

MARKEL CORP  
Form 10-Q  
November 04, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2009**

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

Number of shares of the registrant's common stock outstanding at October 30, 2009: 9,816,300

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MARKEL CORPORATION AND SUBSIDIARIES

## Consolidated Balance Sheets

|                                                                                  | September 30,<br>2009         | December 31,<br>2008 |
|----------------------------------------------------------------------------------|-------------------------------|----------------------|
|                                                                                  | <i>(dollars in thousands)</i> |                      |
| <b>ASSETS</b>                                                                    |                               |                      |
| Investments, available-for-sale, at estimated fair value:                        |                               |                      |
| Fixed maturities (amortized cost of \$4,715,607 in 2009 and \$4,722,371 in 2008) | \$ 4,910,739                  | \$ 4,592,552         |
| Equity securities (cost of \$820,964 in 2009 and \$855,188 in 2008)              | 1,279,890                     | 1,073,769            |
| Short-term investments (estimated fair value approximates cost)                  | 666,310                       | 508,834              |
| Investments in affiliates                                                        | 76,037                        | 93,723               |
| <b>Total Investments</b>                                                         | <b>6,932,976</b>              | <b>6,268,878</b>     |
| Cash and cash equivalents                                                        | 1,038,411                     | 639,578              |
| Receivables                                                                      | 288,851                       | 271,067              |
| Reinsurance recoverable on unpaid losses                                         | 918,257                       | 1,026,858            |
| Reinsurance recoverable on paid losses                                           | 75,259                        | 71,890               |
| Deferred policy acquisition costs                                                | 169,478                       | 183,755              |
| Prepaid reinsurance premiums                                                     | 77,350                        | 86,534               |
| Goodwill and intangible assets                                                   | 340,495                       | 344,031              |
| Other assets                                                                     | 360,576                       | 585,099              |
| <b>Total Assets</b>                                                              | <b>\$ 10,201,653</b>          | <b>\$ 9,477,690</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                      |                               |                      |
| Unpaid losses and loss adjustment expenses                                       | \$ 5,496,489                  | \$ 5,492,339         |
| Unearned premiums                                                                | 792,348                       | 827,888              |
| Payables to insurance companies                                                  | 56,251                        | 42,399               |
| Long-term debt (estimated fair value of \$980,000 in 2009 and \$620,000 in 2008) | 951,248                       | 688,509              |
| Other liabilities                                                                | 212,502                       | 245,881              |
| <b>Total Liabilities</b>                                                         | <b>7,508,838</b>              | <b>7,297,016</b>     |
| Shareholders' equity:                                                            |                               |                      |
| Common stock                                                                     | 872,153                       | 869,744              |
| Retained earnings                                                                | 1,421,483                     | 1,297,901            |
| Accumulated other comprehensive income                                           | 399,179                       | 13,029               |
| <b>Total Shareholders' Equity</b>                                                | <b>2,692,815</b>              | <b>2,180,674</b>     |
| Commitments and contingencies                                                    |                               |                      |
| <b>Total Liabilities and Shareholders' Equity</b>                                | <b>\$ 10,201,653</b>          | <b>\$ 9,477,690</b>  |

See accompanying notes to consolidated financial statements.

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## MARKEL CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations and Comprehensive Income (Loss)

|                                                                                                               | Quarter Ended<br>September 30,                       |                     | Nine Months Ended<br>September 30, |                     |
|---------------------------------------------------------------------------------------------------------------|------------------------------------------------------|---------------------|------------------------------------|---------------------|
|                                                                                                               | 2009                                                 | 2008                | 2009                               | 2008                |
|                                                                                                               | <i>(dollars in thousands, except per share data)</i> |                     |                                    |                     |
| <b>OPERATING REVENUES</b>                                                                                     |                                                      |                     |                                    |                     |
| Earned premiums                                                                                               | \$ 448,398                                           | \$ 516,063          | \$ 1,360,858                       | \$ 1,520,187        |
| Net investment income                                                                                         | 66,663                                               | 68,232              | 200,765                            | 220,765             |
| Net realized investment losses:                                                                               |                                                      |                     |                                    |                     |
| Other-than-temporary impairment losses                                                                        | (26,651)                                             | (94,607)            | (93,888)                           | (187,145)           |
| Less other-than-temporary impairment losses recognized in other comprehensive income (loss)                   | 4,219                                                |                     | 7,976                              |                     |
| Other-than-temporary impairment losses recognized in net income (loss)                                        | (22,432)                                             | (94,607)            | (85,912)                           | (187,145)           |
| Net realized investment losses, excluding other-than-temporary impairment losses                              | (7,338)                                              | (74,072)            | (14,477)                           | (13,102)            |
| Net realized investment losses                                                                                | (29,770)                                             | (168,679)           | (100,389)                          | (200,247)           |
| Total Operating Revenues                                                                                      | 485,291                                              | 415,616             | 1,461,234                          | 1,540,705           |
| <b>OPERATING EXPENSES</b>                                                                                     |                                                      |                     |                                    |                     |
| Losses and loss adjustment expenses                                                                           | 237,331                                              | 456,172             | 776,881                            | 1,029,005           |
| Underwriting, acquisition and insurance expenses                                                              | 193,087                                              | 186,206             | 541,318                            | 552,069             |
| Amortization of intangible assets                                                                             | 1,179                                                | 1,141               | 3,536                              | 3,239               |
| Total Operating Expenses                                                                                      | 431,597                                              | 643,519             | 1,321,735                          | 1,584,313           |
| Operating Income (Loss)                                                                                       | 53,694                                               | (227,903)           | 139,499                            | (43,608)            |
| Interest expense                                                                                              | 12,000                                               | 11,024              | 34,984                             | 35,789              |
| Income (Loss) Before Income Taxes                                                                             | 41,694                                               | (238,927)           | 104,515                            | (79,397)            |
| Income tax benefit                                                                                            | (17,432)                                             | (96,640)            | (3,767)                            | (53,340)            |
| <b>Net Income (Loss)</b>                                                                                      | <b>\$ 59,126</b>                                     | <b>\$ (142,287)</b> | <b>\$ 108,282</b>                  | <b>\$ (26,057)</b>  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                                                      |                                                      |                     |                                    |                     |
| Change in net unrealized gains on investments, net of taxes:                                                  |                                                      |                     |                                    |                     |
| Net holding gains (losses) arising during the period                                                          | \$ 273,709                                           | \$ (122,832)        | \$ 340,060                         | \$ (374,303)        |
| Unrealized other-than-temporary impairment losses on fixed maturities arising during the period, net of taxes | (3,835)                                              |                     | (6,917)                            |                     |
| Less reclassification adjustments for net losses included in net income (loss)                                | 7,665                                                | 109,749             | 56,615                             | 130,583             |
| Change in net unrealized gains (losses)                                                                       | 277,539                                              | (13,083)            | 389,758                            | (243,720)           |
| Change in currency translation adjustments, net of taxes                                                      | 6,066                                                | (3,647)             | 13,885                             | (3,380)             |
| Change in net actuarial pension loss, net of taxes                                                            | (2,872)                                              | 195                 | (2,193)                            | 748                 |
| Total Other Comprehensive Income (Loss)                                                                       | 280,733                                              | (16,535)            | 401,450                            | (246,352)           |
| <b>Comprehensive Income (Loss)</b>                                                                            | <b>\$ 339,859</b>                                    | <b>\$ (158,822)</b> | <b>\$ 509,732</b>                  | <b>\$ (272,409)</b> |
| <b>NET INCOME (LOSS) PER SHARE</b>                                                                            |                                                      |                     |                                    |                     |
| Basic                                                                                                         | \$ 6.02                                              | \$ (14.46)          | \$ 11.03                           | \$ (2.63)           |
| Diluted                                                                                                       | \$ 6.02                                              | \$ (14.46)          | \$ 11.02                           | \$ (2.63)           |

See accompanying notes to consolidated financial statements.

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## MARKEL CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Changes in Shareholders' Equity

|                                                                                               | Nine Months Ended<br>September 30, |                     |
|-----------------------------------------------------------------------------------------------|------------------------------------|---------------------|
|                                                                                               | 2009                               | 2008                |
|                                                                                               | <i>(dollars in thousands)</i>      |                     |
| <b>COMMON STOCK</b>                                                                           |                                    |                     |
| Balance at beginning of period                                                                | \$ 869,744                         | \$ 866,362          |
| Restricted stock units expensed                                                               | 1,906                              | 2,971               |
| Other                                                                                         | 503                                | 1,195               |
| Balance at end of period                                                                      | \$ 872,153                         | \$ 870,528          |
| <b>RETAINED EARNINGS</b>                                                                      |                                    |                     |
| Balance at beginning of period                                                                | \$ 1,297,901                       | \$ 1,417,269        |
| Net income (loss)                                                                             | 108,282                            | (26,057)            |
| Cumulative effect of adoption of FASB ASC 320-10, net of taxes                                | 15,300                             |                     |
| Repurchases of common stock                                                                   |                                    | (60,238)            |
| Balance at end of period                                                                      | \$ 1,421,483                       | \$ 1,330,974        |
| <b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>                                                 |                                    |                     |
| Net unrealized holding gains on investments, net of taxes:                                    |                                    |                     |
| Balance at beginning of period                                                                | \$ 58,652                          | \$ 388,521          |
| Change in net unrealized holding gains on investments, net of taxes                           | 391,422                            | (243,720)           |
| Balance at end of period                                                                      | 450,074                            | 144,801             |
| Unrealized other-than-temporary impairment losses on fixed maturities, net of taxes:          |                                    |                     |
| Balance beginning of period                                                                   |                                    |                     |
| Cumulative effect of adoption of FASB ASC 320-10, net of taxes                                | (15,300)                           |                     |
| Change in unrealized other-than-temporary impairment losses on fixed maturities, net of taxes | (1,664)                            |                     |
| Balance at end of period                                                                      | (16,964)                           |                     |
| Cumulative translation adjustments, net of taxes:                                             |                                    |                     |
| Balance at beginning of period                                                                | (15,416)                           | (7,523)             |
| Change in currency translation adjustments, net of taxes                                      | 13,885                             | (3,380)             |
| Balance at end of period                                                                      | (1,531)                            | (10,903)            |
| Net actuarial pension loss, net of taxes:                                                     |                                    |                     |
| Balance at beginning of period                                                                | (30,207)                           | (23,467)            |
| Change in net actuarial pension loss, net of taxes                                            | (2,193)                            | 748                 |
| Balance at end of period                                                                      | (32,400)                           | (22,719)            |
| Balance at end of period                                                                      | \$ 399,179                         | \$ 111,179          |
| <b>SHAREHOLDERS' EQUITY AT END OF PERIOD</b>                                                  | <b>\$ 2,692,815</b>                | <b>\$ 2,312,681</b> |

See accompanying notes to consolidated financial statements.

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## MARKEL CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

|                                                                                         | <b>Nine Months Ended<br/>September 30,</b> |                   |
|-----------------------------------------------------------------------------------------|--------------------------------------------|-------------------|
|                                                                                         | <b>2009</b>                                | <b>2008</b>       |
|                                                                                         | <i>(dollars in thousands)</i>              |                   |
| <b>OPERATING ACTIVITIES</b>                                                             |                                            |                   |
| Net income (loss)                                                                       | \$ 108,282                                 | \$ (26,057)       |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | 108,293                                    | 372,896           |
| Net Cash Provided By Operating Activities                                               | 216,575                                    | 346,839           |
| <b>INVESTING ACTIVITIES</b>                                                             |                                            |                   |
| Proceeds from sales of fixed maturities and equity securities                           | 116,728                                    | 570,166           |
| Proceeds from maturities, calls and prepayments of fixed maturities                     | 253,268                                    | 316,474           |
| Cost of fixed maturities and equity securities purchased                                | (313,559)                                  | (594,487)         |
| Net change in short-term investments                                                    | (149,024)                                  | (275,572)         |
| Cost of investments in affiliates                                                       | (5,946)                                    | (11,634)          |
| Other                                                                                   | 18,727                                     | (72,425)          |
| Net Cash Used By Investing Activities                                                   | (79,806)                                   | (67,478)          |
| <b>FINANCING ACTIVITIES</b>                                                             |                                            |                   |
| Additions to long-term debt                                                             | 497,172                                    |                   |
| Repayment of long-term debt                                                             | (250,000)                                  | (93,050)          |
| Repurchases of common stock                                                             |                                            | (60,238)          |
| Net Cash Provided (Used) By Financing Activities                                        | 247,172                                    | (153,288)         |
| Effect of foreign currency rate changes on cash and cash equivalents                    | 14,892                                     | (15,275)          |
| Increase in cash and cash equivalents                                                   | 398,833                                    | 110,798           |
| Cash and cash equivalents at beginning of period                                        | 639,578                                    | 477,661           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                                       | <b>\$ 1,038,411</b>                        | <b>\$ 588,459</b> |

See accompanying notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Principles of Consolidation

Markel Corporation (the Company) markets and underwrites specialty insurance products and programs to a variety of niche markets.

The consolidated balance sheet as of September 30, 2009, the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the quarters and nine months ended September 30, 2009 and 2008 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, 2008 was derived from the Company's audited annual consolidated financial statements.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (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 2008 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

Certain prior year amounts have been reclassified to conform to the current presentation.

## 2. Net Income (Loss) per Share

Net income (loss) per share was determined by dividing net income (loss) by the applicable weighted average shares outstanding.

| <i>(in thousands, except per share amounts)</i> | Quarter Ended<br>September 30, |              | Nine Months Ended<br>September 30, |             |
|-------------------------------------------------|--------------------------------|--------------|------------------------------------|-------------|
|                                                 | 2009                           | 2008         | 2009                               | 2008        |
| Net income (loss) as reported                   | \$ 59,126                      | \$ (142,287) | \$ 108,282                         | \$ (26,057) |
| Basic common shares outstanding                 | 9,816                          | 9,842        | 9,815                              | 9,897       |
| Dilutive potential common shares                | 13                             |              | 10                                 |             |
| Diluted shares outstanding                      | 9,829                          | 9,842        | 9,825                              | 9,897       |
| Basic net income (loss) per share               | \$ 6.02                        | \$ (14.46)   | \$ 11.03                           | \$ (2.63)   |
| Diluted net income (loss) per share             | \$ 6.02                        | \$ (14.46)   | \$ 11.02                           | \$ (2.63)   |



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## 3. Reinsurance

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

| <i>(dollars in thousands)</i> | Quarter Ended September 30, |            |            |            |
|-------------------------------|-----------------------------|------------|------------|------------|
|                               | 2009                        |            | 2008       |            |
|                               | Written                     | Earned     | Written    | Earned     |
| Direct                        | \$ 433,210                  | \$ 445,887 | \$ 511,424 | \$ 534,958 |
| Assumed                       | 51,567                      | 56,240     | 52,472     | 54,846     |
| Ceded                         | (53,822)                    | (53,729)   | (65,793)   | (73,741)   |
| Net premiums                  | \$ 430,955                  | \$ 448,398 | \$ 498,103 | \$ 516,063 |

| <i>(dollars in thousands)</i> | Nine Months Ended September 30, |              |              |              |
|-------------------------------|---------------------------------|--------------|--------------|--------------|
|                               | 2009                            |              | 2008         |              |
|                               | Written                         | Earned       | Written      | Earned       |
| Direct                        | \$ 1,286,943                    | \$ 1,361,057 | \$ 1,562,272 | \$ 1,584,990 |
| Assumed                       | 190,345                         | 162,273      | 185,289      | 149,014      |
| Ceded                         | (152,085)                       | (162,472)    | (205,273)    | (213,817)    |
| Net premiums                  | \$ 1,325,203                    | \$ 1,360,858 | \$ 1,542,288 | \$ 1,520,187 |

Incurring losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$21.3 million and \$126.5 million, respectively, for the quarters ended September 30, 2009 and 2008 and \$38.1 million and \$245.8 million, respectively, for the nine months ended September 30, 2009 and 2008. Both periods of 2008 included \$87.7 million of estimated reinsurance recoverables related to Hurricanes Gustav and Ike.

## 4. Investments

a) The following table summarizes the Company's available-for-sale investments.

| <i>(dollars in thousands)</i>                                        | September 30, 2009 |                                         |                                          |                                                                | Estimated<br>Fair<br>Value |
|----------------------------------------------------------------------|--------------------|-----------------------------------------|------------------------------------------|----------------------------------------------------------------|----------------------------|
|                                                                      | Amortized<br>Cost  | Gross<br>Unrealized<br>Holding<br>Gains | Gross<br>Unrealized<br>Holding<br>Losses | Unrealized<br>Other-Than-<br>Temporary<br>Impairment<br>Losses |                            |
| Fixed maturities:                                                    |                    |                                         |                                          |                                                                |                            |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 365,214         | \$ 20,711                               | \$ (3)                                   | \$                                                             | \$ 385,922                 |
| Obligations of states, municipalities and political subdivisions     | 1,996,182          | 97,329                                  | (5,016)                                  |                                                                | 2,088,495                  |
| Foreign governments                                                  | 313,922            | 16,875                                  | (288)                                    |                                                                | 330,509                    |
| Residential mortgage-backed securities                               | 424,721            | 28,029                                  | (1,354)                                  | (14,697)                                                       | 436,699                    |
| Asset-backed securities                                              | 27,558             | 343                                     | (1,042)                                  |                                                                | 26,859                     |
| Public utilities                                                     | 142,092            | 8,138                                   |                                          |                                                                | 150,230                    |
| Convertible bonds                                                    | 29,531             |                                         |                                          |                                                                | 29,531                     |
| All other corporate bonds                                            | 1,416,387          | 66,785                                  | (10,281)                                 | (10,397)                                                       | 1,462,494                  |
| Total fixed maturities                                               | 4,715,607          | 238,210                                 | (17,984)                                 | (25,094)                                                       | 4,910,739                  |
| Equity securities:                                                   |                    |                                         |                                          |                                                                |                            |
| Insurance companies, banks and trusts                                | 342,325            | 243,408                                 | (668)                                    |                                                                | 585,065                    |
| Industrial, consumer and all other                                   | 478,639            | 217,718                                 | (1,532)                                  |                                                                | 694,825                    |
| Total equity securities                                              | 820,964            | 461,126                                 | (2,200)                                  |                                                                | 1,279,890                  |
| Short-term investments                                               | 666,283            | 38                                      | (11)                                     |                                                                | 666,310                    |
| Investments, available-for-sale                                      | \$ 6,202,854       | \$ 699,374                              | \$ (20,195)                              | \$ (25,094)                                                    | \$ 6,856,939               |



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

|                                                                      | Less than 12 months        |                                                                                        | September 30, 2009<br>12 months or longer |                                                                                        | Total                      |                                                                                        |
|----------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------|
|                                                                      | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Holding and<br>Other-Than-<br>Temporary<br>Impairment<br>Losses | Estimated<br>Fair<br>Value                | Gross<br>Unrealized<br>Holding and<br>Other-Than-<br>Temporary<br>Impairment<br>Losses | Estimated<br>Fair<br>Value | Gross<br>Unrealized<br>Holding and<br>Other-Than-<br>Temporary<br>Impairment<br>Losses |
| <i>(dollars in thousands)</i>                                        |                            |                                                                                        |                                           |                                                                                        |                            |                                                                                        |
| Fixed maturities:                                                    |                            |                                                                                        |                                           |                                                                                        |                            |                                                                                        |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 610                     | \$ (3)                                                                                 | \$                                        | \$                                                                                     | \$ 610                     | \$ (3)                                                                                 |
| Obligations of states, municipalities and political subdivisions     | 21,082                     | (345)                                                                                  | 167,402                                   | (4,671)                                                                                | 188,484                    | (5,016)                                                                                |
| Foreign governments                                                  | 9,978                      | (288)                                                                                  |                                           |                                                                                        | 9,978                      | (288)                                                                                  |
| Residential mortgage-backed securities                               | 11,132                     | (14,854)                                                                               | 17,487                                    | (1,197)                                                                                | 28,619                     | (16,051)                                                                               |
| Asset-backed securities                                              |                            |                                                                                        | 10,553                                    | (1,042)                                                                                | 10,553                     | (1,042)                                                                                |
| Public utilities                                                     |                            |                                                                                        |                                           |                                                                                        |                            |                                                                                        |
| All other corporate bonds                                            | 52,308                     | (11,895)                                                                               | 205,247                                   | (8,783)                                                                                | 257,555                    | (20,678)                                                                               |
| Total fixed maturities                                               | 95,110                     | (27,385)                                                                               | 400,689                                   | (15,693)                                                                               | 495,799                    | (43,078)                                                                               |
| Equity securities:                                                   |                            |                                                                                        |                                           |                                                                                        |                            |                                                                                        |
| Insurance companies, banks and trusts                                | 26,156                     | (668)                                                                                  |                                           |                                                                                        | 26,156                     | (668)                                                                                  |
| Industrial, consumer and all other                                   | 42,510                     | (214)                                                                                  | 30,058                                    | (1,318)                                                                                | 72,568                     | (1,532)                                                                                |
| Total equity securities                                              | 68,666                     | (882)                                                                                  | 30,058                                    | (1,318)                                                                                | 98,724                     | (2,200)                                                                                |
| Short-term investments                                               | 49,337                     | (11)                                                                                   |                                           |                                                                                        | 49,337                     | (11)                                                                                   |
| Total                                                                | \$ 213,113                 | \$ (28,278)                                                                            | \$ 430,747                                | \$ (17,011)                                                                            | \$ 643,860                 | \$ (45,289)                                                                            |

At September 30, 2009, the Company held 132 securities with a total estimated fair value of \$643.9 million and gross unrealized losses of \$45.3 million. Of these 132 securities, 101 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$430.7 million and gross unrealized losses of \$17.0 million. Of these securities, 99 securities were fixed maturities where the Company expects to receive all interest and principal payments when contractually due and two were equity securities. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost. Each of the equity securities had a fair value in excess of 95% of their cost basis at September 30, 2009.

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 any anticipated recovery is considered. For fixed maturities, the Company considers whether it intends to sell the security or if it is more likely than not that it will be required to sell the security before recovery, the implied yield-to-maturity, the credit quality of the issuer and the ability to recover all amounts outstanding when contractually due.

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

When assessing whether it intends to sell a fixed maturity or if it is likely to be required to sell a fixed maturity before recovery of its amortized cost, the Company evaluates facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and potential sales of investments to capitalize on favorable pricing. Additional information on the methodology and significant inputs, by security type, that the Company used in 2009 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 U.S. 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 on 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. 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 (loss).

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*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 the rating agencies;

other relevant market considerations; and

receipt of interest payments

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

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c) The amortized cost and estimated fair value of fixed maturities at September 30, 2009 are shown below by contractual maturity and investment type.

| <i>(dollars in thousands)</i>                                         | Amortized<br>Cost | Estimated<br>Fair Value |
|-----------------------------------------------------------------------|-------------------|-------------------------|
| U.S. Treasury securities and obligations of U.S. government agencies: |                   |                         |
| Due in one year or less                                               | \$ 32,621         | \$ 33,230               |
| Due after one year through five years                                 | 163,922           | 174,586                 |
| Due after five years through ten years                                | 168,007           | 177,342                 |
| Due after ten years                                                   | 664               | 764                     |
| Total                                                                 | 365,214           | 385,922                 |
| Obligations of states, municipalities and political subdivisions:     |                   |                         |
| Due in one year or less                                               |                   |                         |
| Due after one year through five years                                 | 49,286            | 50,460                  |
| Due after five years through ten years                                | 549,731           | 579,370                 |
| Due after ten years                                                   | 1,397,165         | 1,458,665               |
| Total                                                                 | 1,996,182         | 2,088,495               |
| Foreign governments:                                                  |                   |                         |
| Due in one year or less                                               | 3,971             | 4,011                   |
| Due after one year through five years                                 | 147,232           | 154,377                 |
| Due after five years through ten years                                | 162,719           | 172,121                 |
| Due after ten years                                                   |                   |                         |
| Total                                                                 | 313,922           | 330,509                 |
| Residential mortgage-backed securities:                               |                   |                         |
| Due in one year or less                                               | 3,749             | 3,664                   |
| Due after one year through five years                                 | 13,233            | 13,972                  |
| Due after five years through ten years                                | 49,354            | 50,658                  |
| Due after ten years                                                   | 358,385           | 368,405                 |
| Total                                                                 | 424,721           | 436,699                 |
| Asset-backed securities:                                              |                   |                         |
| Due in one year or less                                               | 1,863             | 1,887                   |
| Due after one year through five years                                 | 12,539            | 11,507                  |
| Due after five years through ten years                                | 1,000             | 1,087                   |
| Due after ten years                                                   | 12,156            | 12,378                  |
| Total                                                                 | 27,558            | 26,859                  |
| Public utilities:                                                     |                   |                         |
| Due in one year or less                                               | 12,463            | 12,785                  |
| Due after one year through five years                                 | 100,963           | 107,288                 |
| Due after five years through ten years                                | 28,666            | 30,157                  |
| Due after ten years                                                   |                   |                         |
| Total                                                                 | 142,092           | 150,230                 |
| Convertible bonds and all other corporate bonds:                      |                   |                         |
| Due in one year or less                                               | 128,071           | 131,200                 |
| Due after one year through five years                                 | 659,339           | 685,481                 |
| Due after five years through ten years                                | 623,535           | 640,577                 |
| Due after ten years                                                   | 34,973            | 34,767                  |
| Total                                                                 | 1,445,918         | 1,492,025               |
| Total fixed maturities:                                               |                   |                         |
| Due in one year or less                                               | 182,738           | 186,777                 |
| Due after one year through five years                                 | 1,146,514         | 1,197,671               |
| Due after five years through ten years                                | 1,583,012         | 1,651,312               |
| Due after ten years                                                   | 1,803,343         | 1,874,979               |
| Total fixed maturities                                                | \$ 4,715,607      | \$ 4,910,739            |

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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.

|                                                                                   | <b>Quarter<br/>Ended<br/>September 30,<br/>2009</b> | <b>Nine Months<br/>Ended<br/>September 30,<br/>2009</b> |
|-----------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|
| <i>(dollars in thousands)</i>                                                     |                                                     |                                                         |
| Cumulative credit loss, beginning balance                                         | \$ 6,214                                            | \$                                                      |
| Adoption of FASB ASC 320-10                                                       |                                                     | 237                                                     |
| <b>Additions:</b>                                                                 |                                                     |                                                         |
| Other-than-temporary impairment losses not previously recognized                  | 1,599                                               | 6,012                                                   |
| Increases related to other-than-temporary impairment losses previously recognized | 85                                                  | 1,649                                                   |
| Total additions                                                                   | 1,684                                               | 7,661                                                   |
| <b>Reductions:</b>                                                                |                                                     |                                                         |
| Sales of fixed maturities on which credit losses were recognized                  | 177                                                 | 177                                                     |
| Cumulative credit loss, ending balance                                            | \$ 7,721                                            | \$ 7,721                                                |

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

|                                        | <b>Quarter Ended September 30,<br/>2009</b> | <b>September 30,<br/>2008</b> |
|----------------------------------------|---------------------------------------------|-------------------------------|
| <i>(dollars in thousands)</i>          |                                             |                               |
| <b>Realized gains:</b>                 |                                             |                               |
| Sales of fixed maturities              | \$ 1,398                                    | \$ 723                        |
| Sales of equity securities             | 602                                         | 8,690                         |
| Other                                  |                                             | 166                           |
| Total realized gains                   | 2,000                                       | 9,579                         |
| <b>Realized losses:</b>                |                                             |                               |
| Sales of fixed maturities              | (9,170)                                     | (83,637)                      |
| Sales of equity securities             | (43)                                        | (14)                          |
| Other-than-temporary impairments       | (22,432)                                    | (94,607)                      |
| Other                                  | (125)                                       |                               |
| Total realized losses                  | (31,770)                                    | (178,258)                     |
| Net realized investment losses         | \$ (29,770)                                 | \$ (168,679)                  |
| <b>Change in net unrealized gains:</b> |                                             |                               |
| Fixed maturities                       | \$ 200,462                                  | \$ (98,711)                   |
| Equity securities                      | 217,057                                     | 79,400                        |
| Short-term investments                 | 46                                          | 7                             |
| Net increase (decrease)                | \$ 417,565                                  | \$ (19,304)                   |

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| <i>(dollars in thousands)</i>    | <b>Nine Months Ended September 30,</b> |              |
|----------------------------------|----------------------------------------|--------------|
|                                  | <b>2009</b>                            | <b>2008</b>  |
| Realized gains:                  |                                        |              |
| Sales of fixed maturities        | \$ 3,741                               | \$ 9,425     |
| Sales of equity securities       | 1,232                                  | 65,948       |
| Other                            | 4,562                                  | 1,267        |
| Total realized gains             | 9,535                                  | 76,640       |
| Realized losses:                 |                                        |              |
| Sales of fixed maturities        | (23,955)                               | (85,495)     |
| Sales of equity securities       | (57)                                   | (3,657)      |
| Other-than-temporary impairments | (85,912)                               | (187,145)    |
| Other                            |                                        | (590)        |
| Total realized losses            | (109,924)                              | (276,887)    |
| Net realized investment losses   | \$ (100,389)                           | \$ (200,247) |
| Change in net unrealized gains:  |                                        |              |
| Fixed maturities                 | \$ 324,951                             | \$ (207,443) |
| Equity securities                | 240,345                                | (166,468)    |
| Short-term investments           | 5                                      | 7            |
| Net increase (decrease)          | \$ 565,301                             | \$ (373,904) |

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

| <i>(dollars in thousands)</i>          | <b>Quarter Ended</b> |             |
|----------------------------------------|----------------------|-------------|
|                                        | <b>September 30,</b> | <b>2008</b> |
|                                        | <b>2009</b>          | <b>2008</b> |
| Fixed maturities:                      |                      |             |
| Corporate bonds                        | \$ (1,599)           | \$ (30,881) |
| Residential mortgage-backed securities | (85)                 |             |
| Other                                  |                      |             |
| Total fixed maturities                 | (1,684)              | (30,881)    |
| Equity securities:                     |                      |             |
| Insurance companies, banks and trusts  | (280)                | (11)        |
| Industrial, consumer and all other     |                      | (54,715)    |
| Total equity securities                | (280)                | (54,726)    |
| Preferred stock                        |                      | (9,000)     |
| Investments in affiliates              | (20,468)             |             |
| Total                                  | \$ (22,432)          | \$ (94,607) |



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| <i>(dollars in thousands)</i>          | Nine Months Ended<br>September 30, |              |
|----------------------------------------|------------------------------------|--------------|
|                                        | 2009                               | 2008         |
| Fixed maturities:                      |                                    |              |
| Corporate bonds                        | \$ (7,310)                         | \$ (32,407)  |
| Residential mortgage-backed securities | (2,121)                            |              |
| Other                                  | (1,487)                            |              |
| Total fixed maturities                 | (10,918)                           | (32,407)     |
| Equity securities:                     |                                    |              |
| Insurance companies, banks and trusts  | (15,978)                           | (69,275)     |
| Industrial, consumer and all other     | (38,548)                           | (76,463)     |
| Total equity securities                | (54,526)                           | (145,738)    |
| Preferred stock                        |                                    | (9,000)      |
| Investments in affiliates              | (20,468)                           |              |
| Total                                  | \$ (85,912)                        | \$ (187,145) |

Total write downs for other-than-temporary declines in the estimated fair value of investments for the third quarter of 2009 were \$26.7 million, of which \$22.4 million was recognized in net income and \$4.2 million was recognized in other comprehensive income. The write downs for other-than-temporary declines in the estimated fair value of investments for the third quarter of 2009 related to one equity security, four fixed maturities and one investment in affiliate. Total write downs for other-than-temporary declines in the estimated fair value of investments for the nine months ended September 30, 2009 were \$93.9 million, of which \$85.9 million was recognized in net income and \$8.0 million was recognized in other comprehensive income. The write downs for other-than-temporary declines in the estimated fair value of investments for the nine months ended September 30, 2009 related to 29 equity securities, 14 fixed maturities and one investment in affiliate. Write downs for the nine months ended September 30, 2009 included write downs to the Company's equity holdings in General Electric Company and United Parcel Service, Inc. of \$21.0 million and \$9.5 million, respectively. Given the extent to which the fair value of these equity securities was below cost and management's belief that these securities were unlikely to recover in the near term, the decline in fair value for these securities was deemed other-than-temporary and was recognized in net income. The write down related to an investment in affiliate, which is accounted for under the equity method of accounting, was due to an anticipated merger that is expected to reduce the value of the Company's investment. Net realized investment losses included \$94.6 million and \$187.1 million of write downs for other-than-temporary declines in the estimated fair value of investments for the quarter and nine months ended September 30, 2008, respectively.

#### 5. Long-term Debt

On September 22, 2009, the Company issued \$350 million of 7.125% unsecured senior notes due September 30, 2019. Net proceeds to the Company were \$347.2 million, which will be used for general corporate purposes, including acquisitions.

On September 14, 2009, the Company repaid \$150 million of borrowings that were outstanding under its revolving credit facility.

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6. Segment Reporting Disclosures

The Company operates in three segments of the specialty insurance marketplace: the Excess and Surplus Lines, the Specialty Admitted and the London markets.

All investing activities are included in the Investing segment. For purposes of segment reporting, the Other segment includes lines of business that have been discontinued in conjunction with an acquisition.

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.

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 (loss) or net income (loss) 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.

The Company does not allocate assets to the Excess and Surplus Lines, Specialty Admitted and London Insurance Market operating segments for management reporting purposes. Total invested assets and the related net investment income are allocated to the Investing segment since these assets are available for payment of losses and expenses for all operating segments. The Company does not allocate capital expenditures for long-lived assets to any of its operating segments for management reporting purposes.

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

| <i>(dollars in thousands)</i>                    | Quarter Ended September 30, 2009 |                       |                               |           |                   |              |
|--------------------------------------------------|----------------------------------|-----------------------|-------------------------------|-----------|-------------------|--------------|
|                                                  | Excess and<br>Surplus Lines      | Specialty<br>Admitted | London<br>Insurance<br>Market | Investing | Other             | Consolidated |
| Gross premium volume                             | \$ 246,790                       | \$ 86,146             | \$ 151,768                    | \$        | \$ 73             | \$ 484,777   |
| Net written premiums                             | 219,237                          | 79,135                | 132,543                       |           | 40                | 430,955      |
| Earned premiums                                  | \$ 226,650                       | \$ 73,456             | \$ 148,252                    | \$        | \$ 40             | \$ 448,398   |
| Losses and loss adjustment expenses:             |                                  |                       |                               |           |                   |              |
| Current year                                     | 149,946                          | 46,448                | 102,426                       |           |                   | 298,820      |
| Prior years                                      | (37,494)                         | (4,375)               | (29,273)                      |           | 9,653             | (61,489)     |
| Underwriting, acquisition and insurance expenses | 100,203                          | 30,867                | 62,171                        |           | (154)             | 193,087      |
| Underwriting profit (loss)                       | 13,995                           | 516                   | 12,928                        |           | (9,459)           | 17,980       |
| Net investment income                            |                                  |                       |                               | 66,663    |                   | 66,663       |
| Net realized investment losses                   |                                  |                       |                               | (29,770)  |                   | (29,770)     |
| Segment profit (loss)                            | \$ 13,995                        | \$ 516                | \$ 12,928                     | \$ 36,893 | \$ (9,459)        | \$ 54,873    |
| Amortization of intangible assets                |                                  |                       |                               |           |                   | 1,179        |
| Interest expense                                 |                                  |                       |                               |           |                   | 12,000       |
| Income before income taxes                       |                                  |                       |                               |           |                   | \$ 41,694    |
| U.S. GAAP combined ratio <sup>(1)</sup>          | 94%                              | 99%                   | 91%                           |           | NM <sup>(2)</sup> | 96%          |

| <i>(dollars in thousands)</i>                    | Quarter Ended September 30, 2008 |                       |                               |              |                   |              |
|--------------------------------------------------|----------------------------------|-----------------------|-------------------------------|--------------|-------------------|--------------|
|                                                  | Excess<br>and<br>Surplus Lines   | Specialty<br>Admitted | London<br>Insurance<br>Market | Investing    | Other             | Consolidated |
| Gross premium volume                             | \$ 298,180                       | \$ 99,050             | \$ 166,484                    | \$           | \$ 182            | \$ 563,896   |
| Net written premiums                             | 264,974                          | 91,447                | 141,541                       |              | 141               | 498,103      |
| Earned premiums                                  | \$ 275,893                       | \$ 78,707             | \$ 161,320                    | \$           | \$ 143            | \$ 516,063   |
| Losses and loss adjustment expenses:             |                                  |                       |                               |              |                   |              |
| Current year                                     | 230,157                          | 72,079                | 173,667                       |              |                   | 475,903      |
| Prior years                                      | (24,545)                         | (5,253)               | (13,603)                      |              | 23,670            | (19,731)     |
| Underwriting, acquisition and insurance expenses | 96,576                           | 29,806                | 59,078                        |              | 746               | 186,206      |
| Underwriting loss                                | (26,295)                         | (17,925)              | (57,822)                      |              | (24,273)          | (126,315)    |
| Net investment income                            |                                  |                       |                               | 68,232       |                   | 68,232       |
| Net realized investment losses                   |                                  |                       |                               | (168,679)    |                   | (168,679)    |
| Segment loss                                     | \$ (26,295)                      | \$ (17,925)           | \$ (57,822)                   | \$ (100,447) | \$ (24,273)       | \$ (226,762) |
| Amortization of intangible assets                |                                  |                       |                               |              |                   | 1,141        |
| Interest expense                                 |                                  |                       |                               |              |                   | 11,024       |
| Loss before income taxes                         |                                  |                       |                               |              |                   | \$ (238,927) |
| U.S. GAAP combined ratio <sup>(1)</sup>          | 110%                             | 123%                  | 136%                          |              | NM <sup>(2)</sup> | 124%         |

<sup>(1)</sup> 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.

<sup>(2)</sup> NM Ratio is not meaningful.

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| <b>Nine Months Ended September 30, 2009</b>      |                                     |                               |                                        |                  |                   |                     |
|--------------------------------------------------|-------------------------------------|-------------------------------|----------------------------------------|------------------|-------------------|---------------------|
| <i>(dollars in thousands)</i>                    | <b>Excess and<br/>Surplus Lines</b> | <b>Specialty<br/>Admitted</b> | <b>London<br/>Insurance<br/>Market</b> | <b>Investing</b> | <b>Other</b>      | <b>Consolidated</b> |
| Gross premium volume                             | \$ 740,485                          | \$ 226,697                    | \$ 509,967                             | \$               | \$ 139            | \$ 1,477,288        |
| Net written premiums                             | 666,237                             | 209,007                       | 450,099                                |                  | (140)             | 1,325,203           |
| Earned premiums                                  | \$ 717,453                          | \$ 226,945                    | \$ 416,600                             | \$               | \$ (140)          | \$ 1,360,858        |
| Losses and loss adjustment expenses:             |                                     |                               |                                        |                  |                   |                     |
| Current year                                     | 491,669                             | 145,930                       | 295,202                                |                  |                   | 932,801             |
| Prior years                                      | (88,514)                            | (4,802)                       | (67,169)                               |                  | 4,565             | (155,920)           |
| Underwriting, acquisition and insurance expenses | 297,163                             | 84,242                        | 159,320                                |                  | 593               | 541,318             |
| Underwriting profit (loss)                       | 17,135                              | 1,575                         | 29,247                                 |                  | (5,298)           | 42,659              |
| Net investment income                            |                                     |                               |                                        | 200,765          |                   | 200,765             |
| Net realized investment losses                   |                                     |                               |                                        | (100,389)        |                   | (100,389)           |
| Segment profit (loss)                            | \$ 17,135                           | \$ 1,575                      | \$ 29,247                              | \$ 100,376       | \$ (5,298)        | \$ 143,035          |
| Amortization of intangible assets                |                                     |                               |                                        |                  |                   | 3,536               |
| Interest expense                                 |                                     |                               |                                        |                  |                   | 34,984              |
| Income before income taxes                       |                                     |                               |                                        |                  |                   | \$ 104,515          |
| U.S. GAAP combined ratio <sup>(1)</sup>          | 98%                                 | 99%                           | 93%                                    |                  | NM <sup>(2)</sup> | 97%                 |

| <b>Nine Months Ended September 30, 2008</b>      |                                     |                               |                                        |                  |                   |                     |
|--------------------------------------------------|-------------------------------------|-------------------------------|----------------------------------------|------------------|-------------------|---------------------|
| <i>(dollars in thousands)</i>                    | <b>Excess and<br/>Surplus Lines</b> | <b>Specialty<br/>Admitted</b> | <b>London<br/>Insurance<br/>Market</b> | <b>Investing</b> | <b>Other</b>      | <b>Consolidated</b> |
| Gross premium volume                             | \$ 909,031                          | \$ 266,238                    | \$ 571,819                             | \$               | \$ 473            | \$ 1,747,561        |
| Net written premiums                             | 799,906                             | 242,082                       | 500,147                                |                  | 153               | 1,542,288           |
| Earned premiums                                  | \$ 826,856                          | \$ 234,154                    | \$ 459,022                             | \$               | \$ 155            | \$ 1,520,187        |
| Losses and loss adjustment expenses:             |                                     |                               |                                        |                  |                   |                     |
| Current year                                     | 579,281                             | 169,586                       | 379,003                                |                  |                   | 1,127,870           |
| Prior years                                      | (72,300)                            | (9,766)                       | (42,655)                               |                  | 25,856            | (98,865)            |
| Underwriting, acquisition and insurance expenses | 290,943                             | 90,164                        | 173,077                                |                  | (2,115)           | 552,069             |
| Underwriting profit (loss)                       | 28,932                              | (15,830)                      | (50,403)                               |                  | (23,586)          | (60,887)            |
| Net investment income                            |                                     |                               |                                        | 220,765          |                   | 220,765             |
| Net realized investment losses                   |                                     |                               |                                        | (200,247)        |                   | (200,247)           |
| Segment profit (loss)                            | \$ 28,932                           | \$ (15,830)                   | \$ (50,403)                            | \$ 20,518        | \$ (23,586)       | \$ (40,369)         |
| Amortization of intangible assets                |                                     |                               |                                        |                  |                   | 3,239               |
| Interest expense                                 |                                     |                               |                                        |                  |                   | 35,789              |
| Loss before income taxes                         |                                     |                               |                                        |                  |                   | \$ (79,397)         |
| U.S. GAAP combined ratio <sup>(1)</sup>          | 97%                                 | 107%                          | 111%                                   |                  | NM <sup>(2)</sup> | 104%                |

<sup>(1)</sup> 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.

<sup>(2)</sup> NM Ratio is not meaningful.

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

|                               | September 30, | December 31, |
|-------------------------------|---------------|--------------|
| <i>(dollars in thousands)</i> | 2009          | 2008         |
| Segment Assets:               |               |              |
| Investing                     | \$ 7,971,387  | \$ 6,908,456 |
| Other                         | 2,230,266     | 2,569,234    |
| Total Assets                  | \$ 10,201,653 | \$ 9,477,690 |
| 7. Derivatives                |               |              |

In 2007, the Company entered into a credit default swap agreement, under which third party credit risk was transferred from a counterparty to the Company in exchange for \$30.0 million. The Company entered into the credit default swap agreement for investment purposes. The initial notional amount of the credit default swap was \$50.0 million, which represented the Company's aggregate exposure to losses if specified credit events involving third party reference entities occur. These third party reference entities are specified under the terms of the agreement and represent a portfolio of names upon which the Company has assumed credit risk from the counterparty. The Company's exposure to loss from any one reference entity is limited to \$20.0 million. The credit default swap has a scheduled termination date of December 2014.

The credit default swap is accounted for as a derivative instrument and is recorded at fair value with any changes in fair value recorded in net investment income. At September 30, 2009, the credit default swap had a fair value of \$27.0 million. 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 sheet. For the quarter and nine months ended September 30, 2009, net investment income included a favorable change in the fair value of the credit default swap of \$0.6 million and \$3.0 million, respectively. For the quarter and nine months ended September 30, 2008, net investment income included an adverse change in the fair value of the credit default swap of \$7.7 million and \$11.7 million, respectively.

Since entering into the credit default swap agreement, the Company has paid \$16.9 million to settle its obligations related to credit events. These payments reduced the Company's liability related to its credit default swap; as a result, the notional amount for which the Company has exposure decreased to \$33.1 million.

The Company had no other material derivative instruments at September 30, 2009.

#### 8. Employee Benefit Plans

a) Expenses relating to all of the Company's defined contribution plans were \$3.3 million and \$9.4 million, respectively, for the quarter and nine months ended September 30, 2009 and \$3.3 million and \$10.0 million, respectively, for the same periods in 2008.

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

| <i>(dollars in thousands)</i>              | Quarter Ended      |                    | Nine Months Ended  |                    |
|--------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                            | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Service cost                               | \$ 428             | \$ 511             | \$ 1,222           | \$ 1,552           |
| Interest cost                              | 1,527              | 1,541              | 4,355              | 4,678              |
| Expected return on plan assets             | (1,743)            | (1,899)            | (4,973)            | (5,763)            |
| Amortization of net actuarial pension loss | 517                | 422                | 1,474              | 1,278              |
| Net periodic benefit cost                  | \$ 729             | \$ 575             | \$ 2,078           | \$ 1,745           |

The Company contributed \$6.4 million to the Terra Nova Pension Plan during the nine months ended September 30, 2009. The Company expects plan contributions to approximate \$6.7 million in 2009.

#### 9. Income Taxes

The Company recognized an income tax benefit of \$3.8 million for the nine months ended September 30, 2009 compared to an income tax benefit of \$53.3 million for the same period of 2008. The tax benefit for the nine months ended September 30, 2009 included a benefit of approximately \$25 million related to a change in United Kingdom tax law that became effective in the third quarter of 2009. This change in tax law allowed the Company to translate the value of its United Kingdom net operating losses at more favorable, historical currency exchange rates. Before considering the change in United Kingdom tax law, the Company's estimated annual effective tax rate for the nine months ended September 30, 2009 was 20%, which differs from the statutory rate of 35% primarily as a result of tax-exempt investment income. The provision for income tax benefit for the nine months ended September 30, 2008 reflected an effective rate of 67% and was calculated based on actual loss before income taxes and estimated permanent differences through that date. The rate of tax benefit was higher than that obtained by applying the statutory rate of 35% to our loss before income taxes in 2008 due to the additional tax benefits associated with favorable permanent differences, principally tax-exempt investment income.

#### 10. Contingencies

On February 10, 2009, Guaranty Bank, an insured under a program written by the Company covering financial institutions against defaults on second mortgages and home equity loans, filed a lawsuit against the Company's subsidiary, Evanston Insurance Company (Evanston), and the managing general agent for the program, Universal Assurors Agency, Inc., in the United States District Court for the Eastern District of Wisconsin. The lawsuit alleges violations of the Wisconsin insurance code relating to Guaranty Bank's policy, which has been in force since 2004, and seeks, among other things, the return of all premiums paid under the policy and a declaration requiring continued coverage of losses notwithstanding the claim for return of premiums paid.

Premiums paid from inception of Guaranty Bank's policy through September 30, 2009 have been approximately \$49 million and covered losses have been approximately \$38 million. At September 30, 2009, the policy insured a portfolio of loans totaling approximately \$568 million, and the limit of the Company's liability for additional losses with respect to the covered loans is estimated to be approximately \$118 million.

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On March 23, 2009, Guaranty Bank filed a motion for a preliminary injunction with the court, asking that it be relieved from paying premiums while the litigation is pending, with the Company still being required to pay losses. On July 14, 2009, the court issued an order denying the motion for a preliminary injunction.

In October 2009, the Company was separately notified that the Office of the Commissioner of Insurance of Wisconsin had undertaken an investigation and was alleging that the insurance policies written by Evanston in Wisconsin, including Guaranty Bank's policy, were mortgage guaranty insurance and could not be written on a surplus lines basis in that state. In settlement of the allegations and without admitting any violation, Evanston has agreed to pay a fine of \$100,000 and to refrain from writing similar policies in the future. The Guaranty Bank policy accounts for over 95% of the premiums written under this program in Wisconsin.

While the Company does not believe Guaranty Bank is entitled to the relief it has sought, the final outcome of the lawsuit cannot be predicted at this time.

Other 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.

11. Recent Accounting Pronouncements

Effective April 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320-10-65, *Investments - Debt and Equity Securities*. This guidance amends the requirements for recognizing other-than-temporary impairment on debt securities and modifies the presentation of other-than-temporary impairment losses in the financial statements. The guidance requires other-than-temporary impairment of a debt security to be separated into two components when there are credit-related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost. The amount of the other-than-temporary impairment related to a credit loss is recognized in net income (loss), and the amount of the other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss), net of applicable taxes. The guidance also expands disclosure requirements related to other-than-temporary impairment, but does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

Upon adoption of FASB ASC 320-10-65, the Company recorded an increase of \$15.3 million, net of taxes, to the opening balance of retained earnings with a corresponding decrease to accumulated other comprehensive income to reclassify the non-credit portion of previously recognized other-than-temporary impairment losses on debt securities held as of April 1, 2009 for which the Company did not intend to sell the securities and did not believe that it would be required to sell the securities before recovery of their amortized cost.

Effective in the second quarter of 2009, the Company adopted FASB ASC 820-10-65, *Fair Value Measurements and Disclosures*, which provides additional guidance on how to estimate fair value when the volume and level of market activity for an asset or liability have significantly decreased. Under the provisions of this guidance, if an entity determines that there has been a significant decrease in the volume and level of activity for an asset or liability (or similar assets or liabilities), then transactions or quoted prices may not accurately reflect fair value. In such instances, further analysis of the transactions or quoted prices is required, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value. FASB

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ASC 820-10-65 also provides guidance on identifying circumstances that may indicate a transaction is not orderly. Under the provisions of this guidance, if evidence indicates that a transaction is not orderly, an entity should place little, if any, weight on that transaction price when estimating fair value. The adoption of FASB ASC 820-10-65 did not have a material impact on the Company's financial position, results of operations or cash flows.

Effective in the second quarter of 2009, the Company adopted FASB ASC 825-10-65, *Financial Instruments*. This guidance requires disclosures about the fair value of financial instruments to be included in interim financial statements, adding to the existing requirement to provide those disclosures in annual financial statements. This guidance also requires entities to disclose the methods and significant assumptions used to estimate the fair value of financial instruments and to highlight any changes in these methods and assumptions from prior periods. Since FASB ASC 825-10-65 addresses financial statement disclosures only, the adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

Effective in the second quarter of 2009, the Company adopted FASB ASC 855-10, *Subsequent Events*, which provides guidance on the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued Statement of Financial Accounting Standards (Statement) No. 167, *Amendments to FASB Interpretation No. 46(R)*. This guidance removes the scope exception for qualifying special-purpose entities, includes new criteria for determining the primary beneficiary of a variable interest entity and increases the frequency of required assessments to determine whether an entity is the primary beneficiary of a variable interest entity. Statement No. 167 becomes effective for the Company beginning January 1, 2010. The Company is currently evaluating Statement No. 167 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

### 12. Fair Value Measurements

Effective January 1, 2008, the Company adopted FASB ASC 820-10, *Fair Value Measurements and Disclosures*. This guidance establishes a framework for measuring fair value, clarifies the definition of fair value within that framework and expands disclosure requirements regarding the use of fair value measurements. The adoption of FASB ASC 820-10 did not have a material impact on the Company's financial position, results of operations or cash flows.

In February 2008, the FASB issued FASB ASC 820-10-55, *Fair Value Measurements and Disclosure Implementation Guidance and Illustrations*. This guidance deferred the effective date of FASB ASC 820 for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, until January 1, 2009. The adoption of FASB ASC 820-10-55 did not have an impact on the Company's financial position, results of operations or cash flows.

FASB ASC 820-10 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



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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.

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 and corporate debt securities.

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

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2009, by level within the fair value hierarchy.

| <i>(dollars in thousands)</i>                                        | Level 1 | Level 2    | Level 3   | Total      |
|----------------------------------------------------------------------|---------|------------|-----------|------------|
| <b>Assets:</b>                                                       |         |            |           |            |
| Investments available-for-sale:                                      |         |            |           |            |
| Fixed maturities:                                                    |         |            |           |            |
| U.S. Treasury securities and obligations of U.S. government agencies | \$      | \$ 385,922 | \$        | \$ 385,922 |
| Obligations of states, municipalities and political subdivisions     |         | 2,088,495  |           | 2,088,495  |
| Foreign governments                                                  |         | 330,509    |           | 330,509    |
| Residential mortgage-backed securities                               |         | 436,699    |           | 436,699    |
| Asset-backed securities                                              |         | 26,859     |           | 26,859     |
| Public utilities                                                     |         | 150,230    |           | 150,230    |
| Convertible bonds                                                    |         | 29,531     |           | 29,531     |
| All other corporate bonds                                            |         | 1,462,494  |           | 1,462,494  |
| Total fixed maturities                                               |         | 4,910,739  |           | 4,910,739  |
| Equity securities:                                                   |         |            |           |            |
| Insurance companies, banks and trusts                                |         | 585,065    |           | 585,065    |
| Industrial, consumer and all other                                   |         | 694,825    |           | 694,825    |
| Total equity securities                                              |         | 1,279,890  |           | 1,279,890  |
| Short-term investments                                               |         | 618,609    |           | 666,310    |
| Total investments available-for-sale                                 |         | 1,898,499  |           | 6,856,939  |
| <b>Liabilities:</b>                                                  |         |            |           |            |
| Derivative contracts                                                 | \$      | \$         | \$ 26,981 | \$ 26,981  |

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

| <i>(dollars in thousands)</i>                                                                                 | <b>Derivatives</b>      |
|---------------------------------------------------------------------------------------------------------------|-------------------------|
| Beginning balance as of June 30, 2009                                                                         | \$ 27,630               |
| Total net gains included in:                                                                                  |                         |
| Net income                                                                                                    | (649)                   |
| Other comprehensive income                                                                                    |                         |
| Net transfers into (out of) Level 3                                                                           |                         |
| Ending balance as of September 30, 2009                                                                       | \$ 26,981               |
| Net unrealized gains included in net income for the period relating to liabilities held at September 30, 2009 | \$ 649 <sup>(1)</sup>   |
| <br>                                                                                                          |                         |
| <i>(dollars in thousands)</i>                                                                                 | <b>Derivatives</b>      |
| Beginning balance as of January 1, 2009                                                                       | \$ 29,964               |
| Total net gains included in:                                                                                  |                         |
| Net income                                                                                                    | (2,983)                 |
| Other comprehensive income                                                                                    |                         |
| Net transfers into (out of) Level 3                                                                           |                         |
| Ending balance as of September 30, 2009                                                                       | \$ 26,981               |
| Net unrealized gains included in net income for the period relating to liabilities held at September 30, 2009 | \$ 2,983 <sup>(1)</sup> |

<sup>(1)</sup> Included in net investment income in the consolidated statements of operations and comprehensive income (loss). The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the nine months ended September 30, 2009.

The estimated fair value of the Company's long-term debt is based on quoted market prices.

### 13. Subsequent Events

On October 1, 2009, the Company acquired a Canadian managing general agent that provides insurance underwriting and administrative services to insurers. In connection with this acquisition, the Company paid approximately \$70 million.

The Company evaluated subsequent events through the date the accompanying financial statements were issued, which was November 4, 2009.

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### 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 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 2008 Annual Report on Form 10-K for a more complete description of our critical accounting estimates.

#### **Our Business**

We market and underwrite specialty insurance products and programs to a variety of niche markets and 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. Our financial goals are to earn consistent underwriting 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. In 2008, our Excess and Surplus Lines segment was comprised of four underwriting units, each with product-focused specialists servicing brokers, agents and insureds across the United States from their respective underwriting unit locations. In late March 2009, we transitioned the four underwriting units included in our Excess and Surplus Lines segment to a customer-focused regional office model as part of our previously announced "One Markel" initiative. Under this new model, each of our five regional offices will be responsible for serving the needs of the wholesale producers located in its region. The underwriters at our regional offices have access to and expertise in all of our product offerings and are located closer to our producers.

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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 and personal and commercial property and liability coverages. During 2009, our Specialty Admitted segment consists of two underwriting units. Our Specialty Admitted segment included a third underwriting unit, Markel Global Marine and Energy, until late 2008 when we decided to close that unit and place its programs into run-off.

Our London Insurance Market segment writes specialty property, casualty, professional liability and marine 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 segment includes lines of business that have been discontinued in conjunction with an acquisition.

**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. We recognize that it is difficult to grow book value consistently each year, so 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 compares the components of net income (loss).

| <i>(dollars in thousands)</i>     | Quarter Ended<br>September 30, |              | Nine Months Ended<br>September 30, |             |
|-----------------------------------|--------------------------------|--------------|------------------------------------|-------------|
|                                   | 2009                           | 2008         | 2009                               | 2008        |
| Underwriting profit (loss)        | \$ 17,980                      | \$ (126,315) | \$ 42,659                          | \$ (60,887) |
| Net investment income             | 66,663                         | 68,232       | 200,765                            | 220,765     |
| Net realized investment losses    | (29,770)                       | (168,679)    | (100,389)                          | (200,247)   |
| Amortization of intangible assets | (1,179)                        | (1,141)      | (3,536)                            | (3,239)     |
| Interest expense                  | (12,000)                       | (11,024)     | (34,984)                           | (35,789)    |
| Income tax benefit                | 17,432                         | 96,640       | 3,767                              | 53,340      |
| Net income (loss)                 | \$ 59,126                      | \$ (142,287) | \$ 108,282                         | \$ (26,057) |

The results for both the quarter and nine months ended September 30, 2009 improved primarily due to better underwriting performance as a result of a benign hurricane season and increased underwriting profits from our international operations, as well as lower net realized investment losses as compared to the same periods of 2008. Both periods of 2008 included \$115.1 million of underwriting loss related to Hurricanes Gustav and Ike (2008 Hurricanes). The components of net income (loss) are discussed in further detail under Underwriting Results, Investing Results and Other Expenses.

**Table of Contents****Underwriting Results**

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

The following table compares selected data from our underwriting operations.

| <i>(dollars in thousands)</i>                    | Quarter Ended<br>September 30, |                   | Nine Months Ended<br>September 30, |                   |
|--------------------------------------------------|--------------------------------|-------------------|------------------------------------|-------------------|
|                                                  | 2009                           | 2008              | 2009                               | 2008              |
| Gross premium volume                             | \$ 484,777                     | \$ 563,896        | \$ 1,477,288                       | \$ 1,747,561      |
| Net written premiums                             | \$ 430,955                     | \$ 498,103        | \$ 1,325,203                       | \$ 1,542,288      |
| Net retention                                    | 89%                            | 88%               | 90%                                | 88%               |
| Earned premiums                                  | \$ 448,398                     | \$ 516,063        | \$ 1,360,858                       | \$ 1,520,187      |
| Losses and loss adjustment expenses              | \$ 237,331                     | \$ 456,172        | \$ 776,881                         | \$ 1,029,005      |
| Underwriting, acquisition and insurance expenses | \$ 193,087                     | \$ 186,206        | \$ 541,318                         | \$ 552,069        |
| Underwriting profit (loss)                       | \$ 17,980                      | \$ (126,315)      | \$ 42,659                          | \$ (60,887)       |
| U.S. GAAP Combined Ratios <sup>(1)</sup>         |                                |                   |                                    |                   |
| Excess and Surplus Lines                         | 94%                            | 110%              | 98%                                | 97%               |
| Specialty Admitted                               | 99%                            | 123%              | 99%                                | 107%              |
| London Insurance Market                          | 91%                            | 136%              | 93%                                | 111%              |
| Other                                            | NM <sup>(2)</sup>              | NM <sup>(2)</sup> | NM <sup>(2)</sup>                  | NM <sup>(2)</sup> |
| Markel Corporation (Consolidated)                | 96%                            | 124%              | 97%                                | 104%              |

<sup>(1)</sup> 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.

<sup>(2)</sup> NM Ratio is not meaningful.

Our combined ratio was 96% and 97%, respectively, for the quarter and nine months ended September 30, 2009 compared to 124% (including 22 points of losses on the 2008 Hurricanes) and 104% (including 8 points of losses on the 2008 Hurricanes), respectively, for the same periods in 2008. Aside from the impact of the 2008 Hurricanes, the combined ratio for the third quarter of 2009 decreased as compared to the same period of 2008 due to a lower current accident year loss ratio and more favorable development of prior years' loss reserves, offset in part by a higher expense ratio. Aside from the impact of the 2008 Hurricanes, the combined ratio for the nine months ended September 30, 2009 increased as compared to the same period of 2008 due to a higher expense ratio and a higher current accident year loss ratio, which were partially offset by more favorable development of prior years' loss reserves. The expense ratio for the quarter and nine months ended September 30, 2009 included approximately \$6 million and \$24 million, respectively, of costs associated with the implementation of our One Markel initiative, which represents one and two points, respectively, on the combined ratio for the quarter and nine months ended September 30, 2009. The expense ratio for the quarter and nine months ended September 30, 2008 included approximately \$4 million and \$8 million, respectively, of costs associated with our One Markel initiative, which represented less than one point on the combined ratio in each period of 2008.

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The combined ratio for the Excess and Surplus Lines segment was 94% and 98%, respectively, for the quarter and nine months ended September 30, 2009 compared to 110% (including 15 points of losses on the 2008 Hurricanes) and 97% (including 5 points of losses on the 2008 Hurricanes), respectively, for the same periods in 2008. Aside from the impact of the storms, the improved combined ratio for the third quarter of 2009 was primarily due to greater favorable development of prior years' loss reserves, which was partially offset by a higher expense ratio compared to the same period of 2008. Aside from the impact of the storms, the increase in the combined ratio for the nine months ended September 30, 2009 was due to a higher current accident year loss ratio and a higher expense ratio, which were partially offset by more favorable development of prior years' loss reserves compared to the same period in 2008. The higher expense ratio in both periods of 2009 was due in part to a decline in earned premiums and to costs associated with the implementation of our One Markel initiative. For the third quarter of 2009, the expense ratio also increased due to higher profit sharing costs as a result of improved underwriting and investing results. For the nine months ended September 30, 2009, the higher current accident year loss ratio was due in part to higher than expected incurred losses during 2009 in certain professional liability programs, most notably our architects and engineers book of business, as a result of recent economic conditions.

The Excess and Surplus Lines segment's combined ratio for the quarter and nine months ended September 30, 2009 included \$37.5 million and \$88.5 million, respectively, of favorable development on prior years' loss reserves compared to \$24.5 million and \$72.3 million, respectively, for the same periods in 2008. The redundancies on prior years' loss reserves experienced within the Excess and Surplus Lines segment during both periods of 2009 and 2008 were primarily on our professional and products liability programs due to lower loss severity than originally anticipated. As the average claim severity estimates on these long-tailed books of business have decreased, our actuarial estimates of the ultimate liability for unpaid losses and loss adjustment expenses were reduced, and management reduced prior years' loss reserves accordingly.

The combined ratio for the Specialty Admitted segment was 99% for both the quarter and nine months ended September 30, 2009 compared to 123% (including 18 points of losses on the 2008 Hurricanes) and 107% (including 6 points of losses on the 2008 Hurricanes), respectively, for the same periods in 2008. Aside from the impact of the storms, the combined ratio benefited in both periods of 2009 from a lower current accident year loss ratio compared to the same periods of 2008. In both periods of 2008, the current accident year loss ratio was adversely impacted by a greater than expected incidence of high severity property losses at the Markel Specialty Program Insurance unit. The Specialty Admitted segment's combined ratio for the quarter and nine months ended September 30, 2009 included \$4.4 million and \$4.8 million, respectively, of favorable development on prior years' loss reserves compared to \$5.3 million and \$9.8 million, respectively, for the same periods in 2008.

The combined ratio for the London Insurance Market segment was 91% and 93%, respectively, for the quarter and nine months ended September 30, 2009 compared to 136% (including 36 points of losses on the 2008 Hurricanes) and 111% (including 13 points of losses on the 2008 Hurricanes), respectively, for the same periods in 2008. Aside from the impact of the storms, the improved combined ratio for both periods of 2009 was primarily due to greater favorable development of prior years' loss reserves. The London Insurance Market segment's combined ratio for the quarter and nine months ended September 30, 2009 included \$29.3 million and \$67.2 million, respectively, of favorable development on prior years' loss reserves compared to \$13.6 million and \$42.7 million, respectively, for the same periods in 2008. During both periods of 2009, actual

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incurred losses and loss adjustment expenses on reported claims for the 2003 to 2006 accident years were less than we expected in our actuarial analyses. This favorable experience occurred in a variety of programs across each of our divisions, most notably the professional liability programs at the Retail and Professional and Financial Risks divisions.

The Other segment produced an underwriting loss of \$9.5 million and \$5.3 million, respectively, for the quarter and nine months ended September 30, 2009 compared to an underwriting loss of \$24.3 million and \$23.6 million, respectively, for the same periods in 2008. The underwriting loss for both the quarter and nine months ended September 30, 2009 included \$10.0 million of loss reserve development on asbestos and environmental exposures compared to \$24.9 million in both periods of 2008. The increase in asbestos and environmental reserves in all periods was a result of the completion of our annual review of these exposures during the third quarters of 2009 and 2008. During our 2009 review, we increased our estimate of the number of claims that will ultimately be closed with an indemnity payment and, as a result, increased prior years' loss reserves accordingly. During our 2008 review, we noted that claims had been closed with total indemnity payments that were higher than had been anticipated, and as a result of this higher than expected average severity on closed claims, our actuaries updated their average severity assumptions for both open claims and claims incurred but not yet reported. The need to increase asbestos and environmental loss reserves in each of the past two years demonstrates that these reserves are subject to significant uncertainty due to potential loss severity and frequency resulting from an uncertain and unfavorable legal climate. Our asbestos and environmental reserves are not discounted to present value and are forecasted to pay out over the next 50 years. We seek to establish appropriate reserve levels for asbestos and environmental exposures; however, these reserves could be subject to increases in the future.

*Premiums and Net Retentions*

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

## Gross Premium Volume

| Quarter Ended September 30, |            | <i>(dollars in thousands)</i> | Nine Months Ended September 30, |              |
|-----------------------------|------------|-------------------------------|---------------------------------|--------------|
| 2009                        | 2008       |                               | 2009                            | 2008         |
| \$ 246,790                  | \$ 298,180 | Excess and Surplus Lines      | \$ 740,485                      | \$ 909,031   |
| 86,146                      | 99,050     | Specialty Admitted            | 226,697                         | 266,238      |
| 151,768                     | 166,484    | London Insurance Market       | 509,967                         | 571,819      |
| 73                          | 182        | Other                         | 139                             | 473          |
| \$ 484,777                  | \$ 563,896 | Total                         | \$ 1,477,288                    | \$ 1,747,561 |

Gross premium volume for the quarter and nine months ended September 30, 2009 decreased 14% and 15%, respectively, compared to the same periods in 2008. The decrease in both periods of 2009 was primarily due to continued intense competition across many of our product lines and the effects of the current economic environment. Premiums for many of our product lines are based upon our insureds' revenues, gross receipts or payroll, which have been negatively impacted by the depressed levels of business activity that began in 2008. Also contributing to the decline in gross premium volume are the effects of foreign currency exchange rate movements in our London Insurance Market segment, which accounted for two points and three points, respectively, of the decrease for the quarter and nine months ended September 30, 2009 compared to the same periods of 2008.



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In late 2008, we reviewed the pricing for all of our major product lines and began pursuing price increases in many product areas; however, as a result of continued soft insurance market conditions, our targeted price increases have been met with resistance in the marketplace, particularly within the Excess and Surplus Lines segment. During 2009, we have seen the rate of decline in prices slow and have begun to experience moderate price increases in several product lines, most notably those offered by Markel International. 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 has declined and, if the competitive environment does not improve, could decline further in the future.

## Net Written Premiums

| Quarter Ended September 30, |            | <i>(dollars in thousands)</i> | Nine Months Ended September 30, |              |
|-----------------------------|------------|-------------------------------|---------------------------------|--------------|
| 2009                        | 2008       |                               | 2009                            | 2008         |
| \$ 219,237                  | \$ 264,974 | Excess and Surplus Lines      | \$ 666,237                      | \$ 799,906   |
| 79,135                      | 91,447     | Specialty Admitted            | 209,007                         | 242,082      |
| 132,543                     | 141,541    | London Insurance Market       | 450,099                         | 500,147      |
| 40                          | 141        | Other                         | (140)                           | 153          |
| \$ 430,955                  | \$ 498,103 | Total                         | \$ 1,325,203                    | \$ 1,542,288 |

Net retention of gross premium volume was 89% and 90%, respectively, for the third quarter and nine months ended September 30, 2009 compared to 88% for both periods of 2008. 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. Net retention of gross premium volume has increased consistent with our strategy to retain more of our profitable business.

## Earned Premiums

| Quarter Ended September 30, |            | <i>(dollars in thousands)</i> | Nine Months Ended September 30, |              |
|-----------------------------|------------|-------------------------------|---------------------------------|--------------|
| 2009                        | 2008       |                               | 2009                            | 2008         |
| \$ 226,650                  | \$ 275,893 | Excess and Surplus Lines      | \$ 717,453                      | \$ 826,856   |
| 73,456                      | 78,707     | Specialty Admitted            | 226,945                         | 234,154      |
| 148,252                     | 161,320    | London Insurance Market       | 416,600                         | 459,022      |
| 40                          | 143        | Other                         | (140)                           | 155          |
| \$ 448,398                  | \$ 516,063 | Total                         | \$ 1,360,858                    | \$ 1,520,187 |

Earned premiums for the quarter and nine months ended September 30, 2009 decreased 13% and 10%, respectively, compared to the same periods in 2008. The decrease in both periods of 2009 was primarily due to lower earned premiums in the Excess and Surplus Lines segment as a result of lower gross premium volume compared to the same periods of 2008. The decrease was also due to the effects of foreign currency exchange rate movements in our London Insurance Market segment, which accounted for two points and three points, respectively, of the decrease for the quarter and nine months ended September 30, 2009 compared to the same periods of 2008.

**Investing Results**

Net investment income for the third quarter of 2009 was \$66.7 million compared to \$68.2 million for the third quarter of 2008. Net investment income for the nine months ended September 30, 2009 was \$200.8 million compared to \$220.8 million for the same period of 2008. The decrease in both periods of 2009 was primarily due to having lower yields and average invested assets compared to the same periods of 2008. Our investment yield in 2009 has declined compared to 2008 as we have increased our allocation to short-term investments and

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cash and cash equivalents and short-term interest rates have declined. Additionally, dividend income in 2009 was lower than dividend income in 2008. For the quarter and nine months ended September 30, 2009, net investment income included a favorable change in the fair value of our credit default swap of \$0.6 million and \$3.0 million, respectively, compared to an adverse change in the fair value of our credit default swap of \$7.7 million and \$11.7 million, respectively, in the same periods of 2008.

Effective April 1, 2009, we modified the presentation of other-than-temporary impairment losses in the financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification 320-10-65, *Investments-Debt and Equity Securities*. This guidance requires other-than-temporary impairment of a debt security to be separated into two components when there are credit-related losses associated with the impaired debt security for which management asserts that it does not have the intent to sell the security and it is more likely than not that it will not be required to sell the security before recovery of the security's amortized cost. The amount of the other-than-temporary impairment related to a credit loss is recognized in net income (loss), and the amount of the other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss), net of applicable taxes.

The following table compares the components of net realized investment losses.

| <i>(dollars in thousands)</i>                                                               | Quarter Ended         |              | Nine Months Ended     |              |
|---------------------------------------------------------------------------------------------|-----------------------|--------------|-----------------------|--------------|
|                                                                                             | September 30,<br>2009 | 2008         | September 30,<br>2009 | 2008         |
| Other-than-temporary impairment losses                                                      | \$ (26,651)           | \$ (94,607)  | \$ (93,888)           | \$ (187,145) |
| Less other-than-temporary impairment losses recognized in other comprehensive income (loss) | 4,219                 |              | 7,976                 |              |
| Other-than-temporary impairment losses recognized in net income (loss)                      | (22,432)              | (94,607)     | (85,912)              | (187,145)    |
| Net realized investment losses, excluding other-than-temporary impairment losses            | (7,338)               | (74,072)     | (14,477)              | (13,102)     |
| Net realized investment losses                                                              | \$ (29,770)           | \$ (168,679) | \$ (100,389)          | \$ (200,247) |

Net realized investment losses for the third quarter of 2009 were \$29.8 million compared to \$168.7 million for the third quarter of 2008. For the nine months ended September 30, 2009, net realized investment losses were \$100.4 million compared to \$200.2 million for the same period of 2008. Variability in the timing of realized and unrealized investment gains and losses is to be expected.

Total write downs for other-than-temporary declines in the estimated fair value of investments for the third quarter of 2009 were \$26.7 million, of which \$22.4 million was recognized in net income and \$4.2 million was recognized in other comprehensive income. The write downs for other-than-temporary declines in the estimated fair value of investments for the third quarter of 2009 related to one equity security, four fixed maturities and one investment in affiliate. Total write downs for other-than-temporary declines in the estimated fair value of investments for the nine months ended September 30, 2009 were \$93.9 million, of which \$85.9 million was recognized in net income and \$8.0 million was recognized in other comprehensive income. The write downs for other-than-temporary declines in the estimated fair value of investments for the nine months ended September 30, 2009 related to 29 equity securities, 14 fixed maturities and one investment in affiliate. Write downs for the nine months ended September 30, 2009 included write downs to our equity holdings in General Electric Company and United Parcel Service, Inc. of \$21.0 million and \$9.5 million, respectively. Given the extent to which the fair value of these equity securities was below cost and management's belief that these securities were

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unlikely to recover in the near term, the decline in fair value for these securities was deemed other-than-temporary and was recognized in net income. The write down related to an investment in affiliate, which is accounted for under the equity method of accounting, was due to an anticipated merger that is expected to reduce the value of our investment. Net realized investment losses included \$94.6 million and \$187.1 million of write downs for other-than-temporary declines in the estimated fair value of investments for the quarter and nine months ended September 30, 2008, respectively.

We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its costs basis is deemed other-than-temporary. At September 30, 2009, we held securities with gross unrealized losses of \$45.3 million, or less than 1% of our total invested assets. All securities with unrealized losses were reviewed, and we believe that there were no other securities with indications of declines in estimated fair value that were other-than-temporary at September 30, 2009. 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.

### Other Expenses

Interest expense for the third quarter of 2009 increased to \$12.0 million from \$11.0 million in the third quarter of 2008. The increase in the third quarter of 2009 was due to interest on the outstanding balance on our revolving credit facility and to interest on our 7.125% unsecured senior notes, which were issued in September 2009. Interest expense for the nine months ended September 30, 2009 decreased to \$35.0 million from \$35.8 million for the same period of 2008. The decrease in 2009 compared to 2008 was primarily due to the maturity of our 7.00% unsecured senior notes in May 2008.

We recognized an income tax benefit of \$3.8 million for the nine months ended September 30, 2009 compared to an income tax benefit of \$53.3 million for the same period of 2008. The income tax benefit for the nine months ended September 30, 2009 included a benefit of approximately \$25 million related to a change in United Kingdom tax law that became effective in the third quarter of 2009. This change in tax law allowed us to translate the value of our United Kingdom net operating losses at more favorable, historical currency exchange rates. Before considering the change in United Kingdom tax law, our estimated annual effective tax rate for the nine months ended September 30, 2009 was 20%, which differs from the statutory rate of 35% primarily as a result of tax-exempt investment income. The provision for income tax benefit for the nine months ended September 30, 2008 reflected an effective rate of 67% and was calculated based on actual loss before income taxes and estimated permanent differences through that date. The rate of tax benefit was higher than that obtained by applying the statutory rate of 35% to our loss before income taxes in 2008 due to the additional tax benefits associated with favorable permanent differences, principally tax-exempt investment income.

### Comprehensive Income (Loss)

Comprehensive income was \$339.9 million for the third quarter of 2009 compared to comprehensive loss of \$158.8 million for the same period of 2008. Comprehensive income for the third quarter of 2009 included an increase in net unrealized gains on investments, net of taxes, of \$277.5 million and net income of \$59.1 million. Comprehensive loss for the third quarter of 2008 included net loss of \$142.3 million and a decrease in net unrealized gains on investments, net of taxes, of \$13.1 million. For the nine months ended September 30, 2009, comprehensive income was \$509.7 million compared to comprehensive loss of \$272.4 million for the same period in 2008. Comprehensive income for the nine months ended September 30, 2009 included an increase in

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net unrealized gains on investments, net of taxes, of \$389.8 million and net income of \$108.3 million. Comprehensive loss for the nine months ended September 30, 2008 included a decrease in net unrealized gains on investments, net of taxes, of \$243.7 million and net loss of \$26.1 million.

**Financial Condition**

Invested assets were \$8.0 billion at September 30, 2009 compared to \$6.9 billion at December 31, 2008. Net unrealized gains on investments, net of taxes, were \$433.1 million at September 30, 2009 compared to \$58.7 million at December 31, 2008. Equity securities and investments in affiliates were \$1.4 billion, or 17% of invested assets, at September 30, 2009 compared to \$1.2 billion, or 17% of invested assets, at December 31, 2008.

Net cash provided by operating activities was \$216.6 million for the nine months ended September 30, 2009 compared to \$346.8 million for the same period of 2008. The decrease in 2009 was primarily due to lower cash flows from underwriting activities in the Excess and Surplus Lines segment, which was partially offset by the receipt of our 2008 federal income tax refund and lower income tax payments in 2009 compared to the same period of 2008.

Net cash provided by financing activities was \$247.2 million for the nine months ended September 30, 2009 compared to net cash used by financing activities of \$153.3 million for the same period of 2008. On September 22, 2009, we issued \$350 million of 7.125% unsecured senior notes due September 30, 2019. Net proceeds were \$347.2 million, which will be used for general corporate purposes, including acquisitions. On September 14, 2009, we repaid \$150 million of borrowings that were outstanding under our revolving credit facility. During the nine months ended September 30, 2008, we repaid \$93.1 million on our 7.00% unsecured senior notes, which matured May 15, 2008, and used \$60.2 million of cash 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 capital ratio was 26% at September 30, 2009 compared to 24% at December 31, 2008. 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 we have sufficient liquidity to meet our capital needs.

At September 30, 2009, our holding company had \$989.6 million of invested assets compared to \$650.6 million of invested assets at December 31, 2008. On October 1, 2009, we acquired a Canadian managing general agent that provides insurance underwriting and administrative services to insurers. In connection with this acquisition, we paid approximately \$70 million.

Shareholders' equity was \$2.7 billion at September 30, 2009 compared to \$2.2 billion at December 31, 2008. Book value per share increased to \$274.33 at September 30, 2009 from \$222.20 at December 31, 2008 primarily due to \$509.7 million of comprehensive income.

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### 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 for our international operations. We have no material commodity risk.

During the third quarter of 2009, 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, 2008.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. 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 90% rated A or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At September 30, 2009, approximately 2% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

The estimated fair value of our investment portfolio at September 30, 2009 was \$8.0 billion, 83% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 17% of which was invested in equity securities and investments in affiliates. At December 31, 2008, the estimated fair value of our investment portfolio was \$6.9 billion, 83% of which was invested in fixed maturities, short-term investments and cash and cash equivalents and 17% of which was invested in equity securities and investments in affiliates.

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. We evaluate the various types of securities in our investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. At September 30, 2009, we did not hold material investments in auction rate securities, loans held for sale or mortgage-backed securities backed by subprime or Alt-A collateral, which are financial instruments whose valuations, in many cases, have been significantly affected by a lack of market liquidity.

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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 Chairman and 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 have concluded that our Disclosure Controls provide reasonable assurance that the information we are required to disclose in our periodic reports is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in our internal control over financial reporting during the third quarter of 2009 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **Safe Harbor and Cautionary Statement**

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

There are risks and uncertainties that may cause actual results to differ materially from predicted results in forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additional factors that could cause actual results to differ from those predicted are set forth under Risk Factors and Safe Harbor and Cautionary Statement in our 2008 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 are legally required in certain instances to offer terrorism insurance and have attempted to manage our exposure; however, 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 is unpredictable and 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;

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economic conditions, volatility in interest and foreign currency exchange rates, and concentration of investments can have a significant impact on the fair value of fixed maturity and equity investments, as well as the carrying value of other assets and liabilities, and this impact is heightened by the current levels of market volatility;

we cannot predict the extent and duration of disruptions that have resulted from recent economic and market conditions; the effects of government intervention into the markets to address these disruptions (including, among other things, financial stability and recovery initiatives; the government's ownership interest in American International Group, Inc. and the restructuring of that company; the economic stimulus package; potential regulatory changes affecting the insurance industry and the securities and derivatives markets; and changes in tax policy); and their combined impact on our industry, business and investment portfolio;



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because of adverse conditions in the financial services industry, access to capital has generally become more difficult and/or more expensive, which may adversely affect our ability to take advantage of business opportunities as they may arise;

our new business model may take longer to implement and cost more than we anticipate and may not achieve some or all of its objectives;

if we experience a pandemic (for example, a swine flu outbreak) or a localized catastrophic event in an area where we have offices, our business operations could be adversely affected;

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 and underwriting and investment results 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.

**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 4<sup>th</sup> day of November, 2009.

Markel Corporation

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

By /s/ Richard R. Whitt, III  
Richard R. Whitt, III  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

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## Exhibit Index

| <b>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                            |
|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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 August 25, 2005, among Markel Corporation, the lenders from time to time party thereto, SunTrust Bank, as Administrative Agent and Swingline Lender, Wachovia Bank, N.A., as Syndication Agent, and Barclays Bank PLC and HSBC Bank USA, N.A., as Co-Documentation Agents (4)c |
| 4(ii)         | First Amendment dated March 17, 2006, to Credit Agreement dated August 25, 2005, among Markel Corporation, the banks and financial institutions from time to time party thereto, and SunTrust Bank, as Administrative Agent and Swingline Lender (4(ii))d                                                     |

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 September 30, 2009 and the respective Notes thereto, included in this Quarterly Report on Form 10-Q.

- |      |                                                                                            |
|------|--------------------------------------------------------------------------------------------|
| 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* |
- 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 August 20, 2007.
- c. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended September 30, 2005.
- d. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended March 31, 2006.
- \* Filed with this report.