TRAVELERS (BERMUDA) LIMITED

Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2020 and 2019

TRAVELERS (BERMUDA) LIMITED

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December 31, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Travelers (Bermuda) Limited

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

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Other matter

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 30, 2021

TRAVELERS (BERMUDA) LIMITED

Balance Sheets

December 31, 2020 and 2019
(Expressed in United States Dollars)

	2020	2019
Assets		
Cash and cash equivalents (Note 3)	$ 3,505,531	$ 1,072,931
Fixed maturities, available for sale, at fair value (amortized cost $27,245,911 and $30,376,822) (Note 4)	27,959,987	30,584,741
Investment income accrued	203,859	153,617
Premiums receivable (Note 2 (a) & (b))	7,577,574	7,450,137
Prepaid reinsurance premium (Notes 3 and 5)	6,633,960	6,639,979
Reinsurance recoverables (Notes 3, 5 and 6)	22,379,964	22,073,055
Reinsurance balances receivable (Note 5)	419,107	780,831
Escrow fund	4,389,559	4,389,559
Net deferred tax asset (Notes 4 and 12)	–	22,091
Prepaid expenses	5,400	5,400
Income tax receivable	15,815	296,831
Total assets	$ 73,090,756	$ 73,469,172
Liabilities		
Claims and claim adjustment expense reserves (Note 6)	$ 26,552,281	$ 26,715,557
Unallocated loss adjustment expense reserve	1,844,600	645,000
Unearned premium reserves	6,633,960	6,639,979
Reinsurance balances payable	7,124,994	7,124,994
Due to related company (Note 9)	534,027	982,129
Accounts payable and accrued expenses	59,379	109,720
Escrow fund payable	4,389,559	4,389,559
Net deferred tax liability (Notes 4 and 12)	92,399	–
Unearned commissions	18,716	18,733
Total liabilities	$ 47,249,915	$ 46,625,671
Shareholder's equity		
Share capital (Note 7)	1,658,605	1,658,605
Additional paid-in capital (Note 8)	15,119,184	15,119,184
Accumulated other comprehensive income	564,119	164,257
Retained earnings	8,498,933	9,901,455
Total shareholder's equity	$ 25,840,841	$ 26,843,501
Total liabilities and shareholder's equity	$ 73,090,756	$ 73,469,172

See accompanying notes to financial statements

Signed on behalf of the Board

_______________________________ Director

_______________________________ Director

TRAVELERS (BERMUDA) LIMITED

Statements of Income and Comprehensive Income

Year Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

	2020	2019
Income		
Premiums written	$ 8,794,186	$ 8,861,387
Change in accrued retrospective premiums	93,023	(128,554)
Change in unearned premium reserve	6,020	343,137
Premiums earned	8,893,229	9,075,970
Reinsurance premiums ceded	8,837,209	8,837,209
Change in prepaid reinsurance premium	6,020	343,137
Ceded premiums earned	8,843,229	9,180,346
Net premiums earned	50,000	(104,376)
Commission income	25,017	24,982
Net investment income (Notes 4 and 10)	582,900	778,279
Other income	2	25,000
Total income	657,919	723,885
Expenses		
Claims and claim adjustment expenses incurred	7,796,719	6,522,682
Reinsurance recoveries	(7,602,142)	(6,933,399)
Claims handling expense	2,000,000	2,000,000
Net claims and claim adjustment expenses recovered (Note 6)	2,194,577	1,589,283
General and administrative expenses	256,829	203,002
Total expenses	2,451,406	1,792,285
Net loss before income taxes	(1,793,487)	(1,068,400)
Income tax benefit (Note 12)	(390,965)	(228,105)
Net Loss	(1,402,522)	(840,295)
Other comprehensive income, net of tax:		
Unrealized holding gains on investments arising during year, net of tax expense of $111,406 (2019 benefit - $111,960)	419,096	421,182
Less: reclassification of adjustments for gains included in net income, net of tax benefit of $5,113 (2019 - $3,838)	19,234	14,442
Other comprehensive gain, net of tax	399,862	406,740
Comprehensive Loss	$ (1,002,660)	$ (433,555)

See accompanying notes to financial statements

TRAVELERS (BERMUDA) LIMITED

Statements of Changes in Shareholder's Equity

Year Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

	Total	Share capital	Number of shares	Additional paid-in capital	Accumulated other comprehensive (loss)/income	Retained earnings
Balance at December 31, 2018	$ 27,277,056	$ 1,658,605	1,658,605	$ 15,119,184	$ (242,483)	$ 10,741,750
Net loss for the year	(840,295)	–	–	–	–	(840,295)
Change in accumulated other comprehensive income, net of tax	406,740	–	–	–	406,740	–
Balance at December 31, 2019	$ 26,843,501	$ 1,658,605	1,658,605	$ 15,119,184	$ 164,257	$ 9,901,455
Net loss for the year	(1,402,522)	–	–	–	–	(1,402,522)
Change in accumulated other- comprehensive income, net of tax	399,862	–	–	–	399,862	–
Balance at December 31, 2020	$ 25,840,841	$ 1,658,605	1,658,605	$ 15,119,184	$ 564,119	$ 8,498,933

See accompanying notes to financial statements

TRAVELERS (BERMUDA) LIMITED

Statements of Cash Flows

Years Ended December 31, 2020 and 2019
(Expressed in United States Dollars)

	2020	2019
Cash flows from operating activities:		
Net Loss	$ (1,402,522)	$ (840,295)
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Amortization of investments	79,730	115,537
Realized investment gains	(24,347)	(18,280)
Changes in assets and liabilities:		
Investment income accrued	(50,242)	62,460
Premiums receivable	(127,437)	479,370
Prepaid reinsurance premium	6,019	343,137
Reinsurance recoverables	(306,909)	944,155
Reinsurance balances receivable	361,724	(278,847)
Escrow fund	–	235,451
Income tax (receivable)/payable	281,016	(293,294)
Net deferred tax asset	(84,202)	10,262
Prepaid expenses	–	–
Claims and claim adjustment expense reserves	(163,276)	(1,839,329)
Unallocated loss adjustment expense reserve	1,199,600	645,000
Unearned premium reserve	(6,019)	(343,136)
Reinsurance balances payable	–	(374,994)
Due to related company	(448,102)	434,682
Accounts payable and accrued expenses	(50,341)	(6,127)
Escrow fund payable	–	(235,451)
Net deferred tax liability	92,399	–
Unearned commissions	(17)	17
Net cash used in operating activities	(642,926)	(959,682)
Cash flows from investing activities:		
Purchases of investments	(19,551,378)	(20,386,843)
Proceeds from sale and maturity of investments	22,626,904	21,267,935
Net cash provided by investing activities	3,075,526	881,092
Net decrease in cash and cash equivalents	2,432,600	(78,590)
Cash and cash equivalents at beginning of year	1,072,931	1,151,521
Cash and cash equivalents at end of year	$ 3,505,531	$ 1,072,931
Supplemental disclosure of cash flow information:		
Cash (received)/paid during the year for income taxes	$ (680,178)	$ 54,927

See accompanying notes to financial statements

1. General

Travelers (Bermuda) Limited (the "Company") was incorporated on January 29, 1993 under the laws of Bermuda and is licensed as a Class 3A insurer under the Insurance Act 1978 of Bermuda. The Company is a wholly-owned subsidiary of Travelers Insurance Group Holdings, Inc. and an indirect subsidiary of The Travelers Companies, Inc.

On July 1, 2010, the Company amalgamated with St. Paul (Bermuda) Ltd. And St. Paul Re (Bermuda) Ltd. Into a single Bermuda exempted company under Travelers (Bermuda) Limited.

The Company provides insurance coverage for the deductible obligation under workers' compensation and general liability policies, and to a lesser extent, auto liability policies issued by affiliates in the United States of America. These insurance policies are either fully reinsured with a company related to the insured (also known as captives) or contain a premium adjustment feature based on loss experience.

The Company began writing punitive damages policies effective October 2015 with maximum limits of $25,000,000 per occurrence. Those limits are reduced by any amounts paid under the "controlling domestic insurance policy." The Company purchased reinsurance covering 50% of the punitive damages exposure for accounts written prior to April 1, 2016 and 75% of exposure for those written April 1, 2016 or later. The Company ceased writing such coverage effective May 31, 2016.

The Company previously wrote Directors and Officers, Errors and Omissions and other Executive Liability coverages with maximum limits of $25 million per occurrence and in the aggregate in excess of the insured's retention. The Company purchased reinsurance for 100% of these risks from affiliates. The Company ceased writing such coverages effective August 31, 2009.

2. Summary of significant accounting policies

Basis of Presentation

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles, which require 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, claims and claim adjustment expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Accounting Standards

Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued updated guidance for the accounting for credit losses for financial instruments. The updated guidance applies a new credit loss model (current expected credit losses or CECL) for determining credit-related impairments for financial instruments measured at amortized cost and requires an entity to estimate the credit losses expected over the life of an exposure or pool of exposures. The estimate of expected credit losses should consider historical information, current information, as well as reasonable and supportable forecasts, including estimates of prepayments. The expected credit losses, and subsequent adjustments to such losses, are recorded through an allowance account that is deducted from the amortized cost basis of the financial asset, with the net carrying value of the financial asset presented on the balance sheet at the amount expected to be collected.

The updated guidance also amends the previous other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists.

The Company adopted the updated guidance on January 1, 2020. The adoption of the updated guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

2. Summary of significant accounting policies (continued)

Accounting Policies

(a) Premiums earned and reinsurance premiums ceded

Premiums written are recorded on the accrual basis and are included in income on a pro-rated basis over the term of the contract with the unearned portion deferred in the balance sheet as an unearned premium reserve. Accrued retrospective premiums are recorded when earned based on management's estimate of ultimate losses on the contract and are included in the balance sheet as a retrospective premium asset. Changes in accrued retrospective premiums are included as a component of premiums earned. Reinsurance premiums ceded are similarly recognized on a pro rata basis over the term of the contract with the unearned portion being deferred in the balance sheet as prepaid reinsurance premium.

(b) Retrospective premiums

Certain of the Company's insurance policies provide for the receipt or payment of retrospective premiums relating to claims incurred by its insureds. Retrospective premiums are recognized as premiums written in the statements of income and comprehensive income in the year in which the loss is incurred and they are adjusted periodically in accordance with any changes in the estimates of underlying claims.

(c) Claims and claim adjustment expense reserves

Claims and claim adjustment expense reserves represent estimates for the ultimate cost of unpaid reported and unreported claims incurred and related expenses. The reserves are adjusted regularly based upon experience.

The Company performs a continuing review of its claims and claim adjustment expense reserves, including its reserving techniques and the impact of reinsurance. The reserves are also reviewed regularly by qualified actuaries employed by the Company. Since the reserves are based on estimates, the ultimate liability may be more or less than such reserves. The effects of changes in such estimated reserves are included in the results of operations in the period in which the estimates are changed. Such changes in estimates could occur in a future period and may be material to the Company's results of operations and financial position in such period.

(d) Reinsurance recoverables

Amounts recoverable from reinsurers are estimated in a manner consistent with the associated claim liability. The Company reports its reinsurance recoverables net of an allowance for amounts that are estimated to be uncollectible. The allowance is based upon the Company's ongoing review of amounts outstanding, length of collection periods, changes in reinsurer credit standing, disputes, applicable coverage defenses and other relevant factors. A probability-of-default methodology which reflects current and forecasted economic conditions is used to estimate the amount of uncollectible reinsurance due to credit-related factors and the estimate is reported in an allowance for estimated uncollectible reinsurance. The allowance also includes estimated uncollectible amounts related to dispute risk with reinsurers. Amounts deemed to be uncollectible, including amounts due from known insolvent reinsurers, are written off against the allowance. Changes in the allowance, as well as any subsequent collections of amounts previously written off, are reported as part of claims and claim adjustment expenses. The Company evaluates and monitors the financial condition of its reinsurers under voluntary reinsurance arrangements to minimize its exposure to significant losses from reinsurer insolvencies.

(e) Investments

Investments include federal, state and municipal and corporate obligations and are classified as available-for-sale and reported at fair value, with unrealized investment gains and losses, net of income taxes, charged or credited directly to other comprehensive income.

2. Summary of significant accounting policies (continued)

(e) Investments (continued)

The Company conducts a periodic review to identify and evaluate invested assets that may have credit impairments.

Credit Impairments Related to Fixed Maturity Investments

Some of the factors considered in assessing impairment of fixed maturity investments due to credit-related factors include: (1) the extent to which the fair value has been less than amortized cost; (2) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices; (3) the likelihood of the recoverability of principal and interest; and (4) whether it is more likely than not that the Company will be required to sell the investment prior to an anticipated recovery in value.

Beginning on January 1, 2020, credit losses are recognized through an allowance account. See note 2 - *Adoption of Accounting Standards - Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments* for additional information.

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company would not be required to sell before an anticipated recovery in value, the Company separates the credit loss component of the impairment from the amount related to all other factors and reports the credit loss component in net realized investment gains (losses). The impairment related to all other factors (non-credit factors) is reported in other comprehensive income. The allowance is adjusted for any additional credit losses and subsequent recoveries. Upon recognizing a credit loss, the cost basis is not adjusted.

For fixed maturity investments where the Company records a credit loss, a determination is made as to the cause of the impairment and whether the Company expects a recovery in the value. For fixed maturity investments where the Company expects a recovery in value, the constant effective yield method is utilized, and the investment is amortized to par.

For fixed maturity investments the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery in value, the full amount of the impairment is included in net realized investment gains (losses). The new cost basis of the investment is the previous amortized cost basis less the impairment recognized in net realized investment gains (losses). The new cost basis is not adjusted for any subsequent recoveries in fair value.

The Company reports investment income accrued separately from fixed maturity investments, available for sale, and has elected not to measure an allowance for credit losses for investment income accrued. Investment income accrued is written off through net realized investment gains (losses) at the time the issuer of the bond defaults or is expected to default on payments.

Uncollectible available-for-sale debt securities are written-off when the Company determines that no additional payments of principal or interest will be received.

Determination of Credit Loss — Fixed Maturities

The Company determines the credit loss component of fixed maturity investments by utilizing discounted cash flow modeling to determine the present value of the security and comparing the present value with the amortized cost of the security. If the amortized cost is greater than the present value of the expected cash flows, the difference is considered a credit loss and recognized in net realized investment gains (losses).

For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. government and government agencies and authorities, obligations of states, municipalities and political subdivisions, debt securities issued by foreign governments and certain corporate debt), the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received.

2. Summary of significant accounting policies (continued)

(e) Investments (continued)

The determination of recovery value incorporates an issuer valuation assumption utilizing one or a combination of valuation methods as deemed appropriate by the Company. The Company determines the undiscounted recovery value by allocating the estimated value of the issuer to the Company's assessment of the priority of claims. The present value of the cash flows is determined by applying the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment) and an estimated recovery time frame. Generally, that time frame for securities for which the issuer is in bankruptcy is 12 months. For securities for which the issuer is financially troubled but not in bankruptcy, that time frame is generally 24 months. Included in the present value calculation are expected principal and interest payments; however, for securities for which the issuer is classified as bankrupt or in default, the present value calculation assumes no interest payments and a single recovery amount.

In estimating the recovery value, significant judgment is involved in the development of assumptions relating to a myriad of factors related to the issuer including, but not limited to, revenue, margin and earnings projections, the likely market or liquidation values of assets, potential additional debt to be incurred pre- or post-bankruptcy/restructuring, the ability to shift existing or new debt to different priority layers, the amount of restructuring/bankruptcy expenses, the size and priority of unfunded pension obligations, litigation or other contingent claims, the treatment of intercompany claims and the likely outcome with respect to inter-creditor conflicts.

Changes in Intent to Sell Temporarily Impaired Assets

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that it did not intend to sell at the balance sheet date. Conversely, the Company may not sell invested assets that it asserted that it intended to sell at the balance sheet date. Such changes in intent are generally due to events occurring subsequent to the balance sheet date. The types of events that may result in a change in intent include, but are not limited to, significant changes in the economic facts and circumstances related to the invested asset (e.g., a downgrade or upgrade from a rating agency), significant unforeseen changes in liquidity needs, or changes in tax laws or the regulatory environment.

(f) Cash and cash equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid debt investments with an original maturity of three months or less as cash and cash equivalents.

(g) Income taxes

The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statements and tax return bases of assets and liabilities, based on enacted tax rates and other provisions of the tax law. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax asset will not be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits and penalties in income taxes.

(h) Net investment income

Investment income from fixed maturities is recognized based on the constant effective yield method which includes an adjustment for estimated principal pre-payments, if any. The adjustments to the yield for highly rated prepayable fixed maturities are accounted for using the retrospective method. The adjustments to the yield for non-highly rated prepayable fixed maturities are accounted for using the prospective method.

(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(h) Net Investment Income (continued)

Net realized investment gains and losses are included as a component of pre-tax revenues based upon specific identification of the investments sold on the trade date.

(i) Fair value of financial instruments

The fair values of cash and cash equivalents, and other assets and liabilities, which include investment income accrued, insurance balances receivable, reinsurance balances receivable, escrow fund, reinsurance balances payable, due to related company, escrow fund payable, income tax receivable, and accounts payable and accrued expenses, approximate their carrying values due to their immediate or short-term maturity.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. All financial instruments related to insurance contracts such as reinsurance recoverables, prepaid reinsurance premium, claims and claim adjustment expense reserves, unearned premium reserve and unearned commissions are excluded from fair value disclosure.

3. Concentration of credit risk and cash and cash equivalents

For the year ended December 31, 2020, 38% (2019 - 80%) of cash and cash equivalents are held with a single financial institution in Bermuda which is rated A- by Standard & Poor's.

Two reinsurers accounted for 65% and 20% of Reinsurance recoverables, respectively, (2019 - 63% and 21%) at December 31, 2020.

One reinsurer accounted for 100% of prepaid reinsurance premium (2019 – One reinsurer accounted for 100%) at December 31, 2020.

4. Investments

The amortized cost and fair value of fixed maturities classified as available-for-sale securities were as follows:

At December 31, 2020	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government securities	$ 3,997,524	$ –	$ 1	$ 3,997,523
State and municipal securities	13,255,670	347,707		13,603,377
Corporate debt securities	9,992,717	366,370	–	10,359,087
	$ 27,245,911	$ 714,077	$ 1	$ 27,959,987

At December 31, 2019	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Government securities	$ 13,116,556	$ 2	$ 2	$ 13,116,556
State and municipal securities	982,224	12,339	–	994,563
Corporate debt securities	16,278,042	201,392	5,812	16,473,622
	$ 30,376,822	$ 213,733	$ 5,814	$ 30,584,741

There were no credit losses for the years ended December 31, 2020 and December 31, 2019.

(Expressed in United States Dollars)

4. Investments (continued)

At December 31, 2020, the Company held forty-five individual state and municipal and corporate securities with a minimum Moody's credit rating of Baa1.

The amortized cost and fair value of investments by contractual maturity are shown below:

	Amortized cost	Fair value
Due within 1 year	$ 7,302,545	$ 7,329,066
Due in 1 to 5 years	8,717,696	9,066,025
Due in 5 to 10 years	425,000	433,173
Due in 10 to 15 years	5,873,487	5,971,519
Due in 15 to 20 years	4,927,183	5,160,204
	$ 27,245,911	$ 27,959,987

Proceeds from the sale or maturity of fixed maturities classified as available for sale were $22,626,904 and $21,267,935 in 2020 and 2019, respectively. Gross realized gains included in the statement of operations amounted to $24,347 in 2020 (2019 - $18,280).

At December 31, 2020, deferred tax liability of $149,956 (2019 deferred liability - $43,663) has been recognized in relation to unrealized gains and losses on investments (See Note 12).

Net investment income for the period ended December 31, 2020 and 2019 consist of:

	2020	2019
Interest income on investments	$ 642,830	$ 863,832
Interest income on bank deposits	3,846	19,844
Bond amortization	(79,730)	(115,537)
Realized gain on investments	24,347	18,280
Investment manager fees (See Note 10)	(8,393)	(8,140)
	$ 582,900	$ 778,279

Fair value of financial instruments

The Company's estimates of fair value for financial assets and financial liabilities are based on the framework established in fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets, and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Company's significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement in its entirety. The three levels of the hierarchy are as follows:

Level 1 **-** Unadjusted quoted market prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 **-** Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 **-** Valuations based on models where significant inputs are not observable. The unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use.

4. Investments (continued)

Valuation of Investments Reported at Fair Value in Financial Statements

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated willing parties, i.e., not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realized if the security was sold in an immediate sale, e.g., a forced transaction. Additionally, the valuation of fixed maturity investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value (i.e., the carrying amount) of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Company uses the quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Company receives the quoted market prices from a third party, nationally recognized pricing service ("pricing service"). When quoted market prices are unavailable, the Company utilizes a pricing service to determine an estimate of fair value, which is mainly for its fixed maturity investments. The fair value estimates provided from this pricing service are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Company produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Company bases all of its estimates of fair value for assets on the bid price as it represents what a third party market participant would be willing to pay in an arm's length transaction. The following section describes the valuation methods used by the Company for each type of financial instrument it holds that is carried at fair value.

Fixed Maturities

The Company utilizes a pricing service to estimate fair value measurements for 100% of its fixed maturities. The pricing service utilizes market quotations for fixed maturity securities that have quoted prices in active markets. Since fixed maturities other than U.S. Treasury securities generally do not trade on a daily basis, the pricing service prepares estimates of fair value measurements for these securities using its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Additionally, the pricing service uses an Option Adjusted Spread model to develop prepayment and interest rate scenarios.

The pricing service evaluates each asset class based on relevant market information, relevant credit information, perceived market movements and sector news. The market inputs utilized in the pricing evaluation, listed in the approximate order of priority, include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. The extent of the use of each market input depends on the asset class and the market conditions. Depending on the security, the priority of the use of inputs may change or some market inputs may not be relevant. For some securities additional inputs may be necessary.

The pricing service utilized by the Company has indicated that they will only produce an estimate of fair value if there is objectively verifiable information to produce a valuation. If the pricing service discontinues pricing an investment, the Company would be required to produce an estimate of fair value using some of the same methodologies as the pricing service, but would have to make assumptions for market based inputs that are unavailable due to market conditions. The Company reviews the estimates of fair value provided by the pricing service and compares the estimates to the Company's knowledge of the market to determine if the estimates obtained are representative of the prices in the market. In addition, the Company has periodic discussions with the pricing service to discuss and understand any changes in process and their responsiveness to changes occurring in the markets. The Company also monitors all monthly price changes and further evaluates any securities whose value changed more than 10% from the prior month. The Company has implemented various other processes including randomly selecting purchased or sold securities and comparing execution prices to the estimates from the pricing service as well as reviewing securities whose valuation did not change from their previous valuation (stale price review). The Company also uses a second independent pricing service to further test the primary pricing service's valuation of the Company's fixed maturity portfolio. These processes have not highlighted any significant issues with the fair value estimates received from the primary pricing service.

(Expressed in United States Dollars)

4. Investments (continued)

Fixed Maturities (continued)

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities, other than U.S. Treasury securities, provided by the pricing service are included in the amount disclosed in Level 2 of the hierarchy. The estimated fair value of U.S. Treasury securities is included in the amount disclosed in Level 1 as the estimates are based on unadjusted market prices.

The following table presents the level within the fair value hierarchy at which financial assets and financial liabilities are measured on a recurring basis at December 31, 2020 and 2019.

At December 31, 2020

	(Level 1)	(Level 2)	(Level 3)	Total
U.S. Government securities	$ 3,997,523	$ –	$ –	$ 3,997,523
State and municipal securities	–	13,603,377	–	13,603,377
Corporate debt securities	–	10,359,087	–	10,359,087
Total	$ 3,997,523	$ 23,962,464	$ –	$ 27,959,987

At December 31, 2019

	(Level 1)	(Level 2)	(Level 3)	Total
U.S. Government securities	$ 13,116,556	$ –	$ –	$ 13,116,556
State and municipal securities	–	994,563	–	994,563
Corporate debt securities	–	16,473,622	–	16,473,622
Total	$ 13,116,556	$ 17,468,185	$ –	$ 30,584,741

The Company held no Level 3 investments at the beginning or at the end of the year ending December 31, 2020 and 2019. In addition, there were no financial assets or financial liabilities that were measured at fair value on a non-recurring basis during the years ended December 31, 2020 and 2019.

5. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for any amounts that are deemed uncollectible. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The majority of the Company's reinsurers are captives.

At December 31, 2020, reinsurance recoverables from captive reinsurers were $17,585,614 (2019 - $17,265,180), reinsurance balances receivable from captive reinsurers were $419,107 (2019 - $780,831) and prepaid reinsurance premiums from captive reinsurers were $6,633,960 (2019 - $6,639,979). These balances were associated with 6 (2019 - 6) captive reinsurers. To secure amounts recoverable from these captive reinsurers, the Company also holds collateral, primarily letters of credit, under certain reinsurance agreements. At December 31, 2020, the Company is the joint beneficiary of letters of credit and other collateral of $25,735,500 (2019 - $27,750,000).

(Expressed in United States Dollars)

6. Claims and claim adjustment expense reserves

The following table presents a reconciliation of beginning and ending reserve balances for claims and claim adjustment expenses:

	2020	2019
Gross balance at January 1	$ 26,715,557	$ 28,554,886
Less reinsurance recoverable	(22,073,055)	(23,017,210)
Net balance at January 1	4,642,502	5,537,676
Incurred claims and claim adjustment expenses related to:		
Current year	–	–
Prior years	194,578	(410,717)
Total incurred	194,578	(410,717)
Paid claims and claim adjustment expenses related to:		
Current year	–	–
Prior years	664,763	484,457
Total paid	664,763	484,457
Net balance at December 31	4,172,317	4,642,502
Plus reinsurance recoverable	22,379,964	22,073,055
Gross balance at December 31	$ 26,552,281	$ 26,715,557

As a result of the changes in estimates of claims and claim adjustment expenses for claims arising in prior years, claims and claim adjustment expense reserves increased by $194,578 in 2020 (2019 - decreased by $410,717).

The establishment of reserves for claims and claim adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving pending levels of unpaid claims, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, professional experience and expertise of the Company's management and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management and settlement practices. Consequently, the establishment of reserves for claims and claim adjustment expenses relies on the judgement and opinion of a large number of individuals, and on expectations as to future developments.

U.S. generally accepted accounting principles require certain disclosures related to short-duration insurance contracts. These disclosures include disaggregated claim development disclosures, by accident year, as well as amounts of incurred but not reported losses and the number of reported claim counts for each accident year shown in the disaggregated claim development disclosures. This claim development information is required to be presented on a net of reinsurance basis for the most recent ten years, or the number of years for which claims incurred typically remain outstanding if less than ten years.

(Expressed in United States Dollars)

6. Claims and claim adjustment expense reserves (continued)

Of the Company's total net outstanding claims and claim adjustment expense reserves of $4,172,317 at December 31, 2020, $4,165,630 relate to accident years prior to 2010. Because the net claims and claim adjustment expense reserves primarily relate to accident years prior to the maximum ten years required to be disclosed, the Company does not include these short-duration insurance contract disclosures in the notes to financial statements.

7. Share capital

	2020	2019
Authorized - 2,120,000 (2019 - 2,120,000) shares at par value of $1 each		
Issued and fully paid – 1,658,605 (2019 - 1,658,605) shares	$ 1,658,605	$ 1,658,605

8. Additional paid-in capital

Additional paid-in capital represents amounts contributed by the shareholder in addition to its subscription to the issued share capital.

9. Due to related company

The Travelers Indemnity Company, an affiliate, pays claims on behalf of the Company. The amount due to a related party represents claims which have been paid on the Company's behalf which have yet to be reimbursed. This amount is current, unsecured, interest-free and payable on demand.

10. Related party transactions

The Company received investment management and administrative services from The Travelers Indemnity Company. The Company reimbursed The Travelers Indemnity Company $8,393 for these services in 2020 (2019 - $8,140).

In a guarantee agreement dated August 31, 2000, St Paul Fire and Marine Insurance Company, an affiliate of the Company guaranteed the timely payment of all obligations of St. Paul (Bermuda) Ltd., with respect to policies of insurance issued to clients of Marsh USA Inc. up to a maximum of $50.0 million. The guarantee was amended on June 30, 2010 to limit the affiliate's guarantee to only those obligations of St. Paul (Bermuda) Ltd. that existed prior to the amendment date. The affiliate also waived certain rights in the amended guarantee until all creditors have been paid in full.

In a guarantee agreement dated December 11, 1998 and amended on January 2, 2001, The St. Paul Companies, Inc. guaranteed the timely payment of all financial obligations under contracts of reinsurance issued by St. Paul Re (Bermuda) Ltd. On June 29, 2010, The Travelers Companies Inc. (formerly known as The St. Paul Companies, Inc.) acknowledged that the guarantee would apply to the amalgamated company as of the effective date of the amalgamation.

11. Statutory requirements

The Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act 1978 of Bermuda.

Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year-end (unless specifically extended).

The prescribed form of capital and solvency return comprises the Company's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

(Expressed in United States Dollars)

11. Statutory requirements (continued)

As a Class 3A insurer, the Company is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements ("ECR") calculated using the BSCR model. The BSCR model is a risk-based capital model introduced by the Authority that measures risk and determines ECR and a target capital level (defined as 120% of the ECR) based on the Company's statutory financial statements. In circumstances where the Authority concludes that the Company's risk profile deviates significantly from the assumptions underlying the ECR or the Company's assessment of its management policies and practices, it may issue an order requiring that the Company adjust its ECR.

The Company is required by its license to maintain capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses (net of reinsurance recoverable) or a given fraction of net written premiums. At December 31, 2020, the Company is required to maintain a minimum statutory capital and surplus of $1,000,000 (2019 - $1,000,000) (unaudited). Actual statutory capital and surplus was $25,835,441 (2019 - $26,838,101).

Actual statutory capital and surplus, as determined using statutory accounting principles, is as follows:

Total shareholder's equity	$ 25,840,841
Less:	
Prepaid expenses	5,400
Statutory capital and surplus	$ 25,835,441

The Company is prohibited from declaring or paying a dividend if its Class 3A statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach. The Company must obtain the Authority's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. These restrictions on declaring or paying dividends and distributions under the Insurance Act are in addition to those under the Companies Act 1981, which apply to all Bermuda companies.

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, investments, investment income accrued, insurance and reinsurance balances receivable and escrow fund. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves (net of reinsurance recoverable) and total other liabilities, less sundry liabilities.

At December 31, 2020, the Company was required to maintain relevant assets of $13,595,832 (2019 - $13,211,855). At that date, relevant assets were $39,666,058 (2019 - $40,042,257) and the minimum liquidity ratio was therefore met.

12. Taxation

(a) Bermuda taxes

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed, the Company will be exempted from taxation until the year 2035.

(Expressed in United States Dollars)

12. **Taxation** (continued)

(b) United States federal income taxes

Effective June 30, 1998, the Company made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to treat the Company as a domestic insurance company for United States federal income tax purposes. As a result of the "domestic election", the Company is subject to U.S. taxation on its worldwide income as if it were a U.S. corporation. Current income taxes are calculated by applying currently enacted tax laws.

The following table presents the components of income tax expense included in the amounts reported in the Company's financial statements:

	2020	2019
Income tax benefit from continuing operations	$ (390,965)	$ (228,105)
Shareholder's equity, for tax on unrealized gains recognized for financial statement purposes	106,293	108,121
Total income tax benefit included in shareholder's equity	$ (284,672)	$ (119,984)

	2020	2019
Current tax benefit	$ (399,162)	$ (238,367)
Deferred tax expense	8,197	10,262
Total income tax benefit included in statement of income	$ (390,965)	$ (228,105)

The following is a reconciliation of income tax benefit at the U.S. federal statutory income tax rate to the income tax benefit reported in the Company's statement of income:

	2020	2019
Net income before income taxes	$ (1,793,487)	$ (1,068,400)
Statutory rate	21%	21%
Expected federal income tax benefit	(376,633)	(224,364)
Tax effect of:		
Other	(14,332)	(3,741)
Total income tax benefit	$ (390,965)	$ (228,105)
Effective tax rate	21.8%	21.4%

(Expressed in United States Dollars)

12. Taxation (continued)

(b) United States federal income taxes (continued)

The net deferred tax asset (liability) comprises the tax effect of temporary differences related to the following assets and liabilities:

	2020	2019
Deferred tax asset:		
Loss reserve discount	$ 63,836	$ 73,150
Deferred acquisition costs	3,931	3,935
Deferred tax asset	67,767	77,085
Deferred tax liability:		
Net unrealized gain on securities available for sale	(149,956)	(43,663)
Bond amortization	(10,210)	(11,331)
Deferred tax liability	(160,166)	(54,994)
Net deferred tax (liability)/asset	$ (92,399)	$ 22,091

If the Company determines that any of its deferred tax assets will not result in future tax benefits, a valuation allowance must be established for the portion of these assets that are not expected to be realized. Based upon a review of the Company's anticipated future taxable income, and also including all other available evidence, both positive and negative, the Company's management concluded that it is more likely than not that the net deferred tax assets will be realized.

Uncertain tax positions

The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income taxes. The Company has not recorded any unrecognized tax benefits or interest and penalties as of December 31, 2020 or December 31, 2019.

The IRS is conducting an examination of the Company's U.S. income tax returns for years 2017 and 2018. The Company does not expect any significant changes to its liability for unrecognized tax benefits during the next twelve months.

13. Subsequent events

There were no subsequent events requiring adjustment to the financial statements or disclosures through April 30, 2021, the date the Company's financial statements were issued. Travelers Bermuda has only one active policy. The losses from this policy are 100% ceded to a captive and the reinsurance recoverable balances are fully collateralized. The Company has not observed any material impact on its business related to the novel coronavirus COVID-19, however there is significant uncertainty and the future impact could be material.