MARKEL CORP
Form 10-Q
November 07, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011**

or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to**

Commission File Number: 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**54-1959284**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148

(Address of principal executive offices)

(Zip Code)

(804) 747-0136

(Registrant s telephone number, including area code)

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. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares of the registrant s common stock outstanding at October 28, 2011: 9,617,991

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2011	December 31, 2010
	(dollars in thousands)	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of $5,223,979 in 2011 and $5,256,980 in 2010)	$ 5,576,584	$ 5,431,226
Equity securities (cost of $1,092,662 in 2011 and $996,088 in 2010)	1,609,199	1,721,971
Short-term investments (estimated fair value approximates cost)	491,756	325,340
Total Investments	7,677,539	7,478,537
Cash and cash equivalents	920,193	745,259
Receivables	364,483	318,507
Reinsurance recoverable on unpaid losses	803,574	798,090
Reinsurance recoverable on paid losses	44,247	70,568
Deferred policy acquisition costs	206,534	188,783
Prepaid reinsurance premiums	102,138	80,293
Goodwill and intangible assets	769,685	641,733
Other assets	483,361	503,819
Total Assets	$ 11,371,754	$ 10,825,589
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	$ 5,463,082	$ 5,398,406
Unearned premiums	969,628	839,537
Payables to insurance companies	83,401	50,715
Senior long-term debt and other debt (estimated fair value of $1,364,000 in 2011 and $1,086,000 in 2010)	1,271,810	1,015,947
Other liabilities	305,741	333,292
Total Liabilities	8,093,662	7,637,897
Commitments and contingencies		
Shareholders equity:		
Common stock	890,393	884,457
Retained earnings	1,794,387	1,735,973
Accumulated other comprehensive income	527,400	551,093
Total Shareholders Equity	3,212,180	3,171,523
Noncontrolling interests	65,912	16,169
Total Equity	3,278,092	3,187,692
Total Liabilities and Equity	$ 11,371,754	$ 10,825,589

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income (Loss)

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(dollars in thousands, except per share data)			
OPERATING REVENUES				
Earned premiums	$ 509,203	$ 435,355	$ 1,462,515	$ 1,264,178
Net investment income	62,199	68,652	196,551	201,438
Net realized investment gains:				
Other-than-temporary impairment losses	(9,846)	0	(11,553)	(5,701)
Other-than-temporary impairment losses recognized in other comprehensive income (loss)	(138)	0	(3,306)	(563)
Other-than-temporary impairment losses recognized in net income	(9,984)	0	(14,859)	(6,264)
Net realized investment gains, excluding other-than-temporary impairment losses	22,823	8,782	40,282	28,360
Net realized investment gains	12,839	8,782	25,423	22,096
Other revenues	91,847	48,565	260,361	125,775
Total Operating Revenues	676,088	561,354	1,944,850	1,613,487
OPERATING EXPENSES				
Losses and loss adjustment expenses	306,632	224,840	927,643	736,245
Underwriting, acquisition and insurance expenses	202,316	181,640	601,511	517,414
Amortization of intangible assets	6,023	3,903	17,586	11,717
Other expenses	70,302	41,074	218,270	109,440
Total Operating Expenses	585,273	451,457	1,765,010	1,374,816
Operating Income	90,815	109,897	179,840	238,671
Interest expense	23,656	18,598	64,516	54,891
Income Before Income Taxes	67,159	91,299	115,324	183,780
Income tax expense	12,490	28,142	19,145	56,500
Net Income	$ 54,669	$ 63,157	$ 96,179	$ 127,280
Net income (loss) attributable to noncontrolling interests	1,405	(93)	4,329	630
Net Income to Shareholders	$ 53,264	$ 63,250	$ 91,850	$ 126,650
OTHER COMPREHENSIVE INCOME (LOSS)				
Change in net unrealized gains on investments, net of taxes:				
Net holding gains (losses) arising during the period	$ (90,330)	$ 167,638	$ (5,606)	$ 215,152
Unrealized other-than-temporary impairment losses on fixed maturities arising during the period	189	(295)	1,657	606
Reclassification adjustments for net gains included in net income	(7,995)	(5,744)	(15,286)	(19,383)
Change in net unrealized gains on investments, net of taxes	(98,136)	161,599	(19,235)	196,375
Change in foreign currency translation adjustments, net of taxes	(8,133)	129	(5,538)	2,089

Change in net actuarial pension loss, net of taxes	379	350	1,080	1,036
Total Other Comprehensive Income (Loss)	(105,890)	162,078	(23,693)	199,500
Comprehensive Income (Loss)	$ (51,221)	$ 225,235	$ 72,486	$ 326,780
Comprehensive income (loss) attributable to noncontrolling interests	1,405	(93)	4,329	816
Comprehensive Income (Loss) to Shareholders	$ (52,626)	$ 225,328	$ 68,157	$ 325,964
NET INCOME PER SHARE				
Basic	$ 5.50	$ 6.49	$ 9.46	$ 12.94
Diluted	$ 5.48	$ 6.48	$ 9.42	$ 12.93

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders Equity	Noncontrolling Interests	Total Equity
			(dollars in thousands)			
December 31, 2009	$ 872,876	$ 1,514,398	$ 387,086	$ 2,774,360	$ 17,354	$ 2,791,714
Net income	0	126,650	0	126,650	630	127,280
Change in net unrealized gains on investments, net of taxes	0	0	196,375	196,375	0	196,375
Change in foreign currency translation adjustments, net of taxes	0	0	1,903	1,903	186	2,089
Change in net actuarial pension loss, net of taxes	0	0	1,036	1,036	0	1,036
Comprehensive income				325,964	816	326,780
Issuance of common stock	6,664	0	0	6,664	0	6,664
Repurchase of common stock	0	(42,080)	0	(42,080)	0	(42,080)
Restricted stock units expensed	1,257	0	0	1,257	0	1,257
Purchase of noncontrolling interest	(8,345)	0	237	(8,108)	(1,557)	(9,665)
Other	0	0	0	0	(510)	(510)
September 30, 2010	$ 872,452	$ 1,598,968	$ 586,637	$ 3,058,057	$ 16,103	$ 3,074,160
December 31, 2010	$ 884,457	$ 1,735,973	$ 551,093	$ 3,171,523	$ 16,169	$ 3,187,692
Net Income	0	91,850	0	91,850	4,329	96,179
Change in net unrealized gains on investments, net of taxes	0	0	(19,235)	(19,235)	0	(19,235)
Change in foreign currency translation adjustments, net of taxes	0	0	(5,538)	(5,538)	0	(5,538)
Change in net actuarial pension loss, net of taxes	0	0	1,080	1,080	0	1,080
Comprehensive income				68,157	4,329	72,486
Issuance of common stock	1,182	0	0	1,182	0	1,182
Repurchase of common stock	0	(33,436)	0	(33,436)	0	(33,436)
Restricted stock units expensed	4,606	0	0	4,606	0	4,606
Acquisitions	0	0	0	0	47,287	47,287
Other	148	0	0	148	(1,873)	(1,725)
September 30, 2011	$ 890,393	$ 1,794,387	$ 527,400	$ 3,212,180	$ 65,912	$ 3,278,092

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 96,179	$ 127,280
Adjustments to reconcile net income to net cash provided by operating activities	164,929	45,544
Net Cash Provided By Operating Activities	261,108	172,824
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	204,821	220,093
Proceeds from maturities, calls and prepayments of fixed maturities	255,951	266,290
Cost of fixed maturities and equity securities purchased	(526,058)	(767,331)
Net change in short-term investments	(168,057)	172,512
Additions to property and equipment	(43,511)	(28,748)
Acquisitions, net of cash acquired	(20,319)	(40,284)
Other	2,690	4,971
Net Cash Used By Investing Activities	(294,483)	(172,497)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	302,829	30,697
Repayments of senior long-term debt and other debt	(57,393)	(7,697)
Repurchases of common stock	(33,436)	(42,080)
Purchase of noncontrolling interests	0	(3,001)
Other	(1,184)	(11,548)
Net Cash Provided (Used) By Financing Activities	210,816	(33,629)
Effect of foreign currency rate changes on cash and cash equivalents	(2,507)	762
Increase (decrease) in cash and cash equivalents	174,934	(32,540)
Cash and cash equivalents at beginning of period	745,259	850,494
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 920,193	$ 817,954

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Markel Corporation is a diverse financial holding company serving a variety of niche markets. Markel Corporation s principal business markets and underwrites specialty insurance products and programs. Markel Corporation also owns interests in various businesses that operate outside of the specialty insurance marketplace.

The consolidated balance sheet as of September 30, 2011, the related consolidated statements of income and comprehensive income (loss) for the quarters and nine months ended September 30, 2011 and 2010, and the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2011 and 2010 are unaudited. In the opinion of management, all adjustments necessary for fair presentation of such consolidated financial statements have been included. Such adjustments consist only of normal, recurring items. Interim results are not necessarily indicative of results of operations for the entire year. The consolidated balance sheet as of December 31, 2010 was derived from Markel Corporation s audited annual consolidated financial statements.

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and all subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates the results of its non-insurance subsidiaries on a one-month lag. Certain prior year amounts have been reclassified to conform to the current presentation.

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company s annual consolidated financial statements and notes. Readers are urged to review the Company s 2010 Annual Report on Form 10-K for a more complete description of the Company s business and accounting policies.

ParkLand Ventures, Inc., a subsidiary of the Company, has formed subsidiaries for the purpose of acquiring and financing real estate (the real estate subsidiaries). The assets of the real estate subsidiaries, which are not material to the Company, are consolidated in accordance with U.S. GAAP but are not available to satisfy the debt and other obligations of the Company or any affiliates other than the real estate subsidiaries.

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2. Net Income per Share

Net income per share was determined by dividing net income to shareholders by the applicable weighted average shares outstanding.

(in thousands, except per share amounts)	Quarter Ended September 30, 2011	2010	Nine Months Ended September 30, 2011	2010
Net income to shareholders	$ 53,264	$ 63,250	$ 91,850	$ 126,650
Basic common shares outstanding	9,680	9,748	9,706	9,785
Dilutive potential common shares	38	12	40	10
Diluted shares outstanding	9,718	9,760	9,746	9,795
Basic net income per share	$ 5.50	$ 6.49	$ 9.46	$ 12.94
Diluted net income per share	$ 5.48	$ 6.48	$ 9.42	$ 12.93

3. Reinsurance

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

	Quarter Ended September 30,			
(dollars in thousands)	2011		2010	
	Written	Earned	Written	Earned
Direct	$ 501,687	$ 475,578	$ 444,099	$ 418,888
Assumed	82,948	86,134	77,492	63,890
Ceded	(59,957)	(52,509)	(54,436)	(47,423)
Net premiums	$ 524,678	$ 509,203	$ 467,155	$ 435,355

	Nine Months Ended September 30,			
(dollars in thousands)	2011		2010	
	Written	Earned	Written	Earned
Direct	$ 1,482,903	$ 1,383,678	$ 1,301,792	$ 1,238,911
Assumed	289,708	254,907	226,337	173,287
Ceded	(198,233)	(176,070)	(160,243)	(148,020)
Net premiums	$ 1,574,378	$ 1,462,515	$ 1,367,886	$ 1,264,178

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of $42.9 million and $24.1 million, respectively, for the quarters ended September 30, 2011 and 2010 and $136.7 million and $87.9 million, respectively, for the nine months ended September 30, 2011 and 2010. The nine months ended September 30, 2011 included $38.4 million of estimated reinsurance recoverables related to losses on natural catastrophes and $26.4 million of estimated reinsurance recoverables related to two large losses in the Marine and Energy division of the London Insurance Market segment. The nine months ended September 30, 2010 included $43.2 million of estimated reinsurance recoverables related to the Deepwater Horizon drilling rig explosion.

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4. Investments

a) The following tables summarize the Company s available-for-sale investments.

	September 30, 2011				
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	$ 284,438	$ 23,733	$ (12)	$ 0	$ 308,159
Obligations of states, municipalities and political subdivisions	2,743,359	176,163	(1,359)	0	2,918,163
Foreign governments	683,747	56,616	0	0	740,363
Residential mortgage-backed securities	392,534	31,355	(13)	(5,922)	417,954
Asset-backed securities	16,723	837	(8)	0	17,552
Public utilities	70,482	5,625	0	0	76,107
All other corporate bonds	1,032,696	74,636	(2,328)	(6,718)	1,098,286
Total fixed maturities	5,223,979	368,965	(3,720)	(12,640)	5,576,584
Equity securities:					
Insurance companies, banks and trusts	371,004	250,441	(9,050)	0	612,395
Industrial, consumer and all other	721,658	284,859	(9,713)	0	996,804
Total equity securities	1,092,662	535,300	(18,763)	0	1,609,199
Short-term investments	491,730	27	(1)	0	491,756
Investments, available-for-sale	$ 6,808,371	$ 904,292	$ (22,484)	$ (12,640)	$ 7,677,539

	December 31, 2010				
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	$ 300,555	$ 20,832	$ (49)	$ 0	$ 321,338
Obligations of states, municipalities and political subdivisions	2,767,169	61,620	(29,450)	0	2,799,339
Foreign governments	550,755	24,662	(2,599)	0	572,818
Residential mortgage-backed securities	409,415	29,664	(1,738)	(11,778)	425,563
Asset-backed securities	21,704	1,052	0	0	22,756
Public utilities	95,770	6,674	0	0	102,444
Convertible bonds	16,725	0	0	0	16,725
All other corporate bonds	1,094,887	83,752	(603)	(7,793)	1,170,243
Total fixed maturities	5,256,980	228,256	(34,439)	(19,571)	5,431,226
Equity securities:					
Insurance companies, banks and trusts	388,848	323,634	(1,496)	0	710,986
Industrial, consumer and all other	607,240	404,444	(699)	0	1,010,985
Total equity securities	996,088	728,078	(2,195)	0	1,721,971
Short-term investments	325,336	4	0	0	325,340

Investments, available-for-sale	$ 6,578,404	$ 956,338	$ (36,634)	$ (19,571)	$ 7,478,537

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b) The following tables summarize gross unrealized investment losses by the length of time that securities have continuously been in an unrealized loss position.

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	$ 6,747	$ (12)	$ 0	$ 0	$ 6,747	$ (12)
Obligations of states, municipalities and political subdivisions	2,736	(1)	43,021	(1,358)	45,757	(1,359)
Residential mortgage-backed securities	3,893	(5,925)	2,241	(10)	6,134	(5,935)
Asset-backed securities	121	(1)	35	(7)	156	(8)
All other corporate bonds	47,893	(7,554)	8,141	(1,492)	56,034	(9,046)
Total fixed maturities	61,390	(13,493)	53,438	(2,867)	114,828	(16,360)
Equity securities:						
Insurance companies, banks and trusts	56,755	(9,050)	0	0	56,755	(9,050)
Industrial, consumer and all other	117,382	(8,591)	12,283	(1,122)	129,665	(9,713)
Total equity securities	174,137	(17,641)	12,283	(1,122)	186,420	(18,763)
Short-term investments	89,999	(1)	0	0	89,999	(1)
Total	$ 325,526	$ (31,135)	$ 65,721	$ (3,989)	$ 391,247	$ (35,124)

At September 30, 2011, the Company held 105 securities with a total estimated fair value of $391.2 million and gross unrealized losses of $35.1 million. Of these 105 securities, 31 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of $65.7 million and gross unrealized losses of $4.0 million. Of these securities, 30 were fixed maturities and one was an equity security. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost.

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	December 31, 2010					
	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	$ 23,574	$ (49)	$ 0	$ 0	$ 23,574	$ (49)
Obligations of states, municipalities and political subdivisions	942,935	(27,463)	22,468	(1,987)	965,403	(29,450)
Foreign governments	119,211	(2,440)	4,955	(159)	124,166	(2,599)
Residential mortgage-backed securities	20,972	(10,822)	10,534	(2,694)	31,506	(13,516)
All other corporate bonds	15,294	(7,921)	15,966	(475)	31,260	(8,396)
Total fixed maturities	1,121,986	(48,695)	53,923	(5,315)	1,175,909	(54,010)
Equity securities:						
Insurance companies, banks and trusts	22,750	(1,496)	0	0	22,750	(1,496)
Industrial, consumer and all other	16,712	(699)	0	0	16,712	(699)
Total equity securities	39,462	(2,195)	0	0	39,462	(2,195)
Total	$ 1,161,448	$ (50,890)	$ 53,923	$ (5,315)	$ 1,215,371	$ (56,205)

At December 31, 2010, the Company held 363 securities with a total estimated fair value of $1.2 billion and gross unrealized losses of $56.2 million. Of these 363 securities, 19 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of $53.9 million and gross unrealized losses of $5.3 million. All 19 securities were fixed maturities.

The Company completes a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. All securities with unrealized losses are reviewed. The Company considers many factors in completing its quarterly review of securities with unrealized losses for other-than-temporary impairment, including the length of time and the extent to which fair value has been below cost and the financial condition and near-term prospects of the issuer. For equity securities, the ability and intent to hold the security for a period of time sufficient to allow for anticipated recovery is considered. For fixed maturities, the Company considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery, the implied yield-to-maturity, the credit quality of the issuer and the ability to recover all amounts outstanding when contractually due.

For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. For fixed maturities where the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a decline in fair value is considered to be other-than-temporary and is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. If the decline in fair value of a fixed maturity below its amortized cost is considered to be other-than-temporary based upon other considerations, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the other-than-temporary impairment, which is recognized in net income, resulting in a new cost basis for the security. Any remaining decline in fair value represents the non-credit portion of the other-than-temporary impairment, which is recognized in other comprehensive income. The discount rate used to calculate the estimated present value of the cash flows expected to be collected is the effective interest rate implicit for the security at the date of purchase.

When assessing whether it intends to sell a fixed maturity or if it is likely to be required to sell a fixed maturity before recovery of its amortized cost, the Company evaluates facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and potential sales of investments to capitalize on favorable pricing. Additional information on the methodology and significant inputs, by security type, that the Company used to determine the amount of credit loss recognized on fixed maturities with declines in fair value below amortized cost that were considered to be other-than-temporary is provided below.

Residential mortgage-backed securities. For mortgage-backed securities, credit impairment is assessed by estimating future cash flows from the underlying mortgage loans and interest payments. The cash flow estimate incorporates actual cash flows from the mortgage-backed securities through the current period and then projects the remaining cash flows using a number of assumptions, including prepayment rates, default rates, recovery rates on foreclosed properties and loss severity assumptions. Management develops specific assumptions using market data and internal estimates, as well as estimates from rating agencies and other third party sources. Default rates are estimated by considering current underlying mortgage loan performance and expectations of future performance. Estimates of future cash flows are discounted to present value. If the present value of expected cash flows is less than the amortized cost, the Company recognizes the estimated credit loss in net income.

Corporate bonds. For corporate bonds, credit impairment is assessed by evaluating the underlying issuer. As part of this assessment, the Company analyzes various factors, including the following:

- fundamentals of the issuer, including current and projected earnings, current liquidity position and ability to raise capital;
- fundamentals of the industry in which the issuer operates;
- expectations of defaults and recovery rates;
- changes in ratings by rating agencies;
- other relevant market considerations; and
- receipt of interest payments

Default probabilities and recovery rates from rating agencies are key factors used in calculating the credit loss. Additional research of the industry and issuer is completed to determine if there is any current information that may affect the fixed maturity or its issuer in a negative manner and require an adjustment to the cash flow assumptions.

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c) The amortized cost and estimated fair value of fixed maturities at September 30, 2011 are shown below by contractual maturity.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 213,328	$ 216,747
Due after one year through five years	1,179,686	1,254,046
Due after five years through ten years	1,835,956	1,979,274
Due after ten years	1,585,752	1,691,011
	4,814,722	5,141,078
Residential mortgage-backed securities	392,534	417,954
Asset-backed securities	16,723	17,552
Total fixed maturities	$ 5,223,979	$ 5,576,584

d) The following tables summarize the activity for credit losses recognized in net income on fixed maturities where other-than-temporary impairment was identified and a portion of the other-than-temporary impairment was included in other comprehensive income (loss).

	Quarter Ended September 30,	
(dollars in thousands)	2011	2010
Cumulative credit loss, beginning balance	$ 15,167	$ 10,307
Additions:		
Other-than-temporary impairment losses not previously recognized	875	0
Increases related to other-than-temporary impairment losses previously recognized	598	0
Total additions	1,473	0
Reductions:		
Sales of fixed maturities on which credit losses were recognized	0	0
Cumulative credit loss, ending balance	$ 16,640	$ 10,307

	Nine Months Ended September 30,	
(dollars in thousands)	2011	2010
Cumulative credit loss, beginning balance	$ 10,307	$ 9,141
Additions:		
Other-than-temporary impairment losses not previously recognized	875	0
Increases related to other-than-temporary impairment losses previously recognized	5,473	1,185
Total additions	6,348	1,185
Reductions:		
Sales of fixed maturities on which credit losses were recognized	(15)	(19)

Cumulative credit loss, ending balance	$ 16,640	$ 10,307

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e) The following tables present net realized investment gains and the change in net unrealized gains on investments.

(dollars in thousands)	Quarter Ended September 30, 2011	2010
Realized gains:		
Sales of fixed maturities	$ 1,858	$ 2,083
Sales of equity securities	20,078	6,952
Other	940	0
Total realized gains	22,876	9,035
Realized losses:		
Sales of fixed maturities	(53)	(103)
Other-than-temporary impairments	(9,984)	0
Other	0	(150)
Total realized losses	(10,037)	(253)
Net realized investment gains	$ 12,839	$ 8,782
Change in net unrealized gains on investments:		
Fixed maturities	$ 113,936	$ 107,060
Equity securities	(262,264)	159,385
Short-term investments	1	(20)
Net increase (decrease)	$ (148,327)	$ 266,425

(dollars in thousands)	Nine Months Ended September 30, 2011	2010
Realized gains:		
Sales of fixed maturities	$ 12,560	$ 15,469
Sales of equity securities	25,896	19,215
Other	2,459	1,966
Total realized gains	40,915	36,650
Realized losses:		
Sales of fixed maturities	(633)	(678)
Other-than-temporary impairments	(14,859)	(6,264)
Other	0	(7,612)
Total realized losses	(15,492)	(14,554)
Net realized investment gains	$ 25,423	$ 22,096
Change in net unrealized gains on investments:		
Fixed maturities	$ 178,359	$ 209,203
Equity securities	(209,346)	118,122
Short-term investments	22	(17)
Net increase (decrease)	$ (30,965)	$ 327,308

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f) The following tables present other-than-temporary impairment losses recognized in net income and included in net realized investment gains by investment type.

(dollars in thousands)	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010
Fixed maturities:		
Residential mortgage-backed securities	$ (1,473)	$ 0
Total fixed maturities	(1,473)	0
Equity securities:		
Insurance companies, banks and trusts	(4,048)	0
Industrial, consumer and all other	(4,463)	0
Total equity securities	(8,511)	0
Total	$ (9,984)	$ 0

(dollars in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Fixed maturities:		
Residential mortgage-backed securities	$ (6,348)	$ (1,185)
Total fixed maturities	(6,348)	(1,185)
Equity securities:		
Insurance companies, banks and trusts	(4,048)	(2,872)
Industrial, consumer and all other	(4,463)	(965)
Total equity securities	(8,511)	(3,837)
Other	0	(1,242)
Total	$ (14,859)	$ (6,264)

5. Senior Long-Term Debt and Other Debt

On June 1, 2011, the Company issued $250 million of 5.35% unsecured senior notes due June 1, 2021. Net proceeds to the Company were $247.9 million, which will be used for general corporate purposes, including acquisitions. In addition, proceeds may be used to repay other of the Company s outstanding debt.

On September 23, 2011, the Company entered into an amended and restated revolving credit facility, which provides $150 million of capacity for working capital and other general corporate purposes. The capacity of the revolving credit facility may be increased to $300 million subject to certain terms and conditions. The Company may select from two interest rate options for balances outstanding under the facility and pays a commitment fee (0.25% at September 30, 2011) on the unused portion of the facility based on the Company s debt to equity leverage ratio as calculated under the agreement. At September 30, 2011, the Company had no borrowings outstanding under the facility. This facility replaced the Company s previous $270 million revolving credit facility and expires in September 2015.

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6. Segment Reporting Disclosures

The Company operates in three segments of the specialty insurance marketplace: the Excess and Surplus Lines, the Specialty Admitted and the London markets. The Company considers many factors, including the nature of its insurance products, production sources, distribution strategies and regulatory environment in determining how to aggregate operating segments.

All investing activities related to our insurance operations are included in the Investing segment. For purposes of segment reporting, the Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued in conjunction with acquisitions. The Company s non-insurance operations primarily consist of controlling interests in various businesses. For purposes of segment reporting, the Company s non-insurance operations are not considered to be a reportable operating segment.

Segment profit or loss for each of the Company s operating segments is measured by underwriting profit or loss. The property and casualty insurance industry commonly defines underwriting profit or loss as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. Underwriting profit or loss does not replace operating income or net income computed in accordance with U.S. GAAP as a measure of profitability. Underwriting profit or loss provides a basis for management to evaluate the Company s underwriting performance. Segment profit for the Investing segment is measured by net investment income and net realized investment gains or losses.

For management reporting purposes, the Company allocates assets to its underwriting, investing and non-insurance operations. Underwriting assets are all assets not specifically allocated to the Investing segment or to the Company s non-insurance operations. Underwriting assets are not allocated to the Excess and Surplus Lines, Specialty Admitted, London Insurance Market or Other Insurance (Discontinued Lines) segments since the Company does not manage its assets by operating segment. Invested assets related to our insurance operations are allocated to the Investing segment since these assets are available for payment of losses and expenses for all operating segments. The Company does not allocate capital expenditures for long-lived assets to any of its operating segments for management reporting purposes.

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a) The following tables summarize the Company s segment disclosures.

Quarter Ended September 30, 2011

(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$ 236,639	$ 153,753	$ 194,210	$ 33	$ 0	$ 584,635
Net written premiums	200,658	147,169	176,829	22	0	524,678
Earned premiums	189,695	136,783	182,710	15	0	509,203
Losses and loss adjustment expenses:						
Current accident year	(147,992)	(112,607)	(144,976)	0	0	(405,575)
Prior accident years	60,475	5,973	34,721	(2,226)	0	98,943
Underwriting, acquisition and insurance expenses	(81,563)	(51,695)	(69,731)	673	0	(202,316)
Underwriting profit (loss)	20,615	(21,546)	2,724	(1,538)	0	255
Net investment income	0	0	0	0	62,199	62,199
Net realized investment gains	0	0	0	0	12,839	12,839
Other revenues (insurance)	0	10,061	0	0	0	10,061
Other expenses (insurance)	0	(3,046)	47	0	0	(2,999)
Segment profit (loss)	$ 20,615	$ (14,531)	$ 2,771	$ (1,538)	$ 75,038	$ 82,355
Other revenues (non-insurance)						81,786
Other expenses (non-insurance)						(67,303)
Amortization of intangible assets						(6,023)
Interest expense						(23,656)
Income before income taxes						$ 67,159
U.S. GAAP combined ratio(1)	89%	116%	99%	NM(2)		100%

Quarter Ended September 30, 2010

(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$ 238,622	$ 104,292	$ 178,677	$ 0	$ 0	$ 521,591
Net written premiums	208,299	98,521	160,120	215	0	467,155
Earned premiums	207,166	79,396	148,579	214	0	435,355
Losses and loss adjustment expenses:						
Current accident year	(175,289)	(51,299)	(103,702)	0	0	(330,290)
Prior accident years	52,751	3,891	49,277	(469)	0	105,450
Underwriting, acquisition and insurance expenses	(89,986)	(31,931)	(59,585)	(138)	0	(181,640)
Underwriting profit (loss)	(5,358)	57	34,569	(393)	0	28,875
Net investment income	0	0	0	0	68,652	68,652

Net realized investment gains	0	0	0	0	8,782	8,782
Other revenues (insurance)	0	0	1,267	0	0	1,267
Other expenses (insurance)	0	0	(618)	0	0	(618)
Segment profit (loss)	$ (5,358)	$ 57	$ 35,218	$ (393)	$ 77,434	$ 106,958
Other revenues (non-insurance)						47,298
Other expenses (non-insurance)						(40,456)
Amortization of intangible assets						(3,903)
Interest expense						(18,598)
Income before income taxes						$ 91,299
U.S. GAAP combined ratio(1)	103%	100%	77%	NM(2)		93%

(1) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(2) NM Ratio is not meaningful.

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Nine Months Ended September 30, 2011

(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$ 663,989	$ 431,604	$ 676,893	$ 125	$ 0	$ 1,772,611
Net written premiums	570,243	410,700	593,440	(5)	0	1,574,378
Earned premiums	557,958	390,623	513,947	(13)	0	1,462,515
Losses and loss adjustment expenses:						
Current accident year	(413,049)	(285,401)	(479,398)	0	0	(1,177,848)
Prior accident years	169,916	7,942	69,960	2,387	0	250,205
Underwriting, acquisition and insurance expenses	(250,415)	(148,957)	(202,291)	152	0	(601,511)
Underwriting profit (loss)	64,410	(35,793)	(97,782)	2,526	0	(66,639)
Net investment income	0	0	0	0	196,551	196,551
Net realized investment gains	0	0	0	0	25,423	25,423
Other revenues (insurance)	0	31,622	0	0	0	31,622
Other expenses (insurance)	0	(27,374)	0	0	0	(27,374)
Segment profit (loss)	$ 64,410	$ (31,545)	$ (97,782)	$ 2,526	$ 221,974	$ 159,583
Other revenues (non-insurance)						228,739
Other expenses (non-insurance)						(190,896)
Amortization of intangible assets						(17,586)
Interest expense						(64,516)
Income before income taxes						$ 115,324
U.S. GAAP combined ratio[1]	88%	109%	119%	NM[2]		105%

Nine Months Ended September 30, 2010

(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$ 692,949	$ 261,138	$ 573,999	$ 43	$ 0	$ 1,528,129
Net written premiums	618,835	242,199	506,594	258	0	1,367,886
Earned premiums	621,331	227,000	415,590	257	0	1,264,178
Losses and loss adjustment expenses:						
Current accident year	(452,774)	(143,097)	(320,890)	0	0	(916,761)
Prior accident years	103,453	4,803	75,160	(2,900)	0	180,516
Underwriting, acquisition and insurance expenses	(260,526)	(90,088)	(166,674)	(126)	0	(517,414)
Underwriting profit (loss)	11,484	(1,382)	3,186	(2,769)	0	10,519
Net investment income	0	0	0	0	201,438	201,438
Net realized investment gains	0	0	0	0	22,096	22,096
Other revenues (insurance)	0	0	6,182	0	0	6,182
Other expenses (insurance)	0	0	(5,482)	0	0	(5,482)
Segment profit (loss)	$ 11,484	$ (1,382)	$ 3,886	$ (2,769)	$ 223,534	$ 234,753

Other revenues (non-insurance)					119,593
Other expenses (non-insurance)					(103,958)
Amortization of intangible assets					(11,717)
Interest expense					(54,891)
Income before income taxes					$ 183,780
U.S. GAAP combined ratio[1]	98%	101%	99%	NM[2]	99%

[1] The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

[2] NM Ratio is not meaningful.

b) The following table reconciles segment assets to the Company s consolidated balance sheets.

(dollars in thousands)	September 30, 2011	December 31, 2010
Segment Assets:		
Investing	$ 8,572,794	$ 8,198,401
Underwriting	2,329,856	2,273,621
Total Segment Assets	$ 10,902,650	$ 10,472,022
Non-insurance operations	469,104	353,567
Total Assets	$ 11,371,754	$ 10,825,589

7. Derivatives

The Company is a party to a credit default swap agreement, under which third party credit risk is transferred from a counterparty to the Company. The Company entered into the credit default swap agreement for investment purposes. At both September 30, 2011 and December 31, 2010, the notional amount of the credit default swap was $33.1 million, which represented the Company s aggregate exposure to losses if specified credit events involving third party reference entities occur. These third party reference entities are specified under the terms of the agreement and represent a portfolio of names upon which the Company has assumed credit risk from the counterparty. The Company s exposure to loss from any one reference entity is limited to $20.0 million. The credit default swap has a scheduled termination date of December 2014.

The credit default swap is accounted for as a derivative instrument and is recorded at fair value with any changes in fair value recorded in net investment income. At September 30, 2011 and December 31, 2010, the credit default swap had a fair value of $27.9 million and $25.2 million, respectively. The fair value of the credit default swap is determined by the Company using an external valuation model that is dependent upon several inputs, including changes in interest rates, credit spreads, expected default rates, changes in credit quality, future expected recovery rates and other market factors. The fair value of the credit default swap is included in other liabilities on the consolidated balance sheets. For the quarter and nine months ended September 30, 2011, net investment income included an adverse change in the fair value of our credit default swap of $3.3 million and $2.7 million, respectively. For the quarter and nine months ended September 30, 2010, net investment income included a favorable change in the fair value of the credit default swap of $1.4 million and less than $0.1 million, respectively.

The Company had no other material derivative instruments at September 30, 2011.

8. Employee Benefit Plans

a) Expenses relating to the Company s defined contribution plans were $4.4 million and $12.9 million, respectively, for the quarter and nine months ended September 30, 2011 and $3.5 million and $10.1 million, respectively, for the same periods in 2010.

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b) The following table presents the components of net periodic benefit cost for the Terra Nova Pension Plan, a defined benefit plan.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2011	2010	2011	2010
Service cost	$ 341	$ 312	$ 1,024	$ 923
Interest cost	1,790	1,714	5,369	5,076
Expected return on plan assets	(2,474)	(2,176)	(7,421)	(6,443)
Amortization of net actuarial pension loss	480	486	1,440	1,439
Net periodic benefit cost	$ 137	$ 336	$ 412	$ 995

The Company contributed $6.5 million to the Terra Nova Pension Plan during the nine months ended September 30, 2011. The Company expects plan contributions to total $6.8 million in 2011.

9. Contingencies

Contingencies arise in the normal conduct of the Company s operations and are not expected to have a material impact on the Company s financial condition or results of operations.

10. Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures,* establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

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

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

The Company has evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include U.S. Treasury securities and obligations of U.S. government agencies, municipal bonds, foreign government bonds, residential mortgage-backed securities and corporate debt securities.

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

Derivatives. Derivatives are recorded at fair value on a recurring basis and include a credit default swap. The fair value of the credit default swap is measured by the Company using a third party pricing model. See note 7 for a discussion of the valuation model for the credit default swap, including the key inputs and assumptions to the model. Due to the significance of unobservable inputs required in measuring the fair value of the credit default swap, the credit default swap has been classified as Level 3 within the fair value hierarchy.

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The following tables present the balances of assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy.

	September 30, 2011			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 0	$ 308,159	$ 0	$ 308,159
Obligations of states, municipalities and political subdivisions	0	2,918,163	0	2,918,163
Foreign governments	0	740,363	0	740,363
Residential mortgage-backed securities	0	417,954	0	417,954
Asset-backed securities	0	17,552	0	17,552
Public utilities	0	76,107	0	76,107
All other corporate bonds	0	1,098,286	0	1,098,286
Total fixed maturities	0	5,576,584	0	5,576,584
Equity securities:				
Insurance companies, banks and trusts	612,395	0	0	612,395
Industrial, consumer and all other	996,804	0	0	996,804
Total equity securities	1,609,199	0	0	1,609,199
Short-term investments	428,681	63,075	0	491,756
Total investments available-for-sale	2,037,880	5,639,659	0	7,677,539
Liabilities:				
Derivative contracts	$ 0	$ 0	$ 27,915	$ 27,915

	December 31, 2010			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 0	$ 321,338	$ 0	$ 321,338
Obligations of states, municipalities and political subdivisions	0	2,799,339	0	2,799,339
Foreign governments	0	572,818	0	572,818
Residential mortgage-backed securities	0	425,563	0	425,563
Asset-backed securities	0	22,756	0	22,756
Public utilities	0	102,444	0	102,444
Convertible bonds	0	16,725	0	16,725
All other corporate bonds	0	1,170,243	0	1,170,243
Total fixed maturities	0	5,431,226	0	5,431,226
Equity securities:				

Insurance companies, banks and trusts	710,986	0	0	710,986
Industrial, consumer and all other	1,010,985	0	0	1,010,985
Total equity securities	1,721,971	0	0	1,721,971
Short-term investments	269,466	55,874	0	325,340
Total investments available-for-sale	1,991,437	5,487,100	0	7,478,537
Liabilities:				
Derivative contracts	$ 0	$ 0	$ 25,228	$ 25,228

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The following tables summarize changes in Level 3 liabilities measured at fair value on a recurring basis.

(dollars in thousands)	Quarter Ended September 30, 2011	2010
Derivatives, Beginning of Period	$ 24,596	$ 28,397
Total (gains) losses included in:		
Net income	3,319	(1,445)
Other comprehensive income (loss)	0	0
Transfers into Level 3	0	0
Transfers out of Level 3	0	0
Derivatives, End of Period	$ 27,915	$ 26,952
Net unrealized (gains) losses included in net income relating to liabilities held at September 30, 2011 and 2010	$ 3,319 [1]	$ (1,445) [1]

(dollars in thousands)	Nine Months Ended September 30, 2011	2010
Derivatives, Beginning of Period	$ 25,228	$ 26,968
Total (gains) losses included in:		
Net income	2,687	(16)
Other comprehensive income (loss)	0	0
Transfers into Level 3	0	0
Transfers out of Level 3	0	0
Derivatives, End of Period	$ 27,915	$ 26,952
Net unrealized (gains) losses included in net income relating to liabilities held at September 30, 2011 and 2010	$ 2,687 [1]	$ (16) [1]

(1) Included in net investment income in the consolidated statements of income and comprehensive income (loss).

There were no transfers into or out of Level 1 and Level 2 during the quarters and nine months ended September 30, 2011 and 2010. The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the nine months ended September 30, 2011 and 2010.

11. Acquisitions

On December 15, 2010, the Company acquired a 60% controlling interest in RD Holdings, LLC (RetailData), a privately held company headquartered in Richmond, Virginia that provides retail intelligence services. On December 23, 2010, the Company acquired a 75% controlling interest in Diamond Healthcare Corporation (Diamond Healthcare), a privately held company headquartered in Richmond, Virginia that manages behavioral health programs throughout the United States. Under the terms of the acquisition agreements, the Company has the option to acquire the remaining equity interests in RetailData and Diamond Healthcare in the future. Any additional consideration for the remaining equity interests would be based on the future earnings of these companies.

Total consideration for these two acquisitions was $92.4 million. Since the Company consolidates its non-insurance operations on a one-month lag, the purchase price allocation for RetailData and Diamond Healthcare

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was completed in the first quarter of 2011. The purchase price was allocated to the acquired assets and liabilities of RetailData and Diamond Healthcare based on estimated fair value at the acquisition date. The Company recognized goodwill of $75.0 million, other intangible assets of $58.3 million and noncontrolling interests of $47.3 million in connection with the two acquisitions. At December 31, 2010, amounts related to the consideration paid to acquire RetailData and Diamond Healthcare were included in other assets on the consolidated balance sheet.

On July 13, 2011, the Company acquired PartnerMD, LLC, a privately held company headquartered in Richmond, Virginia that provides concierge medical and executive health services. On September 6, 2011, the Company acquired Baking Technology Systems, Inc. (BAKE-TECH), a privately held company based in Tucker, Georgia that supplies ovens and other related equipment to high-speed bread and bun bakeries. On October 19, 2011, the Company acquired an 83% controlling interest in WI Holdings Inc. (Weldship), a privately held company based in Bethlehem, Pennsylvania that manufactures and leases high-pressure trailer tubes used by industrial, chemical and distribution companies to transport gas and liquids. Total consideration for these three acquisitions was $102.1 million. The Company recognized goodwill and other intangible assets of $14.4 million in connection with the PartnerMD, LLC acquisition. The purchase price allocation for BAKE-TECH and Weldship will be completed in the fourth quarter of 2011.

12. Recent Accounting Pronouncements

In October 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, to address diversity in practice within the insurance industry regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance modifies the definition of the types of costs incurred by insurance companies that can be capitalized in the acquisition of new or renewal contracts. This guidance specifies that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be capitalized. ASU No. 2010-26 becomes effective for the Company beginning January 1, 2012, and would allow, but not require, retrospective application. The Company is currently evaluating ASU No. 2010-26 to determine the impact that adopting this standard will have on its consolidated financial statements. The Company expects to defer fewer costs upon adoption of this guidance.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The accompanying consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and all subsidiaries.

Critical Accounting Estimates

Critical accounting estimates are those estimates that both are important to the portrayal of our financial condition and results of operations and require us to exercise significant judgment. The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of material contingent assets and liabilities, including litigation contingencies. These estimates, by necessity, are based on assumptions about numerous factors.

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We review our critical accounting estimates and assumptions quarterly. These reviews include evaluating the adequacy of reserves for unpaid losses and loss adjustment expenses, the reinsurance allowance for doubtful accounts and income tax liabilities, as well as analyzing the recoverability of deferred tax assets, assessing goodwill and intangible assets for impairment and evaluating the investment portfolio for other-than-temporary declines in estimated fair value. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

Readers are urged to review our 2010 Annual Report on Form 10-K for a more complete description of our critical accounting estimates.

Our Business

We are a diverse financial holding company serving a variety of niche markets. Our principal business markets and underwrites specialty insurance products and programs. We believe that our specialty product focus and niche market strategy enable us to develop expertise and specialized market knowledge. We seek to differentiate ourselves from competitors by our expertise, service, continuity and other value-based considerations. We compete in three segments of the specialty insurance marketplace: the Excess and Surplus Lines, the Specialty Admitted and the London markets. We also own interests in various businesses that operate outside of the specialty insurance marketplace. Our financial goals are to earn consistent underwriting and operating profits and superior investment returns to build shareholder value.

Our Excess and Surplus Lines segment writes property and casualty insurance outside of the standard market for hard-to-place risks including catastrophe-exposed property, professional liability, products liability, general liability, commercial umbrella and other coverages tailored for unique exposures. Our Excess and Surplus Lines segment is comprised of five regions, and each regional office is responsible for serving the wholesale producers located in its region. Our regional teams focus on customer service and marketing, underwriting and distributing our insurance solutions and provide customers easy access to our products.

Our Specialty Admitted segment writes risks that, although unique and hard-to-place in the standard market, must remain with an admitted insurance company for marketing and regulatory reasons. Our underwriting units in this segment write specialty program insurance for well-defined niche markets, personal and commercial property and liability coverages and workers compensation insurance. Our Specialty Admitted segment is comprised of three underwriting units: the Markel Specialty and Markel American Specialty Personal and Commercial Lines units and, beginning in the fourth quarter of 2010, our FirstComp workers compensation insurance unit, which we acquired in October 2010 through our acquisition of 100% of the outstanding shares of Aspen Holdings, Inc., a Nebraska-based privately held corporation.

Our London Insurance Market segment writes specialty property, casualty, professional liability, equine, marine, energy and trade credit insurance and reinsurance on a worldwide basis. We participate in the London market through Markel International, which includes Markel Capital Limited and Markel International Insurance Company Limited, wholly-owned subsidiaries. Markel Capital Limited is the corporate capital provider for Markel Syndicate 3000 at Lloyd s, which is managed by Markel Syndicate Management Limited, a wholly-owned subsidiary.

For purposes of segment reporting, the Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued in conjunction with acquisitions.

Through our wholly-owned subsidiary Markel Ventures, Inc., we own interests in various businesses that operate outside of the specialty insurance marketplace. These businesses are viewed by management as separate and distinct from our insurance operations. Local management teams oversee the day-to-day operations of these companies, while strategic decisions are made in conjunction with members of our executive management team, principally our President and Chief Investment Officer. The financial results of those companies in which we own controlling interests have been consolidated in our financial statements. The financial results of those companies in which we hold a noncontrolling interest are accounted for under the equity method of accounting.

Our strategy in making these private equity investments is similar to our strategy for purchasing equity securities. We seek to invest in profitable companies, with honest and talented management, that exhibit reinvestment opportunities and capital discipline, at reasonable prices. We intend to own the businesses acquired for a long period of time.

Our non-insurance operations are comprised of a diverse portfolio of companies from various industries, including manufacturers of dredging equipment, high-speed bakery equipment, laminated furniture products and food processing equipment, an owner and operator of manufactured housing communities, a real estate investment fund manager, a concierge medical and executive health services company, a retail intelligence services company and a company that manages behavioral health programs.

Key Performance Indicators

We measure financial success by our ability to compound growth in book value per share at a high rate of return over a long period of time. To mitigate the effects of short-term volatility, we measure ourselves over a five-year period. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting and investing results. We measure underwriting results by our underwriting profit or loss and combined ratio. These measures are discussed in greater detail under Results of Operations.

Results of Operations

The following table presents the components of net income to shareholders.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2011	2010	2011	2010
Underwriting profit (loss)	$ 255	$ 28,875	$ (66,639)	$ 10,519
Net investment income	62,199	68,652	196,551	201,438
Net realized investment gains	12,839	8,782	25,423	22,096
Other revenues	91,847	48,565	260,361	125,775
Amortization of intangible assets	(6,023)	(3,903)	(17,586)	(11,717)
Other expenses	(70,302)	(41,074)	(218,270)	(109,440)
Interest expense	(23,656)	(18,598)	(64,516)	(54,891)
Income tax expense	(12,490)	(28,142)	(19,145)	(56,500)
Net (income) loss attributable to noncontrolling interests	(1,405)	93	(4,329)	(630)
Net income to shareholders	$ 53,264	$ 63,250	$ 91,850	$ 126,650

Net income to shareholders for the quarter and nine months ended September 30, 2011 decreased primarily due to a deterioration in underwriting results, which was partially offset by having a lower estimated effective tax

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rate, compared to the same periods of 2010. The deterioration in underwriting results for the quarter and nine months ended September 30, 2011 was due in part to higher losses on catastrophes. The components of net income to shareholders are discussed in further detail under Underwriting Results, Investing Results, Non-Insurance Operations and Interest Expense and Income Taxes.

Underwriting Results

Underwriting profits are a key component of our strategy to grow book value per share. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk. The property and casualty insurance industry commonly defines underwriting profit or loss as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. We use underwriting profit or loss as a basis for evaluating our underwriting performance.

The following table presents selected data from our underwriting operations.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2011	2010	2011	2010
Gross premium volume	$ 584,635	$ 521,591	$ 1,772,611	$ 1,528,129
Net written premiums	$ 524,678	$ 467,155	$ 1,574,378	$ 1,367,886
Net retention	90%	90%	89%	90%
Earned premiums	$ 509,203	$ 435,355	$ 1,462,515	$ 1,264,178
Losses and loss adjustment expenses	$ 306,632	$ 224,840	$ 927,643	$ 736,245
Underwriting, acquisition and insurance expenses	$ 202,316	$ 181,640	$ 601,511	$ 517,414
Underwriting profit (loss)	$ 255	$ 28,875	$ (66,639)	$ 10,519
U.S. GAAP Combined Ratios[1]				
Excess and Surplus Lines	89%	103%	88%	98%
Specialty Admitted	116%	100%	109%	101%
London Insurance Market	99%	77%	119%	99%
Other Insurance (Discontinued Lines)	NM[2]	NM[2]	NM[2]	NM[2]
Markel Corporation (Consolidated)	100%	93%	105%	99%

[1] The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums. A combined ratio less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss.

[2] NM Ratio is not meaningful.

Our combined ratio was 100% and 105%, respectively, for the quarter and nine months ended September 30, 2011 compared to 93% and 99%, respectively, for the same periods of 2010. The combined ratio for the quarter and nine months ended September 30, 2011 included $34.0 million, or seven points, and $133.0 million, or nine points, respectively, of underwriting loss related to natural catastrophes. The 2011 underwriting loss related to natural catastrophes included losses from Hurricane Irene in the third quarter and losses from the U.S. storms, Japanese earthquake and tsunami, Australian floods and New Zealand earthquake that occurred during the first six months of 2011. The combined ratio for the nine months ended September 30, 2010 included $17.0 million, or one point, of underwriting loss related to the Chilean earthquake. The combined ratio for the quarter and nine months ended September 30, 2010 included $32.9 million, or eight points, and $71.9 million, or six points, respectively, of underwriting loss on two programs now in run-off that were exposed to losses associated with the adverse conditions in the residential mortgage market.

The combined ratio for the Excess and Surplus Lines segment was 89% and 88%, respectively, for the quarter and nine months ended September 30, 2011 compared to 103% and 98%, respectively, for the same periods of 2010. For the quarter ended September 30, 2011, the decrease in the combined ratio was due to a lower current accident year loss ratio and more favorable development on prior years loss reserves. For the nine months ended September 30, 2011, the decrease in the combined ratio was due to more favorable development on prior years loss reserves, which was partially offset by a higher expense ratio. The combined ratio for the quarter and nine months ended September 30, 2011 included $11.3 million, or six points, and $22.3 million, or four points, respectively, of underwriting loss related to natural catastrophes. The combined ratio for the quarter and nine months ended September 30, 2010 included $32.9 million, or 18 points, and $71.9 million, or 13 points, respectively, of underwriting loss on two programs now in run-off that were exposed to losses associated with the adverse conditions in the residential mortgage market. The Excess and Surplus Lines segment s combined ratio for the quarter and nine months ended September 30, 2011 included $60.5 million and $169.9 million, respectively, of favorable development on prior years loss reserves compared to $52.8 million and $103.5 million of favorable development for the same periods in 2010. The redundancies on prior years loss reserves experienced within the Excess and Surplus Lines segment during both periods of 2011 and 2010 were most significant on our professional and products liability and casualty programs. The favorable development on prior years loss reserves during the quarter and nine months ended September 30, 2010 was partially offset by $12.0 million and $46.1 million, respectively, of adverse development on an errors and omissions program for mortgage servicing companies, which is one of the two programs mentioned above now in run-off. In the first quarter of 2011, we resolved a significant portion of our outstanding liabilities associated with this program and, as a result, reduced prior years loss reserves by $15.8 million. The higher expense ratio for the nine months ended September 30, 2011 was due in part to a decline in earned premiums.

The combined ratio for the Specialty Admitted segment was 116% and 109%, respectively, for the quarter and nine months ended September 30, 2011 compared to 100% and 101%, respectively, for the same periods of 2010. The combined ratio for both the quarter and nine months ended September 30, 2011 increased due to a higher current accident year loss ratio, which was partially offset by a lower expense ratio. The combined ratio for the quarter and nine months ended September 30, 2011 included $5.6 million, or four points, and $9.6 million, or two points, respectively, of underwriting loss related to natural catastrophes. In addition to the impact of natural catastrophes, the higher current accident year loss ratio for both periods of 2011 was due in part to the impact of soft market conditions on pricing and a greater than expected incidence of high severity losses across several divisions at the Markel Specialty unit, including higher than expected loss frequency and severity on the accident and health liability class. The increase in the current accident year loss ratio for both periods of 2011 also was attributable to the inclusion of our FirstComp workers compensation operations in the Specialty Admitted segment. The Specialty Admitted segment s combined ratio for the quarter and nine months ended September 30, 2011 included $6.0 million and $7.9 million, respectively, of favorable development on prior years loss reserves compared to $3.9 million and $4.8 million of favorable development for the same periods in 2010. The expense ratio for both the quarter and nine months ended September 30, 2011 decreased primarily due to the inclusion of our FirstComp workers compensation operations, which increased earned premiums in both periods of 2011.

Beginning in the fourth quarter of 2010, the Specialty Admitted segment s results included our FirstComp workers compensation operations. FirstComp produces business for certain of our insurance companies and through June 30, 2011 also acted as a managing general agent producing business for the benefit of unaffiliated insurance companies. For the quarter and nine months ended September 30, 2011, the Specialty Admitted segment included a loss of $2.1 million and $17.1 million, respectively, from our FirstComp operations. The workers compensation insurance market continues to be adversely impacted by high rates of unemployment, unfavorable economic conditions and a challenging pricing environment.

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The combined ratio for the London Insurance Market segment was 99% for the quarter ended September 30, 2011 compared to 77% for the same period of 2010. For the quarter ended September 30, 2011, the increase in the combined ratio was due to a higher current accident year loss ratio and less favorable development on prior years loss reserves. The combined ratio for the third quarter of 2011 included $17.1 million, or 10 points, of underwriting loss related to natural catastrophes. The London Insurance Market segment s combined ratio for the quarter ended September 30, 2011 included $34.7 million of favorable development on prior years loss reserves compared to $49.3 million of favorable development for the same period of 2010.

The combined ratio for the London Insurance Market segment was 119% for the nine months ended September 30, 2011 compared to 99% for the same period of 2010. For the nine months ended September 30, 2011, the increase in the combined ratio was due to a higher current accident year loss ratio and less favorable development on prior years loss reserves. The combined ratio for the nine months ended September 30, 2011 included $101.1 million, or 20 points, of underwriting loss related to natural catastrophes. The London Insurance Market segment s combined ratio for the nine months ended September 30, 2011 also included $22.7 million, or five points, of underwriting loss related to two large losses in the Marine and Energy division. The combined ratio for the nine months ended September 30, 2010 included $17.0 million, or four points, of underwriting loss related to the Chilean earthquake and $15.7 million, or four points, of underwriting loss in the Marine and Energy division related to the Deepwater Horizon drilling rig explosion. In both 2010 and 2011, we experienced large losses in the Marine and Energy division where we have increased our premium writings given favorable pricing conditions. The London Insurance Market segment s combined ratio for the nine months ended September 30, 2011 included $70.0 million of favorable development on prior years loss reserves compared to $75.2 million of favorable development for the same period of 2010.

The estimated net losses on the catastrophes that occurred during the first nine months of 2011 represent our best estimate of losses based upon the most current information available. We have used various loss estimation techniques to develop these reserves, including reviews of modeled loss estimates that factor in third party industry loss estimates, detailed policy level reviews and direct contact with insureds and brokers. However, reported losses and information on potential losses have come in slowly given the magnitude of each of these losses. Due to the uncertainty associated with these events, we believe our loss estimates may have a high degree of volatility. While we believe our reserves for the catastrophes experienced during the first nine months of 2011 are adequate, we continue to closely monitor reported claims and will adjust our estimates of gross and net losses as new information becomes available.

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The following tables summarize, by segment, the impact of significant losses, including catastrophes, on our underwriting results.

	0000000	0000000	0000000	0000000
	Quarter Ended September 30, 2011			
(dollars in millions)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Consolidated
Net losses on catastrophes:				
Hurricane Irene	$ 10.2	$ 5.4	$ 10.0	$ 25.6
U.S. storms	2.3	0.3	4.0	6.6
New Zealand earthquake			5.5	5.5
Australian floods			(1.0)	(1.0)
Japanese earthquake and tsunami	(1.2)	(0.1)	1.1	(0.2)
Reinsurance costs(1)			(2.5)	(2.5)
Total	$ 11.3	$ 5.6	$ 17.1	$ 34.0

	0000000	0000000	0000000	0000000
	Nine Months Ended September 30, 2011			
(dollars in millions)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Consolidated
Net losses on catastrophes:				
Japanese earthquake and tsunami	$	$ 0.5	$ 39.3	$ 39.8
U.S. storms	12.1	3.7	14.0	29.8
New Zealand earthquake			26.5	26.5
Hurricane Irene	10.2	5.4	10.0	25.6
Australian floods			10.0	10.0
Reinsurance costs(1)			1.3	1.3
	22.3	9.6	101.1	133.0
Other significant net losses:				
Marine and energy			15.0	15.0
Reinsurance costs(1)			7.7	7.7
			22.7	22.7
Total	$ 22.3	$ 9.6	$ 123.8	$ 155.7

(1) Adjustments related to estimated reinstatement premiums on reinsurance treaties that (increased) decreased net written and net earned premiums.

The Other Insurance (Discontinued Lines) segment produced an underwriting loss of $1.5 million and an underwriting profit of $2.5 million for the quarter and nine months ended September 30, 2011, respectively, compared to underwriting losses of $0.4 million and $2.8 million for the same periods of 2010. During the third quarter of each year, we complete an in-depth, actuarial review of our asbestos and environmental exposures. During our 2011 and 2010 reviews, we determined that no adjustment to loss reserves was required. Asbestos and environmental loss reserves are subject to significant uncertainty due to potential loss severity and frequency resulting from an uncertain and unfavorable legal climate. Our asbestos and environmental reserves are not discounted to present value and are forecasted to pay out over the next 50 years. We seek to establish appropriate reserve levels for asbestos and environmental exposures; however, these reserves could be subject to increases in the future.

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Premiums and Net Retentions

The following tables summarize gross premium volume, net written premiums and earned premiums by segment.

Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Gross Premium Volume (dollars in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
$ 236,639	$ 238,622	Excess and Surplus Lines	$ 663,989	$ 692,949
153,753	104,292	Specialty Admitted	431,604	261,138
194,210	178,677	London Insurance Market	676,893	573,999
33	0	Other Insurance (Discontinued Lines)	125	43
$ 584,635	$ 521,591	Total	$ 1,772,611	$ 1,528,129

Gross premium volume for the quarter and nine months ended September 30, 2011 increased 12% and 16%, respectively, compared to the same periods of 2010. For the quarter and nine months ended September 30, 2011, the Specialty Admitted segment included $60.3 million and $170.3 million, respectively, of gross premium volume from FirstComp. The increase in gross premium volume in 2011 also was attributable to higher gross premium volume in the London Insurance Market segment due in part to an increase in premiums written by Elliott Special Risks, which has been converted from a managing general agent operation to a risk bearing insurance division. Gross premium volume in the London Insurance Market segment also benefitted from offering higher policy limits and an improved pricing environment in the Marine and Energy division. Gross premium volume in the Excess and Surplus Lines segment decreased in both periods of 2011 compared to the same periods of 2010 due to a reduction in written premiums on two specialized insurance programs. Excluding these two programs, gross premium volume in the Excess and Surplus Lines segment has experienced modest growth during the first nine months of 2011. Foreign currency exchange rate movements did not have a significant impact on gross premium volume for the quarter and nine months ended September 30, 2011.

Gross premium volume continues to be impacted by competition across many of our product lines, particularly within the Excess and Surplus Lines segment. In general, we believe prevailing rates within the property and casualty insurance marketplace are lower than our targeted pricing levels. When we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume for many of our product lines, most notably within the Excess and Surplus Lines segment, has declined and, if the competitive environment does not improve, could decline further in the future.

Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	Net Written Premiums (dollars in thousands)	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
$ 200,658	$ 208,299	Excess and Surplus Lines	$ 570,243	$ 618,835
147,169	98,521	Specialty Admitted	410,700	242,199
176,829	160,120	London Insurance Market	593,440	506,594
22	215	Other Insurance (Discontinued Lines)	(5)	258
$ 524,678	$ 467,155	Total	$ 1,574,378	$ 1,367,886

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Net retention of gross premium volume for the quarter and nine months ended September 30, 2011 was 90% and 89%, respectively, compared to 90% for both the quarter and nine months ended September 30, 2010. As part of our underwriting philosophy, we seek to offer products with limits that do not require significant amounts of reinsurance. We purchase reinsurance in order to reduce our retention on individual risks and enable us to write policies with sufficient limits to meet policyholder needs.

Earned Premiums

Quarter Ended September 30, 2011	Quarter Ended September 30, 2010	*(dollars in thousands)*	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
$ 189,695	$ 207,166	Excess and Surplus Lines	$ 557,958	$ 621,331
136,783	79,396	Specialty Admitted	390,623	227,000
182,710	148,579	London Insurance Market	513,947	415,590
15	214	Other Insurance (Discontinued Lines)	(13)	257
$ 509,203	$ 435,355	Total	$ 1,462,515	$ 1,264,178

Earned premiums for the quarter and nine months ended September 30, 2011 increased 17% and 16%, respectively, compared to the same periods of 2010. For the quarter and nine months ended September 30, 2011, the Specialty Admitted segment included $55.0 million and $147.3 million, respectively, of earned premiums from FirstComp. The increase in earned premiums in 2011 also was due to higher earned premiums in the London Insurance Market segment, which was primarily a result of higher gross premium volume. The decrease in earned premiums in the Excess and Surplus Lines segment was primarily a result of lower gross premium volume. Foreign currency exchange rate movements did not have a significant impact on earned premiums for the quarter and nine months ended September 30, 2011.

Investing Results

Net investment income for the third quarter of 2011 was $62.2 million compared to $68.7 million for the third quarter of 2010. Net investment income was $196.6 million for the nine months ended September 30, 2011 compared to $201.4 million for the nine months ended September 30, 2010. For the quarter and nine months ended September 30, 2011, net investment income included an adverse change in the fair value of our credit default swap of $3.3 million and $2.7 million, respectively, compared to a favorable change in the fair value of the credit default swap of $1.4 million and less than $0.1 million for the same periods of 2010.

Net realized investment gains for the third quarter of 2011 were $12.8 million compared to $8.8 million for the same period of 2010. For the nine months ended September 30, 2011, net realized investment gains were $25.4 million compared to $22.1 million for the same period of 2010. Net realized investment gains for the quarter and nine months ended September 30, 2011 included $10.0 million and $14.9 million, respectively, of write downs for other-than-temporary declines in the estimated fair value of investments. For the third quarter of 2010, we did not recognize any write downs for other-than-temporary declines in the estimated fair value of investments. Net realized investment gains for the nine months ended September 30, 2010 included $6.3 million of write downs for other-than-temporary declines in the estimated fair value of investments.

We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. At September 30, 2011, we held securities with gross unrealized losses of $35.1 million, or less than 1% of our total invested assets. All securities with unrealized losses were reviewed, and we believe that there were no other securities with indications of declines in estimated fair value that were other-than-temporary at September 30, 2011. However, given the volatility in the debt and equity markets, we caution readers that further declines in fair value could be significant and may result in additional other-than-temporary impairment charges in future periods. Variability in the timing of realized and unrealized gains and losses is to be expected.

Non-Insurance Operations (Markel Ventures)

Our non-insurance operations, which are referred to collectively as Markel Ventures, include the results of AMF Bakery Systems, ParkLand Ventures, Inc., Panel Specialists, Inc., Ellicott Dredge Enterprises, LLC, Solbern, Inc., Markel Eagle Partners, LLC, RD Holdings, LLC and Diamond Healthcare Corporation. In July 2011, we acquired PartnerMD, LLC, a privately held company headquartered in Richmond, Virginia that provides concierge medical and executive health services. In September 2011, we acquired Baking Technology Systems, Inc. (BAKE-TECH), a privately held company based in Tucker, Georgia that supplies ovens and other related equipment to high-speed bread and bun bakeries.

We consolidate our non-insurance operations on a one-month lag. Operating revenues and expenses associated with our non-insurance operations are included in other revenues and other expenses in the consolidated statements of income and comprehensive income (loss). Revenues from our non-insurance operations were $81.8 million and $228.7 million for the quarter and nine months ended September 30, 2011, respectively, compared to $47.3 million and $119.6 million for the same periods of 2010. Net income to shareholders from our non-insurance operations was $4.2 million and $8.9 million for the quarter and nine months ended September 30, 2011, respectively, compared to $2.5 million and $4.2 million for the same periods of 2010. Revenues and net income to shareholders from our non-insurance operations increased for the quarter and nine months ended September 30, 2011 compared to the same periods of 2010 primarily due to our acquisitions of RD Holdings, LLC and Diamond Healthcare Corporation in late 2010.

In October 2011, we acquired an 83% controlling interest in WI Holdings Inc. (Weldship), a privately held company based in Bethlehem, Pennsylvania that manufactures and leases high-pressure trailer tubes used by industrial, chemical and distribution companies to transport gas and liquids.

Interest Expense and Income Taxes

Interest expense for the third quarter of 2011 increased to $23.7 million from $18.6 million in the same period of 2010. Interest expense for the nine months ended September 30, 2011 increased to $64.5 million from $54.9 million in the same period of 2010. For both periods of 2011, the increase compared to the same periods of 2010 was due in part to our $250 million issuance of 5.35% unsecured senior notes in June 2011.

The estimated annual effective tax rate was 17% and 31% as of September 30, 2011 and 2010, respectively. For both periods, the estimated annual effective tax rate differs from the statutory tax rate of 35% primarily as a result of tax-exempt investment income. The decrease in the estimated annual effective tax rate was primarily due to having lower estimated income before income taxes in 2011 compared to 2010.

Comprehensive Income (Loss) to Shareholders

Comprehensive loss to shareholders was $52.6 million for the third quarter of 2011 compared to comprehensive income of $225.3 million for the same period of 2010. Comprehensive loss to shareholders for the third quarter of 2011 included a decrease in net unrealized gains on investments, net of taxes, of $98.1 million and net income to shareholders of $53.3 million. Comprehensive income to shareholders for the third quarter of 2010 included an increase in net unrealized gains on investments, net of taxes, of $161.6 million and net income to shareholders of $63.3 million. For the nine months ended September 30, 2011, comprehensive income to shareholders was $68.2 million compared to $326.0 million for the same period in 2010. Comprehensive income to shareholders for the nine months ended September 30, 2011 included a decrease in net unrealized gains on investments, net of taxes, of $19.2 million and net income to shareholders of $91.9 million. Comprehensive income to shareholders for the nine months ended September 30, 2010 included an increase in net unrealized gains on investments, net of taxes, of $196.4 million and net income to shareholders of $126.7 million.

Financial Condition

Invested assets were $8.6 billion at September 30, 2011 compared to $8.2 billion at December 31, 2010. Net unrealized gains on investments, net of taxes, were $562.0 million at September 30, 2011 compared to $581.3 million at December 31, 2010. Equity securities were $1.6 billion, or 19% of invested assets, at September 30, 2011 compared to $1.7 billion, or 21% of invested assets, at December 31, 2010.

Net cash provided by operating activities was $261.1 million for the nine months ended September 30, 2011 compared to $172.8 million for the same period of 2010. The increase in net cash provided by operating activities was primarily due to higher cash flows from underwriting activities in the London Insurance Market and Specialty Admitted segments.

Net cash used by investing activities was $294.5 million for the nine months ended September 30, 2011 compared to $172.5 million for the same period of 2010. During the first nine months of 2011, we increased our holdings of short-term investments and cash and cash equivalents and purchased less fixed maturities compared to the same period of 2010. In the current market environment, we have chosen to take a more defensive posture, earning slightly lower investment yields in order to maintain a high level of liquidity and have flexibility in how we allocate capital. We also are planning for increased claims settlement activity resulting from the higher than expected amount of catastrophe losses incurred during 2011.

Net cash provided by financing activities was $210.8 million for the nine months ended September 30, 2011 compared to net cash used by financing activities of $33.6 million for the same period of 2010. On June 1, 2011, we issued $250 million of 5.35% unsecured senior notes due June 1, 2021. Net proceeds were $247.9 million, which will be used for general corporate purposes, including acquisitions. In addition, proceeds may be used to repay other of our outstanding debt. Cash of $33.4 million and $42.1 million was used to repurchase shares of our common stock during the first nine months of 2011 and 2010, respectively.

We seek to maintain prudent levels of liquidity and financial leverage for the protection of our policyholders, creditors and shareholders. Our target capital structure includes approximately 30% debt. Our debt to total capital ratio was 28% at September 30, 2011 and 24% at December 31, 2010. From time to time, our debt to total capital ratio may increase due to business opportunities that may be financed in the short term with debt. Alternatively, our debt to total capital ratio may fall below our target capital structure, which provides us with additional borrowing capacity to respond when future opportunities arise.

We have access to various capital sources, including dividends from certain of our insurance subsidiaries, holding company invested assets, undrawn capacity under our revolving credit facility and access to the debt and equity capital markets. We believe that we have sufficient liquidity to meet our capital needs.

Our holding company had $1,006.7 million and $885.6 million of invested assets at September 30, 2011 and December 31, 2010, respectively.

Shareholders equity was $3.2 billion at both September 30, 2011 and December 31, 2010. Book value per share increased to $333.11 at September 30, 2011 from $326.36 at December 31, 2010 primarily due to $68.2 million of comprehensive income to shareholders for the nine months ended September 30, 2011.

Item 3. Quantitative and Qualitative Disclosures 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 the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Historically, our primary market risks have been equity price risk associated with investments in equity securities, interest rate risk associated with investments in fixed maturities and foreign currency exchange rate risk associated with our international operations. We have no material commodity risk.

During the nine months ended September 30, 2011, there were no material changes to the market risk components described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Credit risk is the potential loss resulting from adverse changes in an issuer s ability to repay its debt obligations. General concern exists about the number of municipalities experiencing financial difficulties in light of the adverse economic conditions experienced over the past several years. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically either general obligation or revenue bonds related to essential products and services.

We monitor our portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit quality, investment grade securities. Our fixed maturity portfolio has an average rating of AA, with approximately 95% rated A or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At September 30, 2011, approximately 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

The estimated fair value of our investment portfolio at September 30, 2011 was $8.6 billion, 81% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 19% of which was invested in equity securities. At December 31, 2010, the estimated fair value of our investment portfolio was $8.2 billion, 79% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 21% of which was invested in equity securities.

Our fixed maturities, equity securities and short-term investments are recorded at fair value, which is measured based upon quoted prices in active markets, if available. We determine fair value for these investments after considering various sources of information, including information provided by a third party pricing service. The pricing service provides prices for substantially all of our fixed maturities and equity securities. In determining

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fair value, we generally do not adjust the prices obtained from the pricing service. We obtain an understanding of the pricing service s valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. We validate prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15 (Disclosure Controls). This evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon our controls evaluation, the CEO and CFO concluded that effective Disclosure Controls were in place to ensure that the information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There were no changes in our internal control over financial reporting during the third quarter of 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Safe Harbor and Cautionary Statement

This report contains statements concerning or incorporating our expectations, assumptions, plans, objectives, future financial or operating performance and other statements that are not historical facts. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

There are risks and uncertainties that may cause actual results to differ materially from predicted results in forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additional factors that could cause actual results to differ from those predicted are set forth under Risk Factors and Safe Harbor and Cautionary Statement in our 2010 Annual Report on Form 10-K or are included in the items listed below:

- our anticipated premium volume is based on current knowledge and assumes no significant man-made or natural catastrophes, no significant changes in products or personnel and no adverse changes in market conditions;
- we offer insurance coverage against terrorist acts in connection with some of our programs, and in other instances we are legally required to offer terrorism insurance; in both circumstances, we actively manage our exposure, but if there is a covered terrorist attack, we could sustain material losses;
- the impact of the events of September 11, 2001 will depend on the resolution of on-going insurance coverage litigation and arbitrations;
- the frequency and severity of catastrophic events (including earthquakes and weather-related catastrophes) is unpredictable and, in the case of weather-related catastrophes, may be exacerbated if, as many forecast, conditions in the oceans and atmosphere result in increased hurricane or other adverse weather-related activity;
- changing legal and social trends and inherent uncertainties (including but not limited to those uncertainties associated with our asbestos and environmental reserves) in the loss estimation process can adversely impact the adequacy of loss reserves and the allowance for reinsurance recoverables;
- adverse developments in insurance coverage litigation could result in material increases in our estimates of loss reserves;
- the loss estimation process may become more uncertain if we experience a period of rising inflation;
- the costs and availability of reinsurance may impact our ability to write certain lines of business;
- industry and economic conditions can affect the ability and/or willingness of reinsurers to pay balances due;
- after the commutation of ceded reinsurance contracts, any subsequent adverse development in the re-assumed loss reserves will result in a charge to earnings;
- regulatory actions can impede our ability to charge adequate rates and efficiently allocate capital;

economic conditions, actual or potential defaults in sovereign debt obligations, volatility in interest and foreign currency exchange rates and changes in market value of concentrated investments can have a significant impact on the fair value of fixed maturities and equity securities, as well as the carrying value of other assets and liabilities, and this impact may be heightened by market volatility;

economic conditions, changes in government support for education, healthcare and infrastructure projects and foreign currency exchange rates, among other factors, may adversely affect the markets served by our non-insurance operations and negatively impact their revenues and profitability;

we have substantial investments in municipal bonds (approximately $2.9 billion at September 30, 2011) and, although no more than 10% of our municipal bond portfolio is tied to any one state, widespread defaults could adversely affect our results of operations and financial condition;

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we cannot predict the extent and duration of the current economic slowdown; the effects of government actions to address the U.S. federal deficit and debt ceiling issues; the continuing effects of government intervention into the markets to address the financial crisis of 2008 and 2009 (including, among other things, the effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations adopted thereunder); and their combined impact on our industry, business and investment portfolio;

we cannot predict the impact of U.S. health care reform legislation and regulations under that legislation on our business;

our system and business process initiatives may take longer to implement and cost more than we anticipate and may not achieve all of our objectives;

we have recently completed a number of acquisitions and may engage in additional acquisition activity in the future, which may increase operational and control risks for a period of time;

loss of services of any executive officers could impact our operations; and

adverse changes in our assigned financial strength or debt ratings could impact our ability to attract and retain business or obtain capital.
Our premium volume, underwriting and investment results and results from our non-insurance operations have been and will continue to be potentially materially affected by these factors. By making forward-looking statements, we do not intend to become obligated to publicly update or revise any such statements whether as a result of new information, future events or other changes. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as at their dates.

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PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our common stock repurchases for the quarter ended September 30, 2011.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1, 2011 through July 31, 2011	0	0	0	$ 184,246
August 1, 2011 through August 31, 2011	45,853	$ 376.52	45,853	$ 166,981
September 1, 2011 through September 30, 2011	7,048	$ 377.95	7,048	$ 164,318
Total	52,901	$ 376.71	52,901	$ 164,318

1 The Board of Directors approved the repurchase of up to $200 million of our common stock pursuant to a share repurchase program publicly announced on December 1, 2010 (the Program). Under the Program, we may repurchase outstanding shares of our common stock from time to time, primarily through open-market transactions. The Program has no expiration date but may be terminated by the Board of Directors at any time.

Item 6. Exhibits

See Exhibit Index for a list of exhibits filed as part of this report.

Signatures

Pursuant to the requirements 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, this 7th day of November 2011.

Markel Corporation

By /s/ Alan I. Kirshner
Alan I. Kirshner
Chief Executive Officer and Chairman

of the Board of Directors

By /s/ Anne G. Waleski
Anne G. Waleski
Vice President, Chief Financial Officer

and Treasurer
(Principal Financial Officer)

Exhibit Index

Number	Description
3(i)	Amended and Restated Articles of Incorporation (3.1)a
3(ii)	Bylaws, as amended (3.1)b
4.1	Form of Amended and Restated Credit Agreement dated as of September 23, 2011 among Markel Corporation, the lenders party thereto and SunTrust Bank, as Administrative Agent*
4.2	Indenture dated as of June 5, 2001, between Markel Corporation and The Chase Manhattan Bank, as Trustee (4.1)c
4.3	Form of Second Supplemental Indenture dated as of February 25, 2003 between Markel Corporation and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.1)d
4.4	Form of Third Supplemental Indenture dated as of August 13, 2004 between Markel Corporation and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.2)e
4.5	Form of Fourth Supplemental Indenture dated as of August 22, 2006 between Markel Corporation and J.P. Morgan Trust Company, National Association (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.2)f
4.6	Form of Fifth Supplemental Indenture dated as of September 22, 2009 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.2)g
4.7	Form of Sixth Supplemental Indenture dated as of June 1, 2011 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.2)h
	The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instruments defining the rights of holders of long-term debt of the registrant s subsidiaries shown on the Consolidated Balance Sheet of the registrant at September 30, 2011 and the respective Notes thereto, included in this Quarterly Report on Form 10-Q.
10.1	Description of Non-Employee Director Compensation*
10.2	Schedule of Base Annual Salaries for Executive Officers*
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)*
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)*
32.1	Certification of Principal Executive Officer furnished Pursuant to 18 U.S.C. Section 1350*
32.2	Certification of Principal Financial Officer furnished Pursuant to 18 U.S.C. Section 1350*
101	The following consolidated financial statements from Markel Corporation s Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, filed on November 7, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income (Loss), (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.*

a. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on May 13, 2011.
b. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on May 14, 2010.
c. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on June 5, 2001.
d. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on February 25, 2003.
e. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on August 11, 2004.
f. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on August 17, 2006.
g. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on September 21, 2009.
h. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on May 31, 2011.
* Filed with this report.