MARKEL BERMUDA LIMITED

Financial Statements

December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of 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, 2021 and 2020, and the related statements of income and comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the 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, 2021 and 2020, 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 *Auditor's 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.

Auditor's 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 auditor's 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.

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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 consider 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 Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 8, 2022

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MARKEL BERMUDA LIMITED
BALANCE SHEETS

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
ASSETS		
Investments, at estimated fair value:		
Fixed maturity securities, available-for-sale (amortized cost of $1,970,973 in 2021 and $1,537,974 in 2020)	$ 2,220,536	$ 1,955,108
Equity securities (cost of $887,644 in 2021 and $839,988 in 2020)	2,179,834	1,651,969
Investments in affiliates, at fair value	5,312	9,562
Short-term investments, available-for-sale (estimated fair value approximates cost)	—	149,999
Total Investments	4,405,682	3,766,638
Cash and cash equivalents	536,584	491,506
Restricted cash and cash equivalents	262,764	306,634
Premiums receivable	764,438	763,362
Reinsurance recoverables	846,276	698,922
Deferred policy acquisition costs	158,346	141,748
Prepaid reinsurance premiums	128,101	40,388
Due from affiliates, net	316,255	643,275
Other assets	67,173	85,389
Total Assets	$ 7,485,620	$ 6,937,862
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 3,360,122	$ 3,148,266
Life and annuity benefits	910,090	1,076,162
Unearned property and casualty premiums	732,990	594,227
Reinsurance balances payable	64,089	33,777
Other liabilities	311,722	180,360
Total Liabilities	5,379,013	5,032,792
SHAREHOLDER'S EQUITY		
Common shares (par value $1.00 per share); 58,829,354 shares issued and outstanding	58,829	58,829
Additional paid-in capital	1,157,948	1,157,948
Accumulated other comprehensive income	107,547	177,286
Retained earnings	782,283	511,007
Total Shareholder's Equity	2,106,607	1,905,070
Total Liabilities and Shareholder's Equity	$ 7,485,620	$ 6,937,862

See accompanying notes to financial statements.

MARKEL BERMUDA LIMITED
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31, 2021	Years Ended December 31, 2020
	(dollars in thousands)	
REVENUES		
Earned premiums	1,253,251	1,144,778
Net investment income	73,519	81,993
Net investment gains:		
Net realized investment gains	3	1,279
Change in fair value of equity securities	483,764	221,639
Net investment gains	483,767	222,918
Other revenues	7,599	1,787
Total Revenues	1,818,136	1,451,476
LOSSES AND EXPENSES		
Losses and loss adjustment expenses	706,005	770,659
Claims and policy benefits	25,957	26,808
Acquisition costs	371,093	289,921
General and administrative expenses	56,406	50,510
Foreign exchange (gains) losses	(42,356)	57,907
Interest expense	(467)	1,869
Total Losses and Expenses	1,116,638	1,197,674
Income Before Income Taxes	701,498	253,802
Income tax expense	145,222	25,062
Net Income	$ 556,276	$ 228,740
OTHER COMPREHENSIVE INCOME		
Change in net unrealized gains on available-for-sale investments, net of taxes:		
Net holding (losses) gains arising during the period (tax impact: 2021 - $35,314 benefit; 2020 - $30,620 expense)	$ (132,380)	$ 115,190
Reclassification adjustments for net (losses) gains included in net income (tax impact: 2021 - $124 expense; 2020 - $108 expense)	(2)	406
Change in net unrealized gains on available-for-sale investments, net of taxes	(132,382)	115,596
Impact of net unrealized gains (losses) on life and annuity benefits, net of taxes (tax impact: 2021 - $16,652 expense; 2020 - $11,542 benefit)	62,643	(43,421)
Total Other Comprehensive (Loss) Income	$ (69,739)	$ 72,175
Comprehensive Income	$ 486,537	$ 300,915

See accompanying notes to financial statements.

MARKEL BERMUDA LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

	December 31,	
	2021	2020
	(dollars in thousands)	
COMMON SHARES		
Balance - Beginning And End Of Year	$ 58,829	$ 58,829
ADDITIONAL PAID-IN CAPITAL		
Balance - Beginning And End Of Year	1,157,948	1,157,948
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Unrealized Holding Gains:		
Balance - beginning of year	206,332	134,157
Holding (losses) gains on available for sale securities arising in year, net of tax	(132,380)	115,190
Net realized (losses) gains on available for sale securities included in net income, net of tax	(2)	406
Impact of net unrealized investment gains (losses) on life and annuity benefits, net of tax	62,643	(43,421)
Balance - End Of Year	136,593	206,332
Cumulative Foreign Currency Translation Adjustment:		
Balance - Beginning And End Of Year	(29,046)	(29,046)
Total Accumulated Other Comprehensive Income - End Of Year	107,547	177,286
RETAINED EARNINGS		
Balance - beginning of year	511,007	282,296
Net Income	556,276	228,740
Cumulative effects of adoption of ASU No. 2016-13, net of taxes	—	(29)
Dividends	(285,000)	—
Balance - End Of Year	782,283	511,007
TOTAL SHAREHOLDER'S EQUITY	$ 2,106,607	$ 1,905,070

See accompanying notes to financial statements.

MARKEL BERMUDA LIMITED
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2021	2020
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net Income	$ 556,276	$ 228,740
Adjustments to reconcile net income to net cash provided by operating activities:		
Net investment gains	(483,766)	(222,917)
Foreign exchange (gains) losses	(42,356)	57,907
Deferred tax expense	116,510	39,182
Increase in premium receivable	(10,675)	(19,028)
(Increase) decrease in reinsurance recoverables	(147,475)	56,627
Increase in deferred policy acquisition costs	(18,143)	(36,218)
Increase in prepaid reinsurance premiums	(87,710)	(6,899)
Decrease in due from affiliates	17,133	3,522
Decrease (Increase) in other assets	16,076	(22,720)
Increase in unpaid losses and loss adjustment expenses	231,744	103,089
Decrease in life and annuity benefits	(45,250)	(35,450)
Increase in unearned property and casualty premiums	141,793	62,862
Increase (decrease) in reinsurance balances payable	31,964	(8,909)
Increase (decrease) in other liabilities	29,488	(50,640)
Other	9,401	(11,784)
Net Cash Provided By Operating Activities	315,010	137,364
INVESTING ACTIVITIES		
Purchases of fixed maturity securities and equity securities	(615,416)	(45,429)
Sales of fixed maturity securities and equity securities	20,746	278,597
Redemptions of fixed maturity securities	115,844	121,535
Net change in short-term investments	150,061	(55,706)
Sales and redemptions of other investments	10	1,793
Proceeds from redemption of investments in affiliates	2,777	27,163
Due from affiliates	25,000	—
Net Cash (Used) Provided By Investing Activities	(300,978)	327,953
FINANCING ACTIVITIES		
Repayment of notes to affiliates	—	(94,875)
Addition of notes due to affiliates	—	40,000
Other	3,483	(3,728)
Net Cash Provided (Used) By Financing Activities	3,483	(58,603)
Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	(16,307)	14,244
Increase in cash, cash equivalents, restricted cash and restricted cash equivalents	1,208	420,958
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	798,140	377,182
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS AT END OF YEAR	$ 799,348	$ 798,140
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Taxes received (paid)	$ 12,388	$ (41,340)
See accompanying notes to 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 ILS operations and as part of its program services business. Effective June 19, 2020, Alterra Diversified Strategies Limited ("ADS"), formerly the Company's wholly-owned subsidiary, was merged into the Company. The merger had no impact to the financial statements or results of the Company.

2. Summary of Significant Accounting Policies

a) Basis of Presentation. The accompanying financial statements have been prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP).

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

c) Investments. Available-for-sale investments and equity securities are recorded at estimated fair value. Unrealized gains and losses on available-for sale investments, net of income taxes, are included in other comprehensive income. Unrealized gains and losses on equity securities, net of income taxes, are included in net income. The Company completes a detailed analysis each quarter to assess declines in the fair value of its available-for-sale investments. 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.

d) 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.

e) 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.

f) 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.

g) Reinsurance Recoverables. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to significant losses from individual reinsurers. To further reduce credit exposure on reinsurance recoverables, the Company has received collateral, including letters of credit and trust accounts, from certain reinsurers. Collateral related to these reinsurance agreements is available, without restriction, when the Company pays losses covered by the reinsurance agreements. An allowance is established for amounts deemed uncollectible and reinsurance recoverables are recorded net of this allowance. The allowance is established for expected credit losses to be recognized 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 $2.6 million and $2.8 million as of December 31, 2021 and 2020, respectively.

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

i) 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 9 for further details regarding income taxes.

j) 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.

k) 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 were determined at contract inception and are generally locked-in for the life of the contract unless an unlocking event occurs. To the extent existing policy reserves, together with the present value of future gross premiums and expected investment income earned thereon, are not adequate to cover the present value of future benefits, settlement and maintenance costs, the locked-in assumptions are revised to current best estimate assumptions and a charge to earnings for life and annuity benefits is recognized at that time. Because of the assumptions and estimates used in establishing reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. Results attributable to the run-off of life and annuity reinsurance business are included in other revenues and claims and policy benefits in the Company's statements of income and comprehensive income. See note 7 for further details regarding life and annuity benefits.

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

Assumed reinsurance premiums are recorded at the inception of each contract based upon contract terms and information received from cedents and brokers and are earned on a pro rata basis over the coverage period, or for multi-year contracts, in proportion with the underlying risk exposure to the extent there is variability in the exposure through the coverage period. Changes in reinsurance premium estimates are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding changes in underlying exposures is obtained. Any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined and are earned on a pro rata basis over the coverage period. The Company uses the periodic method to account for assumed reinsurance from foreign reinsurers 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, 2021 and 2020, losses and loss adjustment expenses includes favorable $1.2 million and unfavorable $0.1 million, respectively, due to changes in the estimated ultimate liability related to short duration reinsurance contracts accounted for as deposits.

m) Fronting. 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.

n) 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 and comprehensive income. The company's lease liabilities and right-of-use assets are immaterial as of December 31, 2021.

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

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

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

q) Recent Accounting Pronouncements.

Accounting Standards Adopted in 2021

The Company adopted FASB Accounting Standards Update (ASU) No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, effective January 1, 2021. Adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

Accounting Standards Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-12, *Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*. The FASB subsequently issued several ASUs as amendments to ASU No. 2018-12. The standard requires insurance 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 disclosures related to the liability, including the significant inputs, judgments, assumptions and methods used to measure the liability. 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. The standard will, among other things, impact the discount rate used in estimating reserves for the Company's life and annuity reinsurance portfolio, which is in runoff. Currently, the discount rate assumption is locked-in for the life of the contracts, unless there is a loss recognition event. The Company is currently evaluating ASU No. 2018-12 to determine the impact that adopting this standard will have on its financial statements.

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customer*s, which becomes effective for the Company during the first quarter of 2023. ASU No. 2021-08 requires contract assets and liabilities accounted for under FASB ASC 606, *Revenue from Contracts with Customers*, to be recorded at the acquisition date as if the acquirer entered into those contracts itself on the contract inception dates, rather than at fair value. At adoption, ASU No. 2021-08 will not impact the Company's financial position, results of operations or cash flows.

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, 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

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

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, 2021					
	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	$ 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 securites	$ 575,280	$ (6,338)	$ 2,015	$ (4)	$ 577,295	$ (6,342)

At December 31, 2021, the Company held 38 available-for-sale securities 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.

	December 31, 2020					
	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:						
Obligations of states, municipalities and political subdivisions	2,104	(1)	—	—	2,104	(1)
Total fixed maturity securities	2,104	(1)	—	—	2,104	(1)

At December 31, 2020, the Company held one available-for-sale security in an unrealized loss position with a total estimated fair value of $2.1 million and gross unrealized losses of $0.1 million. There were no securities that had been in a continuous unrealized loss position for one year or longer.

The Company 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. The Company did not have an allowance for credit losses as of December 31, 2021 or 2020.

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, 2021 and 2020.

	Years Ended December 31,			
	2021	2021	2020	2020
(dollars in thousands)	Estimated Fair Value	%	Estimated Fair Value	%
AAA	$ 1,566,126	70.5	$ 1,229,761	62.9
AA	591,552	26.6	649,372	33.2
A	48,388	2.2	60,908	3.1
BBB	12,456	0.6	12,963	0.7
BB	—	—	—	—
B	—	—	—	—
CCC or lower	—	—	—	—
Not Rated	2,014	0.1	2,104	0.1
Total fixed maturity securities	$ 2,220,536	100.0	$ 1,955,108	100.0

d) The amortized cost and estimated fair value of fixed maturity securities at December 31, 2021 are shown below by contractual maturity.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 43,489	$ 43,398
Due after one year through five years	545,847	557,545
Due after five years through ten years	521,002	576,103
Due after ten years	465,142	638,658
	1,575,480	1,815,704
Commercial mortgage-backed securities	226,539	230,348
Residential mortgage-backed securities	167,068	172,540
Asset-backed securities	1,886	1,944
Total fixed maturity securities	$ 1,970,973	$ 2,220,536

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, 2021 was 6.1 years.

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

	Years Ended December 31,	
(dollars in thousands)	2021	2020
Interest:		
Fixed maturity securities	$ 54,514	$ 55,637
Short-term investments, including overnight deposits	110	798
Other investments	(881)	97
Loans to parent & affiliates	22,775	24,631
Dividends on equity securities	22,496	20,826
Investment expenses	(25,495)	(19,996)
Net investment income	$ 73,519	$ 81,993

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

(dollars in thousands)	Years Ended December 31, 2021	2020
Fixed maturity securities:		
Realized gains	203	1,832
Realized losses	(210)	(2,346)
Other investment gains (losses)	10	1,793
Net realized investment gains	3	1,279
Equity securities:		
Change in fair value of securities sold during the period	2,134	(94,411)
Change in fair value of securities held at the end of the period	481,630	316,050
Total change in fair value	483,764	221,639
Net investment gains	483,767	222,918
Change in net unrealized gains on available for sale investments included in other comprehensive income:		
Fixed maturity securities	(167,571)	146,334
Short-term investments	—	(10)
Reserve deficiency adjustment for life and annuity benefit reserves (see note 7)	79,295	(54,963)
Net increase (decrease)	$ (88,276)	$ 91,361

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

(dollars in thousands)	December 31, 2021	2020
Investments	$ 2,252,239	$ 2,317,777
Restricted cash and cash equivalents	262,764	306,634
Investment in affiliate, at fair value	5,312	9,562
Total	$ 2,520,315	$ 2,633,973

The following table presents the components of restricted assets.

(dollars in thousands)	December 31, 2021	2020
Assets held in trust or on deposit to support underwriting activities	$ 2,206,027	$ 2,313,659
Assets pledged as security for letters of credit	308,976	310,752
Investments restricted from withdrawal	5,312	9,562
Total	$ 2,520,315	$ 2,633,973

h) The Company holds investments in Markel CATCo Reinsurance Fund Ltd., a Bermuda exempted mutual fund company comprised of multiple segregated accounts (Markel CATCo Funds). The Company accounts for the investments based on the fair value option, with changes in fair value reflected in net realized investment gains (losses) in the income statement. Investments in the Markel CATCo Funds are reflected as investments in affiliates at fair value on the balance sheets. The fair value of the Company's investments in the Markel CATCo Funds totaled $5.3 million and $9.6 million at December 31, 2021 and 2020, respectively. See note 4 for additional details on the Company's investments in the Markel CATCo Funds.

4. Fair Value Measurements

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

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

- Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.
- Level 2 - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.
- Level 3 - Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

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

Available-for-sale investments and equity securities.

Available-for-sale investments and equity securities are recorded at fair value on a recurring basis. Available-for-sale investments include fixed maturity securities and short-term investments. Short-term investments include certificates of deposit, commercial paper, discount notes and treasury bills with original maturities of one year or less. Fair value for available-for-sale investments and equity securities are determined by the Company after considering various sources of information, including information provided by a third party pricing service. The pricing service provides prices for substantially all of the Company's fixed maturity securities and equity securities. In determining fair value, the Company generally does not adjust the prices obtained from the pricing service. The Company obtains an understanding of the pricing service's valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. The Company validates prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

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

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

Due to the significance of unobservable inputs required in measuring the fair value of the Company's investments in the Markel CATCo Funds, these investments are classified as Level 3 within the fair value hierarchy. The fair value of the securities are derived using their reported net asset value ("NAV") as the primary input, as well as other observable and unobservable inputs as deemed necessary by management. Management has obtained an understanding of the inputs, assumptions, process, and controls used to determine NAV, which is calculated by an independent third party. Unobservable inputs to the NAV calculations include assumptions around premium earnings patterns and loss reserve estimates for the underlying securitized reinsurance contracts. 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, 2021			
(dollars in thousands)	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

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

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

(dollars in thousands)	2021	2020
Investments in affiliates at fair value, beginning of period	$ 9,562	$ 40,608
Purchases	—	—
Sales	(1,803)	(28,137)
Net investment losses	(2,447)	(2,909)
Investments in affiliates at fair value, end of period	$ 5,312	$ 9,562

Sales for the year ended December 31, 2021 and 2020 reflect the return of capital in connection with the run-off of the Markel CATCo Funds. The Company's investment in the Markel CATCo Diversified Fund was sold in December 2020.

The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2021 and 2020.

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)	2021	2020
Gross balance at January 1	$ 3,148,266	$ 3,025,464
Less: Reinsurance recoverables on unpaid losses	(671,630)	(742,838)
Net balance at January 1	2,476,636	2,282,626
Effect of foreign currency movement on beginning of year balance	(32,530)	34,747
Incurred losses related to:		
Current accident year	805,506	945,732
Prior accident years	(98,310)	(175,179)
Total incurred	707,196	770,553
Paid losses related to:		
Current accident year	(84,444)	(175,673)
Prior accident years	(527,868)	(428,647)
Total paid	(612,312)	(604,320)
Commutations	(6,004)	(5,436)
Effect of foreign currency movement on current year activity	1,276	(1,534)
Net balance at December 31	2,534,262	2,476,636
Plus: Reinsurance recoverables on unpaid losses	825,860	671,630
Gross balance at December 31	$ 3,360,122	$ 3,148,266

Catastrophe Losses

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.

In 2020, current accident year losses and loss adjustment expenses included $39.6 million of net losses and loss adjustment expenses primarily from Hurricane Laura and Derecho in Iowa (2020 Catastrophes). The net losses and loss adjustment expenses on the 2020 Catastrophe for the year ended December 31, 2020 were net of ceded losses of $23.5 million.

COVID-19 Losses

In 2020, current accident year losses and loss adjustment expenses included $171.0 million of net losses and loss adjustment expenses attributed to the COVID-19 pandemic. These losses and loss adjustment expenses were net of ceded losses of $52.8 million. In 2021, the Company increased its estimate of net losses and loss adjustment expenses attributed to COVID-19 by $26.4 million.

The loss estimates for losses attributed to COVID-19 represent the Company's best estimates as of December 31, 2021 based upon information currently available. The Company's estimates for these losses and loss adjustment expenses are based on reported claims, as well as detailed policy level reviews and reviews of in-force assumed reinsurance contracts for potential exposures, as well as analysis of ceded reinsurance contracts. These estimates also consider analysis provided by brokers and claims counsel and the results of recent judicial rulings. There are no recent historical events with similar characteristics to COVID-19, and therefore the Company has no past loss experience on which to base its estimates.

Significant assumptions on which the Company's estimates of reserves for COVID-19 losses and loss adjustment expenses are based include the scope of coverage provided under the Company's policies, particularly those that provide for business interruption coverage, as well as coverage provided under the Company's ceded reinsurance contracts. Due to the inherent uncertainty associated with the assumptions surrounding the COVID-19 pandemic, these assumptions are subject to a wide range of variability. Assumptions about coverage, liability and reinsurance recovery continue to be subject to judicial review, or arbitration, and may be subject to other government action. Additionally, there has been significant litigation involving the handling of business interruption claims associated with COVID-19, and in certain instances, assessing the validity of policy exclusions for pandemics and interpreting policy terms to determine coverage for pandemics. Such matters have been, and are expected to continue to be, subject to judicial review and also may be subject to other government action.

While the Company believes the gross and net reserves for losses and loss adjustment expenses for COVID-19 as of December 31, 2021 are adequate based on information available at this time, the Company continues to closely monitor reported claims, ceded reinsurance contract attachment, government actions, and judicial decisions and may adjust the estimates of gross and net losses as new information becomes available. Such adjustments to the Company's reserves for COVID-19 losses and loss adjustment expenses may be material to the Company's results of operations, financial condition and cash flows.

Loss Development

In 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 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).

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

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. Based on the experience of the Company's actuaries and management, loss development factors and trending techniques are selected to mitigate the difficulties caused by reporting lags. The loss development and trending factor selections are evaluated at least annually and updated using cedent specific and industry data.

IBNR reserves are based on the estimated ultimate cost of settling claims, including the effects of inflation and other social and economic factors, using past experience adjusted for current trends and any other factors that would modify past experience. IBNR reserves, which include expected development on reported claims, are generally calculated by subtracting paid losses and loss adjustment expenses and case reserves from estimated ultimate losses and loss adjustment expenses. IBNR reserves were 70% and 69% of total unpaid losses and loss adjustment expenses at December 31, 2021 and 2020, respectively.

In establishing liabilities for unpaid losses and loss adjustment expenses, the Company's actuaries estimate an ultimate loss ratio, by accident year or policy year, for each product line with input from underwriting and claims associates. For product lines in which loss reserves are established on a policy year basis, the Company has developed a methodology to convert from policy year to accident year for financial reporting purposes. In estimating an ultimate loss ratio for a particular line of business, the actuaries may use one or more actuarial reserving methods and select from these a single point estimate. To varying degrees, these methods include detailed statistical analysis of past claim reporting, settlement activity, claim frequency and severity, policyholder loss experience, industry loss experience and changes in market conditions, policy forms and exposures. Greater judgment may be required when new product lines are introduced or when there have been changes in claims handling practices, as the statistical data available may be insufficient. These estimates also reflect implicit and explicit assumptions regarding the potential effects of external factors, including economic and social inflation, judicial decisions, changes in law, general economic conditions and recent trends in these factors. Management believes the process of evaluating past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events.

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

Loss reserves are established at management's best estimate, which is 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.

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, 2021. 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, 2020 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, 2021.

The difference between the loss development implied by the tables for the year ended December 31, 2021 and actual losses and loss adjustment expenses on prior accident years is attributed to the fact that amounts presented in these tables exclude 2015 and prior accident years, exclude unallocated loss adjustment expenses, and the differences in the presentation of foreign currency movements, as described above. None of these are material to the Insurance or Reinsurance operations.

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

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

Insurance Operations

	Ultimate Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance							
	Unaudited						Total of Incurred- but-Not-Reported Liabilities, Net of Reinsurance	Cumulative Number of Reported Claims (thousands)
(in thousands)	As of December 31,							
Accident Year	2016	2017	2018	2019	2020	2021	December 31, 2021	
2016	$ 153,855	$ 217,328	$ 175,765	$ 246,998	$ 231,820	$ 221,848	$ 45,911	3
2017		432,729	473,534	433,928	430,532	418,046	54,670	4
2018			422,860	502,512	483,129	440,573	47,036	4
2019				545,295	535,486	539,882	129,842	4
2020					780,642	723,443	333,161	3
2021						599,887	505,338	2
						$ 2,943,679		

	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
2016	$ 21,446	$ 68,057	$ 90,748	$ 152,622	$ 154,311	$ 161,932
2017		67,969	195,508	294,370	326,330	337,761
2018			71,730	182,192	310,855	357,654
2019				90,611	209,110	325,353
2020					126,437	300,998
2021						39,309
						$ 1,523,007
All outstanding liabilities for unpaid losses and loss adjustment expenses before 2016, net of reinsurance						249,118
Total liabilities for unpaid losses and loss adjustment expenses, net of reinsurance						$ 1,669,790

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	December 31, 2021
2016	$ 239,323	$ 271,505	$ 279,622	$ 199,642	$ 191,497	$ 192,675	$ 22,953
2017		503,496	569,306	352,670	339,928	339,415	29,993
2018			453,904	291,625	280,155	276,904	30,630
2019				171,138	170,454	169,691	41,672
2020					147,151	195,492	97,267
2021						164,328	69,693
						$ 1,338,505	

	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
2016	$ 37,751	$ 89,302	$ 128,306	$ 164,841	$ 167,266	$ 169,635
2017		82,274	177,089	261,706	266,554	275,772
2018			61,683	134,476	181,468	205,689
2019				19,817	56,217	96,025
2020					24,627	70,176
2021						21,712
						$ 839,009
All outstanding liabilities for unpaid losses and loss adjustment expenses before 2016, net of reinsurance						314,724
Total liabilities for unpaid losses and loss adjustment expenses, net of reinsurance						$ 814,220

The following table presents supplementary information about average historical claims duration as of December 31, 2021 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
Insurance	13.8 %	24.5 %	21.2 %	15.4 %	1.7 %	3.4 %
Reinsurance	17.3 %	25.1 %	21.4 %	9.7 %	2.0 %	1.2 %

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, 2021
Net outstanding liabilities		
Insurance	$	1,669,790
Reinsurance		814,220
Other		5,680
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance		2,489,690
Reinsurance recoverable on unpaid losses		
Insurance		564,089
Reinsurance		173,814
Other		87,957
Total reinsurance recoverable on unpaid losses		825,860
Unallocated loss adjustment expenses		44,572
Total gross liability for unpaid losses and loss adjustment expenses	$	3,360,122

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, 2021 and 2020, balances recoverable from the ten largest reinsurers, by group, represented 62% and 69%, respectively, of reinsurance recoverables before considering reinsurance allowances and collateral. At December 31, 2021, the largest reinsurance balance was due from Axis Reinsurance Company and represented 12% 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 or by selecting well capitalized, highly rated reinsurers.

Within the Company's fronting operations, at December 31, 2021 and 2020, 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, 2021, 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, 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	$ (162,105)	$ 1,253,250
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	$ (351,155)	$ 1,253,250

	Year Ended December 31, 2020			
(dollars in thousands)	Direct	Assumed	Ceded	Net Premiums
Underwriting:				
Written	$ 377,922	$ 1,011,277	$ (194,009)	$ 1,195,190
Earned	$ 325,216	$ 1,007,006	$ (187,444)	$ 1,144,778
Fronting:				
Written	—	4,785	(4,785)	—
Earned	—	4,785	(4,785)	—
Total:				
Written	$ 377,922	$ 1,016,062	$ (198,794)	$ 1,195,190
Earned	$ 325,216	$ 1,011,791	$ (192,229)	$ 1,144,778

All of the premiums written and earned in the Company's fronting operations for the years ended December 31, 2021 and 2020 were ceded. The percentage of total ceded earned premiums to gross earned premiums was 22% and 14% for the years ended December 31, 2021 and 2020, respectively.

All of the incurred losses and loss adjustment expenses in the Company's fronting operations, which totaled $161.3 million and nil for the years ended December 31, 2021 and 2020, 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)	2021	2020
Gross	$ 875,008	$ 812,868
Ceded	(169,003)	(42,209)
Net losses and loss adjustment expenses	$ 706,005	$ 770,659

7. Life and Annuity Benefits

The following table presents life and annuity benefits.

(dollars in thousands)	December 31, 2021	December 31, 2020
Life	$ 118,746	$ 131,960
Annuities	752,357	895,777
Accident and health	38,987	48,425
Total	$ 910,090	$ 1,076,162

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. As of December 31, 2021 and 2020, the cumulative increase to life an annuity benefits attributable to unrealized gains on the underlying investment portfolio totaled $201.3 million and $280.6 million, respectively. During 2021, the Company decreased life and annuity benefits by $79.3 million, reflecting an increase in 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 by a corresponding amount. During 2020, the company increased life and annuity benefits by $55.0 million, as a result of decreases in the market yield on the investment securities supporting the policy benefit reserves, and decreased the change in net unrealized holding gains included in other comprehensive income by corresponding amounts.

Because of the assumptions and estimates used in establishing the Company's reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. The average discount rate for the life and annuity benefit reserves was 3.8% as at December 31, 2021 and 2020.

As of December 31, 2021, the largest life and annuity benefits reserve for a single contract was 33.6% of the total.

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

Included in deposit liabilities as of December 31, 2021 and 2020 are annuities of $0.9 million and $1.1 million, respectively, which are subject to discretionary withdrawal. Deposit liabilities also include $16.4 million and $18.1 million as of December 31, 2021 and 2020, respectively, representing the account value of a universal life reinsurance contract.

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 utilized on a separate return calculation, credit is generally given to the Company for these items regardless of utilization in the ultimate consolidated tax return.

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

The components of income taxes attributable to operations for the years ended December 31, 2021 and 2020 were as follows.

	Years Ended December 31,	
(dollars in thousands)	2021	2020
Current:		
United States	$ 28,712	$ (14,120)
Total current tax expense (benefit)	28,712	(14,120)
Deferred:		
United States	116,510	39,182
Total deferred tax expense	116,510	39,182
Income tax expense	$ 145,222	$ 25,062
Income tax expense in net income	145,222	25,062
Income tax on other comprehensive income	$ (18,538)	$ 19,186
Total income tax expense	$ 126,684	$ 44,248

All of the Company's income before income tax expense for the years ended December 31, 2021 and 2020, 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.

	Years Ended December 31,	
(dollars in thousands)	2021	2020
Income tax expense computed on pre-tax income at U.S corporate tax rate	$ 147,314	$ 53,298
Increase (decrease) to income tax expense resulting from:		
Tax-exempt investment income	(2,428)	(2,244)
Deductible loss on certain foreign investments	—	(25,859)
Other	336	(133)
Income tax expense	$ 145,222	$ 25,062

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

(dollars in thousands)	December 31, 2021	2020
Deferred tax asset:		
Impact of net unrealized losses on life and annuity benefits	$ 42,279	$ 58,931
Life and annuity benefits	32,733	45,711
Property and casualty losses	29,759	29,235
Net unearned property and casualty premiums	25,498	23,186
Other differences between financial reporting and tax bases	3,668	2,997
Deferred tax asset	133,937	160,060
Deferred tax liability:		
Investments	311,347	241,685
Deferred ceding commissions, net	32,603	28,319
Other differences between financial reporting and tax bases	4,522	6,619
Deferred tax liability	348,472	276,623
Net deferred tax liability	$ (214,535)	$ (116,563)

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, 2021 and does not have a valuation allowance on its deferred tax assets.

The Company does not have any unrecognized tax benefits at December 31, 2021 and 2020.

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 2017 U.S. federal income tax return. The Company believes its income tax liabilities were adequate as of December 31, 2021; however, these liabilities could be adjusted as a result of this examination.

9. Related Party Transactions

a) Due from affiliates, net

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

(dollars in thousands)	December 31, 2021	2020
Promissory Note from Markel Corporation	$ —	$ 285,000
Promissory Notes from Markel Ventures, Inc.	315,000	340,000
Other amounts due from affiliates, net	1,255	18,275
Total	$ 316,255	$ 643,275

On December 16, 2015, ADS entered into a $285.0 million promissory note with Markel Corporation. The loan bore interest at a fixed rate of 4.18% per annum. In 2020, ADS was merged into the Company. On December 6, 2021, MBL declared a dividend in the form of the $285.0 million promissory note from Markel Corporation.

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 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 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 and comprehensive income include the following amounts related to such reinsurance agreements.

	December 31,	
(dollars in thousands)	2021	2020
Balance Sheet		
Premiums receivable	$ 451,645	$ 486,933
Deferred policy acquisition costs	65,254	66,535
Unpaid losses and loss adjustment expenses	481,940	585,216
Unearned property and casualty premiums	177,579	182,112
Income Statement		
Gross premiums written	$ 440,104	$ 461,359
Net earned premiums	443,045	471,158
Losses and loss adjustment expenses	242,909	452,444
Acquisition costs	176,974	136,359

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 $651.9 million and $699.9 million as of December 31, 2021 and 2020, respectively, and this amount is included in restricted assets in Note 3.

c) Markel International Insurance Company Limited

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

	December 31,	
(dollars in thousands)	2021	2020
Balance Sheet		
Premiums receivable	$ 5,323	$ 5,817
Deferred policy acquisition costs	1,924	1,628
Unpaid losses and loss adjustment expenses	163,454	162,840
Unearned property and casualty premiums	10,053	9,398
Reinsurance balances payable	970	1,372
Income Statement		
Gross premiums written	$ 18,896	$ 22,820
Net earned premiums	18,068	21,975
Losses and loss adjustment expenses	30,037	(989)
Acquisition costs	4,082	5,100

d) Markel International S.E.

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

During 2021 and 2020, the Company entered into multiple policy level guarantee agreements with MISE. Under the terms of the agreements, the Company guaranteed payment of amounts due and payable on policies written or renewed by MISE. The guarantees serve to enhance MISE's financial strength, and provides protection against limit losses on certain product lines. The Company estimates the maximum potential exposure under the guarantees to be no more than $50.0 million. In 2021 and 2020, the Company has not made any payments under the guarantees, and the likelihood of such future payments is remote.

	December 31,	
(dollars in thousands)	2021	2020
Balance Sheet		
Premiums receivable	$ 135,673	$ 143,892
Deferred policy acquisition costs	38,150	40,720
Unpaid losses and loss adjustment expenses	362,715	296,582
Unearned property and casualty premiums	99,333	104,837
Reinsurance balances payable	68	438
Income Statement		
Gross premiums written	$ 299,621	$ 280,476
Net earned premiums	300,323	248,430
Losses and loss adjustment expenses	161,406	131,975
Acquisition costs	116,636	87,338

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, 2021 and 2020, the Company assumed and ceded $2.8 million and $4.8 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, 2021 and 2020, the Company assumed and ceded $3.8 million and nil, 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 year ended December 31, 2021, the Company assumed and ceded $223.4 million of premiums associated with these reinsurance agreements managed by Nephila. Earning a fronting fee of $5.9 million which is included in other revenues on the statement of income and comprehensive income.

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, 2021 and December 31, 2020, investments in securities issued by the U.S. Treasury, U.S. government agencies and U.S. government-sponsored enterprises and German Government were the only investments in any one issuer that exceeded 10% of shareholder's equity.

At December 31, 2021, the Company's ten largest equity holdings represented $962.3 million, or 44%, of the equity portfolio. Investments in the property and casualty insurance industry represented $267.7 million, or 12% of the equity portfolio at December 31, 2021.

Premiums receivable comprise amounts due within one year or amounts not yet due. As of December 31, 2021 and 2020, the Company's largest premiums receivable balance from a single unrelated party were 3% and 4% of total premiums receivable, respectively.

For the years ended December 31, 2021 and 2020, brokered transactions accounted for the majority of the Company's property and casualty gross premiums written. For the years ended December 31, 2021 and 2020, the top three independent producing intermediaries and brokerage firms accounted for 22%, 13% and 8%; and 18%, 18% and 7%, respectively, of property and casualty gross premiums written.

b) Credit facilities

The Company holds a letter of credit facility with $100.0 million of committed and $200.0 million of uncommitted capacity that expires on November 25, 2022. This facility allows for the issuance of letters of credit in U.S. dollars and other currencies. At December 31, 2021 and 2020, $174.9 million and $208.5 million of letters of credit, respectively, denominated in various currencies, were issued and outstanding under this credit facility.

At December 31, 2021, 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. Statutory Financial Information

Statutory capital and surplus and statutory net income for the Company as of December 31, 2021 and 2020 and for the years ended December 31, 2021 and 2020 are summarized below. Statutory capital and surplus and statutory net income agree to the U.S. GAAP capital and surplus and net income presented in the accompanying balance sheets and statements of income and comprehensive income.

(dollars in thousands)	2021	2020
Actual statutory capital and surplus	2,106,607	1,905,070
Statutory net income	$ 556,276	$ 228,740

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, 2021, the Company met its ECR.

The Company is also required under its Class 4 license to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities for general business. Relevant assets include cash, cash equivalents, restricted cash, restricted cash equivalents, fixed maturity securities, other investments, accrued interest income, premiums receivable, and funds withheld. The relevant liabilities are total general business insurance reserves and total other liabilities, less sundry liabilities. As of December 31, 2021, 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, 2021 and 2020, the Company could pay dividends to the holding company during the subsequent year up to $526.7 million and $476.3 million, respectively, without providing an affidavit to the BMA.

The payment of dividends is limited by applicable regulations and statutory requirements of Bermuda. The Company is prohibited from declaring or paying a dividend if such payment would reduce its respective regulatory capital below the required minimum as required by law and regulatory practice. The Company is also subject to certain restrictions under its credit facilities that affect its ability to pay dividends. The Company paid $285.0 million in 2021 and paid none in 2020. See note 13 for further details regarding the dividend paid 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.

12. Subsequent Events

As of March 31, 2022, the Company's investment portfolio experienced significant unfavorable fair value movement compared to year-end 2021. Fixed maturities fair value decreased due to an increase in interest rates during 2022, which had a pre-tax impact of $141.5 million to Other Comprehensive Income. This was primarily driven by inflation and the market expectation of higher rates in the future. Equity securities fair value decreased due to unfavorable market value movements resulting from various factors, including the Russia-Ukraine conflict, high inflation, expectation of higher interest rates in the future, and global supply chain issues. The Company recognized pre-tax unrealized investment losses within change in fair value of equity securities of $90.3 million for the quarter-ended March 31, 2022, which significantly impacted the Company's capital and surplus. Despite the fixed maturity and equity losses the Company capital and surplus is still above the requirement by the BMA.

Subsequent events have been evaluated through March 31, 2022.