

MARKEL CORP
Form 10-Q
November 08, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2012

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
(State or other jurisdiction of
incorporation or organization)

54-1959284
(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 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 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 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

Number of shares of the registrant's common stock outstanding at October 31, 2012: 9,624,398

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(dollars in thousands)

| | September 30, 2012 (unaudited) | December 31, 2011 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Investments, available-for-sale, at estimated fair value: | | |
| Fixed maturities (amortized cost of \$4,833,249 in 2012 and \$5,172,952 in 2011) | \$5,280,549 | \$5,538,174 |
| Equity securities (cost of \$1,375,406 in 2012 and \$1,156,294 in 2011) | 2,341,253 | 1,873,927 |
| Short-term investments (estimated fair value approximates cost) | 729,042 | 541,014 |
| Total Investments | 8,350,844 | 7,953,115 |
| Cash and cash equivalents | 834,828 | 775,032 |
| Receivables | 446,773 | 350,237 |
| Reinsurance recoverable on unpaid losses | 748,864 | 791,102 |
| Reinsurance recoverable on paid losses | 42,224 | 38,208 |
| Deferred policy acquisition costs | 167,185 | 194,674 |
| Prepaid reinsurance premiums | 114,354 | 97,074 |
| Goodwill and intangible assets | 997,834 | 867,558 |
| Other assets | 680,511 | 465,103 |
| Total Assets | \$12,383,417 | \$11,532,103 |
| LIABILITIES AND EQUITY | | |
| Unpaid losses and loss adjustment expenses | \$5,306,045 | \$5,398,869 |
| Unearned premiums | 1,053,135 | 915,930 |
| Payables to insurance companies | 100,079 | 64,327 |
| Senior long-term debt and other debt (estimated fair value of \$1,692,000 in 2012 and \$1,391,000 in 2011) | 1,510,598 | 1,293,520 |
| Other liabilities | 519,903 | 397,111 |
| Total Liabilities | 8,489,760 | 8,069,757 |
| Redeemable noncontrolling interests | 87,738 | 74,231 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock | 905,841 | 891,507 |
| Retained earnings | 2,009,133 | 1,835,086 |
| Accumulated other comprehensive income | 891,142 | 660,920 |
| Total Shareholders' Equity | 3,806,116 | 3,387,513 |
| Noncontrolling interests | (197 |) 602 |
| Total Equity | 3,805,919 | 3,388,115 |
| Total Liabilities and Equity | \$12,383,417 | \$11,532,103 |
| See accompanying notes to consolidated financial statements. | | |

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income (Loss)

(Unaudited)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-----------|------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (dollars in thousands, except per share data) | | | |
| OPERATING REVENUES | | | | |
| Earned premiums | \$530,537 | \$509,203 | \$1,573,189 | \$1,462,515 |
| Net investment income | 64,438 | 62,199 | 207,834 | 196,551 |
| Net realized investment gains: | | | | |
| Other-than-temporary impairment losses | (3,159 |) (9,846 |) (4,151 |) (11,553 |
| Other-than-temporary impairment losses recognized in other comprehensive income (loss) | — | (138 |) — | (3,306 |
| Other-than-temporary impairment losses recognized in net income | (3,159 |) (9,984 |) (4,151 |) (14,859 |
| Net realized investment gains, excluding other-than-temporary impairment losses | 8,390 | 22,823 | 29,507 | 40,282 |
| Net realized investment gains | 5,231 | 12,839 | 25,356 | 25,423 |
| Other revenues | 165,569 | 91,847 | 385,778 | 260,361 |
| Total Operating Revenues | 765,775 | 676,088 | 2,192,157 | 1,944,850 |
| OPERATING EXPENSES | | | | |
| Losses and loss adjustment expenses | 303,459 | 306,632 | 813,074 | 927,643 |
| Underwriting, acquisition and insurance expenses | 231,841 | 202,316 | 695,322 | 601,511 |
| Amortization of intangible assets | 7,959 | 6,023 | 25,078 | 17,586 |
| Other expenses | 145,339 | 70,302 | 343,462 | 218,270 |
| Total Operating Expenses | 688,598 | 585,273 | 1,876,936 | 1,765,010 |
| Operating Income | 77,177 | 90,815 | 315,221 | 179,840 |
| Interest expense | 24,692 | 23,656 | 69,068 | 64,516 |
| Income Before Income Taxes | 52,485 | 67,159 | 246,153 | 115,324 |
| Income tax expense | 811 | 12,490 | 45,998 | 19,145 |
| Net Income | \$51,674 | \$54,669 | \$200,155 | \$96,179 |
| Net income attributable to noncontrolling interests | 2,021 | 1,405 | 3,562 | 4,329 |
| Net Income to Shareholders | \$49,653 | \$53,264 | \$196,593 | \$91,850 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Change in net unrealized gains on investments, net of taxes: | | | | |
| Net holding gains (losses) arising during the period | \$100,630 | \$(90,330 |) \$246,056 | \$(5,606 |
| Unrealized other-than-temporary impairment losses on fixed maturities arising during the period | (128 |) 189 | (136 |) 1,657 |
| Reclassification adjustments for net gains included in net income | (6,484 |) (7,995 |) (20,154 |) (15,286 |
| Change in net unrealized gains on investments, net of taxes | 94,018 | (98,136 |) 225,766 | (19,235 |
| Change in foreign currency translation adjustments, net of taxes | 3,266 | (8,133 |) 2,927 | (5,538 |
| Change in net actuarial pension loss, net of taxes | 522 | 379 | 1,487 | 1,080 |
| Total Other Comprehensive Income (Loss) | 97,806 | (105,890 |) 230,180 | (23,693 |

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| | | | | |
|---|------------|-----------|-------------|----------|
| Comprehensive Income (Loss) | \$ 149,480 | \$(51,221 |) \$430,335 | \$72,486 |
| Comprehensive income attributable to noncontrolling interests | 2,026 | 1,405 | 3,520 | 4,329 |
| Comprehensive Income (Loss) to Shareholders | \$ 147,454 | \$(52,626 |) \$426,815 | \$68,157 |

NET INCOME PER SHARE

| | | | | |
|---------|--------|--------|---------|--------|
| Basic | \$5.33 | \$5.50 | \$19.72 | \$9.46 |
| Diluted | \$5.32 | \$5.48 | \$19.67 | \$9.42 |

See accompanying notes to consolidated financial statements.

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MARTEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

(Unaudited)

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income | Total Shareholders' Equity | Noncontrolling Interests | Total Equity | Redeemable Noncontrolling Interests |
|---|------------------------|----------------------|---|----------------------------------|-----------------------------|--------------|---|
| | (dollars in thousands) | | | | | | |
| December 31, 2010 | \$ 884,457 | \$ 1,735,973 | \$ 551,093 | \$ 3,171,523 | \$ 871 | \$ 3,172,394 | \$ 15,298 |
| Net income (loss) | | 91,850 | — | 91,850 | (345) | 91,505 | 4,674 |
| Change in net unrealized gains on investments, net of taxes | | — | (19,235) | (19,235) | — | (19,235) | — |
| Change in foreign currency translation adjustments, net of taxes | | — | (5,538) | (5,538) | — | (5,538) | — |
| Change in net actuarial pension loss, net of taxes | | — | 1,080 | 1,080 | — | 1,080 | — |
| Comprehensive Income (Loss) | | | | 68,157 | (345) | 67,812 | 4,674 |
| Issuance of common stock | 1,182 | — | — | 1,182 | — | 1,182 | — |
| Repurchase of common stock | — | (33,436) | — | (33,436) | — | (33,436) | — |
| Restricted stock units expensed | 4,606 | — | — | 4,606 | — | 4,606 | — |
| Acquisitions | — | — | — | — | — | — | 47,287 |
| Other | 148 | — | — | 148 | — | 148 | (1,873) |
| September 30, 2011 | \$ 890,393 | \$ 1,794,387 | \$ 527,400 | \$ 3,212,180 | \$ 526 | \$ 3,212,706 | \$ 65,386 |
| December 31, 2011 | \$ 891,507 | \$ 1,835,086 | \$ 660,920 | \$ 3,387,513 | \$ 602 | \$ 3,388,115 | \$ 74,231 |
| Net income (loss) | | 196,593 | — | 196,593 | (742) | 195,851 | 4,304 |
| Change in net unrealized gains on investments, net of taxes | | — | 225,766 | 225,766 | — | 225,766 | — |
| Change in foreign currency translation adjustments, net of taxes | | — | 2,969 | 2,969 | — | 2,969 | (42) |
| Change in net actuarial pension loss, net of taxes | | — | 1,487 | 1,487 | — | 1,487 | — |
| Comprehensive Income (Loss) | | | | 426,815 | (742) | 426,073 | 4,262 |

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| | | | | | | | | |
|---|-----------|-------------|------------|-------------|---------|---------------|-----------|---|
| Issuance of common stock | 8,803 | — | — | 8,803 | — | 8,803 | — | |
| Repurchase of common stock | — | (16,062 |) — | (16,062 |) — | (16,062 |) — | |
| Restricted stock units expensed | 5,184 | — | — | 5,184 | — | 5,184 | — | |
| Acquisitions | — | — | — | — | — | — | 7,896 | |
| Adjustment of redeemable noncontrolling interests | — | (6,484 |) — | (6,484 |) — | (6,484 |) 6,484 | |
| Other | 347 | — | — | 347 | (57 |) 290 | (5,135 |) |
| September 30, 2012 | \$905,841 | \$2,009,133 | \$ 891,142 | \$3,806,116 | \$ (197 |) \$3,805,919 | \$ 87,738 | |

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------------|
| | 2012 | 2011 |
| | (dollars in thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$200,155 | \$96,179 |
| Adjustments to reconcile net income to net cash provided by operating activities | 39,390 | 164,929 |
| Net Cash Provided By Operating Activities | 239,545 | 261,108 |
| INVESTING ACTIVITIES | | |
| Proceeds from sales of fixed maturities and equity securities | 193,514 | 204,821 |
| Proceeds from maturities, calls and prepayments of fixed maturities | 354,489 | 255,951 |
| Cost of fixed maturities and equity securities purchased | (390,927 |) (526,058 |
| Net change in short-term investments | (183,748 |) (168,057 |
| Acquisitions, net of cash acquired | (246,182 |) (20,319 |
| Additions to property and equipment | (33,489 |) (43,511 |
| Cost of equity method investments | (38,650 |) (10,600 |
| Other | (8,996 |) 13,290 |
| Net Cash Used By Investing Activities | (353,989 |) (294,483 |
| FINANCING ACTIVITIES | | |
| Additions to senior long-term debt and other debt | 461,360 | 302,829 |
| Repayments of senior long-term debt and other debt | (263,120 |) (57,393 |
| Repurchases of common stock | (16,062 |) (33,436 |
| Distributions to noncontrolling interests | (4,821 |) (2,419 |
| Other | (6,730 |) 1,235 |
| Net Cash Provided By Financing Activities | 170,627 | 210,816 |
| Effect of foreign currency rate changes on cash and cash equivalents | 3,613 | (2,507 |
| Increase in cash and cash equivalents | 59,796 | 174,934 |
| Cash and cash equivalents at beginning of period | 775,032 | 745,259 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$834,828 | \$920,193 |
| See accompanying notes to consolidated financial statements. | | |

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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 industrial and service businesses that operate outside of the specialty insurance marketplace.

The consolidated balance sheet as of September 30, 2012, the related consolidated statements of income and comprehensive income (loss) for the quarters and nine months ended September 30, 2012 and 2011, and the consolidated statements of changes in equity and cash flows for the nine months ended September 30, 2012 and 2011 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, 2011 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 materially 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 2011 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

ParkLand Ventures, Inc. (ParkLand), 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.

2. Net Income per Share

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

| (in thousands, except per share amounts) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|-----------------------------|----------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net income to shareholders | \$49,653 | \$53,264 | \$196,593 | \$91,850 |
| Less: Adjustment of redeemable noncontrolling interests | (1,702) | — | 6,484 | — |
| Adjusted net income to shareholders | \$51,355 | \$53,264 | \$190,109 | \$91,850 |

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| | | | | |
|----------------------------------|--------|--------|---------|--------|
| Basic common shares outstanding | 9,632 | 9,680 | 9,641 | 9,706 |
| Dilutive potential common shares | 27 | 38 | 26 | 40 |
| Diluted shares outstanding | 9,659 | 9,718 | 9,667 | 9,746 |
| Basic net income per share | \$5.33 | \$5.50 | \$19.72 | \$9.46 |
| Diluted net income per share | \$5.32 | \$5.48 | \$19.67 | \$9.42 |

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3. Reinsurance

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

| (dollars in thousands) | Quarter Ended September 30, | | | |
|------------------------|-----------------------------|-----------|-----------|-----------|
| | 2012 | | 2011 | |
| | Written | Earned | Written | Earned |
| Direct | \$519,408 | \$505,514 | \$501,687 | \$475,578 |
| Assumed | 91,425 | 94,822 | 82,948 | 86,134 |
| Ceded | (71,209) | (69,799) | (59,957) | (52,509) |
| Net premiums | \$539,624 | \$530,537 | \$524,678 | \$509,203 |

| (dollars in thousands) | Nine Months Ended September 30, | | | |
|------------------------|---------------------------------|-------------|-------------|-------------|
| | 2012 | | 2011 | |
| | Written | Earned | Written | Earned |
| Direct | \$1,568,092 | \$1,505,710 | \$1,482,903 | \$1,383,678 |
| Assumed | 338,281 | 269,771 | 289,708 | 254,907 |
| Ceded | (218,969) | (202,292) | (198,233) | (176,070) |
| Net premiums | \$1,687,404 | \$1,573,189 | \$1,574,378 | \$1,462,515 |

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$15.3 million and \$42.9 million, respectively, for the quarters ended September 30, 2012 and 2011 and \$79.6 million and \$136.7 million, respectively, for the nine months ended September 30, 2012 and 2011.

4. Investments

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

| (dollars in thousands) | September 30, 2012 | | | | |
|--|--------------------|--------------------------------|---------------------------------|---|----------------------|
| | 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 | \$300,491 | \$21,462 | \$— | \$— | \$321,953 |
| Obligations of states, municipalities and political subdivisions | 2,653,298 | 257,461 | (341) | — | 2,910,418 |
| Foreign governments | 544,544 | 57,673 | (1) | — | 602,216 |
| Residential mortgage-backed securities | 261,089 | 19,515 | (3) | (2,258) | 278,343 |
| Asset-backed securities | 14,332 | 676 | — | — | 15,008 |
| Public utilities | 56,432 | 5,221 | — | — | 61,653 |
| All other corporate bonds | 1,003,063 | 94,765 | (79) | (6,791) | 1,090,958 |
| Total fixed maturities | 4,833,249 | 456,773 | (424) | (9,049) | 5,280,549 |
| Equity securities: | | | | | |
| Insurance companies, banks and trusts | 442,119 | 383,397 | (1,798) | — | 823,718 |
| Industrial, consumer and all other | 933,287 | 590,506 | (6,258) | — | 1,517,535 |
| Total equity securities | 1,375,406 | 973,903 | (8,056) | — | 2,341,253 |

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| | | | | | |
|---------------------------------|-------------|-------------|----------|------------|---------------|
| Short-term investments | 729,029 | 15 | (2 |) — | 729,042 |
| Investments, available-for-sale | \$6,937,684 | \$1,430,691 | \$(8,482 |) \$(9,049 |) \$8,350,844 |

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| (dollars in thousands) | December 31, 2011 | | | | |
|--|-------------------|--------------------------------|---------------------------------|---|----------------------|
| | 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 | \$299,413 | \$22,789 | \$(9) | \$— | \$322,193 |
| Obligations of states, municipalities and political subdivisions | 2,729,838 | 201,477 | (794) | — | 2,930,521 |
| Foreign governments | 572,253 | 45,629 | (1,068) | — | 616,814 |
| Residential mortgage-backed securities | 366,859 | 24,601 | (18) | (2,258) | 389,184 |
| Asset-backed securities | 16,096 | 731 | (9) | — | 16,818 |
| Public utilities | 63,965 | 5,462 | — | — | 69,427 |
| All other corporate bonds | 1,124,528 | 78,053 | (2,750) | (6,614) | 1,193,217 |
| Total fixed maturities | 5,172,952 | 378,742 | (4,648) | (8,872) | 5,538,174 |
| Equity securities: | | | | | |
| Insurance companies, banks and trusts | 389,421 | 296,648 | (1,366) | — | 684,703 |
| Industrial, consumer and all other | 766,873 | 425,131 | (2,780) | — | 1,189,224 |
| Total equity securities | 1,156,294 | 721,779 | (4,146) | — | 1,873,927 |
| Short-term investments | 541,014 | 4 | (4) | — | 541,014 |
| Investments, available-for-sale | \$6,870,260 | \$1,100,525 | \$(8,798) | \$(8,872) | \$7,953,115 |

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

| (dollars in thousands) | September 30, 2012 | | | | | |
|--|----------------------|---|----------------------|---|----------------------|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | 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: | | | | | | |
| Obligations of states, municipalities and political subdivisions | \$2,114 | \$(50) | \$3,873 | \$(291) | \$5,987 | \$(341) |
| Foreign governments | 14,530 | (1) | — | — | 14,530 | (1) |
| Residential mortgage-backed securities | 560 | (2,259) | 249 | (2) | 809 | (2,261) |
| All other corporate bonds | — | (6,791) | 3,900 | (79) | 3,900 | (6,870) |
| Total fixed maturities | 17,204 | (9,101) | 8,022 | (372) | 25,226 | (9,473) |
| Equity securities: | | | | | | |
| Insurance companies, banks and trusts | 18,449 | (1,798) | — | — | 18,449 | (1,798) |
| Industrial, consumer and all other | 64,568 | (6,123) | 1,971 | (135) | 66,539 | (6,258) |

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| | | | | | | | |
|-------------------------|-----------|-----------|-----------|--------|-------------|-----------|---|
| Total equity securities | 83,017 | (7,921 |) 1,971 | (135 |) 84,988 | (8,056 |) |
| Short-term investments | 160,991 | (2 |) — | — | 160,991 | (2 |) |
| Total | \$261,212 | \$(17,024 |) \$9,993 | \$(507 |) \$271,205 | \$(17,531 |) |

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At September 30, 2012, the Company held 38 securities with a total estimated fair value of \$271.2 million and gross unrealized losses of \$17.5 million. Of these 38 securities, 10 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$10.0 million and gross unrealized losses of \$0.5 million. Of these securities, eight were fixed maturities and two were equity securities. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost.

| | December 31, 2011 | | | | Total | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses |
|--|----------------------------|--|----------------------------|--|----------------------------|--|
| | Less than 12 months | | 12 months or longer | | | |
| (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 | |
| Fixed maturities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$32,384 | \$(9) | \$— | \$— | \$32,384 | \$(9) |
| Obligations of states, municipalities and political subdivisions | 1,016 | (2) | 17,261 | (792) | 18,277 | (794) |
| Foreign governments | 40,340 | (1,068) | — | — | 40,340 | (1,068) |
| Residential mortgage-backed securities | 489 | (2,263) | 2,045 | (13) | 2,534 | (2,276) |
| Asset-backed securities | — | — | 32 | (9) | 32 | (9) |
| All other corporate bonds | 74,812 | (7,829) | 7,923 | (1,535) | 82,735 | (9,364) |
| Total fixed maturities | 149,041 | (11,171) | 27,261 | (2,349) | 176,302 | (13,520) |
| Equity securities: | | | | | | |
| Insurance companies, banks and trusts | 26,514 | (1,366) | — | — | 26,514 | (1,366) |
| Industrial, consumer and all other | 70,555 | (2,774) | 18,525 | (6) | 89,080 | (2,780) |
| Total equity securities | 97,069 | (4,140) | 18,525 | (6) | 115,594 | (4,146) |
| Short-term investments | 295,991 | (4) | — | — | 295,991 | (4) |
| Total | \$542,101 | \$(15,315) | \$45,786 | \$(2,355) | \$587,887 | \$(17,670) |

At December 31, 2011, the Company held 76 securities with a total estimated fair value of \$587.9 million and gross unrealized losses of \$17.7 million. Of these 76 securities, 17 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$45.8 million and gross unrealized losses of \$2.4 million. Of these securities, 16 securities were fixed maturities and one was an equity security.

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.

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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 (loss). 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, 2012 are shown below by contractual maturity.

| (dollars in thousands) | Amortized Cost | Estimated Fair Value |
|--|-------------------|-------------------------|
| Due in one year or less | \$311,759 | \$316,794 |
| Due after one year through five years | 1,282,826 | 1,398,701 |
| Due after five years through ten years | 1,617,285 | 1,773,272 |
| Due after ten years | 1,345,958 | 1,498,431 |
| | 4,557,828 | 4,987,198 |
| Residential mortgage-backed securities | 261,089 | 278,343 |
| Asset-backed securities | 14,332 | 15,008 |
| Total fixed maturities | \$4,833,249 | \$5,280,549 |

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

| (dollars in thousands) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|-----------------------------|----------|------------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Cumulative credit loss, beginning balance | \$21,370 | \$15,167 | \$21,370 | \$10,307 |
| Additions: | | | | |
| Other-than-temporary impairment losses not previously recognized | — | 875 | — | 875 |
| Increases related to other-than-temporary impairment losses previously recognized | — | 598 | — | 5,473 |
| Total additions | — | 1,473 | — | 6,348 |
| Reductions: | | | | |
| Sales of fixed maturities on which credit losses were recognized | — | — | — | (15) |
| Cumulative credit loss, ending balance | \$21,370 | \$16,640 | \$21,370 | \$16,640 |

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

| (dollars in thousands) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|------------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Realized gains: | | | | |
| Sales of fixed maturities | \$2,576 | \$1,858 | \$7,863 | \$12,560 |
| Sales of equity securities | 10,403 | 20,078 | 25,865 | 25,896 |
| Other | — | 940 | 655 | 2,459 |
| Total realized gains | 12,979 | 22,876 | 34,383 | 40,915 |
| Realized losses: | | | | |
| Sales of fixed maturities | (118 |) (53 |) (457 |) (633 |
| Sales of equity securities | (383 |) — | (331 |) — |
| Other-than-temporary impairments | (3,159 |) (9,984 |) (4,151 |) (14,859 |
| Other | (4,088 |) — | (4,088 |) — |
| Total realized losses | (7,748 |) (10,037 |) (9,027 |) (15,492 |
| Net realized investment gains | \$5,231 | \$12,839 | \$25,356 | \$25,423 |
| Change in net unrealized gains on investments: | | | | |
| Fixed maturities | \$37,488 | \$113,936 | \$82,078 | \$178,359 |
| Equity securities | 98,964 | (262,264 |) 248,214 | (209,346 |
| Short-term investments | 18 | 1 | 13 | 22 |
| Net increase (decrease) | \$136,470 | \$(148,327 |) \$330,305 | \$(30,965 |

f) The following table presents 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, | | Nine Months Ended September 30, | |
|--|-----------------------------|------------|---------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Fixed maturities: | | | | |
| Residential mortgage-backed securities | \$— | \$(1,473 |) \$— | \$(6,348 |
| Total fixed maturities | — | (1,473 |) — | (6,348 |
| Equity securities: | | | | |
| Insurance companies, banks and trusts | (1,615 |) (4,048 |) (2,441 |) (4,048 |
| Industrial, consumer and all other | (1,544 |) (4,463 |) (1,710 |) (4,463 |
| Total equity securities | (3,159 |) (8,511 |) (4,151 |) (8,511 |
| Total | \$(3,159 |) \$(9,984 |) \$(4,151 |) \$(14,859 |

5. Senior Long-Term Debt

On July 2, 2012, the Company issued \$350 million of 4.90% unsecured senior notes due July 1, 2022. Net proceeds to the Company were \$347.2 million. On August 1, 2012, the Company used a portion of these proceeds to redeem its 7.50% unsecured senior debentures due August 22, 2046 at a redemption price equal to 100% of their principal amount, or \$150 million. This redemption resulted in a loss of \$4.1 million, which is reflected in net realized investment gains. The proceeds from the July 2012 issuance are also being used to pre-fund the repayment of our 6.80% unsecured senior notes due 2013 at their maturity on February 15, 2013 (\$246.7 million principal amount outstanding at September 30, 2012).

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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 industrial and service 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, 2012 | | | | | | |
|--|--------------------------------|-----------------------|-------------------------------|---|----------------|--------------|
| (dollars in thousands) | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Other Insurance (Discontinued Lines) | Investing | Consolidated |
| Gross premium volume | \$253,014 | \$167,747 | \$190,071 | \$ 1 | \$— | \$610,833 |
| Net written premiums | 211,538 | 157,894 | 170,193 | (1) | — | 539,624 |
| Earned premiums | 195,478 | 153,009 | 182,052 | (2) | — | 530,537 |
| Losses and loss adjustment expenses: | | | | | | |
| Current accident year | (134,504) | (116,044) | (122,192) | — | — | (372,740) |
| Prior accident years | 51,310 | 11,504 | 32,744 | (26,277) | — | 69,281 |
| Underwriting, acquisition and insurance expenses: | | | | | | |
| Prospective adoption of ASU 2010-26 ⁽¹⁾ | (2,125) | (2,600) | (1,809) | — | — | (6,534) |
| All other expenses | (88,093) | (60,008) | (76,820) | (386) | — | (225,307) |
| Underwriting profit (loss) | 22,066 | (14,139) | 13,975 | (26,665) | — | (4,763) |
| Net investment income | — | — | — | — | 64,438 | 64,438 |
| Net realized investment gains | — | — | — | — | 5,231 | 5,231 |
| Other revenues (insurance) | — | 11,536 | 223 | — | — | 11,759 |
| Other expenses (insurance) | — | (12,181) | (970) | — | — | (13,151) |
| Segment profit (loss) | \$22,066 | \$(14,784) | \$13,228 | \$ (26,665) | \$69,669 | \$63,514 |
| Other revenues (non-insurance) | | | | | | 153,810 |
| Other expenses (non-insurance) | | | | | | (132,188) |
| Amortization of intangible assets | | | | | | (7,959) |
| Interest expense | | | | | | (24,692) |
| Income before income taxes | | | | | | \$52,485 |
| U.S. GAAP combined ratio ⁽²⁾ | 89 | % 109 | % 92 | % NM | ⁽³⁾ | 101 % |
| 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 | \$— | \$584,635 |
| Net written premiums | 200,658 | 147,169 | 176,829 | 22 | — | 524,678 |
| Earned premiums | 189,695 | 136,783 | 182,710 | 15 | — | 509,203 |
| Losses and loss adjustment expenses: | | | | | | |
| Current accident year | (147,992) | (112,607) | (144,976) | — | — | (405,575) |
| Prior accident years | 60,475 | 5,973 | 34,721 | (2,226) | — | 98,943 |
| Underwriting, acquisition and insurance expenses | (81,563) | (51,695) | (69,731) | 673 | — | (202,316) |
| Underwriting profit (loss) | 20,615 | (21,546) | 2,724 | (1,538) | — | 255 |
| Net investment income | — | — | — | — | 62,199 | 62,199 |
| Net realized investment gains | — | — | — | — | 12,839 | 12,839 |
| Other revenues (insurance) | — | 10,061 | — | — | — | 10,061 |
| Other expenses (insurance) | — | (3,046) | 47 | — | — | (2,999) |

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| | | | | | | |
|---|----------|-------------|---------|-------------|----------------|-----------|
| 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 ⁽²⁾ | 89 | % 116 | % 99 | % NM | ⁽³⁾ | 100 % |

Effective January 1, 2012, the Company prospectively adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. At December 31, 2011, deferred policy acquisition costs included approximately \$43 million (1) of costs that no longer met the criteria for deferral as of January 1, 2012 and will be recognized into income primarily over the first nine months of 2012, consistent with policy terms. The quarter ended September 30, 2012 included \$6.5 million of underwriting, acquisition and insurance expenses that were deferred as of December 31, 2011 and no longer met the criteria for deferral as of January 1, 2012.

The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of (2) incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(3)NM – Ratio is not meaningful.

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Nine Months Ended September 30, 2012

| (dollars in thousands) | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Other Insurance (Discontinued Lines) | Investing | Consolidated |
|--|--------------------------------|-----------------------|-------------------------------|---|----------------|--------------|
| Gross premium volume | \$705,849 | \$496,019 | \$704,511 | \$ (6) | \$— | \$1,906,373 |
| Net written premiums | 597,742 | 467,722 | 621,947 | (7) | — | 1,687,404 |
| Earned premiums | 584,524 | 431,179 | 557,493 | (7) | — | 1,573,189 |
| Losses and loss adjustment expenses: | | | | | | |
| Current accident year | (390,254) | (310,115) | (372,869) | — | — | (1,073,238) |
| Prior accident years | 132,583 | 27,747 | 118,994 | (19,160) | — | 260,164 |
| Underwriting, acquisition and insurance expenses: | | | | | | |
| Prospective adoption of ASU 2010-26 ⁽¹⁾ | (16,652) | (12,863) | (11,578) | — | — | (41,093) |
| All other expenses | (255,295) | (171,111) | (226,770) | (1,053) | — | (654,229) |
| Underwriting profit (loss) | 54,906 | (35,163) | 65,270 | (20,220) | — | 64,793 |
| Net investment income | — | — | — | — | 207,834 | 207,834 |
| Net realized investment gains | — | — | — | — | 25,356 | 25,356 |
| Other revenues (insurance) | — | 36,065 | 4,753 | — | — | 40,818 |
| Other expenses (insurance) | — | (35,184) | (2,722) | — | — | (37,906) |
| Segment profit (loss) | \$54,906 | \$(34,282) | \$67,301 | \$(20,220) | \$233,190 | \$300,895 |
| Other revenues (non-insurance) | | | | | | 344,960 |
| Other expenses (non-insurance) | | | | | | (305,556) |
| Amortization of intangible assets | | | | | | (25,078) |
| Interest expense | | | | | | (69,068) |
| Income before income taxes | | | | | | \$246,153 |
| U.S. GAAP combined ratio ⁽²⁾ | 91 | % 108 | % 88 | % NM | ⁽³⁾ | 96 % |

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 | \$— | \$1,772,611 |
| Net written premiums | 570,243 | 410,700 | 593,440 | (5) | — | 1,574,378 |
| Earned premiums | 557,958 | 390,623 | 513,947 | (13) | — | 1,462,515 |
| Losses and loss adjustment expenses: | | | | | | |
| Current accident year | (413,049) | (285,401) | (479,398) | — | — | (1,177,848) |
| Prior accident years | 169,916 | 7,942 | 69,960 | 2,387 | — | 250,205 |
| Underwriting, acquisition and insurance expenses | (250,415) | (148,957) | (202,291) | 152 | — | (601,511) |
| Underwriting profit (loss) | 64,410 | (35,793) | (97,782) | 2,526 | — | (66,639) |
| Net investment income | — | — | — | — | 196,551 | 196,551 |
| Net realized investment gains | — | — | — | — | 25,423 | 25,423 |
| Other revenues (insurance) | — | 31,622 | — | — | — | 31,622 |
| Other expenses (insurance) | — | (27,374) | — | — | — | (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 ⁽²⁾ | 88 | % 109 | % 119 | % NM | ⁽³⁾ | 105 % |

(1) Effective January 1, 2012, the Company prospectively adopted FASB ASU No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. At December 31, 2011, deferred policy acquisition costs included approximately \$43 million of costs that no longer met the criteria for deferral as of January 1, 2012 and will be recognized into income primarily over the first nine months of 2012, consistent with policy terms. The nine months ended September 30, 2012 included \$41.1 million of underwriting, acquisition and insurance expenses that were deferred as of December 31, 2011 and no longer met the criteria for deferral as of January 1, 2012.

The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of (2) incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(3)NM – Ratio is not meaningful.

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

| (dollars in thousands) | September 30, 2012 | December 31, 2011 |
|--------------------------|-----------------------|----------------------|
| Segment assets: | | |
| Investing | \$9,137,910 | \$8,692,391 |
| Underwriting | 2,391,813 | 2,209,431 |
| Total segment assets | \$11,529,723 | \$10,901,822 |
| Non-insurance operations | 853,694 | 630,281 |
| Total assets | \$12,383,417 | \$11,532,103 |

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, 2012 and December 31, 2011, 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, 2012 and December 31, 2011, the credit default swap had a fair value of \$15.6 million and \$29.3 million, respectively. The fair value of the credit default swap is included in other liabilities on the consolidated balance sheets. Net investment income for the quarter and nine months ended September 30, 2012 included favorable changes in the fair value of the credit default swap of \$1.5 million and \$13.7 million, respectively. For the quarter and nine months ended September 30, 2011, net investment income included an adverse change in the credit default swap of \$3.3 million and \$2.7 million, respectively.

The fair value of the credit default swap is determined by the Company using a Gaussian copula valuation model, a market standard model for valuing credit default swaps. The fair value 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 significant unobservable inputs used in the fair value measurement of the credit default swap are expected default rates and future expected recovery rates. The Company determines these unobservable inputs based upon default rates and recovery rates used to price similar credit default swap indices. A significant increase in expected default rates in isolation results in a significantly higher fair value measurement, while a significant decrease in expected default rates results in a significantly lower fair value measurement. A significant increase in future expected recovery rates in isolation results in a significantly lower fair value measurement, while a significant decrease in future expected recovery rates results in a significantly higher fair value measurement. Generally, a change in the assumption used for expected default rates is accompanied by a directionally opposite change in future expected recovery rates. The fair value measurement of the credit default swap at September 30, 2012 included expected default rates ranging between 1% and 33%, with a weighted-average expected default rate of 3%, and future expected recovery rates ranging between 20% and 40%, with a weighted-average future expected recovery rate of 39%. The fair value measurement of the credit default swap at December 31, 2011 included expected default rates ranging between 2% and 37%, with a weighted-average expected default rate of 9%, and future expected recovery rates ranging between 19% and 52%, with a weighted-average future expected recovery rate of 39%.

The Company's valuation policies and procedures for the credit default swap are determined by an internal investment manager with oversight provided by the Company's Chief Financial Officer and Chief Investment Officer. Fair value measurements are analyzed quarterly to ensure the change in fair value from prior periods is reasonable relative to recent market trends. Additionally, the reported fair value of the credit default swap is compared to results from similar valuation models.

The Company had no other material derivative instruments at September 30, 2012.

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8. Employee Benefit Plans

Expenses relating to the Company's defined contribution plans were \$4.6 million and \$13.9 million, respectively, for a) the quarter and nine months ended September 30, 2012 and \$4.4 million and \$12.9 million, respectively, for the same periods in 2011.

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

| (dollars in thousands) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|-----------------------------|----------|---------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$90 | \$341 | \$269 | \$1,024 |
| Interest cost | 1,693 | 1,790 | 5,079 | 5,369 |
| Expected return on plan assets | (2,432 |) (2,474 |) (7,295 |) (7,421 |
| Amortization of net actuarial pension loss | 643 | 480 | 1,930 | 1,440 |
| Net periodic benefit cost (income) | \$(6 |) \$137 | \$(17 |) \$412 |

The Company contributed \$5.7 million to the Terra Nova Pension Plan during the nine months ended September 30, 2012 and does not expect to make any additional contributions in 2012.

9. Commitments and Contingencies

The Company owns controlling interests in various non-insurance subsidiaries. Under the terms of certain of the acquisition agreements, the Company has the option to acquire the remaining equity interests and the remaining equity interests have the option to sell their interests to the Company in the future. The redemption value of the remaining equity interests is generally based on the respective company's earnings in specified periods preceding the redemption date. The redeemable noncontrolling interests generally become redeemable between 2012 and 2018.

The Company recognizes changes in the redemption value that exceed the carrying value of redeemable noncontrolling interests immediately through retained earnings as if the balance sheet date were also the redemption date. Changes in the redemption value also result in an adjustment to net income to shareholders in the calculation of basic and diluted net income per share. The adjustment recorded through retained earnings to increase redeemable noncontrolling interests to redemption value during 2012 was \$6.5 million. There were no adjustments recorded through retained earnings in 2011 because the redemption values of the redeemable noncontrolling interests were less than or approximated their carrying values.

Redeemable noncontrolling interests have been reclassified from other noncontrolling interests in the consolidated balance sheets and statements of changes in equity for all periods presented. The reclassification had no impact on previously reported shareholders' equity, net income or basic and diluted net income per share.

Contingencies arise in the normal course 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

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.

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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 an external valuation model. See note 7 for a discussion of the valuation model for the credit default swap, including the key inputs and assumptions used in the

model and a description of the valuation processes used by the Company. 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.

Senior long-term debt and other debt. Senior long-term debt and other debt is carried at amortized cost with the estimated fair value disclosed on the consolidated balance sheets. Senior long-term debt and other debt is classified as Level 2 within the fair value hierarchy due to variations in trading volumes and the lack of quoted market prices. Fair value for senior long-term debt and other debt is generally derived through recent reported trades for identical securities, making adjustments through the reporting date, if necessary, based upon available market observable data including U.S. Treasury securities and implied credit spreads. Significant inputs used to determine the fair value of senior long-term debt and other debt include reported trades, benchmark yields, issuer spreads, bids and offers.

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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.

| (dollars in thousands) | September 30, 2012 | | | Total |
|--|--------------------|-----------|----------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investments available-for-sale: | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$— | \$321,953 | \$— | \$321,953 |
| Obligations of states, municipalities and political subdivisions | — | 2,910,418 | — | 2,910,418 |
| Foreign governments | — | 602,216 | — | 602,216 |
| Residential mortgage-backed securities | — | 278,343 | — | 278,343 |
| Asset-backed securities | — | 15,008 | — | 15,008 |
| Public utilities | — | 61,653 | — | 61,653 |
| All other corporate bonds | — | 1,090,958 | — | 1,090,958 |
| Total fixed maturities | — | 5,280,549 | — | 5,280,549 |
| Equity securities: | | | | |
| Insurance companies, banks and trusts | 823,718 | — | — | 823,718 |
| Industrial, consumer and all other | 1,517,535 | — | — | 1,517,535 |
| Total equity securities | 2,341,253 | — | — | 2,341,253 |
| Short-term investments | 650,472 | 78,570 | — | 729,042 |
| Total investments available-for-sale | 2,991,725 | 5,359,119 | — | 8,350,844 |
| Liabilities: | | | | |
| Derivative contracts | \$— | \$— | \$15,650 | \$15,650 |
| | | | | |
| (dollars in thousands) | December 31, 2011 | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investments available-for-sale: | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$— | \$322,193 | \$— | \$322,193 |
| Obligations of states, municipalities and political subdivisions | — | 2,930,521 | — | 2,930,521 |
| Foreign governments | — | 616,814 | — | 616,814 |
| Residential mortgage-backed securities | — | 389,184 | — | 389,184 |
| Asset-backed securities | — | 16,818 | — | 16,818 |
| Public utilities | — | 69,427 | — | 69,427 |
| All other corporate bonds | — | 1,193,217 | — | 1,193,217 |
| Total fixed maturities | — | 5,538,174 | — | 5,538,174 |
| Equity securities: | | | | |
| Insurance companies, banks and trusts | 684,703 | — | — | 684,703 |
| Industrial, consumer and all other | 1,189,224 | — | — | 1,189,224 |
| Total equity securities | 1,873,927 | — | — | 1,873,927 |
| Short-term investments | 477,348 | 63,666 | — | 541,014 |
| Total investments available-for-sale | 2,351,275 | 5,601,840 | — | 7,953,115 |
| Liabilities: | | | | |

| | | | | |
|----------------------|-----|-----|----------|----------|
| Derivative contracts | \$— | \$— | \$29,331 | \$29,331 |
|----------------------|-----|-----|----------|----------|

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

| (dollars in thousands) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|-----------------------------|-----------|---------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Derivatives, beginning of period | \$17,130 | \$24,596 | \$29,331 | \$25,228 |
| Total losses (gains) included in: | | | | |
| Net income | (1,480 |) 3,319 | (13,681 |) 2,687 |
| Other comprehensive income (loss) | — | — | — | — |
| Transfers into Level 3 | — | — | — | — |
| Transfers out of Level 3 | — | — | — | — |
| Derivatives, end of period | \$15,650 | \$27,915 | \$15,650 | \$27,915 |
| Net unrealized losses (gains) included in net income relating to liabilities held at September 30, 2012 and 2011 ⁽¹⁾ | \$(1,480 |) \$3,319 | \$(13,681 |) \$2,687 |

(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 quarter and nine months ended September 30, 2012 and 2011. 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, 2012 and 2011.

11. Acquisitions

Insurance Acquisition. On January 1, 2012, the Company acquired 100% of the outstanding membership units of Thompson Insurance Enterprises, LLC (THOMCO), a privately held program administrator headquartered in Kennesaw, Georgia that underwrites multi-line, industry-focused insurance programs. Results attributable to this acquisition are included in the Specialty Admitted segment.

Total consideration for this acquisition was \$108.5 million, which included cash consideration of \$100.5 million. The purchase price was allocated to the acquired assets and liabilities of THOMCO based on estimated fair values at the acquisition date. The Company recognized goodwill of \$26.1 million, which is primarily attributable to synergies that are expected to result upon integration of THOMCO into the Company's insurance operations. All of the goodwill recognized is expected to be deductible for income tax purposes. The Company also recognized other intangible assets of \$81.2 million, including \$68.5 million of customer relationships, \$11.5 million of trade names and \$1.0 million of technology. These intangible assets are expected to be amortized over a weighted average period of 23 years, 10 years and three years, respectively.

Non-insurance Acquisitions. On April 18, 2012, the Company acquired an 85% controlling interest in Havco WP LLC (Havco), a privately held company headquartered in Cape Girardeau, Missouri. Havco is a leading manufacturer of laminated oak and composite wood flooring that is utilized in the assembly of truck trailers, intermodal containers and truck bodies. Under the terms of the acquisition agreement, the Company has the option to acquire the remaining equity interests in Havco and the remaining equity interests have the option to sell their interests to the Company in the future. The redemption value of the remaining equity interests is generally based on Havco's earnings in specified periods preceding the redemption date. During the nine months ended September 30, 2012, ParkLand also completed the acquisition of several manufactured housing communities. Cash consideration for these non-insurance acquisitions during the nine months ended September 30, 2012 was \$92.6 million. The purchase price was allocated to the acquired assets and liabilities of Havco and the acquired manufactured housing communities based on estimated fair values at the acquisition dates. The Company recognized goodwill of \$11.5 million, other intangible assets of \$28.2 million and redeemable noncontrolling interests of \$7.9 million in connection with these acquisitions. Other intangible

assets include \$21.2 million of customer relationships, which are expected to be amortized over a weighted average period of 16 years.

During the third quarter of 2012, the Company acquired 100% of the outstanding shares of Tromp Bakery Equipment (Tromp), a privately held company headquartered in Gorinchem, The Netherlands. Tromp is a global designer and manufacturer of sheeting lines for pizza, pastry, pie and bread makers. The Company also acquired an 85% controlling interest in Reading Bakery Systems (Reading), a privately held company headquartered in Reading, Pennsylvania. Reading is a leading global designer and manufacturer of industrial baking systems for the production of crackers, pretzels, cookies and other baked snacks. Total consideration for these acquisitions was approximately \$69.7 million. The purchase price allocation for these acquisitions will be completed in the fourth quarter of 2012. At September 30, 2012, amounts related to the consideration paid to acquire Tromp and Reading were included in other assets on the consolidated balance sheet.

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12. Recent Accounting Pronouncements

Effective January 1, 2012, the Company adopted FASB ASU No. 2010-26, which addresses 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 specifies that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be capitalized. The Company elected prospective adoption of ASU No. 2010-26. At December 31, 2011, deferred policy acquisition costs included approximately \$43 million of costs that no longer met the criteria for deferral as of January 1, 2012 and will be recognized into income primarily over the first nine months of 2012, consistent with policy terms. Upon adoption of ASU No. 2010-26, the Company's policy is to defer commissions and premium taxes that meet the criteria for deferral under the new guidance. During the quarter ended September 30, 2012, the Company deferred \$89.4 million of policy acquisition costs and amortized \$96.5 million of policy acquisition costs. Under its previous policy, the Company would have deferred \$117.9 million of policy acquisition costs and amortized \$117.7 million of policy acquisition costs for the quarter ended September 30, 2012. During the nine months ended September 30, 2012, the Company deferred \$289.3 million of policy acquisition costs and amortized \$316.8 million of policy acquisition costs. Under its previous policy, the Company would have deferred \$374.7 million of policy acquisition costs and amortized \$358.0 million of policy acquisition costs for the nine months ended September 30, 2012.

Effective January 1, 2012, the Company adopted FASB ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, which amends FASB ASC 820 to achieve a uniform framework for fair value measurement and disclosures in U.S. GAAP and International Financial Reporting Standards. ASU No. 2011-04 prohibits the grouping of financial instruments for purposes of determining fair value, except when market and credit risks are managed on the basis of the Company's net exposure, and extends the prohibition against the use of block discounts to Level 2 and Level 3 fair value measurements. The guidance also requires expanded disclosures for Level 3 fair value measurements including quantitative information about unobservable inputs, the sensitivity of fair value measurements to a change in unobservable inputs and a description of the Company's valuation processes. Additionally, the guidance requires disclosure of the hierarchy classification for assets and liabilities not measured at fair value, but whose fair value is disclosed. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows. The Company has included the additional disclosures required by ASU No. 2011-04 in notes 7 and 10.

Effective January 1, 2012, the Company adopted FASB ASU No. 2011-05, Comprehensive Income and FASB ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. ASU No. 2011-05 requires comprehensive income to be reported in either a single statement that presents the components of net income, the components of other comprehensive income and total comprehensive income, or in two consecutive statements, and it eliminates the option to report other comprehensive income and its components in the statement of changes in equity. This guidance also requires the presentation of separate line items on the statements of income for reclassification adjustments of items out of accumulated other comprehensive income into net income. ASU No. 2011-12 deferred the requirement to present separate line items on the statements of income and instead requires the presentation of reclassification adjustments within other comprehensive income or in the notes to the consolidated financial statements. The adoption of ASU No. 2011-05 and ASU No. 2011-12 did not have an impact on the Company's financial position, results of operations, cash flows or financial statement presentation.

13. Subsequent Events

After the end of the third quarter of 2012, the northeastern region of the United States sustained losses from the remnants of Hurricane Sandy. The Company has exposure to this event but does not have sufficient information at this

time to make an estimate of losses.

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.

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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.

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 2011 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 our FirstComp workers' compensation insurance unit.

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. This segment also includes development on asbestos and environmental loss reserves.

Through our wholly-owned subsidiary Markel Ventures, Inc., we own interests in various industrial and service 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.

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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 industrial and service companies from various industries, including manufacturers of dredging equipment, high-speed bakery equipment, laminated furniture products, food processing equipment and laminated oak and composite wood flooring used in truck trailers, 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, a company that manages behavioral health programs and a manufacturer and lessor of trailer tubes used by industrial, chemical and distribution companies to transport gas and liquids.

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.

| (dollars in thousands) | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|-----------------------------|-----------|---------------------------------|------------|
| | 2012 | 2011 | 2012 | 2011 |
| Underwriting profit (loss) | \$ (4,763 |) \$ 255 | \$ 64,793 | \$ (66,639 |
| Net investment income | 64,438 | 62,199 | 207,834 | 196,551 |
| Net realized investment gains | 5,231 | 12,839 | 25,356 | 25,423 |
| Other revenues | 165,569 | 91,847 | 385,778 | 260,361 |
| Amortization of intangible assets | (7,959 |) (6,023 |) (25,078 |) (17,586 |
| Other expenses | (145,339 |) (70,302 |) (343,462 |) (218,270 |
| Interest expense | (24,692 |) (23,656 |) (69,068 |) (64,516 |
| Income tax expense | (811 |) (12,490 |) (45,998 |) (19,145 |
| Net income attributable to noncontrolling interests | (2,021 |) (1,405 |) (3,562 |) (4,329 |
| Net income to shareholders | \$ 49,653 | \$ 53,264 | \$ 196,593 | \$ 91,850 |

Net income to shareholders for the quarter ended September 30, 2012 decreased primarily due to less favorable underwriting results compared to the same period of 2011. Net income to shareholders for the nine months ended September 30, 2012 increased primarily due to more favorable underwriting results compared to the same period of 2011. 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.

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The following table presents selected data from our underwriting operations.

| (dollars in thousands) | Quarter Ended September 30, | | Nine Months Ended September 30, | | |
|---|-----------------------------|-------------------|---------------------------------|-------------------|---|
| | 2012 | 2011 | 2012 | 2011 | |
| Gross premium volume | \$610,833 | \$584,635 | \$1,906,373 | \$1,772,611 | |
| Net written premiums | \$539,624 | \$524,678 | \$1,687,404 | \$1,574,378 | |
| Net retention | 88 | % 90 | % 89 | % 89 | % |
| Earned premiums | \$530,537 | \$509,203 | \$1,573,189 | \$1,462,515 | |
| Losses and loss adjustment expenses | \$303,459 | \$306,632 | \$813,074 | \$927,643 | |
| Underwriting, acquisition and insurance expenses ⁽¹⁾ | \$231,841 | \$202,316 | \$695,322 | \$601,511 | |
| Underwriting profit (loss) | \$(4,763) |) \$255 | \$64,793 | \$(66,639) | |
| U.S. GAAP Combined Ratios ⁽²⁾ | | | | | |
| Excess and Surplus Lines | 89 | % 89 | % 91 | % 88 | % |
| Specialty Admitted | 109 | % 116 | % 108 | % 109 | % |
| London Insurance Market | 92 | % 99 | % 88 | % 119 | % |
| Other Insurance (Discontinued Lines) | NM ⁽³⁾ | NM ⁽³⁾ | NM ⁽³⁾ | NM ⁽³⁾ | |
| Markel Corporation (Consolidated) | 101 | % 100 | % 96 | % 105 | % |

Effective January 1, 2012, we prospectively adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts. At December 31, 2011, deferred acquisition costs included approximately \$43 million of costs that no longer met the criteria for deferral as of January 1, 2012. Pursuant to the new guidance, these costs will be amortized primarily over the first nine months of 2012, consistent with policy terms. As a result of the prospective adoption of ASU No. 2010-26, underwriting, acquisition and insurance expenses for the quarter and nine months ended September 30, 2012 included \$6.5 million and \$41.1 million of costs that were deferred as of December 31, 2011 and no longer met the criteria for deferral.

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.

(3)NM – Ratio is not meaningful.

Our combined ratio was 101% and 96%, respectively, for the quarter and nine months ended September 30, 2012 compared to 100% and 105%, respectively, for the same periods in 2011.

The combined ratio for the quarter and nine months ended September 30, 2012 was impacted by prior year loss development, current year catastrophe losses, lower attritional losses, and the adoption of a new accounting standard, as discussed below:

The prior year loss development included \$31.1 million, or 6 points and 2 points, respectively, of unfavorable development on asbestos and environmental exposures. See "Other Insurance (Discontinued Lines)." There was no comparable unfavorable development in the 2011 periods.

The combined ratio included \$8.8 million of underwriting loss from Hurricane Isaac which occurred in August 2012. The total impact of catastrophe losses for the quarter and nine months ended September 30, 2012 was approximately two points and less than one point, respectively. 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 quarter and nine months ended September 30, 2012 also improved due to lower attritional losses in the Excess and Surplus Lines and London Insurance Market segments.

The combined ratio included \$6.5 million, or one point, and \$41.1 million, or three points, respectively, related to the impact of the prospective adoption of ASU No. 2010-26. Another factor contributing to the increase in the combined ratio for the third quarter of 2012 was higher profit sharing expense compared to the same period of 2011.

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Excess and Surplus Lines Segment

The combined ratio for the Excess and Surplus Lines segment was 89% and 91%, respectively, for the quarter and nine months ended September 30, 2012 compared to 89% and 88%, respectively, for the same periods in 2011. For the quarter and nine months ended September 30, 2012, a lower current accident year loss ratio was offset by less favorable development on prior years' loss reserves and a higher expense ratio compared to the same periods of 2011.

The current accident year loss ratio for the quarter and nine months ended September 30, 2012 included \$3.0 million, or approximately two points and less than one point, respectively, of losses from natural catastrophes. The current accident year loss ratio for the quarter and nine months ended September 30, 2011 included losses from natural catastrophes of \$11.3 million, or six points and \$22.3 million, or four points, respectively. Excluding the impact of natural catastrophes, the current accident year loss ratio for the quarter and nine months ended September 30, 2012 improved due to lower attritional property losses compared to the same periods of 2011.

Favorable development on prior years' loss reserves for the quarter and nine months ended September 30, 2012 was \$51.3 million and \$132.6 million, respectively, compared to \$60.5 million and \$169.9 million for the same periods in 2011. In the first quarter of 2011, we resolved a significant portion of our outstanding liabilities associated with an errors and omissions program for mortgage servicing companies and, as a result, reduced prior years' loss reserves by \$15.8 million. The favorable development on prior years' loss reserves experienced within the segment during 2012 and 2011 were most significant on our professional and products liability programs.

The increase in the expense ratio was due in part to the impact of prospective adoption of ASU No. 2010-26, which added approximately \$2.1 million, or one point, and \$16.7 million, or three points, respectively, to the segment's combined ratio for the quarter and nine months ended September 30, 2012. Excluding this impact, the segment expense ratio increased two points for the third quarter of 2012 and decreased one point for the nine months ended September 30, 2012 compared to the same periods last year. The increase for the third quarter was due to higher profit sharing costs in 2012 while the decrease for the first nine months was due to a reduction in general expenses partially offset by higher profit sharing costs compared to a year ago.

Specialty Admitted Segment

The combined ratio for the Specialty Admitted segment was 109% and 108%, respectively, for the quarter and nine months ended September 30, 2012 compared to 116% and 109%, respectively, for the same periods of 2011. For the quarter and nine months ended September 30, 2012, the decrease in the combined ratio was primarily due to a lower current accident year loss ratio and more favorable development on prior years' loss reserves partially offset by a higher expense ratio compared to the same periods in 2011.

The current accident year loss ratio for the quarter and nine months ended September 30, 2012 included \$2.8 million, or two points and one point, respectively, of losses from natural catastrophes compared to \$5.6 million, or four points, and \$9.6 million, or two points, for the same periods of 2011. Before considering the impact of natural catastrophes in the third quarters of both 2012 and 2011, the current accident year loss ratio for the quarter improved approximately four points compared to the same period last year due to improved underwriting performance for two programs within our accident and health liability class.

The Specialty Admitted segment's combined ratio for the quarter and nine months ended September 30, 2012 included \$11.5 million and \$27.7 million, respectively, of favorable development on prior years' loss reserves compared to \$6.0 million and \$7.9 million of favorable development for the same periods in 2011. The favorable development on prior years' loss reserves experienced within the Specialty Admitted segment during the quarter and nine months ended September 30, 2012 were most notable on the 2011 accident year across several product lines.

For the quarter and nine months ended September 30, 2012, the increase in the expense ratio was primarily due to the impact of prospective adoption of ASU No. 2010-26, which added approximately \$2.6 million, or two points, and \$12.9 million, or three points, respectively, and higher profit sharing costs compared to the same periods in 2011. Also contributing to the increase in the expense ratio for the nine months ended September 30, 2012 was the write off of previously capitalized software development costs.

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London Insurance Market Segment

The combined ratio for the London Insurance Market segment was 92% and 88%, respectively, for the quarter and nine months ended September 30, 2012 compared to 99% and 119%, respectively, for the same periods of 2011. For the quarter ended September 30, 2012, the decrease in the combined ratio was due to a lower current accident year loss ratio partially offset by a higher expense ratio compared to the same period of 2011. The decrease in the combined ratio for the nine months ended September 30, 2012 was due to a lower current accident year loss ratio and more favorable development of prior years' loss reserves, partially offset by a higher expense ratio compared to a year ago.

The combined ratio for the quarter and nine months ended September 30, 2012 included \$3.0 million, or two points and less than one point, respectively, of underwriting loss from Hurricane Isaac which occurred in August 2012. The combined ratio for the quarter ended September 30, 2011 included \$17.1 million, or ten points, of underwriting loss related to natural catastrophes. The combined ratio for the nine months ended September 30, 2011 included \$101.1 million, or twenty points, of underwriting loss related to natural catastrophes and also included \$22.7 million, or five points, of underwriting loss related to two large losses in the Marine and Energy division. Excluding the impact of natural catastrophes and the two large losses, the current accident year loss ratio for the quarter and nine months ended September 30, 2012 improved primarily due to lower attritional losses in the Elliott Special Risks division and lower attritional property losses in the Specialty division, within the London Market Segment.

The London Insurance Market segment's combined ratio for the quarter and nine months ended September 30, 2012 included \$32.7 million and \$119.0 million, respectively, of favorable development on prior years' loss reserves compared to \$34.7 million and \$70.0 million of favorable development for the same periods in 2011. Favorable development of prior years' loss reserves in 2012 was primarily on the 2006 to 2009 accident years and occurred in a variety of programs across each of our divisions. The favorable loss reserve development for the quarter and nine months ended September 30, 2012 also included \$4.8 million and \$23.0 million, respectively, on the 2001 and prior accident years.

For the quarter and nine months ended September 30, 2012, the increase in the expense ratio was primarily attributable to the impact of prospective adoption of ASU No. 2010-26, which added approximately \$1.8 million, or one point, and \$11.6 million, or two points, respectively, and to higher profit sharing costs compared to the same periods of 2011.

Other Insurance (Discontinued Lines)

The Other Insurance (Discontinued Lines) segment produced an underwriting loss of \$26.7 million and \$20.2 million for the quarter and nine months ended September 30, 2012, respectively, compared to an underwriting loss of \$1.5 million and an underwriting profit of \$2.5 million for the same periods of 2011.

The underwriting loss for both the quarter and nine months ended September 30, 2012 included approximately \$31.1 million of loss reserve development on asbestos and environmental exposures. We complete an annual review of these exposures during the third quarter of the year unless circumstances suggest an earlier review is appropriate. Over the past two years, the number of asbestos and environmental claims reported each year across the property and casualty industry has been on the decline. However, at the same time, the likelihood of making an indemnity payment has risen, thus increasing the average cost per reported claim. During our 2012 annual review, we reduced our estimate of the ultimate claims count, while increasing our estimate of the number of claims that would ultimately be closed with an indemnity payment. As a result, prior years' loss reserves for asbestos and environmental exposures were increased. During our 2011 review, 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.

Adverse development of asbestos and environmental reserves for both the quarter and nine months ended September 30, 2012 was partially offset by the other favorable movements in prior years' loss reserves and allowances for reinsurance bad debt related to discontinued lines of business originally written by Markel International.

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Premiums and Net Retentions

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

Gross Premium Volume

| Quarter Ended September 30, | | | Nine Months Ended September 30, | |
|-----------------------------|-----------|--------------------------------------|---------------------------------|-------------|
| 2012 | 2011 | (dollars in thousands) | 2012 | 2011 |
| \$253,014 | \$236,639 | Excess and Surplus Lines | \$705,849 | \$663,989 |
| 167,747 | 153,753 | Specialty Admitted | 496,019 | 431,604 |
| 190,071 | 194,210 | London Insurance Market | 704,511 | 676,893 |
| 1 | 33 | Other Insurance (Discontinued Lines) | (6 |) 125 |
| \$610,833 | \$584,635 | Total | \$1,906,373 | \$1,772,611 |

Gross premium volume for the quarter and nine months ended September 30, 2012 increased 4% and 8%, respectively compared to the same periods of 2011. The increase in gross premium volume for the third quarter of 2012 is due to increases in the Specialty Admitted and Excess and Surplus Lines segments. The increase in gross premium volume for the nine months ended September 30, 2012 was attributable to higher gross premium volume in each of our three operating segments. Excess and Surplus Lines segment premiums increased for the quarter and nine months ended September 30, 2012 due to an increase in gross premium volume for the brokerage property line. For the quarter and nine months ended September 30, 2012, the Specialty Admitted segment included \$17.1 million and \$43.4 million of gross premium volume attributable to THOMCO, which was acquired in the first quarter of 2012. For the nine months ended September 30, 2012, the Specialty Admitted segment also included \$197.2 million of gross premium volume attributable to our workers' compensation product line, compared to \$170.3 million for the same period 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, 2012.

During the latter part of 2011, we saw price declines stabilize and achieved modest price increases in several lines, most notably the marine and energy products within the London Insurance Market segment. During 2012, we have generally seen flat to small single digit favorable rate changes compared to flat to small single digit rate declines in 2011.

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 may vary depending on the competitive environment.

Net Written Premiums

| Quarter Ended September 30, | | | Nine Months Ended September 30, | |
|-----------------------------|-----------|--------------------------------------|---------------------------------|-------------|
| 2012 | 2011 | (dollars in thousands) | 2012 | 2011 |
| \$211,538 | \$200,658 | Excess and Surplus Lines | \$597,742 | \$570,243 |
| 157,894 | 147,169 | Specialty Admitted | 467,722 | 410,700 |
| 170,193 | 176,829 | London Insurance Market | 621,947 | 593,440 |
| (1 |) 22 | Other Insurance (Discontinued Lines) | (7 |) (5 |
| \$539,624 | \$524,678 | Total | \$1,687,404 | \$1,574,378 |

Net retention of gross premium volume for the quarter and nine months ended September 30, 2012 was 88% and 89%, respectively, compared to 90% and 89%, respectively, for the same periods of 2011. The decrease in net retention for the quarter ended September 30, 2012 was due in part to the addition of THOMCO to the Specialty Admitted

segment.

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.

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Earned Premiums

| Quarter Ended September 30, | | | Nine Months Ended September 30, | | |
|-----------------------------|-----------|--------------------------------------|---------------------------------|-------------|---|
| 2012 | 2011 | (dollars in thousands) | 2012 | 2011 | |
| \$195,478 | \$189,695 | Excess and Surplus Lines | \$584,524 | \$557,958 | |
| 153,009 | 136,783 | Specialty Admitted | 431,179 | 390,623 | |
| 182,052 | 182,710 | London Insurance Market | 557,493 | 513,947 | |
| (2 |) 15 | Other Insurance (Discontinued Lines) | (7 |) (13 |) |
| \$530,537 | \$509,203 | Total | \$1,573,189 | \$1,462,515 | |

Earned premiums for the quarter and nine months ended September 30, 2012 increased 4% and 8%, respectively, compared to the same periods in 2011. The increase in earned premiums for the quarter ended September 30, 2012 was due to higher earned premiums in the Excess and Surplus Lines and Specialty Admitted segments. The increase in earned premiums for the nine months ended September 30, 2012 was due to higher earned premiums in each of our three operating segments. For the quarter and nine months ended September 30, 2012, the Specialty Admitted segment included \$62.5 million and \$178.0 million, respectively, of earned premiums from our workers' compensation product line, compared to \$55.0 million and \$147.3 million for the same periods of 2011. The Specialty Admitted segment also included earned premiums attributable to THOMCO of \$8.3 million and \$15.1 million for the quarter and nine months ended September 30, 2012, respectively. Foreign currency exchange rate movements did not have a significant impact on earned premiums for the quarter and nine months ended September 30, 2012.

Investing Results

Net investment income for the third quarter of 2012 was \$64.4 million compared to \$62.2 million for the third quarter of 2011. Net investment income was \$207.8 million for the nine months ended September 30, 2012 and \$196.6 million for the nine months ended September 30, 2011. Net investment income for the third quarter of 2012 included a favorable change in the fair value of our credit default swap of \$1.5 million compared to an adverse change of \$3.3 million in the same period a year ago. For the nine months ended September 30, 2012, net investment income included a favorable change in the fair value of our credit default swap of \$13.7 million compared to an adverse change of \$2.7 million for the same period in 2011. The fair value of our credit default swap is driven by observable and unobservable inputs as discussed in note 7 of our consolidated financial statements. During 2012, financial markets have improved and credit spreads have narrowed, which favorably impacted the fair value of the credit default swap. Changes in the fair value of this derivative instrument could be significant prior to its scheduled termination date of December 2014.

Net realized investment gains for the third quarter of 2012 were \$5.2 million compared to \$12.8 million for the third quarter of 2011. Net realized investment gains were \$25.4 million for both the nine months ended September 30, 2012 and 2011. Net realized investment gains for the quarter and nine months ended September 30, 2012 included \$3.2 million and \$4.2 million, respectively, of write downs for other-than-temporary declines in the estimated fair value of investments compared to \$10.0 million and \$14.9 million, respectively, for the same periods of 2011. Also included in net realized investment gains was a \$4.1 million loss resulting from our redemption of the unsecured senior debentures due August 22, 2046.

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, 2012, we held securities with gross unrealized losses of \$17.5 million, or less than 1% of 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, 2012. 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.

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Non-Insurance Operations (Markel Ventures)

Our non-insurance operations, which are referred to collectively as Markel Ventures, are comprised of a diverse portfolio of industrial and service companies from various industries and 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, Diamond Healthcare Corporation, PartnerMD, LLC (acquired in July 2011), Baking Technology Systems, Inc. (acquired in September 2011), WI Holdings Inc. (acquired in October 2011) and Havco WP LLC (acquired in April 2012). In July 2012, we acquired 100% of the outstanding shares of Tromp Bakery Equipment B.V., a Netherlands based global supplier of high-tech food processing equipment which designs and manufactures baking equipment and sheeting lines for pizza, pastry, pie, and specialty bread bakers worldwide. In September 2012, we acquired an 85% controlling interest in Reading Baking Systems, a leading global designer and manufacturer of industrial baking systems for the production of crackers, pretzels, cookies, and other baked snacks based in Reading, Pennsylvania.

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 for our non-insurance operations were \$153.8 million and \$345.0 million for the quarter and nine months ended September 30, 2012 compared to \$81.8 million and \$228.7 million for the same periods in 2011. Net income to shareholders from our non-insurance operations was \$8.2 million and \$8.6 million for the quarter and nine months ended September 30, 2012 compared to \$4.2 million and \$8.9 million for the same periods in 2011. Revenues from our non-insurance operations increased for the quarter and nine months ended September 30, 2012 compared to the same periods of 2011 primarily due to our acquisitions of WI Holdings Inc. in late 2011 and Havco in 2012. Likewise, net income to shareholders from our non-insurance operations increased for the quarter ended September 30, 2012 compared to the same period of 2011 primarily due to our acquisitions of WI Holdings Inc. in late 2011 and Havco in 2012.

Interest Expense and Income Taxes

Interest expense for the third quarter of 2012 increased to \$24.7 million from \$23.7 million in the same period in 2011. Interest expense for the nine months ended September 30, 2012 increased to \$69.1 million from \$64.5 million in the same period of 2011. For both periods of 2012, the increase in interest expense compared to the same periods of 2011 is due in part to the July 2012 issuance of our 4.90% unsecured senior notes. The increase in interest expense for the nine months ended September 30, 2012 compared to the same period of 2011 is also due to the June 2011 issuance of our 5.35% unsecured senior notes.

The estimated annual effective tax rate was 19% and 17% as of September 30, 2012 and 2011, 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 increase in the estimated annual effective tax rate was primarily due to anticipating a smaller tax benefit related to tax-exempt investment income, which resulted from having higher estimated income before income taxes in 2012 compared to 2011.

Comprehensive Income (Loss) to Shareholders

Comprehensive income to shareholders was \$147.5 million for the third quarter of 2012 compared to comprehensive loss of \$52.6 million for the same period of 2011. Comprehensive income to shareholders for the third quarter of 2012 included an increase in net unrealized gains on investments, net of taxes, of \$94.0 million and net income to shareholders of \$49.7 million. 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. For the nine months ended September 30, 2012, comprehensive income to shareholders was \$426.8 million compared

to \$68.2 million for the same period of 2011. Comprehensive income to shareholders for the nine months ended September 30, 2012 included an increase in net unrealized gains on investments, net of taxes, of \$225.8 million and net income to shareholders of \$196.6 million. 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.

Financial Condition

Invested assets were \$9.2 billion at September 30, 2012 compared to \$8.7 billion at December 31, 2011. Net unrealized gains on investments, net of taxes, were \$930.5 million at September 30, 2012 compared to \$704.7 million at December 31, 2011. Equity securities were \$2.3 billion, or 25% of invested assets, at September 30, 2012 compared to \$1.9 billion, or 21% of invested assets, at December 31, 2011.

Net cash provided by operating activities was \$239.5 million for the nine months ended September 30, 2012 compared to

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\$261.1 million for the same period of 2011. The decrease in net cash provided by operating activities was driven by lower underwriting cash flows for the London Insurance Market segment primarily due to increased claims settlement activity during 2012.

Net cash used by investing activities was \$354.0 million for the nine months ended September 30, 2012 compared to \$294.5 million for the same period of 2011. During the first nine months of 2012, we used net cash of \$246.2 million to acquire THOMCO and several non-insurance subsidiaries. See note 11 of our consolidated financial statements for a discussion of these acquisitions. Cash flow from investing activities is affected by various factors such as anticipated payment of claims, financing activity, acquisition opportunities and individual buy and sell decisions made in the normal course of our investment portfolio management.

Net cash provided by financing activities was \$170.6 million for the nine months ended September 30, 2012 compared to net cash provided by financing activities of \$210.8 million for the same period of 2011. On July 2, 2012, we issued \$350 million of 4.90% unsecured senior notes due July 1, 2022. Net proceeds were \$347.2 million. On August 1, 2012, we used a portion of these proceeds to redeem our 7.50% unsecured senior debentures due August 22, 2046 at a redemption price equal to 100% of their principal amount, or \$150 million. On June 1, 2011, we issued \$250 million of 5.35% unsecured senior notes due June 1, 2021. Cash of \$16.1 million and \$33.4 million was used to repurchase shares of our common stock during the first nine months of 2012 and 2011, 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 capital ratio was 28% at both periods ending September 30, 2012 and December 31, 2011. From time to time, our debt to capital ratio may increase due to business opportunities that are financed in the short term with debt. Alternatively, our debt to 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 \$1.1 billion and \$1.2 billion of invested assets at September 30, 2012 and December 31, 2011, respectively. The decrease in invested assets is primarily the result of acquisitions made during 2012.

Shareholders' equity was \$3.8 billion at September 30, 2012 and \$3.4 billion at December 31, 2011. Book value per share increased to \$395.48 at September 30, 2012 from \$352.10 at December 31, 2011 primarily due to \$426.8 million of comprehensive income to shareholders for the nine months ended September 30, 2012.

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, 2012, 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, 2011.

General concern has existed since the later half of 2010 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 general obligation or revenue bonds related to essential products and services.

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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 94% 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, 2012, less than 1% of our fixed maturity portfolio was unrated or rated below investment grade. While 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.

Our fixed maturity portfolio includes securities issued by foreign governments. General concern exists about the financial difficulties facing certain European countries in light of the adverse economic conditions experienced over the past several years. We monitor developments in foreign countries, currencies and issuers that could pose risks to our fixed maturity portfolio, including rating downgrades, political and financial changes and the widening of credit spreads. We believe our fixed maturity portfolio is highly diversified and is comprised of high quality securities. During the nine months ended September 30, 2012, there were no material changes in the foreign exposures included in our fixed maturity portfolio.

The estimated fair value of our investment portfolio at September 30, 2012 was \$9.2 billion, 75% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 25% of which was invested in equity securities. At December 31, 2011, the estimated fair value of our investment portfolio was \$8.7 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 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.

During the third quarter of 2012, we completed the transition of FirstComp to our general ledger accounting system which allows for additional financial reporting functionality and efficiency within the Specialty Admitted segment.

There were no other changes in our internal control over financial reporting during the third quarter of 2012 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 2011 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 or other legal or administrative proceedings 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, 2012) 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;
- we cannot predict the extent and duration of the current period of slow economic growth; 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); the outcome of economic and currency concerns in the Eurozone; 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 business is dependent upon the successful functioning and security of our computer systems; if our information technology systems fail or suffer a security breach, our business or reputation could be adversely impacted;

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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 6. Exhibits

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

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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 8th day of November 2012.

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 and Chief Financial
Officer
(Principal Financial Officer)

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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 (4.1)c |
| 4.2 | Form of Consent dated as of June 25, 2012 regarding 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)d |
| 4.3 | Indenture dated as of June 5, 2001, between Markel Corporation and The Chase Manhattan Bank, as Trustee (4.1)e |
| 4.4 | 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)f |
| 4.5 | 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)g |
| 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)h |
| 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)i |
| 4.8 | Form of Seventh Supplemental Indenture dated as of July 2, 2012 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)j |
| | 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, 2012 and the respective Notes thereto, included in this Quarterly Report on Form 10-Q. |
| 10.1 | 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)* |

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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, 2012, filed on November 8, 2012, 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 November 18, 2011.

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- c. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended September 30, 2011.
- d. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended June 30, 2012.
- 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 June 5, 2001.
- 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 February 25, 2003.
- 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 August 11, 2004.
- 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 September 21, 2009.
- i. 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.
- j. 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 29, 2012.

*Filed with this report.