

MARKEL CORP
Form 10-Q
May 05, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2011**

or

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

Commission File Number: 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

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Virginia
(State or other jurisdiction of

54-1959284
(I.R.S. Employer

incorporation or organization)

Identification No.)

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148

(Address of principal executive offices)

(Zip Code)

(804) 747-0136

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of the registrant's common stock outstanding at April 28, 2011: 9,718,932

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

| | March 31, 2011 | December 31, 2010 |
|--|-------------------------------|----------------------|
| | <i>(dollars in thousands)</i> | |
| ASSETS | | |
| Investments, available-for-sale, at estimated fair value: | | |
| Fixed maturities (amortized cost of \$5,236,157 in 2011 and \$5,256,980 in 2010) | \$ 5,394,007 | \$ 5,431,226 |
| Equity securities (cost of \$1,019,844 in 2011 and \$996,088 in 2010) | 1,782,584 | 1,721,971 |
| Short-term investments (estimated fair value approximates cost) | 434,546 | 325,340 |
| Total Investments | 7,611,137 | 7,478,537 |
| Cash and cash equivalents | 649,947 | 745,259 |
| Receivables | 388,244 | 312,096 |
| Reinsurance recoverable on unpaid losses | 818,239 | 798,090 |
| Reinsurance recoverable on paid losses | 54,576 | 70,568 |
| Deferred policy acquisition costs | 199,921 | 188,783 |
| Prepaid reinsurance premiums | 88,190 | 80,293 |
| Goodwill and intangible assets | 776,066 | 645,900 |
| Other assets | 455,216 | 506,063 |
| Total Assets | \$ 11,041,536 | \$ 10,825,589 |
| LIABILITIES AND EQUITY | | |
| Unpaid losses and loss adjustment expenses | \$ 5,477,591 | \$ 5,398,406 |
| Unearned premiums | 908,406 | 839,537 |
| Payables to insurance companies | 87,849 | 50,715 |
| Senior long-term debt and other debt (estimated fair value of \$1,119,000 in 2011 and \$1,086,000 in 2010) | 1,027,711 | 1,015,947 |
| Other liabilities | 276,910 | 333,292 |
| Total Liabilities | 7,778,467 | 7,637,897 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock | 886,574 | 884,457 |
| Retained earnings | 1,744,245 | 1,735,973 |
| Accumulated other comprehensive income | 567,559 | 551,093 |
| Total Shareholders' Equity | 3,198,378 | 3,171,523 |
| Noncontrolling interests | 64,691 | 16,169 |
| Total Equity | 3,263,069 | 3,187,692 |
| Total Liabilities and Equity | \$ 11,041,536 | \$ 10,825,589 |

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See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

| | Three Months Ended March 31, | |
|---|--|------------------|
| | 2011 | 2010 |
| | <i>(dollars in thousands, except per share data)</i> | |
| OPERATING REVENUES | | |
| Earned premiums | \$ 463,111 | \$ 412,135 |
| Net investment income | 70,099 | 68,402 |
| Net realized investment gains: | | |
| Other-than-temporary impairment losses | 0 | (1,785) |
| Other-than-temporary impairment losses recognized in other comprehensive income | 0 | (566) |
| Other-than-temporary impairment losses recognized in net income | 0 | (2,351) |
| Net realized investment gains, excluding other-than-temporary impairment losses | 11,240 | 18,094 |
| Net realized investment gains | 11,240 | 15,743 |
| Other revenues | 77,144 | 40,439 |
| Total Operating Revenues | 621,594 | 536,719 |
| OPERATING EXPENSES | | |
| Losses and loss adjustment expenses | 314,328 | 260,170 |
| Underwriting, acquisition and insurance expenses | 202,350 | 156,668 |
| Amortization of intangible assets | 6,008 | 3,958 |
| Other expenses | 68,495 | 35,397 |
| Total Operating Expenses | 591,181 | 456,193 |
| Operating Income | 30,413 | 80,526 |
| Interest expense | 18,962 | 17,959 |
| Income Before Income Taxes | 11,451 | 62,567 |
| Income tax expense | 1,590 | 19,361 |
| Net Income | \$ 9,861 | \$ 43,206 |
| Net income attributable to noncontrolling interests | 1,589 | 637 |
| Net Income to Shareholders | \$ 8,272 | \$ 42,569 |
| OTHER COMPREHENSIVE INCOME | | |
| Change in net unrealized gains on investments, net of taxes: | | |
| Net holding gains arising during the period | \$ 20,321 | \$ 97,441 |
| Unrealized other-than-temporary impairment losses on fixed maturities arising during the period | (176) | 731 |
| Reclassification adjustments for net gains included in net income | (6,464) | (10,540) |
| Change in net unrealized gains on investments, net of taxes | 13,681 | 87,632 |

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| | | |
|--|------------------|-------------------|
| Change in foreign currency translation adjustments, net of taxes | 2,439 | 4,219 |
| Change in net actuarial pension loss, net of taxes | 346 | 350 |
| Total Other Comprehensive Income | 16,466 | 92,201 |
| Comprehensive Income | \$ 26,327 | \$ 135,407 |
| Comprehensive income attributable to noncontrolling interests | 1,589 | 868 |
| Comprehensive Income to Shareholders | \$ 24,738 | \$ 134,539 |
| NET INCOME PER SHARE | | |
| Basic | \$ 0.85 | \$ 4.34 |
| Diluted | \$ 0.85 | \$ 4.33 |

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity

| | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income <i>(dollars in thousands)</i> | Total Shareholders Equity | Noncontrolling Interests | Total Equity |
|---|-----------------|----------------------|--|---------------------------------|-----------------------------|--------------|
| December 31, 2009 | \$ 872,876 | \$ 1,514,398 | \$ 387,086 | \$ 2,774,360 | \$ 17,354 | \$ 2,791,714 |
| Net income | 0 | 42,569 | 0 | 42,569 | 637 | 43,206 |
| Change in net unrealized gains on investments, net of taxes | 0 | 0 | 87,632 | 87,632 | 0 | 87,632 |
| Change in foreign currency translation adjustments, net of taxes | 0 | 0 | 3,988 | 3,988 | 231 | 4,219 |
| Change in net actuarial pension loss, net of taxes | 0 | 0 | 350 | 350 | 0 | 350 |
| Comprehensive income | | | | 134,539 | 868 | 135,407 |
| Repurchase of common stock | 0 | (4,387) | 0 | (4,387) | 0 | (4,387) |
| Restricted stock units expensed | (289) | 0 | 0 | (289) | 0 | (289) |
| Other | 0 | 0 | 0 | 0 | 14 | 14 |
| March 31, 2010 | \$ 872,587 | \$ 1,552,580 | \$ 479,056 | \$ 2,904,223 | \$ 18,236 | \$ 2,922,459 |
| December 31, 2010 | \$ 884,457 | \$ 1,735,973 | \$ 551,093 | \$ 3,171,523 | \$ 16,169 | \$ 3,187,692 |
| Net Income | 0 | 8,272 | 0 | 8,272 | 1,589 | 9,861 |
| Change in net unrealized gains on investments, net of taxes | 0 | 0 | 13,681 | 13,681 | 0 | 13,681 |
| Change in foreign currency translation adjustments, net of taxes | 0 | 0 | 2,439 | 2,439 | 0 | 2,439 |
| Change in net actuarial pension loss, net of taxes | 0 | 0 | 346 | 346 | 0 | 346 |
| Comprehensive income | | | | 24,738 | 1,589 | 26,327 |
| Issuance of common stock | 163 | 0 | 0 | 163 | 0 | 163 |
| Restricted stock units expensed | 1,902 | 0 | 0 | 1,902 | 0 | 1,902 |
| Acquisitions | 0 | 0 | 0 | 0 | 47,292 | 47,292 |
| Other | 52 | 0 | 0 | 52 | (359) | (307) |
| March 31, 2011 | \$ 886,574 | \$ 1,744,245 | \$ 567,559 | \$ 3,198,378 | \$ 64,691 | \$ 3,263,069 |

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Three Months Ended March 31, | |
|---|---------------------------------|-------------------|
| | 2011 | 2010 |
| | <i>(dollars in thousands)</i> | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 9,861 | \$ 43,206 |
| Adjustments to reconcile net income to net cash provided (used) by operating activities | (19,064) | (38,887) |
| Net Cash Provided (Used) By Operating Activities | (9,203) | 4,319 |
| INVESTING ACTIVITIES | | |
| Proceeds from sales of fixed maturities and equity securities | 69,917 | 77,690 |
| Proceeds from maturities, calls and prepayments of fixed maturities | 112,952 | 79,616 |
| Cost of fixed maturities and equity securities purchased | (142,282) | (498,987) |
| Net change in short-term investments | (107,606) | 148,411 |
| Acquisitions, net of cash acquired | (3,886) | (23,046) |
| Other | (20,623) | (14,237) |
| Net Cash Used By Investing Activities | (91,528) | (230,553) |
| FINANCING ACTIVITIES | | |
| Additions to senior long-term debt and other debt | 35,717 | 23,476 |
| Repayments of senior long-term debt and other debt | (33,873) | (1,318) |
| Repurchases of common stock | 0 | (4,387) |
| Other | (103) | 0 |
| Net Cash Provided By Financing Activities | 1,741 | 17,771 |
| Effect of foreign currency rate changes on cash and cash equivalents | 3,678 | (4,359) |
| Decrease in cash and cash equivalents | (95,312) | (212,822) |
| Cash and cash equivalents at beginning of period | 745,259 | 850,494 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 649,947 | \$ 637,672 |

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

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

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

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

ParkLand Ventures, Inc., a subsidiary of the Company, has formed subsidiaries for the purpose of acquiring and financing real estate. The assets of these 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 other affiliates.

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2. Net Income per Share

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

| <i>(in thousands, except per share amounts)</i> | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2011 | 2010 |
| Net income to shareholders | \$ 8,272 | \$ 42,569 |
| Basic common shares outstanding | 9,717 | 9,813 |
| Dilutive potential common shares | 40 | 10 |
| Diluted shares outstanding | 9,757 | 9,823 |
| Basic net income per share | \$ 0.85 | \$ 4.34 |
| Diluted net income per share | \$ 0.85 | \$ 4.33 |

3. Reinsurance

The following table summarizes the effect of reinsurance on premiums written and earned.

| <i>(dollars in thousands)</i> | Three Months Ended March 31, | | | |
|-------------------------------|------------------------------|------------|------------|------------|
| | 2011 | | 2010 | |
| | Written | Earned | Written | Earned |
| Direct | \$ 473,210 | \$ 446,138 | \$ 409,391 | \$ 404,470 |
| Assumed | 117,573 | 81,450 | 80,793 | 51,798 |
| Ceded | (71,771) | (64,477) | (43,682) | (44,133) |
| Net premiums | \$ 519,012 | \$ 463,111 | \$ 446,502 | \$ 412,135 |

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$48.5 million and \$7.9 million for the three months ended March 31, 2011 and 2010, respectively. The three months ended March 31, 2011 included \$19.6 million and \$15.9 million of estimated reinsurance recoverables related to the Gryphon vessel loss and the loss on the earthquake and subsequent tsunami in Japan, respectively.

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4. Investments

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

| | March 31, 2011 | | | | |
|--|---------------------|---|--|--|----------------------------|
| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Unrealized Other-Than- Temporary Impairment Losses | Estimated Fair Value |
| <i>(dollars in thousands)</i> | | | | | |
| Fixed maturities: | | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 303,570 | \$ 18,551 | \$ (98) | \$ 0 | \$ 322,023 |
| Obligations of states, municipalities and political subdivisions | 2,760,599 | 60,894 | (24,915) | 0 | 2,796,578 |
| Foreign governments | 638,134 | 22,015 | (4,029) | 0 | 656,120 |
| Residential mortgage-backed securities | 387,670 | 27,875 | (1,375) | (11,778) | 402,392 |
| Asset-backed securities | 21,262 | 868 | (3) | 0 | 22,127 |
| Public utilities | 86,290 | 5,738 | 0 | 0 | 92,028 |
| All other corporate bonds | 1,038,632 | 72,640 | (499) | (8,034) | 1,102,739 |
| Total fixed maturities | 5,236,157 | 208,581 | (30,919) | (19,812) | 5,394,007 |
| Equity securities: | | | | | |
| Insurance companies, banks and trusts | 389,830 | 329,987 | (6,918) | 0 | 712,899 |
| Industrial, consumer and all other | 630,014 | 440,491 | (820) | 0 | 1,069,685 |
| Total equity securities | 1,019,844 | 770,478 | (7,738) | 0 | 1,782,584 |
| Short-term investments | 434,539 | 11 | (4) | 0 | 434,546 |
| Investments, available-for-sale | \$ 6,690,540 | \$ 979,070 | \$ (38,661) | \$ (19,812) | \$ 7,611,137 |

| | December 31, 2010 | | | | |
|--|---------------------|---|--|--|----------------------------|
| | Amortized Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Unrealized Other-Than- Temporary Impairment Losses | Estimated Fair Value |
| <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 | 550,755 | 24,662 | (2,599) | 0 | 572,818 |
| Residential mortgage-backed securities | 409,415 | 29,664 | (1,738) | (11,778) | 425,563 |
| Asset-backed securities | 21,704 | 1,052 | 0 | 0 | 22,756 |
| Public utilities | 95,770 | 6,674 | 0 | 0 | 102,444 |
| Convertible bonds | 16,725 | 0 | 0 | 0 | 16,725 |
| All other corporate bonds | 1,094,887 | 83,752 | (603) | (7,793) | 1,170,243 |
| Total fixed maturities | 5,256,980 | 228,256 | (34,439) | (19,571) | 5,431,226 |
| Equity securities: | | | | | |
| Insurance companies, banks and trusts | 388,848 | 323,634 | (1,496) | 0 | 710,986 |
| Industrial, consumer and all other | 607,240 | 404,444 | (699) | 0 | 1,010,985 |
| Total equity securities | 996,088 | 728,078 | (2,195) | 0 | 1,721,971 |
| Short-term investments | 325,336 | 4 | 0 | 0 | 325,340 |
| Investments, available-for-sale | \$ 6,578,404 | \$ 956,338 | \$ (36,634) | \$ (19,571) | \$ 7,478,537 |

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

| | Less than 12 months | | March 31, 2011 12 months or longer | | Total | |
|--|----------------------------|--|---------------------------------------|--|----------------------------|--|
| | Estimated Fair Value | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses | Estimated Fair Value | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses | Estimated Fair Value | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses |
| | | | | | | |
| <i>(dollars in thousands)</i> | | | | | | |
| Fixed maturities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 26,877 | \$ (98) | \$ 0 | \$ 0 | \$ 26,877 | \$ (98) |
| Obligations of states, municipalities and political subdivisions | 906,353 | (22,808) | 21,997 | (2,107) | 928,350 | (24,915) |
| Foreign governments | 161,316 | (3,925) | 5,106 | (104) | 166,422 | (4,029) |
| Residential mortgage-backed securities | 16,230 | (4,015) | 6,069 | (9,138) | 22,299 | (13,153) |
| Asset-backed securities | 188 | (3) | 0 | 0 | 188 | (3) |
| All other corporate bonds | 24,489 | (8,281) | 9,911 | (252) | 34,400 | (8,533) |
| Total fixed maturities | 1,135,453 | (39,130) | 43,083 | (11,601) | 1,178,536 | (50,731) |
| Equity securities: | | | | | | |
| Insurance companies, banks and trusts | 62,974 | (6,918) | 0 | 0 | 62,974 | (6,918) |
| Industrial, consumer and all other | 18,575 | (820) | 0 | 0 | 18,575 | (820) |
| Total equity securities | 81,549 | (7,738) | 0 | 0 | 81,549 | (7,738) |
| Short-term investments | 46,985 | (4) | 0 | 0 | 46,985 | (4) |
| Total | \$ 1,263,987 | \$ (46,872) | \$ 43,083 | \$ (11,601) | \$ 1,307,070 | \$ (58,473) |

At March 31, 2011, the Company held 343 securities with a total estimated fair value of \$1.3 billion and gross unrealized losses of \$58.5 million. Of these 343 securities, 14 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$43.1 million and gross unrealized losses of \$11.6 million. All 14 securities were fixed maturities. 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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| | Less than 12 months | | December 31, 2010 12 months or longer | | Total | |
|---|----------------------------|--|--|--|----------------------------|--|
| | Estimated Fair Value | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses | Estimated Fair Value | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses | Estimated Fair Value | Gross Unrealized Holding and Other-Than- Temporary Impairment Losses |
| | | | | | | |
| <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 | 119,211 | (2,440) | 4,955 | (159) | 124,166 | (2,599) |
| Residential mortgage-backed securities | 20,972 | (10,822) | 10,534 | (2,694) | 31,506 | (13,516) |
| All other corporate bonds | 15,294 | (7,921) | 15,966 | (475) | 31,260 | (8,396) |
| Total fixed maturities | 1,121,986 | (48,695) | 53,923 | (5,315) | 1,175,909 | (54,010) |
| Equity securities: | | | | | | |
| Insurance companies, banks and trusts | 22,750 | (1,496) | 0 | 0 | 22,750 | (1,496) |
| Industrial, consumer and all other | 16,712 | (699) | 0 | 0 | 16,712 | (699) |
| Total equity securities | 39,462 | (2,195) | 0 | 0 | 39,462 | (2,195) |
| Total | \$ 1,161,448 | \$ (50,890) | \$ 53,923 | \$ (5,315) | \$ 1,215,371 | \$ (56,205) |

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

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

For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. For fixed maturities where the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a decline in fair value is considered to be other-than-temporary and is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. If the decline in fair value of a fixed

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maturity below its amortized cost is considered to be other-than-temporary based upon other considerations, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the other-than-temporary impairment, which is recognized in net income, resulting in a new cost basis for the security. Any remaining decline in fair value represents the non-credit portion of the other-than-temporary impairment, which is recognized in other comprehensive income. The discount rate used to calculate the estimated present value of the cash flows expected to be collected is the effective interest rate implicit for the security at the date of purchase.

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

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

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

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

fundamentals of the industry in which the issuer operates;

expectations of defaults and recovery rates;

changes in ratings by rating agencies;

other relevant market considerations; and

receipt of interest payments

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

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

| <i>(dollars in thousands)</i> | Amortized Cost | Estimated Fair Value |
|--|-------------------|-------------------------|
| Due in one year or less | \$ 160,621 | \$ 163,460 |
| Due after one year through five years | 1,217,952 | 1,286,111 |
| Due after five years through ten years | 1,726,477 | 1,791,979 |
| Due after ten years | 1,722,175 | 1,727,938 |
| | 4,827,225 | 4,969,488 |
| Residential mortgage-backed securities | 387,670 | 402,392 |
| Asset-backed securities | 21,262 | 22,127 |
| Total fixed maturities | \$ 5,236,157 | \$ 5,394,007 |

d) 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> | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2011 | 2010 |
| Cumulative credit loss, beginning balance | \$ 10,307 | \$ 9,141 |
| Additions: | | |
| Other-than-temporary impairment losses not previously recognized | 0 | 0 |
| Increases related to other-than-temporary impairment losses previously recognized | 0 | 1,109 |
| Total additions | 0 | 1,109 |
| Reductions: | | |
| Sales of fixed maturities on which credit losses were recognized | 0 | (19) |
| Cumulative credit loss, ending balance | \$ 10,307 | \$ 10,231 |

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

| <i>(dollars in thousands)</i> | Three Months Ended | |
|---|--------------------|-------------------|
| | 2011 | March 31, 2010 |
| Realized gains: | | |
| Sales of fixed maturities | \$ 7,988 | \$ 6,949 |
| Sales of equity securities | 2,071 | 10,298 |
| Other | 1,425 | 4,122 |
| Total realized gains | 11,484 | 21,369 |
| Realized losses: | | |
| Sales of fixed maturities | (244) | (575) |
| Sales of equity securities | 0 | 0 |
| Other-than-temporary impairments | 0 | (2,351) |
| Other | 0 | (2,700) |
| Total realized losses | (244) | (5,626) |
| Net realized investment gains | \$ 11,240 | \$ 15,743 |
| Change in net unrealized gains on investments: | | |
| Fixed maturities | \$ (16,396) | \$ 36,911 |
| Equity securities | 36,857 | 108,402 |
| Short-term investments | 3 | (16) |
| Net increase | \$ 20,464 | \$ 145,297 |

f) There were no write downs for other-than-temporary declines in the estimated fair value of investments for the quarter ended March 31, 2011. Net realized investment gains for the quarter ended March 31, 2010 included \$2.4 million of write downs for other-than-temporary declines in the estimated fair value of investments.

5. Segment Reporting Disclosures

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

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

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

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

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

Three Months Ended March 31, 2011

| <i>(dollars in thousands)</i> | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Other Insurance (Discontinued Lines) | Investing | Consolidated |
|--|-----------------------------|-----------------------|-------------------------------|---|-----------|--------------|
| Gross premium volume | \$ 201,371 | \$ 134,321 | \$ 255,001 | \$ 90 | \$ 0 | \$ 590,783 |
| Net written premiums | 175,537 | 127,239 | 216,139 | 97 | 0 | 519,012 |
| Earned premiums | 181,057 | 122,476 | 159,483 | 95 | 0 | 463,111 |
| Losses and loss adjustment expenses: | | | | | | |
| Current year | (122,507) | (78,470) | (187,876) | 0 | 0 | (388,853) |
| Prior years | 56,792 | 198 | 12,634 | 4,901 | 0 | 74,525 |
| Underwriting, acquisition and insurance expenses | (85,920) | (49,473) | (66,725) | (232) | 0 | (202,350) |
| Underwriting profit (loss) | 29,422 | (5,269) | (82,484) | 4,764 | 0 | (53,567) |
| Net investment income | 0 | 0 | 0 | 0 | 70,099 | 70,099 |
| Net realized investment gains | 0 | 0 | 0 | 0 | 11,240 | 11,240 |
| Other revenues (insurance) | 0 | 9,186 | 0 | 0 | 0 | 9,186 |
| Other expenses (insurance) | 0 | (11,740) | (8) | 0 | 0 | (11,748) |
| Segment profit (loss) | \$ 29,422 | \$ (7,823) | \$ (82,492) | \$ 4,764 | \$ 81,339 | \$ 25,210 |
| Other revenues (non-insurance) | | | | | | 67,958 |
| Other expenses (non-insurance) | | | | | | (56,747) |
| Amortization of intangible assets | | | | | | (6,008) |
| Interest expense | | | | | | (18,962) |
| Income before income taxes | | | | | | \$ 11,451 |
| U.S. GAAP combined ratio ⁽¹⁾ | 84% | 104% | 152% | NM ⁽²⁾ | | 112% |

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

⁽²⁾ NM Ratio is not meaningful.

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Three Months Ended March 31, 2010

| <i>(dollars in thousands)</i> | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Other Insurance (Discontinued Lines) | Investing | Consolidated |
|--|-----------------------------|-----------------------|-------------------------------|---|-----------|--------------|
| Gross premium volume | \$ 211,683 | \$ 70,333 | \$ 208,168 | \$ 0 | \$ 0 | \$ 490,184 |
| Net written premiums | 193,329 | 63,113 | 190,058 | 2 | 0 | 446,502 |
| Earned premiums | 203,895 | 72,041 | 136,197 | 2 | 0 | 412,135 |
| Losses and loss adjustment expenses: | | | | | | |
| Current year | (140,274) | (45,644) | (112,714) | 0 | 0 | (298,632) |
| Prior years | 24,204 | (3,663) | 15,755 | 2,166 | 0 | 38,462 |
| Underwriting, acquisition and insurance expenses | (78,964) | (26,089) | (51,541) | (74) | 0 | (156,668) |
| Underwriting profit (loss) | 8,861 | (3,355) | (12,303) | 2,094 | 0 | (4,703) |
| Net investment income | 0 | 0 | 0 | 0 | 68,402 | 68,402 |
| Net realized investment gains | 0 | 0 | 0 | 0 | 15,743 | 15,743 |
| Other revenues (insurance) | 0 | 0 | 3,191 | 0 | 0 | 3,191 |
| Other expenses (insurance) | 0 | 0 | (2,986) | 0 | 0 | (2,986) |
| Segment profit (loss) | \$ 8,861 | \$ (3,355) | \$ (12,098) | \$ 2,094 | \$ 84,145 | \$ 79,647 |
| Other revenues (non-insurance) | | | | | | 37,248 |
| Other expenses (non-insurance) | | | | | | (32,411) |
| Amortization of intangible assets | | | | | | (3,958) |
| Interest expense | | | | | | (17,959) |
| Income before income taxes | | | | | | \$ 62,567 |
| U.S. GAAP combined ratio ⁽¹⁾ | 96% | 105% | 109% | NM ⁽²⁾ | | 101% |

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

(2) NM Ratio is not meaningful.

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

| <i>(dollars in thousands)</i> | March 31, 2011 | December 31, 2010 |
|-------------------------------|-------------------|----------------------|
| Segment Assets: | | |
| Investing | \$ 8,246,365 | \$ 8,198,401 |
| Underwriting | 2,372,326 | 2,273,621 |
| Total Segment Assets | \$ 10,618,691 | \$ 10,472,022 |
| Non-insurance operations | 422,845 | 353,567 |
| Total Assets | \$ 11,041,536 | \$ 10,825,589 |

6. Derivatives

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

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The credit default swap is accounted for as a derivative instrument and is recorded at fair value with any changes in fair value recorded in net investment income. At March 31, 2011 and December 31, 2010, the credit default swap had a fair value of \$23.6 million and \$25.2 million, respectively. The fair value of the credit default swap is determined by the Company using an external valuation model that is dependent upon several inputs, including changes in interest rates, credit spreads, expected default rates, changes in credit quality, future expected recovery rates and other market factors. The fair value of the credit default swap is included in other liabilities on the consolidated balance sheets. Net investment income for the three months ended March 31, 2011 and 2010 included favorable changes in the fair value of the credit default swap of \$1.7 million and \$0.3 million, respectively.

The Company had no other material derivative instruments at March 31, 2011.

7. Employee Benefit Plans

a) Expenses relating to the Company's defined contribution plans were \$4.4 million and \$3.3 million for the three months ended March 31, 2011 and 2010, respectively.

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

| <i>(dollars in thousands)</i> | Three Months Ended | |
|--|--------------------|---------------|
| | March 31, | |
| | 2011 | 2010 |
| Service cost | \$ 337 | \$ 311 |
| Interest cost | 1,768 | 1,714 |
| Expected return on plan assets | (2,443) | (2,175) |
| Amortization of net actuarial pension loss | 474 | 486 |
| Net periodic benefit cost | \$ 136 | \$ 336 |

The Company contributed \$5.8 million to the Terra Nova Pension Plan during the first quarter of 2011. The Company expects plan contributions to total \$6.7 million in 2011.

8. Contingencies

Contingencies arise in the normal conduct of the Company's operations and are not expected to have a material impact on the Company's financial condition or results of operations. However, adverse outcomes are possible and could negatively impact the Company's financial condition and results of operations.

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9. Fair Value Measurements

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

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

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

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

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

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

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Fair value for investments available-for-sale is measured based upon quoted prices in active markets, if available. Due to variations in trading volumes and the lack of quoted market prices for fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data described above. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate.

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

Derivatives. Derivatives are recorded at fair value on a recurring basis and include a credit default swap. The fair value of the credit default swap is measured by the Company using a third party pricing model. See note 6 for a discussion of the valuation model for the credit default swap, including the key inputs and assumptions to the model. Due to the significance of unobservable inputs required in measuring the fair value of the credit default swap, the credit default swap has been classified as Level 3 within the fair value hierarchy.

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

| <i>(dollars in thousands)</i> | March 31, 2011 | | | Total |
|--|------------------|------------------|-----------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investments available-for-sale: | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 0 | \$ 322,023 | \$ 0 | \$ 322,023 |
| Obligations of states, municipalities and political subdivisions | 0 | 2,796,578 | 0 | 2,796,578 |
| Foreign governments | 0 | 656,120 | 0 | 656,120 |
| Residential mortgage-backed securities | 0 | 402,392 | 0 | 402,392 |
| Asset-backed securities | 0 | 22,127 | 0 | 22,127 |
| Public utilities | 0 | 92,028 | 0 | 92,028 |
| All other corporate bonds | 0 | 1,102,739 | 0 | 1,102,739 |
| Total fixed maturities | 0 | 5,394,007 | 0 | 5,394,007 |
| Equity securities: | | | | |
| Insurance companies, banks and trusts | 712,899 | 0 | 0 | 712,899 |
| Industrial, consumer and all other | 1,069,685 | 0 | 0 | 1,069,685 |
| Total equity securities | 1,782,584 | 0 | 0 | 1,782,584 |
| Short-term investments | 382,131 | 52,415 | 0 | 434,546 |
| Total investments available-for-sale | 2,164,715 | 5,446,422 | 0 | 7,611,137 |
| Liabilities: | | | | |
| Derivative contracts | \$ 0 | \$ 0 | \$ 23,567 | \$ 23,567 |

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| <i>(dollars in thousands)</i> | December 31, 2010 | | | Total |
|--|-------------------|------------|-----------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Investments available-for-sale: | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 0 | \$ 321,338 | \$ 0 | \$ 321,338 |
| Obligations of states, municipalities and political subdivisions | 0 | 2,799,339 | 0 | 2,799,339 |
| Foreign governments | 0 | 572,818 | 0 | 572,818 |
| Residential mortgage-backed securities | 0 | 425,563 | 0 | 425,563 |
| Asset-backed securities | 0 | 22,756 | 0 | 22,756 |
| Public utilities | 0 | 102,444 | 0 | 102,444 |
| Convertible bonds | 0 | 16,725 | 0 | 16,725 |
| All other corporate bonds | 0 | 1,170,243 | 0 | 1,170,243 |
| Total fixed maturities | 0 | 5,431,226 | 0 | 5,431,226 |
| Equity securities: | | | | |
| Insurance companies, banks and trusts | 710,986 | 0 | 0 | 710,986 |
| Industrial, consumer and all other | 1,010,985 | 0 | 0 | 1,010,985 |
| Total equity securities | 1,721,971 | 0 | 0 | 1,721,971 |
| Short-term investments | 269,466 | 55,874 | 0 | 325,340 |
| Total investments available-for-sale | 1,991,437 | 5,487,100 | 0 | 7,478,537 |
| Liabilities: | | | | |
| Derivative contracts | \$ 0 | \$ 0 | \$ 25,228 | \$ 25,228 |

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

| <i>(dollars in thousands)</i> | Three Months Ended March 31, | |
|---|---------------------------------|-----------------------|
| | 2011 | 2010 |
| Derivatives, Beginning of Period | \$ 25,228 | \$ 26,968 |
| Total gains included in: | | |
| Net income | (1,661) | (343) |
| Other comprehensive income | 0 | 0 |
| Transfers into Level 3 | 0 | 0 |
| Transfers out of Level 3 | 0 | 0 |
| Derivatives, End of Period | \$ 23,567 | \$ 26,625 |
| Net unrealized gains included in net income relating to liabilities held at March 31, 2011 and 2010 | \$ 1,661 ⁽¹⁾ | \$ 343 ⁽¹⁾ |

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

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There were no transfers into or out of Level 1 and Level 2 during the three months ended March 31, 2011 and 2010. The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the three months ended March 31, 2011 and 2010.

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10. Acquisitions

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

Total consideration for these two acquisitions was \$93.2 million. Since the Company consolidates its non-insurance operations on a one-month lag, the purchase price allocation for RetailData and Diamond Healthcare was completed in the first quarter of 2011. The purchase price was allocated to the acquired assets and liabilities of RetailData and Diamond Healthcare based on estimated fair value at the acquisition date. The Company recognized goodwill of \$75.9 million, other intangible assets of \$58.3 million and noncontrolling interests of \$47.3 million in connection with the two acquisitions. At December 31, 2010, amounts related to the consideration paid to acquire RetailData and Diamond Healthcare were included in other assets on the consolidated balance sheet.

11. Recent Accounting Pronouncements

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

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

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

Critical Accounting Estimates

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

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

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

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Our Business

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

Our Excess and Surplus Lines segment writes property and casualty insurance outside of the standard market for hard-to-place risks including catastrophe-exposed property, professional liability, products liability, general liability, commercial umbrella and other coverages tailored for unique exposures. Our Excess and Surplus Lines segment is comprised of five regions, and each regional 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 the majority of our products.

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

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

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

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

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

Our non-insurance operations are comprised of a diverse portfolio of 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 and a manager of behavioral health programs.

Key Performance Indicators

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

Results of Operations

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

| <i>(dollars in thousands)</i> | Three Months Ended | |
|---|--------------------|------------|
| | March 31, | |
| | 2011 | 2010 |
| Underwriting loss | \$ (53,567) | \$ (4,703) |
| Net investment income | 70,099 | 68,402 |
| Net realized investment gains | 11,240 | 15,743 |
| Other revenues | 77,144 | 40,439 |
| Amortization of intangible assets | (6,008) | (3,958) |
| Other expenses | (68,495) | (35,397) |
| Interest expense | (18,962) | (17,959) |
| Income tax expense | (1,590) | (19,361) |
| Net income attributable to noncontrolling interests | (1,589) | (637) |
| Net income to shareholders | \$ 8,272 | \$ 42,569 |

Net income to shareholders for the three months ended March 31, 2011 decreased primarily due to a deterioration in underwriting results, which resulted from higher losses on catastrophes, compared to the same period of 2010. The components of net income to shareholders are discussed in further detail under Underwriting Results, Investing Results, Non-Insurance Operations and Interest Expense and Income Taxes.

Underwriting Results

Underwriting profits are a key component of our strategy to grow book value per share. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk. The property and casualty insurance

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industry commonly defines underwriting profit or loss as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. We use underwriting profit or loss as a basis for evaluating our underwriting performance.

The following table presents selected data from our underwriting operations.

| <i>(dollars in thousands)</i> | Three Months Ended | |
|--|--------------------|-------------------|
| | March 31, | |
| | 2011 | 2010 |
| Gross premium volume | \$ 590,783 | \$ 490,184 |
| Net written premiums | \$ 519,012 | \$ 446,502 |
| Net retention | 88% | 91% |
| Earned premiums | \$ 463,111 | \$ 412,135 |
| Losses and loss adjustment expenses | \$ 314,328 | \$ 260,170 |
| Underwriting, acquisition and insurance expenses | \$ 202,350 | \$ 156,668 |
| Underwriting loss | \$ 53,567 | \$ 4,703 |
| U.S. GAAP Combined Ratios ⁽¹⁾ | | |
| Excess and Surplus Lines | 84% | 96% |
| Specialty Admitted | 104% | 105% |
| London Insurance Market | 152% | 109% |
| Other Insurance (Discontinued Lines) | NM ⁽²⁾ | NM ⁽²⁾ |
| Markel Corporation (Consolidated) | 112% | 101% |

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

⁽²⁾ NM Ratio is not meaningful.

Our combined ratio was 112% for the first quarter of 2011 compared to 101% for the same period last year. The combined ratio in the first quarter of 2011 included \$68.7 million, or 15 points, of underwriting loss related to the Australian floods, the New Zealand earthquake and the earthquake and subsequent tsunami in Japan. The combined ratio in the first quarter of 2010 included \$17.0 million, or four points, of net losses and loss adjustment expenses related to the Chilean earthquake. Excluding the effects of these catastrophe losses from both periods, a higher current accident year loss ratio and a higher expense ratio were offset by more favorable development of prior years' loss reserves compared to the same period of 2010.

The combined ratio for the Excess and Surplus Lines segment was 84% for the first quarter of 2011 compared to 96% for the same period last year. The decrease in the combined ratio was primarily due to more favorable development of prior years' loss reserves, which was partially offset by a higher expense ratio compared to the same period of 2010. The Excess and Surplus Lines segment's combined ratio for the quarter ended March 31, 2011 included \$56.8 million of favorable development on prior years' loss reserves compared to \$24.2 million of favorable development for the same period of 2010. The redundancies on prior years' loss reserves experienced within the Excess and Surplus Lines segment during the first quarter of 2011 and 2010 were primarily on our professional and products liability programs. The favorable development on prior years' loss reserves during the first quarter of 2010 was partially offset by \$13.7 million of adverse development on an errors and omissions program for mortgage servicing companies. In the first quarter of 2011, we resolved a significant portion of our outstanding liabilities associated with this program and, as a result, reduced prior years' loss reserves by \$15.8 million. The higher expense ratio for the first quarter of 2011 was due in part to a decline in earned premiums and higher personnel costs.

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The combined ratio for the Specialty Admitted segment was 104% for the quarter ended March 31, 2011 compared to 105% for the same period of 2010. The decrease in the combined ratio was primarily due to improved development on prior years' loss reserves, which was partially offset by a higher expense ratio. The Specialty Admitted segment's combined ratio for the quarter ended March 31, 2011 included \$0.2 million of favorable development on prior years' loss reserves compared to \$3.7 million of adverse development for the same period of 2010. In the first quarter of 2010, the expense ratio benefitted from a \$4.0 million anticipated recovery under our corporate insurance program.

Beginning in the fourth quarter of 2010, the Specialty Admitted segment's results included our FirstComp workers' compensation operations. FirstComp produces business for certain of our insurance companies and also acts as a managing general agent producing business for the benefit of unaffiliated insurance companies. During the first quarter of 2011, the Specialty Admitted segment included a loss of \$6.2 million from our FirstComp operations. The workers' compensation insurance market continues to be adversely impacted by high rates of unemployment, unfavorable economic conditions and a challenging pricing environment.

The combined ratio for the London Insurance Market segment was 152% for the quarter ended March 31, 2011 compared to 109% for the same period of 2010. The combined ratio in the first quarter of 2011 included \$67.0 million, or 42 points, of underwriting loss related to the Australian floods, the New Zealand earthquake and the earthquake and subsequent tsunami in Japan. The London Insurance Market's combined ratio in the first quarter of 2011 also was adversely impacted by \$13.0 million of underwriting loss related to severe storm damage to the Gryphon floating production storage and offloading vessel in the North Sea. The combined ratio in the first quarter of 2010 included \$17.0 million, or 12 points, of net losses and loss adjustment expenses related to the Chilean earthquake. Excluding the effects of these catastrophe losses from both periods, the increase in the combined ratio for 2011 was primarily due to less favorable development of prior years' loss reserves. The London Insurance Market segment's combined ratio for the quarter ended March 31, 2011 included \$12.6 million of favorable development on prior years' loss reserves compared to \$15.8 million of favorable development for the same period of 2010.

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

The Other Insurance (Discontinued Lines) segment produced an underwriting profit of \$4.8 million and \$2.1 million for the three months ended March 31, 2011 and 2010, respectively.

Table of Contents*Premiums and Net Retentions*

The following table summarizes gross premium volume and net written premiums by segment.

| Gross Premium Volume | | | Net Written Premiums | |
|------------------------------|------------|--------------------------------------|------------------------------|------------|
| Three Months Ended March 31, | | | Three Months Ended March 31, | |
| 2011 | 2010 | | 2011 | 2010 |
| \$ 201,371 | \$ 211,683 | (dollars in thousands) | | |
| | | Excess and Surplus Lines | \$ 175,537 | \$ 193,329 |
| 134,321 | 70,333 | Specialty Admitted | 127,239 | 63,113 |
| 255,001 | 208,168 | London Insurance Market | 216,139 | 190,058 |
| 90 | 0 | Other Insurance (Discontinued Lines) | 97 | 2 |
| \$ 590,783 | \$ 490,184 | Total | \$ 519,012 | \$ 446,502 |

Gross premium volume for the first quarter of 2011 increased 21% compared to the same period of 2010. For the first quarter of 2011, the Specialty Admitted segment included \$58.2 million of gross premium volume from FirstComp. The increase in gross premium volume in the first quarter of 2011 also was attributable to higher gross premium volume in the London Insurance Market segment due in part to an increase in premiums written by Elliott Special Risks, which has been converted from a managing general agent operation to a risk bearing insurance division. Gross premium volume in the London Insurance Market segment also benefitted from an improved pricing environment in the Marine and Energy division. Foreign currency exchange rate movements did not have a significant impact on gross premium volume for the first quarter of 2011.

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

Net retention of gross premium volume for the first quarter of 2011 was 88% compared to 91% for the same period of 2010. For the three months ended March 31, 2011, net written premiums in the London Insurance Market segment were reduced by \$8.9 million of additional reinsurance costs resulting from the loss on the earthquake and subsequent tsunami in Japan and the Gryphon vessel loss. As part of our underwriting philosophy, we seek to offer products with limits that do not require significant amounts of reinsurance. We purchase reinsurance in order to reduce our retention on individual risks and enable us to write policies with sufficient limits to meet policyholder needs.

The following table summarizes earned premiums by segment.

| | Three Months Ended | |
|--------------------------------------|--------------------|------------|
| | March 31, | |
| (dollars in thousands) | 2011 | 2010 |
| Excess and Surplus Lines | \$ 181,057 | \$ 203,895 |
| Specialty Admitted | 122,476 | 72,041 |
| London Insurance Market | 159,483 | 136,197 |
| Other Insurance (Discontinued Lines) | 95 | 2 |
| Total | \$ 463,111 | \$ 412,135 |

Earned premiums for the three months ended March 31, 2011 increased 12% compared to the same period of 2010. For the first quarter of 2011, the Specialty Admitted segment included \$43.8 million of earned premiums from FirstComp. The increase in earned premiums in the first quarter of 2011 also was due to higher earned

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premiums in the London Insurance Market segment, which was primarily a result of higher gross premium volume. For the three months ended March 31, 2011, earned premiums in the London Insurance Market segment were reduced by \$8.9 million of additional reinsurance costs resulting from the loss on the earthquake and subsequent tsunami in Japan and the Gryphon vessel loss. Foreign currency exchange rate movements did not have a significant impact on earned premiums for the first quarter of 2011. The decrease in earned premiums in the Excess and Surplus Lines segment was primarily a result of lower gross premium volume.

Investing Results

Net investment income for the three months ended March 31, 2011 was \$70.1 million compared to \$68.4 million for the same period of 2010. Net investment income included favorable changes in the fair value of our credit default swap of \$1.7 million and \$0.3 million for the three months ended March 31, 2011 and 2010, respectively.

Net realized investment gains for the first quarter of 2011 were \$11.2 million compared to \$15.7 million for the first quarter of 2010. There were no write downs for other-than-temporary declines in the estimated fair value of investments for the quarter ended March 31, 2011. Net realized investment gains included \$2.4 million of write downs for other-than-temporary declines in the estimated fair value of investments for the quarter ended March 31, 2010.

We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. At March 31, 2011, we held securities with gross unrealized losses of \$58.5 million, or less than 1% of our total invested assets. All securities with unrealized losses were reviewed, and we believe that there were no securities with indications of declines in estimated fair value that were other-than-temporary at March 31, 2011. However, given the volatility in the debt and equity markets, we caution readers that further declines in fair value could be significant and may result in additional other-than-temporary impairment charges in future periods. Variability in the timing of realized and unrealized gains and losses is to be expected.

Non-Insurance Operations (Markel Ventures)

Our non-insurance operations, which are referred to collectively as Markel Ventures, include the results of AMF Bakery Systems, ParkLand Ventures, Inc., Panel Specialists, Inc., Ellicott Dredge Enterprises, LLC, Solbern, Inc., Markel Eagle Partners, LLC, RD Holdings, LLC and Diamond Healthcare Corporation. Operating revenues and expenses associated with our non-insurance operations are included in other revenues and other expenses in the consolidated statements of income and comprehensive income. Revenues for our non-insurance operations were \$68.0 million for the quarter ended March 31, 2011 compared to \$37.2 million for the same period of 2010. Revenues for our non-insurance operations increased in the first quarter of 2011 compared to the same period of 2010 primarily due to our acquisitions of RD Holdings, LLC and Diamond Healthcare Corporation in late 2010.

Interest Expense and Income Taxes

Interest expense was \$19.0 million and \$18.0 million for the three months ended March 31, 2011 and 2010, respectively.

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The estimated annual effective tax rate was 14% and 31% for the three months ended March 31, 2011 and 2010, respectively. For both periods, the estimated annual effective tax rate differs from the statutory tax rate of 35% primarily as a result of tax-exempt investment income. The decrease in the estimated annual effective tax rate was due in part to anticipating a larger tax benefit related to tax-exempt investment income, which resulted from having lower estimated income before income taxes in 2011 compared to 2010. The decrease in the estimated annual effective tax rate also was due to a lower effective tax rate related to our foreign operations as a result of a change in our plans regarding the amount of earnings considered permanently reinvested in foreign subsidiaries.

Comprehensive Income to Shareholders

Comprehensive income to shareholders was \$24.7 million for the three months ended March 31, 2011 compared to comprehensive income to shareholders of \$134.5 million for the same period of 2010. Comprehensive income to shareholders for the first quarter of 2011 included an increase in net unrealized gains on investments, net of taxes, of \$13.7 million and net income to shareholders of \$8.3 million. Comprehensive income to shareholders for the first quarter of 2010 included an increase in net unrealized gains on investments, net of taxes, of \$87.6 million and net income to shareholders of \$42.6 million.

Financial Condition

Invested assets were \$8.3 billion at March 31, 2011 compared to \$8.2 billion at December 31, 2010. Net unrealized gains on investments, net of taxes, were \$595.0 million at March 31, 2011 compared to \$581.3 million at December 31, 2010. Equity securities were \$1.8 billion, or 22% of invested assets, at March 31, 2011 compared to \$1.7 billion, or 21% of invested assets, at December 31, 2010.

Net cash used by operating activities was \$9.2 million for the three months ended March 31, 2011 compared to net cash provided by operating activities of \$4.3 million for the same period of 2010. Operating cash flows in the first quarter of both 2011 and 2010 were significantly impacted by the timing of employee profit sharing and agent incentive compensation payments and pension contributions, which were made in the first quarter of each year.

Net cash used by investing activities was \$91.5 million for the three months ended March 31, 2011 compared to \$230.6 million for the same period of 2010. The decrease in net cash used by investing activities was primarily due to a decrease in our purchases of fixed maturities and equity securities. During the first quarter of 2010, cash of \$23.0 million was used by ParkLand Ventures, Inc., a subsidiary of Markel Ventures, to acquire additional manufactured housing communities.

Net cash provided by financing activities was \$1.7 million for the three months ended March 31, 2011 compared to \$17.8 million for the same period of 2010. During the first quarter of 2010, ParkLand Ventures, Inc. increased its borrowings by \$15.6 million in conjunction with the acquisition of additional manufactured housing communities, and cash of \$4.4 million was used to repurchase shares of our common stock.

We seek to maintain prudent levels of liquidity and financial leverage for the protection of our policyholders, creditors and shareholders. Our target capital structure includes approximately 30% debt. Our debt to total

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capital ratio was 24% at March 31, 2011 and December 31, 2010. From time to time, our debt to total capital ratio may increase due to business opportunities that may be financed in the short term with debt. Alternatively, our debt to total capital ratio may fall below our target capital structure, which provides us with additional borrowing capacity to respond quickly when future opportunities arise.

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

Our holding company had \$805.4 million and \$885.6 million of invested assets at March 31, 2011 and December 31, 2010, respectively.

Shareholders' equity was \$3.2 billion at March 31, 2011 and December 31, 2010. Book value per share increased to \$329.09 at March 31, 2011 from \$326.36 at December 31, 2010 primarily due to \$24.7 million of comprehensive income to shareholders in the first quarter of 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Historically, our primary market risks have been equity price risk associated with investments in equity securities, interest rate risk associated with investments in fixed maturities and foreign currency exchange rate risk associated with our international operations. We have no material commodity risk.

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

During the latter half of 2010, credit spreads on our municipal bond holdings widened, reflecting general concern about the growing number of municipalities experiencing financial difficulties in light of the adverse economic conditions experienced over the past several years. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically general obligation or revenue bonds related to essential products and services.

We monitor our portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit quality, investment grade securities. Our fixed maturity portfolio has an average rating of AA, with approximately 94% rated A or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At March 31, 2011, approximately 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

The estimated fair value of our investment portfolio at March 31, 2011 was \$8.3 billion, 78% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 22% of which was

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invested in equity securities. At December 31, 2010, the estimated fair value of our investment portfolio was \$8.2 billion, 79% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 21% of which was invested in equity securities.

Our fixed maturities, equity securities and short-term investments are recorded at fair value, which is measured based upon quoted prices in active markets, if available. We determine fair value for these investments after considering various sources of information, including information provided by a third party pricing service. The pricing service provides prices for substantially all of our fixed maturities and equity securities. In determining fair value, we generally do not adjust the prices obtained from the pricing service. We obtain an understanding of the pricing service's valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. We validate prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

Item 4. Controls and Procedures

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

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

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

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

Safe Harbor and Cautionary Statement

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

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

our anticipated premium volume is based on current knowledge and assumes no significant man-made or natural catastrophes, no significant changes in products or personnel and no adverse changes in market conditions;

we offer insurance coverage against terrorist acts in connection with some of our programs, and in other instances we are legally required to offer terrorism insurance; in both circumstances, we actively manage our exposure, but if there is a covered terrorist attack, we could sustain material losses;

the impact of the events of September 11, 2001 will depend on the resolution of on-going insurance coverage litigation and arbitrations;

the frequency and severity of catastrophic events (including earthquakes and weather-related catastrophes) is unpredictable and, in the case of weather-related catastrophes, may be exacerbated if, as many forecast, conditions in the oceans and atmosphere result in increased hurricane or other adverse weather-related activity;

changing legal and social trends and inherent uncertainties (including but not limited to those uncertainties associated with our asbestos and environmental reserves) in the loss estimation process can adversely impact the adequacy of loss reserves and the allowance for reinsurance recoverables;

adverse developments in insurance coverage litigation could result in material increases in our estimates of loss reserves;

the loss estimation process may become more uncertain if we experience a period of rising inflation;

the costs and availability of reinsurance may impact our ability to write certain lines of business;

industry and economic conditions can affect the ability and/or willingness of reinsurers to pay balances due;

after the commutation of ceded reinsurance contracts, any subsequent adverse development in the re-assumed loss reserves will result in a charge to earnings;

regulatory actions can impede our ability to charge adequate rates and efficiently allocate capital;

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

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

we have substantial investments in municipal bonds (approximately \$2.8 billion at March 31, 2011) and, although no more than 10% of our municipal bond portfolio is tied to any one state, widespread defaults could adversely affect our results of operations and financial condition;

we cannot predict the extent and duration of the current economic slowdown; the effects of government intervention into the markets to address the financial crisis of 2008 and 2009 (including, among other things, financial stability and recovery initiatives; changes in tax policy; and the effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations adopted thereunder); and their combined impact on our industry, business and investment portfolio;

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

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

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

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

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

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PART II. OTHER INFORMATION

Item 6. Exhibits

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

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 5th day of May 2011.

Markel Corporation

By /s/ Alan I. Kirshner

Alan I. Kirshner

Chief Executive Officer and Chairman of the Board
of Directors

By /s/ Anne G. Waleski

Anne G. Waleski

Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

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Exhibit Index

| Number | Description |
|--------|--|
| 3(i) | Amended and Restated Articles of Incorporation, as amended (3(i))a |
| 3(ii) | Bylaws, as amended (3.1)b |
| 4(i) | Form of Credit Agreement dated as of June 9, 2010 among Markel Corporation, the lenders party thereto and SunTrust Bank, as Administrative Agent (4(i))c |

The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instruments defining the rights of holders of long-term debt of the registrant and subsidiaries shown on the Consolidated Balance Sheet of the registrant at March 31, 2011 and the respective Notes thereto, included in this Quarterly Report on Form 10-Q.

| | |
|------|--|
| 10.1 | Description of Awards under Executive Bonus Plan* |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)* |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)* |
| 32.1 | Certification of Principal Executive Officer furnished Pursuant to 18 U.S.C. Section 1350* |
| 32.2 | Certification of Principal Financial Officer furnished Pursuant to 18 U.S.C. Section 1350* |
| 101 | The following consolidated financial statements from Markel Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, filed on May 5, 2011, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.* |
| a. | Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended March 31, 2000. |
| b. | Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on May 14, 2010. |
| c. | Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended June 30, 2010. |
| * | Filed with this report. |