income of subsidiaries.....	(8,312)	(9,119)	(9
Income taxes.....	(3,359)	(2,892)	(3
	-----	-----	-----
Net loss before equity in net income of subsidiaries -- Parent Company only.....	(4,953)	(6,227)	(6
Equity in net income of subsidiaries.....	58,555	62,725	51
	-----	-----	-----
Net income.....	\$53,602	\$56,498	\$45
	=====	=====	=====

SCHEDULE II

CNA SURETY CORPORATION

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY) -- (CONTINUED)
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR DECEMBER 1998
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
OPERATING ACTIVITIES:			
Net income.....	\$ 53,602	\$ 56,498	\$ 4,000
Cash dividends from subsidiaries.....	56,450	33,300	2,000
Tax payments received from subsidiaries.....	29,062	28,674	(1,000)
Federal and state income tax payments.....	(24,050)	(20,600)	(1,000)
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in income of unconsolidated affiliates....	(58,555)	(62,725)	(5,000)
Change in other assets and liabilities.....	(3,367)	(5,746)	(1,000)
Net cash provided by operating activities.....	53,142	29,401	1,000
INVESTING ACTIVITIES:			
Net advances from (to) subsidiaries.....	2,145	(3,519)	1,000
Capital contributions to subsidiaries.....	--	(4,500)	(1,000)
Purchases of fixed income securities.....	(5,051)	--	(1,000)
Changes in short-term investments.....	(32,366)	2,874	(1,000)
Other.....	(24)	--	(1,000)
Net cash (used in) provided by investing activities.....	(35,296)	(5,145)	(1,000)
FINANCING ACTIVITIES:			
Proceeds from debt.....	--	--	(1,000)
Principal payments on debt.....	--	(13,000)	(1,000)
Proceeds from issuance of common stock.....	--	--	(1,000)
Dividends to stockholders.....	(13,713)	(14,063)	(1,000)
Purchase of treasury stock.....	(3,709)	(11,772)	(1,000)
Other.....	104	97	(1,000)
Net cash used in financing activities.....	(17,318)	(38,738)	(1,000)
Increase (decrease) in cash.....	528	(14,482)	1,000
Cash at beginning of period.....	1,437	15,919	1,000
Cash at end of period.....	\$ 1,965	\$ 1,437	\$ 1,000
	=====	=====	=====

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SCHEDULE III

CNA SURETY CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY INSURANCE INFORMATION CNA SURETY CORPORATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR DECEMBER 1998
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
Deferred policy acquisition costs.....	\$ 91,403	\$ 84,924	\$ 78,000
	=====	=====	=====
Future policy benefits, losses, claims and loss expense reserves.....	\$204,457	\$157,933	\$157,933
	=====	=====	=====
Unearned premiums.....	\$202,179	\$199,300	\$188,000
	=====	=====	=====
Other policy claims and benefits payable.....	\$ --	\$ --	\$ --
	=====	=====	=====
Net premium revenue.....	\$301,819	\$283,540	\$255,933
	=====	=====	=====
Net investment income.....	\$ 29,897	\$ 25,850	\$ 25,850
	=====	=====	=====
Benefits, claims, losses and settlement expenses.....	\$ 55,683	\$ 44,672	\$ 44,672
	=====	=====	=====
Amortization of deferred policy acquisition costs.....	\$133,635	\$119,746	\$109,000
	=====	=====	=====
Other operating expenses.....	\$ 48,020	\$ 47,228	\$ 47,228
	=====	=====	=====
Net premiums written.....	\$304,468	\$298,987	\$277,000
	=====	=====	=====

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SCHEDULE IV

CNA SURETY CORPORATION AND SUBSIDIARIES

REINSURANCE CNA SURETY CORPORATION FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	GROSS AMOUNT	CEDED TO OTHER COMPANIES	ASSUMED FROM OTHER COMPANIES	NET AMOUNT
	-----	-----	-----	-----
	(AMOUNTS IN THOUSANDS)			

CNA SURETY CORPORATION

YEAR ENDED DECEMBER 31, 2000
Premiums written:

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Property and casualty insurance.....	\$115,100	\$12,199	\$201,567	\$304,468
	-----	-----	-----	-----
Total premiums written.....	\$115,100	\$12,199	\$201,567	\$304,468
	=====	=====	=====	=====
Premiums earned:				
Property and casualty insurance.....	\$109,472	\$14,831	\$207,178	\$301,819
	-----	-----	-----	-----
Total premiums earned.....	\$109,472	\$14,831	\$207,178	\$301,819
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1999				
Premiums written:				
Property and casualty insurance.....	\$108,968	\$ 7,872	\$197,891	\$298,987
	-----	-----	-----	-----
Total premiums written.....	\$108,968	\$ 7,872	\$197,891	\$298,987
	=====	=====	=====	=====
Premiums earned:				
Property and casualty insurance.....	\$103,993	\$ 7,392	\$186,939	\$283,540
	-----	-----	-----	-----
Total premiums earned.....	\$103,993	\$ 7,392	\$186,939	\$283,540
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1998				
Premiums written:				
Property and casualty insurance.....	\$105,289	\$ 7,622	\$172,935	\$270,602
	-----	-----	-----	-----
Total premiums written.....	\$105,289	\$ 7,622	\$172,935	\$270,602
	=====	=====	=====	=====
Premiums earned:				
Property and casualty insurance.....	\$103,298	\$ 7,564	\$163,003	\$258,737
	-----	-----	-----	-----
Total premiums earned.....	\$103,298	\$ 7,564	\$163,003	\$258,737
	=====	=====	=====	=====

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SCHEDULE V

CNA SURETY CORPORATION AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

CNA SURETY CORPORATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

		ADDITIONS			
	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS	DEDUCTION	
	-----	-----	-----	-----	
		(AMOUNTS IN THOUSANDS)			
CNA SURETY CORPORATION					
YEAR ENDED DECEMBER 31, 2000					
Allowance for possible losses on premiums receivable.....	\$2,826	\$ 837	\$--	\$ (1,01	
	=====	=====	==	=====	
Allowance for possible losses on reinsurance receivable.....	\$ --	\$ --	\$--	\$ --	
	=====	=====	==	=====	

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YEAR ENDED DECEMBER 31, 1999

Allowance for possible losses on premiums receivable.....	\$1,465	\$1,786	\$--	\$ (42
	=====	=====	==	=====
Allowance for possible losses on reinsurance receivable.....	\$ --	\$ --	\$--	\$ --
	=====	=====	==	=====

YEAR ENDED DECEMBER 31, 1998

Allowance for possible losses on premiums receivable.....	\$ 968	\$1,041	\$--	\$ (54
	=====	=====	==	=====
Allowance for possible losses on reinsurance receivable.....	\$ --	\$ --	\$--	\$ --
	=====	=====	==	=====

() (1) Accounts charged against allowance.

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SCHEDULE VI

CNA SURETY CORPORATION AND SUBSIDIARIES

SUPPLEMENTAL INFORMATION CONCERNING PROPERTY-CASUALTY INSURANCE OPERATIONS

CNA SURETY CORPORATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	YEAR ENDED DECEMBER 31, 2000	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998
	-----	-----	-----
	(AMOUNTS IN THOUSANDS)		
Deferred policy acquisition costs.....	\$ 91,403	\$ 84,924	\$ 74,48
	=====	=====	=====
Reserves for unpaid claims and claim adjustment expenses.....	\$204,457	\$157,933	\$150,02
	=====	=====	=====
Discount (if any) deducted.....	\$ --	\$ --	\$
	=====	=====	=====
Unearned premiums.....	\$202,179	\$199,300	\$183,70
	=====	=====	=====
Net premium revenue.....	\$301,819	\$283,540	\$258,73
	=====	=====	=====
Net investment income.....	\$ 29,897	\$ 25,850	\$ 24,25
	=====	=====	=====
Net claims and claim expenses incurred related to:			
Current year.....	\$ 62,776	\$ 57,757	\$ 49,35
	=====	=====	=====
Prior years.....	\$ (7,093)	\$ (13,085)	\$ (4,35
	=====	=====	=====
Amortization of deferred policy acquisition costs.....	\$133,635	\$119,746	\$105,42
	=====	=====	=====
Net paid claims and claim adjustment expenses.....	\$ 58,854	\$ 49,237	\$ 25,68
	=====	=====	=====
Net premiums written.....	\$304,468	\$298,987	\$270,60

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(A) (3) EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
2(1)	Reorganization Agreement dated as of December 19, 1996 among Capsure Holdings Corp., Continental Casualty Company, CNA Surety Corporation, Surety Acquisition Company and certain affiliates of Continental Casualty Company (filed on December 27, 1996 as Exhibit 2 to Capsure Holdings Corp.'s Form 8-K, and incorporated herein by reference).
2(2)	First Amendment to the Reorganization Agreement dated as of July 14, 1997 among Capsure Holdings Corp., Continental Casualty Company, CNA Surety Corporation, Surety Acquisition Company and certain affiliates of Continental Casualty Company (filed on July 16, 1997 as Exhibit 2 to Capsure Holdings Corp.'s Form 8-K, and incorporated herein by reference).
3(1)	Certificate of Incorporation of CNA Surety Corporation dated December 10, 1996 (filed on August 15, 1997 as Exhibit 3(1) to CNA Surety Corporation's Registration Statement on Form S-4 (Registration No. 333-33753), and incorporated herein by reference).
3(2)	Amendment to Certificate of Incorporation of CNA Surety Corporation dated May 27, 1997 (filed on August 15, 1997 as Exhibit 3(2) to CNA Surety Corporation's Registration Statement on Form S-4 (Registration No. 333-33753), and incorporated herein by reference).
3(3)	Bylaws of CNA Surety Corporation (filed on August 15, 1997 as Exhibit 3(3) to CNA Surety Corporation's Registration Statement on Form S-4 (Registration No. 333-33753), and incorporated herein by reference).
3(4)	Amendment to Bylaws of CNA Surety Corporation (filed on September 23, 1998 as Exhibit 4(3) to CNA Surety Corporation's Registration Statement on Form S-8 (Registration No. 333-64135), and incorporated herein by reference).
4(1)	Specimen certificate of CNA Surety Corporation (filed on August 15, 1997 as Exhibit 4(1) to CNA Surety Corporation's Registration Statement on Form S-4 (Registration No. 333-33753), and incorporated herein by reference).
9	Not applicable.
10(1)	Form of The CNA Surety Corporation Replacement Stock Option Plan (filed on August 15, 1997 as Exhibit 10(12) to CNA Surety Corporation's Registration Statement on Form S-4 (Registration No. 333-33753), and incorporated herein by reference).
10(2)	Form of CNA Surety Corporation 1997 Long-Term Equity Compensation Plan (filed on August 15, 1997 as Exhibit 10(13) to CNA Surety Corporation's Registration Statement on Form S-4 (Registration No. 333-33753), and incorporated herein by reference).
10(3)	Form of Aggregate Stop Loss Reinsurance Contract by and

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between Western Surety Company, Universal Surety of America, Surety Bonding Company of America and Continental Casualty Company (filed on December 27, 1996 as Exhibit 2 to Capsure Holdings Corp.'s Form 8-K, and incorporated herein by reference).

- 10(4) Form of Surety Excess of Loss Reinsurance Contract by and between Western Surety Company, Universal Surety of America, Surety Bonding Company of America and Continental Casualty Company (filed on December 27, 1996 as Exhibit 2 to Capsure Holdings Corp.'s Form 8-K, and incorporated herein by reference).
- 10(5) Form of Surety Quota Share Treaty by and between Western Surety Company and Continental Casualty Company (filed on December 27, 1996 as Exhibit 2 to Capsure Holdings Corp.'s Form 8-K, and incorporated herein by reference).
- 10(6) Employment Agreement dated as of October 3, 1999 by and between CNA Surety Corporation and Mark C. Vonnahme (filed on March 24, 2000 as Exhibit 10(9) to CNA Surety Corporation's Annual Report on Form 10-K, and incorporated herein by reference).

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EXHIBIT NUMBER

DESCRIPTION

- | EXHIBIT
NUMBER
----- | DESCRIPTION
----- |
|----------------------------|--|
| 10(7) | Employment Agreement dated as of January 1, 2000 by and between CNA Surety Corporation and Robert E. Ayo (filed on March 24, 2000 as Exhibit 10(10) to CNA Surety Corporation's Annual Report on Form 10-K, and incorporated herein by reference). |
| 10(8) | Consulting Agreement dated as of March 14, 2001 by and between CNA Surety Corporation and Robert E. Ayo. |
| 10(9) | Employment Agreement dated as of January 1, 2000 by and between CNA Surety Corporation and John S. Heneghan (filed on March 24, 2000 as Exhibit 10(12) to CNA Surety Corporation's Annual Report on Form 10-K, and incorporated herein by reference). |
| 10(10) | Employment Agreement dated as of October 3, 1999 by and between CNA Surety Corporation and Steven T. Pate (filed on March 24, 2000 as Exhibit 10(13) to CNA Surety Corporation's Annual Report on Form 10-K, and incorporated herein by reference). |
| 10(11) | Employment Agreement dated as of January 1, 2000 by and between CNA Surety Corporation and David F. Paul (filed on March 24, 2000 as Exhibit 10(14) to CNA Surety Corporation's Annual Report on Form 10-K, and incorporated herein by reference). |
| 10(12) | Credit Agreement dated as of September 30, 1997, among CNA Surety Corporation, the lenders party thereto, and Chase Manhattan Bank, as Administrative Agent (filed on July 9, 1998 as Exhibit 10(13) to CNA Surety Corporation's Registration Statement on Form S-1 (Registration No. 333-56063), and incorporated herein by reference). |
| 10(13) | Surety Second Excess of Loss Reinsurance Contract by and between Western Surety Company, Universal Surety of America, Surety Bonding Company of America and Continental Casualty |

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- Company (filed on July 9, 1998 as Exhibit 10(14) to CNA Surety Corporation's Registration Statement on Form S-1 (Registration No. 333-56063), and incorporated herein by reference).
- 10(14) Form of CNA Surety Corporation Non-Employee Directors Deferred Compensation Plan (filed on July 9, 1998 as Exhibit 10(15) to CNA Surety Corporation's Registration Statement on Form S-1 (Registration No. 333-56063), and incorporated herein by reference).
- 10(15) Form of CNA Surety Corporation Deferred Compensation Plan (filed on March 24, 2000 as Exhibit 10(18) to CNA Surety Corporation's Annual Report on Form 10-K, and incorporated herein by reference).
- 10(16) Form of CNA Surety Corporation 2000 Employee Stock Purchase Plan (filed on January 26, 2001 (incorporated by reference) to CNA Surety Corporation's Registration Statement on Form S-8 (Registration No. 333-54440), and incorporated herein by reference).
- 11 Earnings per share computation.
- 12 Not Applicable.
- 13 2000 Annual Report to Shareholders
- 21 Subsidiaries of the Registrant.
- 22 Not Applicable.
- 23 Consent of Deloitte & Touche LLP dated March 23, 2001.
- 24 Not Applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNA SURETY CORPORATION

/s/ MARK C. VONNAHME

Mark C. Vonnahme
President and Chief Executive Officer
(Principal Executive Officer)

/s/ JOHN S. HENEGHAN

John S. Heneghan
Vice President and Chief Financial
Officer
(Principal Financial and Accounting
Officer)

Dated: March 23, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

DATE	TITLE	SIGNATURE
----	-----	-----

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March 23, 2001	Chairman of the Board and Director	/s/ THOMAS F. TAYLOR ----- Thomas F. Taylor
March 23, 2001	Director	/s/ GIORGIO BALZER ----- Giorgio Balzer
March 23, 2001	Director	/s/ PHILIP H. BRITT ----- Philip Britt
March 23, 2001	Director	/s/ EDWARD DUNLOP ----- Edward Dunlop
March 23, 2001	Director	/s/ MELVIN GRAY ----- Melvin Gray
March 23, 2001	Director	/s/ JOE P. KIRBY ----- Joe P. Kirby
March 23, 2001	Director	/s/ ROY E. POSNER ----- Roy E. Posner

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DATE ----	TITLE -----	SIGNATURE -----
March 23, 2001	Director	/s/ ADRIAN M. TOCKLIN ----- Adrian M. Tocklin
March 23, 2001	Director	/s/ MARK C. VONNAHME ----- Mark C. Vonnahme

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