

MARKEL CORP
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934 for the fiscal year ended December 31, 2011

Commission File Number 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

A Virginia Corporation

IRS Employer Identification No. 54-1959284

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (804) 747-0136

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value

7.50% Senior Debentures due 2046

New York Stock Exchange, Inc.

(title of each class and name of the exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 Act). Yes ☐ No ☒

The aggregate market value of the shares of the registrant's Common Stock held by non-affiliates as of June 30, 2011 was approximately \$3,601,190,030.

The number of shares of the registrant's Common Stock outstanding at February 10, 2012: 9,621,842.

Documents Incorporated By Reference

The portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 14, 2012, referred to in Part III.

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(2) Schedules have been omitted since they either are not required or are not applicable, or the information called for is shown in the Consolidated Financial Statements and Notes thereto.

(3) See Index to Exhibits for a list of Exhibits filed as part of this report

b. See Index to Exhibits and Item 15a(3)

c. See Index to Financial Statements and Item 15a(2)

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW

We are a diverse financial holding company serving a variety of niche markets. Our principal business markets and underwrites specialty insurance products. 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 industrial and service 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.

Specialty Insurance

The specialty insurance market differs significantly from the standard market. In the standard market, insurance rates and forms are highly regulated, products and coverages are largely uniform with relatively predictable exposures and companies tend to compete for customers on the basis of price. In contrast, the specialty market provides coverage for hard-to-place risks that generally do not fit the underwriting criteria of standard carriers. For example, United States insurance regulations generally require an Excess and Surplus Lines (E&S) account to be declined by admitted carriers before an E&S company may write the business. Hard-to-place risks written in the Specialty Admitted market cover insureds engaged in similar, but highly specialized activities who require a total insurance program not otherwise available from standard insurers or insurance products that are overlooked by large admitted carriers. Hard-to-place risks in the London market are generally distinguishable from standard risks due to the complexity or significant size of the risk.

Competition in the specialty insurance market tends to focus less on price than in the standard insurance market and more on other value-based considerations, such as availability, service and expertise. While specialty market exposures may have higher perceived insurance risks than their standard market counterparts, we seek to manage these risks to achieve higher financial returns. To reach our financial and operational goals, we must have extensive knowledge and expertise in our chosen markets. Many of our accounts are considered on an individual basis where customized forms and tailored solutions are employed.

By focusing on the distinctive risk characteristics of our insureds, we have been able to identify a variety of niche markets where we can add value with our specialty product offerings. Examples of niche markets that we have targeted include wind and earthquake-exposed commercial properties, liability coverage for highly specialized professionals, equine-related risks, workers' compensation insurance for small businesses, yachts and other watercraft, motorcycles and marine, energy and environmental-related activities. Our market strategy in each of these areas of specialization is tailored to the unique nature of the loss exposure, coverage and services required by insureds. In each of our niche markets, we assign teams of experienced underwriters and claims specialists who provide a full range of insurance services.

Markets

The E&S market focuses on hard-to-place risks and loss exposures that generally cannot be written in the standard market. E&S eligibility allows our insurance subsidiaries to underwrite unique loss exposures with more flexible policy forms and unregulated premium rates. This typically results in coverages that are more restrictive and more expensive than coverages in the standard market.

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In 2010, the E&S market represented approximately \$32 billion, or 7%, of the approximately \$481 billion United States property and casualty (P&C) industry.⁽¹⁾ We are the seventh largest E&S writer in the United States as measured by direct premium writings.⁽¹⁾ In 2011, we wrote \$893 million of business in our Excess and Surplus Lines segment.

We also write business in the Specialty Admitted market. Most of these risks, although unique and hard-to-place in the standard market, must remain with an admitted insurance company for marketing and regulatory reasons. The Specialty Admitted market is subject to more state regulation than the E&S market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as state guaranty funds and assigned risk plans. In 2011, we wrote \$572 million of business in our Specialty Admitted segment.

The London market, which produced approximately \$57 billion of gross written premium in 2010, is the largest insurance market in Europe and third largest in the world.⁽²⁾ The London market is known for its ability to provide innovative, tailored coverage and capacity for unique and hard-to-place risks. It is primarily a broker market, which means that insurance brokers bring most of the business to the market. The London market is also largely a subscription market, which means that loss exposures brought into the market are typically insured by more than one insurance company or Lloyd's syndicate, often due to the high limits of insurance coverage required. We write business on both a direct and subscription basis in the London market. When we write business in the subscription market, we prefer to participate as lead underwriter in order to control underwriting terms, policy conditions and claims handling.

In 2010, gross premium written through Lloyd's syndicates generated approximately half of the London market's international insurance business,⁽²⁾ making Lloyd's the world's largest commercial surplus lines insurer⁽¹⁾ and fifth largest reinsurer.⁽²⁾ Corporate capital providers often provide a majority of a syndicate's capacity and also generally own or control the syndicate's managing agent. This structure permits the capital provider to exert greater influence on, and demand greater accountability for, underwriting results. In 2010, corporate capital providers accounted for approximately 87% of total underwriting capacity in Lloyd's.⁽³⁾

We participate in the London market through Markel International, which includes Markel Capital Limited (Markel Capital) and Markel International Insurance Company Limited (MIICL). Markel Capital is the corporate capital provider for our syndicate at Lloyd's, Markel Syndicate 3000, which is managed by Markel Syndicate Management Limited. In 2011, we wrote \$825 million of business in our London Insurance Market segment.

In 2011, 31% of consolidated premium writings related to foreign risks (i.e., coverage for risks located outside of the United States), of which 20% were from the United Kingdom and 18% were from Canada. In 2010, 28% of our premium writings related to foreign risks, of which 25% were from the United Kingdom and 17% were from Canada. In 2009, 26% of our premium writings related to foreign risks, of which 28% were from the United Kingdom. In each of these years, there were no other individual foreign countries from which premium writings were material. Premium writings are attributed to individual countries based upon location of risk.

⁽¹⁾ *U.S. Surplus Lines Market Review Special Report*, A.M. Best (September 26, 2011).

⁽²⁾ *Insurance 2011*, TheCityUK (December 2011).

⁽³⁾ *Lloyd's Quick Guide*, Lloyd's (May 2011).

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Competition

We compete with numerous domestic and international insurance companies and reinsurers, Lloyd's syndicates, risk retention groups, insurance buying groups, risk securitization programs and alternative self-insurance mechanisms. Competition may take the form of lower prices, broader coverages, greater product flexibility, higher quality services or higher ratings by independent rating agencies. In all of our markets, we compete by developing specialty products to satisfy well-defined market needs and by maintaining relationships with agents, brokers and insureds who rely on our expertise. This expertise is our principal means of competing. We offer over 100 product lines. Each of these products has its own distinct competitive environment. With each of our products, we seek to compete with innovative ideas, appropriate pricing, expense control and quality service to policyholders, agents and brokers.

Few barriers exist to prevent insurers from entering our segments of the P&C industry. Market conditions and capital capacity influence the degree of competition at any point in time. Periods of intense competition, which typically include broader coverage terms, lower prices and excess underwriting capacity, are referred to as a soft market. A favorable insurance market is commonly referred to as a hard market and is characterized by stricter coverage terms, higher prices and lower underwriting capacity. During soft markets, unfavorable conditions exist due, in part, to what many perceive as excessive amounts of capital in the industry. In an attempt to use their capital, many insurance companies seek to write additional premiums without appropriate regard for ultimate profitability, and standard insurance companies are more willing to write specialty coverages. The opposite is typically true during hard markets.

The Insurance Market Cycle

After a decade of soft market conditions, the insurance industry experienced favorable conditions beginning in late 2000, which continued through 2003 for most product lines. During 2004, the market began to soften and the industry began to show signs of increased competition. Since 2005, we have been in a soft insurance market and have experienced intense competition. During the current soft market cycle, we have experienced price deterioration in virtually all of our product areas due in part to an increased presence of standard insurance companies in our markets. During 2008, given the rapid deterioration in underwriting capacity as a result of the disruptions in the financial markets and losses from catastrophes, the rate of decline in prices began to slow. However, the effects of the economic environment contributed to further declines in gross premium volume in 2009 and 2010. Premiums for many of our product lines are based upon our insureds' revenues, gross receipts or payroll, which have been negatively impacted by the depressed levels of business activity in recent years. In 2010, we continued to experience pricing pressure due in part to intense competition, which resulted in further price deterioration across many of our product lines, most notably our professional and products liability programs within the Excess and Surplus Lines segment. However, we experienced moderate price increases in several product lines during 2010, most notably those offered within the London Insurance Market segment. During 2011, the unfavorable pricing trends noted in 2010 continued for some of our product lines, most notably our professional and products liability programs within the Excess and Surplus Lines segment. However, price declines stabilized for most of our product lines during 2011, and we achieved moderate price increases in several lines, most notably the marine and energy products within the London Insurance Market segment.

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We routinely review the pricing of our major product lines and will continue to pursue price increases for most product lines in 2012; however, 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 when we alter our product offerings to maintain or improve underwriting profitability.

Underwriting Philosophy

By focusing on market niches where we have underwriting expertise, we seek to earn consistent underwriting profits. Underwriting profits are a key component of our strategy. 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. We use underwriting profit or loss as a basis for evaluating our underwriting performance.

The 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. In 2011, our combined ratio was 102%. See Management's Discussion & Analysis of Financial Condition and Results of Operations for further discussion of our underwriting results.

The following graph compares our combined ratio to the P&C industry's combined ratio for the past five years.

Underwriting Segments

We define our underwriting segments based on the areas of the specialty insurance market in which we compete, the Excess and Surplus Lines, Specialty Admitted and London markets. See note 17 of the notes to consolidated financial statements for additional segment reporting disclosures.

For purposes of segment reporting, our Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued in conjunction with acquisitions. The lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

MARKEL CORPORATION

2011 CONSOLIDATED GROSS PREMIUM VOLUME (\$2.3 billion)

Excess and Surplus Lines Segment

Our Excess and Surplus Lines segment reported gross premium volume of \$893.4 million, earned premiums of \$756.3 million and an underwriting profit of \$109.0 million in 2011.

Business in the Excess and Surplus Lines segment is written through two distribution channels, professional surplus lines general agents who have limited quoting and binding authority and wholesale brokers. The majority of the business produced by this segment is written on a surplus lines basis through either Essex Insurance Company, which is domiciled in Delaware, or Evanston Insurance Company, which is domiciled in Illinois.

The Excess and Surplus Lines segment is comprised of five regions, and each regional underwriting 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.

In the Excess and Surplus Lines segment, we wrote business through the following regional underwriting offices during 2011:

Markel Northeast (Red Bank, NJ)

Markel Southeast (Glen Allen, VA)

Markel Midwest (Deerfield, IL)

Markel Mid South (Plano, TX)

Markel West (Woodland Hills, CA and Scottsdale, AZ)

We also have a product line leadership group that has primary responsibility for both developing and maintaining underwriting and pricing guidelines on our existing products and new product development. The product line leadership group also delegates underwriting authority to the regional underwriters to ensure that the products needed by our customers are available through the regional offices and provides underwriting training and development so that our regional underwriting teams have the expertise to underwrite the risk or to refer risks to our product line experts as needed. The product line leadership group is under the direction of our Chief Underwriting Officer, who also is ultimately responsible for the underwriting activities of our Specialty Admitted and London Insurance Market segments.

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EXCESS AND SURPLUS LINES SEGMENT

2011 GROSS PREMIUM VOLUME (\$893 MILLION)

Product offerings within the Excess and Surplus Lines segment fall within the following major product groupings:

Property and Casualty

Professional Liability

Other Product Lines

Property coverages consist principally of fire, allied lines (including windstorm, hail and water damage) and other specialized property coverages, including catastrophe-exposed property risks such as earthquake and wind on both a primary and excess basis. Catastrophe-exposed property risks are typically larger and are lower frequency and higher severity in nature than more standard property risks. Our property risks range from small, single-location accounts to large, multi-state, multi-location accounts. Casualty product offerings include a variety of liability coverages targeting apartments and office buildings, retail stores, contractors and recreational and hospitality businesses. We also offer products liability coverages on either an occurrence or claims-made basis to manufacturers, distributors, importers and re-packagers of manufactured products.

Professional liability coverages include unique solutions for highly specialized professions, including architects and engineers, lawyers, agents and brokers, service technicians and computer consultants. We offer claims-made medical malpractice coverage for doctors, dentists and podiatrists; claims-made professional liability coverage to individual healthcare providers such as therapists, pharmacists, physician assistants and nurse anesthetists; and coverages for medical facilities and other allied healthcare risks such as clinics, laboratories, medical spas, home health agencies, small hospitals, pharmacies and nursing homes. This product line also includes for-profit and not-for profit management liability coverage which can be bundled or written mono-line and include employment practices liability, directors and officers liability and fiduciary liability coverages. Additionally, we offer a data privacy and security product, which provides coverage for data breach and privacy liability, data breach loss to insureds and electronic media coverage.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Other product lines within the Excess and Surplus Lines segment include:

excess and umbrella products, which provide coverage over approved underlying insurance carriers on either an occurrence or claims-made basis;

environmental products, which include environmental consultants' professional liability, contractors' pollution liability and site-specific environmental impairment liability coverages;

transportation-related products, which provide auto physical damage coverage for high-value automobiles as well as all types of specialty commercial vehicles, dealers' open lot and garagekeeper legal liability coverages, vehicular liability and physical damage coverages for local and intermediate haul commercial trucks and liability coverage to operators of small to medium-sized owned and operated taxicab fleets, non-emergency ambulances and multi-line specialty products designed for the unique characteristics of the garage industry;

inland marine products, which provide a number of specialty coverages for risks such as motor truck cargo coverage for damage to third party cargo while in transit, warehouseman's legal liability coverage for damage to third party goods in storage, contractors' equipment coverage for first party property damage and builder's risk coverage;

ocean marine products, which provide general liability, professional liability, property and cargo coverages for marine artisan contractors, boat dealers and marina owners including hull physical damage, protection and indemnity and third party property coverages for ocean cargo;

casualty facultative reinsurance written for individual casualty risks focusing on general liability, products liability, automobile liability and certain classes of miscellaneous professional liability and targeting classes which include low frequency, high severity, short-tail general liability risks;

railroad-related products, which provide first and third party coverages for short-line and regional railroads, scenic and tourist railroads, commuter and light rail trains and railroad equipment; and

public entity insurance and reinsurance programs, which provide coverage for government entities including counties, municipalities, schools and community colleges.

Specialty Admitted Segment

Our Specialty Admitted segment reported gross premium volume of \$572.4 million, earned premiums of \$527.3 million and an underwriting loss of \$45.1 million in 2011.

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The majority of the business in the Specialty Admitted segment is written by retail insurance agents who have very limited underwriting authority. Agents are carefully selected and agency business is controlled through regular audits and pre-approvals. Certain products and programs are marketed directly to consumers or distributed through wholesale producers. Personal lines coverages included in this segment are marketed directly to the consumer using direct mail, internet and telephone promotions, as well as relationships with various motorcycle and boat manufacturers, dealers and associations.

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The majority of the business produced by this segment is written on an admitted basis either through Markel Insurance Company (MIC), which is domiciled in Illinois, Markel American Insurance Company (MAIC), which is domiciled in Virginia, or FirstComp Insurance Company (FCIC), which is domiciled in Nebraska. MIC and MAIC are licensed to write P&C insurance in all 50 states and the District of Columbia, while FCIC is currently licensed in 28 states and specializes in workers' compensation coverage.

In the Specialty Admitted market, we wrote business through the following underwriting units during 2011:

Markel Specialty (Glen Allen, VA)

Markel American Specialty Personal and Commercial Lines (Pewaukee, WI)

FirstComp (Omaha, NE)

The Markel Specialty unit focuses on providing total insurance programs for businesses engaged in highly specialized activities. These activities typically do not fit the risk profiles of standard insurers and make complete coverage difficult to obtain from a single insurer. The Markel Specialty unit is organized into product areas that concentrate on particular markets and customer groups including youth and recreation oriented organizations, social service organizations, amateur sports organizations and horse and farm operations.

The Markel American Specialty Personal and Commercial Lines unit offers its insurance products in niche markets and focuses its underwriting on marine, recreational vehicle, property and other personal and commercial line coverages. The products offered by this unit are characterized by high numbers of transactions, low average premiums and creative solutions for under-served and emerging markets.

The FirstComp unit provides workers' compensation insurance and related services, principally to small businesses. The FirstComp unit distributes its products through independent insurance agencies, generally located in small towns, which have been underserved by other market participants because of their size. Utilizing its proprietary technology platform, FirstComp is able to service these small agencies in a cost-efficient manner. Through June 30, 2011, FirstComp also acted as a managing general agent producing business for unaffiliated insurance companies.

SPECIALTY ADMITTED SEGMENT

2011 GROSS PREMIUM VOLUME (\$572 MILLION)

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Product offerings within the Specialty Admitted segment fall within the following major product groupings:

Workers' Compensation

Property and Casualty

Personal Lines

Accident and Health

Other Product Lines

Workers' compensation products provide wage replacement and medical benefits to employees injured in the course of employment and target main-street, service and artisan contractor businesses, retail stores and restaurants.

Property and casualty products included in this segment are offered on a monoline or package basis and generally target specialized commercial markets and customer groups. Targeted groups include youth and recreation oriented organizations, social service organizations, museums and historic homes, performing arts organizations, bed and breakfast inns, outfitters and guides, hunting and fishing lodges, dude ranches and rod and gun clubs.

Personal lines products provide first and third party coverages for a variety of personal watercrafts including older boats, high performance boats and yachts, as well as for recreational vehicles including motorcycles, snowmobiles and ATVs. Additionally, property coverages are offered for mobile homes, dwellings and homeowners that do not qualify for standard homeowner's coverage. Other products offered include special event protection, supplemental natural disaster coverage, renters' protection coverage, excess flood coverage and collector vehicle coverage.

Accident and health products offer liability and accident insurance for amateur sports organizations, accident and medical insurance for academic institutions, monoline accident and medical coverage for various niche markets, short-term medical insurance, pet health insurance, stop-loss insurance for self-insured medical plans and medical excess reinsurance coverage.

Other product lines within the Specialty Admitted segment include:

coverages for equine-related risks, such as horse mortality, theft, infertility, transit and specified perils, as well as property and liability coverages for farms and boarding, breeding and training facilities;

first and third party coverages for auto repair garages, gas stations and convenience stores and used car dealers;

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general agent programs that use managing general agents to offer single source admitted and non-admitted programs for a specific class or line of business;

first and third party coverages for small fishing ventures, charters, utility boats and boat rentals; and

professional liability coverages that we design and administer on behalf of other insurance carriers and ultimately assume on a reinsurance basis.

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London Insurance Market Segment

Our London Insurance Market segment reported gross premium volume of \$825.3 million, earned premiums of \$695.8 million and an underwriting loss of \$109.5 million in 2011.

This segment is comprised of Markel International, which is headquartered in London, England. In addition to seven branch offices in the United Kingdom, Markel International has offices in Canada, Spain, Singapore, Sweden, Hong Kong, China and the Netherlands. Markel International writes specialty property, casualty, professional liability, equine, marine, energy and trade credit insurance on a direct and reinsurance basis. Business is written worldwide through either MIICL or Markel Syndicate 3000 with approximately 15% of writings coming from the United States.

LONDON INSURANCE MARKET SEGMENT

2011 GROSS PREMIUM VOLUME (\$825 MILLION)

Product offerings within the London Insurance Market segment fall within the following major product groupings:

Marine and Energy

Professional and General Liability

Reinsurance

Property

Other Product Lines

Marine and energy products include a portfolio of coverages for cargo, energy, hull, liability, war, terrorism and specie risks. The cargo account is an international transit-based book covering many types of cargo. Energy coverage includes all aspects of oil and gas activities. The hull account covers physical damage to ocean-going tonnage, yachts and mortgagee's interest. Liability coverage provides for a broad range of energy liabilities, as well as traditional marine exposures including charterers, terminal operators and ship repairers. The war account covers the hulls of ships and aircraft, and other related interests, against war and associated perils. Terrorism coverage provides for property damage and business interruption related to political violence including war and civil war. The specie account includes coverage for fine art on exhibition and in private collections, securities, bullion, precious metals, cash in transit and jewelry.

Professional and general liability products include professional indemnity, directors' and officers' liability, intellectual property, some miscellaneous defense costs, incidental commercial crime, general and products liability coverages targeting consultants, construction

professionals, financial

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

service professionals, professional practices, social welfare organizations and medical products. Professional and general liability products are written on a worldwide basis, limiting exposure in the United States.

Reinsurance products include property and casualty treaty reinsurance. Property treaty products are offered on an excess of loss and proportional basis for per risk and catastrophe exposures. A significant portion of the excess of loss catastrophe and per risk property treaty business comes from the United States with the remainder coming from international property treaties. Casualty treaty reinsurance is offered on an excess of loss basis and primarily targets specialist writers of motor products in the United Kingdom and Europe. Excess of loss casualty treaty reinsurance also is offered for select writers of employers' and products liability coverages.

Property products target a wide range of insureds, providing coverage ranging from fire to catastrophe perils such as earthquake and windstorm. Business is written either in the open market or on a delegated authority basis for direct and facultative risks. Open market business is written mainly on a worldwide basis by our underwriters to London brokers, with each risk being considered on its own merits. The open market property book targets Fortune 1000 companies. Property accounts written on a delegated basis focus mainly on small commercial insureds and are written through a network of coverholders, primarily in the United States. Coverholders underwriting this business are closely monitored, subject to audit and must adhere to strict underwriting guidelines. We also provide property coverage for small to medium-sized commercial risks on both a stand-alone and package basis through our branch offices.

Other product lines within the London Insurance Market segment include:

crime coverage primarily targeting financial institutions and providing protection for bankers' blanket bond, computer crime and commercial fidelity;

contingency coverage including event cancellation, non-appearance and prize indemnity;

accident and health coverage targeting affinity groups and schemes, high value and high risks accounts and sports groups;

coverage for equine-related risks such as horse mortality, theft, infertility, transit and specified perils;

specialty coverages include mortality risks for farms, zoos, animal theme parks and safari parks;

short-term trade credit coverage for commercial risks, including insolvency and protracted default as well as political risks coverage in conjunction with commercial risks for currency inconvertibility, government action, import/export license cancellation, public buyer default and war; and

products liability, excess and umbrella and environmental liability coverages targeted at Canadian domiciled insureds.

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We purchase reinsurance in order to reduce our retention on individual risks and to have the ability to underwrite policies with sufficient limits to meet policyholder needs. As part of our underwriting philosophy, we seek to offer products with limits that do not require significant amounts of reinsurance. We purchase catastrophe reinsurance coverage for our catastrophe-exposed policies, and we seek to manage our exposures under this coverage so that no exposure to any one reinsurer is material to our ongoing business. Net retention of gross premium volume was 89% in both 2011 and 2010. We do not purchase or sell finite reinsurance products or use other structures that would have the effect of discounting loss reserves.

The ceding of insurance does not legally discharge us from our primary liability for the full amount of the policies, and we will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement. We attempt to minimize credit exposure to reinsurers through adherence to internal reinsurance guidelines. To become our reinsurance partner, prospective companies generally must: (i) maintain an A.M. Best Company (Best) or Standard & Poor's (S&P) rating of A- (excellent) or better; (ii) maintain minimum capital and surplus of \$500 million and (iii) provide collateral for recoverables in excess of an individually established amount. In addition, certain foreign reinsurers for our United States insurance operations must provide collateral equal to 100% of recoverables, with the exception of reinsurers who have been granted authorized status by an insurance company's state of domicile. Lloyd's syndicates generally must have a minimum of a B- rating from Moody's Investors Service (Moody's) to be our reinsurers.

When appropriate, we pursue reinsurance commutations that involve the termination of ceded reinsurance contracts. Our commutation strategy related to ceded reinsurance contracts is to reduce credit exposure and eliminate administrative expenses associated with the run-off of reinsurance placed with certain reinsurers.

The following table displays balances recoverable from our ten largest reinsurers by group at December 31, 2011. The contractual obligations under reinsurance agreements are typically with individual subsidiaries of the group or syndicates at Lloyd's and are not typically guaranteed by other group members or syndicates at Lloyd's. These ten reinsurance groups represent approximately 72% of our \$898.4 million reinsurance recoverable balance before considering allowances for bad debts.

Reinsurers	A.M. Best Rating	Reinsurance Recoverable (dollars in thousands)
Munich Re Group	A+	\$ 162,335
Lloyd's of London	A	98,975
Fairfax Financial Group	A	74,480
XL Capital Group	A	60,278
Swiss Re Group	A+	51,776
HDI Group	A	46,207
Ace Group	A+	44,432
Aspen (Bermuda) Group	A	38,127
W. R. Berkley Group	A+	36,903
White Mountains Insurance Group	A	29,313
Reinsurance recoverable on paid and unpaid losses for ten largest reinsurers		642,826

Total reinsurance recoverable on paid and unpaid losses	\$ 898,377
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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Reinsurance recoverable balances in the preceding table are shown before consideration of balances owed to reinsurers and any potential rights of offset, any collateral held by us and allowances for bad debts.

Reinsurance treaties are generally purchased on an annual basis and are subject to yearly renegotiations. In most circumstances, the reinsurer remains responsible for all business produced before termination. Treaties typically contain provisions concerning ceding commissions, required reports to reinsurers, responsibility for taxes, arbitration in the event of a dispute and provisions that allow us to demand that a reinsurer post letters of credit or assets as security if a reinsurer becomes an unauthorized reinsurer under applicable regulations or if its rating falls below an acceptable level.

See note 13 of the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our reinsurance programs and exposures.

Investments

Our business strategy recognizes the importance of both consistent underwriting and operating profits and superior investment returns to build shareholder value. We rely on sound underwriting practices to produce investable funds while minimizing underwriting risk. The majority of our investable assets come from premiums paid by policyholders. Policyholder funds are invested predominantly in high-quality corporate, government and municipal bonds with relatively short durations. The balance, comprised of shareholder funds, is available to be invested in equity securities, which over the long run, have produced higher returns relative to fixed maturity investments. When 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 hold these investments over the long term. The investment portfolio is managed by company employees.

Total investment return includes items that impact net income, such as net investment income and net realized investment gains or losses, as well as changes in net unrealized gains on investments, which do not impact net income. In 2011, net investment income was \$263.7 million and net realized investment gains were \$35.9 million. During the year ended December 31, 2011, net unrealized gains on investments increased by \$182.7 million. We do not lower the quality of our investment portfolio in order to enhance or maintain yields. We focus on long-term total investment return, understanding that the level of realized and unrealized investment gains or losses may vary from one period to the next.

We believe our investment performance is best analyzed from the review of total investment return over several years. The following table presents taxable equivalent total investment return before and after the effects of foreign currency movements.

Table of Contents**ANNUAL TAXABLE EQUIVALENT TOTAL INVESTMENT RETURNS**

	Years Ended December 31,					Weighted Average Five-Year Annual Return	Weighted Average Ten-Year Annual Return
	2007	2008	2009	2010	2011		
Equities	(0.4%)	(34.0%)	25.7%	20.8%	3.8%	1.9%	6.7%
Fixed maturities ⁽¹⁾	5.6%	0.2%	9.8%	5.4%	7.6%	5.8%	5.6%
Total portfolio, before foreign currency effect	4.1%	(6.9%)	11.7%	8.1%	6.7%	4.8%	5.7%
Total portfolio	4.8%	(9.6%)	13.2%	7.9%	6.5%	4.6%	5.9%
Invested assets, end of year (in millions)	\$ 7,775	\$ 6,893	\$ 7,849	\$ 8,224	\$ 8,728		

⁽¹⁾ Includes short-term investments and cash and cash equivalents.

Taxable equivalent total investment return provides a measure of investment performance that considers the yield of both taxable and tax-exempt investments on an equivalent basis.

We monitor our portfolio to ensure that credit risk does not exceed prudent levels. S&P and Moody's provide corporate and municipal debt ratings based on their assessments of the credit quality of an obligor with respect to a specific obligation. S&P's ratings range from AAA (capacity to pay interest and repay principal is extremely strong) to D (debt is in payment default). Securities with ratings of BBB or higher are referred to as investment grade securities. Debt rated BB and below is regarded by S&P as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. Moody's ratings range from Aaa to C with ratings of Baa or higher considered investment grade.

Our fixed maturity portfolio has an average rating of AA, with approximately 95% rated A or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At December 31, 2011, less than 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

At December 31, 2011, we held fixed maturities of \$53.9 million, or less than 1% of invested assets, from sovereign and non-sovereign issuers domiciled in Portugal, Ireland, Italy, Greece or Spain and \$730.4 million, or 8% of invested assets, from sovereign and non-sovereign issuers domiciled in other European countries including supranationals. At December 31, 2010, we held fixed maturities of \$84.7 million, or 1% of invested assets, from sovereign and non-sovereign issuers domiciled in Portugal, Ireland, Italy, Greece or Spain and \$680.4 million, or 8% of invested assets, from sovereign and non-sovereign issuers domiciled in other European countries including supranationals.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

The following chart presents our fixed maturity portfolio, at estimated fair value, by rating category at December 31, 2011.

2011 CREDIT QUALITY OF FIXED MATURITY PORTFOLIO (\$5.5 BILLION)

See "Market Risk Disclosures" in Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about investments.

Non-Insurance Operations (Markel Ventures)

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.

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, which we refer to collectively as Markel Ventures, 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 and food processing equipment, an owner and operator of manufactured housing communities, a real estate investment fund manager, a retail intelligence services company, a manager of behavioral health programs, a provider of concierge medical and executive health services and a manufacturer and lessor of trailer tubes used by industrial, chemical and distribution companies to transport gas and liquids. In 2011, our non-insurance operations reported revenues of \$317.5 million and net income to shareholders of \$7.7 million.

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Shareholder Value

Our financial goals are to earn consistent underwriting and operating profits and superior investment returns to build shareholder value. More specifically, 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 generally use five-year time periods to measure ourselves. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting, operating and investing results. For the year ended December 31, 2011, book value per share increased 8% primarily due to net income to shareholders of \$142.0 million and a \$123.4 million increase in net unrealized gains on investments, net of taxes. For the year ended December 31, 2010, book value per share increased 16% primarily due to net income to shareholders of \$266.8 million and a \$163.5 million increase in net unrealized gains on investments, net of taxes. Over the past five years, we have grown book value per share at a compound annual rate of 9% to \$352.10 per share.

The following graph presents book value per share for the past five years.

BOOK VALUE PER SHARE

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Regulatory Environment

Our insurance subsidiaries are subject to regulation and supervision by the insurance regulatory authorities of the various jurisdictions in which they conduct business. This regulation is intended for the benefit of policyholders rather than shareholders or holders of debt securities.

United States Insurance Regulation. In the United States, state regulatory authorities have broad regulatory, supervisory and administrative powers relating to solvency standards, the licensing of insurers and their agents, the approval of forms and policies used, the nature of, and limitations on, insurers' investments, the form and content of annual statements and other reports on the financial condition of such insurers and the establishment of loss reserves. Additionally, the business written in the Specialty Admitted segment typically is subject to regulatory rate and form review.

As an insurance holding company, we are also subject to certain state laws. Under these laws, insurance departments may, at any time, examine us, require disclosure of material transactions, require approval of certain extraordinary transactions, such as extraordinary dividends from our insurance subsidiaries to us, or require approval of changes in control of an insurer or an insurance holding company. Generally, control for these purposes is defined as ownership or voting power of 10% or more of a company's shares.

The laws of the domicile states of our insurance subsidiaries govern the amount of dividends that may be paid to our holding company, Markel Corporation. Generally, statutes in the domicile states of our insurance subsidiaries require prior approval for payment of extraordinary as opposed to ordinary dividends. At December 31, 2011, our United States insurance subsidiaries could pay up to \$222.2 million during the following 12 months under the ordinary dividend regulations.

Our United States insurance subsidiaries are also subject to risk-based capital requirements that provide a method to measure the capital of each subsidiary taking into account that subsidiary's investments and products. These requirements provide a formula which, for P&C insurance companies, establishes capital thresholds for four categories of risk: asset risk, insurance risk, interest rate risk and business risk. At December 31, 2011, the capital and surplus of each of our United States insurance subsidiaries was above the minimum regulatory thresholds.

United Kingdom Insurance Regulation. With the enactment of the Financial Services and Markets Act, the United Kingdom government authorized the Financial Services Authority (FSA) to supervise all securities, banking and insurance businesses, including Lloyd's. The FSA oversees compliance with established periodic auditing and reporting requirements, risk assessment reviews, minimum solvency margins and individual capital assessment requirements, dividend restrictions, restrictions governing the appointment of key officers, restrictions governing controlling ownership interests and various other requirements. Both MIICL and Markel Syndicate Management Limited are authorized and regulated by the FSA. We are required to provide 14 days advance notice to the FSA for any dividends from MIICL. In addition, our United Kingdom insurance subsidiaries must comply with the United Kingdom Companies Act of 2006, which provides that dividends may only be paid out of profits available for that purpose.

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Ratings

Financial stability and strength are important purchase considerations of policyholders and insurance agents and brokers. Because an insurance premium paid today purchases coverage for losses that might not be paid for many years, the financial viability of the insurer is of critical concern. Various independent rating agencies provide information and assign ratings to assist buyers in their search for financially sound insurers. Rating agencies periodically re-evaluate assigned ratings based upon changes in the insurer's operating results, financial condition or other significant factors influencing the insurer's business. Changes in assigned ratings could have an adverse impact on an insurer's ability to write new business.

Best assigns financial strength ratings (FSRs) to P&C insurance companies based on quantitative criteria such as profitability, leverage and liquidity, as well as qualitative assessments such as the spread of risk, the adequacy and soundness of reinsurance, the quality and estimated market value of assets, the adequacy of loss reserves and surplus and the competence, experience and integrity of management. Best's FSRs range from A++ (superior) to F (in liquidation).

Six of our insurance subsidiaries rated by Best have been assigned an FSR of A (excellent), one is rated A- (excellent) and one is rated B++ (good). Markel Syndicate 3000 has been assigned an FSR of A (excellent) by Best.

In addition to Best, seven of our insurance subsidiaries are rated by Fitch Ratings (Fitch), an independent rating agency. All seven of our insurance subsidiaries rated by Fitch have been assigned an FSR of A (strong).

The various rating agencies typically charge companies fees for the rating and other services they provide. During 2011, we paid rating agencies, including Best and Fitch, \$0.7 million for their services.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Risk Factors

A wide range of factors could materially affect our future prospects and performance. The matters addressed under Safe Harbor and Cautionary Statements, Critical Accounting Estimates and Market Risk Disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations and other information included or incorporated in this report describe most of the significant risks that could affect our operations and financial results. We are also subject to the following risks.

We may experience losses from catastrophes. As a property and casualty insurance company, we may experience losses from man-made or natural catastrophes. Catastrophes may have a material adverse effect on operations. Catastrophes include, but are not limited to, windstorms, hurricanes, earthquakes, tornadoes, hail, severe winter weather and fires and may include terrorist events. We cannot predict how severe a particular catastrophe will be before it occurs. The extent of losses from catastrophes is a function of the total amount of losses incurred, the number of insureds affected, the frequency and severity of the events, the effectiveness of our catastrophe risk management program and the adequacy of our reinsurance coverage. Most catastrophes occur over a small geographic area; however, some catastrophes may produce significant damage in large, heavily populated areas. If, as many forecast, climate change results in an increase in the frequency and severity of weather-related catastrophes, we may experience additional catastrophe-related losses.

Our results may be affected because actual insured losses differ from our loss reserves. Significant periods of time often elapse between the occurrence of an insured loss, the reporting of the loss to us and our payment of that loss. To recognize liabilities for unpaid losses, we establish reserves as balance sheet liabilities representing estimates of amounts needed to pay reported and unreported losses and the related loss adjustment expenses. The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgments. This process may become more difficult if we experience a period of rising inflation. As part of the reserving process, we review historical data and consider the impact of such factors as:

trends in claim frequency and severity,

changes in operations,

emerging economic and social trends,

uncertainties relating to asbestos and environmental exposures,

inflation or deflation, and

changes in the regulatory and litigation environments.

This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. There is no precise method, however, for evaluating the impact of any specific factor on the adequacy of reserves, and

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actual results will differ from original estimates. As part of the reserving process, we regularly review our loss reserves and make adjustments as necessary. Future increases in loss reserves will result in additional charges to earnings.

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We are subject to regulation by insurance regulatory authorities that may affect our ability to implement our business objectives. Our insurance subsidiaries are subject to supervision and regulation by the insurance regulatory authorities in the various jurisdictions in which they conduct business. This regulation is intended for the benefit of policyholders rather than shareholders or holders of debt securities. Insurance regulatory authorities have broad regulatory, supervisory and administrative powers relating to solvency standards, licensing, coverage requirements, policy rates and forms and the form and content of financial reports. In light of recent economic conditions, regulatory and legislative authorities are implementing enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of financial institutions. Regulatory authorities also may seek to exercise their supervisory or enforcement authority in new or more aggressive ways, such as imposing increased capital requirements. Any such actions, if they occurred, could affect the competitive market and the way we conduct our business and manage our capital. As a result, such actions could materially affect our results of operations, financial condition and liquidity.

Our ability to make payments on debt or other obligations depends on the receipt of funds from our subsidiaries. We are a holding company, and substantially all of our operations are conducted through our regulated subsidiaries. As a result, our cash flow and our ability to service our debt are dependent upon the earnings of our subsidiaries and on the distribution of earnings, loans or other payments by our subsidiaries to us. In addition, payment of dividends by our insurance subsidiaries may require prior regulatory notice or approval.

Our investment results may be impacted by changes in interest rates, U.S. and international monetary and fiscal policies as well as broader economic conditions. We receive premiums from customers for insuring their risks. We invest these funds until they are needed to pay policyholder claims or until they are recognized as profits. Fluctuations in the value of our investment portfolio can occur as a result of changes in interest rates, U.S. and international monetary and fiscal policies as well as broader economic conditions (including, for example, equity market conditions and significant inflation or deflation). Our investment results may be impacted by one or more of these factors.

Competition in the property and casualty insurance industry could adversely affect our ability to grow or maintain premium volume. Among our competitive strengths have been our specialty product focus and our niche market strategy. These strengths also make us vulnerable in periods of intense competition to actions by other insurance companies who seek to write additional premiums without appropriate regard for ultimate profitability. During soft markets, it is very difficult for us to grow or maintain premium volume levels without sacrificing underwriting profits. If we are not successful in maintaining rates or achieving rate increases, it may be difficult for us to improve underwriting margins and grow or maintain premium volume levels.

We invest a significant portion of our invested assets in equity securities, which may result in significant variability in our investment results and may adversely impact shareholders' equity. Additionally, our equity investment portfolio is concentrated and declines in the value of these significant investments could adversely affect our financial results. Equity securities were 55% and 54% of our shareholders equity at December 31, 2011 and 2010, respectively. Equity securities have historically produced higher returns than fixed

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

maturities; however, investing in equity securities may result in significant variability in investment returns from one period to the next. If recent levels of market volatility persist, we could experience significant declines in the fair value of our equity investment portfolio, which would result in a material decrease in shareholders' equity. Our equity portfolio is concentrated in particular issuers and industries and, as a result, a decline in the fair value of these significant investments also could result in a material decrease in shareholders' equity. A material decrease in shareholders' equity may adversely impact our ability to carry out our business plans.

Deterioration in financial markets could lead to investment losses and adverse effects on our business. The severe downturn in the public debt and equity markets beginning in 2008, reflecting uncertainties associated with the mortgage and credit crises, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions, resulted in significant realized and unrealized losses in our investment portfolio. In the event of another major financial crisis (for example, default of foreign sovereign debt or collapse of the Eurozone), we could incur substantial realized and unrealized investment losses in future periods, which would have an adverse impact on our results of operations, financial condition, debt and financial strength ratings, insurance subsidiaries' capital and ability to access capital markets.

We rely on reinsurance and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement. We purchase reinsurance in order to reduce our retention on individual risks and to have the ability to underwrite policies with sufficient limits to meet policyholder needs. The ceding of insurance does not legally discharge us from our primary liability for the full amount of the policies. Such reliance on reinsurance may create credit risk as a result of the reinsurer's inability or unwillingness to pay reinsurance claims when due. Deterioration in the credit quality of existing reinsurers or disputes over the terms of reinsurance could result in additional charges to earnings, which may adversely impact our results of operations and financial condition.

Our information technology systems could fail or suffer a security breach, which could adversely affect our business or reputation. Our business is dependent upon the successful functioning and security of our computer systems. Among other things, we rely on these systems to interact with producers and insureds, to perform actuarial and other modeling functions, to underwrite business, to prepare policies and process premiums, to process claims and make claims payments, and to prepare internal and external financial statements and information. A significant failure of these systems, whether because of a breakdown, natural disaster or an attack on our systems, could have a material adverse effect on our business. In addition, a security breach of our computer systems could damage our reputation or result in material liabilities.

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The integration of acquired companies may not be as successful as we anticipate. We have recently engaged in a number of acquisitions in an effort to achieve profitable growth in our insurance operations and to create additional value on a diversified basis in our non-insurance operations. Acquisitions present operational, strategic and financial risks, as well as risks associated with liabilities arising from the previous operations of the acquired companies. Assimilation of the operations and personnel of acquired companies (especially those that are outside of our core insurance operations) may prove more difficult than anticipated, which may result in failure to achieve financial objectives associated with the acquisition or diversion of management attention. In addition, integration of formerly privately-held companies into the management and internal control and financial reporting systems of a publicly-held company presents additional risks.

Associates

At December 31, 2011, we had approximately 5,400 employees, of whom approximately 2,700 were employed within our insurance operations and approximately 2,700 were employed within our non-insurance operations.

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SELECTED FINANCIAL DATA *(dollars in millions, except per share data)*

	2011	2010	2009
RESULTS OF OPERATIONS			
Earned premiums	\$ 1,979	\$ 1,731	\$ 1,816
Net investment income	264	273	260
Total operating revenues	2,630	2,225	2,069
Net income (loss) to shareholders	142	267	202
Comprehensive income (loss) to shareholders	252	431	591
Diluted net income (loss) per share	\$ 14.60	\$ 27.27	\$ 20.52

FINANCIAL POSITION

Total investments and cash and cash equivalents	\$ 8,728	\$ 8,224	\$ 7,849
Total assets	11,532	10,826	10,242
Unpaid losses and loss adjustment expenses	5,399	5,398	5,427
Senior long-term debt and other debt	1,294	1,016	964
Shareholders' equity	3,388	3,172	2,774
Common shares outstanding (at year end, in thousands)	9,621	9,718	9,819

OPERATING PERFORMANCE MEASURES ⁽¹⁾**OPERATING DATA**

Book value per common share outstanding	\$ 352.10	\$ 326.36	\$ 282.55
Growth (decline) in book value per share	8%	16%	27%
5-Year CAGR in book value per share ⁽²⁾	9%	13%	11%
Closing stock price	\$ 414.67	\$ 378.13	\$ 340.00

RATIO ANALYSIS

U.S. GAAP combined ratio ⁽³⁾	102%	97%	95%
Investment yield ⁽⁴⁾	4%	4%	4%
Taxable equivalent total investment return ⁽⁵⁾	7%	8%	13%
Investment leverage ⁽⁶⁾	2.6	2.6	2.8
Debt to total capital	27%	24%	26%

⁽¹⁾ Operating Performance Measures provide a basis for management to evaluate our performance. The method we use to compute these measures may differ from the methods used by other companies. See further discussion of management's evaluation of these measures in Management's Discussion & Analysis of Financial Condition and Results of Operations.

- (2) CAGR compound annual growth rate.
- (3) The U.S. GAAP combined ratio measures the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

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2008	2007	2006	2005	2004	2003	2002	10-Year CAGR ⁽²⁾
\$ 2,022	\$ 2,117	\$ 2,184	\$ 1,938	\$ 2,054	\$ 1,864	\$ 1,549	5%
282	305	269	242	204	183	170	4%
1,977	2,551	2,576	2,200	2,262	2,092	1,770	7%
(59)	406	393	148	165	123	75	
(403)	337	551	64	273	222	73	
\$ (5.95)	\$ 40.64	\$ 39.40	\$ 14.80	\$ 16.41	\$ 12.31	\$ 7.53	
\$ 6,893	\$ 7,775	\$ 7,524	\$ 6,588	\$ 6,317	\$ 5,350	\$ 4,314	9%
9,512	10,164	10,117	9,814	9,398	8,532	7,409	6%
5,492	5,526	5,584	5,864	5,482	4,930	4,367	4%
694	691	866	849	855	763	640	
2,181	2,641	2,296	1,705	1,657	1,382	1,159	12%
9,814	9,957	9,994	9,799	9,847	9,847	9,832	
\$ 222.20	\$ 265.26	\$ 229.78	\$ 174.04	\$ 168.22	\$ 140.38	\$ 117.89	12%
(16%)	15%	32%	3%	20%	19%	7%	
10%	18%	16%	11%	20%	13%	13%	
\$ 299.00	\$ 491.10	\$ 480.10	\$ 317.05	\$ 364.00	\$ 253.51	\$ 205.50	
99%	88%	87%	101%	96%	99%	103%	
4%	4%	4%	4%	4%	4%	4%	
(10%)	5%	11%	2%	8%	11%	8%	
3.2	2.9	3.3	3.9	3.8	3.9	3.7	
24%	21%	27%	33%	34%	36%	36%	

⁽⁴⁾ Investment yield reflects net investment income as a percentage of average invested assets.

⁽⁵⁾ Taxable equivalent total investment return includes net investment income, realized investment gains or losses, the change in fair value of the investment portfolio and the effect of foreign currency exchange rate movements during the period as a percentage of average invested assets. Tax-exempt interest and dividend payments are grossed up using the U.S. corporate tax rate to reflect an equivalent taxable yield.

⁽⁶⁾ Investment leverage represents total invested assets divided by shareholders' equity.

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Markel Corporation & Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2011	2010
	(dollars in thousands)	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$5,172,952 in 2011 and \$5,256,980 in 2010)	\$ 5,538,174	\$ 5,431,226
Equity securities (cost of \$1,156,294 in 2011 and \$996,088 in 2010)	1,873,927	1,721,971
Short-term investments (estimated fair value approximates cost)	541,014	325,340
TOTAL INVESTMENTS	7,953,115	7,478,537
Cash and cash equivalents	775,032	745,259
Receivables	350,237	318,507
Reinsurance recoverable on unpaid losses	791,102	798,090
Reinsurance recoverable on paid losses	38,208	70,568
Deferred policy acquisition costs	194,674	188,783
Prepaid reinsurance premiums	97,074	80,293
Goodwill and intangible assets	867,558	641,733
Other assets	465,103	503,819
TOTAL ASSETS	\$ 11,532,103	\$ 10,825,589
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	\$ 5,398,869	\$ 5,398,406
Unearned premiums	915,930	839,537
Payables to insurance companies	64,327	50,715
Senior long-term debt and other debt (estimated fair value of \$1,391,000 in 2011 and \$1,086,000 in 2010)	1,293,520	1,015,947
Other liabilities	397,111	333,292
TOTAL LIABILITIES	8,069,757	7,637,897
Commitments and contingencies		
Shareholders' equity:		
Common stock	891,507	884,457
Retained earnings	1,835,086	1,735,973
Accumulated other comprehensive income	660,920	551,093
TOTAL SHAREHOLDERS' EQUITY	3,387,513	3,171,523
Noncontrolling interests	74,833	16,169
TOTAL EQUITY	3,462,346	3,187,692
TOTAL LIABILITIES AND EQUITY	\$ 11,532,103	\$ 10,825,589

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2011	2010	2009
	<i>(dollars in thousands, except per share data)</i>		
OPERATING REVENUES			
Earned premiums	\$ 1,979,340	\$ 1,730,921	\$ 1,815,835
Net investment income	263,676	272,530	259,809
Net realized investment gains (losses):			
Other-than-temporary impairment losses	(14,250)	(11,644)	(95,570)
Other-than-temporary impairment losses recognized in other comprehensive income	(5,946)	(563)	5,620
Other-than-temporary impairment losses recognized in net income	(20,196)	(12,207)	(89,950)
Net realized investment gains (losses), excluding other-than-temporary impairment losses	56,053	48,569	(6,150)
Net realized investment gains (losses)	35,857	36,362	(96,100)
Other revenues	351,077	185,580	89,782
TOTAL OPERATING REVENUES	2,629,950	2,225,393	2,069,326
OPERATING EXPENSES			
Losses and loss adjustment expenses	1,209,986	946,229	992,863
Underwriting, acquisition and insurance expenses	810,179	724,876	736,660
Amortization of intangible assets	24,291	16,824	6,698
Other expenses	309,046	168,290	80,499
TOTAL OPERATING EXPENSES	2,353,502	1,856,219	1,816,720
OPERATING INCOME	276,448	369,174	252,606
Interest expense	86,252	73,663	53,969
INCOME BEFORE INCOME TAXES	190,196	295,511	198,637
Income tax expense (benefit)	41,710	27,782	(3,782)
NET INCOME	\$ 148,486	\$ 267,729	\$ 202,419
Net income attributable to noncontrolling interests	6,460	936	781
NET INCOME TO SHAREHOLDERS	\$ 142,026	\$ 266,793	\$ 201,638
OTHER COMPREHENSIVE INCOME			
Change in net unrealized gains on investments, net of taxes:			
Net holding gains arising during the period	\$ 141,839	\$ 195,648	\$ 326,959

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Unrealized other-than-temporary impairment losses on fixed maturities arising during the period	3,943	672	(5,405)
Reclassification adjustments for net gains (losses) included in net income	(22,341)	(32,831)	52,883
Change in net unrealized gains on investments, net of taxes	123,441	163,489	374,437
Change in foreign currency translation adjustments, net of taxes	(4,191)	(2,282)	19,239
Change in net actuarial pension loss, net of taxes	(9,459)	2,749	(4,268)
TOTAL OTHER COMPREHENSIVE INCOME	109,791	163,956	389,408
COMPREHENSIVE INCOME	\$ 258,277	\$ 431,685	\$ 591,827
Comprehensive income attributable to noncontrolling interests	6,424	1,122	832
COMPREHENSIVE INCOME TO SHAREHOLDERS	\$ 251,853	\$ 430,563	\$ 590,995
NET INCOME PER SHARE			
Basic	\$ 14.66	\$ 27.31	\$ 20.54
Diluted	\$ 14.60	\$ 27.27	\$ 20.52

See accompanying notes to consolidated financial statements.

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Markel Corporation & Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (in thousands)	Total Shareholders Equity	Noncontrolling Interests	Total Equity
December 31, 2008	9,814	\$ 869,744	\$ 1,297,901	\$ 13,029	\$ 2,180,674	\$ 261	\$ 2,180,935
Net income			201,638	0	201,638	781	202,419
Change in net unrealized gains on investments, net of taxes			0	374,437	374,437	0	374,437
Cumulative effect of adoption of FASB ASC 320-10, net of taxes			15,300	(15,300)	0	0	0
Change in foreign currency translation adjustments, net of taxes			0	19,188	19,188	51	19,239
Change in net actuarial pension loss, net of taxes			0	(4,268)	(4,268)	0	(4,268)
Comprehensive income					590,995	832	591,827
Issuance of common stock	6	0	0	0	0	0	0
Restricted stock units expensed	0	2,638	0	0	2,638	0	2,638
Acquisitions	0	0	0	0	0	16,204	16,204
Other	(1)	494	(441)	0	53	57	110
December 31, 2009	9,819	872,876	1,514,398	387,086	2,774,360	17,354	2,791,714
Net income			266,793	0	266,793	936	267,729
Change in net unrealized gains on investments, net of taxes			0	163,489	163,489	0	163,489
Change in foreign currency translation adjustments, net of taxes			0	(2,468)	(2,468)	186	(2,282)
Change in net actuarial pension loss, net of taxes			0	2,749	2,749	0	2,749
Comprehensive income					430,563	1,122	431,685
Issuance of common stock	32	8,185	0	0	8,185	0	8,185
Repurchase of common stock	(133)	0	(45,218)	0	(45,218)	0	(45,218)
Restricted stock units expensed	0	2,543	0	0	2,543	0	2,543
Stock options issued	0	9,133	0	0	9,133	0	9,133
Purchase of noncontrolling interest	0	(8,345)	0	237	(8,108)	(1,557)	(9,665)
Other	0	65	0	0	65	(750)	(685)
December 31, 2010	9,718	884,457	1,735,973	551,093	3,171,523	16,169	3,187,692
Net income			142,026	0	142,026	6,460	148,486
Change in net unrealized gains on investments, net of taxes			0	123,441	123,441	0	123,441
Change in foreign currency translation adjustments, net of taxes			0	(4,155)	(4,155)	(36)	(4,191)
Change in net actuarial pension loss, net of taxes			0	(9,459)	(9,459)	0	(9,459)
Comprehensive income					251,853	6,424	258,277

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Issuance of common stock	16	1,182	0	0	1,182	0	1,182
Repurchase of common stock	(113)	0	(42,913)	0	(42,913)	0	(42,913)
Restricted stock units expensed	0	5,818	0	0	5,818	0	5,818
Acquisitions	0	0	0	0	0	62,189	62,189
Other	0	50	0	0	50	(9,949)	(9,899)
DECEMBER 31, 2011	9,621	\$ 891,507	\$ 1,835,086	\$ 660,920	\$ 3,387,513	\$ 74,833	\$ 3,462,346

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2011	2010	2009
	(dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 148,486	\$ 267,729	\$ 202,419
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense (benefit)	5,649	7,185	(9,144)
Depreciation and amortization	70,572	53,587	31,172
Net realized investment losses (gains)	(35,857)	(36,362)	96,100
Decrease (increase) in receivables	(10,745)	7,647	21,035
Decrease (increase) in deferred policy acquisition costs	(5,891)	(13,910)	26,958
Increase (decrease) in unpaid losses and loss adjustment expenses, net	57,000	(109,371)	6,213
Increase (decrease) in unearned premiums, net	59,612	37,799	(91,933)
Increase (decrease) in payables to insurance companies	(3,665)	1,115	(8,260)
Other	26,157	7,872	7,903
NET CASH PROVIDED BY OPERATING ACTIVITIES	311,318	223,291	282,463
INVESTING ACTIVITIES			
Proceeds from sales of fixed maturities and equity securities	288,046	340,546	205,561
Proceeds from maturities, calls and prepayments of fixed maturities	343,502	383,618	312,951
Cost of fixed maturities and equity securities purchased	(713,102)	(957,193)	(726,954)
Net change in short-term investments	(216,972)	202,882	23,616
Acquisitions, net of cash acquired	(120,102)	(214,156)	(154,920)
Additions to property and equipment	(60,132)	(42,103)	(21,906)
Other	4,449	3,063	27,943
NET CASH USED BY INVESTING ACTIVITIES	(474,311)	(283,343)	(333,709)
FINANCING ACTIVITIES			
Additions to senior long-term debt and other debt	336,181	42,897	507,346
Repayment and retirement of senior long-term debt and other debt	(90,557)	(30,021)	(255,293)
Repurchases of common stock	(42,913)	(45,218)	0
Purchase of noncontrolling interest	0	(3,001)	0
Other	(8,122)	(10,267)	(441)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	194,589	(45,610)	251,612
Effect of foreign currency rate changes on cash and cash equivalents	(1,823)	427	9,749
Increase (decrease) in cash and cash equivalents	29,773	(105,235)	210,115
Cash and cash equivalents at beginning of year	745,259	850,494	640,379

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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 775,032	\$ 745,259	\$ 850,494
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See accompanying notes to consolidated financial statements.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

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. Markel Corporation also owns interests in various industrial and service businesses that operate outside of the specialty insurance marketplace.

a) Basis of Presentation. 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.

b) Use of Estimates. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Management periodically reviews its estimates and assumptions. These reviews include evaluating the adequacy of reserves for unpaid losses and loss adjustment expenses, litigation contingencies, 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.

c) Investments. Available-for-sale investments are recorded at estimated fair value. Unrealized gains and losses on investments, net of deferred income taxes, are included in accumulated other comprehensive income in shareholders' equity. 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.

Premiums and discounts are amortized or accreted over the lives of the related fixed maturities as an adjustment to the yield using the effective interest method. Dividend and interest income are recognized when earned. Realized investment gains or losses are included in earnings. Realized gains or losses from sales of investments are derived using the first-in, first-out method.

d) Cash and Cash Equivalents. The Company considers all investments with original maturities of 90 days or less to be cash equivalents. The carrying value of the Company's cash and cash equivalents approximates fair value.

e) Reinsurance Recoverables. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. Allowances are established for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Company evaluates the financial condition of its reinsurers and monitors concentration risk to minimize its exposure to significant losses from individual reinsurers.

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1. Summary of Significant Accounting Policies (continued)

f) Deferred Policy Acquisition Costs. Costs directly related to the acquisition of insurance premiums, such as commissions to agents and brokers, are deferred and amortized over the related policy period, generally one year. Commissions received related to reinsurance premiums ceded are netted against broker commissions and other acquisition costs in determining acquisition costs eligible for deferral. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company does not consider anticipated investment income in determining whether a premium deficiency exists.

g) Goodwill and Intangible Assets. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. Intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives, generally four to 25 years, and are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable.

h) Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives (generally, the life of the lease for leasehold improvements, 20 to 40 years for buildings, eight to 20 years for land improvements, three to 15 years for furniture and equipment and three to 25 years for other property and equipment).

i) Income Taxes. The Company records deferred income taxes to reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized. The Company recognizes the tax benefit from an uncertain tax position taken or expected to be taken in income tax returns only if it is more likely than not that the tax position will be sustained upon examination by tax authorities, based on the technical merits of the position. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach, whereby the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement is recognized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense (benefit).

j) Unpaid Losses and Loss Adjustment Expenses. Unpaid losses and loss adjustment expenses are based on evaluations of reported claims and estimates for losses and loss adjustment expenses incurred but not reported. Estimates for losses and loss adjustment expenses incurred but not reported are based on reserve development studies, among other things. The Company does not discount reserves for losses and loss adjustment expenses to reflect estimated present value. The reserves recorded are estimates, and the ultimate liability may be greater than or less than the estimates.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Significant Accounting Policies (continued)

k) Revenue Recognition. Insurance premiums are earned on a pro rata basis over the policy period, generally one year. The cost of reinsurance is initially recorded as prepaid reinsurance premiums and is amortized over the reinsurance contract period in proportion to the amount of insurance protection provided. Premiums ceded are netted against premiums written. The Company uses the periodic method to account for assumed reinsurance from foreign reinsurers. The Company's foreign reinsurers provide sufficient information to record foreign assumed business in the same manner as the Company records assumed business from United States reinsurers. Other revenues primarily relate to the Company's non-insurance operations and consist of revenues from the sale of manufactured products and service revenues. Revenues from manufactured products are generally recognized at the time title transfers to the customer, which occurs at the point of shipment or delivery to the customer, depending on the terms of the sales arrangement. Revenues from services are generally recognized as the services are performed. Services provided pursuant to a contract are recognized either over the contract period or upon completion of the elements specified in the contract, depending on the terms of the contract.

l) Stock-based Compensation. Stock-based compensation expense is recognized as part of underwriting, acquisition and insurance expenses over the requisite service period. Stock-based compensation expense, net of taxes, was \$4.0 million in 2011, \$2.1 million in 2010 and \$1.8 million in 2009.

m) Foreign Currency Translation. The functional currencies of the Company's foreign operations are the currencies in which the majority of their business is transacted. Assets and liabilities of foreign operations are translated into the United States Dollar using the exchange rates in effect at the balance sheet date. Revenues and expenses of foreign operations are translated using the average exchange rate for the period. Gains or losses from translating the financial statements of foreign operations are included, net of taxes, in shareholders' equity as a component of accumulated other comprehensive income. Gains and losses arising from transactions denominated in a foreign currency, other than a functional currency, are included in net income.

The Company manages its exposure to foreign currency risk primarily by matching assets and liabilities denominated in the same currency. To the extent that assets and liabilities in foreign currencies are not matched, the Company is exposed to foreign currency risk. For functional currencies, the related exchange rate fluctuations are reflected in other comprehensive income. The cumulative foreign currency translation adjustment, net of taxes, was a loss of \$2.6 million at December 31, 2011 and a gain of \$1.5 million at December 31, 2010.

n) Derivative Financial Instruments. Derivative instruments, including derivative instruments resulting from hedging activities, are measured at fair value and recognized as either assets or liabilities on the consolidated balance sheets. The changes in fair value of derivatives are recognized in earnings unless the derivative is designated as a hedge and qualifies for hedge accounting.

The Company's foreign currency forward contracts are generally designated and qualified as hedges of a net investment in a foreign operation. The effective portion of the change in fair value resulting from these hedges is reported in currency translation adjustments as part of other comprehensive income. The ineffective portion of the change in fair value is recognized in earnings.

o) Comprehensive Income. Comprehensive income represents all changes in equity that result from recognized transactions and other economic events during the period. Other comprehensive income refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income but excluded from net income, such as unrealized gains or losses on investments, foreign currency translation adjustments and changes in net actuarial pension loss.

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1. Summary of Significant Accounting Policies (continued)

p) Net Income Per Share. Basic net income per share is computed by dividing net income to shareholders by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income to shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the year.

q) Recent Accounting Pronouncements. In October 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, to address diversity in practice within the insurance industry regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be capitalized. ASU No. 2010-26 becomes effective for the Company beginning January 1, 2012. The Company intends to adopt ASU No. 2010-26 prospectively and expects to defer fewer costs under this new guidance. The Company expects the adoption of this guidance to increase its underwriting, acquisition and insurance expenses for 2012 by approximately \$40 million to \$45 million, which will increase the expense ratio by approximately two points.

In September 2011, the FASB issued ASU No. 2011-08, *Testing Goodwill for Impairment*. ASU No. 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*. The Company adopted ASU No. 2011-08 for its 2011 annual goodwill impairment test. The adoption of ASU No. 2011-08 did not have an impact on the Company's financial position, results of operations or cash flows.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Investments

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

	December 31, 2011				
	Amortized	Gross	Gross	Unrealized Other-	Estimated
	Cost	Unrealized	Unrealized	Than-Temporary	Fair
		Holding	Holding	Impairment	Value
		Gains	Losses	Losses	
<i>(dollars in thousands)</i>					
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 299,413	\$ 22,789	\$ (9)	\$ 0	\$ 322,193
Obligations of states, municipalities and political subdivisions	2,729,838	201,477	(794)	0	2,930,521
Foreign governments	572,253	45,629	(1,068)	0	616,814
Residential mortgage-backed securities	366,859	24,601	(18)	(2,258)	389,184
Asset-backed securities	16,096	731	(9)	0	16,818
Public utilities	63,965	5,462	0	0	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)	0	684,703
Industrial, consumer and all other	766,873	425,131	(2,780)	0	1,189,224
Total equity securities	1,156,294	721,779	(4,146)	0	1,873,927
Short-term investments	541,014	4	(4)	0	541,014
INVESTMENTS, AVAILABLE-FOR-SALE	\$ 6,870,260	\$ 1,100,525	\$ (8,798)	\$ (8,872)	\$ 7,953,115

	December 31, 2010				
	Amortized	Gross	Gross	Unrealized Other-	Estimated
	Cost	Unrealized	Unrealized	Than-Temporary	Fair
		Holding	Holding	Impairment	Value
		Gains	Losses	Losses	
<i>(dollars in thousands)</i>					
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 300,555	\$ 20,832	\$ (49)	\$ 0	\$ 321,338
Obligations of states, municipalities and political subdivisions	2,767,169	61,620	(29,450)	0	2,799,339
Foreign governments	454,615	22,512	(1,397)	0	475,730
Residential mortgage-backed securities	409,415	29,664	(1,738)	(11,778)	425,563
Asset-backed securities	21,704	1,052	0	0	22,756
Public utilities	95,770	6,674	0	0	102,444
Convertible bonds	16,725	0	0	0	16,725
All other corporate bonds	1,191,027	85,902	(1,805)	(7,793)	1,267,331
Total fixed maturities	5,256,980	228,256	(34,439)	(19,571)	5,431,226
Equity securities:					

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Insurance companies, banks and trusts	388,848	323,634	(1,496)	0	710,986
Industrial, consumer and all other	607,240	404,444	(699)	0	1,010,985
Total equity securities	996,088	728,078	(2,195)	0	1,721,971
Short-term investments	325,336	4	0	0	325,340
INVESTMENTS, AVAILABLE-FOR-SALE	\$ 6,578,404	\$ 956,338	\$ (36,634)	\$ (19,571)	\$ 7,478,537

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

	Less than 12 months		December 31, 2011 12 months or longer		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Holding and Other-		Holding and Other-		Holding and Other-	
	Estimated	Than-Temporary	Estimated	Than-Temporary	Estimated	Than-Temporary
	Fair	Impairment	Fair	Impairment	Fair	Impairment
	Value	Losses	Value	Losses	Value	Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 32,384	\$ (9)	\$ 0	\$ 0	\$ 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)	0	0	40,340	(1,068)
Residential mortgage-backed securities	489	(2,263)	2,045	(13)	2,534	(2,276)
Asset-backed securities	0	0	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)	0	0	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)	0	0	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 does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Investments (continued)

	Less than 12 months		December 31, 2010 12 months or longer		Total	
	Gross Unrealized		Gross Unrealized		Gross Unrealized	
	Holding and Other-		Holding and Other-		Holding and Other-	
	Estimated	Than-Temporary	Estimated	Than-Temporary	Estimated	Than-Temporary
	Fair	Impairment	Fair	Impairment	Fair	Impairment
	Value	Losses	Value	Losses	Value	Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 23,574	\$ (49)	\$ 0	\$ 0	\$ 23,574	\$ (49)
Obligations of states, municipalities and political subdivisions	942,935	(27,463)	22,468	(1,987)	965,403	(29,450)
Foreign governments	91,252	(1,238)	4,955	(159)	96,207	(1,397)
Residential mortgage-backed securities	20,972	(10,822)	10,534	(2,694)	31,506	(13,516)
All other corporate bonds	43,253	(9,123)	15,966	(475)	59,219	(9,598)
Total fixed maturities	1,121,986	(48,695)	53,923	(5,315)	1,175,909	(54,010)
Equity securities:						
Insurance companies, banks and trusts	22,750	(1,496)	0	0	22,750	(1,496)
Industrial, consumer and all other	16,712	(699)	0	0	16,712	(699)
Total equity securities	39,462	(2,195)	0	0	39,462	(2,195)
TOTAL	\$ 1,161,448	\$ (50,890)	\$ 53,923	\$ (5,315)	\$ 1,215,371	\$ (56,205)

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

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

For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis

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2. Investments (continued)

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

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

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

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

fundamentals of the issuer, including current and projected earnings, current liquidity position and ability to raise capital;

fundamentals of the industry in which the issuer operates;

expectations of defaults and recovery rates;

changes in ratings by rating agencies;

other relevant market considerations; and

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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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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Investments (continued)

c) The amortized cost and estimated fair value of fixed maturities at December 31, 2011 are shown below by contractual maturity.

<i>(dollars in thousands)</i>	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 286,486	\$ 290,942
Due after one year through five years	1,184,272	1,259,314
Due after five years through ten years	1,763,033	1,906,823
Due after ten years	1,556,206	1,675,093
	4,789,997	5,132,172
Residential mortgage-backed securities	366,859	389,184
Asset-backed securities	16,096	16,818
TOTAL FIXED MATURITIES	\$ 5,172,952	\$ 5,538,174

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the lenders may have the right to put the securities back to the borrower. Based on expected maturities, the estimated average duration of the fixed maturities was 4.1 years.

d) The following table presents the components of net investment income.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Interest:			
Municipal bonds (tax-exempt)	\$ 94,457	\$ 92,168	\$ 83,695
Municipal bonds (taxable)	23,277	18,679	1,816
Taxable bonds	117,242	132,164	148,353
Short-term investments, including overnight deposits	2,484	2,850	5,597
Dividends on equity securities	35,996	33,128	24,883
Change in fair value of credit default swap	(4,103)	1,740	2,996
Other	2,135	1,337	(530)
	271,488	282,066	266,810
Investment expenses	(7,812)	(9,536)	(7,001)
NET INVESTMENT INCOME	\$ 263,676	\$ 272,530	\$ 259,809

Table of Contents**2. Investments (continued)**

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Cumulative credit loss, beginning of year	\$ 10,307	\$ 9,141	\$ 0
Adoption of FASB ASC 320-10	0	0	237
Additions:			
Other-than-temporary impairment losses not previously recognized	875	0	7,019
Increases related to other-than-temporary impairment losses previously recognized	10,203	1,185	2,062
Total additions	11,078	1,185	9,318
Reductions:			
Sales of fixed maturities on which credit losses were recognized	(15)	(19)	(177)
Cumulative credit loss, end of year	\$ 21,370	\$ 10,307	\$ 9,141

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Realized gains:			
Sales of fixed maturities	\$ 17,035	\$ 20,848	\$ 5,752
Sales of equity securities	36,863	35,150	7,605
Other	2,626	1,966	5,781
Total realized gains	56,524	57,964	19,138
Realized losses:			
Sales of fixed maturities	(410)	(1,470)	(25,230)
Sales of equity securities	(61)	0	(58)
Other-than-temporary impairments	(20,196)	(12,207)	(89,950)
Other	0	(7,925)	0
Total realized losses	(20,667)	(21,602)	(115,238)
NET REALIZED INVESTMENT GAINS (LOSSES)	\$ 35,857	\$ 36,362	\$ (96,100)
Change in net unrealized gains on investments:			
Fixed maturities	\$ 190,976	\$ 23,855	\$ 280,210

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Equity securities	(8,250)	219,895	287,407
Short-term investments	(4)	(14)	(4)
NET INCREASE	\$ 182,722	\$ 243,736	\$ 567,613

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Investments (continued)

g) The following table presents other-than-temporary impairment losses recognized in net income and included in net realized investment gains (losses) by investment type.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Fixed maturities:			
Corporate bonds	\$ 0	\$ 0	\$ (7,310)
Residential mortgage-backed securities	(11,078)	(1,185)	(3,541)
Other	0	0	(1,487)
Total fixed maturities	(11,078)	(1,185)	(12,338)
Equity securities:			
Insurance companies, banks and trusts	(4,251)	(2,872)	(15,978)
Industrial, consumer and all other	(4,867)	(965)	(38,548)
Total equity securities	(9,118)	(3,837)	(54,526)
Investments in affiliates	0	0	(23,086)
Other	0	(7,185)	0
TOTAL	\$ (20,196)	\$ (12,207)	\$ (89,950)

h) The Company had \$1.8 billion and \$1.6 billion of investments and cash and cash equivalents (invested assets) held in trust or on deposit for the benefit of policyholders, reinsurers or banks in the event of default by the Company on its obligations at December 31, 2011 and 2010, respectively. These invested assets and the related liabilities are included on the Company's consolidated balance sheets. The following discussion provides additional detail regarding irrevocable undrawn letters of credit and investments held in trust or on deposit.

The Company's United States insurance companies had invested assets with a carrying value of \$43.0 million and \$43.3 million on deposit with state regulatory authorities at December 31, 2011 and 2010, respectively.

Invested assets with a carrying value of \$65.4 million and \$67.3 million at December 31, 2011 and 2010, respectively, were held in trust for the benefit of cedents of the Company's United States insurance companies.

Invested assets with a carrying value of \$56.8 million and \$60.3 million at December 31, 2011 and 2010, respectively, were held in trust for the benefit of United States cedents of Markel International Insurance Company Limited (MIICL), a wholly-owned subsidiary, and to facilitate MIICL's accreditation as an alien reinsurer by certain states.

Invested assets with a carrying value of \$25.0 million and \$33.7 million at December 31, 2011 and 2010, respectively, were held in trust for the benefit of MIICL's United States surplus lines policyholders.

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Banks have issued irrevocable undrawn letters of credit supporting the Company's contingent liabilities related to certain reinsurance business written in the United States by MIICL. The Company had deposited invested assets with a carrying value of \$24.3 million and \$25.3 million at December 31, 2011 and 2010, respectively, as collateral against these letters of credit.

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Table of Contents**2. Investments (continued)**

The Company had deposited \$459.5 million and \$352.2 million of invested assets with Lloyd's to support its underwriting activities at December 31, 2011 and 2010, respectively. In addition, the Company had invested assets with a carrying value of \$1.1 billion and \$1.0 billion at December 31, 2011 and 2010, respectively, held in trust for the benefit of syndicate policyholders.

In accordance with the terms of its credit default swap agreement, the Company had \$35.2 million and \$34.3 million of invested assets on deposit at December 31, 2011 and 2010, respectively.

i) At December 31, 2011 and December 31, 2010, investments in U.S. Treasury securities and obligations of U.S. government agencies were the only investments in any one issuer that exceeded 10% of shareholders' equity.

At December 31, 2011, the Company's ten largest equity holdings represented \$955.5 million, or 51%, of the equity portfolio. Investments in the property and casualty insurance industry represented \$397.3 million, or 21%, of the equity portfolio at December 31, 2011. Investments in the property and casualty insurance industry included a \$221.2 million investment in the common stock of Berkshire Hathaway Inc.

3. Receivables

The following table presents the components of receivables.

<i>(dollars in thousands)</i>	December 31,	
	2011	2010
Amounts receivable from agents, brokers and insureds	\$ 283,248	\$ 263,439
Trade accounts receivable	51,796	16,327
Employee stock loans receivable (see note 10)	13,142	13,694
Other	17,068	38,379
	365,254	331,839
Allowance for doubtful receivables	(15,017)	(13,332)
RECEIVABLES	\$ 350,237	\$ 318,507

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Deferred Policy Acquisition Costs

The following table presents the amounts of policy acquisition costs acquired, deferred and amortized.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Balance, beginning of year	\$ 188,783	\$ 156,797	\$ 183,755
Policy acquisition costs of acquired insurance companies	0	18,076	0
Policy acquisition costs deferred	485,345	439,803	413,858
Amortization of policy acquisition costs	(479,454)	(425,893)	(440,816)
DEFERRED POLICY ACQUISITION COSTS	\$ 194,674	\$ 188,783	\$ 156,797

The following table presents the components of underwriting, acquisition and insurance expenses.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Amortization of policy acquisition costs	\$ 479,454	\$ 425,893	\$ 440,816
Other operating expenses	330,725	298,983	295,844
UNDERWRITING, ACQUISITION AND INSURANCE EXPENSES	\$ 810,179	\$ 724,876	\$ 736,660

5. Property and Equipment

The following table presents the components of property and equipment, which are included in other assets on the consolidated balance sheets.

<i>(dollars in thousands)</i>	December 31,	
	2011	2010
Land	\$ 38,066	\$ 35,105
Buildings	27,897	22,758
Leasehold improvements	50,195	45,512
Land improvements	29,477	24,711
Furniture and equipment	170,869	137,512
Other	65,790	16,577
	382,294	282,175
Accumulated depreciation and amortization	(137,445)	(122,608)
PROPERTY AND EQUIPMENT	\$ 244,849	\$ 159,567

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Depreciation and amortization expense of property and equipment was \$24.2 million, \$19.5 million and \$14.8 million for the years ended December 31, 2011, 2010 and 2009, respectively.

The Company does not own any material properties. The Company leases substantially all of the facilities utilized by its insurance operations and certain furniture and equipment under operating leases. The Company's non-insurance operations own certain of their facilities and lease others.

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Table of Contents**6. Goodwill and Intangible Assets**

The following table presents the components of goodwill.

<i>(dollars in thousands)</i>	Excess and Surplus Lines Segment	Specialty Admitted Segment	London Insurance Market Segment	Other ⁽¹⁾	Total
January 1, 2010	\$ 81,770	\$ 1,888	\$ 292,463	\$ 26,398	\$ 402,519
Acquisitions (see note 21)	0	63,026	0	2,569	65,595
Foreign currency movements	0	0	2,466	0	2,466
December 31, 2010	\$ 81,770	\$ 64,914	\$ 294,929	\$ 28,967	\$ 470,580
Acquisitions (see note 21)	0	0	15,310	122,846	138,156
Foreign currency movements	0	0	(1,175)	0	(1,175)
DECEMBER 31, 2011	\$ 81,770	\$ 64,914	\$ 309,064	\$ 151,813	\$ 607,561

⁽¹⁾ Amounts included in Other above are related to the Company's non-insurance operations.

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. There were no indications of impairment during 2011 or 2010.

The following table presents the components of intangible assets.

<i>(dollars in thousands)</i>	2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$ 200,926	\$ (26,159)	\$ 132,110	\$ (23,949)
Trade names	47,649	(4,094)	34,127	(1,431)
Technology	33,753	(5,723)	25,753	(2,324)
Other	15,506	(1,861)	7,646	(779)
TOTAL	\$ 297,834	\$ (37,837)	\$ 199,636	\$ (28,483)

Amortization of intangible assets was \$24.3 million, \$16.8 million and \$6.7 million for the years ended December 31, 2011, 2010 and 2009, respectively. Amortization of intangible assets is estimated to be \$25.8 million for 2012, \$23.7 million for 2013, \$21.7 million for 2014, \$21.6 million for 2015 and \$19.1 million for 2016. Indefinite-lived intangible assets were \$4.1 million at December 31, 2011 and 2010.

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In 2011, the Company acquired \$113.7 million of intangible assets. The definite-lived intangible assets acquired are expected to be amortized over a weighted average period of 14.4 years. The definite-lived intangible assets acquired during 2011 include customer relationships, technology and trade names, which are expected to be amortized over a weighted average period of 15.9, 5.0 and 15.6 years, respectively.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Income Taxes

Income before income taxes includes the following components.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Domestic	\$ 200,446	\$ 174,543	\$ 86,592
Foreign	(10,250)	120,968	112,045
INCOME BEFORE INCOME TAXES	\$ 190,196	\$ 295,511	\$ 198,637

Income tax expense (benefit) includes the following components.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
Current:			
Domestic	\$ 35,721	\$ 22,875	\$ 8,076
Foreign	340	(2,278)	(2,714)
Total current tax expense	36,061	20,597	5,362
Deferred:			
Domestic	436	1,050	(6,763)
Foreign	5,213	6,135	(2,381)
Total deferred tax expense (benefit)	5,649	7,185	(9,144)
INCOME TAX EXPENSE (BENEFIT)	\$ 41,710	\$ 27,782	\$ (3,782)

Foreign income tax expense (benefit) includes United States tax expense (benefit) on foreign operations.

In 2011, income tax expense included a decrease in the provision for interest and penalties of \$0.6 million. In 2010, income tax expense included a benefit from a reduction in the provision for interest and penalties of \$3.9 million. In 2009, income tax benefit included an increase in the provision for interest and penalties of \$2.7 million. At December 31, 2011 and 2010, other liabilities on the consolidated balance sheets included \$1.8 million and \$2.4 million, respectively, for potential payment of interest and penalties.

State income tax expense is not material to the consolidated financial statements.

The Company made income tax payments of \$35.0 million, \$24.0 million and \$21.2 million in 2011, 2010 and 2009, respectively. Income taxes payable was \$12.1 million at December 31, 2011 and was included in other liabilities on the consolidated balance sheet. Income taxes receivable was \$15.9 million at December 31, 2010 and was included in other assets on the consolidated balance sheet. The income tax receivable at December 31, 2010 was due in part to the carryback of \$27.5 million of capital losses generated as a result of sales of equity securities and fixed

maturities that had tax bases in excess of fair value on the dates of sale.

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Table of Contents**7. Income Taxes (continued)**

Reconciliations of the United States corporate income tax rate to the effective tax rate on income before income taxes are presented in the following table.

	Years Ended December 31,		
	2011	2010	2009
United States corporate tax rate	35%	35%	35%
Tax-exempt investment income	(18)	(11)	(14)
Uncertain tax positions	(2)	(1)	2
Tax credits	0	1	(3)
Foreign operations	6	(13)	(21)
Other	1	(2)	(1)
EFFECTIVE TAX RATE	22%	9%	(2%)

The 2011 effective tax rate included a 6% income tax expense related to foreign operations, which was primarily the result of a change in the U.K. tax rate that reduced the deferred tax assets to be realized in the future and the impact of applying a lower foreign tax rate to 2011 losses from foreign operations. The 2010 effective tax rate included a 13% income tax benefit related to foreign operations, of which 11% was a result of a change in the Company's plans regarding the amount of earnings considered reinvested indefinitely in foreign subsidiaries. The 2009 effective tax rate included a 21% income tax benefit related to foreign operations, of which 17% was the result of a one-time tax benefit related to a change in the United Kingdom tax law that became effective in the third quarter of 2009.

The following table presents the components of domestic and foreign deferred tax assets and liabilities.

<i>(dollars in thousands)</i>	December 31,	
	2011	2010
Assets:		
Differences between financial reporting and tax bases	\$ 101,152	\$ 101,822
Unpaid losses and loss adjustment expenses not yet deductible for income tax purposes	98,571	105,183
Unearned premiums recognized for income tax purposes	39,110	36,416
Other-than-temporary impairments not yet deductible for income tax purposes	43,387	42,377
Net operating loss carryforwards	85,700	93,864
Tax credit carryforwards	31,718	25,582
Total gross deferred tax assets	399,638	405,244
Liabilities:		
Differences between financial reporting and tax bases	21,114	17,370
Deferred policy acquisition costs	44,730	44,813
Net unrealized gains on investments	315,692	260,791
Amortization of goodwill and other intangible assets	29,205	21,251

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Total gross deferred tax liabilities	410,741	344,225
NET DEFERRED TAX ASSET (LIABILITY)	\$ (11,103)	\$ 61,019

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Income Taxes (continued)

The net deferred tax liability at December 31, 2011 was included in other liabilities on the consolidated balance sheet. The net deferred tax asset at December 31, 2010 was included in other assets on the consolidated balance sheet.

At December 31, 2011, the Company had tax credit carryforwards of \$31.7 million. The earliest any of these credits will expire is 2019.

At December 31, 2011, the Company had net operating losses of \$317.2 million. These losses can be carried forward indefinitely to offset future taxable income in the United Kingdom. Of the \$317.2 million of net operating losses, \$63.3 million also can be utilized to offset future income that is taxable in the United States from Markel Capital Limited, a wholly-owned subsidiary. The Company's ability to utilize these losses in the United States expires between the years 2020 and 2026.

The Company estimates that it will realize \$399.6 million of the gross deferred tax assets, including net operating losses, recorded at December 31, 2011 through the reversal of existing temporary differences attributable to the gross deferred tax liabilities.

At December 31, 2011, the Company had unrecognized tax benefits of \$19.6 million. If recognized, \$16.0 million of these tax benefits would decrease the annual effective tax rate. The Company does not currently anticipate any significant changes in unrecognized tax benefits during 2012.

The following table presents a reconciliation of unrecognized tax benefits.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2011	2010
Unrecognized tax benefits, beginning of year	\$ 24,585	\$ 24,940
Increases based upon tax positions taken during the current year	864	863
Increases for tax positions taken in prior years	156	342
Decreases for tax positions taken in prior years	(3,309)	(744)
Settlement with taxing authorities	(1,526)	0
Lapse of statute of limitations	(1,184)	(816)
UNRECOGNIZED TAX BENEFITS, END OF YEAR	\$ 19,586	\$ 24,585

Provisions for United States income taxes on undistributed earnings of foreign subsidiaries are made only on those amounts in excess of the amounts that are considered to be reinvested indefinitely. At December 31, 2011, earnings of the Company's foreign subsidiaries are considered reinvested indefinitely and no provision for United States income taxes has been recorded. It is not practicable to determine the amount of unrecognized deferred tax liabilities associated with such earnings due to the complexity of this calculation.

The Company is subject to income tax in the United States and in foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities for years ended before January 1, 2008.

Table of Contents**8. Unpaid Losses and Loss Adjustment Expenses**

a) The following table presents a reconciliation of consolidated beginning and ending reserves for losses and loss adjustment expenses.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	\$ 4,600,316	\$ 4,540,654	\$ 4,465,481
Foreign currency movements, commutations and other	(7,496)	(5,070)	86,362
ADJUSTED NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	4,592,820	4,535,584	4,551,843
Incurred losses and loss adjustment expenses:			
Current year	1,563,993	1,224,270	1,228,152
Prior years	(354,007)	(278,041)	(235,289)
TOTAL INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES	1,209,986	946,229	992,863
Payments:			
Current year	291,837	269,469	247,814
Prior years	898,318	796,138	759,522
TOTAL PAYMENTS	1,190,155	1,065,607	1,007,336
Effect of foreign currency rate changes	(4,884)	1,773	3,284
Net reserves for losses and loss adjustment expenses of acquired insurance companies	0	182,337	0
NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	4,607,767	4,600,316	4,540,654
Reinsurance recoverable on unpaid losses	791,102	798,090	886,442
GROSS RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	\$ 5,398,869	\$ 5,398,406	\$ 5,427,096

Beginning of year net reserves for losses and loss adjustment expenses are adjusted, when applicable, for the impact of changes in foreign currency rates, commutations and other items. In 2011, beginning of year net reserves for losses and loss adjustment expenses were decreased by a movement of \$14.1 million in foreign currency rates of exchange, which was offset in part by increases for other items including commutations. In 2010, beginning of year net reserves for losses and loss adjustment expenses were decreased by a movement of \$19.1 million in foreign currency rates of exchange, which was offset in part by increases for other items including commutations. In 2009, beginning of year net reserves for losses and loss adjustment expenses were increased by a movement of \$74.8 million in foreign currency rates of exchange, most notably between the United States Dollar and the United Kingdom Sterling.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Unpaid Losses and Loss Adjustment Expenses (continued)

Current year incurred losses and loss adjustment expenses for 2011 included \$150.9 million of estimated net losses related to the Thai floods, Hurricane Irene, U.S. tornadoes, Japanese earthquake and tsunami, Australian floods and New Zealand earthquakes. The estimated net losses on these natural catastrophes were net of estimated reinsurance recoverables of \$36.3 million.

In 2011, incurred losses and loss adjustment expenses included \$354.0 million of favorable development on prior years' loss reserves, which was primarily due to \$265.8 million of loss reserve redundancies experienced at Markel International and on the professional and products liability and casualty programs within the Excess and Surplus Lines segment as actual claims reporting patterns on prior accident years have been more favorable than the Company's actuarial analyses initially anticipated.

As a result of its acquisition of Aspen Holdings, Inc. (Aspen) in 2010, the Company recorded net reserves for losses and loss adjustment expenses of \$182.3 million. These reserves were recorded at fair value as part of the Company's purchase accounting.

In 2010, incurred losses and loss adjustment expenses included \$278.0 million of favorable development on prior years' loss reserves, which was primarily due to \$214.4 million of loss reserve redundancies experienced at Markel International and on the professional and products liability programs within the Excess and Surplus Lines segment as actual claims reporting patterns on prior accident years have been more favorable than initially anticipated within the Company's actuarial analyses.

In 2009, incurred losses and loss adjustment expenses included \$235.3 million of favorable development on prior years' loss reserves, which was primarily due to \$205.6 million of loss reserve redundancies experienced at Markel International and on the professional and products liability programs within the Excess and Surplus Lines segment as actual claims reporting patterns on prior accident years were more favorable than initially anticipated within the Company's actuarial analyses. The favorable development on prior years' loss reserves in 2009 was partially offset by \$10.0 million of adverse development on asbestos and environmental loss reserves following the Company's actuarial review of these exposures.

During the third quarter of each of the past three years, the Company completed an in-depth, actuarial review of its asbestos and environmental exposures. During the 2011 and 2010 reviews, the Company determined that no adjustment to loss reserves was necessary. During the 2009 review, the Company increased its estimate of the number of claims that would ultimately be closed with an indemnity payment. In 2009, the Company's actuarial estimate of the ultimate liability for asbestos and environmental loss reserves was increased, and management increased prior years' loss reserves for asbestos and environmental exposures accordingly.

Inherent in the Company's reserving practices is the desire to establish loss reserves that are more likely redundant than deficient. As such, the Company seeks to establish loss reserves that will ultimately prove to be adequate. Furthermore, the Company's philosophy is to price its insurance products to make an underwriting profit. Management continually attempts to improve its loss estimation process by refining its ability to analyze loss development patterns, claim payments and other information, but uncertainty remains regarding the potential for adverse development of estimated ultimate liabilities.

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8. Unpaid Losses and Loss Adjustment Expenses (continued)

The Company uses a variety of techniques to establish the liabilities for unpaid losses and loss adjustment expenses, all of which involve significant judgments and assumptions. These techniques include detailed statistical analysis of past claim reporting, settlement activity, claim frequency and severity, policyholder loss experience, industry loss experience and changes in market conditions, policy forms and exposures. Greater judgment may be required when new product lines are introduced or when there have been changes in claims handling practices, as the statistical data available may be insufficient. The Company's estimates reflect implicit and explicit assumptions regarding the potential effects of external factors, including economic and social inflation, judicial decisions, law changes, general economic conditions and recent trends in these factors. In some of the Company's markets, and where the Company acts as a reinsurer, the timing and amount of information reported about underlying claims are in the control of third parties. This can also affect estimates and require re-estimation as new information becomes available.

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

b) The Company's exposure to asbestos and environmental (A&E) claims results from policies written by acquired insurance operations before their acquisitions by the Company. The Company's exposure to A&E claims originated from umbrella, excess and commercial general liability (CGL) insurance policies and assumed reinsurance contracts that were written on an occurrence basis from the 1970s to mid-1980s. Exposure also originated from claims-made policies that were designed to cover environmental risks provided that all other terms and conditions of the policy were met.

A&E claims include property damage and clean-up costs related to pollution, as well as personal injury allegedly arising from exposure to hazardous materials. After 1986, the Company began underwriting CGL coverage with pollution exclusions, and in some lines of business the Company began using a claims-made form. These changes significantly reduced the Company's exposure to future A&E claims on post-1986 business.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Unpaid Losses and Loss Adjustment Expenses (continued)

The following table provides a reconciliation of beginning and ending A&E reserves for losses and loss adjustment expenses, which are a component of consolidated unpaid losses and loss adjustment expenses. Amounts included in the following table are presented before consideration of reinsurance allowances.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2011	2010	2009
NET RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	\$ 216,034	\$ 229,030	\$ 238,272
Commutations and other	36,271	111	(500)
ADJUSTED NET RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	252,305	229,141	237,772
Incurred losses and loss adjustment expenses	(134)	(428)	2,657
Payments	(7,399)	(12,679)	(11,399)
NET RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	244,772	216,034	229,030
Reinsurance recoverable on unpaid losses	89,391	132,021	153,078
GROSS RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	\$ 334,163	\$ 348,055	\$ 382,108

Commutations and other for the year ended December 31, 2011 included a \$40.0 million adjustment related to commutations completed by Markel International, which involved the termination of ceded reinsurance contracts. The adjustment was made with respect to commuted recoverables where the amount of the balance due from reinsurers was offset in full by a provision within the reinsurance allowance. The adjustment reduced the reinsurance recoverable on unpaid losses with a corresponding reduction to the reinsurance allowance for doubtful accounts. Accordingly, there was no impact on the reinsurance recoverable on unpaid losses or on net reserves for A&E losses and loss adjustment expenses, net of the reinsurance allowance, for any period presented. See note 13 for further discussion of the corresponding reduction to the reinsurance allowance.

At December 31, 2011, asbestos-related reserves were \$257.8 million and \$184.8 million on a gross and net basis, respectively. Net reserves for reported claims and net incurred but not reported reserves for A&E exposures were \$143.8 million and \$101.0 million, respectively, at December 31, 2011. Inception-to-date net paid losses and loss adjustment expenses for A&E related exposures totaled \$363.1 million at December 31, 2011, which includes \$71.1 million of litigation-related expense.

The Company's reserves for losses and loss adjustment expenses related to A&E exposures represent management's best estimate of ultimate settlement values. A&E reserves are monitored by management, and the Company's statistical analysis of these reserves is reviewed by the Company's independent actuaries. A&E exposures are subject to significant uncertainty due to potential loss severity and frequency resulting from the uncertain and unfavorable legal climate. A&E reserves could be subject to increases in the future; however, management believes the Company's gross and net A&E reserves at December 31, 2011 are adequate.

Table of Contents**9. Senior Long-Term Debt and Other Debt**

The following table summarizes the Company's senior long-term debt and other debt.

<i>(dollars in thousands)</i>	December 31,	
	2011	2010
6.80% unsecured senior notes, due February 15, 2013, interest payable semi-annually, net of unamortized discount of \$314 in 2011 and \$582 in 2010	\$ 246,351	\$ 246,083
7.125% unsecured senior notes, due September 30, 2019, interest payable semi-annually, net of unamortized discount of \$2,192 in 2011 and \$2,474 in 2010	347,808	347,526
5.35% unsecured senior notes, due June 1, 2021, interest payable semi-annually, net of unamortized discount of \$1,944 in 2011	248,056	0
7.35% unsecured senior notes, due August 15, 2034, interest payable semi-annually, net of unamortized discount of \$2,397 in 2011 and \$2,503 in 2010	197,603	197,497
7.50% unsecured senior debentures, due August 22, 2046, interest payable quarterly, net of unamortized discount of \$3,976 in 2011 and \$4,091 in 2010	146,024	145,909
Subsidiary debt, at various interest rates ranging from 2.8% to 6.5%	107,678	78,932
SENIOR LONG-TERM DEBT AND OTHER DEBT	\$ 1,293,520	\$ 1,015,947

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

On September 23, 2011, the Company entered into an amended and restated revolving credit facility, which provides \$150 million of capacity for working capital and other general corporate purposes. The capacity of the revolving credit facility may be increased to \$300 million subject to certain terms and conditions. The Company may select from two interest rate options for balances outstanding under the facility and pays a commitment fee (0.25% at December 31, 2011) on the unused portion of the facility based on the Company's debt to equity leverage ratio as calculated under the agreement. At December 31, 2011, the Company had no borrowings outstanding under the facility. This facility replaced the Company's previous \$270 million revolving credit facility and expires in September 2015.

At December 31, 2011, the Company was in compliance with all covenants contained in its revolving credit facility. To the extent that the Company is not in compliance with its covenants, the Company's access to the credit facility could be restricted. While the Company believes this to be unlikely, the inability to access the credit facility could adversely affect the Company's liquidity.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Senior Long-Term Debt and Other Debt (continued)

The Company's 7.125% unsecured senior notes, 5.35% unsecured senior notes and 7.50% unsecured senior debentures are redeemable by the Company at any time. None of the Company's other senior long-term debt is redeemable. None of the Company's senior long-term debt is subject to any sinking fund requirements.

The Company's subsidiary debt is primarily associated with its non-insurance operations and is non-recourse to the holding company. The debt of the Company's non-insurance subsidiaries generally is secured by the assets of those subsidiaries. ParkLand Ventures, Inc., a subsidiary of the Company, has formed subsidiaries for the purpose of acquiring and financing real estate (the real estate subsidiaries). The assets of the real estate subsidiaries, which are not material to the Company, are consolidated in accordance with U.S. GAAP but are not available to satisfy the debt and other obligations of the Company or any affiliates other than the real estate subsidiaries.

The estimated fair value based on quoted market prices of the Company's senior long-term debt and other debt was \$1.4 billion and \$1.1 billion at December 31, 2011 and 2010, respectively.

The following table summarizes the future principal payments due at maturity on senior long-term debt and other debt as of December 31, 2011.

Years Ending December 31,	(dollars in thousands)
2012	\$ 5,876
2013	272,365
2014	6,229
2015	4,619
2016	14,209
2017 and thereafter	1,001,045
TOTAL PRINCIPAL PAYMENTS	\$ 1,304,343