

MARKEL CORP  
Form 10-Q  
August 05, 2015  
Table of Contents

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

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FORM 10-Q

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Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2015

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

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MARKEL CORPORATION  
(Exact name of registrant as specified in its charter)

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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)

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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 July 29, 2015: 13,953,311

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Table of Contents

Markel Corporation  
 Form 10-Q  
 Index

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets—June 30, 2015 and December 31, 2014</u>	<u>3</u>
<u>Consolidated Statements of Income and Comprehensive Income (Loss)—Quarters and Six Months Ended June 30, 2015 and 2014</u>	<u>4</u>
<u>Consolidated Statements of Changes in Equity—Six Months Ended June 30, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows—Six Months Ended June 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Critical Accounting Estimates</u>	<u>25</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4. Controls and Procedures</u>	<u>39</u>
<u>Safe Harbor and Cautionary Statement</u>	<u>40</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>42</u>
<u>Item 6. Exhibits</u>	<u>42</u>
<u>Signatures</u>	<u>43</u>
<u>Exhibit Index</u>	<u>44</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MARKEL CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

(dollars in thousands)

	June 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$9,209,632 in 2015 and \$9,929,137 in 2014)	\$9,523,164	\$10,422,882
Equity securities (cost of \$2,195,690 in 2015 and \$1,951,658 in 2014)	4,375,161	4,137,576
Short-term investments (estimated fair value approximates cost)	2,185,249	1,594,849
Total Investments	16,083,574	16,155,307
Cash and cash equivalents	1,852,944	1,960,169
Restricted cash and cash equivalents	522,171	522,225
Receivables	1,329,743	1,135,217
Reinsurance recoverable on unpaid losses	2,031,722	1,868,669
Reinsurance recoverable on paid losses	75,068	102,206
Deferred policy acquisition costs	380,808	353,410
Prepaid reinsurance premiums	375,965	365,458
Goodwill	1,044,232	1,049,115
Intangible assets	669,664	702,747
Other assets	1,000,249	985,834
Total Assets	\$25,366,140	\$25,200,357
<b>LIABILITIES AND EQUITY</b>		
Unpaid losses and loss adjustment expenses	\$10,478,575	\$10,404,152
Life and annuity benefits	1,164,860	1,305,818
Unearned premiums	2,413,217	2,245,690
Payables to insurance and reinsurance companies	316,477	276,122
Senior long-term debt and other debt (estimated fair value of \$2,427,000 in 2015 and \$2,493,000 in 2014)	2,246,875	2,253,594
Other liabilities	944,368	1,051,931
Total Liabilities	17,564,372	17,537,307
Redeemable noncontrolling interests	51,892	61,048
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,327,489	3,308,395
Retained earnings	2,843,303	2,581,866
Accumulated other comprehensive income	1,571,078	1,704,557
Total Shareholders' Equity	7,741,870	7,594,818
Noncontrolling interests	8,006	7,184
Total Equity	7,749,876	7,602,002
Total Liabilities and Equity	\$25,366,140	\$25,200,357

See accompanying notes to consolidated financial statements.



Table of Contents

## MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income (Loss)  
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(dollars in thousands, except per share data)			
<b>OPERATING REVENUES</b>				
Earned premiums	\$957,557	\$965,599	\$1,901,207	\$1,914,974
Net investment income	90,586	92,169	183,461	178,884
Net realized investment gains:				
Other-than-temporary impairment losses	—	(1,007 )	(5,092 )	(1,007 )
Net realized investment gains, excluding other-than-temporary impairment losses	6,105	8,127	16,768	25,521
Net realized investment gains	6,105	7,120	11,676	24,514
Other revenues	250,357	194,083	510,415	380,254
Total Operating Revenues	1,304,605	1,258,971	2,606,759	2,498,626
<b>OPERATING EXPENSES</b>				
Losses and loss adjustment expenses	536,194	610,406	983,189	1,152,709
Underwriting, acquisition and insurance expenses	379,652	365,987	720,337	721,492
Amortization of intangible assets	16,949	13,488	31,589	27,487
Other expenses	242,236	184,942	473,237	367,110
Total Operating Expenses	1,175,031	1,174,823	2,208,352	2,268,798
Operating Income	129,574	84,148	398,407	229,828
Interest expense	29,288	29,789	58,600	59,488
Income Before Income Taxes	100,286	54,359	339,807	170,340
Income tax expense	7,833	13,218	53,348	41,698
Net Income	92,453	41,141	286,459	128,642
Net income attributable to noncontrolling interests	1,084	1,073	4,098	858
Net Income to Shareholders	\$91,369	\$40,068	\$282,361	\$127,784
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Change in net unrealized gains on investments, net of taxes:				
Net holding gains (losses) arising during the period	\$(230,142 )	\$208,332	\$(109,120 )	\$355,628
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	(48 )	15	119	(5 )
Reclassification adjustments for net gains included in net income	(4,984 )	(4,818 )	(14,037 )	(10,762 )
Change in net unrealized gains on investments, net of taxes	(235,174 )	203,529	(123,038 )	344,861
Change in foreign currency translation adjustments, net of taxes	10,385	6,671	(11,429 )	7,584
Change in net actuarial pension loss, net of taxes	469	325	932	644
Total Other Comprehensive Income (Loss)	(224,320 )	210,525	(133,535 )	353,089
Comprehensive Income (Loss)	(131,867 )	251,666	152,924	481,731
Comprehensive income attributable to noncontrolling interests	1,058	1,078	4,042	870
Comprehensive Income (Loss) to Shareholders	\$(132,925 )	\$250,588	\$148,882	\$480,861
<b>NET INCOME PER SHARE</b>				

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Basic	\$6.76	\$2.67	\$20.33	\$8.95
Diluted	\$6.72	\$2.66	\$20.21	\$8.91

See accompanying notes to consolidated financial statements.

4

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Table of Contents

## MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity  
(Unaudited)

(in thousands)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
December 31, 2013	13,986	\$3,288,863	\$2,294,909	\$ 1,089,805	\$6,673,577	\$ 4,433	\$6,678,010	\$ 72,183
Net income (loss)			127,784	—	127,784	(643 )	127,141	1,501
Other comprehensive income			—	353,077	353,077	—	353,077	12
Comprehensive Income (Loss)					480,861	(643 )	480,218	1,513
Issuance of common stock	15	4,722	—	—	4,722	—	4,722	—
Repurchase of common stock	(30 )	—	(17,407 )	—	(17,407 )	—	(17,407 )	—
Restricted stock units expensed	—	13,390	—	—	13,390	—	13,390	—
Adjustment of redeemable noncontrolling interests	—	—	(2,584 )	—	(2,584 )	—	(2,584 )	2,584
Purchase of noncontrolling interest	—	(10,257 )	—	—	(10,257 )	905	(9,352 )	(18,566 )
Other	—	744	11	—	755	3,902	4,657	(2,230 )
June 30, 2014	13,971	\$3,297,462	\$2,402,713	\$ 1,442,882	\$7,143,057	\$ 8,597	\$7,151,654	\$ 55,484
December 31, 2014	13,962	\$3,308,395	\$2,581,866	\$ 1,704,557	\$7,594,818	\$ 7,184	\$7,602,002	\$ 61,048
Net income			282,361	—	282,361	777	283,138	3,321
Other comprehensive loss			—	(133,479 )	(133,479 )	—	(133,479 )	(56 )
Comprehensive Income					148,882	777	149,659	3,265
Issuance of common stock	15	3,609	—	—	3,609	—	3,609	—
Repurchase of common stock	(27 )	—	(22,670 )	—	(22,670 )	—	(22,670 )	—
Restricted stock units expensed	—	14,968	—	—	14,968	—	14,968	—
	—	—	1,715	—	1,715	—	1,715	(1,715 )

Adjustment of  
redeemable  
noncontrolling  
interests

Purchase of noncontrolling interest	—	(1,447	)	—	—	(1,447	)	—	(1,447	)	(8,224	)
Other	—	1,964	31	—	—	1,995	45	—	2,040	—	(2,482	)
June 30, 2015	13,950	\$3,327,489	\$2,843,303	\$1,571,078	—	\$7,741,870	\$8,006	—	\$7,749,876	—	\$51,892	—

See accompanying notes to consolidated financial statements.



Table of Contents

## MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Six Months Ended June 30,	
	2015	2014
	(dollars in thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$286,459	\$128,642
Adjustments to reconcile net income to net cash provided by operating activities	(48,424	) 108,423
Net Cash Provided By Operating Activities	238,035	237,065
<b>INVESTING ACTIVITIES</b>		
Proceeds from sales of fixed maturities and equity securities	99,908	1,041,575
Proceeds from maturities, calls and prepayments of fixed maturities	810,934	783,146
Cost of fixed maturities and equity securities purchased	(556,934	) (1,898,747 )
Net change in short-term investments	(595,971	) (268,375 )
Proceeds from sales of equity method investments	21,365	90,228
Cost of equity method investments	(19,424	) (9,083 )
Change in restricted cash and cash equivalents	(9,748	) 204,302
Additions to property and equipment	(38,942	) (17,954 )
Acquisitions, net of cash acquired	—	(168,811 )
Other	489	202
Net Cash Used By Investing Activities	(288,323	) (243,517 )
<b>FINANCING ACTIVITIES</b>		
Additions to senior long-term debt and other debt	41,230	29,149
Repayment of senior long-term debt and other debt	(43,044	) (22,956 )
Repurchases of common stock	(22,670	) (17,407 )
Issuance of common stock	3,609	4,722
Purchase of noncontrolling interests	(12,474	) (25,918 )
Distributions to noncontrolling interests	(2,490	) (2,532 )
Other	(12,454	) (3,855 )
Net Cash Used By Financing Activities	(48,293	) (38,797 )
Effect of foreign currency rate changes on cash and cash equivalents	(8,644	) 10,857
Decrease in cash and cash equivalents	(107,225	) (34,392 )
Cash and cash equivalents at beginning of period	1,960,169	1,978,526
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$1,852,944</b>	<b>\$1,944,134</b>

See accompanying notes to consolidated financial statements.

Table of Contents

MARKEL CORPORATION AND SUBSIDIARIES

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. Through its wholly-owned subsidiary, Markel Ventures, Inc. (Markel Ventures), 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 June 30, 2015, the related consolidated statements of income and comprehensive income (loss) for the quarters and six months ended June 30, 2015 and 2014, and the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2015 and 2014 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, 2014 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 its subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates the results of its Markel Ventures 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 2014 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

2. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. ASU No. 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2017 and may be applied retrospectively or under a modified retrospective method where

the cumulative effect is recognized at the date of initial application. Early application is not permitted. In July 2015, the FASB approved a proposed one-year deferral of the effective date for ASU 2014-09. Under the final ASU, which has not yet been issued, early application would be permitted for all entities, but not before the original effective date for public business entities. The Company is currently evaluating ASU No. 2014-09 to determine the potential impact that adopting this standard will have on its consolidated financial statements. Adoption of this ASU is not expected to have a significant impact on the Company's insurance operations, but will impact the Company's non-insurance operations.

## Table of Contents

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. The ASU also significantly changes how to evaluate voting rights for entities that are not similar to limited partnerships when determining whether the entity is a VIE, which may affect entities for which the decision making rights are conveyed through a contractual arrangement. ASU No. 2015-02 becomes effective for the Company during the first quarter of 2016 and may be applied retrospectively or under a modified retrospective method where the cumulative-effect adjustment to retained earnings is recognized as of the beginning of the fiscal year of adoption. Reporting enterprises may also restate previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. Early adoption is allowed. The Company is currently evaluating ASU No. 2015-02 but does not expect adoption of this ASU will have a material impact on the Company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The ASU requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. The cost of issuing debt will no longer be recorded as a separate asset on the balance sheet. The amortization of debt issuance costs will continue to be included in interest expense. ASU No. 2015-03 becomes effective for the Company during the first quarter of 2016 and will be applied retrospectively to all prior periods presented. Early application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies that software licenses contained in a cloud computing arrangement should be capitalized if the customer has the right to take possession of the software and the ability to run the software outside of the cloud computing arrangement. ASU No. 2015-05 becomes effective for the Company during the first quarter of 2016 and may be applied prospectively or retrospectively. Early application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In May 2015, the FASB issued ASU No. 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts. The ASU requires significant new disclosures for insurers relating to short-duration insurance contract claims and the unpaid claims liability rollforward for long and short-duration contracts. The guidance requires annual tabular disclosure, on a disaggregated basis, of undiscounted incurred and paid claim and allocated claim adjustment expense development by accident year, on a net basis after reinsurance, for up to 10 years. Tables must also include the total incurred but not reported claims liabilities, plus expected development on reported claims, and claims frequency for each accident year. A description of estimation methodologies and any significant changes in methodologies and assumptions used to calculate the liability and frequency is also required. Based on the disaggregated claims information in the tables, disclosure of historical average annual percentage payout of incurred claims is also required. Interim period disclosures must include a tabular rollforward and related qualitative information for the liability for unpaid losses and loss adjustment expenses for both long-duration and short-duration contracts. ASU No. 2015-09 becomes effective for the Company during 2016, with interim disclosures required beginning in the first quarter of 2017. The ASU must be applied retrospectively by providing comparative disclosures for each period presented. Early application is permitted. The adoption of this ASU is not expected to have a material impact on the Company's financial position, results of operations or cash flows, but will expand the nature and extent of its insurance contract disclosures as described above.



Table of Contents

## 3. Investments

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

(dollars in thousands)	June 30, 2015				
	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	\$638,848	\$10,695	\$(3,855)	) \$—	\$645,688
Obligations of states, municipalities and political subdivisions	3,862,159	165,902	(17,030)	) —	4,011,031
Foreign governments	1,343,152	113,536	(1,056)	) —	1,455,632
Commercial mortgage-backed securities	427,372	3,530	(1,865)	) —	429,037
Residential mortgage-backed securities	890,612	23,564	(4,273)	) (2,258)	) 907,645
Asset-backed securities	65,752	58	(510)	) —	65,300
Corporate bonds	1,981,737	45,276	(16,520)	) (1,662)	) 2,008,831
Total fixed maturities	9,209,632	362,561	(45,109)	) (3,920)	) 9,523,164
Equity securities:					
Insurance, banks and other financial institutions	617,618	735,581	(1,350)	) —	1,351,849
Industrial, consumer and all other	1,578,072	1,458,669	(13,429)	) —	3,023,312
Total equity securities	2,195,690	2,194,250	(14,779)	) —	4,375,161
Short-term investments	2,185,228	26	(5)	) —	2,185,249
Investments, available-for-sale	\$13,590,550	\$2,556,837	\$(59,893)	) \$(3,920)	) \$16,083,574

Table of Contents

	December 31, 2014				
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than- Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$662,462	\$12,963	\$(2,163)	) \$—	\$673,262
Obligations of states, municipalities and political subdivisions	4,075,748	245,158	(3,359)	) —	4,317,547
Foreign governments	1,458,255	154,707	(1,041)	) —	1,611,921
Commercial mortgage-backed securities	427,904	5,325	(2,602)	) —	430,627
Residential mortgage-backed securities	954,263	34,324	(3,482)	) (2,258)	) 982,847
Asset-backed securities	100,073	99	(682)	) —	99,490
Corporate bonds	2,250,432	69,016	(10,441)	) (1,819)	) 2,307,188
Total fixed maturities	9,929,137	521,592	(23,770)	) (4,077)	) 10,422,882
Equity securities:					
Insurance, banks and other financial institutions	523,739	789,717	(1,531)	) —	1,311,925
Industrial, consumer and all other	1,427,919	1,403,566	(5,834)	) —	2,825,651
Total equity securities	1,951,658	2,193,283	(7,365)	) —	4,137,576
Short-term investments	1,594,819	36	(6)	) —	1,594,849
Investments, available-for-sale	\$13,475,614	\$2,714,911	\$(31,141)	) \$(4,077)	) \$16,155,307

Table of Contents

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

June 30, 2015  
Less than 12 months