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TERRA NOVA BERMUDA HOLDING LTD
Form 10-K405
March 30, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2000

Commission File Number 1-13832

TERRA NOVA (BERMUDA) HOLDINGS LTD.
(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organisation)

N/A
(I.R.S. Employer
Identification No.)

Richmond House, 12 Par-la-Ville Road, Hamilton NM08, Bermuda
(Address of principal executive offices) (Zip code)

Telephone: (441) 292-7731
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
------------------------------	----------------------------------------------------

7.0% Senior Notes due 2008	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X]

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

The registrant meets the conditions set out in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this form with reduced disclosure format.

The number of registrant's ordinary shares (\$5.80 par value) outstanding as

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of March 30, 2001 was 40,002,069.

1

TERRA NOVA (BERMUDA) HOLDINGS LTD.

INDEX TO FORM 10-K

PART I

- Item 1. Business
- Item 2. Properties
- Item 3. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders (1)

PART II

- Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters
- Item 6. Selected Financial Data for the five years ended December 31, 2000 (2)
- Item 7. Management's Narrative Analysis of Results of Operations (2)
- Item 7A. Quantitative and Qualitative Disclosure About Market Risk
- Item 8. Financial Statements
- Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

PART III

- Item 10. Directors and Executive Officers of the Registrant (1)
- Item 11. Executive Compensation (1)
- Item 12. Security Ownership of Certain Beneficial Owners and Management (1)
- Item 13. Certain Relationships and Related Transactions (1)

PART IV

- Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K
- Index to Exhibits

(1) Omitted pursuant to General Instruction I(2)(c) of Form 10-K

(2) Omitted or reduced pursuant to General Instruction I(2)(a) of Form 10-K

2

PART I

ITEM 1 - BUSINESS

Safe Harbor Statement

This is a Safe Harbor statement under the Private Securities Litigation Reform Act of 1995. Certain statements contained herein are forward-looking statements that involve risks and uncertainties. Forward-looking statements may be identified by the use of terms such as believes, expects, estimate, may, intends, plan, will, should or anticipates or the negative thereof or similar expressions, or by discussions of strategy. The Company has based the forward-looking statements on current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Company, including: (i) uncertainties and changes in government policy, regulatory policy, statutory law or case law with respect to the Company, brokers or customers which can impede the Company's ability to charge adequate rates and efficiently allocate capital; (ii) the occurrence of man-made or natural catastrophic events; (iii) the occurrence of significant changes in products or adverse changes in market conditions; (iv) changing legal or social trends and the inherent uncertainties of the reserving process, including potential underwriting exposure to Year 2000 claims; (v) loss of the services of any of the Company's executive officers; (vi) initiatives underway at the Company to reorganize business units and to evaluate reinsurance programs and exposures that could lead to additional charges and expense; (vii) that the Company will make steady progress towards underwriting profitability; (viii) the impact of United States tax laws on the Company; (ix) changes in inflation rates and other economic conditions; (x) losses due to foreign currency exchange rate fluctuations; (xi) ability to collect reinsurance recoverables; (xii) changes in the availability, cost or quality of reinsurance; (xiii) developments in domestic and international financial markets that could affect the Company's investment portfolios; (xiv) changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers; and (xv) the effects of mergers, acquisitions and divestitures.

The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. In the light of these risks, uncertainties and assumptions, the forward-looking events discussed herein might not occur. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as at their dates.

Overview of the Company

All references to the "Company" are to Terra Nova (Bermuda) Holdings Ltd. and all of its direct and indirect subsidiaries, including Markel International Limited ("Markel International"), Terra Nova Insurance Company Limited ("Terra Nova"), Terra Nova (Bermuda) Insurance Company Ltd. ("Terra Nova (Bermuda)"), Compagnie de Reassurance d'Ile de France ("Corifrance"), Markel Syndicate Management Limited ("Markel Syndicate Management") and Markel Capital Limited ("Markel Capital"). On April 20, 2000, Markel International changed its name from Terra Nova Insurance (UK) Holdings plc, Markel Syndicate Management changed its name from Octavian Syndicate Management Limited and Markel Capital changed its name from Terra Nova Capital Limited. On November 3, 2000, Markel International was re-registered as a private limited company. Accordingly, the name was changed to Markel International Limited and the status of the company changed to private with effect from that date.

On March 24, 2000, the Company was acquired by Markel Corporation ("Markel") for total consideration of approximately \$658 million. Markel issued approximately 1.75 million common shares and contingent value rights and paid approximately \$325 million in cash to the Company's shareholders in the

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transaction. The Company's \$175 million of debt remained outstanding.

Terra Nova

Terra Nova is authorized in the United Kingdom to transact all classes of insurance business and underwrites business on both a direct and reinsurance basis covering property, casualty, accident and health and marine risks. Terra Nova's business is written internationally with approximately 55% of its writings coming from the United States. In addition Terra Nova writes excess and surplus lines property and automobile physical damages coverages in the United States. Coverage is also provided for crop, boiler and machinery, credit, surety, political risks exposure, theft, fidelity and crime as well as other miscellaneous lines such as contingency.

3

Property treaty reinsurance includes excess of loss, stop loss, aggregate excess and proportional coverage. A significant proportion of Terra Nova's excess of loss catastrophe and per risk treaty business comes from the United States and loss exposure is balanced by widely spread international property treaties.

Terra Nova's casualty account includes treaty reinsurance for errors and omissions, directors and officers, medical malpractice and general liability risks as well as excess and surplus lines liability coverages often written in conjunction with property risks. Professional groups covered include architects, engineers, accountants, lawyers and insurance intermediaries.

Terra Nova is approved to underwrite excess and surplus lines insurance in almost every state of the United States and has also gained accreditation in various states under statutes providing for accreditation of non-U.S. reinsurers. As at March 30, 2001, Terra Nova was accredited as a reinsurer in forty-five jurisdictions of the United States and had an application for approval pending in a further three. Terra Nova is also licensed to transact non-marine reinsurance in Canada through its branch office in Toronto. During 2000, Terra Nova closed its branch office in Brussels.

Marine insurance is transacted both on a direct and a reinsurance basis and includes cargo, specie, protection and indemnity ("P&I") and liability.

Markel Capital

Through Markel Capital, the Company participates in the Lloyd's syndicates managed by Markel Syndicate Management. For the 2000 underwriting year, Markel Syndicate Management managed six syndicates and had \$509.2 million aggregate underwriting capacity net of commission, of which \$453.5 million or 89% was provided through Markel Capital. For the 2001 underwriting year, Markel Syndicate Management manages four syndicates with \$405.0 million of capacity all of which is provided through Markel Capital.

The Markel Syndicate Management syndicates for the 2000 underwriting year were as follows:

Syndicate number	2000 Capacity	Company's share of 2000 capacity	Products
	(dollars in millions)	%	

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329	\$ 60.0	82.0%	Marine hull, war/political risks, cargo &
702	\$135.0	78.7%	Professional indemnity, crime, legal expen accident, employers' liability/public liab
1009	\$120.0	86.6%	Energy, liability, hull, war, specie, carg property, aviation hull liability, aviatio liability
1227	\$ 49.5	100.0%	Reinsurance of orphan syndicates, property financial institutions business, contingen packages
1228	\$ 93.7	100.0%	Private auto, commercial auto, U.K. and ov household & commercial property
1239	\$ 51.0	100.0%	Property, financial institutions, casualty contingency

Syndicate 959 ceased writing new business by the end of 1999 and was merged into Syndicate 1009 for the 2000 underwriting year. Syndicate 1227 ceased writing new business by the end of 2000 and was merged into Syndicate 1239 for the 2001 underwriting year. Syndicate 554 ceased writing new business during 1999 and Syndicate 329 ceased writing new business during 2000.

4

Terra Nova (Bermuda)

Terra Nova (Bermuda) ceased accepting new business on April 2, 2000. The decision follows completion of the Company's acquisition by Markel Corporation and reflects a detailed review of all the Company's entities and their strategic importance within the enlarged Markel Group.

Corifrance

Corifrance is a French reinsurance company based in Paris. Corifrance transacts specialty treaty and facultative reinsurance business internationally, mainly outside the U.S., on a direct and brokered basis. Corifrance is included in Other as part of the segmental reporting as it is a non-strategic insurance subsidiary.

Business Segments

As noted above, on March 24, 2000, the Company was acquired by Markel. As a result, Markel realigned its operations with the Company becoming its international division.

The Company's operating segments have been changed in accordance with this realignment. The Company now includes three operating segments: the London Company Market, the Lloyd's Market and Investing. All investing activities are included in the Investing operating segment. Discontinued programs and non-strategic insurance subsidiaries are included in Other for purposes of segment reporting. Prior year amounts are restated to conform with 2000 presentations.

The London Company Market consists of the operations of Terra Nova, the Lloyd's Market includes Markel Capital, which is the corporate capital provider for six Lloyd's syndicates for the 2000 year of account managed by Markel

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Syndicate Management. Of the six syndicates, non-marine Syndicate 702, marine Syndicate 1009, motor Syndicate 1228 and non-marine Syndicate 1239 are included in the Lloyd's Market segment while marine Syndicate 329 and non-marine Syndicate 1227 are included in Other as they are discontinued lines of business.

The Company's mix of business by business segment is set out in the table below.

	Year ended December 31,	
	2000	
	Amount	% of total
Gross written premiums (dollars in millions)		
London Company Market	\$180.7	25.6
Lloyd's Market	397.7	56.4
Other	127.0	18.0
	-----	-----
Total	\$705.4	100.0
	-----	-----
Direct business	540.0	76.6
Reinsurance assumed	165.4	23.4
	-----	-----
Total for the Company	\$705.4	100.0
	=====	=====

Loss and Loss Adjustment Expense Reserves

General

The loss and loss adjustment expense ("LAE") liabilities consist of case reserves and incurred but not reported ("IBNR") reserves. Case reserves are estimates of future loss payments for insured events which have been reported to the insurer. These reports may be made formally by the cedent or informally by other means, such as evaluation of claims by attorneys. The Company determines case reserves on a contract by contract basis. The amount reserved is the amount expected to be paid and is not discounted or otherwise adjusted for the time value of money. IBNR reserves are established actuarially. They reflect an estimated ultimate loss amount for claims not yet notified and an estimate of possible changes in the value of those claims which have already been reported. The method of setting IBNR reserves depends on the class of business involved. The specific techniques involve the use of projections and models based on the Company's or the relevant market's experience and exposure.

5

Management believes the Company's reserves for losses and LAE are adequate. However, there can be no assurances that the Company's ultimate losses and LAE will not deviate, perhaps substantially, from the estimates reflected in its financial statements. If the Company's reserves should prove to be inadequate, the Company will be required to increase reserves. This could have a material adverse effect on the Company's financial condition.

The following table shows the development of net reserves for losses and LAE for the calendar years 1990 to 2000 for all lines of business, except the Company's aviation business in run-off. The first line of the table presents the net liabilities, including IBNR, as recorded in the Company's balance sheet for the indicated year and all unpaid losses for prior years. The upper portion of the table shows the liability re-estimated at the end of each of the succeeding years. The conditions that have caused the deficiencies are referred to below

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and may not be indicative of future developments.

The re-estimated liabilities are increased or decreased as more information becomes available about the severity and frequency of claims for individual years. An adjustment to the carrying value of unpaid claims for a prior year will also be reflected in the adjustments for later years. For example, an adjustment to 1990 loss reserves in 1992 will show in the re-estimation of reserves for the years 1990 through 1991. A redundancy (or deficiency) arises when the re-estimation of reserves at the end of the year is less (or more) than the estimate at the preceding year-end. The redundancy (or deficiency) is recorded in the income statement of that year. The cumulative redundancy (or deficiency) is the difference between the re-estimation of reserves as at the end of 2000 and the original estimate as shown on the top line of the table. The lower portion of the table shows the cumulative amounts paid at the end of each successive year for such claims.

	Analysis of Net Loss and LAE Reserve Development (dollars in millions) Year ended December 31,						
	1990	1991	1992	1993	1994	1995	1996
Reserves for unpaid losses and LAE at December 31	\$693.9	\$724.9	\$784.5	\$775.6	\$847.3	\$814.2	\$824.0
Reserve re-estimated (1) as of:							
One year later	719.3	761.0	806.9	802.5	850.1	811.6	813.6
Two years later	736.5	773.7	821.5	810.5	850.1	793.0	793.0
Three years later	743.8	780.5	829.0	810.7	832.9	777.8	716.7
Four years later	738.1	792.4	829.8	800.7	812.8	703.2	662.9
Five years later	755.5	793.5	816.5	784.7	739.7	643.6	
Six years later	756.5	776.6	800.5	719.3	692.6		
Seven years later	741.2	760.2	738.2	622.9			
Eight years later	724.7	699.3	702.7				
Nine years later	669.3	695.1					
Ten years later	675.0						
Cumulative redundancy (deficiency)	18.9	29.8	81.8	152.7	154.7	170.6	161.1
As a percentage of unpaid losses and LAE	2.72%	4.11%	10.43%	19.69%	18.26%	20.96%	19.55%
Paid (cumulative) as of:							
One year later	115.3	119.3	143.8	151.8	168.8	123.4	145.7
Two years later	201.3	228.2	268.3	259.0	253.6	227.6	241.6
Three years later	274.3	316.1	350.8	311.8	327.8	293.0	301.7
Four years later	341.0	379.9	383.8	368.8	380.7	336.8	371.1
Five years later	395.8	402.5	426.8	405.8	416.6	383.7	
Six years later	407.8	438.3	457.7	433.7	455.1		
Seven years later	435.5	464.0	483.1	422.5			
Eight years later	456.8	487.9	514.3				
Nine years later	478.2	517.2					
Ten years later	506.0						

The following table represents an analysis of gross loss and LAE reserve development for the years indicated:

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Analysis of Gross Loss and LAE Reserve Development
(dollars in millions)

	Year ended				
	1993	1994	1995	1996	1997
Gross reserves for unpaid losses and LAE	\$1,238.8	\$1,223.8	\$1,168.7	\$1,078.2	\$1,168.7
Reinsurance recoveries on unpaid losses and LAE	463.2	376.5	354.5	254.1	254.1
Gross reserves re-estimated (1) as of:					
One year later	1,332.8	1,310.2	1,174.8	1,067.0	1,067.0
Two years later	1,428.9	1,319.9	1,168.4	1,058.6	1,058.6
Three years later	1,428.0	1,311.2	1,150.6	989.1	989.1
Four years later	1,431.3	1,291.4	1,081.4	929.5	929.5
Five years later	1,428.4	1,223.9	1,016.0		
Six years later	1,368.4	1,171.2			
Seven years later	1,272.0				
Reinsurance recoveries on unpaid losses and LAE re-estimated (2) as of:					
One year later	530.3	460.1	363.2	253.4	253.4
Two years later	618.4	469.9	370.1	264.1	264.1
Three years later	617.3	478.3	372.8	272.4	272.4
Four years later	630.6	478.7	378.2	266.6	266.6
Five years later	643.6	484.2	372.4		
Six years later	649.1	478.6			
Seven years later	649.1				
Gross cumulative (deficiency) redundancy	(33.2)	52.6	152.7	148.7	148.7
As a percentage of unpaid losses and LAE	(2.68%)	4.30%	13.07%	13.79%	13.79%
Paid (cumulative) as of:					
One year later	303.9	290.6	229.7	179.6	179.6
Two years later	517.9	479.8	364.4	328.0	328.0
Three years later	679.3	576.4	477.2	418.7	418.7
Four years later	752.5	672.3	550.2	496.9	496.9
Five years later	829.2	730.9	618.9		
Six years later	884.3	796.7			
Seven years later	934.8				

(1) "Reserves re-estimated" includes losses paid in current and prior years.

(2) "Reinsurance recoveries on unpaid losses" includes reinsurance recoveries received in current and prior years.

The adverse prior year development of \$44.9 million is largely attributable to inadequate pricing on the discontinued lines and portions of the continuing programs for the 1997, 1998 and 1999 accident years. These deficiencies have been partially offset by net favorable development experienced on the 1986 to 1990 accident years. This net favorable development arises on the Company's casualty accounts offset by deterioration on the asbestos related and environmental pollution losses in both the marine and casualty accounts on the 1985 and prior accident years.

Regulation of the Company

The Company's insurance subsidiaries are subject to regulation and supervision by the insurance regulatory authorities of the various jurisdictions in which they conduct business. Regulation is intended for the benefit of policyholders rather than shareholders. For information regarding the Company's ability to receive dividends from its subsidiaries and for information about pledged assets, see Note 17 and Note 4, respectively, to the consolidated financial statements.

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Investments

The Company's business philosophy clearly recognizes the importance of both underwriting profits and superior investment returns to build shareholder value. The Company relies on sound underwriting practices to produce investable funds while minimizing underwriting risk. Approximately three quarters of the Company's investable assets come from premiums paid by policyholders. Policyholder funds are invested predominantly in high-quality corporate, government and municipal bonds with relatively short durations. The balance, comprised of shareholder funds, is available to be invested in equity securities, which over the long run, have produced higher returns relative to fixed income investments. The Company seeks to invest in companies with the potential for appreciation and hold these investments over the long term. Officers of the Company manage the investment portfolio.

7

ITEM 2 - PROPERTIES

For information regarding the Company's future minimum property lease commitments see Note 13 to the consolidated financial statements.

ITEM 3 - LEGAL PROCEEDINGS

See Note 13 to the consolidated financial statements for a description of legal proceedings.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

On March 24, 2000, all of the Company's shares were acquired by Markel Corporation. There is no established public trading market for the Company's common shares.

During 2000, the Company paid a \$75 million dividend to Markel.

ITEM 7 - MANAGEMENT'S NARRATIVE ANALYSIS OF RESULTS OF OPERATIONS

Business Operations

The following discussion addresses the principal factors affecting the operations of the Company.

On March 24, 2000, the Company was acquired by Markel. As a result, Markel realigned its operations with the Company becoming its international division. The Company's operating segments have been changed in accordance with this realignment. The Company now includes three operating segments: the London Company Market, the Lloyd's Market and Investing. All investing activities are included in the Investing operating segment. Discontinued programs and non-strategic insurance subsidiaries are included in Other for purposes of segment reporting. Prior year amounts have been restated to conform with 2000 presentations.

8

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The Company's premiums by segment for the years ended December 31, 2000 and 1999, and the combined ratio are set out in the following table:

	Year ended December 31,			
	2000		1999	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Gross written premiums				
London Company Market	\$180,709	25.6%	\$246,219	28.5%
Lloyd's Market	397,738	56.4	260,082	30.1
Other	126,958	18.0	358,632	41.4
	-----	-----	-----	-----
Total	\$705,405	100.0%	\$864,933	100.0%
	=====	=====	=====	=====
Net written premiums				
London Company Market	\$150,213	27.6%	\$179,563	29.0%
Lloyd's Market	310,597	57.0	188,750	30.5
Other	84,084	15.4	250,133	40.5
	-----	-----	-----	-----
Total	\$544,894	100.0%	\$618,446	100.0%
	=====	=====	=====	=====
Net earned premiums				
London Company Market	\$186,655	30.9%	\$227,694	38.9%
Lloyd's Market	248,213	41.1	141,022	24.1
Other	168,671	28.0	216,565	37.0
	-----	-----	-----	-----
Total	\$603,539	100.0%	\$585,281	100.0%
	=====	=====	=====	=====
Combined ratio				
Loss ratio (including LAE)		91.5%		83.9%
Expense ratio		42.3		46.3
		-----		-----
Combined ratio		133.8%		130.2%
		=====		=====

Results of Operations

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Gross written premiums decreased 18.4% to \$705.4 million in 2000 from \$864.9 million in 1999. The decreases are primarily a result of:

- (a) 26.6% decrease in gross written premiums at the London Company Market to \$180.7 million in 2000 from \$246.2 million in 1999. The decrease was predominantly the result of Terra Nova reducing its property writings on the property pro rata business by 68.4% to \$13.5 million in 2000 from \$42.7 million in 1999 as a consequence of a detailed review of poor performing accounts. In addition, Terra Nova reduced writings on marine and casualty lines to increase its focus on underwriting profitability.
- (b) Significant decreases in gross written premiums in discontinued lines due to the closure of motor Syndicate 554 in the second half of 1999, the closure of Terra Nova (Bermuda) on April 2, 2000, and the decision to cease underwriting at marine Syndicate 329 and non marine Syndicate 1227, and the cessation of certain unprofitable lines at motor Syndicate 1228 in the third quarter of 2000.

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- (c) These decreases have been partially offset by a 52.9% increase in gross written premiums at the Lloyd's Market in 2000. The increase is primarily due to Markel Capital increasing its participation on the continuing syndicates to approximately 87% in 2000 compared to approximately 68% in 1999 and increased writings at non marine Syndicate 702 and marine and aviation Syndicate 1009. The increased writings at non marine Syndicate 702 primarily arose on certain professional indemnity classes. The increased writings at marine and aviation Syndicate 1009 are a consequence of the syndicate writing \$41.1 million of aviation business in 2000.

9

In 1999, aviation business was written by aviation Syndicate 959 which was merged into Syndicate 1009 for 2000.

Net written premiums decreased 11.9% to \$544.9 million in 2000 from \$618.4 million in 1999 principally in line with the fall in gross written premiums. This fall was offset by an increase in retention rates to 77.2% in 2000 from 71.5% in 1999. The low retention rate in 1999 was primarily due to the purchase of additional reinsurance at the end of 1999 to protect against exposure to aviation and satellite business written by Syndicate 959.

Net earned premiums remained broadly unchanged in 2000, increasing by 3.1% to \$603.5 million from \$585.3 million in 1999. This arose because the decrease in 2000 net written premiums was offset by 1999 premiums being earned during the year.

The underwriting loss increased to \$203.8 million in 2000 from \$176.8 million in 1999. The underwriting loss in 2000 was primarily the result of inadequate pricing and poor underwriting controls on the discontinued lines and portions of the continuing programs. The increased underwriting loss reflects non-recurring transaction related expenses of \$58.6 million in the first quarter and \$145.2 million of underwriting losses from operations.

Charges which are expected to be non-recurring include:

- (a) \$36.5 million charge against deferred acquisition costs due to poor experience on property business and certain marine, casualty and auto lines.
- (b) \$19.6 million of reserve strengthening required on marine, property, casualty and auto accounts.
- (c) A \$2.5 million charge to record liabilities under an operating lease.

The \$145.2 million underwriting loss from operations was due to poor performance on both continuing and discontinued lines of business including the cessation of business at Terra Nova (Bermuda), Syndicates 329 and 1227 and certain lines at 1228, and the adoption of the Markel reserving philosophy.

The Company is currently working to increase its focus on underwriting profitability in continuing programs. A run-off unit has been established to aggressively manage discontinued programs and allow the business units to focus on writing profitable business. These initiatives may lead to further re-pricing or discontinuance of poor performing lines of business, reorganisation of business units to achieve operating efficiencies and the review of reinsurance programs.

As a consequence of the above, the Company's combined ratio increased to 133.8% in 2000, compared to 130.2% in 1999.

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The Company had a pre-tax loss of \$144.7 million in 2000 compared to pre-tax loss of \$72.6 million in 1999, and was primarily a result of the \$203.8 million underwriting loss and merger expenses of \$18.4 million being partially offset by \$84.9 million and \$8.7 million of investment income and realized investment gains, respectively.

The post-tax loss was \$132.3 million in 2000 compared to a post-tax loss of \$35.0 million in 1999.

Shareholder's equity decreased by 37.2% to \$278.7 million at December 31, 2000, compared to \$444.0 million at December 31, 1999. The decrease of \$156.3 million was primarily due to the net loss of \$132.3 million and a \$75.0 million dividend paid to Markel Corporation on March 28, 2000, partially offset by unrealized appreciation of investments after tax of \$33.1 million and other comprehensive loss and deferred equity compensation movements of \$17.9 million.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as a result of changes in equity prices, interest rates, foreign exchange rates and commodity prices. The Company's consolidated balance sheets include assets and liabilities whose estimated fair values are subject to market risk. The primary market risks to the Company are equity price risk associated with investments in equity

10

securities, interest rate risk associated with investments in fixed maturities and foreign exchange risk. The Company has no material commodity risk.

Equity Price Risk

The Company does not ordinarily hedge its equity portfolio risk by purchasing derivatives. In March 2000, the Company transferred the responsibility for monitoring its equity portfolio to Markel Gayner Asset Management, a subsidiary of Markel. This responsibility involves considering the asset allocation of the portfolio in order to minimize the risk associated with particular markets or industry sectors, while continuing to follow the Company's long-term objective of growing its book value.

At December 31, 2000, the cost of the Company's equity security portfolio was \$70.8 million and the fair value was \$87.1 million, compared to \$98.3 million and \$109.9 million, respectively, at December 31, 1999.

Interest Rate Risk

The Company's major market risk exposure is changing interest rates, primarily in the United States. A change in interest rates would affect the fair value of the Company's investments and could cause fluctuations in Accumulated Other Comprehensive Income in the balance sheet. The Company manages this risk by limiting the portfolio duration.

 Basis Point Movement
 (dollars in millions, unless stated)

-200 pts -100 pts zero +100 pts +200 pts

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Movement in fair value of					
fixed maturity portfolio					
As of December 31, 2000	7.7%	3.7%	0.0%	(3.5)%	(6.7)
As of December 31, 1999	7.6%	3.6%	0.0%	(3.4)%	(6.5)
Movement after tax					
As of December 31, 2000	\$ 77.6	\$ 37.4	\$ 0.0	\$(35.1)	\$(68.0)
As of December 31, 1999	\$ 89.0	\$ 42.8	\$ 0.0	\$(39.7)	\$(76.7)
Adjusted shareholder's equity					
As of December 31, 2000	\$356.3	\$316.1	\$278.7	\$243.6	\$210.7
As of December 31, 1999	\$533.0	\$486.8	\$444.0	\$404.3	\$367.3

The matrix above shows the sensitivity of the Company's shareholder's equity at December 31, 2000, and December 31, 1999, to movements in fixed maturity valuations related to changes in interest rates. The aggregate hypothetical reduction in net assets that would have resulted from a hypothetical increase in yield of 100 basis points at December 31, 2000, is \$35.1 million. As a consequence, shareholder's equity at December 31, 2000, would have been \$243.6 million and the ratio of debt to debt plus equity would have increased to 41.8% from 38.6%.

The Company's long-term debt is all at fixed rates. At December 31, 2000, and December 31, 1999, the Company's total outstanding indebtedness was \$175 million, comprised of \$75 million 7.2% Senior Notes due 2007 and \$100 million 7.0% Senior Notes due 2008. The estimated fair value of the debt at December 31, 2000, and December 31, 1999, was \$161.2 million and \$162.8 million, respectively.

Foreign Exchange Risk

The Company has foreign exchange risk on assets and liabilities. The Company primarily manages this risk by matching assets to liabilities in each foreign currency as closely as possible.

At December 31, 2000, 66% of the Company's investment portfolio was denominated in U.S. Dollars. At that date the largest foreign currency exposure was U.K. Sterling. If Sterling assets and liabilities had been mismatched by 10% at December 31, 2000, and the year end Sterling/U.S. Dollar exchange rate had increased or decreased by 5%, the effect on after tax earnings would have been approximately \$1.3 million.

11

Impact of Inflation

Property and casualty insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such expenses, is known. Consequently, in establishing premiums, the Company attempts to anticipate the potential impact of inflation. Inflation is also considered by the Company in the determination and review of reserves for losses and loss adjustment expenses since portions of these reserves are expected to be paid over extended periods of time. The importance of continually reviewing reserves is even more pronounced in periods of extreme inflation.

Impact of Accounting Standards

Financial Accounting Standards Board Statement of Financial Accounting

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Standards (SFAS) No. 133, Accounting For Derivative Instruments and Hedging Activities, as amended by SFAS No. 137 and 138, is effective for years beginning January 1, 2001. The standard requires that all the derivatives be recorded as an asset or liability, at estimated fair value, regardless of the purpose or intent for holding the derivative. If a derivative is not utilized as a hedge, all gains or losses from the change in the derivative's estimated fair value are recognized in earnings. The gains or losses from the change in estimated fair value of certain derivatives utilized as hedges are recognized in earnings or other comprehensive income depending on the type of hedge relationship. Due to the Company's limited use of derivative financial instruments, the adoption of SFAS No. 133, as amended, will not have a material impact on the Company's financial position, result of operations or cash flows.

ITEM 8 - FINANCIAL STATEMENTS

Index

- . Report of Independent Accountants (KPMG Audit Plc)
- . Report of Independent Accountants (PricewaterhouseCoopers)

Audited Consolidated Financial Statements:

- . Consolidated Balance Sheets as of December 31, 2000 and 1999
- . Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998
- . Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2000, 1999 and 1998
- . Consolidated Statements of Shareholder's equity for the years ended December 31, 2000, 1999 and 1998
- . Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998
- . Notes to Consolidated Financial Statements - including summarized consolidated financial information of Markel International Limited as of December 31, 2000 and 1999

12

REPORT OF INDEPENDENT ACCOUNTANTS (KPMG Audit Plc)

To the Shareholder and Board of Directors of
Terra Nova (Bermuda) Holdings Ltd.

We have audited the accompanying consolidated balance sheet of Terra Nova (Bermuda) Holdings, Ltd. and subsidiaries (the Company) as of December 31, 2000, and the related consolidated statements of operations, comprehensive (loss) income, shareholder's equity and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the 2000 financial statement schedules appearing under Item 14(a). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audit.

We conducted our audit in accordance with auditing standards generally

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accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2000 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Terra Nova (Bermuda) Holdings, Ltd. and subsidiaries as of December 31, 2000, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related 2000 financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

KPMG Audit Plc

London, United Kingdom

March 30, 2001

13

REPORT OF INDEPENDENT ACCOUNTANTS (PricewaterhouseCoopers)

To the Shareholders and Board of Directors of
Terra Nova (Bermuda) Holdings Ltd.

In our opinion, the consolidated financial statements for the years ended December 31, 1999 and December 31, 1998 included on page 12 present fairly, in all material respects, the financial position of Terra Nova (Bermuda) Holdings Ltd. and subsidiaries at December 31, 1999, and the result of their operations and their cash flows for each of the two years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 14(a) on page 39 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above. We have not audited the consolidated financial statements or financial statement schedules of Terra Nova (Bermuda) Holdings Ltd. and subsidiaries for any period subsequent to December 31, 1999.

PRICEWATERHOUSECOOPERS

Chartered Accountants

Hamilton, Bermuda

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March 10, 2000

14

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Consolidated Balance Sheets
At December 31,
(dollars in thousands)

	2000

ASSETS	
Investments available for sale, at fair value:	
Fixed maturities	
Bonds (amortized cost \$1,184,715 and \$1,321,888, respectively)	\$1,206,548
Common stocks (cost \$70,792 and \$98,335, respectively)	87,056

Total investments	1,293,604
Cash and cash equivalents	75,296
Accrued investment income	26,347
Insurance balances receivable	120,844
Reinsurance recoverable on paid losses	88,597
Reinsurance recoverable on unpaid losses	589,884
Accrued premium income	160,048
Prepaid reinsurance premiums	56,391
Deferred acquisition costs	70,241
Income tax recoverable	2,070
Deferred income taxes	33,634
Other assets	119,635

Total assets	\$2,636,591
	=====
LIABILITIES	
Unpaid losses and loss adjustment expenses	\$1,671,738
Unearned premiums	367,167
Insurance balances payable	78,186
Long term debt	175,000
Other liabilities	65,795

Total liabilities	2,357,886

SHAREHOLDER'S EQUITY	
Common shares	
"A" ordinary shares, 75,000,000 authorized, \$5.80 par value (40,002,069 issued and outstanding; 1999: 24,348,192)	232,012
"B" ordinary shares, convertible, 10,000,000 authorized, \$5.80 par value (nil issued and outstanding; 1999: 1,796,217)	-
Stock held in Trust, at cost	-
Deferred equity compensation	-
Additional capital	34,153
Retained (deficit) earnings	(12,136)
Accumulated other comprehensive income (loss)	24,676

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Total shareholder's equity	278,705

Total liabilities and shareholder's equity	\$2,636,591
	=====

See accompanying notes to the consolidated financial statements

15

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Consolidated Statements of Operations
Year Ended December 31,
(dollars in thousands)

	2000	1999	
	-----	-----	
Revenues			
Net written premiums	\$ 544,894	\$618,446	\$
Decrease (increase) in unearned premiums	58,645	(33,165)	
	-----	-----	
Net earned premiums	603,539	585,281	
Net investment income	84,923	93,829	
Realized net capital gains on sales of investments	8,706	26,879	
	-----	-----	
Total revenues	697,168	705,989	
	-----	-----	
Expenses			
Losses and loss adjustment expenses, net	552,298	491,243	
Acquisition costs	235,767	240,836	
Other operating expenses	22,757	25,397	
Foreign exchange (gains) losses	(4,416)	(3,016)	
Interest expense	12,400	12,400	
Agency contribution	(1,228)	(107)	
Other expenses	5,900	11,838	
Merger expenses	18,416	-	
	-----	-----	
Total expenses	841,894	778,591	
	-----	-----	
(Loss) income before income tax	(144,726)	(72,602)	
Income tax (benefit) expense	(12,427)	(37,628)	
	-----	-----	
Net (loss) income before extraordinary charge	(132,299)	(34,974)	
Extraordinary charge after income tax	-	-	
	-----	-----	
Net (loss) income	\$ (132,299)	\$ (34,974)	\$
	=====	=====	==

See accompanying notes to the consolidated financial statements

16

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TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income
Year Ended December 31,
(dollars in thousands)

	2000	1999
Net (loss) income	\$ (132,299)	\$ (34,9
Other comprehensive (loss) income:		
Unrealized (depreciation) appreciation of investments before tax	53,201	(80,7
Tax benefit (expense)	(11,880)	17,1
Unrealized (depreciation) appreciation of investments after tax	41,321	(63,6
Less: Reclassification adjustment for gains included in net income before tax	(8,706)	(26,8
Tax (benefit) expense	439	6,2
Reclassification adjustment for gains included in net income after tax	(8,267)	(20,6
Currency translation adjustment	(956)	(3,6
Other comprehensive (loss) income	32,098	(87,9
Comprehensive (loss) income	\$ (100,201)	\$ (122,8

See accompanying notes to the consolidated financial statements

17

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Consolidated Statements of Shareholder's equity
Year Ended December 31,

(dollars in thousands except share numbers)

	Common "A" Shares	
	Number	Valu
Balance, January 1, 1998	24,090,335	\$ 139
Shares issued for exercise of share options	82,382	
Shares repurchased during the year	-	
Deferred compensation expense	-	
Net appreciation	-	

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Income tax expense	-	
Change during the year	-	
Net income	-	
Dividends paid - \$0.23 per ordinary share	-	

Balance, December 31, 1998	24,172,717	140
Shares issued for exercise of share options	175,475	1
Shares repurchased during the year	-	
Deferred compensation expense	-	
Net depreciation	-	
Income tax benefit	-	
Change during the year	-	
Net loss	-	
Dividends paid - \$0.24 per ordinary share	-	

Balance, December 31, 1999	24,348,192	141
Shares issued for exercise of share options	-	
Deferred compensation expense	-	
Deferred compensation expense released on exercise of share option	-	
Elimination of deferred equity compensation	-	
Cancellation of stock held in trust	-	
Cancellation of shares and additional capital	(24,346,123)	(141)
Issue of new shares	40,000,000	232
Cost of option exercises on closure	-	
Net appreciation	-	
Income tax expense	-	
Change during the year	-	
Net loss	-	
Dividend paid	-	

Balance, December 31, 2000	40,002,069	\$ 232
	=====	

Stock held in Trust

	Number	Value

Balance, January 1, 1998	(474,000)	\$ (9,000)
Shares issued for exercise of share options	-	
Shares repurchased during the year	(132,800)	(3,000)
Deferred compensation expense	-	
Net appreciation	-	
Income tax expense	-	
Change during the year	-	
Net income	-	
Dividends paid - \$0.23 per ordinary share	-	

Balance, December 31, 1998	(606,800)	(12,000)
Shares issued for exercise of share options	-	
Shares repurchased during the year	(169,800)	(3,000)
Deferred compensation expense	-	
Net depreciation	-	
Income tax benefit	-	
Change during the year	-	
Net loss	-	

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Dividends paid - \$0.24 per ordinary share	-	
Balance, December 31, 1999	(776,600)	(16,
Shares issued for exercise of share options	52,282	1,
Deferred compensation expense	-	
Deferred compensation expense released on exercise of share option	-	
Elimination of deferred equity compensation	-	
Cancellation of stock held in trust	724,318	15,
Cancellation of shares and additional capital	-	
Issue of new shares	-	
Cost of option exercises on closure	-	
Net appreciation	-	
Income tax expense	-	
Change during the year	-	
Net loss	-	
Dividend paid	-	
Balance, December 31, 2000	-	\$

	Unrealized Appreciation (Depreciation) of Investments	Cumulat Translat Adjustm
Balance, January 1, 1998	\$ 56,430	\$
Shares issued for exercise of share options	-	
Shares repurchased during the year	-	
Deferred compensation expense	-	
Net appreciation	27,336	
Income tax expense	(3,424)	
Change during the year	-	
Net income	-	
Dividends paid - \$0.23 per ordinary share	-	
Balance, December 31, 1998	80,342	
Shares issued for exercise of share options	-	
Shares repurchased during the year	-	
Deferred compensation expense	-	
Net depreciation	(107,660)	
Income tax benefit	23,369	
Change during the year	-	(3,
Net loss	-	
Dividends paid - \$0.24 per ordinary share	-	
Balance, December 31, 1999	(3,949)	(3,
Shares issued for exercise of share options	-	
Deferred compensation expense	-	
Deferred compensation expense released on exercise of share option	-	
Elimination of deferred equity compensation	-	
Cancellation of stock held in trust	-	
Cancellation of shares and additional capital	-	
Issue of new shares	-	
Cost of option exercises on closure	-	
Net appreciation	44,495	
Income tax expense	(11,441)	
Change during the year	-	(

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Net loss	-	
Dividend paid	-	
Balance, December 31, 2000	\$ 29,105	\$ (4,000)

See accompanying notes to the consolidated financial statements

18

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows
Year Ended December 31,
(dollars in thousands)

	2000	1999
Cash flows from operating activities:		
Net (loss) income	\$ (132,299)	\$ (34,900)
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Amortization of goodwill	3,789	4,000
Bad debt expenses	1,415	7,900
Realized net capital gains	(8,706)	(26,800)
Stock option compensation expense	10,063	2,900
Change in unpaid losses and loss adjustment expenses	276,602	217,400
Change in unearned premiums and prepaid reinsurance	(59,631)	6,800
Change in insurance balances payable	24,333	29,900
Change in insurance balances receivable, accrued premium income and reinsurance recoverable on paid and unpaid losses	(193,738)	(138,200)
Change in deferred acquisition costs	29,442	7,900
Change in accrued investment income	1,260	2,400
Change in current and deferred income taxes	(7,427)	(46,200)
Change in other assets and liabilities, net	(7,927)	(13,000)
Total adjustments	69,475	55,100
Net cash and cash equivalents (used in) provided by operating activities	(62,824)	20,100
Cash flows from investing activities:		
Proceeds of fixed maturities matured	24,200	9,200
Proceeds of fixed maturities sold	449,599	368,100
Proceeds of equity securities sold	90,299	174,500
Purchase of fixed maturities	(366,369)	(347,300)
Purchase of equity securities	(52,780)	(177,000)
Acquisition of capacity at Lloyd's	(5,994)	(6,300)
Net cash and cash equivalents provided by (used in) investing activities	138,955	21,200
Cash flows from financing activities:		
Stock repurchases	-	(3,800)
Proceeds from public debt offerings	-	
Payment of fees for financing public debt offerings	-	

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Redemption of public debt	-	
Proceeds from shares issued	46	3,1
Ordinary dividends paid	(75,000)	(6,1
	-----	-----
Net cash and cash equivalents used in financing activities	(74,954)	(6,8
	-----	-----
Change in cash and cash equivalents	1,177	34,4
Exchange on foreign currency cash balances	(679)	(
Cash and cash equivalents at beginning of year	74,798	40,3
	-----	-----
Cash and cash equivalents at end of year	\$ 75,296	\$ 74,7
	=====	=====
Supplemental disclosure of cash flow information		
Income taxes (received) paid	\$ (3,521)	\$ 3,5
	-----	-----
Interest paid	\$ 12,400	\$ 12,4
	=====	=====

See accompanying notes to the consolidated financial statements

19

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Organization

Terra Nova (Bermuda) Holdings Ltd. ("Bermuda Holdings") is incorporated in Bermuda. All references to the "Company" are to Terra Nova (Bermuda) Holdings Ltd. and all of its direct and indirect subsidiaries, including Markel International Limited ("Markel International"), Terra Nova Insurance Company Limited ("Terra Nova"), Terra Nova (Bermuda) Insurance Company Ltd. ("Terra Nova (Bermuda)"), Compagnie de Reassurance d'Ile de France ("Corifrance"), Markel Syndicate Management Limited ("Markel Syndicate Management") and Markel Capital Limited ("Markel Capital"). On April 20, 2000, Markel International changed its name from Terra Nova Insurance (UK) Holdings plc, Markel Syndicate Management changed its name from Octavian Syndicate Management Limited and Markel Capital changed its name from Terra Nova Capital Limited. On November 3, 2000, Markel International was re-registered as a private limited company. Accordingly, the name was changed to Markel International Limited and the status of the company changed to private with effect from that date.

On March 24, 2000, the Company was acquired by Markel Corporation ("Markel") for total consideration of approximately \$658 million. Markel issued approximately 1.75 million common shares and contingent value rights and paid approximately \$325 million in cash to the Company's shareholders in the transaction. The Company's \$175 million of public debt remained outstanding.

The Company is a specialty property, casualty, marine and aviation insurance and reinsurance company. It operates in the London Market and the Lloyd's Market through its London based subsidiaries, Terra Nova and Markel Capital. The Company operates in the Continental European market through its French subsidiary, Corifrance. The Company ceased accepting new business through its Bermuda based subsidiary, Terra Nova (Bermuda) in April 2000. Writings originate worldwide. It writes most insurance and reinsurance business through brokers authorized to place business at Lloyd's. It also writes through non-Lloyd's brokers and with individual ceding companies. The broker is generally regarded

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as the agent of the insured or reinsured in placing the business. The Company also owns the business and assets of Markel Syndicate Management, a Lloyd's managing agent, consisting of the rights to manage certain Lloyd's syndicates (the "Markel Syndicate Management syndicates").

A managing agent is permitted by the Council of Lloyd's to perform, on behalf of an underwriting member of any one of the syndicates which it manages, one or more of the following functions:

- a) underwriting contracts of insurance at Lloyd's;
- b) obtaining reinsurance for such contracts in whole or in part;
- c) paying claims on such contracts.

Members of Lloyd's underwrite insurance risk at Lloyd's by being a member of one or more Lloyd's syndicates. A syndicate has no separate legal identity and is "managed" by a managing agent.

The standard Lloyd's contract between a managing agent and the members of a syndicate managed by that agent, identifies the following services to be provided by the managing agent on behalf of the members:

- a) determine underwriting policy and determine policy and effect reinsurance including the reinsurance to close;
- b) appoint and supervise the underwriter and associate underwriting, claims, administrative and accounting staff;
- c) accept underwriting risks and settle and pay claims on behalf of the syndicate;
- d) manage the investment of the monies and other assets held in each syndicate;
- e) prepare and distribute annual reports, personal accounts and other reports and documents as required by the Council of Lloyd's.

A managing agent charges an annual fee which will be complimented, in profitable years, by a profit commission. The managing agent employs management and underwriting staff, recharging the costs of employment and resourcing the syndicate's activities to the syndicate and retaining costs incurred in respect of the management functions.

20

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The managing agent does not participate directly in the profit or loss on underwriting of its syndicates. It is incentivized by earning a commission on syndicate profits. Markel Syndicate Management will not charge a profit commission from the 2001 underwriting year.

The managing agency manages but does not participate in its own syndicates and has no liability under contracts of insurance. However, Markel Capital, a subsidiary of Markel International, is a corporate member of Lloyd's and a member of each of the syndicates managed by Markel Syndicate Management. Markel Capital therefore participates in the underwriting results of the Markel Syndicate Management syndicates.

2. Basis of Preparation

The accompanying consolidated financial statements have been prepared on the basis of United States generally accepted accounting principles ("GAAP"). All

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material intercompany transactions and balances have been eliminated.

3. Significant Accounting Policies

(a) Investments and related income: Investments in fixed maturities and equity securities are classified as available for sale and held with the intention of selling such investments from time to time, and are carried at fair value. Unrealized gains and losses, net of related deferred income taxes and minority interests, are recorded in shareholder's equity. Realized gains and losses are included in operations and determined by specific identification. Investment income is recorded as earned.

(b) Cash and cash equivalents: Cash and cash equivalents consist of cash and various short-term investments which have maturities when bought of 90 days or less. Cash equivalents are stated at fair value which approximates cost.

(c) Premiums: Premiums are earned pro-rata over the term of the related coverage. The balance of unearned premiums represents the portion of gross written premiums relating to the unexpired terms of coverage.

(d) Markel Syndicate Management income and expenses: The Company recognizes its share of the premiums, losses and expenses associated with its participation in Lloyd's syndicates consistent with the bases used in its insurance company operations and in accordance with GAAP. Agency income is earned and agency expenses charged as incurred from Markel Syndicate Management's role as managing agent.

(e) Deferred acquisition costs: Acquisition costs, which represent net commission and other expenses incurred in producing business, are deferred and amortized over the period in which the related premiums are earned. If it is determined that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings.

(f) Insurance balances receivable and reinsurance recoverable on paid and unpaid losses: Receivable balances are stated net of allowances for doubtful accounts. Reinsurance recoverable on unpaid losses represents the estimated portion of such liabilities that will be recovered from reinsurers, determined in a manner consistent with the related liabilities.

(g) Income taxes: Deferred income taxes are recorded on temporary differences between financial reporting and tax bases of assets and liabilities in accordance with Statement of Financial Accounting Standard ("SFAS") No. 109.

21

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(h) Foreign currency translation: The U.S. dollar is the reporting currency and principal functional currency, as most of the policies written are denominated in U.S. dollars. Revenues and expenses in non-U.S. dollar currencies are translated at the average rates of exchange. Monetary assets and liabilities are translated at the rate of exchange in effect at the close of the period. Non-monetary assets and liabilities, primarily deferred revenue and expenses, are translated at historical rates of exchange. Gains or losses resulting from non-U.S. dollar transactions are included in net income. Certain other net translation adjustments are shown as a separate item of shareholder's equity.

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(i) **Accrued premium income:** Accrued premium income represents the difference between the estimated cumulative ultimate gross written premiums and cumulative billed premiums.

(j) **Prepaid reinsurance premiums:** Prepaid reinsurance premiums represent the portion of premiums ceded to reinsurers applicable to the unexpired terms of reinsurance contracts.

(k) **Losses and loss adjustment expenses:** Losses and loss adjustment expenses are charged to income as incurred. The reserve for unpaid losses and loss adjustment expenses represents estimates for reported losses, including provisions for losses incurred but not reported ("IBNR"). The adequacy of these estimates is assessed by reference to projections of the ultimate losses for each accident year. The methods of determining such estimates and establishing reserves are reviewed continually and updated. Resulting adjustments are reflected in current operations.

(l) **Stock-based compensation:** The Company has adopted SFAS No.123 "Accounting for Stock-Based Compensation". As allowed under this standard, the Company accounts for stock option grants in accordance with APB Opinion No.25 "Accounting for Stock Issued to Employees".

Compensation expense for stock option grants is recognized to the extent that the fair value of the stock exceeds the exercise price of the option at the measurement date. Any resulting compensation expense is accrued over the shorter of the vesting or service period.

Deferred compensation, recorded as a component of shareholder's equity, represents options the Company expected to be settled in stock.

(m) **Risks and uncertainties:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) **Fair value of financial instruments:** The following methods and assumptions were used by the Company in estimating the fair value of the financial instruments presented:

- **Investments:** Fair values were based on quoted market prices. For securities for which market prices were not readily available, fair values were estimated using quoted market prices of comparable investments.
- **Long term debt:** Fair value is based on quoted market price.
- **Other financial instruments:** The carrying amounts approximate fair value.

(o) **Goodwill:** The goodwill in the Company's balance sheet has been calculated using the purchase method of accounting and is amortized on a straight line basis over periods not exceeding 40 years.

(p) **Reclassifications:** Certain prior year amounts have been reclassified to conform with the current year presentation.

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AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Investments and Cash

(a) Deposits: Securities with a carrying value of \$148,939,275 and \$122,105,666 at December 31, 2000 and 1999, respectively, were held in trust for the benefit of the Company's U.S. cedents and to facilitate the Company's accreditation as an alien reinsurer by certain States.

Cash and securities with a carrying value of \$22,243,365 and \$20,994,932 at December 31, 2000 and 1999, respectively, were held in trust for the benefit of the Company's U.S. surplus lines policyholders.

Cash and securities with a carrying value of \$50,184,172 and \$49,607,415 at December 31, 2000 and 1999, respectively, were held in trust for the benefit of the Company's Canadian cedents.

The Company has contingent liabilities regarding undrawn letters of credit supporting certain reinsurance business written by the Company in the U.S. of \$95,984,794 and \$97,420,004 at December 31, 2000 and 1999, respectively. The Company has deposited cash and investments with a carrying value of \$105,583,273 and \$105,812,403 at December 31, 2000 and 1999, respectively, as collateral against these amounts.

The Company has deposits at Lloyd's with a carrying value of \$42,909,618 in support of the Company's underwriting activities on the Markel Syndicate Management syndicates. The Company also has contingent liabilities regarding irrevocable undrawn letters of credit of \$187,014,278 and \$246,886,653 supporting the Company's underwriting activities on the Markel Syndicate Management syndicates at December 31, 2000 and 1999, respectively. The Company has deposited cash and investments with a carrying value of \$208,030,000 at December 31, 2000 and \$251,527,716 at December 31, 1999, respectively, as collateral to support this commitment. Cash and securities with a carrying value of \$303,193,000 and \$202,931,000 at December 31, 2000 and 1999, respectively, were held in trust for the benefit of the Markel Syndicate Management syndicates' policyholders.

(b) Net investment income: An analysis of the net investment income of the Company is as follows:

(dollars in thousands)	2000	Year ended December 1999
Fixed maturities	\$79,052	\$88,055
Equity securities	875	608
Cash and cash equivalents	7,726	8,258
	-----	-----
Total investment income	87,653	96,921
Investment expenses	(2,730)	(3,092)
	-----	-----
Net investment income	\$84,923	\$93,829

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TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(c) Investment gains and losses: The realized net capital gains and changes in net unrealized appreciation or depreciation of investments are summarized below:

(dollars in thousands)	2000	Year ended December 1999

Realized net capital gains (losses) on sale of investments:		
Fixed maturities	\$(6,926)	\$ (6,06)
Equity securities	15,632	32,94
	-----	-----
Realized net capital gains	8,706	26,87
	-----	-----
Changes in net unrealized appreciation (depreciation):		
Fixed maturities	39,796	(88,12
Equity securities	4,699	(19,53
	-----	-----
Changes in net unrealized appreciation (depreciation)	44,495	(107,66
	-----	-----
Realized net capital gains and change in net unrealized appreciation (depreciation) of investments	\$53,201	\$ (80,78
	=====	=====

Realized net capital gains (losses) on sale of fixed maturities for the years ended December 31, 2000, 1999 and 1998, included gross capital gains of \$11,937,000, \$5,754,000 and \$9,420,000, and gross capital losses of \$18,863,000, \$11,820,000 and \$566,000, respectively.

Proceeds from sales of investments in equity securities during 2000, 1999 and 1998, were \$90,299,000, \$174,530,000 and \$140,564,000, respectively. Realized net capital gains on sale of equity securities for the years ended December 31, 2000, 1999 and 1998, included gross capital gains of \$28,122,000, \$42,403,000 and \$24,567,000 and gross capital losses of \$12,490,000, \$9,458,000 and \$15,458,000, respectively.

Net unrealized appreciation of equities (before income tax) of the Company at December 31, 2000, included gross unrealized appreciation of \$14,419,000 and gross unrealized depreciation of \$2,346,000. Net unrealized appreciation of equities of the Company at December 31, 1999, included gross unrealized appreciation of \$12,894,000 and gross unrealized depreciation of \$1,329,000.

(d) Fixed maturities available for sale: At December 31, the amortized cost and estimated fair value of investments in fixed maturities of the Company were as follows:

2000 (dollars in thousands)	Amortized cost	Gross unrealized appreciation	Gross unrealized deprecia
	-----	-----	-----

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U.S. government and agencies	\$ 176,061	\$ 7,885	\$
Foreign governments and agencies	537,991	11,447	
Mortgage backed and asset backed	11,520	537	
Supranationals	137,083	567	
Corporate	322,060	7,892	
	-----	-----	-----
Total fixed maturities	\$1,184,715	\$28,328	\$
	=====	=====	=====

24

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

1999			
(dollars in thousands)	Amortized cost	Gross unrealized appreciation	Gross unrealized deprecia
	-----	-----	-----
U.S. government and agencies	\$ 203,610	\$ 2,501	\$
Foreign governments and agencies	496,936	10,187	
Mortgage backed and asset backed	108,093	1,053	
Supranationals	106,521	933	
Corporate	406,728	3,045	(
	-----	-----	-----
Total fixed maturities	\$1,321,888	\$17,719	(\$
	=====	=====	=====

The amortized cost and estimated fair value of the Company's fixed maturities at December 31, 2000, by contractual maturity date, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or repay certain obligations with or without call or prepayment penalties.

(dollars in thousands)	Amortized cost	Fair value
	-----	-----
Due in one year or less	\$ 114,929	\$ 115,240
Due after one year through five years	585,493	594,505
Due after five years through ten years	454,255	463,695
Due after ten years	30,038	33,108
	-----	-----
	\$1,184,715	\$1,206,548
	=====	=====

Mortgage and asset backed securities which are not due at a single maturity date have been allocated according to their expected final payment date as at year end.

(e) At December 31, 2000, the Company's portfolio by rating category, determined by recognized rating agencies, was:

(dollars in thousands)

U.S. government and agency
 U.K. government and agency
 AAA
 AA
 A
 BBB

(f) At December 31, 2000, the estimated fair value of the following investments exceeded 10% of shareholder's equity:

(dollars in thousands)

United States Treasury
 Government of Japan
 Canadian Treasury
 U.K. Treasury
 European Investment Bank
 Republic of Finland
 Province of Ontario

25

TERRA NOVA (BERMUDA) HOLDINGS LTD.
 AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(g) Equities available for sale: At December 31, 2000, the cost and estimated fair value of investments in common stocks were as follows:

(dollars in thousands)

	Cost
Banks, trust and insurance companies	\$ 5,371
Industrial, miscellaneous and all other	65,421
Total equity securities	\$70,792

5. Income Taxes

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(a) The U.K. corporation tax rate applicable to ordinary income was reduced to 31% from 33% on April 1, 1997, and to 30% from 31% on April 1, 1999. The corporation tax rate in France was 41.67% for 1998, 40% for 1999 and 37.7% for 2000. The difference between the actual tax expense and the "expected" amount calculated by applying the U.K. corporation tax rate is explained as follows:

(dollars in thousands)	2000	Year ended December 1999
"Expected" tax (benefit) expense	\$ (43,416)	\$ (21,962)
Adjustments:		
Non-taxable income	(105)	(16,878)
Deferred taxation valuation allowance	33,663	-
Other	(2,569)	1,212
Actual tax (benefit) expense	\$ (12,427)	\$ (37,628)

(b) The components of income tax (benefit) expense attributable to continuing operations are as follows:

(dollars in thousands)	2000	Year ended December 3 1999
Current U.K. corporation tax	\$ (66)	\$ (7,644)
Current French corporation tax	(1,055)	(160)
Deferred tax	(11,306)	(29,824)
Income tax	\$ (12,427)	\$ (37,628)

(c) Deferred tax liabilities and assets are provided for expected future tax consequences of events that have been recognized in the consolidated financial statements or tax returns. The measurement of current and deferred tax liabilities and assets is based on the difference between the financial statements and tax bases of assets and liabilities using enacted rates in effect for the years in which the differences are expected to reverse. Measurement of a deferred tax asset, if any, is subject to the expectation of future realization. The components of net deferred tax asset (liability) of the Company as at December 31, 2000 and 1999, were as follows:

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(dollars in thousands)	Year ended 2000

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Deferred tax assets:	
Unrealized depreciation of investments	\$ 1,419
Operating losses and other	76,464

Total gross deferred tax assets	77,883
Less valuation allowance	(33,663)

Total gross deferred tax assets, net of allowance	44,220

Deferred tax liabilities:	
Unrealized appreciation of investments	(10,412)
Other	(174)

Total deferred tax liabilities	(10,586)

Net deferred tax asset	\$ 33,634
	=====

The valuation allowance of \$33.7 million relates primarily to losses at Markel Capital and the uncertainty of realizing a future tax benefit. The Company expects to realize the gross deferred tax asset at December 31, 2000, of \$44.2 million through future taxable income generated by its subsidiaries.

(d) Under current Bermuda law, Terra Nova (Bermuda) and Bermuda Holdings are not required to pay any taxes in Bermuda on either income or capital gains. Terra Nova (Bermuda) and Bermuda Holdings have received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed, they will be exempted from such taxation until the year 2016.

6. Deferred Acquisition Costs

The following reflects the acquisition costs deferred for amortization against future income and the amortization charged to income, including amounts deferred and amortized in the same period:

(dollars in thousands)	2000	Year ended December 31, 1999
	-----	-----
Balance at beginning of year	\$ 99,683	\$107,607
Acquisition costs deferred		
Commissions	166,104	161,737
Other	40,221	71,175
	-----	-----
	206,325	232,912
	-----	-----
Amortization charged to income		
Commissions	187,958	171,536
Other	47,809	69,300
	-----	-----
	235,767	240,836
	-----	-----

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Balance at end of year	\$ 70,241	\$ 99,683
	=====	=====

27

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

7. Employee Benefits

Terra Nova operates a defined benefit pension plan ("Terra Nova Plan") covering all employees (except those in Canada and Belgium) over 20 years old who meet the eligibility conditions set out in the plan document. The cost of providing pensions for employees is charged to earnings over the average working life of employees according to the recommendations of qualified actuaries. Annual funding requirements are determined based on the projected unit credit cost method, which attributes a pro rata portion of the total projected benefit payable at normal retirement to each year of credited service. Final benefits are based on the employee's years of credited service and the higher of pensionable compensation received in the calendar year preceding retirement or the best average pensionable compensation received in any three consecutive years in the ten years preceding retirement.

Mandatory employee contributions to the Terra Nova Plan ceased in 1988. There are no present plans to reintroduce such contributions. Employees may elect to make voluntary contributions to supplement their pension benefits when payable.

Terra Nova provides pension and related benefits for the employees of its branch office in Canada and its former branch office in Belgium. Benefit plans are in line with local market terms and conditions of employment and are generally costed to be within 10% of basic salaries of the participating employees. Neither of the plans is a defined benefit plan. The Company had historically adopted for its Bermuda employees, a similar policy on pension and related benefits and provided for a plan on the same cost basis. Since May 2000, the Company has no Bermuda employees.

Terra Nova maintains a supplemental pension plan which provides pension benefits for nominated employees above amounts allowed under tax qualified plans, through a funded money purchase plan.

Markel Syndicate Management provides certain of its employees with one of two defined benefit pension schemes run in conjunction with the Lloyd's Superannuation Scheme ("Markel Syndicate Management Plans"). The Markel Syndicate Management Plans are similar in operation to the Terra Nova Plan though the benefit structure differs.

Markel Syndicate Management provides a defined contribution plan for nominated employees and directors. The annual contribution rate for employees is 15% of annual pensionable salary and, for directors and certain senior underwriters, is 25% of annual pensionable salary.

Corifrance provides two defined contribution plans for its managers and all other employees. The annual contribution rate for managers is 5.66% of pensionable salary and, for employees, is 1.43% of pensionable salary.

The total cost of the Company's defined contribution plans for the year was \$3,035,586 (1999: \$3,121,304).

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The following tables set out the funded status of all defined benefit plans for the years ended December 31, 2000, 1999 and 1998, and the amounts recognized in the accompanying consolidated balance sheets of the Company at December 31, 2000 and 1999:

(dollars in thousands)	2000	Year ended December 1999

Component of net periodic benefit costs:		
Service cost	\$ 2,893	\$ 3,200
Interest cost	3,155	2,420
Expected return on plan assets	(5,625)	(4,230)
Amortization of transition obligation	(87)	(90)
Recognized net actuarial gain	(617)	
	-----	-----
Net periodic benefit cost	\$ (281)	\$ 1,310
	=====	=====

28

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(dollars in thousands)	2000

Change in benefit obligation:	
Benefit obligation at beginning of year	\$48,255
Service cost	2,892
Interest cost	3,155
Benefits paid	(5,542)
Actuarial gain	(1,886)

Benefit obligation at end of year	46,874

Change in plan assets:	
Fair value of plan assets at beginning of year	68,107
Actual return on plan assets	(5,909)
Employer contribution	1,902
Benefits paid	(5,542)

Fair value of plan assets at end of year	58,558

Funded status:	11,683
Unrecognized net actuarial gain	(6,568)
Unrecognized transition obligation	(257)

Prepaid benefit cost	\$ 4,858
	=====

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Weighted-average assumptions as of December 31

Discount rate	6.25%
Expected return on plan assets	8.00%
Rate of compensation increase	5.00%

8. Share Capital

At December 31, 1999, the Company had 75,000,000 "A" ordinary shares (par value \$5.80) of which 24,348,192 were issued and outstanding, and 10,000,000 "B" ordinary shares (par value \$5.80) of which 1,796,217 were issued and outstanding.

On March 24, 2000, Markel owned 2,069 shares. On the same date the remainder of the existing "A" and "B" shares were cancelled and replaced by a new issue of 40,000,000 "A" shares (par value \$5.80) to Markel.

The "A" ordinary shares and "B" ordinary shares rank pari passu in right to receive dividends. Each "B" ordinary share at the Company is convertible at the choice of the holder into an "A" ordinary share without payment or adjustment for accrued dividends.

9. Share Options and Awards

At December 31, 1999, the Company had two stock-based compensation plans. The Terra Nova Approved and Non Approved Executive Share Option Scheme provided for the grant to eligible employees of options to buy Class A ordinary shares of the Company. The Octavian Stock Option Plan provides for the grant of options to former and current members of management of Octavian (now Markel Syndicate Management) based on profit commissions receivable by Markel Syndicate Management for the 1997 to 2000 years of account.

On acquisition by Markel each outstanding option under the Terra Nova Approved and Non Approved Executive Share Option Scheme and, if issued before January 1, 2000, each outstanding option under the Octavian Plan was treated as fully exercised and converted into the right to receive the consideration payable in the transaction.

29

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The Octavian Plan is a variable plan for accounting purposes. The accounting follows paragraphs 27 and 28 of APB Opinion No.25. Compensation expense of \$212,000 has been charged against income in the period from January 1, 2000, to the date of the Markel acquisition (full year charge 1999: \$2,941,000). The Octavian Plan was amended to provide for the issuance of options to purchase Markel common stock.

10. Reinsurance

In the ordinary course of business, the Company cedes reinsurance to other insurance companies. Ceded reinsurance arrangements provide greater diversification of business and limit the net loss potential arising from large risks. Certain of these arrangements consist of excess of loss contracts which protect against losses over stipulated amounts. Reinsurance is effected under reinsurance treaties and by negotiation on individual risks.

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The current reinsurance protections mainly consist of non-proportional excess of loss reinsurance with the balance being proportional and facultative reinsurance. Specific excess of loss reinsurance is purchased for marine and aviation and non-marine business. Availability of reinsurance at reasonable cost and under favorable terms is one of the key determinants in the decision about which categories of business to emphasize at any given time.

A credit risk exists with reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance arrangements. As is customary in the London Market, collateral is not generally obtained from reinsurers. Reinsurance contracts do not relieve the ceding company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses; so allowances are established for amounts thought uncollectable. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from its exposure to individual reinsurers.

The Company cedes reinsurance to and assumes reinsurance from Lloyd's syndicates. At December 31, 2000, the aggregate exposure in respect of reinsurance ceded to Lloyd's syndicates in respect of continuing operations, including estimated reinsurance recoveries for losses incurred but not reported, was \$183.7 million. The majority was ceded into Equitas with effect from September 4, 1996. Equitas is a reinsurance company that was formed to reinsure the 1992 and prior losses of Lloyd's syndicates. Therefore, ultimate recoveries under the reinsurance contracts ceded into Equitas will be dependent on Equitas being able to fulfil its commitment to the syndicates. No specific bad debt provision has been established for amounts due from Equitas and Lloyd's syndicates.

On January 29, 2001, Reliance Insurance Company entered into an order of supervision with the Pennsylvania Insurance Department under which its business and operations will be monitored and reviewed by the Department. At December 31, 2000, Reliance Insurance Company and its affiliates (Reliance Insurance Group) owed the Company approximately \$33.4 million in reinsurance recoverables for paid and unpaid losses. These balances were considered in the normal course of assessing the collectability of reinsurance recoverables. The Company believes this matter will not have a material impact on its financial condition or result of operations.

In the years ended December 31, 2000, 1999 and 1998, the percentage of reinsurance premiums assumed to net written premiums was 30.4%, 42.6% and 54.4%, respectively.

(a) Net written premiums are comprised of the following:

(dollars in thousands)	2000	Year ended December 1999
Direct business	\$ 540,021	\$ 601,411
Reinsurance assumed	165,384	263,511
Reinsurance ceded	(160,511)	(246,481)
Net written premiums	\$ 544,894	\$ 618,441

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TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Net earned premiums are comprised of the following:

(dollars in thousands)	2000	Year ended December 1999
Direct business	\$ 573,080	\$ 495,33
Reinsurance assumed	222,326	310,38
Reinsurance ceded	(191,867)	(220,44
	-----	-----
Net earned premiums	\$ 603,539	\$ 585,28
	=====	=====

(c) Losses and loss adjustment expenses, net, are comprised of the following:

(dollars in thousands)	2000	Year ended December 1999
Losses and loss adjustment expenses, gross	\$1,017,543	\$ 752,499
Reinsurance ceded	(465,245)	(261,256
	-----	-----
Losses and loss adjustment expenses, net	\$ 552,298	\$ 491,243
	=====	=====

11. Unpaid Losses and Loss Adjustment Expenses

Management believes that its reserves for losses and loss adjustment expenses are adequate. Significant delays occur in notifying certain claims and a large measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The reserve for unpaid losses and loss adjustment expenses is determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent development.

Movement in unpaid losses and loss adjustment expenses for the years ended December 31, 2000, 1999 and 1998, is summarized in the table below.

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(dollars in thousands)	2000	1999
	-----	-----

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Reserves for unpaid losses and loss adjustment expenses, at beginning of year	\$1,409,968	\$1,209,
Less: reinsurance recoverables on unpaid losses	(346,483)	(226,
	-----	-----
Net balance at beginning of year	1,063,485	982,
	-----	-----
Net incurred losses and loss adjustment expenses related to:		
Current year	507,396	535,
Prior year	44,902	(44,
	-----	-----
Total net incurred losses and loss adjustment expenses	552,298	491,
	-----	-----
Net paid losses and loss adjustment expenses related to:		
Current year	(178,813)	(179,
Prior year	(372,896)	(245,
	-----	-----
Total net paid losses and loss adjustment expenses	(551,709)	(425,
Foreign exchange adjustment	(31,858)	(18,
	-----	-----
Net balance at end of year	1,032,216	1,030,
Net reserves from reinsurance to close	49,638	33,
	-----	-----
Net reserves at end of year	1,081,854	1,063,
Reinsurance recoverables	589,884	346,
	-----	-----
Reserves for unpaid losses and loss adjustment expenses, at end of year	\$1,671,738	\$1,409,
	=====	=====

The adverse prior year development of \$44.9 million during 2000 is largely attributable to inadequate pricing on the discontinued lines and portions of the continuing programs for the 1997, 1998 and 1999 accident years. These deficiencies have been partially offset by net favorable development experienced on the 1986 to 1990 accident years. This net favorable development arises on the Company's casualty accounts offset by deterioration on the asbestos-related and environmental pollution losses in both the marine and casualty accounts on the 1985 and prior accident years.

Management has considered environmental and latent injury claims and claims expenses in establishing the Company's reserve for unpaid losses and loss adjustment expenses. The Company continues to be advised of claims asserting injuries from hazardous materials and alleged damages to cover various clean-up costs affecting policies written in prior years. Coverage and claim settlement issues, such as determining that coverage exists and defining an occurrence, may cause the actual loss development to show more variation than the rest of the Company's book of business. Traditional reserving techniques cannot be used to estimate asbestos-related and environmental pollution claims and so the uncertainty about the ultimate cost of these types of claims is greater than the uncertainty relating to standard lines of business. The Company believes it has made reasonable provisions for claims, although the ultimate liability may be more or less than held reserves. The Company believes that future losses associated with these claims will not have a material adverse effect on its financial position. Still, there is no assurance that such losses will not materially affect the Company's results of operations for any period. Management is not able to estimate the additional loss, or range of loss, that is reasonably possible.

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

The following table presents selected data on asbestos-related and environmental pollution losses and loss adjustment expenses incurred and reserves outstanding, net of amounts recoverable from reinsurers:

Asbestos-related and Environmental Losses and Loss Adjustment Expenses Incurred
and Reserves Outstanding
(net of reinsurance)

(dollars in thousands)	2000	Year ended December 1999
Reserves for unpaid losses and loss adjustment expenses, at beginning of year	\$ 90,277	\$95,890
Incurred losses and loss adjustment expenses	22,988	(137)
Paid losses and loss adjustment expenses	(8,132)	(5,476)
	-----	-----
Reserves for unpaid losses and loss adjustment expenses, at end of year	\$105,133	\$90,277
	=====	=====

The reinsurance recoverables netted against the asbestos-related and environmental pollution loss reserves for each of the years 2000, 1999 and 1998, are as follows:

(dollars in thousands)	2000	1999
Gross reserves	\$167,161	\$128,192
Reinsurance recoverables	(62,028)	(37,915)
	-----	-----
Net reserves	\$105,133	\$ 90,277
	=====	=====

12. Allowance for Doubtful Accounts

Insurance balances receivable and reinsurance recoverable on paid and unpaid losses are stated after deduction of an allowance for doubtful accounts at December 31, 2000 and 1999, of \$48,189,000 and \$46,440,000, respectively. Doubtful accounts against which provisions of \$7,643,000 had previously been made were written off during 2000. The charge to doubtful accounts was \$9,392,000, \$8,497,000 and \$9,464,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

13. Commitments and Contingent Liabilities

(a) On January 31, 2001, the Company received notice of a lawsuit filed in

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the United States District Court for the Southern District of New York against Terra Nova by Palladium Insurance Limited and Bank of America, N.A. seeking approximately \$27 million plus exemplary damages in connection with alleged reinsurance agreements. The Company believes it has numerous defenses to these claims, including the defense that the alleged reinsurance agreements were not valid. The Company intends to vigorously defend this matter, however, it cannot predict the outcome at this time.

The Company has other contingencies that arise in the normal conduct of its operations. In the opinion of management, the resolution of these contingencies are not expected to have a material impact on the Company's financial condition or results of operations.

33

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) The Company entered into various lease agreements for office space. Certain leases have options permitting renewals for additional periods. As well as minimum fixed rentals, certain leases contain escalation clauses related to the cost of living in future years. The future minimum aggregate rental commitments for office space at December 31, 2000, under non-cancelable operating leases are as follows:

(dollars in thousands)

2001
2002
2003
2004
2005
2006 and later years

Rental expense on property leases of \$5,057,000, \$4,467,000 and \$4,246,000 was incurred for the periods to December 31, 2000, 1999 and 1998, respectively.

14. Extraordinary Charge Arising on Extinguishment of Debt

An extraordinary charge of \$11.6 million arose during the second quarter of 1998 as a result of Markel International extinguishing all of its \$100 million 10.75% Senior Notes due 2005 (the "Senior Notes"). The charge was net of a \$5.2 million income tax benefit.

The Senior Notes were extinguished as follows:

- (a) On April 1, 1998, Markel International repurchased \$4.5 million of the Senior Notes for consideration of \$5.2 million, including accrued interest.
- (b) On May 18, 1998, Markel International completed a cash tender for the remaining \$95.5 million of the Senior Notes for consideration of \$111.9 million, including accrued interest.

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The extraordinary charge has been recognized in the period of extinguishment under SFAS No.125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

15. Long-Term Debt

The Company's total outstanding consolidated indebtedness at December 31, 2000, was made up of \$100 million of 7.0% Senior Notes due 2008, issued in 1998, and \$75 million 7.2% Senior Notes due 2007, issued in 1997. The estimated fair value of these Senior Notes at December 31, 2000, was \$161.1 million, comprising \$91.2 million of 7.0% Senior Notes due 2008 and \$69.9 million of 7.2% Senior Notes due 2007.

The Senior Notes were issued by Markel International and are guaranteed fully and unconditionally by Bermuda Holdings. The Senior Notes may be redeemed at any time at the option of Markel International at a redemption price equal to the sum of: (i) the principal amount of the Senior Notes being redeemed plus accrued interest to the redemption date; and (ii) the make-whole amount, if any.

16. Segment Information

On March 24, 2000, the Company was acquired by Markel. As a result, Markel realigned its operations with the Company becoming its international division.

The Company's operating segments have been changed in accordance with this realignment. The Company now includes three operating segments: the London Company Market, the Lloyd's Market and Investing. All

34

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

investing activities are included in the Investing operating segment. Discontinued programs and non-strategic insurance subsidiaries are included in Other for purposes of segment reporting.

The Company considers many factors including the nature of the underwriting units' insurance products, production sources, distribution strategies and regulatory environment in determining how to aggregate operating segments.

Segment profit or loss is measured by underwriting profit or loss. Segment profit for the Investing operating segment is measured by net investment income and realized net gains or losses.

The Company does not allocate assets to the operating divisions for management reporting purposes. The total investment portfolio and cash and cash equivalents are allocated to the Investing operating segment. The Company does not allocate capital expenditure for long-lived assets to any of its operating segments for management reporting purposes.

(a) The table below summarizes the segment disclosures for the years ended December 31, 2000, 1999 and 1998. Prior year amounts have been reclassified to conform with the current year presentation.

Year ended Decem

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(dollars in thousands)	2000	1999
Segment revenue		
London Company Market	\$ 186,655	\$ 227,69
Lloyd's Market	248,214	141,02
Investing	93,628	120,70
Other	168,671	216,56
Total	\$ 697,168	\$ 705,98
Segment (loss) profit		
London Company Market	\$ (74,707)	\$ (57,02
Lloyd's Market	(48,174)	(6,88
Investing	93,628	120,70
Other	(80,870)	(112,91
Total	\$ (110,123)	\$ (56,11
Combined ratio		
London Company Market	140%	12
Lloyd's Market	119	10
Investing	-	
Other	148	15
Total	134%	13

(dollars in thousands)	2000	1999
Segment assets		
London Company Market	\$ -	\$ -
Lloyd's Market	-	-
Investing	1,368,900	1,490,808
Other	1,267,691	1,140,892
Total	\$2,636,591	\$2,631,700

35

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND SUBSIDIARIES

Notes to the Consolidated Financial Statements (continued)

(b) The table below reconciles segment (loss) profit to the Company's consolidated financial statements.

(dollars in thousands)	2000	Year ended December 1999
Segment (loss) profit	\$ (110,123)	\$ (56,113
Reconciling items:		

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Interest expense	(12,400)	(12,400)
Merger expenses	(18,416)	-
Amortization expense	(3,787)	(4,089)
	-----	-----
Net (loss) income before tax	\$ (144,726)	\$ (72,602)
	=====	=====

17. Statutory Financial Data

(a) Terra Nova files an annual audited return with the Financial Services Authority (the "FSA"), in the U.K. The regulations require U.K. insurance companies to comply with prescribed minimum solvency margins. Assets and liabilities reported within the annual FSA Return are prepared subject to specified rules concerning valuation and admissibility. Consequently, net assets reported within the Return may vary from net assets as they appear in Terra Nova's published financial statements. Technical provisions shown in Terra Nova's annual FSA Return reflect the statutory requirement in the U.K. for insurance companies to maintain equalization provisions. Equalization provisions are established in accordance with specified rules and are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Such provisions are not required under U.S. GAAP.

A reconciliation of total technical provisions (excluding provision for unearned premiums) reported in Terra Nova's annual FSA Return, to Terra Nova's reserve for unpaid losses and loss adjustment expenses under U.S. GAAP for the years ended December 31, 2000, 1999 and 1998, is provided below:

(dollars in thousands)	2000	Year ended December 31, 1999
	(Unaudited)	
Technical provisions (excluding provision for unearned premiums)	\$759,892	\$896,181
Equalization provision	-	-
Aviation business in run-off	(54,289)	(59,229)
	-----	-----
Unpaid losses and loss adjustment expenses	\$705,603	\$836,952
	=====	=====

Terra Nova's unaudited required minimum statutory solvency margin and unaudited statutory solvency margin at December 31, 2000, were \$35,529,000 and \$105,322,000, respectively. Terra Nova's unaudited and estimated FSA Return policyholders' surplus and unaudited net income for the year ended December 31, 2000, and the audited FSA Return policyholders' surplus and net income as reported in the annual returns to the FSA for the years ended December 31, 1999 and 1998, are as follows:

(dollars in thousands)	2000	1999
	(Unaudited)	
Policyholders' surplus	\$140,851	\$154,920
Net (loss) income before dividends	(12,751)	(7,315)

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Terra Nova's ability to pay dividends is limited by a Notice of Requirements issued by the FSA which requires Terra Nova to give 14 days' advance notice to the FSA of its intention to declare and pay a dividend. In addition, Terra Nova must comply with the Companies Act 1985 which provides that dividends may only be paid out of distributable profits.

36

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(b) Terra Nova (Bermuda)'s ability to pay dividends is subject to certain regulatory restrictions. Under the Insurance Act of 1978, amendments to it and related regulations of Bermuda (the "Act"), Terra Nova (Bermuda) is required to file in Bermuda statutory financial statements and a statutory financial return. The Act also requires Terra Nova (Bermuda) to maintain certain measures of solvency and liquidity during the year.

Terra Nova (Bermuda) ceased accepting new business on April 2, 2000. On September 15, 2000, Terra Nova (Bermuda) de-registered as a Class 4 insurer, and obtained approval as a Class 3 insurer.

Terra Nova (Bermuda)'s statutory capital and surplus and minimum required statutory capital and surplus and net income for the years ended December 31, 2000, 1999 and 1998, respectively, were:

dollars in thousands	2000	1999

	(Unaudited)	
Statutory capital and surplus	\$104,898	\$168,261
Minimum required statutory capital and surplus	100,000	100,000
Net income before dividends	14,211	69,681

(c) Markel Capital must comply with the Companies Act 1985 which provides that dividends may only be paid out of distributable profits.

Bermuda Holdings' and Markel International's ability to meet their expenses and debt services requirements is dependent upon the ability of Terra Nova and Terra Nova (Bermuda) to pay dividends as described above.

18. Summarized Financial Information for Markel International Limited ("Markel International")

Markel International changed its name from Terra Nova Insurance (UK) Holdings plc on April 20, 2000. On November 3, 2000, Markel International was re-registered as a private limited company. Accordingly, the name was changed to Markel International Limited and the status of the company changed to private with effect from that date.

Markel International's summarized consolidated balance sheet information as at December 31, 2000, and December 31, 1999, and summarized consolidated statement of operations information for the year ended December 31, 2000, and 1999, is set out below.

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Markel International is the issuer of \$75 million 7.2% Senior Notes due 2007 and \$100 million 7.0% Senior Notes due 2008. The Senior Notes are guaranteed fully and unconditionally by the Company.

(dollars in thousands)	2000	December
Investments and cash	\$ 964,969	
Reinsurance recoverable on unpaid losses	723,787	
Accrued premium income	146,061	
Other assets	471,243	
Total assets	\$2,306,060	
Unpaid losses and loss adjustment expenses	\$1,573,617	
Unearned premiums	363,412	
Long-term debt	175,000	
Other liabilities	93,680	
Total liabilities	2,205,709	
Total shareholder's equity	100,351	
Total liabilities and shareholder's equity	\$2,306,060	
	=====	

37

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

(dollars in thousands)	2000	Year ended December 1999
Net earned premiums	\$ 571,497	\$ 529,65
Net investment income	52,482	56,03
Realized investment gains	1,452	20,33
Foreign exchange gains (losses)	4,407	2,94
Agency income	10,715	12,36
Total revenues	640,553	621,33
Underwriting costs and expenses	796,341	749,73
(Loss) income from operations before income tax and extraordinary charge	(155,788)	(128,39)
Net (loss) income	\$(143,361)	\$ (90,77)
	=====	=====

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19. Unaudited Selected Quarterly Financial Data

(dollars in thousands)	Three months ended March 31	Three months ended June 30	Three m end Septemb

2000			
Gross premium volume	\$ 289,867	\$162,964	\$
Net written premium	241,402	108,690	
Net retention	83%	67%	
Net earned premiums	154,736	170,809	
Underwriting loss	(100,555)	(37,701)	
GAAP combined ratio	165%	122%	
1999			
Gross premium volume	\$ 380,948	\$173,105	\$
Net written premium	307,243	123,862	
Net retention	81%	72%	
Net earned premiums	140,010	156,388	
Underwriting loss	113	(35,705)	
GAAP combined ratio	100%	123%	

20. Derivatives

The Company enters into forward foreign exchange contracts to hedge foreign currency transactions. Gains or losses from currency rate changes on forward contracts hedging foreign currency transactions are recorded currently in earnings. At December 31, 2000, the Company had entered into contracts with an aggregate notional amount of \$45.3 million to buy U.K. sterling. Contract maturities range from June 2001 to June 2002. The effect from foreign currency transactions, including hedging activities was a gain of \$4.4 million for the year ended December 31, 2000.

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

Previously reported.

38

PART IV

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

(a) Index to Financial Statements. The financial statements filed as part of this report are listed in the Index to Financial Statements on page 12.

Index to Financial Statement Schedules

Schedule II(a) - Condensed Financial Information of Registrant (Parent Company)
- Condensed Balance Sheets

Page

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Schedule II(b) - Condensed Financial Information of Registrant (Parent Company)
 - Condensed Statements of Operations

Schedule II(c) - Condensed Financial Information of Registrant (Parent Company)
 - Condensed Statements of Cash Flows

Schedules I, III, IV, V and VI have been omitted since they either are not required or are not applicable, or the information called for is shown in the consolidated financial statements.

(b) Reports on Form 8-K. Reports on Form 8-K filed since the third quarter 2000
 Form 10-Q filing:

None.

(c) Exhibits. The Index to Exhibits and the Exhibits filed as part of this
 report.

39

Supplemental Schedule II(a)

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND SUBSIDIARIES
 PARENT COMPANY FINANCIAL INFORMATION (1)
 CONDENSED BALANCE SHEETS
 (dollars in thousands)

	December 31,
	2000
ASSETS	

Investment in subsidiaries	\$250,618
Fixed maturities	22,878
Common stocks	4,493

Total investments	277,989
Other assets	12,019

Total assets	\$290,008
	=====
LIABILITIES AND SHAREHOLDER'S EQUITY	

Other liabilities	\$ 11,303

Total liabilities	11,303

Total shareholder's equity	278,705

Total liabilities and shareholder's equity	\$290,008
	=====

- (1) The parent company condensed financial information should be read in conjunction with the consolidated financial statements, notes and the accompanying reports of independent accountants.

40

Supplemental Schedule II(b)

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND SUBSIDIARIES
 PARENT COMPANY FINANCIAL INFORMATION (1)
 CONDENSED STATEMENTS OF OPERATIONS
 (dollars in thousands)

	Year Ended December 31,	
	----- 2000	----- 1999
Revenues:		
Net investment income	\$ 7,082	\$ 3,497
Realized gains (losses) on sales of investments	5,134	(29)
Foreign exchange gains (losses)	54	-
	-----	-----
Total revenues	12,270	3,468
	-----	-----
Expenses:		
Deferred debt expenses	-	665
Salaries	2,391	6,722
Legal and professional expenses	6,927	1,824
Other expenses	12,086	1,111
	-----	-----
Total expenses	21,404	10,322
	-----	-----
Loss from operations before equity in net income of consolidated subsidiaries	(9,134)	(6,854)
Equity in net (loss) income of consolidated subsidiaries	(123,165)	(28,120)
	-----	-----
Net (loss) income	\$ (132,299)	\$ (34,974)
	=====	=====

- (1) The parent company condensed financial information should be read in conjunction with the consolidated financial statements, notes and the accompanying reports of independent accountants.

41

Supplemental Schedule II(c)

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND SUBSIDIARIES
 PARENT COMPANY FINANCIAL INFORMATION (1)

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CONDENSED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Year Ended December 31,	
	2000	1999
Cash flows from operating activities:		
Net (loss) income	\$ (132,299)	\$ (34,974)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in net loss (income) of consolidated subsidiaries	123,165	28,120
Realized capital (gains) losses	(5,134)	29
Stock option compensation expense	9,638	(660)
Change in accrued investment income	838	(976)
Change in other assets and liabilities, net	3,989	4,235
Net cash provided by (used in) operating activities	197	(4,226)
Cash flows from investing activities:		
Proceeds of fixed maturities sold	58,826	11,774
Proceeds of stocks sold	66,927	-
Purchase of fixed maturities	(26,834)	(34,211)
Purchase of stocks	(28,397)	-
Net cash provided by (used in) investing activities	70,522	(22,437)
Cash flows from financing activities:		
Purchase of new share capital in subsidiary (2)	(667)	-
Proceeds from shares issued	46	3,145
Stock repurchases	-	(3,887)
Ordinary dividends received from subsidiary Company (3)	68	37,889
Ordinary dividends paid to stockholders	(75,000)	(6,155)
Net cash (used in) provided by financing activities	(75,553)	30,992
Change in cash and cash equivalents	(4,834)	4,329
Cash and cash equivalents at beginning of year	5,809	1,480
Cash and cash equivalents at end of year	\$ 975	\$ 5,809

- (1) The parent company condensed financial information should be read in conjunction with the consolidated financial statements, notes and the accompanying reports of independent accountants.
- (2) Total purchase of new share capital in subsidiary company was \$188.0

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million in 2000.

- (3) Total dividends received from subsidiaries were \$40.0 million in 2000 and \$213.0 million in 1999.

ITEM 14 - EXHIBITS

(c) Exhibits

Exhibit Number

- 3.1 Certificate of Incorporation and Memorandum of Association of the Company (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, Registration No. 33-93358).
3.2 Amended and Restated Bye-Laws of the Company (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1, Registration No. 333-1726).
4 The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instructions defining the rights of holders of long-term debt of the registrant and subsidiaries shown on the Consolidated Balance Sheet of registrant at December 31, 2000, and the respective Notes thereto, included in this Annual Report on Form 10-K.

SIGNATURES

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

TERRA NOVA (BERMUDA) HOLDINGS LTD

By: Anthony F. Markel
President and Chief Executive Officer
March 30, 2001

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

Signature and Title Date
By /S/ JEREMY D. COOKE March 30,
Jeremy D. Cooke
Chief Operating Officer
By /S/ ANDREW J. DAVIES March 30,

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Andrew J. Davies
Finance Director and Principal Accounting Officer

By /S/ STEVEN A. MARKEL March 30,
Steven A. Markel
Director

By /S/ ANTHONY F. MARKEL March 30,
Anthony F. Markel
President, Chief Executive Officer and Director

By /S/ ALAN I. KIRSHNER March 30,
Alan I. Kirshner
Director

By /S/ DARRELL D. MARTIN March 30,
Darrell D. Martin
Director