# MARKEL BERMUDA LIMITED

## Financial Statements

December 31, 2022 and 2021

KPMG LLP
Suite 2000
1021 East Cary Street
Richmond, VA 23219-4023

## Independent Auditors' Report

To the Shareholder and Board of Directors
Markel Bermuda Limited:

*Opinion*

We have audited the financial statements of Markel Bermuda Limited (the Company), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income (loss) and comprehensive income (loss), changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Responsibilities of Management for the Financial Statements*

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Required Supplementary Information*

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

KPMG LLP

Richmond, Virginia
April 24, 2023

**MARKEL BERMUDA LIMITED**
**BALANCE SHEETS**

| | December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | | *(Restated)* |
| | *(dollars in thousands)* | |
| **ASSETS** | | |
| Investments, at estimated fair value: | | |
| Fixed maturity securities, available-for-sale (amortized cost of $1,971,920 in 2022 and $1,970,973 in 2021) | $ 1,853,217 | $ 2,220,536 |
| Equity securities (cost of $883,311 in 2022 and $887,644 in 2021) | 1,771,161 | 2,179,834 |
| Investments in affiliates, at fair value | — | 5,312 |
| Short-term investments, available-for-sale (estimated fair value approximates cost) | 286,172 | — |
| Total Investments | 3,910,550 | 4,405,682 |
| Cash and cash equivalents | 513,996 | 536,584 |
| Restricted cash and cash equivalents | 143,298 | 262,764 |
| Premiums receivable | 868,186 | 764,438 |
| Reinsurance recoverables | 1,211,149 | 846,276 |
| Deferred policy acquisition costs | 189,007 | 164,677 |
| Prepaid reinsurance premiums | 240,425 | 128,101 |
| Due from affiliates, net | 324,045 | 316,255 |
| Other assets | 81,616 | 67,174 |
| **Total Assets** | $ 7,482,272 | $ 7,491,951 |
| **LIABILITIES** | | |
| Unpaid losses and loss adjustment expenses | $ 3,723,144 | $ 3,360,122 |
| Life and annuity benefits | 636,725 | 910,090 |
| Unearned property and casualty premiums | 934,978 | 732,990 |
| Reinsurance balances payable | 90,348 | 64,089 |
| Other liabilities | 201,945 | 313,052 |
| **Total Liabilities** | 5,587,140 | 5,380,343 |
| **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 | 1,217,589 | 1,157,948 |
| Accumulated other comprehensive income (loss) | (24,331) | 107,547 |
| Retained earnings | 643,045 | 787,284 |
| **Total Shareholder's Equity** | 1,895,132 | 2,111,608 |
| **Total Liabilities and Shareholder's Equity** | $ 7,482,272 | $ 7,491,951 |

See accompanying notes to financial statements.

**MARKEL BERMUDA LIMITED**
**STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | *(dollars in thousands)* | | | |
| **REVENUES** | | | | |
| Earned premiums | | 1,218,458 | | 1,253,251 |
| Net investment income | | 72,333 | | 73,519 |
| Net investment gains (losses): | | | | |
| Net realized investment gains | | 2,251 | | 3 |
| Change in fair value of equity securities | | (387,448) | | 483,764 |
| Net investment gains (losses) | | (385,197) | | 483,767 |
| Other revenues | | 17,926 | | 7,599 |
| **Total Revenues** | | 923,520 | | 1,818,136 |
| **LOSSES AND EXPENSES** | | | | |
| Losses and loss adjustment expenses | | 684,439 | | 706,005 |
| Claims and policy benefits | | 19,295 | | 25,957 |
| Acquisition costs | | 397,708 | | 371,093 |
| General and administrative expenses | | 47,531 | | 56,406 |
| Foreign exchange (gains) | | (39,358) | | (42,356) |
| Interest expense (income) | | 442 | | (467) |
| **Total Losses and Expenses** | | 1,110,057 | | 1,116,638 |
| **Income (Losses) Before Income Taxes** | | (186,537) | | 701,498 |
| Income tax expense (benefit) | | (42,298) | | 145,222 |
| **Net Income (Loss)** | $ | (144,239) | $ | 556,276 |
| | | | | |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Change in net unrealized gains on available-for-sale investments, net of taxes: | | | | |
| Net holding losses arising during the period | $ | (293,473) | $ | (132,380) |
| Reclassification adjustments for net gains (losses) included in net income | | 2,548 | | (2) |
| Change in net unrealized gains on available-for-sale investments, net of taxes | | (290,925) | | (132,382) |
| Impact of net unrealized gains on life and annuity benefits, net of taxes | | 159,047 | | 62,643 |
| **Total Other Comprehensive Loss** | $ | (131,878) | $ | (69,739) |
| **Comprehensive Income (Loss)** | $ | (276,117) | $ | 486,537 |

See accompanying notes to financial statements.

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

| | December 31, 2022 | December 31, 2021 |
|---|---|---|
| | | *(Restated)* |
| | *(dollars in thousands)* | |
| **COMMON SHARES** | | |
| **Balance - Beginning And End Of Year** | $ 58,829 | $ 58,829 |
| | | |
| **ADDITIONAL PAID-IN CAPITAL** | | |
| Balance - beginning of year | 1,157,948 | 1,157,948 |
| Capital contribution from parent | 59,641 | — |
| **Balance - End Of Year** | 1,217,589 | 1,157,948 |
| | | |
| **ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Unrealized Holding Gains: | | |
| Balance - beginning of year | 136,593 | 206,332 |
| Holding losses on available for sale securities arising in year, net of tax | (293,473) | (132,380) |
| Net realized gains (losses) on available for sale securities included in net income (loss), net of tax | 2,548 | (2) |
| Impact of net unrealized investment gains on life and annuity benefits, net of tax | 159,047 | 62,643 |
| **Balance - End Of Year** | 4,715 | 136,593 |
| | | |
| **Cumulative Foreign Currency Translation Adjustment:** | | |
| **Balance - Beginning And End Of Year** | (29,046) | (29,046) |
| **Total Accumulated Other Comprehensive Income (Loss) - End Of Year** | (24,331) | 107,547 |
| | | |
| **RETAINED EARNINGS** | | |
| Balance - end of prior year | 787,284 | 511,007 |
| Cumulative effect of change in accounting policy | — | 5,001 |
| Balance - beginning of year | 787,284 | 516,008 |
| Net Income (Loss) | (144,239) | 556,276 |
| Dividends | — | (285,000) |
| **Balance - End Of Year** | 643,045 | 787,284 |
| | | |
| **TOTAL SHAREHOLDER'S EQUITY** | $ 1,895,132 | $ 2,111,608 |

See accompanying notes to financial statements.

**MARKEL BERMUDA LIMITED**
**STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | |
|---|---|---|
| | 2022 | 2021 |
| | | *(Restated)* |
| | *(dollars in thousands)* | |
| **OPERATING ACTIVITIES** | | |
| Net Income (Loss) | $ (144,239) | $ 556,276 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Net investment losses (gains) | 385,197 | (483,766) |
| Foreign exchange gains | (39,358) | (42,356) |
| Deferred tax expense (benefit) | (75,433) | 116,510 |
| Increase in premium receivable | (162,907) | (10,675) |
| Increase in reinsurance recoverables | (364,828) | (147,475) |
| Increase in deferred policy acquisition costs | (25,167) | (18,143) |
| Increase in prepaid reinsurance premiums | (112,360) | (87,710) |
| Decrease (increase) in due from affiliates | (12,811) | 17,133 |
| Decrease (increase) in other assets | (14,699) | 16,076 |
| Increase in unpaid losses and loss adjustment expenses | 517,980 | 231,744 |
| Decrease in life and annuity benefits | (38,061) | (45,250) |
| Increase in unearned property and casualty premiums | 203,011 | 141,793 |
| Increase in reinsurance balances payable | 26,269 | 31,964 |
| Increase in other liabilities | 1,417 | 36,686 |
| Other | (1,212) | 9,401 |
| **Net Cash Provided By Operating Activities** | 142,799 | 322,208 |
| **INVESTING ACTIVITIES** | | |
| Cost of fixed maturity securities purchased | (126,435) | (485,512) |
| Proceeds from sales of equity securities | 57,330 | 20,746 |
| Cost of equity securities purchased | (36,104) | (129,904) |
| Redemptions of fixed maturities, available for sale | 120,676 | 115,844 |
| Net change in short-term investments | (284,343) | 150,061 |
| Proceeds from redemption of investments in affiliates | 5,385 | 2,777 |
| Due from affiliates | 5,000 | 25,000 |
| Other | 5,404 | 10 |
| **Net Cash Used By Investing Activities** | (253,087) | (300,978) |
| **FINANCING ACTIVITIES** | | |
| Other | (3,109) | (3,715) |
| **Net Cash Used By Financing Activities** | (3,109) | (3,715) |
| Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents | (28,657) | (16,307) |
| Increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents | (142,054) | 1,208 |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year | 799,348 | 798,140 |
| **CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS AT END OF YEAR** | $ 657,294 | $ 799,348 |
| | | |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Taxes received (paid) | $ (28,243) | $ 12,388 |

See accompanying notes to financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. General

Markel Bermuda Limited (“Markel Bermuda” or “the Company”) was incorporated on August 20, 1999 and 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. The Company provides diversified specialty insurance and reinsurance products to corporations, public entities and property and casualty insurers, and in certain instances it serves as a platform to front business for Markel's insurance-linked securities (ILS) operations and as part of its program services business.

### 2. Summary of Significant Accounting Policies

**a) Basis of Presentation.** The accompanying financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP). Certain prior period amounts have been reclassified to conform to the current period presentation.

**b) Immaterial Correction to Prior Period Financial Statements for Accounting Policy Change.** The Company defers and amortizes costs directly related to the successful acquisition of new or renewal insurance contracts over the related policy period, generally one year. Previously, the Company did not defer salaries and benefits associated with the successful acquisition of insurance contracts, as such amounts were quantified and assessed each period and were deemed not to be material to the financial statements. Effective January 1, 2022, the Company changed its accounting policy to defer salaries and benefits associated with the successful acquisition of insurance contracts in accordance with the requirements of FASB ASC 944, *Financial Services—Insurance*.

To reflect the change in accounting policy, the Company made a cumulative adjustment to increase deferred policy acquisition costs by $6.3 million, increase deferred tax liabilities by $1.3 million and increase retained earnings by $5.0 million as of January 1, 2021, which is the beginning of the earliest year that will be presented in the financial statements. These increases in deferred policy acquisition costs, deferred tax liabilities and retained earnings are also reflected as increases to the previously reported amounts in the Company's balance sheet as of December 31, 2021 and as an adjustment to retained earnings as of January 1, 2021 in the accompanying statement of changes in shareholder's equity for the year ended December 31, 2021. The Company did not adjust the amounts previously presented in the statements of income and comprehensive income for the year ended December 31, 2021 for the change in accounting policy as the effects were not material.

**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, and contingencies. Actual results may differ materially from the estimates and assumptions used in preparing the financial statements.

**d) Investments.** Available-for-sale investments and equity securities are recorded at estimated fair value. Available-for-sale investments include fixed maturity securities and short-term investments. Fixed maturity securities include government and municipal bonds and mortgage-backed securities with original maturities of more than one year. Short-term investments include certificates of deposit, commercial paper, discount notes and treasury bills with original maturities of one year or less. Unrealized gains and losses on available-for-sale investments, net of income taxes, are included in other comprehensive income (loss). Unrealized gains and losses on equity securities, net of income taxes, are included in net income as net investment gains or losses. The Company completes a detailed analysis each quarter to assess declines in the fair value of its available-for-sale investments. Any impairment losses on the Company's available-for-sale investments are recorded as an allowance, subject to reversal.

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 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. Receivables also include amounts receivable from contracts with customers, which represent the Company's unconditional right to consideration for satisfying the performance obligations outlined in the contract.

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 credit losses expected to be incurred over the life of the receivable, which is recorded net of this allowance.The allowance 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 credit losses expected to be incurred over the life of the reinsurance recoverable, which is recorded net of this allowance. The allowance 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 $7.5 million and $2.6 million as of December 31, 2022 and 2021, 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, salaries and benefits 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. See note 2(b) for details regarding a change in the Company's policy for accounting for deferred policy acquisition costs.

**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. See note 8 for further details regarding income taxes.

**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. Recorded reserves are estimates, and the ultimate liability may be greater or less than the estimates. See note 5 for further details regarding unpaid losses and loss adjustment expenses.

**l) Life and Annuity Benefits.** The Company has a run-off block of life and annuity reinsurance contracts that subject the Company to mortality, longevity and morbidity risks. The assumptions used to determine policy benefit reserves 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 statements of income (loss) and comprehensive income (loss). Investment income earned on the investments that support the policy benefit reserves are included in net investment income. See note 7 for further details regarding life and annuity benefits and note 2(r) for information on changes to the accounting for life and annuity benefits beginning in 2023.

**m) Revenue Recognition.**

*Property and Casualty Premiums*

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, or immediately if the coverage period has ended. The Company uses the periodic method to account for assumed reinsurance from foreign reinsurers as a result of the sufficiency of the information provided by the reinsurer, which is consistent with its accounting for assumed reinsurance 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 are are generally earned on a pro rata basis over the coverage period.

*Other Revenues*

Fronting fees are received based on the gross premiums written on behalf of Markel's ILS operations and as part of its program services business. Fronting fees are earned in a manner consistent with the recognition of the gross premiums earned on the underlying insurance or reinsurance policies.

*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, 2022 and 2021, losses and loss adjustment expenses includes $0 and favorable $1.2 million, respectively, due to changes in the estimated ultimate liability related to short duration reinsurance contracts accounted for as deposits.

**n) Program Services**. The Company enters into contractual agreements with ceding insurers and reinsurers and assuming reinsurers that are associated with Markel's ILS operations and program services business, whereby the ceding insurers and reinsurers and assuming reinsurers are typically obligated to each other for payment of insurance amounts, including premiums, commissions and losses. To the extent these funds are not the obligation of the Company and are settled directly between the ceding insurer and reinsurer and the assuming reinsurer, no receivables or payables are recorded for these amounts. All obligations of the Company to or on behalf of its policyholders are recorded by the Company and, to the extent appropriate, offsetting reinsurance recoverables are recorded.

**o) Leases.** The present value of future lease payments for the Company's lease with terms greater than 12 months are included on the 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 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 statements of income (loss) and comprehensive income (loss). See note 11 for further details regarding the Company's leases.

**p) 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 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 (loss). While the Company attempts 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 (loss) related to the available-for-sale securities held in non-functional currencies supporting the reserves.

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

**r) Recent Accounting Pronouncements.**

*Accounting Standards Not Yet Adopted*

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 companies with long duration contracts to: (1) review and, if there is a change, update the assumptions used to measure expected cash flows at least annually; (2) update the discount rate assumption at each reporting date; and (3) enhance certain qualitative and quantitative disclosures. ASU No. 2018-12 becomes effective for the Company during the first quarter of 2023 and will be applied using a modified retrospective approach that requires restatement of prior periods presented, including a cumulative adjustment to accumulated other comprehensive income (loss) as of January 1, 2021 (the transition date). 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 adoption of ASU No. 2018-12 will result in an increase to accumulated other comprehensive income (loss) of $26.1 million, net of taxes, as a result of changing the discount rate assumption as of January 1, 2021. However, the cumulative impact of changes in the discount rate assumption through the January 1, 2023 adoption date is based on the discount rate assumption determined as of the adoption date. Based on increases in interest rates between the transition date and the adoption date, the cumulative increase to accumulated other comprehensive income (loss) as of January 1, 2023 will be $22.6 million, net of taxes.

### 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 reserve deficiency adjustments related to life and annuity benefit reserves. See note 7.

| | December 31, 2022 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Estimated Fair Value |
| Fixed maturity securities: | | | | |
| U.S. Treasury securities | $ 313,795 | $ — | $ (19,002) | $ 294,793 |
| U.S. government-sponsored enterprises | 108,291 | 561 | (5,206) | 103,646 |
| Obligations of states, municipalities and political subdivisions | 415,722 | 1,493 | (24,394) | 392,821 |
| Foreign governments | 620,639 | 9,597 | (49,536) | 580,700 |
| Commercial mortgage-backed securities | 244,723 | — | (21,257) | 223,466 |
| Residential mortgage-backed securities | 130,879 | 1 | (5,225) | 125,655 |
| Asset-backed securities | 1,280 | — | (29) | 1,251 |
| Corporate bonds | 136,591 | 2,140 | (7,846) | 130,885 |
| Total fixed maturity securities | 1,971,920 | 13,792 | (132,495) | 1,853,217 |
| Short-term investments | 286,166 | 10 | (4) | 286,172 |
| Investments, available-for-sale | $ 2,258,086 | $ 13,802 | $ (132,499) | $ 2,139,389 |

| | December 31, 2021 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Estimated Fair Value |
| Fixed maturity securities: | | | | |
| U.S. Treasury securities | $ 316,532 | $ — | $ (2,256) | $ 314,276 |
| U.S. government-sponsored enterprises | 78,380 | 9,722 | (98) | 88,004 |
| Obligations of states, municipalities and political subdivisions | 416,125 | 31,949 | (446) | 447,628 |
| Foreign governments | 639,358 | 176,891 | (1,400) | 814,849 |
| Commercial mortgage-backed securities | 226,539 | 5,351 | (1,542) | 230,348 |
| Residential mortgage-backed securities | 167,068 | 5,480 | (8) | 172,540 |
| Asset-backed securities | 1,886 | 58 | — | 1,944 |
| Corporate bonds | 125,085 | 26,454 | (592) | 150,947 |
| Total fixed maturity securities | 1,970,973 | 255,905 | (6,342) | 2,220,536 |
| Investments, available-for-sale | $ 1,970,973 | $ 255,905 | $ (6,342) | $ 2,220,536 |

**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, 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| *(dollars in thousands)* | Estimated Fair Value | Gross Unrealized Holding Losses | Estimated Fair Value | Gross Unrealized Holding Losses | Estimated Fair Value | Gross Unrealized Holding Losses |
| Fixed maturity securities: | | | | | | |
| U.S. Treasury securities | $ 53,640 | $ (2,059) | $ 241,154 | $ (16,943) | $ 294,794 | $ (19,002) |
| U.S. government-sponsored enterprises | 91,445 | (4,355) | 6,235 | (851) | 97,680 | (5,206) |
| Obligations of states, municipalities and political subdivisions | 264,834 | (18,057) | 29,895 | (6,337) | 294,729 | (24,394) |
| Foreign governments | 334,865 | (32,401) | 85,567 | (17,135) | 420,432 | (49,536) |
| Commercial mortgage-backed securities | 158,213 | (10,186) | 65,253 | (11,071) | 223,466 | (21,257) |
| Residential mortgage-backed securities | 114,108 | (5,132) | 574 | (93) | 114,682 | (5,225) |
| Asset-backed securities | 1,251 | (29) | — | — | 1,251 | (29) |
| Corporate bonds | 57,378 | (4,419) | 18,252 | (3,427) | 75,630 | (7,846) |
| Total fixed maturity securities | $ 1,075,734 | $ (76,638) | $ 446,930 | $ (55,857) | $ 1,522,664 | $ (132,495) |
| Short-term investments | 231,277 | (4) | — | — | 231,277 | (4) |
| Total | $ 1,307,011 | $ (76,642) | $ 446,930 | $ (55,857) | $ 1,753,941 | $ (132,499) |

At December 31, 2022, the Company held 208 available-for-sale securities in an unrealized loss position with a total estimated fair value of $1,753.9 million and gross unrealized losses of $132.5 million. Of these 208 securities, 33 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of $446.9 million and gross unrealized losses of $55.9 million. The Company does not intend to sell or believe it will be required to sell these available-for-sale securities before recovery of their amortized cost.

| (dollars in thousands) | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 |
| Fixed maturity securities: | | | | | | |
| U.S. Treasury securities | $ 314,276 | $ (2,256) | $ — | $ — | $ 314,276 | $ (2,256) |
| U.S. government-sponsored enterprises | 7,237 | (98) | — | — | 7,237 | (98) |
| Obligations of states, municipalities and political subdivisions | 33,905 | (442) | 2,015 | (4) | 35,920 | (446) |
| Foreign governments | 111,364 | (1,400) | — | — | 111,364 | (1,400) |
| Commercial mortgage-backed securities | 75,843 | (1,542) | — | — | 75,843 | (1,542) |
| Residential mortgage-backed securities | 845 | (8) | — | — | 845 | (8) |
| Corporate bonds | 31,810 | (592) | — | — | 31,810 | (592) |
| Total fixed maturity securities | 575,280 | (6,338) | 2,015 | (4) | 577,295 | (6,342) |

At December 31, 2021, the Company held 38 available-for-sale security in an unrealized loss position with a total estimated fair value of $577.3 million and gross unrealized losses of $6.3 million. Of these 38 securities, one security had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of $2.0 million and gross unrealized losses of $0.1 million. The Company does not intend to sell or believe it will be required to sell these available-for-sale securities before recovery of their amortized cost.

The Company completes a detailed analysis each quarter to assess whether the decline in the fair value of any investment 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, which 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 (loss). The Company did not have an allowance for credit losses as of December 31, 2022 or 2021.

Quarterly, the Company also considers whether it intends to sell an available-for-sale security or if it is more likely than not that 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, 2022 and 2021.

| (dollars in thousands) | Years Ended December 31, 2022 Estimated Fair Value | 2022 % | 2021 Estimated Fair Value | 2021 % |
|---|---|---|---|---|
| AAA | $ 1,369,635 | 73.9 | $ 1,566,126 | 70.5 |
| AA | 436,610 | 23.6 | 591,552 | 26.6 |
| A | 26,828 | 1.4 | 48,388 | 2.2 |
| BBB | 18,259 | 1.0 | 12,456 | 0.6 |
| Not Rated | 1,885 | 0.1 | 2,014 | 0.1 |
| Total fixed maturity securities | $ 1,853,217 | 100.0 | $ 2,220,536 | 100.0 |

**d)** The amortized cost and estimated fair value of fixed maturity securities at December 31, 2022 are shown below by contractual maturity.

| (dollars in thousands) | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ 186,366 | $ 179,280 |
| Due after one year through five years | 492,249 | 456,047 |
| Due after five years through ten years | 481,820 | 446,225 |
| Due after ten years | 434,603 | 421,293 |
| | 1,595,038 | 1,502,845 |
| Commercial mortgage-backed securities | 244,723 | 223,466 |
| Residential mortgage-backed securities | 130,879 | 125,655 |
| Asset-backed securities | 1,280 | 1,251 |
| Total fixed maturity securities | $ 1,971,920 | $ 1,853,217 |

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 issuer. Based on expected maturities, the estimated average duration of fixed maturity securities at December 31, 2022 was 4.9 years.

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

| (dollars in thousands) | Years Ended December 31, 2022 | 2021 |
|---|---|---|
| Interest: | | |
| Fixed maturity securities | $ 52,951 | $ 54,514 |
| Short-term investments, including overnight deposits | 4,611 | 110 |
| Other investments | 3,616 | (881) |
| Loans to parent & affiliates | 11,053 | 22,775 |
| Dividends on equity securities | 24,002 | 22,496 |
| Investment expenses | (23,900) | (25,495) |
| Net investment income | $ 72,333 | $ 73,519 |

**f)** The following table presents the components of net investment gains (losses) included in net income (loss) and the change in net unrealized gains (losses) included in other comprehensive income (loss).

| *(dollars in thousands)* | Years Ended December 31, 2022 | 2021 |
|---|---|---|
| Net realized investment gains | 2,251 | 3 |
| Equity securities: | | |
| Change in fair value of securities sold during the period | 4,993 | 2,134 |
| Change in fair value of securities held at the end of the period | (392,441) | 481,630 |
| Total change in fair value | (387,448) | 483,764 |
| Net investment gains (losses) | (385,197) | 483,767 |
| Change in net unrealized gains (losses) on available for sale investments included in other comprehensive income (loss): | | |
| Fixed maturity securities | (368,266) | (167,571) |
| Short-term investments | 6 | — |
| Reserve deficiency adjustment for life and annuity benefit reserves (see note 7) | 201,326 | 79,295 |
| Net decrease | $ (166,934) | $ (88,276) |

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

| *(dollars in thousands)* | December 31, 2022 | 2021 |
|---|---|---|
| Investments | $ 2,125,988 | $ 2,252,239 |
| Restricted cash and cash equivalents | 143,298 | 262,764 |
| Investment in affiliate, at fair value | — | 5,312 |
| Total | $ 2,269,286 | $ 2,520,315 |

The following table presents the components of restricted assets.

| *(dollars in thousands)* | December 31, 2022 | 2021 |
|---|---|---|
| Assets held in trust or on deposit to support underwriting activities | $ 1,974,281 | $ 2,206,027 |
| Assets pledged as security for letters of credit | 295,005 | 308,976 |
| Investments restricted from withdrawal | — | 5,312 |
| Total | $ 2,269,286 | $ 2,520,315 |

**h)** The Company previously held investments in Markel CATCo Reinsurance Fund Ltd., a Bermuda exempted mutual fund company comprised of multiple segregated accounts (Markel CATCo Funds). In March 2022, a buy-out transaction was completed with Markel Corporation that provided for an accelerated return of all remaining capital to investors in the Markel CATCo Funds. The Company accounted 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 were reflected as investments in affiliates at fair value on the balance sheets. 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 previously included the Company's investments in Markel CATCo Funds that were not traded on an active exchange and were 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 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. 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.

| | December 31, 2022 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | Level 1 | Level 2 | Level 3 | Total |
| Fixed maturity securities, available-for-sale: | | | | |
| U.S. Treasury securities | $ — | $ 294,793 | $ — | $ 294,793 |
| U.S. government-sponsored enterprises | — | 103,646 | $ — | 103,646 |
| Obligations of states, municipalities and political subdivisions | — | 392,821 | — | 392,821 |
| Foreign governments | — | 580,700 | — | 580,700 |
| Commercial mortgage-backed securities | — | 223,466 | — | 223,466 |
| Residential mortgage-backed securities | — | 125,655 | — | 125,655 |
| Asset-backed securities | — | 1,251 | — | 1,251 |
| Corporate bonds | — | 130,885 | — | 130,885 |
| Total fixed maturity securities, available-for-sale | — | 1,853,217 | — | 1,853,217 |
| Equity securities: | | | | |
| Insurance, banks and other financial institutions | 623,481 | — | — | 623,481 |
| Industrial, consumer and all other | 1,147,680 | — | — | 1,147,680 |
| Total equity securities | 1,771,161 | — | — | 1,771,161 |
| Short-term investments, available-for-sale | 286,172 | — | — | 286,172 |
| Total investments | $ 2,057,333 | $ 1,853,217 | $ — | $ 3,910,550 |

| (dollars in thousands) | December 31, 2021 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fixed maturity securities, available-for-sale: | | | | |
| U.S. Treasury securities | $ — | $ 314,276 | $ — | $ 314,276 |
| U.S. government-sponsored enterprises | — | 88,004 | $ — | 88,004 |
| Obligations of states, municipalities and political subdivisions | — | 447,628 | — | 447,628 |
| Foreign governments | — | 814,849 | — | 814,849 |
| Commercial mortgage-backed securities | — | 230,348 | — | 230,348 |
| Residential mortgage-backed securities | — | 172,540 | — | 172,540 |
| Asset-backed securities | — | 1,944 | — | 1,944 |
| Corporate bonds | — | 150,947 | — | 150,947 |
| Total fixed maturity securities, available-for-sale | — | 2,220,536 | — | 2,220,536 |
| Equity securities: | | | | |
| Insurance, banks and other financial institutions | 724,531 | — | — | 724,531 |
| Industrial, consumer and all other | 1,455,303 | — | — | 1,455,303 |
| Total equity securities | 2,179,834 | — | — | 2,179,834 |
| Investments in affiliates | — | — | 5,312 | 5,312 |
| Total investments | $ 2,179,834 | $ 2,220,536 | $ 5,312 | $ 4,405,682 |

The following table summarizes changes in Level 3 investments measured at fair value on a recurring basis.

| (dollars in thousands) | 2022 | 2021 |
|---|---|---|
| Investments in affiliates at fair value, beginning of period | $ 5,312 | $ 9,562 |
| Purchases | — | — |
| Sales | (5,312) | (1,803) |
| Net investment losses | — | (2,447) |
| Investments in affiliates at fair value, end of period | $ — | $ 5,312 |

Level 3 investments previously included the Company's investment in an insurance-linked securities fund managed by Markel CATCo Investment Management Ltd. (MCIM). In 2022, the Company's remaining investment of $5.3 million was redeemed in conjunction with a buy-out transaction that provided for an accelerated return of all remaining capital to investors.

The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2022 and 2021.

**5. Unpaid Losses and Loss Adjustment Expenses**

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

| | Years Ended December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| Gross balance at January 1 | $ 3,360,122 | $ 3,148,266 |
| Less: Reinsurance recoverables on unpaid losses | (825,860) | (671,630) |
| Net balance at January 1 | 2,534,262 | 2,476,636 |
| | | |
| Effect of foreign currency movement on beginning of year balance | (41,643) | (32,530) |
| | | |
| Incurred losses related to: | | |
| Current accident year | 742,122 | 805,506 |
| Prior accident years | (57,683) | (98,310) |
| Total incurred | 684,439 | 707,196 |
| | | |
| Paid losses related to: | | |
| Current accident year | (65,085) | (84,444) |
| Prior accident years | (556,475) | (527,868) |
| Total paid | (621,560) | (612,312) |
| | | |
| Commutations | (14,304) | (6,004) |
| Effect of foreign currency movement on current year activity | (6,826) | 1,276 |
| Net balance at December 31 | 2,534,368 | 2,534,262 |
| Plus: Reinsurance recoverables on unpaid losses | 1,188,776 | 825,860 |
| Gross balance at December 31 | $ 3,723,144 | $ 3,360,122 |

*Catastrophe Losses*

In 2022, current accident year losses and loss adjustment expenses included $2.4 million of net losses and loss adjustment expenses attributed to Hurricane Ian. These losses and loss adjustment expenses were net of ceded losses of $23.3 million. The Company also had gross losses and loss adjustment expenses of $493.9 million within its fronting operations attributed to Hurricane Ian, all of which were ceded to third-party capital managed through the Markel's ILS operations, which hold sufficient investor collateral to support the Company's related reinsurance recoverables. See note 9(f) for further details regarding related party transactions with Nephila Capital Ltd.

In 2021, current accident year losses and loss adjustment expenses included $98.3 million of net losses and loss adjustment expenses from European Floods, Hurricane Ida, and Winter Storm Uri (2021 Catastrophes). These net losses and loss adjustment expenses were net of ceded losses of $94.4 million.

*Russia-Ukraine Conflict*

In 2022, current accident year losses and loss adjustment expenses also included $7.7 million of net losses and loss adjustment expenses attributed to the Russia-Ukraine conflict. These losses and loss adjustment expenses were net of ceded losses of $28.8 million. The net losses and loss adjustment expenses attributed to the Russia-Ukraine conflict represent the Company's best estimates as of December 31, 2022 based upon information currently available. The Company's estimates for these losses are based on reported claims, detailed underwriting, actuarial and claims reviews of policies and in force assumed reinsurance contracts for potential exposures. These estimates include various assumptions about what areas within the affected regions have incurred losses, the nature and extent of such losses, which remain difficult to verify, as well as assumptions about coverage, liability and reinsurance. Given the significant levels of ceded reinsurance on certain of the impacted policies, a significant portion of any additional incurred losses may be ceded. While the Company believes the gross and net reserves for losses and loss adjustment expenses for the Russia-Ukraine conflict as of December 31, 2022 are adequate based on information currently available, the Company continues to closely monitor reported claims, ceded reinsurance contract attachment, government actions and areas impacted by the conflict and may adjust its estimates as new information becomes available.

*Loss Developmen*t

In 2022, incurred losses and loss adjustment expenses included $57.7 million of net favorable development on prior years' loss reserves, which was comprised of net favorable development for the Company's insurance reserves of $34.8 million and of net favorable development for the Company's reinsurance reserves of $22.9 million. The net favorable development for insurance was across several lines of business, but principally related to the professional liability, credit/surety ($33.7 million and $4.7 million of net favorable development, respectively) and various other lines of business, partially offset by general liability and property lines of business ($7.3 million and $7.2 million of unfavorable development, respectively). The net favorable development for reinsurance was principally related to workers comp, professional liability, marine and energy, and property lines of business ($9.0 million, $7.2 million, $3.4 million and $2.0 million of net favorable development, respectively).

In 2021, incurred losses and loss adjustment expenses included $98.3 million of net favorable development on prior years' loss reserves, which was comprised of net favorable development for the Company's insurance reserves of $128.8 million and of net unfavorable development for the Company's reinsurance reserves of $30.5 million. The net favorable development for insurance was across several lines of business, but principally related to the general liability, professional liability, marine & energy, and property lines of business ($37.4 million, $33.1 million, $21.8 million and $20.9 million of net favorable development, respectively). The net unfavorable development for reinsurance was principally related to property, due in part to COVID-19, and professional liability lines of business ($37.7 million and $5.1 million of net unfavorable development, respectively) partially offset by aviation, accident and health, and workers comp lines of business ($10.2 million of net favorable development across these lines).

The gross and net losses and loss adjustment expenses attributed to COVID-19 represent the Company's best estimates as of December 31, 2022 based upon information currently available. The Company's estimates are based on reported claims and still include assumptions about coverage, liability and ceded reinsurance contract attachment, which, in some cases, remain subject to judicial review. While the Company believes the gross and net reserves for losses and loss adjustment expenses for COVID-19 as of December 31, 2022 are adequate based on information available at this time, the Company continues to closely monitor reported claims, claim settlements, ceded reinsurance contract settlements and judicial decisions and may adjust its estimates as new information becomes available

*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 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. There may also be a more pronounced reporting lag, as well as reliance on third-party claims handling practices and reserve estimates, on insurance contracts for which the Company is not the primary insurer and participates only in excess layers of loss. Based on the experience of the Company's actuaries and management, the Company selects loss development factors and trending techniques to mitigate the difficulties caused by reporting lags. At least annually, the Company evaluates its loss development factors and trending assumptions using its own loss data, as well as cedent-specific and industry data, and updates them as needed.

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 70% and 70% of total unpaid losses and loss adjustment expenses at December 31, 2022 and 2021, 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, such as hurricanes and earthquakes, as well as pandemics and wars, are based on claims received to date, industry loss estimates and output from both industry, broker and proprietary models, as well as analysis of the Company's ceded reinsurance contracts. The Company may also perform detailed policy and reinsurance contract level reviews. The availability of data from these procedures varies depending on the timing of the event relative to the point at which the Company develops its estimates. The Company also considers loss experience on historical events that may have similar characteristics to the underlying event and current market conditions, including the level of economic inflation. 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 as appropriate. For example, both the gross and net losses on Hurricane Ian and the 2021 Catastrophes, as of December 31, 2022 represent the Company's best estimates based upon information currently available. For Hurricane Ian, these estimates are still dependent on assumptions about coverage, liability and reinsurance. While the Company believes the gross and net reserves for these events as of December 31, 2022 are adequate, it continues to closely monitor reported claims and may adjust its estimates as new information becomes available.

Loss reserves are established at management's best estimate, which is developed using the actuarially calculated point estimate as the starting point. The actuarial point estimate represents the actuaries' estimate of the most likely amount that will ultimately be paid to settle the losses that have occurred 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 influencing the development of management's best estimate include: the credibility and timeliness of claims and loss information received from cedents and 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. For example, the Company's loss experience in recent years has reflected higher than anticipated levels of economic inflation, as well as the impacts of social inflation.

Inherent in the Company's reserving practices is the desire to establish loss reserves that are more likely redundant than deficient, and therefore, will ultimately prove to be adequate. This approach to establishing loss reserves typically results in loss reserves that exceed the calculated actuarial point estimate. However, following an acquisition of insurance operations, acquired reserves initially are recorded at fair value, and therefore the acquired loss reserves may be closer to the actuarial point estimate until the Company builds total loss reserves that are consistent with the Company's historic level of confidence. 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, 2022. 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, 2021 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, 2022.

The difference between the loss development implied by the tables for the year ended December 31, 2022 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 and 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

| *(in thousands)* | Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | | Total of Incurred-but-Not-Reported Liabilities, Net of Reinsurance | Cumulative Number of Reported Claims |
|---|---|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | | | |
| | As of December 31, | | | | | | | | |
| Accident Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | December 31, 2022 | |
| 2016 | $ 154,296 | $ 217,779 | $ 176,165 | $ 246,997 | $ 235,067 | $ 221,697 | $ 215,030 | $ 36,277 | 3 |
| 2017 | | 433,269 | 474,322 | 433,927 | 435,762 | 417,571 | 421,443 | 40,605 | 4 |
| 2018 | | | 423,577 | 502,512 | 490,130 | 439,754 | 460,816 | 44,002 | 4 |
| 2019 | | | | 555,615 | 542,426 | 537,520 | 528,632 | 44,576 | 4 |
| 2020 | | | | | 786,735 | 719,408 | 694,059 | 198,214 | 3 |
| 2021 | | | | | | 597,628 | 576,776 | 347,846 | 2 |
| 2022 | | | | | | | 646,467 | 513,330 | 2 |
| | | | | | | | $ 3,543,223 | | |

| (in thousands) | Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | |
|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | |
| | As of December 31, | | | | | | |
| Accident Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| 2016 | $ 21,446 | $ 68,057 | $ 90,747 | $ 152,621 | $ 154,252 | $ 161,830 | $ 165,381 |
| 2017 | | 67,969 | 195,507 | 294,369 | 326,165 | 337,455 | 350,682 |
| 2018 | | | 71,730 | 182,192 | 310,538 | 357,095 | 381,630 |
| 2019 | | | | 90,611 | 208,161 | 323,753 | 431,732 |
| 2020 | | | | | 124,861 | 298,193 | 434,742 |
| 2021 | | | | | | 38,263 | 135,017 |
| 2022 | | | | | | | 40,540 |
| | | | | | | | $ 1,939,724 |
| All outstanding liabilities for unpaid losses and loss adjustment expenses before 2016, net of reinsurance | | | | | | | 187,091 |
| Total liabilities for unpaid losses and loss adjustment expenses, net of reinsurance | | | | | | | $ 1,790,590 |

**Reinsurance Operations**

| | Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | | Total of Incurred- but-Not-Reported Liabilities, Net of Reinsurance |
|---|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | | |
| *(in thousands)* | As of December 31, | | | | | | | |
| Accident Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | December 31, 2022 |
| 2016 | $ 239,969 | $ 271,663 | $ 279,359 | $ 198,867 | $ 191,112 | $ 191,834 | $ 191,900 | 21,520 |
| 2017 | | 504,280 | 569,412 | 352,412 | 339,524 | 339,075 | 336,191 | 25,564 |
| 2018 | | | 456,841 | 291,536 | 281,551 | 275,680 | 269,878 | 29,226 |
| 2019 | | | | 171,138 | 179,522 | 167,172 | 182,614 | 47,971 |
| 2020 | | | | | 147,633 | 193,757 | 196,730 | 60,451 |
| 2021 | | | | | | 164,250 | 162,367 | 37,284 |
| 2022 | | | | | | | 49,819 | 45,826 |
| | | | | | | | $1,389,499 | |

| | Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | |
|---|---|---|---|---|---|---|---|
| | Unaudited | | | | | | |
| (in thousands) | As of December 31, | | | | | | |
| Accident Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| 2016 | $ 37,430 | $ 88,687 | $ 127,531 | $ 164,066 | $ 166,469 | $ 168,814 | $ 171,246 |
| 2017 | | 82,207 | 176,831 | 261,448 | 266,253 | 275,452 | 286,641 |
| 2018 | | | 61,593 | 134,387 | 180,599 | 204,580 | 214,745 |
| 2019 | | | | 19,817 | 55,114 | 93,808 | 115,831 |
| 2020 | | | | | 24,460 | 69,237 | 115,493 |
| 2021 | | | | | | $ 21,670 | 67,000 |
| 2022 | | | | | | | 510 |
| | | | | | | | $ 971,466 |
| All outstanding liabilities for unpaid losses and loss adjustment expenses before 2016, net of reinsurance | | | | | | | 270,038 |
| Total liabilities for unpaid losses and loss adjustment expenses, net of reinsurance | | | | | | | $ 688,071 |

The following table presents supplementary information about average historical claims duration as of December 31, 2022 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 | 6 | 7 |
| Insurance | 12.8 % | 23.3 % | 20.7 % | 16.7 % | 2.9 % | 3.3 % | 1.7 % |
| Reinsurance | 14.9 % | 25.3 % | 21.4 % | 10.4 % | 2.6 % | 2.3 % | 1.3 % |

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

| *(dollars in thousands)* | | December 31, 2022 |
|---|---|---|
| Net outstanding liabilities | | |
| Insurance | $ | 1,790,590 |
| Reinsurance | | 688,071 |
| Other | | 5,437 |
| Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance | | 2,484,098 |
| | | |
| Reinsurance recoverable on unpaid losses | | |
| Insurance | | 576,024 |
| Reinsurance | | 122,409 |
| Other | | 490,343 |
| Total reinsurance recoverable on unpaid losses | | 1,188,776 |
| | | |
| Unallocated loss adjustment expenses | | 50,270 |
| | | |
| Total gross liability for unpaid losses and loss adjustment expenses | $ | 3,723,144 |

**6. Reinsurance**

In reinsurance and retrocession transactions, an insurance or reinsurance company transfers, or cedes, all or part of its exposure in return for a 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 credit losses expected to be recognized over the life of the reinsurance recoverables.

Within its underwriting operations, 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.

Within the Company's underwriting operations, at December 31, 2022 and 2021, balances recoverable from the ten largest reinsurers, by group, represented 59% and 62%, respectively, of reinsurance recoverables before considering reinsurance allowances and collateral. At December 31, 2022, the largest reinsurance balance was due from Renaissance Reinsurance US Inc. and represented 10% of reinsurance recoverables before considering reinsurance allowances and collateral.

Within its fronting operations, the Company generally enters into 100% quota share reinsurance agreements whereby the Company cedes to the reinsurer substantially all of its gross liability under all policies issued by and on behalf of the Company. However, there are generally limits on the reinsurers' obligations to the Company that expose the Company to underwriting risk, including aggregate reinsurance limits that the Company believes are unlikely to be exceeded. The Company also remains exposed to the credit risk of the reinsurer, or the risk that one of its reinsurers becomes insolvent or otherwise unable or unwilling to pay policyholder claims. This credit risk is generally mitigated either by requiring that the reinsurer post substantial collateral to secure the reinsured risks, which, in some instances, exceeds the related reinsurance recoverable.

Within the Company's fronting operations, at December 31, 2022 and 2021, balances recoverable from the top three reinsurers, by group, represented 100% and 100%, respectively, of reinsurance recoverables before considering reinsurance allowances and collateral. At December 31, 2022, the largest reinsurance balance was due from Poseidon Re Ltd. and represented 99% of reinsurance recoverables before considering reinsurance allowances and collateral.

The following tables summarize the effect of reinsurance and retrocessional reinsurance on premiums written and earned.

| | Year Ended December 31, 2022 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | Direct | Assumed | Ceded | Net Premiums |
| Underwriting: | | | | |
| Written | $ 604,155 | $ 953,844 | $ (232,292) | $ 1,325,707 |
| Earned | $ 486,861 | $ 872,521 | $ (140,924) | $ 1,218,458 |
| Fronting: | | | | |
| Written | — | 557,385 | (557,385) | — |
| Earned | — | 536,132 | (536,132) | — |
| Total: | | | | |
| Written | $ 604,155 | $ 1,511,229 | $ (789,677) | $ 1,325,707 |
| Earned | $ 486,861 | $ 1,408,653 | $ (677,056) | $ 1,218,458 |

| | Year Ended December 31, 2021 | | | |
|---|---|---|---|---|
| *(dollars in thousands)* | Direct | Assumed | Ceded | Net Premiums |
| Underwriting: | | | | |
| Written | $ 526,488 | $ 994,666 | $ (209,077) | $ 1,312,077 |
| Earned | $ 419,722 | $ 995,633 | $ (162,104) | $ 1,253,251 |
| Fronting: | | | | |
| Written | — | 229,961 | (229,961) | — |
| Earned | — | 189,050 | (189,050) | — |
| Total: | | | | |
| Written | $ 526,488 | $ 1,224,627 | $ (439,038) | $ 1,312,077 |
| Earned | $ 419,722 | $ 1,184,683 | $ (351,154) | $ 1,253,251 |

All of the premiums written and earned in the Company's fronting operations for the years ended December 31, 2022 and 2021 were ceded. The percentage of total ceded earned premiums to gross earned premiums was 36% and 22% for the years ended December 31, 2022 and 2021, respectively.

All of the incurred losses and loss adjustment expenses in the Company's fronting operations, which totaled $510.7 million and $161.3 for the years ended December 31, 2022 and 2021, respectively, were ceded.

The following table summarizes the effect of reinsurance and retrocessional reinsurance on losses and loss adjustment expenses in the Company's underwriting operations.

| | Years ended December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| Gross | $ 748,091 | $ 875,008 |
| Ceded | (63,652) | (169,003) |
| Net losses and loss adjustment expenses | $ 684,439 | $ 706,005 |

**7. Life and Annuity Benefits**

The following table presents life and annuity benefits.

| | December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| Life | $ 89,600 | $ 118,746 |
| Annuities | 520,993 | 752,357 |
| Accident and health | 26,132 | 38,987 |
| Total | $ 636,725 | $ 910,090 |

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. See note 2(r) for information on changes to the accounting for life and annuity benefits beginning in 2023.

Life and annuity benefit reserves 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. As of December 31, 2021, the cumulative increase to life and annuity benefits attributable to unrealized gains on the underlying investment portfolio totaled $201.3 million, all of which reversed in 2022 as a result of an increase in the market yield on the investment securities supporting the policy benefit reserves. During 2021, the Company decreased life and annuity benefits by $79.3 million, reflecting an increase in the market yield on the investment securities supporting the policy benefit reserves, and increased the change in net unrealized holding gains included in other comprehensive income (loss) by a corresponding amount.

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 of December 31, 2022 and 2021.

As of December 31, 2022, the largest life and annuity benefits reserve for a single contract was 34% of the total.

None of the annuities included in life and annuity benefits on the balance sheet are subject to discretionary withdrawal.

Deposit liabilities, which include the account value of universal life contracts, were $26.2 million and $28.3 million as of December 31, 2022 and 2021, respectively.

**8. 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. Additionally, if current losses or other carryovers are generated and would not be utilized on a separate return calculation, credit is generally given to the Company for these items regardless of utilization in either the separate return calculation or 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, 2022 and 2021 were as follows.

| | Years Ended December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| Current: | | |
| United States | $ 33,135 | $ 28,712 |
| Total current tax expense | 33,135 | 28,712 |
| Deferred: | | |
| United States | (75,433) | 116,510 |
| Total deferred tax expense (benefit) | (75,433) | 116,510 |
| Income tax expense (benefit) | $ (42,298) | $ 145,222 |
| | | |
| Income tax expense (benefit) in net income (loss) | (42,298) | 145,222 |
| Income tax on other comprehensive income (loss) | $ (35,056) | $ (18,538) |
| Total income tax expense (benefit) | $ (77,354) | $ 126,684 |

All of the Company's income (loss) before income tax expense (benefit) for the years ended December 31, 2022 and 2021, 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 (benefit).

| | Years Ended December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| Income tax expense (benefit) computed on pre-tax income (loss) at U.S corporate tax rate | $ (39,173) | $ 147,314 |
| Increase (decrease) to income tax expense (benefit) resulting from: | | |
| Tax-exempt investment income | (2,419) | (2,428) |
| Other | (706) | 336 |
| Income tax expense (benefit) | $ (42,298) | $ 145,222 |

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

| *(dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Deferred tax asset: | | |
| Property and casualty losses | $ 33,949 | $ 29,759 |
| Net unearned property and casualty premiums | 29,465 | 25,498 |
| Life and annuity benefits | 24,056 | 32,733 |
| Impact of net unrealized losses on life and annuity benefits | — | 42,279 |
| Other differences between financial reporting and tax bases | 4,182 | 3,668 |
| Deferred tax asset | 91,652 | 133,937 |
| Deferred tax liability: | | |
| Investments | 152,328 | 311,347 |
| Deferred ceding commissions, net | 39,834 | 33,933 |
| Other differences between financial reporting and tax bases | 4,865 | 4,522 |
| Deferred tax liability | 197,027 | 349,802 |
| Net deferred tax liability | $ 105,375 | $ 215,865 |

Deferred tax assets and liabilities are recorded on the balance sheets on a net basis within other liabilities.

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, 2022 and does not have a valuation allowance on its deferred tax assets. Additionally, the Company's net deferred tax liability for investments includes deferred tax assets attributed to its unrealized losses on fixed maturity securities. The Company has the ability and intent to execute a tax planning strategy such that it is more likely than not that all of these deferred tax assets will be realized.

The Company does not have any unrecognized tax benefits at December 31, 2022 and 2021.

The tax years open to examination by U.S. tax authorities are 2017 to the present, with limited exceptions. The Internal Revenue Service is currently examining the Company’s parent's consolidated 2017 U.S. federal income tax return. The Company believes its income tax liabilities were adequate as of December 31, 2022; however, these liabilities could be adjusted as a result of this examination.

In August 2022, the U.S. enacted the Inflation Reduction Act of 2022 (the Act). The Act implements a 15% corporate minimum tax based on adjusted financial statement income effective January 1, 2023. Markel Bermuda does not expect this tax law change to have a material impact on its results of operations, financial condition or cash flows, however, the Company will continue to evaluate the impact of the Act as additional guidance is issued by the U.S. Treasury.

## 9. Related Party Transactions

### a) Lloyd's Syndicates

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

| *(dollars in thousands)* | December 31, 2022 | December 31, 2021 |
|---|---|---|
| Promissory Notes from Markel Ventures, Inc. | $ 310,000 | $ 315,000 |
| Other amounts due from affiliates, net | 14,045 | 1,255 |
| Total | $ 324,045 | $ 316,255 |

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 May 18, 2021, June 30, 2021 and December 30, 2021, $55.0 million, $10.0 million and $10.0 million of this loan was repaid, respectively. On June 30, 2022 the remaining $5.0 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.

On August 12, 2021, the Company entered into a $50.0 million promissory note with Markel Ventures, Inc. The loan bears interest at a fixed rate of 2.43% per annum. The loan is due August 12, 2031 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) Lloyd's Syndicates

The Company provides quota share 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 balance sheets and statements of income (loss) and comprehensive income (loss) include the following amounts related to such reinsurance agreements.

| | December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| **Balance Sheet** | | |
| Premiums receivable | $ 487,418 | $ 451,645 |
| Deferred policy acquisition costs | 79,531 | 65,254 |
| Unpaid losses and loss adjustment expenses | 423,926 | 481,940 |
| Unearned property and casualty premiums | 204,328 | 177,579 |
| **Income Statement** | | |
| Gross premiums written | $ 487,117 | $ 440,104 |
| Net earned premiums | 453,852 | 443,045 |
| Losses and loss adjustment expenses | 251,610 | 242,909 |
| Acquisition costs | 222,804 | 176,974 |

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 $517.6 million and $651.9 million as of December 31, 2022 and 2021, respectively, and this amount is included in restricted assets in Note 3.

### c) Markel International Insurance Company Limited

The Company provides quota share 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 balance sheets and statements of income (loss) and comprehensive income (loss) include the following amounts related to the reinsurance agreements with MIICL.

| | December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| **Balance Sheet** | | |
| Premiums receivable | $ 8,235 | $ 5,323 |
| Deferred policy acquisition costs | 3,448 | 1,924 |
| Unpaid losses and loss adjustment expenses | 130,624 | 163,454 |
| Unearned property and casualty premiums | 17,971 | 10,053 |
| Reinsurance balances payable | 15,365 | 970 |
| **Income Statement** | | |
| Gross premiums written | $ 35,325 | $ 18,896 |
| Net earned premiums | 27,195 | 18,068 |
| Losses and loss adjustment expenses | 2,908 | 30,037 |
| Acquisition costs | 6,007 | 4,082 |

**d) Markel International S.E.**

The Company provides quota share 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 balance sheets and statements of income (loss) and comprehensive income (loss) include amounts related to the reinsurance agreement with MISE.

During 2022 and 2021, 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 that were not reinsured by the Company. 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. In 2022 and 2021, the Company has not made any payments under the guarantees, and the likelihood of such future payments is remote.

| | December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| **Balance Sheet** | | |
| Premiums receivable | $ 176,234 | $ 135,673 |
| Deferred policy acquisition costs | 47,682 | 38,150 |
| Unpaid losses and loss adjustment expenses | 420,055 | 362,715 |
| Unearned property and casualty premiums | 115,779 | 99,333 |
| Reinsurance balances payable | 575 | 68 |
| | | |
| **Income Statement** | | |
| Gross premiums written | $ 325,528 | $ 299,621 |
| Net earned premiums | 300,005 | 300,323 |
| Losses and loss adjustment expenses | 169,154 | 161,406 |
| Acquisition costs | 108,313 | 116,636 |

**e) 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, 2022 and 2021, the Company assumed and ceded $3.1 million and $2.8 million, respectively, associated with these reinsurance agreements.

During 2021, the Company entered into a fronting arrangement in conjunction with Markel's program services business in which it assumes reinsurance from various third parties and cedes to SNC. The ultimate reinsurer provides collateral on behalf of SNC. The Company receives a commercially priced fronting fee for its role in facilitating these transactions. For the year end December 31, 2022 and 2021, the Company assumed and ceded $1.4 million and $3.8 million, respectively, associated with these reinsurance agreements.

## f) 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 is either written directly by, or fronted by the Company and ceded to, third party capital managed by Markel's ILS operations to the extent it fits the insurance linked security investors' risk profile. For contracts that are ceded, the Company continues to bear underwriting risk for aggregate agreement year losses in excess of a limit that the Company believes is unlikely to be exceeded. The Company receives a commercially priced fronting fee for its role in facilitating these transactions. For the years ended December 31, 2022 and 2021, the Company assumed and ceded $552.9 million and $223.4 million, respectfully, of premiums associated with these reinsurance agreements managed by Nephila, earning a fronting fee of $16.7 million and $5.9 million which is included in other revenues on the statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2022 and 2021, respectfully.

The Company has also entered into other transactions with Nephila which are not material to the Company's financial statements.

## 10. 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, 2022, investments in securities issued by the U.S. Treasury, U.S. government agencies and U.S. government-sponsored enterprises were the only investments in any one issuer that exceeded 10% of shareholder's equity. At December 31, 2021, investments in securities issued by the U.S. Treasury, U.S. government agencies, 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, 2022, the Company's ten largest equity holdings represented $822.9 million, or 46%, of the equity portfolio. Investments in the property and casualty insurance industry represented $279.8 million, or 16% of the equity portfolio at December 31, 2022.

Premiums receivable comprise amounts due within one year or amounts not yet due. As of December 31, 2022 and 2021, the Company's largest premiums receivable balance from a single unrelated party were 3% and 3% of total premiums receivable, respectively.

For the years ended December 31, 2022 and 2021, brokered transactions accounted for the majority of the Company's property and casualty gross premiums written. For the years ended December 31, 2022 and 2021, the top three independent producing intermediaries and brokerage firms accounted for 26%, 15% and 4%; and 22%, 13% and 8%, 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 $150.0 million of uncommitted capacity that expires on December 31, 2024. This facility allows for the issuance of letters of credit in U.S. dollars and other currencies. At December 31, 2022 and 2021, $193.6 million and $174.9 million of letters of credit, respectively, denominated in various currencies, were issued and outstanding under this credit facility.

At December 31, 2022, 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.

## 11. Leases

The Company has one operating lease for real estate, which has a remaining term of 5.5 years. Total lease costs for this lease were $0.1 million and $0.3 million for the year ended December 31, 2022 and 2021, respectively.

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

| | December 31, | |
|---|---|---|
| *(dollars in thousands)* | 2022 | 2021 |
| Right-of-use lease assets | $ 6,357 | $ 1,551 |
| Lease liabilities | $ 6,417 | $ 1,551 |
| Weighted average remaining lease term | 5.5 years | 1.5 years |
| Weighted average discount rate | 4.9 % | 3.4 % |

The table below summarizes maturities of the Company's operating lease liability as of December 31, 2022, which reconciles to total lease liabilities included in other liabilities in the Company's balance sheet.

| Years Ending December 31, | *(dollars in thousands)* |
|---|---|
| 2023 | $ 1,185 |
| 2024 | 1,297 |
| 2025 | 1,336 |
| 2026 | 1,376 |
| 2027 | 1,417 |
| 2028 and thereafter | 719 |
| Total lease payments | 7,330 |
| Less imputed interest | (913) |
| Total operating lease liabilities | $ 6,417 |

## 12. Statutory Financial Information

Statutory capital and surplus and statutory net income (loss) for the Company as of December 31, 2022 and 2021 and for the years ended December 31, 2022 and 2021 are summarized below. Statutory capital and surplus and statutory net income (loss) agree to the U.S. GAAP capital and surplus and net income (loss) presented in the accompanying balance sheets and statements of income (loss) and comprehensive income (loss).

| *(dollars in thousands)* | 2022 | 2021 |
|---|---|---|
| Statutory capital and surplus | 1,895,132 | 2,111,608 |
| Statutory net income (loss) | $ (144,239) | $ 556,276 |

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, 2022, the Company exceeded 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, 2022, 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, 2022 and 2021, the Company could pay dividends to the holding company during the subsequent year up to $473.8 million and $527.9 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. In December 2022, the Company received a capital contribution of $59.6 million from Markel in the form of fixed maturity securities. This capital contribution was made to provide adequate surplus to meet the Company's internal capital requirements. The Company paid $285.0 million in dividends in 2021.

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.

### 13. Significant Non-Cash Transactions

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

| *(dollars in thousands)* | 2022 | 2021 |
|---|---|---|
| Capital contribution of fixed maturity securities from Markel Corporation | $ 59,641 | $ — |
| Settlement of internal quota share arrangement in fixed maturity securities | (53,852) | — |
| Dividend in the form of promissory note from Markel Corporation | — | (285,000) |

### 14. Subsequent Events

Subsequent events have been evaluated through April 24, 2023.