TERRA NOVA BERMUDA HOLDING LTD
Form 10-K405
March 28, 2002

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, 2001

Commission File Number 1-13832

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

Bermuda	N/A
(State or other jurisdiction of incorporation or organisation)	(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

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 ($1.00 par value) outstanding as of March 28, 2002 was 12,000.

TERRA NOVA (BERMUDA) HOLDINGS LTD.

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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, estimates, may, intends, plans, will, should or anticipates or the negative thereof or similar expressions, or by discussions of strategy. The Company has based the forward-looking statement on current expectations and projections about future events. These forward-looking statements are subject to risks, uncertainties and assumptions about the Company, including:

- 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;
- the amount and nature of competition in the insurance industry and the amount of capital within the industry and alternative risk transfer markets;
- the occurrence of man-made or natural catastrophic events;
- assumptions about the impact of events of September 11, 2001, such as the number of insureds and reinsureds affected by the events, the amount and timing of losses incurred and reported and questions of how coverage applies;
- the occurrence of additional terrorist activities;
- the occurrence of significant changes in products or adverse changes in insurance and financial market conditions;
- changing legal and social trends and the inherent uncertainties of the reserving process;
- loss of the services of any of the Company's executive officers;
- initiatives underway to re-organize business units and to evaluate reinsurance programmes and exposures that could lead to additional changes and expense;
- assumptions about future profitability and that the Company will make steady progress towards underwriting profitability;
- the impact of tax laws on the Company's subsidiaries;
- changing rates of inflation and other economic conditions;
- losses due to foreign currency exchange rate and interest rate fluctuations;
- ability to collect reinsurance recoverables;
- changes in the availability, cost or quality of reinsurance;
- developments in domestic and international financial markets that could affect the Company's investment portfolios;
- changes in assigned financial strength or debt ratings;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers; and
- the effects of mergers, acquisitions and divestitures.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In 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 of 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 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. At the date of acquisition the Company's $175 million of debt remained outstanding.

The Company writes specialty property, casualty, marine and aviation insurance on a direct and reinsurance basis. Business is written world-wide with the majority coming from the United Kingdom and the United States. The Company has a strong presence in the London Insurance Market through Terra Nova and its participation through Markel Capital in four Lloyd's syndicates managed by Markel Syndicate Management. For 2002 a new syndicate, named Markel Syndicate 3000, has been formed which will consolidate business previously written in these Lloyd's syndicates. Consolidating the Lloyd's operations into one syndicate should provide cost reductions and allow more efficient capital allocation.

On January 1, 2002 the Company realigned its underwriting operations along product lines and customers into six underwriting centres as follows:

- Aviation
- Marine and Energy
- Non-Marine Property
- Professional Liability
- Retail Professional Liability
- Reinsurance and Accident

This new structure aligns operations so that specialised underwriting talent is more focused on customer needs and eliminates duplication that existed between underwriting areas. The six new underwriting centres will have the ability to write business in Terra Nova or Markel Syndicate 3000.

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 57% 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.

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's marine book includes specie, cargo and professional indemnity coverages.

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 28, 2002, Terra Nova was accredited as a reinsurer in forty-eight jurisdictions of the United States. Terra Nova is also licensed to transact non-marine reinsurance in Canada through its branch office in Toronto.

Markel Capital

Through Markel Capital, the Company participates in the Lloyd's syndicates managed by Markel Syndicate Management. For the 2001 underwriting year, Markel Syndicate Management managed four syndicates. As of January 1, 2002, the Company consolidated its syndicates at Lloyd's into one syndicate and re-organized all underwriting units by product area.

The Markel Syndicate Management syndicates for the 2001 underwriting year were as follows:

Syndicate number	2001 gross written premiums	Products
	(Amount in millions)	
702	$217	Professional indemnity, directors and officers liability, legal expenses and crime, kidnap and ransom, commercial property and general liability coverages
1009	$196	Energy, liability, hull, war, specie, cargo, excess of loss, onshore property, aviation hull liability, aviation products and ground liability
1228	$ 27	Commercial auto in U.K.
1239	$100	Property, financial institutions, casualty, personal accident, contingency

Terra Nova (Bermuda)

Terra Nova (Bermuda) ceased accepting new business on April 2, 2000. The decision followed completion of the Company's acquisition by Markel and reflected 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

The Company had 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 segmental reporting.

The London Company Market consists of the operations of Terra Nova, the Lloyd's Market includes Markel Capital. Non-marine Syndicate 702, marine Syndicate 1009, the continuing programs of motor Syndicate 1228 and non-marine Syndicate 1239 are included in the Lloyd's Market segment. Marine Syndicate 329, motor Syndicate 554, aviation Syndicate 959, non-marine Syndicate 1227 and the discontinued programs of motor Syndicate 1228 are included in Other as they are discontinued lines of business.

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

	Year ended December 31, 2001	
Gross written premiums	Amount (dollars in millions)	% of total
London Company Market	$175.7	22.8
Lloyd's Market	540.2	70.2
Other	54.1	7.0
Total	$770.0	100.0
Direct business	$618.1	80.3
Reinsurance assumed	151.9	19.7
Total	$770.0	100.0

Loss and Loss Adjustment Expense Reserves

General

The Company maintains reserves for specific claims incurred and reported, reserves for claims incurred but not reported and reserves for uncollectible reinsurance. Reserves for reported claims are based primarily on case-by-case evaluations of the claims and their potential for adverse development. Reserves for reported claims consider the Company's estimate of the ultimate cost to settle the claims, including investigation and defense of lawsuits resulting from the claims, and may be subject to adjustment for differences between costs originally estimated and costs subsequently re-estimated or incurred.

U.S. GAAP requires that reserves for claims incurred but not reported be based on the estimated ultimate cost of settling claims, including the effects

of inflation and other social and economic factors, using past experience adjusted for current trends and any other factors that would modify past experience. The Company also evaluates and adjusts reserves for uncollectible reinsurance in accordance with its collection experience, consideration of the financial condition of its reinsurers and the development of the gross reserves.

Ultimate liability may be greater or less than current reserves. In the insurance industry, there is always the risk that reserves may prove inadequate. Reserves are continually monitored by the Company using new information on reported claims and a variety of statistical techniques. Anticipated inflation is reflected implicitly in the reserving process through analysis of cost trends and the review of historical development. The Company does not discount its reserves for losses and loss adjustment expenses to reflect estimated present value.

The following table shows the development of net reserves for losses and LAE for the calendar years 1991 to 2001 for all lines of business. The first line of the table presents the net reserves, 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 reserve re-estimated at the end of each of the succeeding years. The conditions that have caused the deficiencies are referred to below and may not be indicative of future developments.

The re-estimated reserves 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 1991 loss reserves in 2001 will show in the re-estimation of reserves for the years 1991 through 2000. 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 2001 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 Devel

Year ended December 31,

(dollars in millions)	1991	1992	1993	1994	1995	1996	1997	1998
Reserves for unpaid losses and LAE at December 31	$724.9	$784.5	$775.6	$847.3	$814.2	$824.0	$911.0	$98
Reserve re-estimated (1) as of:								
One year later	761.0	806.9	802.5	850.1	811.6	813.6	886.0	93
Two years later	773.7	821.5	810.5	850.1	793.0	793.0	800.7	88
Three years later	780.5	829.0	810.7	832.9	777.8	716.7	689.9	91
Four years later	792.4	829.8	800.7	812.8	703.2	662.9	715.8	
Five years later	793.5	816.5	784.7	739.7	643.6	686.6		
Six years later	776.6	800.5	719.3	692.6	671.6			
Seven years later	760.2	738.2	622.9	720.7				
Eight years later	699.3	702.7	650.6					
Nine years later	695.1	730.4						

Ten years later	722.5							
Cumulative redundancy (deficiency)	2.4	54.1	125.0	126.6	142.6	137.4	195.2	6
As a percentage of unpaid losses and LAE	0.3%	6.9%	16.1%	14.9%	17.5%	16.7%	21.4%	
Paid (cumulative) as of:								
One year later	119.3	143.8	151.8	168.8	123.4	145.7	187.6	24
Two years later	228.2	268.3	259.0	253.6	227.6	241.6	303.7	37
Three years later	316.1	350.8	311.8	327.8	293.0	301.7	328.7	50
Four years later	379.9	383.8	368.8	380.7	336.8	371.1	375.3	
Five years later	402.5	426.8	405.8	416.6	383.7	410.8		
Six years later	438.3	457.7	433.7	455.1	435.0			
Seven years later	464.0	483.1	422.5	502.3				
Eight years later	487.9	514.3	443.8					
Nine years later	517.2	533.6						
Ten years later	535.1							

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

	Analysis of Gross Loss and LAE Reser					
	Year ended December 31,					
(dollars in millions)	1993	1994	1995	1996	1997	19
Gross reserves for unpaid losses and LAE	$1,238.8	$1,223.8	$1,168.7	$1,078.2	$1,157.7	$1,2
Reinsurance recoveries on unpaid losses and LAE	463.2	376.5	354.5	254.1	246.7	2
Gross reserves re-estimated (1) as of:						
One year later	1,332.8	1,310.2	1,174.8	1,067.0	1,142.5	1,2
Two years later	1,428.9	1,319.9	1,168.4	1,058.6	1,071.3	1,2
Three years later	1,428.0	1,311.2	1,150.6	989.1	1,050.1	1,3
Four years later	1,431.3	1,291.4	1,081.4	929.5	1,145.3	
Five years later	1,428.4	1,223.9	1,016.0	1,020.1		
Six years later	1,368.4	1,171.2	1,102.0			
Seven years later	1,272.0	1,254.1				
Eight years later	1,353.5					
Reinsurance recoveries on unpaid losses and LAE re-estimated (2) as of:						
One year later	530.3	460.1	363.2	253.4	260.9	2
Two years later	618.4	469.9	370.1	264.1	270.6	4
Three years later	617.3	478.3	372.8	272.4	360.3	4
Four years later	630.6	478.7	378.2	266.6	429.5	
Five years later	643.6	484.2	372.4	333.5		
Six years later	649.1	478.6	430.4			
Seven years later	649.1	533.4				
Eight years later	702.9					
Gross cumulative (deficiency) redundancy	(114.7)	(30.3)	66.7	58.1	12.4	(1
As a percentage of unpaid losses and LAE	(9.3%)	(2.5%)	5.7%	5.4%	1.1%	(
Gross paid (cumulative) as of:						
One year later	303.9	290.6	229.7	179.6	246.3	2
Two years later	517.9	479.8	364.4	328.0	403.0	5
Three years later	679.3	576.4	477.2	418.7	524.7	7
Four years later	752.5	672.3	550.2	496.9	591.2	
Five years later	829.2	730.9	618.9	558.9		
Six years later	884.3	796.7	689.7			
Seven years later	934.8	862.4				
Eight years later	974.2					

(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 $114.0 million in 2001 is partially offset by increases to prior year net written and net earned premiums of $25.3 million. When these revisions to prior year written and earned premiums are considered, the Company experienced a net prior year adverse development of $88.7 million. This increase in the 2000 and prior year incurred losses was primarily due to reserve strengthening for asbestos exposures ($20.0 million), reserve strengthening of the Company's discontinued world-wide motor program ($39.0 million) and an allowance for non-collectable reinsurance recoverables ($30.0 million).

See note 9 of the notes to consolidated financial statements for a discussion of estimates and assumptions related to the reserves for losses and loss adjustment expenses.

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 15 and note 3, respectively, of the notes to consolidated financial statements.

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. The Company's objective is to aim to have 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 holds these investments over the long term. Officers of the Company manage the investment portfolio.

ITEM 2 - PROPERTIES

For information regarding the Company's future minimum property lease commitments see note 11 of the notes to consolidated financial statements.

ITEM 3 - LEGAL PROCEEDINGS

See note 11 of the notes to 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 the third quarter of 2001, Markel Corporation caused a reduction in the issued and authorized share capital of the Company and a subdivision of the remaining share capital resulting in the authorized and issued share capital of the Company being $12,000 divided into 12,000 Class A ordinary shares of $1.00 par value each.

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.

The Company's premiums by segment for the years ended December 31, 2001 and 2000, and the combined ratio are set out in the following table:

	Year ended December 31,			
	2001		2000	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Gross written premiums				
London Company Market	$175,653	22.8%	$180,709	25.6%
Lloyd's Market	540,173	70.2	397,738	56.4
Other	54,145	7.0	126,958	18.0
Total	$769,971	100.0%	$705,405	100.0%
Net written premiums				
London Company Market	$138,297	28.4%	$150,213	27.6%
Lloyd's Market	316,563	65.1	310,597	57.0
Other	31,532	6.5	84,084	15.4
Total	$486,392	100.0%	$544,894	100.0%
Net earned premiums				
London Company Market	$141,646	26.2%	$186,655	30.9%
Lloyd's Market	302,250	56.0	248,213	41.1
Other	96,020	17.8	168,671	28.0
Total	$539,916	100.0%	$603,539	100.0%

Combined ratio *		
Loss ratio (including LAE)	104.7%	91.5%
Expense ratio	42.7	42.3
Combined ratio	147.4%	133.8%

* The US GAAP combined ratio measures the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

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Results of Operations

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Gross written premiums increased by 9.2% to $770.0 million in 2001 from $705.4 million in 2000. This increase arose mainly at the Lloyd's Market where gross premiums increased to $540.2 million in 2001 from $397.7 million, primarily due to increases in the Company's participation in its syndicates to 100% and the re-estimation of prior years' estimated written premiums. In addition, from late 2001, gross premiums increased due to higher prices and submissions in the professional indemnity, war and aviation programs.

The increase at the Lloyd's Market was partially offset by decreases at both the London Company Market and the Other discontinued programs. The decrease in gross written premiums at the London Company Market to $175.7 million in 2001 from $180.7 million in 2000 was predominantly the result of Terra Nova reducing its writings due to the non-renewal of unprofitable business. In line with the Company's philosophy to focus on underwriting profitability, writings on the casualty account (professional indemnity business) and marine account have also reduced in 2001, compared to 2000.

During 2001, premium rates began to increase in the London Insurance Market. The events of September 11, 2001 had a profound impact on the insurance market. Demand for insurance products to manage risks has increased while the insurance financial and underwriting capacity has decreased. The Company anticipates that the London Insurance Markets will continue to tighten and provide a favourable environment for growth in its operations. The Company does not intend to relax underwriting standards in order to obtain premium volume. Premium volume may vary significantly if the Company alters its product concentration to maintain or improve underwriting profitability.

Subsequent to December 31, 2001, A.M. Best (Best) downgraded the financial strength rating (FSR) of Terra Nova to "B++" (very good) from "A-" (excellent). In addition on March 22, 2002, Standard & Poor's (S&P) reduced Terra Nova's FSR to "BBB-" (good). Both actions were the result of the Company's underwriting losses.

The Terra Nova downgrades by Best and S&P are expected to have a negative impact on Terra Nova's ability to retain business. The Company will attempt to retain business by moving premium writings to its Lloyd's operations or through the use of other affiliated companies in the Markel group.

Net written premiums decreased 10.7% to $486.4 million in 2001 from $544.9 million in 2000. This decrease was primarily due to additional quota share reinsurance in 2001 with certain insurance subsidiaries of Markel, as detailed in note 12 of the notes to consolidated financial statements. The Company ceded

premiums of $71.3 million to these subsidiaries in 2001. In addition, the lower retention rate in 2001 was due to the net reinstatement premiums payable on World Trade Center losses. Net earned premiums decreased to $539.9 million in 2001 from $603.5 million in 2000, in line with the decrease in net written premiums.

The underwriting loss increased to $256.2 million in 2001 from $203.8 million in 2000. The 2001 underwriting loss was primarily due to $177.0 million of losses related to World Trade Center and other related events of September 11, 2001 (`WTC'), reserve strengthening and expense charges. In 2000, the underwriting loss was primarily due to inadequate pricing and poor underwriting controls on the discontinued lines and portions of the continued programs. In addition the underwriting loss for 2000 included a $58.6 million non-recurring charge relating to: 1) $36.5 million charge against deferred acquisition costs due to poor experience on property business and certain marine, casualty and auto lines; 2) $19.6 million of reserve strengthening required on marine, property, casualty and auto accounts; and 3) a $2.5 million charge to record liabilities under an operating lease.

As a consequence of the above the Company's combined ratio increased to 147.4% in 2001 compared to 133.8% in 2000. Excluding provisions (see table below) established during 2001 the continuing programs combined ratio would have been 111.2% for 2001. The Company's expense reductions have not kept pace with planned premium reductions. Expense reduction initiatives include the consolidation of the four syndicates at Lloyd's into one syndicate for 2002 and planned reduction of brokerage commissions. In addition, the Company has reduced its maximum insurance limits which should reduce future reinsurance costs and collection risks. While management believes that expense reductions are attainable, failure to do so would continue to have an adverse impact on the Company's results of operations.

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The table below provides an analysis of the $177.0 million of WTC losses, prior year reserve strengthening and expense charges in 2001.

	Year Ended December 31, 2001		
	Continuing	Discontinued	Total
	(dollars in millions)		
World Trade Center loss	$65.3	$2.7	$68.0
Deferred policy acquisition costs	20.0	-	20.0
Asbestos exposures	-	20.0	20.0
Allowance for reinsurance recoverables	5.0	25.0	30.0
Worldwide motor program	-	39.0	39.0
	$90.3	$86.7	$177.0

The Company's net WTC exposure was $68.0 million. Approximately $5.5 million of estimated net losses were ceded to certain United States insurance subsidiaries of the Company's parent, Markel Corporation. Further details of this quota share arrangement are provided in note 12 of the notes to consolidated financial statements. Before these cessions, the estimated WTC losses were $73.5 million, net of approximately $248 million of reinsurance recoverables. In addition to reported claims, the Company has used many loss

estimation techniques including detailed policy level reviews, the use of catastrophe modeling software, direct contact with insureds and brokers and sensitivity analysis to possible coverage scenarios in order to develop its estimated WTC exposure. New information concerning potential losses and coverage issues continues to emerge. While the Company believes that its WTC reserve is adequate, adverse development is possible.

Upon renewal in early January 2002, the cost of the marine and energy reinsurance program increased significantly. Based on these higher costs, the Company determined that unearned premiums at December 31, 2001 for the unexpired marine and energy risks in its Lloyd's Market segment were not adequate to cover future losses, increased reinsurance costs and related deferred policy acquisition costs. As a result the Company wrote off $20.0 million of deferred policy acquisition costs in 2001.

Also late in 2001, the Company completed a comprehensive study of asbestos exposures. The study included the use of London Market asbestos exposure experts and the Company's internal and external actuaries. The study was completed using a proprietary database, which contained exposure information about asbestos claims submitted since inception to the London Market. The Company's participation on these risks was then calculated. The Company believes that this "ground up" approach is superior to methods previously used and as a result increased the discontinued lines net asbestos reserves by $20.0 million. Environmental and asbestos exposures are subject to significant uncertainty due to potential severity and an uncertain legal climate. Environmental and asbestos reserves could be subject to increases in the future. The Company's environmental and asbestos reserves are not discounted to present value and are forecasted to pay out over the next 50 years.

The Company also increased the allowance for reinsurance collection issues by $30.0 million in 2001. This provision included anticipated bad debts resulting from the asbestos reserve strengthening discussed above and provided for strengthened reserves for financially weak reinsurers and collection disputes with reinsurers. Approximately $5.0 million of the provision related to continuing lines in the Lloyd's Market segment and the remaining $25.0 million related to discontinued lines. The Company has begun to implement policies to reduce reliance on reinsurance in the future. Deterioration in the credit quality of existing reinsurers or disputes over the terms of reinsurance could result in additional charges, which could have an adverse impact on the Company's results of operations and financial condition.

The Company also strengthened reserves in 2001 by $39.0 million for its discontinued worldwide motor program. The Company discontinued the worldwide motor book of business shortly after the acquisition by Markel due to the program's poor administrative controls, including delegation of underwriting and claims authority to brokers around the world, and inadequate pricing. Late in 2001, the Company obtained additional information from brokers and performed broker audits in order to reassess its potential exposure. Upon completion of this review, the Company determined that reserve strengthening was required.

The Company had a pre-tax loss of $180.2 million in 2001 compared to pre-tax loss of $144.7 million in 2000, and was primarily a result of the $256.2 million underwriting loss being partially offset by $76.1 million and $16.6 million of investment income and realized investment gains, respectively. The post-tax loss was $121.2 million in 2001 compared to a post-tax loss of $132.3 million in 2000.

Shareholder's equity decreased by 39.3% to $169.2 million at December 31,

2001, compared to $278.7 million at December 31, 2000. The decrease of $109.5 million was primarily due to the net loss of $121.2 million and other comprehensive losses of $1.9 million, partially offset by unrealized appreciation of investments after tax of $13.6 million.

Liquidity and Capital Resources

Liquidity pertains to a company's ability to meet the demand for cash requirements of its business operations and financial obligations. The Company's primary source of short-term liquidity is its portfolio of marketable securities. In addition, the Company relies on financing provided by its parent company to meet liquidity needs.

The Company's primary sources of liquidity during 2001 were net cash provided from investing activities of $66.8 million and a $54.8 million loan from Markel Corporation. The Company's operating activities used cash of approximately $16.6 million. Details of the Company's contractual cash payment obligations including long-term debt and long-term commitments are provided in notes 11(b) and 13 in the notes to consolidated financial statements. See note 3(a) for a discussion of the irrevocable letters of credit and cash and securities held in trust or on deposit for benefit of policyholders or reinsurers in the event of default by the Company on its obligations to pay claims. The Company also has other contingencies, including contingencies arising in the normal conduct of its operations. Details of management's assessment of these additional contingencies are provided in note 11(a).

The Company believes that these sources are sufficient to meet its liquidity needs in the foreseeable future.

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 securities, interest rate risk associated with investments in fixed maturities and foreign exchange risk. The Company has no material commodity risk. Further details of investments forming more than 10% of the Company's shareholder's equity at December 31, 2001 are set out in note 3 of the notes to consolidated financial statements.

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, 2001, the cost of the Company's equity security portfolio was $81.9 million and the fair value was $104.4 million, compared to $70.8 million and $87.1 million, respectively, at December 31, 2000.

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
Movement in fair value of fixed maturity portfolio					
As of December 31, 2001	6.1%	2.9%	0.0%	(2.8)%	(5.5)%
As of December 31, 2000	7.7%	3.7%	0.0%	(3.5)%	(6.7)%
Movement after tax					
As of December 31, 2001	$ 61.6	$ 29.8	$ 0.0	$(28.9)	$(56.2)
As of December 31, 2000	$ 77.6	$ 37.4	$ 0.0	$(35.1)	$(68.0)
Adjusted shareholder's equity					
As of December 31, 2001	$ 230.8	$199.0	$169.2	$140.3	$113.0
As of December 31, 2000	$ 356.3	$316.1	$278.7	$243.6	$210.7

The matrix above shows the sensitivity of the Company's shareholder's equity at December 31, 2001, and December 31, 2000, 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, 2001, is $28.9 million. As a consequence, shareholder's equity at December 31, 2001, would have been $140.3 million and the ratio of debt to debt plus equity would have increased to 55.2% from 50.6% at December 31, 2001.

The Company's long-term debt is all at fixed rates. At December 31, 2000, 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. During 2001, Markel Capital repurchased $2.0 million of these Notes. At December 31, 2001, the Company's total outstanding indebtedness was $173 million, comprised of $74 million 7.2% Senior Notes due 2007 and $99 million 7.0% Senior Notes due 2008. The estimated fair value of the $173 million debt at December 31, 2001 was $161.4 million, and the estimated fair value of the $175 million debt at December 31, 2000 was $161.2 million.

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, 2001, 64% 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, 2001, 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 $1.4 million (2000: $1.3 million).

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

In July 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (Statement) No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires the purchase method of accounting be used for all business combinations and specifies criteria intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment. The Company adopted the provisions of Statement 141 as of July 1, 2001 and Statement 142 is effective January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized and tested for impairment during 2001. See note 19 for further discussion of the Company's adoption of Statements 141 and 142.

ITEM 8 - FINANCIAL STATEMENTS

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.. Report of Independent Accountants (KPMG Audit Plc)

.. Report of Independent Accountants (PricewaterhouseCoopers)

Audited Consolidated Financial Statements:

.. Consolidated Balance Sheets as of December 31, 2001 and 2000

.. Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999

.. Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2001, 2000 and 1999

.. Consolidated Statements of Shareholder's Equity for the years ended December 31, 2001, 2000 and 1999

.. Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999

.. Notes to Consolidated Financial Statements - including summarized consolidated financial information of Markel International Limited as of December 31, 2001 and 2000

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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 sheets of Terra Nova (Bermuda) Holdings Ltd. and subsidiaries (the Company) as of December 31, 2001 and 2000, and the related consolidated statements of operations, comprehensive (loss), shareholder's equity and cash flows for each of the years in the two-year period ended December 31, 2001. In connection with our audits of the consolidated financial statements, we have also audited the 2001 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related 2001 and 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 28, 2002

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REPORTS 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 year ended December 31, 1999 included on page 14 present fairly, in all material respects, the results of operations and cash flows of Terra Nova (Bermuda) Holdings Ltd. and subsidiaries for 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 43 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 periods subsequent to December 31, 1999.

PRICEWATERHOUSECOOPERS
Chartered Accountants

Hamilton, Bermuda
March 10, 2000

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

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

	2001
ASSETS	
Investments available for sale, at fair value:	
Fixed maturities	
Bonds (amortized cost $1,110,860 and $1,184,715 respectively)	$1,141,197
Common stocks (cost $81,852 and $70,792 respectively)	104,362
Total investments	1,245,559
Cash and cash equivalents	178,412
Accrued investment income	21,733
Insurance balances receivable	93,407
Reinsurance recoverable on paid losses	132,339
Reinsurance recoverable on unpaid losses	953,231
Accrued premium income	135,674
Prepaid reinsurance premiums	51,603
Deferred acquisition costs	60,641
Income tax recoverable	603
Deferred income taxes	92,317
Other assets	110,658

Total assets	$3,076,177

LIABILITIES	
Unpaid losses and loss adjustment expenses	$2,172,645
Unearned premiums	351,131
Insurance balances payable	85,322
Long term debt	173,016
Other liabilities	124,897
Total liabilities	2,907,011

SHAREHOLDER'S EQUITY	
Common shares	
"A" ordinary shares (12,000 authorized, issued, and outstanding in 2001, $1.00 par value; 75,000,000 authorized, 40,002,069 issued and outstanding in 2000, $5.80 par value)	12
"B" ordinary shares, convertible, 10,000,000 authorized, $5.80 par value (nil issued and outstanding)	-
Additional capital	266,153
Retained deficit	(133,321)
Accumulated other comprehensive income	36,322
Total shareholder's equity	169,166
Total liabilities and shareholder's equity	$3,076,177

See accompanying notes to the consolidated financial statements

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TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

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

	2001	200
Revenues		
Net written premiums	$ 486,392	$ 544
Decrease (increase) in unearned premiums	53,524	58
Net earned premiums	539,916	603
Net investment income	76,069	84
Realized net capital gains on sales of investments	16,615	8
Total revenues	632,600	697
Expenses		
Losses and loss adjustment expenses, net	565,259	552

Underwriting, acquisition and insurance expenses	230,828	254
Amortization of intangible assets	4,371	3
Interest expense	12,365	12
Merger expenses	-	18
Total operating expenses	812,823	841
Loss before income tax	(180,223)	(144
Income tax benefit	(59,038)	(12
Net loss	$(121,185)	$(132

See accompanying notes to the consolidated financial statements

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

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

	2001	200
Net loss	$(121,185)	$(132
Other comprehensive income (loss):		
Unrealized appreciation (depreciation) of investments before tax	31,365	53
Tax benefit (expense)	(5,422)	(11
Unrealized appreciation (depreciation)of investments after tax	25,943	41
Less: Reclassification adjustment for gains included in net income before tax	(16,615)	(8
Tax expense	4,224	
Reclassification adjustment for gains included in net income after tax	(12,391)	(8
Currency translation adjustment	(1,906)	
Other comprehensive income (loss)	11,646	32
Comprehensive loss	$(109,539)	$(100

See accompanying notes to the consolidated financial statements

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		Common "B" Shar	
	Number	Value	Number	Va
Balance, January 1, 1999	24,172,717	140,202	1,796,217	10
Shares issued for exercise of share options	175,475	1,017	-	
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	141,219	1,796,217	10
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)	(141,207)	(1,796,217)	(10
Issue of new shares	40,000,000	232,000	-	
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	$ 232,012	-	$
Recapitalization transaction	(39,990,069)	(232,000)	-	
Net appreciation	-	-	-	
Income tax expense	-	-	-	
Change during the year	-	-	-	
Net loss	-	-	-	
Balance, December 31, 2001	12,000	$ 12	-	$

Deferred	Unrealized Appreciation	Cu

	Equity Compensation	Additional Capital	(Depreciation) of Investments	Tr A
Balance, January 1, 1999	4,623	111,727	80,342	
Shares issued for exercise of share options	-	2,128	-	
Shares repurchased during the year	-	-	-	
Deferred compensation expense	2,941	-	-	
Net depreciation	-	-	(107,660)	
Income tax benefit	-	-	23,369	
Change during the year	-	-	-	(
Net loss	-	-	-	
Dividends paid - $0.24 per ordinary share	-	-	-	
Balance, December 31, 1999	7,564	113,855	(3,949)	(
Shares issued for exercise of share options	-	(1,000)	-	
Deferred compensation expense	212	-	-	
Deferred compensation expense released on exercise of share option	369	(369)	-	
Elimination of deferred equity compensation	(8,145)	8,145	-	
Cancellation of stock held in trust	-	(15,741)	-	
Cancellation of shares and additional capital	-	(80,375)	-	
Issue of new shares	-	-	-	
Cost of option exercises on closure	-	9,638	-	
Net appreciation	-	-	44,495	
Income tax expense	-	-	(11,441)	
Change during the year	-	-	-	
Net loss	-	-	-	
Dividend paid	-	-	-	
Balance, December 31, 2000	$ -	$ 34,153	$ 29,105	$ (
Recapitalization transaction	-	232,000	-	
Net appreciation	-	-	14,750	
Income tax expense	-	-	(1,198)	
Change during the year	-	-	-	(
Net loss	-	-	-	
Balance, December 31, 2001	$ -	$ 266,153	$ 42,657	$ (

See accompanying notes to the consolidated statements

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

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

	2001

Cash flows from operating activities:		
Net loss	$ (121,185)	$(
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:		
Amortization of goodwill	4,371	
Bad debt expenses	35,000	
Realized net capital gains	(16,615)	
Stock option compensation expense	564	
Change in unpaid losses and loss adjustment expenses	505,824	
Change in unearned premiums and prepaid reinsurance	(11,248)	
Change in insurance balances payable	7,136	
Change in insurance balances receivable, accrued premium income and reinsurance recoverable on paid and unpaid losses	(389,674)	(
Change in deferred acquisition costs	9,600	
Change in accrued investment income	4,614	
Change in current and deferred income taxes	(58,318)	
Change in other assets and liabilities, net	13,379	
Total adjustments	104,633	
Net cash and cash equivalents (used in) provided by operating activities	(16,552)	
Cash flows from investing activities:		
Proceeds of fixed maturities matured	29,500	
Proceeds of fixed maturities sold	269,761	
Proceeds of equity securities sold	17,780	
Purchase of fixed maturities	(224,196)	(
Purchase of equity securities	(26,001)	
Acquisition of capacity at Lloyd's	-	
Net cash and cash equivalents provided by investing activities	66,844	
Cash flows from financing activities:		
Stock repurchases	-	
Loan from Markel Corporation	54,808	
Repurchase of long-term debt	(1,984)	
Proceeds from shares issued	-	
Ordinary dividends paid	-	
Net cash and cash equivalents provided by (used in) financing activities	52,824	
Change in cash and cash equivalents	103,116	
Cash and cash equivalents at beginning of year	75,296	
Cash and cash equivalents at end of year	$ 178,412	$
Supplemental disclosure of cash flow information		
Income taxes (received) paid	$ (481)	$
Interest paid	$ 12,365	$

See accompanying notes to the consolidated financial statements

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 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. At the date of the acquisition, the Company's $175 million of public debt remained outstanding. See note 11 for a further discussion of changes made as of January 1, 2002 and the impact of those changes on the Company's operations in the London Insurance Market.

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 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 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.

1. Organization (continued)

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 did not charge a profit commission from the 2001 underwriting year.

The managing agency manages but does not participate in its own syndicate 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. Summary of Significant Accounting Policies

(a) Basis of Presentation: The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts have been made to conform with 2001 presentations.

Beginning January 1, 2001, Markel Capital provides 100% of the capacity to the Company's syndicates. For years of account prior to 2001, the Company has recorded its pro rata share of syndicates' assets, liabilities, revenues and expenses. The Company makes adjustments to convert Lloyd's accounting to U.S. GAAP. Lloyd's syndicates determine underwriting results by year of account over a three-year period. The Company records adjustments to recognize the ultimate underwriting results, including the expected ultimate premiums written and earned and losses incurred.

(b) Use of Estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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. Management periodically reviews its estimates and assumptions including the adequacy of reserves for unpaid losses and loss adjustment expenses, reinsurance allowance for doubtful accounts and litigation liabilities, as well as the recoverability of deferred tax assets, deferred policy acquisition costs and intangible assets. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

(c) 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.

(d) 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.

(e) 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.

(f) 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 U.S. GAAP. Agency income is earned and agency expenses charged as incurred from Markel Syndicate Management's role as managing agent.

2. Summary of Significant Accounting Policies (continued)

(g) 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.

(h) 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.

(i) Derivative Financial Instruments: Effective January 1, 2001, the Company adopted the provisions of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. All derivative instruments, including certain derivative instruments embedded in other contracts and hedging activities, are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheet. Changes in fair value are recognized immediately in earnings unless the derivative is designated as a hedge and qualifies for hedge accounting. The gains or losses from the change in fair value of derivatives that qualify as hedges are recognized in earnings or other comprehensive income (OCI), depending on the type and effectiveness of the hedge. For a derivative designated and qualified as a hedge of a net investment in a foreign operation, the effective portion of the change in fair value is reported in OCI as part of cumulative translation adjustments. The ineffective portion of the change in fair value of a hedge of a net investment in a foreign operation is recognized immediately in earnings.

(j) 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. Under Statement 109, the Company records deferred income taxes which reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and their respective tax bases.

(k) Foreign currency translation: The US dollar is the reporting currency of the Company. The functional currencies of the Company are the currencies in which the majority of the business is transacted. Monetary assets and liabilities are translated into the United States Dollar using the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historic rates of exchange. Revenues and expenses are translated using the average exchange rate for the period. Gains or losses from translating functional currencies to reporting currencies are included, net of tax, in shareholder's equity as a component of accumulated other comprehensive income. Gains and losses arising from transactions denominated in a foreign currency are included in net income (loss).

The Company manages its exposure to foreign currency risk primarily by matching assets and liabilities denominated in the same currency. To the extent that assets and liabilities in foreign currencies are not matched, the Company is exposed to foreign currency risk and related exchange rate fluctuations are reflected in other comprehensive income.

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

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

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TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(n) Losses and loss adjustment expenses: Unpaid losses and loss adjustment expenses are based on evaluations of reported claims and estimates for losses and loss adjustment expenses incurred but not reported. Estimates for losses and loss adjustment expenses incurred but not reported are based on reserve development studies. The reserves recorded are estimates, and the ultimate liability may be greater than or less than the estimates; however, management believes the reserves are adequate.

(o) 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.

(p) Goodwill: The goodwill in the Company's consolidated 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. See note 19 for a discussion of adopting Financial Standards Board (FASB) Statement of Financial Accounting Standard (Statement) No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets.

3. Investments and Cash

(a) Deposits: Securities with a carrying value of $176,288,677 and $148,939,275 at December 31, 2001 and 2000, 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 $29,810,950 and $22,243,365 at December 31, 2001 and 2000, 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 $47,107,609 and $50,184,172 at December 31, 2001 and 2000, 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 $82,220,155 and $95,984,794 at December 31, 2001 and 2000, respectively. The Company has deposited cash and investments with a carrying value of $105,470,845 and $105,583,273 at December 31, 2001 and 2000, respectively, as collateral against these amounts.

The Company has deposits at Lloyd's with a carrying value of $141,872,850 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 $185,744,602 and $187,014,278 supporting the Company's underwriting activities on the Markel Syndicate Management syndicates at December 31, 2001 and 2000, respectively. The Company has deposited cash and investments with a carrying value of $204,319,062 at December 31, 2001 and $208,030,000 at December 31, 2000, as collateral to support this commitment. Cash and securities with a carrying value of $384,168,000 and $303,193,000 at December 31, 2001 and 2000, respectively, were held in trust for the benefit of the Markel Syndicate Management syndicates' policyholders.

3. Investments and Cash (continued)

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

(dollars in thousands)	Year ended December	
	2001	2000
Fixed maturities	$ 68,050	$ 79,052
Equity securities	872	875
Cash and cash equivalents	9,560	7,726
Total investment income	78,482	87,653
Investment expenses	(2,413)	(2,730
Net investment income	$ 76,069	$ 84,923

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

(dollars in thousands)	Year ended Decemb	
	2001	2000
Realized net capital gains (losses) on sale of investments:		
Fixed maturities	$ 15,491	$ (6,926)
Equity securities	1,124	15,632
Realized net capital gains	16,615	8,706
Changes in net unrealized appreciation (depreciation):		
Fixed maturities	8,504	39,796
Equity securities	6,246	4,699
Changes in net unrealized appreciation (depreciation)	14,750	44,495
Realized net capital gains and change in net unrealized appreciation (depreciation) of investments	$ 31,365	$ 53,201

Realized net capital gains (losses) on sale of fixed maturities for the years ended December 31, 2001, 2000 and 1999, included gross capital gains of $19,441,000, $11,937,000 and $5,754,000, and gross capital losses of $3,950,000, $18,863,000 and $11,820,000, respectively.

Proceeds from sales of investments in equity securities during 2001, 2000 and 1999, were $17,780,000, $90,299,000 and $174,530,000, respectively. Realized net capital gains on sale of equity securities for the years ended December 31, 2001, 2000 and 1999, included gross capital gains of $3,276,000, $28,122,000 and $42,403,000 and gross capital losses of $2,152,000, $12,490,000 and $9,458,000, respectively.

Net unrealized appreciation of equities (before income tax) of the Company at December 31, 2001, included gross unrealized appreciation of $25,200,000 and gross unrealized depreciation of $2,690,000. Net unrealized appreciation of equities of the Company at December 31, 2000, included gross unrealized

appreciation of $19,424,000 and gross unrealized depreciation of $3,160,000.

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

3. Investments and Cash (continued)

(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:

2001 (dollars in thousands)	Amortized cost	Gross unrealized appreciation	Gross unrealized depreciatio
U.S. government and agencies	$ 102,098	$ 2,194	$ (1
Foreign governments and agencies	508,146	16,263	(3,1
Mortgage backed and asset backed	9,888	892	
Supranationals	144,537	6,408	(2
Corporate	346,191	10,571	(2,4
Total fixed maturities	$1,110,860	$36,328	$(5,9

2000 (dollars in thousands)	Amortized cost	Gross unrealized appreciation	Gross unrealized depreciatio
U.S. government and agencies	$ 176,061	$ 7,885	$ (2
Foreign governments and agencies	537,991	11,447	(8
Mortgage backed and asset backed	11,520	537	
Supranationals	137,083	567	(5
Corporate	322,060	7,892	(4,8
Total fixed maturities	$1,184,715	$28,328	$(6,4

The amortized cost and estimated fair value of the Company's fixed maturities at December 31, 2001, 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	$ 135,773	$ 137,575
Due after one year through five years	654,369	676,093

Due after five years through ten years	314,101	321,007
Due after ten years	6,617	6,522
	$1,110,860	$1,141,197

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.

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

3. Investments and Cash (continued)

(e) At December 31, 2001, the Company's portfolio by rating category, determined by recognized rating agencies, was:

(dollars in thousands)	Estimated fair value
U.S. government and agency	$ 104,148
U.K. government and agency	181,701
AAA	489,899
AA	240,532
A	91,060
BBB	26,782
BB	-
B	7,075
	$1,141,197

(f) At December 31, 2001, the estimated fair value of the following investments exceeded 10% of shareholder's equity:

(dollars in thousands)	Estimated fair value
U.K. Treasury	$181,701
United States Treasury	72,080
Canadian Treasury	54,604
European Investment Bank	47,772
Republic of Finland	36,205
International Bank of Reconstruction & Development	28,475
Province of Ontario	27,340
Government of Japan	25,620
Oesterreich Kontrollbank	22,261
Berkshire Hathaway	21,209
Republic of Austria	20,280
Republic of Italy	19,174
Interamerica Development Bank	18,263

(g) Equities available for sale: At December 31, 2001, the cost and estimated fair value of investments in common stocks were as follows:

(dollars in thousands)	Cost	Estimated fair value
Banks, trusts and insurance companies	$27,416	$ 36,808
Industrial, miscellaneous and all other	54,436	67,554
Total equity securities	$81,852	$104,362

TERRA NOVA (BERMUDA) HOLDINGS LTD.
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Notes to Consolidated Financial Statements (continued)

4. Income Taxes

(a) The U.K. corporation tax rate applicable to ordinary income was reduced to 30% from 31% on April 1, 1999. The corporation tax rate in France was, 40% for 1999, 37.7% for 2000 and 36.7% for 2001. 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)	Year ended December 31, 2001	2000	1999
"Expected" tax benefit	$(54,067)	$(43,416)	$(21,96
Adjustments:			
Non-taxable income	(9,773)	(105)	(16,87
Deferred taxation valuation allowance	-	33,663	
Other	4,802	(2,569)	1,21
Actual tax benefit	$(59,038)	$(12,427)	$(37,62

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

(dollars in thousands)	Year ended December 31, 2001	2000	1999
Current U.K. corporation tax benefit	$ (967)	$ (66)	$ (7,644
Current French corporation tax expense (benefit)	1,670	(1,055)	(160
Deferred tax	(59,741)	(11,306)	(29,824
Income tax benefit	$(59,038)	$(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, 2001 and 2000, were as follows:

(dollars in thousands)	2001	2000
Deferred tax assets:		
Unrealized depreciation of investments	$ 2,254	$ 1,419
Operating losses and other	135,655	76,464
Total gross deferred tax assets	137,909	77,883
Less valuation allowance	(33,663)	(33,663)
Total gross deferred tax assets, net of allowance	104,246	44,220
Deferred tax liabilities:		
Unrealized appreciation of investments	(11,756)	(10,412)
Other	(174)	(174)
Total deferred tax liabilities	(11,930)	(10,586)
Net deferred tax asset	$ 92,316	$ 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, 2001 of $92.3 million through future taxable income generated by its subsidiaries.

4. Income Taxes (continued)

While management believes it is more likely than not that its subsidiaries will generate sufficient future taxable income to realize this gross deferred tax asset, a change in the Company's estimates and assumptions could result in an increase in the valuation allowance through a charge to earnings.

(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.

5. 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:

	Year ended December 31,		
(dollars in thousands)	2001	2000	1999
Balance at beginning of year	$ 70,241	$ 99,683	$107,607
Acquisition costs deferred			
Commissions	173,465	166,104	161,737
Other	39,179	40,221	71,175
	212,644	206,325	232,912
Amortization charged to income			
Commissions	181,987	187,958	171,536
Other	40,258	47,809	69,300
	222,245	235,767	240,836
Balance at end of year	$ 60,641	$ 70,241	$ 99,683

6. 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 (BERMUDA) HOLDINGS LTD.
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Notes to Consolidated Financial Statements (continued)

6. Employee Benefits (continued)

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 $2,103,649 (2000: $3,035,586).

The following tables set out the funded status of Terra Nova's defined benefit plan for the years ended December 31, 2001, 2000 and 1999, and the amounts recognized in the accompanying consolidated balance sheets of the Company at December 31, 2001 and 2000:

(dollars in thousands)	Year ended December 31, 2001	2000	1999
Component of net periodic benefit costs:			
Service cost	$ 1,778	$ 2,054	$ 3,209
Interest cost	2,176	2,317	2,429
Expected return on plan assets	(3,860)	(4,480)	(4,492)
Amortization of transition obligation	(82)	(87)	(92)
Recognized net actuarial gain	(59)	(617)	-
Net periodic benefit (income) cost	$ (47)	$ (813)	$ 1,054

(dollars in thousands)	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 37,890	$ 40,373
Service cost	1,778	2,054
Interest cost	2,176	2,317
Benefits paid	(1,204)	(5,542)
Actuarial gain	(152)	(1,312)
Benefit obligation at end of year	40,488	37,890
Change in plan assets:		
Fair value of plan assets at beginning of year	49,573	60,223
Actual loss on plan assets	(7,547)	(6,475)
Employer contribution	1,089	1,367
Benefits paid	(1,204)	(5,542)

Fair value of plan assets at end of year	41,911	49,573
Funded status:		
Planned assets in excess of benefit obligation	1,423	11,683
Unrecognized net actuarial gain (loss)	4,521	(6,568)
Unrecognized transition obligation	(167)	(257)
Prepaid benefit	$ 5,777	$ 4,858
Weighted-average assumptions as of December 31		
Discount rate	6.00%	6.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.50%	4.75%

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

6. Employee Benefits (continued)

The following table summarizes key information for the Markel Syndicate Management Plans and the amounts recognized in the accompanying consolidated financial statements of the Company at December 31, 2001 and 2000:

(dollars in thousands)	2001	2000
Fair value of plan assets	$ 5,525	$ 8,984
Benefit obligation	5,238	8,984
Excess of plan assets over benefit obligation	$ 287	$ -
Employer contributions	$ 485	$ 535

7. Share Capital

At December 31, 2000, the Company had 75,000,000 "A" ordinary shares (par value $5.80) of which 40,002,069 were issued and outstanding, and 10,000,000 "B" ordinary shares (par value $5.80) of which none were issued and outstanding.

During the third quarter of 2001, Markel Corporation, the sole shareholder of Terra Nova (Bermuda) Holdings Ltd. (the "Company"), caused a reduction in the issued and authorized share capital of the Company and a subdivision of the remaining share capital resulting in the authorized and issued share capital of the Company being $12,000 divided into 12,000 Class A ordinary shares of $1.00 par value each. As a result of this recapitalization transaction, at December 31, 2001, the Company had 12,000 "A" ordinary shares (par value $1.00) authorized, issued and outstanding.

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.

8. 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.

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.

8. Reinsurance (continued)

The Company cedes reinsurance to and assumes reinsurance from Lloyd's syndicates. At December 31, 2001, 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 $268.4 million. Approximately 26% of this amount 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 fulfill its commitment to the syndicates. No specific bad debt provision has been established for amounts due from Equitas and Lloyd's syndicates.

In the years ended December 31, 2001, 2000 and 1999, the percentage of reinsurance premiums assumed to net written premiums was 31.2%, 30.4% and 42.6%, respectively.

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

	Year ended December 31,		
(dollars in thousands)	2001	2000	1999
Direct business	$ 618,083	$ 540,021	$ 601,419
Reinsurance assumed	151,890	165,384	263,514

Reinsurance ceded	(283,581)	(160,511)	(246,487)
Net written premiums	$ 486,392	$ 544,894	$ 618,446

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

(dollars in thousands)	Year ended December 31, 2001	2000	1999
Direct business	$ 613,503	$ 573,080	$ 495,339
Reinsurance assumed	167,053	222,326	310,384
Reinsurance ceded	(240,640)	(191,867)	(220,442)
Net earned premiums	$ 539,916	$ 603,539	$ 585,281

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

(dollars in thousands)	Year ended December 31, 2001	2000	1999
Losses and loss adjustment expenses, gross	$1,223,268	$1,017,543	$ 752,499
Reinsurance ceded	(658,009)	(465,245)	(261,256)
Losses and loss adjustment expenses, net	$ 565,259	$ 552,298	$ 491,243

TERRA NOVA (BERMUDA) HOLDINGS LTD.
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Notes to Consolidated Financial Statements (continued)

9. Unpaid Losses and Loss Adjustment Expenses

Movement in unpaid losses and loss adjustment expenses for the years ended December 31, 2001, 2000 and 1999, is summarized in the table below.

(dollars in thousands)	2001	2000
Reserves for unpaid losses and loss adjustment expenses, at beginning of year	$1,671,738	$1,409,968
Less: reinsurance recoverables on unpaid losses	(589,884)	(346,483)
Net balance at beginning of year	1,081,854	1,063,485

Net incurred losses and loss adjustment expenses related to:		
Current year	451,261	507,396
Prior year	113,998	44,902
Total net incurred losses and loss adjustment expenses	565,259	552,298
Net paid losses and loss adjustment expenses related to:		
Current year	(111,660)	(178,813)
Prior year	(338,219)	(372,896)
Total net paid losses and loss adjustment expenses	(449,879)	(551,709)
Foreign exchange adjustment	(13,737)	(31,858)
Net balance at end of year	1,183,497	1,032,216
Net reserves from reinsurance to close	35,917	49,638
Net reserves at end of year	1,219,414	1,081,854
Reinsurance recoverables	953,231	589,884
Reserves for unpaid losses and loss adjustment expenses, at end of year	$2,172,645	$1,671,738

The adverse prior year development of $114.0 million in 2001 is partially offset by increases to prior year net written and net earned premiums of $25.3 million. When these revisions to prior year written and earned premiums are considered, the Company experienced a net prior year adverse development of $88.7 million. The increase in the 2000 and prior year incurred losses was primarily due to reserve strengthening for asbestos exposures ($20.0 million), reserve strengthening on the discounted world-wide motor program ($39.0 million) and an allowance for reinsurance recoverables ($30.0 million).

The Company's 2001 results include $68.0 million of estimated net losses related to the terrorist attack on the World Trade Center and other related events of September 11, 2001 (WTC). Approximately $5.5 million of estimated net losses were ceded to certain United States insurance subsidiaries of its parent, Markel Corporation. Further details of this quota share arrangement are provided in note 12. Before these cessions the estimated WTC losses were $73.5 million, net of approximately $248 million of reinsurance recoverables.

The Company has used many loss estimation techniques including detailed policy level reviews, the use of catastrophe modeling software, direct contact with insureds and brokers and sensitivity analysis to possible coverage scenarios in order to develop its estimated WTC exposure. New information concerning potential losses and coverage continues to emerge daily. While the Company believes that its WTC reserve is adequate, adverse development is possible.

9. Unpaid Losses and Loss Adjustment Expenses (continued)

Management continually attempts to improve its loss estimation process by refining its ability to analyze loss development patterns, claim payments and other information, but many reasons remain for potential adverse development of estimated ultimate liabilities. The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgements. As part of the reserving process, the Company reviews historical data and considers the impact of various factors such as trends in claim frequency and severity, changes in operations, emerging economic and social trends, inflation and changes in regulatory and litigation environments. 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.

The Company believes the process of evaluating past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. Management currently believes the Company's gross and net reserves, including the reserves for environmental and asbestos exposures, are adequate. There is no precise method, however, for evaluating the impact of any significant factor on the adequacy of reserves, and actual results are likely to differ from original estimates.

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.

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)

	Year ended December 31,		
(dollars in thousands)	2001	2000	1999
Reserves for unpaid losses and loss adjustment expenses, at beginning of year	$105,133	$ 90,277	$ 95,890
Incurred losses and loss adjustment expenses	18,832	22,988	(137)
Paid losses and loss adjustment expenses	(9,930)	(8,132)	(5,476)

Reserves for unpaid losses and loss adjustment expenses, at end of year	$114,035	$105,133	$ 90,277

TERRA NOVA (BERMUDA) HOLDINGS LTD.
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Notes to Consolidated Financial Statements (continued)

9. Unpaid Losses and Loss Adjustment Expenses (continued)

The reinsurance recoverables netted against the asbestos-related and environmental pollution loss reserves for each of the years 2001, 2000 and 1999, are as follows:

(dollars in thousands)	2001	2000	1999
Gross reserves	$169,335	$167,161	$128,192
Reinsurance recoverables	(55,300)	(62,028)	(37,915)
Net reserves	$114,035	$105,133	$ 90,277

10. 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, 2001 and 2000, of $80,300,000 and $48,189,000, respectively. Doubtful accounts against which provisions of $2,889,000 had previously been made were written off during 2001. The charge to doubtful accounts was $35,000,000, $9,392,000 and $8,497,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

11. Commitments and Contingent Liabilities

(a) On January 31, 2001, the Company received notice of a lawsuit filed in the United States District Court for the Southern District of New York against Terra Nova Insurance Company Limited by Palladium Insurance Limited and Bank of America, N.A. seeking approximately $27 million plus exemplary damages in connection with alleged reinsurance agreements. A similar lawsuit seeking approximately $8.5 million for breach of an alleged insurance policy was previously filed by PXRe Corporation. The Company believes it has numerous defenses to these claims, including the defense that the alleged reinsurance agreements and insurance policy were not valid. The Company intends to vigorously defend these matters; however, the outcome cannot be predicted at this time.

On May 29, 2001, Reliance Insurance Company was placed in rehabilitation by the Pennsylvania Insurance Department. During the third quarter of 2001, the Pennsylvania Insurance Department removed Reliance Insurance Company from rehabilitation and placed it into liquidation. Reliance Insurance Company and its affiliates owed the Company approximately $26 million in reinsurance recoverables for paid and unpaid losses at December 31, 2001. In addition, a portion of the Reliance recoverables are the subject of dispute. These balances were considered in the normal course of assessing the collectability of reinsurance recoverables and an allowance was established.

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.

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

11. Commitments and Contingent Liabilities (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, 2001, under non-cancelable operating leases are as follows:

(dollars in thousands)	
2002	$ 3,557
2003	2,742
2004	2,460
2005	2,361
2006	3,924
2007 and later years	19,227
	$34,271

Rental expense on property leases of $4,481,000, $5,057,000, and $4,467,000 was incurred for the periods to December 31, 2001, 2000, and 1999, respectively.

12. Related Party Transactions

At December 31, 2001, the Company had outstanding interest free short-term borrowings of $54.8 million due to its parent company, Markel Corporation.

Effective January 1, 2001, the Company entered into a quota share reinsurance agreement (the "Agreement") with certain United States insurance subsidiaries of its parent, Markel Corporation. Under the Agreement the Company's subsidiary, Markel Capital Limited, cedes 24% of 2001 year of account net written premiums and related losses and expenses to these subsidiaries. For the year ended December 31, 2001, the Company ceded premiums totalling $71.3 million.

13. Long-Term Debt

At December 31, 2000, the Company had $75 million of 7.2% Senior Notes due August 7, 2007 and $100 million of 7.0% Senior Notes due May 8, 2008. During 2001, Markel Capital repurchased $2.0 million of these Notes. At December 31, 2001, the Company had $74 million of 7.2% Senior Notes due August 7, 2007 and $99 million of 7.0% Senior Notes due May 8, 2008.

The estimated fair value of the $173 million debt at December 31, 2001 was $161.4 million, and the estimated fair value of the $175 million debt at

December 31, 2000 was $161.2 million.

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.

14. 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 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. Effective January 1, 2002, the Company realigned its Markel International underwriting operations along product lines and customers and combined the operations of four Lloyd's syndicates into one. As a result of these changes, the Company will have the ability to compete in the London Insurance Market without distinction between the London Company Market and the Lloyd's Market.

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, 2001, 2000 and 1999. Prior year amounts have been reclassified to conform with the current year presentation.

(dollars in thousands)	2001	2000	1999
Segment Revenue			
London Company Market	$ 141,646	$ 186,655	$ 227,694
Lloyd's Market	302,250	248,214	141,022
Investing	92,684	93,628	120,708
Other	96,020	168,671	216,565

Total	$ 632,600	$ 697,168	$ 705,989
Segment (Loss) Profit			
London Company Market	$ (44,232)	$ (74,707)	$ (57,026)
Lloyd's Market	(97,575)	(48,174)	(6,884)
Investing	92,684	93,628	120,708
Other	(114,364)	(80,868)	(112,911)
Total	$(163,487)	$(110,121)	$ (56,113)
Combined Ratio			
London Company Market	131%	140%	125%
Lloyd's Market	132%	119%	105%
Investing	-	-	-
Other	219%	148%	152%
Total	147%	134%	130%

TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

14. Segment Information (continued)

(dollars in thousands)	2001	2000	1999
Segment Assets			
Investing	$1,423,971	$1,368,900	$1,490,808
Other	1,652,206	1,267,691	1,140,892
Total	$3,076,177	$2,636,591	$2,631,700

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

(dollars in thousands)	2001	2000	1999
Segment loss	$(163,487)	$(110,121)	$(56,113)
Reconciling items:			
Interest expense	(12,365)	(12,400)	(12,400)
Merger expenses	-	(18,416)	-
Amortization expense	(4,371)	(3,789)	(4,089)
Net loss before tax	$(180,223)	$(144,726)	$(72,602)

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15. 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.

Terra Nova's unaudited required minimum statutory solvency margin and unaudited statutory solvency margin at December 31, 2001, were $28,978,000 and $57,863,000, respectively. Terra Nova's unaudited and estimated FSA Return policyholders' surplus and unaudited net income for the year ended December 31, 2001, 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, 2000 and 1999, are as follows:

(dollars in thousands)	2001	2000	1999
	(Unaudited)		
Policyholders' surplus	$86,841	$137,067	$154,920
Net loss before dividends	(33,013)	(20,506)	(7,315)

Terra Nova's ability to pay dividends is limited by applicable FSA requirements, which require 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.

(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 Bermuda statutory financial statements and a statutory financial return. The Act and conditions imposed by the Bermuda regulators also require 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 Class 3 insurer.

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TERRA NOVA (BERMUDA) HOLDINGS LTD.
AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

15. Statutory Financial Data (continued)

Terra Nova (Bermuda)'s statutory capital and surplus and minimum required statutory capital and surplus and net income for the years ended December 31, 2001, 2000 and 1999, respectively, were:

(dollars in thousands)	2001	2000	1999
	(Unaudited)		
Statutory capital and surplus	$100,363	$104,898	$168,26
Minimum required statutory capital and surplus	100,000	100,000	100,00
Net income before dividends	32,272	24,345	69,68

(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.

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

Markel International's summarized consolidated balance sheet information as at December 31, 2001, and December 31, 2000, and summarized consolidated statement of operations information for the year ended December 31, 2001, and 2000, are set out below.

Markel International is the issuer of $75 million 7.2% Senior Notes due 2007 and $100 million 7.0% Senior Notes due 2008. During 2001, Markel Capital repurchased $2.0 million of this debt. The Senior Notes are guaranteed fully and unconditionally by the Company.

	December 31,	
(dollars in thousands)	2001	200
Investments and cash	$1,094,932	$ 96
Reinsurance recoverable on unpaid losses	1,070,378	72
Accrued premium income	137,136	14
Other assets	546,436	47
Total assets	$2,848,882	$2,30
Unpaid losses and loss adjustment expenses	$2,106,356	$1,57
Unearned premiums	351,131	36
Long-term debt	173,016	17
Other liabilities	186,424	9
Total liabilities	2,816,927	2,20
Total shareholder's equity	31,955	10
Total liabilities and shareholder's equity	$2,848,882	$2,30

AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements (continued)

16. Summarized Financial Information for Markel International Limited (continued)

(dollars in thousands)	Year ended December 31, 2001	2000
Net earned premiums	$ 532,770	$ 571,497
Net investment income	52,096	52,482
Realized investment gains	14,427	1,452
Foreign exchange (losses) gains	(1,742)	4,407
Agency income	4,320	10,715
Total revenues	601,871	640,553
Underwriting costs and expenses	814,671	796,341
(Loss) from operations before income tax and extraordinary charge	(212,800)	(155,788)
Net (loss)	$ (153,763)	$(143,361)

17. Unaudited Selected Quarterly Financial Data

(dollars in thousands)	Three months ended March 31	Three months ended June 30	Three months ended September 30	T D
2001				
Gross premium volume	$250,627	$131,652	$186,175	
Net written premium	184,296	79,319	75,622	
Net retention	74%	60%	41%	
Net earned premiums	136,969	105,864	141,851	
Underwriting loss	(22,272)	(18,497)	(122,608)	
GAAP combined ratio	116%	117%	186%	
2000				
Gross premium volume	$289,867	$162,964	$129,413	
Net written premium	241,402	108,690	93,298	
Net retention	83%	67%	72%	
Net earned premiums	154,736	170,809	131,449	
Underwriting loss	(100,555)	(37,701)	(25,950)	
GAAP combined ratio	165%	122%	120%	

18. Derivatives

The Company uses derivative instruments to hedge against fluctuations in foreign currency exchange rates and interest rates. Derivatives are not typically used by the Company for trading purposes.

The Company purchased foreign exchange forward contracts which have been designated as hedges of net investments in subsidiaries. The contracts are recorded at fair value, with the change in fair value recorded in other comprehensive income (OCI) to the extent the change is equal to or less than the offsetting adjustment recorded in OCI that arose by translating the hedged foreign operation's financial statements into the Company's reporting currency. The amount of the change in fair value of the forward contracts in excess of the adjustment to the net investment is included in earnings. At December 31, 2001 and 2000, the Company held positions in foreign exchange forward contracts with an aggregate notional amount of $55.3 million and $45.3 million, respectively, to buy United Kingdom Sterling. Contracts unsettled at December 31, 2001 mature in June 2002. The fair value of the unsettled forward contracts and the gain (loss) on settled and unsettled forward contracts were immaterial at and for the years ended December 31, 2001 and 2000, respectively.

19. Impact of Recently Issued Accounting Standards

In July 2001 the FASB issued Statement No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations and specifies criteria intangible assets acquired in a business combination must meet to be recognised and reported apart from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Statement 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment.

The Company adopted the provisions of Statement 141 as of July 1, 2001 and Statement 142 is effective January 1, 2002. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized and tested for impairment during 2001.

Statement 141 requires upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired, and make any necessary amortization period adjustments. In addition to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible for impairment in accordance with the provisions of Statement 142. Any impairment loss will be measured as of January 1, 2002 and recognised as the cumulative effect of a change in accounting principle.

In connection with the transitional goodwill impairment evaluation, Statement 142 requires the company to perform an assessment of whether there is an indication that goodwill is impaired of January 1, 2002. Any transitional impairment loss will be recognised as the cumulative effect of a change in accounting principle in the Company's consolidated statement of operations.

At December 31, 2001, the Company had unamortized goodwill in the amount of

$23.2 million and unamortized other intangible assets in the amount of $26.0 million, all of which will be subject to the transition provisions of Statements 141 and 142. Amortization expense related to goodwill was $4.4 million, $3.8 million and $4.1 million for 2001, 2000 and 1999, respectively. The Company has not completed the extensive effort needed to comply with adopting Statements 141 and 142. Therefore it is not practical to reasonably estimate the impact of adopting these Statements on the Company's consolidated financial statements at the date of this report, including whether any transitional impairment losses will be recognised.

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

None.

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		Page
Schedule II(a)	- Condensed Financial Information of Registrant (Parent Company)	
	- Condensed Balance Sheets	44
Schedule II(b)	- Condensed Financial Information of Registrant (Parent Company)	
	- Condensed Statements of Operations	45
Schedule II(c)	- Condensed Financial Information of Registrant (Parent Company)	
	- Condensed Statements of Cash Flows	46

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.

None.

(c) Exhibits. The Index to Exhibits and the Exhibits filed as part of this report. 47

Supplemental Schedule II(a)

TERRA NOVA (BERMUDA) HOLDINGS LTD. AND SUBSIDIARIES

PARENT COMPANY FINANCIAL INFORMATION (1)
CONDENSED BALANCE SHEETS
(dollars in thousands)

	December 31, 2001	December 31, 2000
ASSETS		
Investment in subsidiaries	$169,769	$250,618
Fixed maturities	1,514	22,878
Common stocks	-	4,493
Total investments	171,283	277,989
Other assets	9,295	12,019
Total assets	$180,578	$290,008
LIABILITIES AND SHAREHOLDER'S EQUITY		
Other liabilities	$ 19,856	$ 11,303
Total liabilities	19,856	11,303
Total shareholder's equity	160,722	278,705
Total liabilities and shareholder's equity	$180,578	$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 the independent accountants.

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, 2001	Year Ended December 31, 2000
Revenues:		
Net investment income	$ 3,515	$ 7,082
Realized gains (losses) on sales of investments	1,447	5,134

Foreign exchange gains	53	54
Total revenues	5,015	12,270
Expenses:		
Deferred debt expenses	-	-
Salaries	-	2,391
Legal and professional expenses	78	6,927
Other expenses	327	12,086
Total expenses	405	21,404
Loss from operations before equity in net income of consolidated subsidiaries	4,610	(9,134)
Equity in net loss of consolidated subsidiaries	(125,795)	(123,165)
Net (loss)	$ (121,185)	$ (132,299)

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

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Supplemental Schedule II(c)

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

	Year Ended December 31,	
	2001	2000
Cash flows from operating activities:		
Net (loss) income	$ (121,185)	$ (132,299)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Equity in net loss of consolidated subsidiaries	125,795	123,165
Realized capital (gains) losses	(1,447)	(5,134)
Stock option compensation expense	-	9,638
Change in accrued investment income	447	838
Change in other assets and liabilities, net	(4,764)	3,989
Net cash (used in) provided by operating activities	(1,154)	197
Cash flows from investing activities:		
Proceeds of fixed maturities sold	9,094	58,826

Proceeds of stocks sold	-	66,927
Purchase of fixed maturities	(1,007)	(26,834)
Purchase of stocks	(632)	(28,397)
Net cash provided by (used in) investing activities	7,455	70,522
Cash flows from financing activities:		
Purchase of new share capital in subsidiary (2)	(7,002)	(667)
Proceeds from shares issued	-	46
Stock repurchases	-	-
Ordinary dividends received from subsidiary company (3)	102	68
Ordinary dividends paid to shareholders	-	(75,000)
Net cash (used in) provided by financing activities	(6,900)	(75,553)
Change in cash and cash equivalents	(599)	(4,834)
Cash and cash equivalents at beginning of year	975	5,809
Cash and cash equivalents at end of year	$ 376	$ 975

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

(2) Total purchase of new share capital in subsidiary company was $86 million and $188 million in 2001 and 2000, respectively.

(3) Total dividends received from subsidiaries were $45 million, $40 million and $213 million in 2001, 2000 and 1999, respectively.

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, 2001, 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 28, 2002

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	Da
By	/S/ JEREMY D. COOKE Jeremy D. Cooke President	March
By	/S/ ANDREW J. DAVIES Andrew J. Davies Finance Director, Principal Accounting Officer and Principal Financial Officer	March
By	/S/ STEVEN A. MARKEL Steven A. Markel Director	March
By	/S/ ANTHONY F. MARKEL Anthony F. Markel President, Chief Executive Officer and Director	March
By	/S/ ALAN I. KIRSHNER Alan I. Kirshner Director	March
By	/S/ DARRELL D. MARTIN Darrell D. Martin Director	March