

MARKEL BERMUDA LIMITED

Consolidated Financial Statements

December 31, 2020 and 2019



KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton
HM 08
Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of Markel Bermuda Limited

We have audited the accompanying consolidated financial statements of Markel Bermuda Limited and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Markel Bermuda Limited and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other matter

Management has omitted certain disclosures related to short-duration contracts that U.S. generally accepted accounting principles require to be presented to supplement the basic consolidated] financial statements. Such missing information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic consolidated financial statements is not affected by this missing information.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 6, 2021

MARKEL BERMUDA LIMITED
CONSOLIDATED BALANCE SHEETS

December 31,

2020 2019

(dollars in thousands)

ASSETS		
Investments, at estimated fair value:		
Fixed maturity securities, available-for-sale (amortized cost of \$1,537,974 in 2020 and \$1,658,234 in 2019)	\$ 1,955,108	\$ 1,929,034
Equity securities (cost of \$839,988 in 2020 and \$1,066,850 in 2019)	1,651,969	1,663,558
Investments in affiliates, at fair value	9,562	40,608
Short-term investments, available-for-sale (estimated fair value approximates cost)	149,999	93,959
Total Investments	3,766,638	3,727,159
Cash and cash equivalents	491,506	261,154
Restricted cash and cash equivalents	306,634	116,028
Premiums receivable	763,362	733,281
Reinsurance recoverables	698,922	755,555
Deferred policy acquisition costs	141,748	104,146
Prepaid reinsurance premiums	40,388	33,458
Due from affiliates, net	643,275	645,680
Other assets	85,389	60,603
Total Assets	\$ 6,937,862	\$ 6,437,064
LIABILITIES		
Unpaid losses and loss adjustment expenses	\$ 3,148,266	\$ 3,025,464
Life and annuity benefits	1,076,162	1,005,591
Unearned property and casualty premiums	594,227	529,185
Reinsurance balances payable	33,777	41,907
Notes payable to affiliates	—	54,875
Other liabilities	180,360	175,858
Total Liabilities	5,032,792	4,832,880
SHAREHOLDER'S EQUITY		
Common shares (par value \$1.00 per share); 58,829,354 shares issued and outstanding	58,829	58,829
Additional paid-in capital	1,157,948	1,157,948
Accumulated other comprehensive income	177,286	105,111
Retained earnings	511,007	282,296
Total Shareholder's Equity	1,905,070	1,604,184
Total Liabilities and Shareholder's Equity	\$ 6,937,862	\$ 6,437,064

See accompanying notes to consolidated financial statements.

MARKEL BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,	
	2020	2019
<i>(dollars in thousands)</i>		
REVENUES		
Earned premiums	1,144,778	1,056,898
Net investment income	81,993	103,180
Net investment gains:		
Net realized investment gains	1,279	43,226
Change in fair value of equity securities	221,639	421,705
Net investment gains	222,918	464,931
Other revenues	1,787	10,395
Total Revenues	1,451,476	1,635,404
LOSSES AND EXPENSES		
Losses and loss adjustment expenses	770,659	691,098
Claims and policy benefits	26,808	29,425
Acquisition costs	289,921	316,371
General and administrative expenses	50,510	53,217
Foreign exchange losses (gains)	57,907	(14,736)
Interest expense	1,869	2,150
Total Losses and Expenses	1,197,674	1,077,525
Income Before Income Taxes	253,802	557,879
Income tax expense	25,062	110,400
Net Income	\$ 228,740	\$ 447,479
OTHER COMPREHENSIVE INCOME		
Change in net unrealized gains on available-for-sale investments, net of taxes:		
Net holding gains arising during the period (tax impact: 2020 - \$30,620 expense; 2019 - \$22,347 expense)	\$ 115,190	\$ 84,067
Reclassification adjustments for net (losses) gains included in net income (tax impact: 2020 - \$108 expense; 2019 - \$9,183 expense)	406	(34,545)
Change in net unrealized gains on available-for-sale investments, net of taxes	115,596	49,522
Impact of net unrealized losses on life and annuity benefits, net of taxes (tax impact: 2020 - \$11,542 benefit; 2019 - \$10,203 benefit)	(43,421)	(38,380)
Total Other Comprehensive Income	\$ 72,175	\$ 11,142
Comprehensive Income	\$ 300,915	\$ 458,621

See accompanying notes to consolidated financial statements.

MARKEL BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

	December 31,	
	2020	2019
	<i>(dollars in thousands)</i>	
COMMON SHARES		
Balance - Beginning And End Of Year	\$ 58,829	\$ 58,829
ADDITIONAL PAID-IN CAPITAL		
Balance - Beginning And End Of Year	1,157,948	1,157,948
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized Holding Gains:		
Balance - beginning of year	134,157	123,015
Holding gains on available for sale securities arising in year, net of tax	115,190	84,067
Net realized (losses) gains on available for sale securities included in net income, net of tax	406	(34,545)
Impact of net unrealized investment losses on life and annuity benefits, net of tax	(43,421)	(38,380)
Balance - End Of Year	206,332	134,157
Cumulative Foreign Currency Translation Adjustment:		
Balance - Beginning And End Of Year	(29,046)	(29,046)
Total Accumulated Other Comprehensive Income - End Of Year	177,286	105,111
RETAINED EARNINGS		
Balance - beginning of year	282,296	184,817
Net Income	228,740	447,479
Cumulative effects of adoption of ASU No. 2016-13, net of taxes	(29)	—
Dividends	—	(350,000)
Balance - End Of Year	511,007	282,296
TOTAL SHAREHOLDER'S EQUITY	\$ 1,905,070	\$ 1,604,184

See accompanying notes to consolidated financial statements.

MARKEL BERMUDA LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2020	2019
<i>(dollars in thousands)</i>		
OPERATING ACTIVITIES		
Net Income	\$ 228,740	\$ 447,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Net investment gains	(222,917)	(464,931)
Foreign exchange losses (gains)	57,907	(14,736)
Deferred tax expense	39,182	69,880
Increase in premium receivable	(19,028)	(45,388)
Decrease in reinsurance recoverables	56,627	113,219
Increase in deferred policy acquisition costs	(36,218)	(17,526)
(Increase) decrease in prepaid reinsurance premiums	(6,899)	20,350
Decrease (increase) in due from affiliates	3,522	(4,973)
(Increase) decrease in other assets	(22,720)	37,781
Increase (decrease) in unpaid losses and loss adjustment expenses	103,089	(45,566)
Decrease in life and annuity benefits	(35,450)	(43,301)
Increase in unearned property and casualty premiums	62,862	56,122
(Decrease) increase in reinsurance balances payable	(8,909)	15,297
(Decrease) increase in other liabilities	(50,640)	14,011
Other	(11,784)	(1,293)
Net Cash Provided By Operating Activities	137,364	136,425
INVESTING ACTIVITIES		
Purchases of fixed maturity securities and equity securities	(45,429)	(321,393)
Sales of fixed maturity securities and equity securities	278,597	211,895
Redemptions of fixed maturity securities	121,535	114,058
Redemption of cost and equity securities	—	45
Net change in short-term investments	(55,706)	39,827
Sales and redemptions of other investments	1,793	—
Proceeds from redemption of investments in affiliates	27,163	7,363
Due from affiliates	—	(150,000)
Net Cash Provided (Used) By Investing Activities	327,953	(98,205)
FINANCING ACTIVITIES		
Dividend	—	(74,632)
Repayment of notes to affiliates	(94,875)	(50,000)
Addition of notes due to affiliates	40,000	30,000
Other	(3,728)	(3,498)
Net Cash Used By Financing Activities	(58,603)	(98,130)
Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	14,244	(136)
Increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	420,958	(60,046)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	377,182	437,228
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS AT END OF YEAR	\$ 798,140	\$ 377,182
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Taxes (paid) received	\$ (41,340)	\$ 20,459
See accompanying notes to consolidated financial statements.		

1. General

Markel Bermuda Limited (“Markel Bermuda” or “the Company”) was incorporated on August 20, 1999 under the laws of Bermuda to provide diversified specialty insurance and reinsurance products to corporations, public entities and property and casualty insurers. The Company is registered as both a Class 4 commercial insurer and Class C long-term insurer under the insurance laws of Bermuda. The Company's ultimate parent company is Markel Corporation (“Markel”), a publicly traded, diversified financial holding company (NYSE: MKL) headquartered in Richmond, Virginia. Effective June 19, 2020, Alterra Diversified Strategies Limited (“ADS”), formerly the Company’s wholly-owned subsidiary, was merged into the Company. The merger had no impact to the financial statements or results of the Company.

2. Summary of Significant Accounting Policies

a) Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and include the accounts of Markel Bermuda Limited and its subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

b) Comparative Information. Certain balances in the 2019 consolidated financial statements have been reclassified to the 2020 consolidated financial statement presentation.

c) Use of Estimates. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Management periodically reviews its estimates and assumptions. Quarterly reviews include evaluating the adequacy of reserves for unpaid losses and loss adjustment expenses, life and annuity reinsurance benefit reserves and contingencies, as well as analyzing the recoverability of deferred tax assets. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

d) Investments. Available-for-sale investments and equity securities are recorded at estimated fair value. Unrealized gains and losses on available-for sale investments, net of income taxes, are included in other comprehensive income. Unrealized gains and losses on equity securities, net of income taxes, are included in net income.

The Company completes a detailed analysis each quarter to assess declines in the fair value of its available-for-sale investments. Effective January 1, 2020, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and related amendments, which created a new comprehensive credit losses standard, FASB Accounting Standards Codification (ASC) 326, *Financial Instruments—Credit Losses*. Upon adoption of ASC 326, any impairment losses on the Company's available-for-sale investments are recorded as an allowance, subject to reversal, rather than as a reduction in amortized cost, as was required under the previous other-than-temporary impairment (OTTI) model. In accordance with the provisions of ASU No. 2016-13, prior periods have not been restated. See note 2(q) for further discussion of the impact of adopting this standard.

Premiums and discounts are amortized or accreted over the lives of the related fixed maturity securities as an adjustment to the yield using the effective interest method. Dividend and interest income are recognized when earned. Accrued interest receivable is excluded from both the estimated fair value and the amortized cost basis of available-for-sale securities and included within other assets on the Company's consolidated balance sheets. Any uncollectible accrued interest receivable is written off in the period it is deemed uncollectible. Realized investment gains or losses on available-for-sale investments are included in net income. Realized gains or losses from sales of available-for-sale investments are derived using the first-in, first-out method on the trade date.

See note 3 and 4 for further details regarding the Company's investment portfolio.

e) Cash and Cash Equivalents. The Company considers all investments with original maturities of 90 days or less to be cash equivalents. The carrying value of the Company's cash and cash equivalents approximates fair value.

f) Restricted Cash and Cash Equivalents. Cash and cash equivalents that are restricted as to withdrawal or use are recorded as restricted cash and cash equivalents. The carrying value of the Company's restricted cash and cash equivalents approximates fair value.

g) Receivables. Receivables include amounts receivable from agents, brokers and insureds, which represent premiums that are both currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. Changes in the estimate of reinsurance premiums written will result in an adjustment to premiums receivable in the period they are determined.

The Company monitors credit risk associated with receivables, taking into consideration the fact that in certain instances in the Company's insurance operations, credit risk may be reduced by the Company's right to offset loss obligations or unearned premiums against premiums receivable. An allowance is established for amounts deemed uncollectible and receivables are recorded net of this allowance. Following the adoption of ASC 326, as described in note 2(q), beginning January 1, 2020 the allowance is established for expected credit losses to be recognized over the life of the receivable. The Company considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions when estimating the allowance for credit losses. The Company uses information obtained from external sources to forecast short-term changes in macroeconomic conditions that are expected to impact the Company's exposure to credit losses. Any allowance for credit losses is charged to net income in the period the receivable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses. The allowance for credit losses associated with the Company's receivables did not have a material impact on the Company's result of operations or cash flows.

h) Reinsurance Recoverables. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to significant losses from individual reinsurers. To further reduce credit exposure on reinsurance recoverables, the Company has received collateral, including letters of credit and trust accounts, from certain reinsurers. Collateral related to these reinsurance agreements is available, without restriction, when the Company pays losses covered by the reinsurance agreements. An allowance is established for amounts deemed uncollectible and reinsurance recoverables are recorded net of this allowance. Following the adoption of ASC 326, as described in note 2(q), beginning January 1, 2020 the allowance is established for expected credit losses to be recognized over the life of the reinsurance recoverable. Any allowance for credit losses is charged to net income in the period the recoverable is recorded and revised in subsequent periods to reflect changes in the Company's estimate of expected credit losses. The allowance for credit losses associated with the Company's reinsurance recoverables was \$2.8 million and \$4.5 million as of December 31, 2020 and 2019, respectively.

i) Deferred Policy Acquisition Costs. Costs directly related to the acquisition of insurance and reinsurance premiums are deferred and amortized over the related policy period, generally one year. The Company only defers acquisition costs incurred that are related directly to the successful acquisition of new or renewal insurance contracts, including commissions to agents and brokers and premium taxes. Commissions received related to reinsurance premiums ceded are netted against broker commissions in determining acquisition costs eligible for deferral. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company does not consider anticipated investment income in determining whether a premium deficiency exists.

j) Income Taxes. The Company records deferred income taxes to reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized. The Company recognizes the tax benefit from an uncertain tax position taken or expected to be taken in income tax returns only if it is more likely than not that the tax position will be sustained upon examination by tax authorities, based on the technical merits of the position. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach, whereby the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement is recognized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

k) Unpaid Losses and Loss Adjustment Expenses. Unpaid losses and loss adjustment expenses on the Company's property and casualty insurance business are based on evaluations of reported claims and estimates for losses and loss adjustment expenses incurred but not reported. Estimates for losses and loss adjustment expenses incurred but not reported are based on reserve development studies, among other things. The Company does not discount reserves for losses and loss adjustment expenses to reflect estimated present value. Recorded reserves are estimates, and the ultimate liability may be greater or less than the estimates.

l) Life and Annuity Benefits. Long duration reinsurance contracts for life and annuity benefits subject the Company to mortality, longevity and morbidity risks. The assumptions used to determine policy benefit reserves were determined at contract inception and are generally locked-in for the life of the contract unless an unlocking event occurs. To the extent existing policy reserves, together with the present value of future gross premiums and expected investment income earned thereon, are not adequate to cover the present value of future benefits, settlement and maintenance costs, the locked-in assumptions are revised to current best estimate assumptions and a charge to earnings for life and annuity benefits is recognized at that time. Because of the assumptions and estimates used in establishing reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. Results attributable to the run-off of life and annuity reinsurance business are included in other revenues and claims and policy benefits in the Company's consolidated statements of income and comprehensive income.

m) Revenue Recognition. Insurance premiums written are generally recorded at the inception of a policy and earned on a pro rata basis over the policy period, typically one year. The cost of reinsurance ceded is initially recorded as prepaid reinsurance premiums and is amortized over the reinsurance contract period in proportion to the amount of insurance protection provided. Premiums ceded are netted against premiums written. For multi-year contracts where insurance premiums are payable in annual installments, written premiums are recorded at the inception of the contract based on management's best estimate of total premiums to be received. For contracts where the cedent has the ability to unilaterally commute or cancel coverage within the term of the policy, premiums are generally recorded on an annual basis or up to the contract cancellation point. The remaining premiums are estimated and included as written at each successive anniversary date within the multi-year term.

Assumed reinsurance premiums are recorded at the inception of each contract based upon contract terms and information received from cedents and brokers and are earned on a pro rata basis over the coverage period, or for multi-year contracts, in proportion with the underlying risk exposure to the extent there is variability in the exposure through the coverage period. Changes in reinsurance premium estimates are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding changes in underlying exposures is obtained. Any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined and are earned on a pro rata basis over the coverage period. The Company uses the periodic method to account for assumed reinsurance from foreign reinsurers. The Company's foreign reinsurers provide sufficient information to record foreign assumed business in the same manner as the Company records assumed business from U.S. reinsurers.

Certain contracts that the Company writes provide for reinstatement of coverage. Reinstatement premiums are the premiums for the restoration of the insurance or reinsurance limit of a contract to its full amount after a loss occurrence by the insured or reinsured. The Company accrues for reinstatement premiums resulting from losses recorded. Such accruals are based upon contractual terms and management judgment is involved with respect to the amount of losses recorded. Changes in estimates of losses recorded on contracts with reinstatement premium features will result in changes in reinstatement premiums based on contractual terms. Reinstatement premiums are recognized at the time losses are recorded.

Deposits

Short duration reinsurance contracts entered into by the Company that are not deemed to transfer significant underwriting and timing risk are accounted for as deposits, whereby liabilities are initially recorded at the same amount as assets received. An initial accretion rate is established based on actuarial estimates whereby the deposit liability is increased to the estimated amount payable over the term of the contract. This accretion charge is presented in the period as interest expense or losses and loss adjustment expenses, as appropriate. Long duration contracts written by the Company that do not transfer significant mortality or morbidity risks are also accounted for as deposits. The Company periodically reassesses the amount of deposit liabilities. Changes to the estimated ultimate liability are recognized as an adjustment to earnings to reflect the cumulative effect since the inception of the contract. For certain contracts the future accretion rate of the liability is also adjusted over the

remaining estimated contract term. For the years ended December 31, 2020 and 2019, losses and loss adjustment expenses includes \$0.1 million, respectively, due to changes in the estimated ultimate liability related to short duration reinsurance contracts accounted for as deposits.

n) Leases. The present value of future lease payments for the Company's lease with terms greater than 12 months are included on the consolidated balance sheet as lease liabilities and right-of-use assets.

The Company has one operating lease for real estate. Total expected lease payments are based on the lease payments specified in the contract and the stated term, including any options to extend or terminate that the Company is reasonably certain to exercise. The Company accounts for lease components and any associated non-lease components as a single lease component, and therefore allocates all of the expected lease payments to the lease component.

The lease liability, which represents the Company's obligation to make lease payments arising from the lease, is calculated based on the present value of expected lease payments over the remaining lease term, discounted using the Company's collateralized incremental borrowing rate at the commencement date. The lease liability is then adjusted for any prepaid rent, lease incentives received or capitalized initial direct costs to determine the lease asset, which represents the Company's right to use the underlying asset for the lease term. Lease liabilities and lease assets are included in other liabilities and other assets, respectively, on the consolidated balance sheet.

Total lease costs are primarily comprised of rental expense for the operating lease which is recognized on a straight line basis over the lease term. Rental expense attributable to the Company's operations is included in general and administrative expenses in the consolidated statements of income and comprehensive income.

o) Foreign Currency Translation. The U.S. Dollar is the Company's reporting and functional currency.

Foreign currency transaction gains and losses are the result of exchange rate changes on transactions denominated in currencies other than the functional currency. Monetary assets and liabilities are remeasured to the functional currency at current exchange rates, with resulting gains and losses included in net foreign exchange losses (gains) within net income. Non-monetary assets and liabilities are remeasured to the functional currency at historic exchange rates. Available-for-sale securities are recorded at fair value with resulting gains and losses, including the portion attributable to movements in exchange rates, included in the change in net unrealized gains on available-for-sale investments, net of taxes within other comprehensive income. While we attempt to naturally hedge our exposure to foreign currency fluctuations by matching assets and liabilities in the same currencies, there is a financial statement mismatch between the gains or losses recorded in net income related to insurance reserves denominated in non-functional currencies and the gains or losses recorded in other comprehensive income related to the available-for-sale securities held in non-functional currencies supporting the reserves.

The Company changed its functional currency determination on a prospective basis effective January 1, 2018. Therefore translation gains and losses previously recorded in accumulated other comprehensive income remain unchanged.

p) Comprehensive Income. Comprehensive income represents all changes in equity that result from recognized transactions and other economic events during the period. Other comprehensive income refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income but excluded from net income, such as unrealized gains or losses on available-for-sale investments and the impact unrealized losses on life and annuity benefits.

q) Recent Accounting Pronouncements.

Accounting Standards Adopted in 2020

Effective January 1, 2020, the Company adopted ASC 326, *Financial Instruments—Credit Losses*. This new standard replaced the incurred loss model used to measure impairment losses for financial assets measured at amortized cost with a current expected credit loss (CECL) model and also made changes to the impairment model for available-for-sale investments. Under the CECL model, allowances are established for expected credit losses to be recognized over the life of financial assets. Application of the CECL model impacted certain of the Company's financial assets, including its reinsurance recoverables and receivables. The CECL model did not impact the Company's investment portfolio, which is measured at fair value. However, ASC 326 replaced the OTTI model with an impairment allowance model, subject to reversal, for available-for-sale investments.

As a result of adopting ASC 326, the Company increased its allowances for credit losses related to its reinsurance recoverables and receivables but it did not have a material impact on the Company's result of operations or cash flows. The Company continues to apply the previous guidance to 2019 and prior periods.

ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* is relevant to the Company's operations and was adopted effective January 1, 2020. The ASU did not have a material impact on the Company's financial position, results of operations or cash flows.

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The FASB subsequently issued several ASUs as amendments to ASU No. 2018-12. The standard requires insurance entities with long duration contracts to: (1) review and, if there is a change, update the assumptions used to measure cash flows at least annually, as well as update the discount rate assumption at each reporting date; (2) measure all market risk benefits associated with deposit (or account balance) contracts at fair value; and (3) disclose liability rollforwards and information about significant inputs, judgments, assumptions and methods used in measurement, including changes thereto and the effect of those changes on measurement. ASU No. 2018-12 becomes effective for the Company during the first quarter of 2025. The standard will, among other things, impact the discount rate used in estimating reserves for the Company's life and annuity reinsurance portfolio, which is in runoff. Currently, the discount rate assumption is locked-in for the life of the contracts, unless there is a loss recognition event. The Company is currently evaluating ASU No. 2018-12 to determine the impact that adopting this standard will have on its consolidated financial statements.

The following ASUs are relevant to the Company's operations and are not yet effective. These ASUs are not expected to have a material impact on the Company's financial position, results of operations or cash flows:

- ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*
- ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

3. Investments

a) The following tables summarize the Company's available-for-sale investments. Commercial and residential mortgage-backed securities include securities issued by U.S. government-sponsored enterprises and U.S. government agencies. The net unrealized holding gains in the tables below are presented before taxes and any adjustments related to life and annuity benefit reserves. See note 7.

	December 31, 2020			
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Fixed maturity securities:				
U.S. Treasury securities	\$ 20,846	\$ 259	\$ —	\$ 21,105
U.S. government-sponsored enterprises	71,365	14,294	—	85,659
Obligations of states, municipalities and political subdivisions	356,305	43,937	(1)	400,241
Foreign governments	614,699	292,947	—	907,646
Commercial mortgage-backed securities	169,769	12,776	—	182,545
Residential mortgage-backed securities	177,109	11,900	—	189,009
Asset-backed securities	2,470	139	—	2,609
Corporate bonds	125,411	40,883	—	166,294
Total fixed maturity securities	<u>1,537,974</u>	<u>417,135</u>	<u>(1)</u>	<u>1,955,108</u>
Short-term investments	149,999	—	—	149,999
Investments, available-for-sale	<u>\$ 1,687,973</u>	<u>\$ 417,135</u>	<u>\$ (1)</u>	<u>\$ 2,105,107</u>

	December 31, 2019			
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Fixed maturity securities:				
U.S. Treasury securities	\$ 25,602	\$ 340	\$ —	\$ 25,942
U.S. government-sponsored enterprises	71,679	8,374	—	80,053
Obligations of states, municipalities and political subdivisions	390,797	28,935	—	419,732
Foreign governments	624,114	193,754	(1,637)	816,231
Commercial mortgage-backed securities	187,126	5,335	(153)	192,308
Residential mortgage-backed securities	192,277	7,247	(33)	199,491
Asset-backed securities	4,817	65	(9)	4,873
Corporate bonds	161,822	29,255	(673)	190,404
Total fixed maturity securities	<u>1,658,234</u>	<u>273,305</u>	<u>(2,505)</u>	<u>1,929,034</u>
Short-term investments	93,949	10	—	93,959
Investments, available-for-sale	<u>\$ 1,752,183</u>	<u>\$ 273,315</u>	<u>\$ (2,505)</u>	<u>\$ 2,022,993</u>

b) The following tables summarize gross unrealized investment losses on available-for-sale investments by the length of time that securities have continuously been in an unrealized loss position.

	December 31, 2020					
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Losses
<i>(dollars in thousands)</i>						
Fixed maturity securities:						
Obligations of states, municipalities and political subdivisions	2,104	(1)	—	—	2,104	(1)
Total fixed maturity securities	\$ 2,104	\$ (1)	\$ —	\$ —	\$ 2,104	\$ (1)

At December 31, 2020, the Company held one security with a total estimated fair value of \$2.1 million and gross unrealized losses of \$0.1 million. There were no securities that had been in a continuous unrealized loss position for one year or longer. The Company does not intend to sell or believe it will be required to sell this available-for-sale security before recovery of its amortized cost.

	December 31, 2019					
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Losses
<i>(dollars in thousands)</i>						
Fixed maturity securities:						
Foreign governments	27,161	(851)	35,121	(786)	62,282	(1,637)
Commercial mortgage-backed securities	23,601	(141)	2,254	(12)	25,855	(153)
Residential mortgage-backed securities	—	—	3,967	(33)	3,967	(33)
Asset-backed securities	—	—	2,063	(9)	2,063	(9)
Corporate bonds	15,265	(518)	2,847	(155)	18,112	(673)
Total fixed maturity securities	66,027	(1,510)	46,252	(995)	112,279	(2,505)

At December 31, 2019, the Company held 23 securities with a total estimated fair value of \$112.3 million and gross unrealized losses of \$2.5 million. Of these 23 securities, 11 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of \$46.3 million and gross unrealized losses of \$1.0 million.

Following the adoption of ASC 326, as described in note 2(q), beginning January 1, 2020 the Company completes a detailed analysis each quarter to assess whether the decline in the fair value of any investments below its cost basis is the result of a credit loss. All available-for-sale securities with unrealized losses are reviewed. The Company considers many factors in completing its quarterly review of securities with unrealized losses for credit-related impairment to determine whether a credit loss exists, including the extent to which fair value is below cost, the implied yield to maturity, rating downgrades of the security and whether or not the issuer has failed to make scheduled principal or interest payments. The Company also takes into consideration information about the financial condition of the issuer and industry factors that could negatively impact the capital markets.

If the decline in fair value of an available-for-sale security below its amortized cost is considered to be the result of a credit loss, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the

security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit loss. Any such amount is recorded as an allowance and recognized in net income. The allowance is limited to the difference between the fair value and the amortized cost of the security. Any remaining decline in fair value represents the non-credit portion of the impairment, which is recognized in other comprehensive income. The Company did not have an allowance for credit losses as of December 31, 2020.

The Company also considers whether it intends to sell an available-for-sale security or if it is more likely than not it will be required to sell the security before recovery of its amortized cost. In these instances, a decline in fair value is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security.

c) The following table sets forth certain information regarding the investment ratings of the Company's fixed maturity securities as of December 31, 2020 and 2019.

	Years Ended December 31,			
	2020		2019	
	Estimated Fair Value	%	Estimated Fair Value	%
<i>(dollars in thousands)</i>				
AAA	\$ 1,229,761	62.9	\$ 1,205,792	62.5
AA	649,372	33.2	618,048	32.0
A	60,908	3.1	77,873	4.0
BBB	12,963	0.7	26,309	1.4
BB	—	—	—	—
B	—	—	—	—
CCC or lower	—	—	—	—
Not Rated	2,104	0.1	1,012	0.1
Total fixed maturity securities	<u>\$ 1,955,108</u>	<u>100.0</u>	<u>\$ 1,929,034</u>	<u>100.0</u>

d) The amortized cost and estimated fair value of fixed maturity securities at December 31, 2020 are shown below by contractual maturity.

	Amortized Cost	Estimated Fair Value
<i>(dollars in thousands)</i>		
Due in one year or less	\$ 66,421	\$ 68,219
Due after one year through five years	282,242	316,886
Due after five years through ten years	327,823	397,430
Due after ten years	512,140	798,410
	<u>1,188,626</u>	<u>1,580,945</u>
Commercial mortgage-backed securities	169,769	182,545
Residential mortgage-backed securities	177,109	189,009
Asset-backed securities	2,470	2,609
Total fixed maturity securities	<u>\$ 1,537,974</u>	<u>\$ 1,955,108</u>

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties, and the holders may have the right to put the securities back to the borrower. Based on expected maturities, the estimated average duration of fixed maturity securities at December 31, 2020 was 7.4 years.

e) The following table presents the components of net investment income.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2020	2019
Interest:		
Fixed maturity securities	\$ 55,637	\$ 74,197
Short-term investments, including overnight deposits	798	5,487
Other investments	97	60
Loans to parent & affiliates	24,631	20,433
Dividends on equity securities	20,826	26,176
Investment expenses	(19,996)	(23,173)
Net investment income	<u>\$ 81,993</u>	<u>\$ 103,180</u>

f) The following table presents the components of net investment gains and the change in net unrealized gains on investments included in other comprehensive income.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2020	2019
Fixed maturity securities:		
Realized gains	1,832	46,241
Realized losses	(2,346)	(1,925)
Short-term investments:		
Realized losses	—	(396)
Other investment gains (losses)	1,793	(694)
Net realized investment gains	<u>1,279</u>	<u>43,226</u>
Equity securities:		
Change in fair value of securities sold during the period	(94,411)	64,336
Change in fair value of securities held during at the end of the period	316,050	357,369
Total change in fair value	<u>221,639</u>	<u>421,705</u>
Net investment gains	<u>222,918</u>	<u>464,931</u>
Change in net unrealized gains included in other comprehensive income:		
Fixed maturity securities	146,334	62,290
Short-term investments	(10)	396
Adjustment for life and annuity benefit reserves (see note 7)	(54,963)	(48,583)
Net increase	<u>\$ 91,361</u>	<u>\$ 14,103</u>

g) Total restricted assets are included on the Company's consolidated balance sheets as follows.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Investments	\$ 2,317,777	\$ 2,267,585
Restricted cash and cash equivalents	306,634	116,028
Investment in affiliate, at fair value	9,562	12,774
Total	<u>\$ 2,633,973</u>	<u>\$ 2,396,387</u>

The following table presents the components of restricted assets.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Assets held in trust or on deposit to support underwriting activities	\$ 2,313,659	\$ 2,054,200
Assets pledged as security for letters of credit	310,752	329,413
Investments restricted from withdrawal	9,562	12,774
Total	<u>\$ 2,633,973</u>	<u>\$ 2,396,387</u>

h) The Company holds investments in Markel CATCo Reinsurance Fund Ltd., a Bermuda exempted mutual fund company comprised of multiple segregated accounts (Markel CATCo Funds). The Company accounts for the investments based on the fair value option, with changes in fair value reflected in net realized investment gains (losses) in the income statement. Investments in the Markel CATCo Funds are reflected as investments in affiliates at fair value on the consolidated balance sheets. The fair value of the Company's investments in the Markel CATCo Funds totaled \$9.6 million and \$40.6 million at December 31, 2020 and 2019, respectively. See note 4 for additional details on the Company's investments in the Markel CATCo Funds.

4. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures*, establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability.

Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

In accordance with ASC 820, the Company determines fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods, including the market, income and cost approaches. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The following section describes the valuation methodologies used by the Company to measure assets and liabilities at fair value, including an indication of the level within the fair value hierarchy in which each asset or liability is generally classified.

Available-for-sale investments and equity securities.

Available-for-sale investments and equity securities are recorded at fair value on a recurring basis. Available-for-sale investments include fixed maturity securities and short-term investments. Short-term investments include certificates of deposit, commercial paper, discount notes and treasury bills with original maturities of one year or less. Fair value for available-for-sale investments and equity securities are determined by the Company after considering various sources of information, including

information provided by a third party pricing service. The pricing service provides prices for substantially all of the Company's fixed maturity securities and equity securities. In determining fair value, the Company generally does not adjust the prices obtained from the pricing service. The Company obtains an understanding of the pricing service's valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. The Company validates prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

The Company has evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include U.S. Treasury securities, U.S. government-sponsored enterprises, municipal bonds, foreign government bonds, commercial mortgage-backed securities, residential mortgage-backed securities, asset-backed securities, and corporate debt securities. Level 3 investments include the Company's investments in Markel CATCo Funds that are not traded on an active exchange and are valued using unobservable inputs.

Fair value for available-for-sale investments and equity securities is measured based upon quoted prices in active markets, if available. Due to variations in trading volumes and the lack of quoted market prices, fixed maturity securities are classified as Level 2 investments. The fair value of fixed maturity securities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data previously discussed. If there are no recent reported trades, the fair value of fixed maturity securities may be derived through the use of matrix pricing or model processes, where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Significant inputs used to determine the fair value of obligations of states, municipalities and political subdivisions, corporate bonds and obligations of foreign governments include reported trades, benchmark yields, issuer spreads, bids, offers, credit information and estimated cash flows. Significant inputs used to determine the fair value of commercial mortgage-backed securities, residential mortgage-backed securities and asset-backed securities include the type of underlying assets, benchmark yields, prepayment speeds, collateral information, tranche type and volatility, estimated cash flows, credit information, default rates, recovery rates, issuer spreads and the year of issue.

Due to the significance of unobservable inputs required in measuring the fair value of the Company's investments in the Markel CATCo Funds, these investments are classified as Level 3 within the fair value hierarchy. The fair value of the securities are derived using their reported net asset value ("NAV") as the primary input, as well as other observable and unobservable inputs as deemed necessary by management. Management has obtained an understanding of the inputs, assumptions, process, and controls used to determine NAV, which is calculated by an independent third party. Unobservable inputs to the NAV calculations include assumptions around premium earnings patterns and loss reserve estimates for the underlying securitized reinsurance contracts in which the Markel CATCo Funds invest. The determination of fair value of the securities also considers external market data, including the trading price relative to its NAV of CATCo Reinsurance Opportunities Fund Ltd., a comparable security traded on a market operated by the London Stock Exchange and on the Bermuda Stock Exchange. In July 2019, the Markel CATCo Funds were placed into run-off and capital is being returned to investors as it becomes available, the timing of which is impacted by contractual terms regarding release of collateral on the underlying securitized reinsurance contracts, as well as required regulatory approvals.

The Company's valuation policies and procedures for Level 3 investments are determined by management. Fair value measurements are analyzed quarterly to ensure the change in fair value from prior periods is reasonable relative to management's understanding of the underlying investments, recent market trends and external market data.

The following tables present the balances of assets measured at fair value on a recurring basis by level within the fair value hierarchy.

<i>(dollars in thousands)</i>	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. Treasury securities	\$ —	\$ 21,105	\$ —	\$ 21,105
U.S. government-sponsored enterprises	—	85,659	—	85,659
Obligations of states, municipalities and political subdivisions	—	400,241	—	400,241
Foreign governments	—	907,646	—	907,646
Commercial mortgage-backed securities	—	182,545	—	182,545
Residential mortgage-backed securities	—	189,009	—	189,009
Asset-backed securities	—	2,609	—	2,609
Corporate bonds	—	166,294	—	166,294
Total fixed maturity securities, available-for-sale	—	1,955,108	—	1,955,108
Equity securities:				
Insurance, banks and other financial institutions	522,175	—	—	522,175
Industrial, consumer and all other	1,129,794	—	—	1,129,794
Total equity securities	1,651,969	—	—	1,651,969
Short-term investments, available-for-sale	149,999	—	—	149,999
Investments in affiliates	—	—	9,562	9,562
Total investments	\$ 1,801,968	\$ 1,955,108	\$ 9,562	\$ 3,766,638

<i>(dollars in thousands)</i>	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. Treasury securities	\$ —	\$ 25,942	\$ —	\$ 25,942
U.S. government-sponsored enterprises	—	80,053	—	80,053
Obligations of states, municipalities and political subdivisions	—	419,732	—	419,732
Foreign governments	—	816,231	—	816,231
Commercial mortgage-backed securities	—	192,308	—	192,308
Residential mortgage-backed securities	—	199,491	—	199,491
Asset-backed securities	—	4,873	—	4,873
Corporate bonds	—	190,404	—	190,404
Total fixed maturity securities, available-for-sale	—	1,929,034	—	1,929,034
Equity securities:				
Insurance, banks and other financial institutions	538,760	—	—	538,760
Industrial, consumer and all other	1,124,798	—	—	1,124,798
Total equity securities	1,663,558	—	—	1,663,558
Short-term investments, available-for-sale	93,959	—	—	93,959
Investments in affiliates	—	—	40,608	40,608
Total investments	\$ 1,757,517	\$ 1,929,034	\$ 40,608	\$ 3,727,159

The following table summarizes changes in Level 3 investments measured at fair value on a recurring basis, all of which are attributed to the Company's investments in the Markel CATCo Funds.

<i>(dollars in thousands)</i>	2020	2019
Investments in affiliates at fair value, beginning of period	\$ 40,608	\$ 47,268
Purchases	—	—
Sales	(28,137)	(7,363)
Net investment gains (losses) on Level 3 investments	(2,909)	703
Investments in affiliates at fair value, end of period	<u>\$ 9,562</u>	<u>\$ 40,608</u>

Sales for the years ended December 31, 2020 and 2019 reflect the return of capital in connection with the run-off of the Markel CATCo Funds and the sale of the Company's investment in the Markel CATCo Diversified Fund in December 2020.

The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2020 and 2019.

5. Unpaid Losses and Loss Adjustment Expenses

a) The following table presents a reconciliation of consolidated beginning and ending reserves for losses and loss adjustment expenses.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2020	2019
Gross balance at January 1	\$ 3,025,464	\$ 3,691,655
Less: Reinsurance recoverables on unpaid losses	(742,838)	(846,585)
Net balance at January 1	<u>2,282,626</u>	<u>2,845,070</u>
Effect of foreign currency movement on beginning of year balance	<u>34,747</u>	<u>1,530</u>
Incurred losses related to:		
Current accident year	945,732	808,102
Prior accident years	(175,179)	(117,112)
Total incurred	<u>770,553</u>	<u>690,990</u>
Paid losses related to:		
Current accident year	(175,673)	(135,454)
Prior accident years	(428,647)	(565,321)
Total paid	<u>(604,320)</u>	<u>(700,775)</u>
Commutations	(5,436)	(702,165)
Reserves assumed as a result of a Part VII transaction	—	142,571
Effect of foreign currency movement on current year activity	(1,534)	5,405
Net balance at December 31	<u>2,476,636</u>	<u>2,282,626</u>
Plus: Reinsurance recoverables on unpaid losses	<u>671,630</u>	<u>742,838</u>
Gross balance at December 31	<u>\$ 3,148,266</u>	<u>\$ 3,025,464</u>

COVID-19 Losses

In 2020, underwriting results included \$171.0 million of net losses and loss adjustment expenses attributed to the COVID-19 pandemic. The loss estimates for losses attributed to COVID-19 represent the Company's best estimates as of December 31, 2020 based upon information currently available. The Company's estimates for these losses and loss adjustment expenses are based on reported claims, as well as detailed policy level reviews and reviews of in-force assumed reinsurance contracts for potential exposures, as well as analysis of ceded reinsurance contracts. These estimates also consider analysis provided by brokers and claims counsel and the results of recent judicial rulings. There are no recent historical events with similar characteristics to COVID-19, and therefore the Company has no past loss experience on which to base its estimates. Additionally, the economic and social impacts of the pandemic continue to evolve.

Significant assumptions on which the Company's estimates of reserves for COVID-19 losses and loss adjustment expenses are based include:

- the scope of coverage provided under the Company's policies, particularly those that provide for business interruption coverage;
- coverage provided under the Company's ceded reinsurance contracts;
- the expected duration of the disruption caused by the COVID-19 pandemic; and
- the ability of insureds to mitigate some or all of their losses.

The Company's estimates continue to be based on broad assumptions about coverage, liability and reinsurance. Additionally, there has been significant litigation involving the handling of business interruption claims associated with COVID-19, and in certain instances, assessing the validity of policy exclusions for pandemics and interpreting policy terms to determine coverage for pandemics. Such matters have been, and are expected to continue to be, subject to judicial review and also may be subject to other government action. A test case of a sample of business interruption coverages for policies written in the United Kingdom, which do not have the same exclusions as policies commonly written in the U.S., concluded in the third quarter of 2020 with the court's judgment finding mostly in favor of policyholders. The ruling was subsequently upheld by the United Kingdom supreme court. This ruling was most impactful to certain estimates in the Company's Reinsurance operations, resulting in an increase in the Company's estimate of losses and loss adjustment expenses on certain treaties during the year following an increase in estimated losses by the respective cedents on the treaties. The Company's estimates at December 31, 2020 also reflect additional data gathered through increased claims reporting and a change in expectation of the duration of the pandemic.

While the Company believes the net reserves for losses and loss adjustment expenses for COVID-19 as of December 31, 2020 are adequate based on information available at this time, the Company will continue to closely monitor reported claims, government actions, judicial decisions and changes in the levels of worldwide social disruption and economic activity arising from the pandemic and will adjust the estimates of gross and net losses as new information becomes available. Such adjustments to the Company's reserves for COVID-19 losses and loss adjustment expenses may be material to the Company's results of operations, financial condition and cash flows.

Loss Development

In 2020, incurred losses and loss adjustment expenses included \$175.2 million of net favorable development on prior years' loss reserves, which was comprised of net favorable development for the Company's insurance reserves of \$92.8 million and of net favorable development for the Company's reinsurance reserves of \$82.4 million. The net favorable development for insurance was across several lines of business, but principally related to the professional liability, marine and energy and general liability lines of business (\$44.4 million, \$31.9 million and \$8.2 million of net favorable development, respectively). The net favorable development for reinsurance was across several lines of business, but principally related to property, professional liability and general liability lines of business (\$34.6 million, \$18.6 million and \$12.1 million of net favorable development, respectively).

In 2019, incurred losses and loss adjustment expenses included \$117.1 million of net favorable development on prior years' loss reserves, which was comprised of net favorable development for the Company's reinsurance reserves of \$39.7 million and of net favorable development for the Company's insurance reserves of \$77.4 million. The net favorable development for the reinsurance reserves was across several lines of business, but principally related to the whole account, professional liability and property lines of business (\$18.5 million, \$12.5 million and \$4.6 million of net favorable development, respectively). The net favorable development for the insurance reserves was across several lines of business but principally related to the professional liability, property and personal lines of business (\$62.6 million, \$19.2 million and \$5.8 million of net favorable development, respectively).

Commutations for the year ended December 31, 2019 include a \$698.4 million reduction in reserves due to the commutation of the reinsurance agreement between the Company and Markel Global Reinsurance Company ("MGRC"). See Note 10 for additional information on the Company's reinsurance agreement with MGRC and the commutation.

In 2019 the Company assumed \$142.6 million of reserves for losses and loss adjustment expenses from Markel International S.E. ("MISE"). During 2019 insurance assets and liabilities were transferred to MISE as a result of a Part VII transaction. The Company assumed a portion of the novated insurance assets and liabilities through a reinsurance agreement with MISE. There was no impact on incurred loss expenses on the consolidated statements of operations and comprehensive income (loss). See Note 10 for additional information on the Company's reinsurance agreement with MISE and the Part VII transaction.

Reserving Methodology

The Company uses a variety of techniques to establish the liabilities for unpaid losses and loss adjustment expenses based upon estimates of the ultimate amounts payable. The Company maintains reserves for specific claims incurred and reported ("case reserves") and reserves for claims incurred but not reported ("IBNR" reserves), which include expected development on reported claims. The Company does not discount its reserves for losses and loss adjustment expenses to reflect estimated present value.

As of any balance sheet date, all claims have not yet been reported, and some claims may not be reported for many years. As a result, the liability for unpaid losses and loss adjustment expenses includes significant estimates for incurred but not reported claims.

There is normally a time lag between when a loss event occurs and when it is actually reported to the Company. The actuarial methods that the Company uses to estimate losses have been designed to address the lag in loss reporting as well as the delay in obtaining information that would allow the Company to more accurately estimate future payments. There is also a time lag between cedents establishing case reserves and re-estimating their reserves, and notifying the Company of the new or revised case reserves. As a result, the reporting lag is more pronounced in reinsurance contracts than in the insurance contracts due to the reliance on ceding companies to report their claims. On reinsurance transactions, the reporting lag will generally be 60 to 90 days after the end of a reporting period, but can be longer in some cases. Based on the experience of the Company's actuaries and management, loss development factors and trending techniques are selected to mitigate the difficulties caused by reporting lags. The loss development and trending factor selections are evaluated at least annually and updated using cedent specific and industry data.

IBNR reserves are based on the estimated ultimate cost of settling claims, including the effects of inflation and other social and economic factors, using past experience adjusted for current trends and any other factors that would modify past experience. IBNR reserves, which include expected development on reported claims, are generally calculated by subtracting paid losses and loss adjustment expenses and case reserves from estimated ultimate losses and loss adjustment expenses. IBNR reserves were 69% and 67% of total unpaid losses and loss adjustment expenses at December 31, 2020 and 2019, respectively.

In establishing liabilities for unpaid losses and loss adjustment expenses, the Company's actuaries estimate an ultimate loss ratio, by accident year or policy year, for each product line with input from underwriting and claims associates. For product lines in which loss reserves are established on a policy year basis, the Company has developed a methodology to convert from policy year to accident year for financial reporting purposes. In estimating an ultimate loss ratio for a particular line of business, the actuaries may use one or more actuarial reserving methods and select from these a single point estimate. To varying degrees, these methods include detailed statistical analysis of past claim reporting, settlement activity, claim frequency and

severity, policyholder loss experience, industry loss experience and changes in market conditions, policy forms and exposures. Greater judgment may be required when new product lines are introduced or when there have been changes in claims handling practices, as the statistical data available may be insufficient. These estimates also reflect implicit and explicit assumptions regarding the potential effects of external factors, including economic and social inflation, judicial decisions, changes in law, general economic conditions and recent trends in these factors. Management believes the process of evaluating past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events.

Estimates for losses from widespread catastrophic events are based on claims received to date, detailed policy and reinsurance contract level reviews, industry loss estimates and output from both industry and proprietary models, as well as analysis of our ceded reinsurance contracts. The Company also considers loss experience on historical events that may have similar characteristics to the underlying event. Due to the inherent uncertainty in estimating such losses, these estimates are subject to variability, which increases with the severity and complexity of the underlying event. As additional claims are reported and paid, and industry loss estimates are revised, the Company incorporates this new information into its analysis and adjusts its estimate of ultimate losses and loss adjustment expenses.

Loss reserves are established at management's best estimate, which is generally higher than the corresponding actuarially calculated point estimate. The actuarial point estimate represents the actuaries' estimate of the most likely amount that will ultimately be paid to settle the loss reserves that are recorded at a particular point in time; however, there is inherent uncertainty in the point estimate as it is the expected value in a range of possible reserve estimates. In some cases, actuarial analyses, which are based on statistical analysis, cannot fully incorporate all of the subjective factors that affect development of losses. In other cases, management's perspective of these more subjective factors may differ from the actuarial perspective. Subjective factors where management's perspective may differ from that of the actuaries include: the credibility and timeliness of claims information received from third parties, economic and social inflation, judicial decisions, changes in law, changes in underwriting or claims handling practices, general economic conditions, the risk of moral hazard and other current and developing trends within the insurance and reinsurance markets, including the effects of competition. As a result, the actuarially calculated point estimates for each of the Company's lines of business represent a starting point for management's quarterly review of loss reserves.

Inherent in the Company's reserving practices is the desire to establish loss reserves that are more likely redundant than deficient. As such, the Company seeks to establish loss reserves that will ultimately prove to be adequate. Furthermore, the Company's philosophy is to price its insurance products to make an underwriting profit. Management continually attempts to improve its loss estimation process by refining its ability to analyze loss development patterns, claim payments and other information, but uncertainty remains regarding the potential for adverse development of estimated ultimate liabilities.

The Company's ultimate liability may be greater or less than current reserves. Changes in the Company's estimated ultimate liability for loss reserves generally occur as a result of the emergence of unanticipated loss activity, the completion of specific actuarial or claims studies or changes in internal or external factors that impact the assumptions used to derive the Company's estimates. The Company closely monitors new information on reported claims and uses statistical analysis prepared by its actuaries to evaluate the adequacy of recorded reserves. Management exercises judgment when assessing the relative credibility of loss development trends.

Management currently believes the Company's gross and net reserves are adequate. However, there is no precise method for evaluating the impact of any significant factor on the adequacy of reserves, and actual results will differ from original estimates.

b) Historic Loss Development

The following tables present undiscounted loss development information, by accident year, for the Company's Insurance and Reinsurance operations, including cumulative incurred and paid losses and allocated loss adjustment expenses, net of reinsurance, as well as the corresponding amount of IBNR reserves as of December 31, 2020. This level of disaggregation is consistent with how the Company analyzes loss reserves for both internal and external reporting purposes. The loss development information for the years ended December 31, 2016 through December 31, 2019 is presented as supplementary information. Loss development information for years prior to 2016, which would also be supplementary information, has not been presented. Insurance business written by the Company's affiliates and ceded to the Company are included in Insurance operations. Assumed reinsurance business written by the Company's affiliates and ceded to the Company are included in Reinsurance operations. All amounts included in the tables below related to transactions denominated in a foreign currency

have been translated into U.S. dollars using the exchange rates in effect at December 31, 2020.

The difference between the loss development implied by the tables for the year ended December 31, 2020 and actual losses and loss adjustment expenses on prior accident years is attributed to the fact that amounts presented in these tables exclude amounts attributed to the 2015 and prior accident years, exclude unallocated loss adjustment expenses, and the differences in the presentation of foreign currency movements, as described above, none of these are material to the Insurance or Reinsurance operations.

The Insurance operations table below also includes claim frequency information, by accident year. The Company defines a claim as a single claim incident, per policy, which may include multiple claimants and multiple coverages on a single policy. Claim counts include claims closed without a payment as well as claims where the Company is monitoring to determine if an exposure exists, even if a reserve has not been established.

All of the business contained within the Company's Reinsurance operations represents treaty business that is assumed from other insurance or reinsurance companies, for which the Company does not have access to the underlying claim counts. Further, this business includes both quota share and excess of loss treaty reinsurance, through which only a portion of each reported claim results in losses to the Company. As such, the Company excluded claim count information from the Reinsurance operations disclosures.

Insurance Operations

Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

<i>(in thousands)</i>	Unaudited					Total of Incurred-but-Not-Reported Liabilities, Net of Reinsurance	Cumulative Number of Reported Claims (thousands)
	As of December 31,						
	2016	2017	2018	2019	2020		
Accident Year							
2016	\$ 153,589	\$ 217,056	\$ 175,515	\$ 245,281	\$ 231,889	\$ 68,474	3
2017		432,414	472,865	423,014	453,119	77,003	4
2018			422,476	500,310	494,539	123,811	4
2019				548,793	539,362	232,946	4
2020					775,540	537,804	2
					<u>\$ 2,494,449</u>		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

<i>(in thousands)</i>	Unaudited				
	As of December 31,				
	2016	2017	2018	2019	2020
Accident Year					
2016	\$ 21,447	\$ 68,058	\$ 90,749	\$ 152,706	\$ 154,466
2017		67,969	195,509	294,521	348,451
2018			71,730	182,691	321,610
2019				91,124	211,739
2020					\$ 127,825
					<u>\$ 1,164,091</u>
All outstanding liabilities for unpaid losses and loss adjustment expenses before 2016, net of reinsurance					306,507
Total liabilities for unpaid losses and loss adjustment expenses, net of reinsurance					<u>\$ 1,636,865</u>

Reinsurance Operations

Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

<i>(in thousands)</i>	Unaudited					Total of Incurred- but-Not-Reported Liabilities, Net of Reinsurance December 31, 2020
	As of December 31,					
	2016	2017	2018	2019	2020	
Accident Year						
2016	\$ 238,868	\$ 271,162	\$ 279,613	\$ 199,682	\$ 191,973	\$ 23,231
2017		502,978	569,248	354,343	341,194	28,371
2018			451,549	291,564	307,072	41,165
2019				166,062	173,660	54,399
2020					146,879	94,364

\$ 1,160,778

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

<i>(in thousands)</i>	Unaudited				
	As of December 31,				
	2016	2017	2018	2019	2020
Accident Year					
2016	\$ 37,832	\$ 89,579	\$ 128,681	\$ 165,260	\$ 167,694
2017		82,304	177,239	261,941	267,755
2018			61,748	136,459	208,084
2019				19,903	58,883
2020					\$ 24,722
					\$ 727,138
All outstanding liabilities for unpaid losses and loss adjustment expenses before 2016, net of reinsurance					358,936
Total liabilities for unpaid losses and loss adjustment expenses, net of reinsurance					\$ 792,576

The following table presents supplementary information about average historical claims duration as of December 31, 2020 based on cumulative incurred and paid losses and allocated loss adjustment expenses presented above.

Average Annual Percentage payout of Incurred Losses by Age (in Years), Net of Reinsurance

Unaudited	1	2	3	4	5
Insurance	14.4 %	23.3 %	19.9 %	19.3 %	0.8 %
Reinsurance	18.4 %	25.4 %	22.8 %	10.4 %	1.3 %

The following table reconciles the net incurred and paid loss development tables to the liability for losses and loss adjustment expenses in the consolidated balance sheet.

<i>(dollars in thousands)</i>	December 31, 2020
Net outstanding liabilities	
Insurance	\$ 1,636,865
Reinsurance	792,576
Other	5,887
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	<u>2,435,328</u>
Reinsurance recoverable on unpaid losses	
Insurance	534,053
Reinsurance	132,874
Other	4,704
Total reinsurance recoverable on unpaid losses	<u>671,631</u>
Unallocated loss adjustment expenses	<u>41,307</u>
Total gross liability for unpaid losses and loss adjustment expenses	<u><u>\$ 3,148,266</u></u>

6. Reinsurance

The Company uses reinsurance and retrocessional reinsurance to manage its net retention on individual risks and overall exposure to losses while providing it with the ability to offer policies with sufficient limits to meet policyholder needs. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocessional reinsurance transaction, a reinsurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. The ceding of insurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocessional agreement.

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers.

As of December 31, 2020, 86% of reinsurance recoverable on paid and unpaid losses were with reinsurers rated “A” or above by A.M. Best Company, 4% are rated “A-” and the remaining 10% of reinsurance recoverables are with “NR-not rated” reinsurers. To further reduce credit exposure to reinsurance recoverable balances, the Company has received collateral, including letters of credit and trust accounts, from certain reinsurers. Collateral related to these reinsurance agreements is available, without restriction, when the Company pays losses covered by the reinsurance agreements.

At both December 31, 2020 and 2019, balances recoverable from the ten largest reinsurers represented 67% of the reinsurance recoverable on paid and unpaid losses, before considering reinsurance allowances and collateral. At December 31, 2020 the largest reinsurance balance was due from AXIS Reinsurance Company and represented 14% of the reinsurance recoverable on paid and unpaid losses, before considering reinsurance allowances and collateral.

The following table summarizes the effect of reinsurance and retrocessional reinsurance on premiums written and earned.

<i>(dollars in thousands)</i>	Years Ended December 31,			
	Written		Earned	
	2020	2019	2020	2019
Property and Casualty				
Direct	\$ 377,922	\$ 300,782	\$ 325,216	\$ 265,028
Assumed	1,016,062	970,714	1,011,791	987,053
Ceded	(198,793)	(174,883)	(192,229)	(195,183)
Net premiums	<u>\$ 1,195,191</u>	<u>\$ 1,096,613</u>	<u>\$ 1,144,778</u>	<u>\$ 1,056,898</u>

The percentage of ceded earned premiums to gross earned premiums was 14% and 16% for the years ended December 31, 2020 and 2019, respectively.

Incurred losses and loss adjustment expenses were net of ceded incurred losses and loss adjustment expenses of \$42.2 million and \$56.4 million for the years ended December 31, 2020 and 2019, respectively.

7. Life and Annuity Benefits

The following table presents life and annuity benefits.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Life	\$ 131,960	\$ 132,611
Annuities	895,777	819,849
Accident and health	48,425	53,131
Total	<u>\$ 1,076,162</u>	<u>\$ 1,005,591</u>

Life and annuity benefits are compiled on a reinsurance contract-by-contract basis and are discounted using standard actuarial techniques and cash flow models. Since the development of the life and annuity reinsurance reserves is based upon cash flow projection models, the Company must make estimates and assumptions based on cedent experience, industry mortality tables, and expense and investment experience, including a provision for adverse deviation. The assumptions used to determine policy benefit reserves are generally locked-in for the life of the contract unless an unlocking event occurs. Loss recognition testing is performed to determine if existing policy benefit reserves, together with the present value of future gross premiums and expected investment income earned thereon, are adequate to cover the present value of future benefits, settlement and maintenance costs. If existing policy benefit reserves are not sufficient, the locked-in assumptions are revised to current best estimate assumptions and a charge to earnings for life and annuity benefits is recognized at that time. Life and annuity benefits are also adjusted to the extent unrealized gains on the investments supporting the policy benefit reserves would result in a reserve deficiency if those gains were realized.

During 2020 and 2019, the Company increased life and annuity benefits by \$55.0 million and \$48.6 million respectively, as a result of decreases in the market yield on the investment portfolio supporting the policy benefit reserves, and decreased the change in net unrealized holding gains included in other comprehensive income by corresponding amounts. As of December 31, 2020 and 2019, the cumulative adjustment to life and annuity benefits attributable to unrealized gains on the underlying investment portfolio totaled \$280.6 million and \$225.7 million, respectively.

Because of the assumptions and estimates used in establishing the Company's reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. The average discount rate for the life and annuity benefit reserves was 3.8% as at December 31, 2020 and 2019, respectively.

As of December 31, 2020, the largest life and annuity benefits reserve for a single contract was 34.1% of the total.

None of the annuities included in life and annuity benefits on the consolidated balance sheet are subject to discretionary withdrawal. Included in deposit liabilities as of December 31, 2020 and 2019 are annuities of \$1.1 million and \$1.2 million, respectively, which are subject to discretionary withdrawal. Deposit liabilities also include \$18.1 million and \$20.2 million as of December 31, 2020 and 2019, respectively, representing the account value of a universal life reinsurance contract.

8. Leases

The Company has one operating lease for real estate, which has a remaining term up to 2.5 years. Total lease costs for this lease were \$0.5 million and \$0.7 million for the year ended December 31, 2020 and 2019, respectively.

The following table summarizes details of the Company's operating lease recorded on the consolidated balance sheet.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Right-of-use lease assets	\$ 2,564	\$ 3,544
Lease liabilities	\$ 2,564	\$ 3,544
Weighted average remaining lease term	2.5 years	3.5 years
Weighted average discount rate	3.4 %	3.4 %

The table below summarizes maturities of the Company's operating lease liability as of December 31, 2020, which reconciles to total lease liabilities included in other liabilities in the Company's consolidated balance sheet.

<u>Years Ending December 31,</u>	<u>(dollars in thousands)</u>
2021	\$ 1,080
2022	1,080
2023	507
2024	—
2025	—
2026 and thereafter	—
Total lease payments	2,667
Less imputed interest	(103)
Total operating lease liabilities	<u>\$ 2,564</u>

9. Income Taxes

Markel Bermuda is incorporated in Bermuda and pursuant to Bermuda law is not taxed on either income or capital gains. The Company has received an assurance from the Bermuda Minister of Finance under the Exempted Undertaking Tax Protection Act, 1966 of Bermuda that if legislation is enacted in Bermuda that imposes tax computed on profits or income, or computed on any capital asset, gain or appreciation, then the imposition of any such tax will not be applicable until March 2035.

Effective May 2, 2013, Markel Bermuda made an irrevocable election under Section 953(d) of the United States Internal Revenue Code (“IRC”), as amended, to be taxed as a U.S. domestic corporation. As a result of this election, the Company is subject to U.S. taxation on its world-wide income as if it were a U.S. corporation.

The Company is included in the consolidated federal income tax return filed by Markel. The method of allocation among companies is subject to a written agreement, approved by the Board of Directors, whereby allocation is made primarily on a separate return basis with the exception of certain deferred intercompany transactions. Additionally, if current losses or other

carryovers are not utilized on a separate return calculation, credit is given to the Company for these items regardless of utilization in the ultimate consolidated tax return.

The Company records income taxes based on the enacted tax laws and rates applicable in the relevant jurisdictions. Interest and penalties related to uncertain tax positions, of which there have been none, would be recognized in income tax expense. The amount of income taxes paid may vary in comparison to the current income tax expense recognized in the period due to differences in the timing between the tax expense recognition and the required tax remittance.

The components of income taxes attributable to operations for the years ended December 31, 2020 and 2019 were as follows.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2020	2019
Current:		
United States	\$ (14,120)	\$ 40,520
Total current tax (benefit) expense	(14,120)	40,520
Deferred:		
United States	39,182	69,880
Total deferred tax expense	39,182	69,880
Income tax expense	\$ 25,062	\$ 110,400
Income tax expense in net income	25,062	110,400
Income tax on other comprehensive income	\$ 19,186	\$ 2,961
Total income tax expense	\$ 44,248	\$ 113,361

All of the Company's income before income tax expense for the years ended December 31, 2020 and 2019, is from Bermuda-based operations subject to U.S. tax.

The following table presents a reconciliation of income taxes computed using the U.S. corporate tax rate to the Company's income tax expense.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2020	2019
Income tax expense computed on pre-tax income at U.S corporate tax rate	\$ 53,298	\$ 117,154
Decrease to income tax expense resulting from:		
Deductible loss on certain foreign investments	(25,859)	—
Tax-exempt investment income	(2,244)	(2,915)
Other	(133)	(3,839)
Income tax expense	\$ 25,062	\$ 110,400

The following table presents the components of foreign deferred tax assets and liabilities.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Deferred tax asset:		
Impact of net unrealized losses on life and annuity benefits	\$ 58,931	\$ 47,388
Life and annuity benefits	45,711	36,084
Property and casualty losses	29,235	24,117
Net unearned property and casualty premiums	23,186	20,835
Other differences between financial reporting and tax bases	2,997	3,422
Deferred tax asset	160,060	131,846
Deferred tax liability:		
Investments	241,685	162,667
Deferred ceding commissions, net	28,319	20,255
Other differences between financial reporting and tax bases	6,619	7,127
Deferred tax liability	276,623	190,049
Net deferred tax liability	\$ (116,563)	\$ (58,203)

Based on the Company's historical and expected future taxable earnings and the reversal of existing gross deferred tax liabilities, management believes that it is more likely than not that the Company will realize the benefit of its deferred tax assets at December 31, 2020 and does not have a valuation allowance on its deferred tax assets.

The Company does not have any unrecognized tax benefits at December 31, 2020 and 2019.

The tax years open to examination by U.S. tax authorities are 2017 to the present. The Internal Revenue Service is currently examining the Company's 2017 U.S. federal income tax return. The Company believes its income tax liabilities were adequate as of December 31, 2020; however, these liabilities could be adjusted as a result of this examination.

10. Related Party Transactions

a) Due from affiliates, net

The amounts due from affiliates, net presented in the table below are at carrying value.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Promissory Note from Markel Corporation (fair value of \$326,474 in 2020 and \$309,205 in 2019)	\$ 285,000	\$ 285,000
Promissory Notes from Markel Ventures, Inc. (fair value of \$391,740 in 2020 and \$358,297 in 2019)	340,000	340,000
Other amounts due from affiliates, net	18,275	20,680
Total	\$ 643,275	\$ 645,680

On December 16, 2015, ADS entered into a \$285.0 million promissory note with Markel Corporation. The loan bears interest at a fixed rate of 4.18% per annum. The loan is due on December 31, 2025. In 2020, ADS was merged into the Company. See Note 1 for additional information on the ADS merger with the Company.

On August 11, 2017, the Company entered into a \$130.0 million promissory note with Markel Ventures, Inc, a wholly-owned subsidiary of Markel Corporation. The loan bears interest at a fixed rate of 3.67% per annum. The loan is due on August 11, 2027 and is guaranteed by Markel Corporation. On February 1, 2018 \$50.0 million of this loan was repaid.

On September 26, 2018, the Company entered into a \$110.0 million promissory note with Markel Ventures, Inc. The loan bears interest at a fixed rate of 4.54% per annum. The loan is due on September 26, 2028 and is guaranteed by Markel Corporation.

On November 4, 2019, the Company entered into a \$45.0 million promissory note with Markel Ventures, Inc. The loan bears interest at a fixed rate of 3.15% per annum. The loan is due on November 4, 2029 and is guaranteed by Markel Corporation.

On November 22, 2019, the Company entered into a \$105.0 million promissory note with Markel Ventures, Inc. The loan bears interest at a fixed rate of 3.21% per annum. The loan is due November 22, 2029 and is guaranteed by Markel Corporation.

The other amounts due from affiliates, net represent amounts receivable and payable from/to companies consolidated by Markel Corporation. The balances arise in the normal course of business and are due on demand and are non-interest bearing.

b) Notes payable to affiliates

The amounts notes payable to affiliates presented in the table below are at carrying value, which approximates fair value.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
On-Demand Funding Commitment Note to Markel CATCo Diversified Fund	\$ —	\$ 24,875
Demand Note to Markel CATCo Investment Management Ltd.	—	30,000
Total	\$ —	\$ 54,875

On January 1, 2016, the Company entered into a \$62.5 million on-demand funding commitment note agreement with Markel CATCo Diversified Fund, a segregated account of Markel CATCo Reinsurance Fund Ltd. On January 12, 2018 \$37.6 million of the note was repaid. The note bore interest at a fixed rate of 3.49% per annum for the year ended December 31, 2019 and 2018, respectively. Subsequent to December 31, 2019, the note was amended to extend the maturity date to December 31, 2020 at a fixed interest rate of 3.49% per annum. On October 21, 2020 the remaining loan balance of \$24.9 million was repaid with interest.

On October 1, 2019, the Company entered into a \$30.0 million demand note with Markel CATCo Investment Management Ltd., a consolidated subsidiary of Markel Corporation. The note is due on demand and bears interest at a variable rate per annum equal to the twelve-month U.S. Dollar London Inter-Bank Offered Rate ("LIBOR"). On April 17, 2020, \$4.0 million of the loan was repaid and the remaining loan balance of \$26.0 million was repaid with interest on August 4, 2020.

On March 31, 2020, MBL entered into a \$40.0 million demand note with Markel Corporation. The loan was repaid with interest on April 30, 2020.

c) Markel CATCo

In July 2019 Markel announced it would not write any new business in Markel CATCo Re Ltd. ("Markel CATCo Re"), an unconsolidated subsidiary of Markel, and has been placed into run-off.

The Company entered into reinsurance contracts that were ceded to Markel CATCo Re Under this program, the Company retains underwriting risk for annual aggregate agreement year losses in excess of a limit the Company believes is unlikely to be exceeded. To the extent losses under this program exceed the prescribed limit, the Company is obligated to pay such losses to

the cedents without recourse to Markel CATCo Re. For the years ended December 31, 2020 and 2019, gross premiums written on behalf of Markel CATCo Re were \$0.3 million and \$5.5 million, respectively.

In early 2019 the Company entered into various reinsurance contracts with third parties on behalf of Markel CATCo Re, in exchange for ceding fees. These reinsurance contracts primarily cover losses for events that occurred during 2019, however, in some instances, coverage is also provide for adverse development on 2018 and prior accident years' loss events. Incurred losses on these contracts are fully ceded to Markel CATCo Re. The loss exposures on these contracts are fully collateralized by Markel CATCo Re up to an amount that the Company believes is unlikely to be exceeded. For the years ended December 31, 2020 and 2019, the Company earned ceding fees attributed to these contracts of nil and \$8.8 million, respectively. Ceding fees are included in other revenues in the Company's consolidated statements of income and comprehensive income. As of December 31, 2020 and 2019, the Company's estimate of ultimate incurred losses and loss adjustment expenses on these reinsurance contracts totaled nil and \$4.9 million, respectively, all of which was ceded to Markel CATCo Re. The corresponding reinsurance recoverables due from Markel CATCo Re are fully collateralized.

d) Markel Global Reinsurance Company

The Company provided reinsurance to Markel Global Reinsurance Company ("MGRC"), formerly known as Alterra Reinsurance USA, Inc., a company related by common control. Management believed the terms of the reinsurance agreement were similar to those of an arm's length transaction with an unrelated party. On June 28, 2018 the Company and MGRC entered into a termination agreement such that the Company no longer reinsured new or renewal treaties effective July 1, 2018. On July 1, 2019 the Company entered into a commutation agreement with MGRC which discharged the Company from any and all liabilities and obligations under the reinsurance agreement. The net outstanding result from the reinsurance agreement was settled prior to December 31, 2019 at no gain or loss to the Company. The accompanying consolidated statements of income and comprehensive income include the following amounts related to the reinsurance agreement with MGRC.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Income Statement		
Gross premiums written	\$ —	\$ 11,511
Net earned premiums	—	80,157
Losses and loss adjustment expenses	—	60,169
Acquisition costs	—	27,259

e) Lloyd's Syndicates

The Company provides reinsurance to Lloyd's syndicates and corporate capital providers which are related by common control. Management believes the terms of the reinsurance agreements are similar to those of an arm's length transaction with an unrelated party. The accompanying consolidated balance sheets and consolidated statements of income and comprehensive income include the following amounts related to such reinsurance agreements.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Balance Sheet		
Premiums receivable	\$ 486,933	\$ 479,895
Deferred policy acquisition costs	66,535	45,615
Unpaid losses and loss adjustment expenses	585,216	504,385
Unearned property and casualty premiums	182,112	189,149
Income Statement		
Gross premiums written	\$ 461,359	\$ 484,068
Net earned premiums	471,158	464,703
Losses and loss adjustment expenses	452,444	331,023
Acquisition costs	136,359	189,325

The Company has also deposited funds at Lloyd's for the benefit of Lloyd's syndicates related by common control. The amount held in deposit was \$699.9 million and \$562.6 million as of December 31, 2020 and 2019, respectively, and this amount is included in restricted assets in Note 3.

f) Markel International Insurance Company Limited

The Company provides reinsurance to Markel International Insurance Company Limited ("MIICL"), a company related by common control. Management believes the terms of the reinsurance agreements are similar to those of an arm's length transaction with an unrelated party. The accompanying consolidated balance sheets and consolidated statements of income and comprehensive income include the following amounts related to the reinsurance agreements with MIICL.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Balance Sheet		
Premiums receivable	\$ 5,817	\$ 8,211
Deferred policy acquisition costs	1,628	1,657
Unpaid losses and loss adjustment expenses	162,840	197,278
Unearned property and casualty premiums	9,398	8,164
Reinsurance balances payable	1,372	10,777
Income Statement		
Gross premiums written	\$ 22,820	\$ 21,087
Net earned premiums	21,975	24,143
Losses and loss adjustment expenses	(989)	10,173
Acquisition costs	5,100	6,295

g) Markel International S.E.

The Company provides reinsurance to Markel International S.E. ("MISE"), a company related by common control. Management believes the terms of the reinsurance agreements are similar to those of an arm's length transaction with an unrelated party. The accompanying consolidated balance sheets and consolidated statements of income and comprehensive income include amounts related to the reinsurance agreement with MISE.

During 2020 and 2019, the Company entered into multiple policy level guarantee agreements with MISE. Under the terms of the agreements, the Company guaranteed payment of amounts due and payable on policies written or renewed by MISE. The guarantees serve to enhance MISE's financial strength, and provides protection against limit losses on certain product lines. The Company estimates the maximum potential exposure under the guarantees to be no more than \$50.0 million.

On March 29, 2019, MIICL entered into a Part VII transaction with MISE, the effect of which is to novate MIICL's insurance assets and liabilities with European exposure to MISE. That transaction included a portion of the balances pertaining to the Company's reinsurance agreement with MIICL. Under the terms of the reinsurance agreement with MISE, the Company assumed a portion of the novated insurance assets and liabilities. There was no impact on the consolidated statements of operations and comprehensive income.

<i>(dollars in thousands)</i>	December 31,	
	2020	2019
Balance Sheet		
Premiums receivable	\$ 143,892	\$ 86,088
Deferred policy acquisition costs	40,720	26,212
Unpaid losses and loss adjustment expenses	296,582	207,693
Unearned property and casualty premiums	104,837	69,869
Reinsurance balances payable	438	—
Income Statement		
Gross premiums written	\$ 280,476	\$ 172,198
Net earned premiums	248,430	140,041
Losses and loss adjustment expenses	131,975	73,745
Acquisition costs	87,338	51,474

h) State National Insurance Company, Inc.

State National Companies, Inc. ("SNC") fronts catastrophe-exposed primary property insurance policies for selected general agents appointed by Nephila Capital Ltd. ("Nephila") for risks in the United States. Using intercompany reinsurance agreements with the SNC fronting carriers, a specified portion of the tail risk from these transactions started being assumed by the Company during January 2020. These risks were then ceded in their entirety to a newly formed Bermuda registered Special Purpose Insurer ("SPI"). The SPI issued principal-at-risk variable rate notes transferring risk to third-party investors. The proceeds paid to the SPI from the sale of the notes were deposited in a trust account and fully collateralize the obligations of the SPI to the Company. The Company receives a commercially priced fronting fee for its role in facilitating the transaction. For the year end December 31, 2020, the Company assumed and ceded \$4.8 million of premium associated with these reinsurance agreements, and the fronting fee was not significant.

i) Nephila Capital Ltd.

In late 2020, the Company made the decision to discontinue writing catastrophe-exposed property reinsurance within its Reinsurance operations on a risk-bearing basis, and instead, any such business will either be written directly by, or ceded to, Nephila to be placed with third party capital to the extent it fits the insurance linked security investors' risk profile. For contracts that are ceded, the Company will continue to bear underwriting risk for aggregate agreement year losses in excess of a limit that the Company believes is highly unlikely to be exceeded. The Company will receive a commercially priced fronting fee for its role in facilitating these transactions.

11. Commitments and Contingencies

a) Concentrations of credit risk

The Company's portfolio of investments and cash and cash equivalents is managed following prudent standards of diversification. The Company's investment guidelines limit the allowable holdings of a single issue and issuers. We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. The Company believes that there are no significant concentrations of credit risk associated with its portfolio of cash and fixed maturity securities.

At December 31, 2020 and December 31, 2019, investments in securities issued by the U.S. Treasury, U.S. government agencies and U.S. government-sponsored enterprises and German Government were the only investments in any one issuer that exceeded 10% of shareholder's equity.

At December 31, 2020, the Company's ten largest equity holdings represented \$721.2 million, or 44%, of the equity portfolio. Investments in the property and casualty insurance industry represented \$204.0 million, or 12% of the equity portfolio at December 31, 2020.

Premiums receivable comprise amounts due within one year or amounts not yet due. As of December 31, 2020 and 2019, the Company's largest premiums receivable balance from a single unrelated party were 4% and 2% of total premiums receivable, respectively.

For the years ended December 31, 2020 and 2019, brokered transactions accounted for the majority of the Company's property and casualty gross premiums written. For the years ended December 31, 2020 and 2019, the top three independent producing intermediaries and brokerage firms accounted for 18%, 18% and 7%; and 18%, 15% and 6%, respectively, of property and casualty gross premiums written.

b) Credit facilities

The Company holds a letter of credit facility with \$100.0 million of committed and \$200.0 million of uncommitted capacity that expires on November 25, 2021. This facility allows for the issuance of letters of credit in U.S. dollars and other currencies. At December 31, 2020 and 2019, \$208.5 million and \$208.2 million of letters of credit, respectively, denominated in various currencies, were issued and outstanding under this credit facility.

At December 31, 2020, the Company was in compliance with the terms and conditions contained in its credit agreements. To the extent that the Company is not in compliance, the Company's access to these credit facilities could be restricted."

12. Developments Related to COVID-19

The COVID-19 pandemic has caused unprecedented social and economic disruption, increased volatility of capital markets and intervention by various governments and central banks around the world, the effects of which have impacted almost all of the Company's operations during 2020. The Company cannot reasonably estimate the extent or duration of the impacts of the pandemic; however, further potential impacts of the pandemic on the Company's results of operations, financial condition and cash flows, including those described below, could be material.

Significant volatility in the equity markets arising from economic uncertainty following the onset of the COVID-19 pandemic resulted in a significant decline in the fair value of the Company's equity portfolio in the first quarter of 2020. Although this decline was more than offset by subsequent increases in the fair value of our equity portfolio attributable to net favorable market value movements during the rest of the year, future declines in the Company's investment portfolio are possible.

As described in note 5, the Company's underwriting results for the year ended December 31, 2020 included \$171.0 million of net losses and loss adjustment expenses directly attributed to COVID-19 and assumptions used to develop this estimate are inherently uncertain and subject to a wide range of variability. Business closures, reduced recreational activity and lower gross

receipts, revenues and payrolls of insureds, among other things, also may impact the Company's premium volume and the economic impacts of the pandemic on the Company's insureds also may subject it to increased credit risk.

13. Statutory Financial Information

Statutory capital and surplus and statutory net income for the Company as of December 31, 2020 and 2019 and for the years ended December 31, 2020 and 2019 are summarized below. Statutory capital and surplus and statutory net income agree to the U.S. GAAP capital and surplus and net income presented in the accompanying consolidated balance sheets and consolidated statements of income and comprehensive income

<i>(dollars in thousands)</i>	2020	2019
Actual statutory capital and surplus	1,905,070	1,604,184
Statutory net income	\$ 228,740	\$ 447,479

Under the Bermuda Insurance Act, 1978 and related regulations, the Company is subject to capital requirements calculated using the Bermuda Solvency and Capital Requirement, or BSCR model, which is a standardized statutory risk-based capital model used to measure the risk associated with the Company's assets, liabilities and premiums. The Company's required statutory capital and surplus under the BSCR model is referred to as the enhanced capital requirement ("ECR"). The Company is required to calculate and submit the ECR to the Bermuda Monetary Authority ("BMA"), annually. Following receipt of the submission of the Company's ECR the BMA has the authority to impose additional capital requirements (capital add-ons) if it deems necessary. If a company fails to maintain or meet its ECR, the BMA may take various degrees of regulatory action. As of December 31, 2020, the Company met its ECR.

The Company is also required under its Class 4 license to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. Relevant assets include cash, cash equivalents, restricted cash, restricted cash equivalents, fixed maturity securities, other investments, accrued interest income, premiums receivable, and funds withheld. The relevant liabilities are total general business insurance reserves and total other liabilities, less sundry liabilities. As of December 31, 2020, the Company met the minimum liquidity ratio requirement.

The Company may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. The Company is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus unless the Company files with the BMA an affidavit signed by at least two members of the Board of Directors attesting that a dividend would not cause the Company to fail to meet its relevant margins. As of December 31, 2020 and 2019, the Company could pay dividends to the holding company during the subsequent year up to \$476.3 million and \$401.0 million, respectively, without providing an affidavit to the BMA.

The payment of dividends is limited by applicable regulations and statutory requirements of Bermuda. The Company is prohibited from declaring or paying a dividend if such payment would reduce its respective regulatory capital below the required minimum as required by law and regulatory practice. The Company is also subject to certain restrictions under its credit facilities that affect its ability to pay dividends. The Company paid no dividends in 2020 and paid \$350.0 million in 2019.

The Company must obtain the BMA's prior approval for a reduction of 15% or more of the total statutory capital, as set forth in its previous year's financial statements. In addition, as a long-term insurer, the Company may not declare or pay a dividend to any person other than a policyholder unless the value of the assets in its long-term business fund, as certified by the Company's approved actuary, exceeds the liabilities of its long-term business.

14. Significant Non-Cash Transactions

The company engaged in the following significant non-cash operating, investing and financing activities during the year:

<i>(dollars in thousands)</i>	2020	2019
Dividend of fixed maturity securities and equity securities to Alterra Capital Holdings Limited	\$ —	\$ (275,368)
Commutation settlement of fixed maturity securities, equity securities and short-term investments to MGRC	—	(714,035)
Part VII settlement of fixed maturity securities from MISE	—	70,692
MCAP reinsurance agreement settlement	—	(39,839)

15. Subsequent Events

Subsequent events have been evaluated through April 6, 2021.