

MARKEL CORP
Form 10-K
March 01, 2007
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**UNITED STATES SECURITIES AND
EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006

Commission File Number 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

A Virginia Corporation

IRS Employer Identification No. 54-1959284

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148

(Address of principal executive offices) (Zip code)

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

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

Common Stock, no par value, New York Stock Exchange, Inc.

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7.50% Senior Debentures due 2046, New York Stock Exchange, Inc.

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the shares of the registrant's Common Stock held by non-affiliates as of June 30, 2006 was approximately \$3,015,580,251.

The number of shares of the registrant's Common Stock outstanding at February 22, 2007: 9,963,465.

Documents Incorporated By Reference

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The portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 14, 2007, referred to in Part III.

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- (2) Schedules have been omitted since they either are not required or are not applicable, or the information called for is shown in the Consolidated Financial Statements and Notes thereto.
- (3) See Index to Exhibits for a list of Exhibits filed as part of this report
- b. See Index to Exhibits and Item 15a(3)
- c. See Index to Financial Statements and Item 15a(2)

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW

We 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.

Specialty Insurance

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

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

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

Markets

Our nine underwriting units are focused on three specialty market segments. We have five underwriting units that compete in the E&S market, three that compete in the Specialty Admitted market and one that competes in the London market.

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The E&S market focuses on hard-to-place risks and loss exposures that admitted insurers specifically refuse to write. E&S eligibility allows our insurance subsidiaries to underwrite unique loss exposures with more flexible policy forms and unregulated premium rates. This typically results in coverages that are more restrictive and more expensive than coverages in the standard admitted market. In

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2005, the E&S market represented approximately \$33 billion, or 7%, of the \$489 billion United States property and casualty (P&C) industry.⁽¹⁾

We are the sixth largest domestic E&S writer in the United States as measured by direct premium writings.⁽¹⁾ Our five underwriting units that write in the E&S market are: Essex Excess and Surplus Lines, Shand Professional/Products Liability, Markel Brokered Excess and Surplus Lines (formerly referred to as the Investors Brokered Excess and Surplus Lines unit), Markel Southwest Underwriters and Markel Re. In 2006, we wrote \$1.5 billion of business in our Excess and Surplus Lines segment.

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

Our three underwriting units that write in the Specialty Admitted market are: Markel Specialty Program Insurance, Markel American Specialty Personal and Commercial Lines and Markel Global Marine and Energy. Markel Global Marine and Energy began writing business in late 2006. In 2006, we wrote \$340 million of business in our Specialty Admitted segment.

The London market, which produced approximately \$49 billion of gross written premium in 2005, is the largest insurance market in Europe and third largest in the world.⁽²⁾ The London market is known for its ability to provide innovative, tailored coverage and capacity for unique and hard-to-place risks. It is primarily a broker market, which means that insurance brokers bring most of the business to the market. The London market is also largely a subscription market, which means that loss exposures brought into the market are typically insured by more than one insurance company or Lloyd's syndicate, often due to the high limits of insurance coverage required. We write business on both a direct and subscription basis in the London market. When we write business in the subscription market, we prefer to participate as lead underwriter in order to control underwriting terms, policy conditions and claims handling.

Gross premium written through Lloyd's syndicates represented approximately one-half of the London market's international insurance business, making Lloyd's the world's second largest commercial surplus lines insurer and sixth largest reinsurer.⁽³⁾ Corporate capital providers often provide a majority of a syndicate's capacity and also often own or control the syndicate's managing agent. This structure permits the capital provider to exert greater influence on, and demand greater accountability for, underwriting results. In 2006, corporate capital providers accounted for approximately 83% of total underwriting capacity in Lloyd's.⁽³⁾

We participate in the London market through Markel International, which includes Markel Capital Limited (Markel Capital) and Markel International Insurance Company Limited (MIICL). Markel Capital is the corporate capital provider for our syndicate at Lloyd's, Markel Syndicate 3000, which is managed by Markel Syndicate Management Limited. In 2006, we wrote \$729 million of business in our London Insurance Market segment.

⁽¹⁾ *Surplus Lines Market 2006*, A.M. Best Special Report (September 2006).

⁽²⁾ *International Financial Markets in the UK*, International Financial Services of London (November 2006).

⁽³⁾ *Lloyd's Close Up Review 2006*, Lloyd's.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

In 2006, 22% of consolidated premium writings related to foreign risks (i.e., coverage for risks located outside of the United States), of which 36% were from the United Kingdom. In 2005, 21% of our premium writings related to foreign risks, of which 42% were from the United Kingdom. In 2004, 24% of our premium writings related to foreign risks, of which 40% were from the United Kingdom. In each of these years, the United Kingdom was the only individual foreign country from which premium writings were material. Premium writings are attributed to individual countries based upon location of risk.

Competition

We compete with numerous domestic and international insurance companies and reinsurers, Lloyd's syndicates, risk retention groups, insurance buying groups, risk securitization programs and alternative self-insurance mechanisms. Competition may take the form of lower prices, broader coverages, greater product flexibility, higher quality services or higher ratings by independent rating agencies. In all of our markets, we compete by developing specialty products to satisfy well-defined market needs and by maintaining relationships with agents, brokers and insureds who rely on our expertise. This expertise is our principal means of competing. We offer over 90 major product lines. Each of these products has its own distinct competitive environment. With each of our products, we seek to compete with innovative ideas, appropriate pricing, expense control and quality service to policyholders, agents and brokers.

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

After a decade of soft market conditions, we believe the industry began to experience favorable conditions in late 2000. The impact of the hardening market was accelerated by the significant insured losses from the terrorist attacks of September 11, 2001 and continued into 2002. Insurance market conditions then began to soften again in 2003 and 2004 and although we continued to receive rate increases compared to prior years for most product lines, the rate of increase slowed and, in certain lines, rates declined. This increase in competition continued into 2005 and new and renewal business declined as a result of our continuing commitment to adequate pricing. With the exception of large rate increases on catastrophe-exposed business, rates in 2006 were generally flat or down slightly compared to 2005. We expect that competition in the P&C insurance industry will remain strong in 2007. We remain focused on writing business that we believe will allow us to achieve our goal of underwriting profitability.

Underwriting Philosophy

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By focusing on market niches where we have underwriting expertise, we seek to earn consistent underwriting profits. Underwriting profits are a key component of our strategy. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk. We use underwriting profit or loss as a basis for evaluating our underwriting performance.

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The combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums. A combined ratio less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. In 2006, our combined ratio was 87%. See Management's Discussion & Analysis of Financial Condition and Results of Operations for further discussion of our underwriting results.

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

Underwriting Segments

We define our underwriting segments based on the areas of the specialty insurance market in which we compete. We have five underwriting units that compete in the Excess and Surplus Lines market, three that compete in the Specialty Admitted market and one that competes in the London market. See note 18 of the notes to consolidated financial statements for additional segment reporting disclosures.

Lines of business that have been discontinued in conjunction with an acquisition and non-strategic insurance subsidiaries are included in Other for purposes of segment reporting. The lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Excess and Surplus Lines Segment

Our Excess and Surplus Lines segment reported gross premium volume of \$1.5 billion, earned premiums of \$1.2 billion and an underwriting profit of \$279.3 million in 2006.

In the E&S market, we write business through the following five underwriting units:

Essex Excess and Surplus Lines (Glen Allen, VA)

Shand Professional/Products Liability (Deerfield, IL)

Markel Brokered Excess and Surplus Lines (Red Bank, NJ)

Markel Southwest Underwriters (Scottsdale, AZ)

Markel Re (Glen Allen, VA)

Essex Excess and Surplus Lines. The Essex Excess and Surplus Lines unit (Essex E&S unit) focuses primarily on the following products written predominately on a non-admitted basis: casualty, property, inland marine, ocean marine, physical damage, and railroad. The casualty division writes a variety of liability coverages focusing on light-to-medium casualty exposures such as artisan contractors, habitational risks, restaurants and bars, child and adult care facilities, vacant properties, office buildings and light manufacturing operations. The property division writes property insurance on classes of business ranging from small, single-location accounts to large, multi-state, multi-location accounts. Property coverages consist principally of fire, allied lines, including windstorm, hail and water damage, and more specialized property coverages. In addition, the Essex E&S unit offers coverages for catastrophe-exposed property risks on both an excess and primary basis, including earthquake and wind, through its Essex Special Property division. These risks are typically larger and are of a low frequency and high severity nature.

The Essex E&S unit's inland marine facility provides coverages for risks that include motor truck cargo, warehouseman's legal liability, builder's risk and contractor's equipment. The ocean marine facility writes risks that include marinas, hull coverage, cargo and builder's risk for yacht manufacturers. The special transportation division focuses on physical damage coverage for all types of commercial vehicles such as trucks,

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buses and high-value automobiles. The railroad division writes all-risk property coverages on rolling stock and real property and liability coverages for shortline, regional, tourist and scenic railroads as well as modern commuter rail and light rail.

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The Essex E&S unit's business is written through two distribution channels. Business written by the property and casualty divisions is primarily generated by approximately 200 professional surplus lines general agents who have limited quoting and binding authority. The Essex Special Property, inland marine, ocean marine, transportation and railroad divisions produce business on a brokerage basis through approximately 210 wholesale brokers. The Essex E&S unit seeks to be a substantial underwriter for its producers in order to enhance the likelihood of receiving the most desirable underwriting opportunities. The Essex E&S unit writes the majority of its business in Essex Insurance Company, which is admitted in Delaware and is eligible to write E&S insurance in 49 states and the District of Columbia.

Shand Professional/Products Liability. The Shand Professional/Products Liability unit focuses primarily on tailored coverages that offer unique solutions on a claims-made basis for highly specialized professions. These coverages include medical malpractice for physicians and allied healthcare risks and professional liability for lawyers, architects and engineers, agents and brokers and management consultants. Specified professions errors and omissions coverage is targeted to start-up companies, small businesses and emerging technologies. Special risks include claims-made products liability coverage focused on new business products and technology. In addition, the Shand Professional/Products Liability unit offers not-for-profit directors' and officers' liability and employment practices liability (EPL) coverage. The unit also provides EPL clients a full menu of loss prevention programs offering consultation services which can be accessed through telephone inquiry, the Internet and live seminars across the United States.

Business is written nationwide and is developed through approximately 325 wholesale brokers. The Shand Professional/Products Liability unit has access to both admitted and surplus lines markets in all 50 states and writes the majority of its business in Evanston Insurance Company (EIC).

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Markel Brokered Excess and Surplus Lines. The Markel Brokered Excess and Surplus Lines unit is comprised of the following seven divisions: primary casualty, property, excess and umbrella, environmental, special programs, taxi liability and surety. Primary casualty targets hard-to-place, mid-size and large general liability and products liability accounts. The property division emphasizes non-standard property placements and commercial multi-peril policies. They approach monoline property business on a participating, primary or excess of loss basis. The excess and umbrella division offers its products on both a lead and excess position. Coverage is provided primarily for commercial businesses. The environmental division offers a complete array of environmental coverages including environmental consultants' professional liability, contractors' pollution liability and site specific environmental impairment liability. The special programs division considers unique or hard-to-place programs that have a proven track record where we can provide value-added services. The taxi liability division provides auto liability coverage for small-to-medium-sized local cab fleets on either an admitted or non-admitted basis. The surety division concentrates on writing surety reinsurance as a broker market focusing on treaty placements for both national and regional surety underwriting companies. The Markel Brokered Excess and Surplus Lines unit provides product solutions to its insureds through approximately 325 wholesale brokers and writes the majority of its business in EIC.

Markel Southwest Underwriters. Markel Southwest Underwriters (MSU) writes commercial casualty and property coverages focusing on businesses in the western, southwestern and southeastern United States. Casualty business consists of light-to-medium liability exposures including artisan contractors, habitational risks, office buildings, light manufacturing operations and vacant properties. MSU also writes property insurance on classes of business ranging from small, single location risks to large, multi-state, multi-location risks. Property business consists principally of fire, allied lines, including windstorm, hail and water damage, and other specialized property coverages.

Most of MSU's business is generated by approximately 80 contracted professional surplus lines general agents who have limited quoting and binding authority. MSU seeks to be a substantial underwriter for its producers in order to enhance the likelihood of receiving the most desirable underwriting opportunities. The majority of its business is written in EIC.

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Markel Re. Markel Re writes direct excess and umbrella risks as well as casualty facultative reinsurance placements. The excess and umbrella division offers its products on both a lead and excess position and coverage is provided primarily for commercial businesses. The facultative placements possess favorable underwriting characteristics, including control of individual risk selection and pricing. Additionally, Markel Re offers a specialty underwriting facility for alternative risk transfer, which has been branded Specialized Markel Alternative Risk Transfer (SMART). SMART offers innovative solutions and quality products to buyers who commit significant financial resources to risk assumption through an alternative risk entity such as a captive insurance company, risk retention group or self-insured retention. The SMART division is led by a team of experienced professionals who target production sources which include retail and wholesale brokers, reinsurance intermediaries and program managers. Markel Re's excess and umbrella business is generated through approximately 275 professional surplus lines general agents and the casualty facultative reinsurance business is written both directly and through reinsurance brokers for approximately 50 admitted and surplus lines carriers. The majority of Markel Re's assumed business is written in Markel Insurance Company (MIC), while the direct business is written in Essex Insurance Company, MIC and EIC.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Specialty Admitted Segment

Our Specialty Admitted segment reported gross premium volume of \$340.5 million, earned premiums of \$317.4 million and an underwriting profit of \$28.1 million in 2006.

In the Specialty Admitted market, we write business through the following three underwriting units:

Markel Specialty Program Insurance (Glen Allen, VA)

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

Markel Global Marine and Energy (Houston, TX)

Markel Specialty Program Insurance. The Markel Specialty Program Insurance unit focuses on providing total insurance programs for businesses engaged in similar but highly specialized activities. These activities typically do not fit the risk profiles of standard insurers and make complete coverage difficult to obtain from a single insurer.

The Markel Specialty Program Insurance unit is organized into four product areas that concentrate on particular markets and customer groups. The property and casualty division writes commercial coverages for youth and recreation oriented organizations, such as children's summer camps, conference centers, YMCAs, YWCAs, Boys and Girls Clubs, child care centers, nurseries, private and Montessori schools and gymnastics, martial arts and dance schools. This division also writes commercial coverages for social service organizations, garages, gas stations, used car dealers, moving and storage businesses, museums, art organizations, bed & breakfast and country inns, pool and spa maintenance operations and lumber products. The agriculture division specializes in insurance coverages for horse-related risks, such as horse mortality coverage and property and liability coverages for farms, boarding, breeding and training facilities as well as outfitters and guides, hunting and fishing lodges and dude ranches. The accident and health division writes liability and accident insurance for amateur sports organizations, accident and medical insurance for colleges, universities, public schools and private schools and limited benefit accident and medical insurance for selected private insurers. The Markel Risk Solutions facility works with select retail producers on a national basis to provide admitted market solutions to accounts having difficulty finding coverage in the standard marketplace. Accounts of various classes and sizes are written with emphasis placed on individual risk underwriting and pricing.

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The majority of Markel Specialty Program Insurance business is produced by approximately 4,000 retail insurance agents. Management grants very limited underwriting authority to a few carefully selected agents and controls agency business through regular audits and pre-approvals. Certain products and programs are also marketed directly to consumers or through wholesale producers. Markel Specialty Program Insurance business is underwritten primarily in MIC. MIC is licensed to write P&C insurance in all 50 states, including its state of domicile, Illinois, and the District of Columbia.

Markel American Specialty Personal and Commercial Lines. The Markel American Specialty Personal and Commercial Lines unit offers its insurance products in niche markets that are overlooked by large admitted carriers and focuses its underwriting on watercraft and commercial marine, small boat and yacht, motorcycle and all-terrain vehicle (ATV), property, motor home, special event and supplemental natural disaster coverages. The watercraft program markets personal lines insurance coverage for watercraft, older boats and high performance boats. The focus of the commercial marine program is small fishing ventures, charters and small boat rentals. The yacht program is designed for experienced owners of moderately priced yachts and the small boat program targets newer watercraft up to 26 feet. The motorcycle and ATV programs target mature riders on touring and cruising bikes and ATV riders over age 16. The property program provides coverage for mobile homes and dwellings that do not qualify for standard homeowners coverage, as well as contents coverage for renters. The motor home program includes coverage for both personally used motor homes and motor home rental operations. The special event program offers cancellation and/or liability coverage for weddings, anniversary celebrations and other personal events. The supplemental natural disaster program offers additional living expense protection for loss due to specific named perils, including flood.

Markel American Specialty Personal and Commercial Lines products are characterized by high numbers of transactions, low average premiums and creative solutions for under-served and emerging markets. The unit distributes its watercraft, small boat and yacht, property, motor home and special event products through wholesale or specialty retail producers. The motorcycle program is marketed directly to the consumer using direct mail, Internet and telephone promotions, as well as relationships with various motorcycle manufacturers, dealers and associations. The Markel American Specialty Personal and Commercial Lines unit writes the majority of its business in Markel American Insurance Company (MAIC). MAIC is licensed to write P&C business in all 50 states, including its state of domicile, Virginia, and the District of Columbia.

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BUSINESS OVERVIEW (continued)

Markel Global Marine and Energy. The Markel Global Marine and Energy unit provides insurance specifically designed to meet the needs of businesses in the marine and energy industries. The unit began writing business in late 2006 offering two product lines, excess marine and energy liability and onshore energy property. Gross premium volume for the Markel Global Marine and Energy unit was \$1.8 million for 2006.

The excess liability program offers excess casualty and bumbershoot coverages for marine and energy related businesses. The onshore energy property program covers small to mid-sized onshore energy facilities such as oil refineries, chemical manufacturers and electrical power plants.

Business is produced by both wholesale and retail agents. In addition to offering its products domestically, certain products are available worldwide on a subscription basis. The program is underwritten primarily in MIC.

London Insurance Market Segment

Our London Insurance Market segment reported gross premium volume of \$729.2 million, earned premiums of \$624.6 million and a combined ratio of 100% in 2006.

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This segment is comprised of Markel International, which is headquartered in London, England. In addition to eight branch offices in the United Kingdom, Markel International also has offices in Spain and Canada. At Markel International, we write specialty property, casualty, professional liability and marine insurance on a direct and reinsurance basis. We take a service-oriented approach to underwriting these complex and unique risks. Business is written worldwide with approximately 22% of writings coming from the United States.

Markel International. Markel International is comprised of the following five underwriting divisions which, to better serve the needs of our customers, have the ability to write business through either MIICL or Markel Syndicate 3000:

Marine and Energy

Non-Marine Property

Professional and Financial Risks

Retail

Specialty

In the Marine and Energy division, we underwrite a portfolio of coverages for cargo, energy, hull, liability, war and specie risks. The cargo account is an international transit-based book covering many types of cargo. The energy account includes all aspects of oil and gas activities. The hull account covers physical damage to ocean-going tonnage and yachts. The liability account provides coverage for a broad range of energy liabilities, as well as traditional marine exposures including charterers, terminal operators and ship repairers. The war account covers the hulls of ships and aircraft, and other related interests, against war and associated perils. The specie account includes coverage for fine art on exhibit and in private collections, securities, bullion, precious metals, cash in transit and jewelry.

The Non-Marine Property division writes property and liability business for a wide range of insureds. We provide coverage ranging from fire to catastrophe perils such as earthquake and windstorm. Business is written in either the open market or delegated authority accounts. The open market account writes direct and facultative risks, typically for Fortune 1000 companies. Open market business is written mainly on a worldwide basis by our underwriters to London brokers, with each risk being considered on its own merits. The delegated authority account focuses mainly on small commercial insureds and is written through a network of coverholders. The delegated authority account is primarily written in the United States. Coverholders underwriting this business are closely monitored, subject to audit and must adhere to strict underwriting guidelines.

The Professional and Financial Risks division underwrites professional indemnity and directors and officers liability coverage. The professional indemnity account offers unique solutions in four main professional classes including miscellaneous professionals and consultants, construction professionals, financial service professionals and professional practices. The miscellaneous professionals and consultants class includes coverages for a wide range of professionals including management consultants, publishers, broadcasters, pension trustees and public officials. The construction class includes coverages for surveyors, engineers, architects and estate agents. The financial services class includes coverages for insurance brokers, insurance agents, financial consultants, stockbrokers, fund managers and venture capitalists. The professional practices class includes coverages for accountants and solicitors. The directors and officers liability account offers coverage to public, private and non-profit companies of all sizes on either an individual or blanket basis. The Professional and Financial Risks division writes business on a worldwide basis, limiting exposure in the United States.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

The Retail division offers a full range of professional liability products including professional indemnity, directors and officers liability and employment practices liability through seven branch offices in England and one branch office in Scotland. Coverage is provided for small-to-medium sized commercial property risks on both a stand-alone and package basis. The branch offices provide insureds and brokers with direct access to decision-making underwriters who possess specialized knowledge of their local markets.

The Specialty division provides property treaty reinsurance on an excess of loss and proportional basis for per risk and catastrophe exposures. A significant portion of the division's excess of loss catastrophe and per risk treaty business comes from the United States with the remainder coming from international property treaties. The Specialty division also offers direct coverage for a number of specialist classes including financial institutions, contingency and extreme sports.

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. As part of our underwriting philosophy, we seek to offer products with limits that do not require significant amounts of reinsurance. We purchase catastrophe reinsurance coverage for our catastrophe-exposed policies, and we seek to manage our exposures under this coverage so that no exposure to any one reinsurer is material to our ongoing business. Over the past several years, as the capital capacity of our insurance subsidiaries has grown, we have reduced the amount of reinsurance that we purchase. As a result, our retention of gross premium volume has increased consistent with our strategy to retain more of our profitable business. We do not purchase or sell finite reinsurance products or use other structures that would have the effect of discounting loss reserves.

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

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

The following table displays balances recoverable from our ten largest reinsurers by group at December 31, 2006. The contractual obligations under reinsurance agreements are typically with individual subsidiaries of the group or syndicates at Lloyd's and are not typically guaranteed by other

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group members or syndicates at Lloyd's. These ten reinsurance groups represent approximately 71% of our \$1.4 billion reinsurance recoverable balance.

<u>Reinsurers</u>	<u>A.M. Best Rating</u>	<u>Reinsurance Recoverable</u>
		<i>(dollars in thousands)</i>
Munich Re Group	A+	\$ 185,350
Lloyd's of London	A	137,906
Swiss Re Group	A+	130,569
XL Capital Group	A+	113,979
Fairfax Financial Group	A	113,700
HDI Group	A	78,364
White Mountains Insurance Group	A-	64,978
Everest Re Group	A+	52,284
Ace Group	A+	48,856
Alea Group	NR ⁽¹⁾	46,499
		<hr/>
Reinsurance recoverable on paid and unpaid losses for ten largest reinsurers		972,485
		<hr/>
Total reinsurance recoverable on paid and unpaid losses		\$1,362,456
		<hr/>

⁽¹⁾ NR-Not Rated. During 2005, Alea Group Holdings (Bermuda) Ltd. (Alea Group) placed its insurance operations into run off and A.M. Best withdrew its ratings. At December 31, 2006, we held collateral for 95% of our recoverable balances due from the Alea Group.

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

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

See note 14 of the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our reinsurance programs and exposures.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)**Investments**

Our business strategy recognizes the importance of both consistent underwriting profits and superior investment returns to build shareholder value. We rely on sound underwriting practices to produce investable funds while minimizing underwriting risk. Approximately three-quarters of our investable assets come from premiums paid by policyholders. Policyholder funds are invested predominately in high-quality corporate, government and municipal bonds with relatively short durations. The balance, comprised of shareholder funds, is available to be invested in equity securities, which over the long run, have produced higher returns relative to fixed maturity investments. We seek to invest in profitable companies, with honest and talented management, that exhibit reinvestment opportunities and capital discipline, at reasonable prices. We intend to hold these investments over the long term. The investment portfolio is managed by company officers.

Total investment return includes items that impact net income, such as net investment income and realized investment gains or losses, as well as changes in unrealized holding gains or losses, which do not impact net income. Our investment portfolio produced net investment income of \$271.0 million and net realized investment gains of \$63.6 million in 2006. During the year ended December 31, 2006, net unrealized holding gains on the investment portfolio increased by \$246.1 million. We do not lower the quality of our investment portfolio in order to enhance or maintain yields. Our focus on long-term total investment return results in variability in the level of realized and unrealized investment gains or losses from one period to the next.

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

ANNUAL TAXABLE EQUIVALENT TOTAL INVESTMENT RETURNS

	Years Ended December 31,					Weighted	Weighted
	2002	2003	2004	2005	2006	Average	Average
						Five-Year	Ten-Year
						Annual	Annual
						Return	Return
Equities	(8.8%)	31.0%	15.2%	(0.3%)	25.9%	13.9%	14.3%
Fixed maturities	9.8%	4.5%	4.8%	3.9%	5.2%	5.4%	6.0%
Investments in affiliates					13.2%		
Total portfolio, before foreign currency effect	7.0%	8.3%	6.6%	2.9%	9.6%	6.8%	7.3%
Total portfolio	8.3%	10.5%	7.9%	1.5%	11.2%	7.8%	7.9%

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Ending portfolio balance (in millions)	\$ 4,314	\$ 5,350	\$ 6,317	\$ 6,588	\$ 7,535
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Taxable equivalent total investment return provides a measure of investment performance that considers the yield of both taxable and tax-exempt investments on an equivalent basis.

Our disciplined, value-oriented investment approach has generated solid investment results over the long term, as evidenced in the above table.

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

Our fixed maturity portfolio has an average rating of AA, with 89% rated A or better by at least one nationally recognized rating organization. Our policy is to invest in securities that are rated investment grade and to minimize investments in fixed maturities that are unrated or rated below investment grade.

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

The following chart presents our fixed maturity portfolio, at estimated fair value, by rating category at December 31, 2006.

Shareholder Value

Our financial goals are to earn consistent underwriting profits and superior investment returns to build shareholder value. More specifically, we measure financial success by our ability to compound growth in book value per share at a high rate of return over a long period of time. 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. For the year ended December 31, 2006, book value per share increased 32% primarily due to net income of \$392.5 million and an increase of \$160.0 million in net unrealized holding gains, net of taxes. For the year ended December 31, 2005, book value per share increased 3% primarily due to net income of \$147.9 million partially offset by a decrease of \$74.6 million in net unrealized holding gains, net of taxes. Over the past five years, we have grown book value per share at a compound annual rate of 16% to \$229.78 per share.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

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

Regulatory Environment

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

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

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

The laws of the domicile states of our insurance subsidiaries govern the amount of dividends that may be paid to our holding company, Markel Corporation. Generally, statutes in the domicile states of our insurance subsidiaries require prior approval for payment of extraordinary as opposed to ordinary dividends. At December 31, 2006, our United States insurance subsidiaries could pay up to \$335.3 million during the following 12 months under the ordinary dividend regulations.

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United Kingdom and Lloyd's Insurance Regulation. With the enactment of the Financial Services and Markets Act, the United Kingdom government authorized the Financial Services Authority (FSA) to supervise all securities, banking and insurance businesses, including Lloyd's. The FSA oversees compliance with established periodic auditing and reporting requirements, risk assessment reviews, minimum solvency margins and individual capital assessment requirements, dividend restrictions, restrictions governing the appointment of key officers, restrictions governing controlling ownership interests and various other requirements. Both MIICL and Markel Syndicate Management Limited are authorized and regulated by the FSA. We are required to provide 14 days advance notice to the FSA for any dividends from MIICL. In addition, our foreign insurance subsidiaries must comply with the United Kingdom Companies Act of 1985, which provides that dividends may only be paid out of distributable profits.

Other Regulation. During 2006, we made an investment in First Market Bank, a thrift institution based in Richmond, VA. In connection with this investment, we became a thrift holding company under the Home Owners Loan Act. As a thrift holding company, we are subject to regulatory oversight by the Office of Thrift Supervision and to regulations regarding acquisition of control similar to those applicable to insurance holding companies.

Ratings

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

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

Best has assigned our United States insurance subsidiaries a group FSR of A (excellent). Markel Syndicate 3000 has been assigned an FSR of A (excellent) and MIICL has been assigned an FSR of A- (excellent).

In addition to Best, our United States insurance subsidiaries are rated A (high) by Fitch Ratings (Fitch), an independent rating agency. MIICL has been assigned an FSR of A- (high) by Fitch.

The various rating agencies typically charge companies fees for the rating and other services they provide. During 2006, we paid rating agencies, including Best and Fitch, approximately \$0.5 million for their services.

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Markel Corporation & Subsidiaries

BUSINESS OVERVIEW (continued)

Risk Factors

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

We may experience losses from catastrophes. Because we are a property and casualty insurance company, we frequently experience losses from man-made or natural catastrophes. Catastrophes may have a material adverse effect on operations. Catastrophes include windstorms, hurricanes, earthquakes, tornadoes, hail, severe winter weather and fires and may include terrorist events. We cannot predict how severe a particular catastrophe will be before it occurs. The extent of losses from catastrophes is a function of the total amount of losses incurred, the number of insureds affected, the frequency and severity of the events and the effectiveness of our catastrophe reinsurance coverage. Most catastrophes occur over a small geographic area; however, some catastrophes may produce significant damage in large, heavily populated areas.

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

trends in claim frequency and severity,

changes in operations,

emerging economic and social trends,

uncertainties relating to asbestos and environmental exposures,

inflation, and

changes in the regulatory and litigation environments.

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This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate basis for predicting future events. There is no precise method, however, for evaluating the impact of any specific factor on the adequacy of reserves, and actual results will differ from original estimates. As part of the reserving process, we regularly review our loss reserves and make adjustments as necessary. Future increases in reserves could result in additional charges.

We are subject to regulation by insurance regulatory authorities that may affect our ability to implement our business objectives. Our insurance subsidiaries are subject to supervision and regulation by the insurance regulatory authorities in the various jurisdictions in which they conduct business. Regulation is intended for the benefit of policyholders rather than shareholders or holders of debt securities. Insurance regulatory authorities have broad regulatory, supervisory and administrative powers relating to solvency standards, licensing, policy rates and forms and the form and content of financial reports.

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

Competition in the property and casualty insurance industry could adversely affect our ability to grow or maintain premium volume. Among our competitive strengths have been our specialty product focus and our niche market strategy. These strengths also make us vulnerable in periods of intense competition to actions by other insurance companies who seek to write additional premiums without appropriate regard for ultimate profitability. During soft markets, it may be very difficult for us to grow or maintain premium volume levels without sacrificing underwriting profits.

Associates

At December 31, 2006, we had 1,897 employees, six of whom were executive officers.

As a service organization, continued profitability and growth are dependent upon our talented and enthusiastic associates who share our common value system as outlined in the Markel Style. We have structured incentive compensation plans and stock purchase plans to encourage associates to achieve corporate objectives and think and act like owners. Associates are offered many opportunities to become shareholders. Associates eligible to participate in our 401(k) plan receive one-third of our contribution in Markel stock and may purchase stock with their own contributions. Stock also may be acquired through a payroll deduction plan, and associates (other than executive officers and directors as precluded by the Sarbanes-Oxley Act) are given the opportunity to purchase stock through loans financed by us with a partially subsidized interest rate. Under our incentive compensation plans, associates may earn a meaningful bonus based on individual and company performance. For some of our executive officers and other members of senior management, part of that bonus consists of restricted stock unit awards. Additionally, executive officers and other members of senior management are required to hold Markel stock in amounts that represent a substantial multiple of their annual compensation. At December 31, 2006, we estimate associates' ownership, including executive officers and directors, to be approximately 9% of our outstanding shares. We believe that employee stock ownership and rewarding value-added performance align associates' interests with the interests of non-employee shareholders.

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Markel Corporation & Subsidiaries

SELECTED FINANCIAL DATA (dollars in millions, except per share data) ^(1, 2)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
RESULTS OF OPERATIONS			
Earned premiums	\$ 2,184	\$ 1,938	\$ 2,054
Net investment income	271	242	204
Total operating revenues	2,519	2,200	2,262
Net income (loss)	393	148	165
Comprehensive income (loss)	526	64	273
Diluted net income (loss) per share	\$ 39.40	\$ 14.80	\$ 16.41
FINANCIAL POSITION			
Total investments and cash and cash equivalents	\$ 7,535	\$ 6,588	\$ 6,317
Total assets	10,088	9,814	9,398
Unpaid losses and loss adjustment expenses	5,584	5,864	5,482
Convertible notes payable		99	95
Senior long-term debt	752	609	610
8.71% Junior Subordinated Debentures	106	141	150
Shareholders' equity	2,296	1,705	1,657
Common shares outstanding (at year end, in thousands)	9,994	9,799	9,847

OPERATING PERFORMANCE MEASURES ^(1, 2, 3)

OPERATING DATA			
Book value per common share outstanding	\$ 229.78	\$ 174.04	\$ 168.22
Growth (decline) in book value	32%	3%	20%
5-Year CAGR in book value ⁽⁴⁾	16%	11%	20%
Closing stock price	\$ 480.10	\$ 317.05	\$ 364.00
RATIO ANALYSIS			
U.S. GAAP combined ratio ⁽⁵⁾	87%	101%	96%
Investment yield ⁽⁶⁾	4%	4%	4%
Taxable equivalent total investment return ⁽⁷⁾	11%	2%	8%
Investment leverage ⁽⁸⁾	3.3	3.9	3.8
Debt to total capital	27%	33%	34%

⁽¹⁾ Reflects our acquisitions of Gryphon Holding Inc. (January 15, 1999) and Terra Nova (Bermuda) Holdings Ltd. (March 24, 2000) using the purchase method of accounting. Terra Nova (Bermuda) Holdings Ltd. was acquired in part by the issuance of 1.8 million common shares. We also issued 2.5 million common shares with net proceeds of \$408 million in 2001.

⁽²⁾ In accordance with the provisions of Statement of Financial Accounting Standards No. 142, we discontinued the amortization of goodwill as of January 1, 2002.

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- ⁽³⁾ Operating Performance Measures provide a basis for management to evaluate our performance. The method we use to compute these measures may differ from the methods used by other companies. See further discussion of management's evaluation of these measures in Management's Discussion and Analysis of Financial Condition and Results of Operations.

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							10-Year
2003	2002	2001	2000	1999	1998	1997	CAGR ⁽⁴⁾
\$ 1,864	\$ 1,549	\$ 1,207	\$ 939	\$ 437	\$ 333	\$ 333	22%
183	170	171	154	88	71	69	18%
2,092	1,770	1,397	1,094	524	426	419	21%
123	75	(126)	(28)	41	57	50	
222	73	(77)	81	(40)	68	92	
\$ 12.31	\$ 7.53	\$ (14.73)	\$ (3.99)	\$ 7.20	\$ 10.17	\$ 8.92	
\$ 5,350	\$ 4,314	\$ 3,591	\$ 3,136	\$ 1,625	\$ 1,483	\$ 1,410	21%
8,532	7,409	6,441	5,473	2,455	1,921	1,870	20%
4,930	4,367	3,700	3,037	1,344	934	971	20%
91	86	116					
522	404	265	573	168	93	93	
150	150	150	150	150	150	150	
1,382	1,159	1,085	752	383	425	357	24%
9,847	9,832	9,820	7,331	5,590	5,522	5,474	
\$ 140.38	\$ 117.89	\$ 110.50	\$ 102.63	\$ 68.59	\$ 77.02	\$ 65.18	17%
19%	7%	8%	50%	(11%)	18%	33%	
13%	13%	18%	21%	22%	23%	26%	
\$ 253.51	\$ 205.50	\$ 179.65	\$ 181.00	\$155.00	\$181.00	\$156.13	
99%	103%	124%	114%	101%	98%	99%	
4%	4%	5%	6%	5%	5%	5%	
11%	8%	8%	12%	(1%)	9%	13%	
3.9	3.7	3.3	4.2	4.2	3.5	4.0	
36%	36%	33%	49%	45%	36%	41%	

⁽⁴⁾ CAGR compound annual growth rate.

⁽⁵⁾ The U.S. GAAP combined ratio measures the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

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- (6) Investment yield reflects net investment income as a percentage of average invested assets.
- (7) Taxable equivalent total investment return includes net investment income, realized investment gains or losses, the change in market value of the investment portfolio and the effect of foreign exchange movements during the period as a percentage of average invested assets. Tax-exempt interest and dividend payments are grossed up using the U.S. corporate tax rate to reflect an equivalent taxable yield.
- (8) Investment leverage represents total invested assets divided by shareholders' equity.

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Markel Corporation & Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2006	2005
	<i>(dollars in thousands)</i>	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$4,996,386 in 2006 and \$4,586,164 in 2005)	\$ 5,000,969	\$ 4,613,296
Equity securities (cost of \$1,059,345 in 2006 and \$940,290 in 2005)	1,766,273	1,378,556
Short-term investments (estimated fair value approximates cost)	139,499	248,541
Investments in affiliates	73,439	14,072
TOTAL INVESTMENTS	6,980,180	6,254,465
Cash and cash equivalents	555,115	333,757
Receivables	322,982	334,513
Reinsurance recoverable on unpaid losses	1,257,453	1,824,300
Reinsurance recoverable on paid losses	105,003	91,311
Deferred policy acquisition costs	218,392	212,329
Prepaid reinsurance premiums	117,889	130,513
Goodwill	339,717	339,717
Other assets	191,400	293,193
TOTAL ASSETS	\$ 10,088,131	\$ 9,814,098
LIABILITIES AND SHAREHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	\$ 5,583,879	\$ 5,863,677
Unearned premiums	1,007,801	993,737
Payables to insurance companies	58,880	115,613
Convertible notes payable (estimated fair value of \$108,000 in 2005)		98,891
Senior long-term debt (estimated fair value of \$801,000 in 2006 and \$647,000 in 2005)	751,978	608,945
Junior Subordinated Deferrable Interest Debentures (estimated fair value of \$111,000 in 2006 and \$150,000 in 2005)	106,379	141,045
Other liabilities	282,821	286,757
TOTAL LIABILITIES	7,791,738	8,108,665
Shareholders' equity:		
Common stock	854,561	743,503
Retained earnings	1,015,679	669,057
Accumulated other comprehensive income:		
Net unrealized holding gains on fixed maturities and equity securities, net of taxes of \$249,029 in 2006 and \$162,889 in 2005	462,482	302,509
Cumulative translation adjustments, net of tax benefit of \$6,094 in 2006 and \$5,189 in 2005	(11,316)	(9,636)
Net actuarial pension loss, net of tax benefit of \$13,469 in 2006	(25,013)	

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TOTAL SHAREHOLDERS EQUITY	2,296,393	1,705,433
Commitments and contingencies		
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 10,088,131	\$ 9,814,098

See accompanying notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

	Years Ended December 31,		
	2006	2005	2004
	<i>(dollars in thousands, except per share data)</i>		
OPERATING REVENUES			
Earned premiums	\$ 2,184,381	\$ 1,938,461	\$ 2,053,887
Net investment income	271,016	241,979	204,032
Net realized investment gains	63,608	19,708	4,139
TOTAL OPERATING REVENUES	2,519,005	2,200,148	2,262,058
OPERATING EXPENSES			
Losses and loss adjustment expenses	1,132,579	1,299,983	1,308,343
Underwriting, acquisition and insurance expenses	767,853	650,323	673,450
TOTAL OPERATING EXPENSES	1,900,432	1,950,306	1,981,793
OPERATING INCOME	618,573	249,842	280,265
Interest expense	65,172	63,842	56,220
INCOME BEFORE INCOME TAXES	553,401	186,000	224,045
Income tax expense	160,899	38,085	58,633
NET INCOME	\$ 392,502	\$ 147,915	\$ 165,412
OTHER COMPREHENSIVE INCOME (LOSS)			
Net unrealized gains (losses) on securities, net of taxes:			
Net holding gains (losses) arising during the period	\$ 201,318	\$ (61,755)	\$ 108,945
Less reclassification adjustments for net gains included in net income	(41,345)	(12,810)	(2,690)
Net unrealized gains (losses)	159,973	(74,565)	106,255
Currency translation adjustments, net of taxes	(1,680)	(9,709)	1,010
Net actuarial pension loss, net of taxes	(25,013)		
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	133,280	(84,274)	107,265
COMPREHENSIVE INCOME	\$ 525,782	\$ 63,641	\$ 272,677
NET INCOME PER SHARE			
Basic	\$ 40.43	\$ 15.05	\$ 16.79
Diluted	\$ 39.40	\$ 14.80	\$ 16.41

See accompanying notes to consolidated financial statements.

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2006	2005	2004
	<i>(dollars in thousands)</i>		
OPERATING ACTIVITIES			
Net income	\$ 392,502	\$ 147,915	\$ 165,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense (benefit)	30,561	(44,513)	(29,800)
Depreciation and amortization	27,610	29,581	31,336
Net realized investment gains	(63,608)	(19,708)	(4,139)
Decrease in receivables	11,531	50,274	34,834
Increase in deferred policy acquisition costs	(6,063)	(10,363)	(4,295)
Increase in unpaid losses and loss adjustment expenses, net	273,357	266,920	567,239
Increase in unearned premiums, net	26,688	20,541	7,556
Increase (decrease) in payables to insurance companies	(56,733)	33,887	(60,523)
Other	(124,252)	76,717	(16,927)
NET CASH PROVIDED BY OPERATING ACTIVITIES	511,593	551,251	690,693
INVESTING ACTIVITIES			
Proceeds from sales of fixed maturities and equity securities	1,559,977	1,839,065	2,528,166
Proceeds from maturities, calls and prepayments of fixed maturities	173,997	164,150	248,760
Cost of fixed maturities and equity securities purchased	(2,125,618)	(2,444,059)	(3,497,841)
Net change in short-term investments	109,042	(126,827)	(39,702)
Cost of investments in affiliates	(58,703)	(14,072)	
Net proceeds from sale of subsidiary		43,237	
Additions to property and equipment	(9,192)	(29,498)	(6,963)
Other	1,715	727	(116)
NET CASH USED BY INVESTING ACTIVITIES	(348,782)	(567,277)	(767,696)
FINANCING ACTIVITIES			
Additions to senior long-term debt	145,402		196,816
Repayments and retirement of senior long-term debt	(4,549)	(3,603)	(110,000)
Retirement of Junior Subordinated Deferrable Interest Debentures	(36,421)	(9,627)	
Repurchases of common stock	(45,880)	(15,926)	(3,385)
Other	(5)		
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	58,547	(29,156)	83,431
Increase (decrease) in cash and cash equivalents	221,358	(45,182)	6,428
Cash and cash equivalents at beginning of year	333,757	378,939	372,511
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 555,115	\$ 333,757	\$ 378,939

See accompanying notes to consolidated financial statements.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Markel Corporation markets and underwrites specialty insurance products and programs to a variety of niche markets and operates in three segments of the specialty insurance marketplace: the Excess and Surplus Lines, the Specialty Admitted and the London markets.

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

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

c) Investments. Investments, other than investments in affiliates, are considered available-for-sale and are recorded at estimated fair value, generally based on quoted market prices. The net unrealized gains or losses on investments, net of deferred income taxes, are included in accumulated other comprehensive income in shareholders' equity. A decline in the fair value of any investment below cost that is deemed other-than-temporary is charged to earnings, resulting in a new cost basis for the security.

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

d) Investments in Affiliates. Investments in affiliates includes investments in companies accounted for under the equity method of accounting. The Company records its proportionate share of net income or loss of the investee in net investment income.

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

f) Reinsurance Recoverables. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. Allowances are established

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1. Summary of Significant Accounting Policies (continued)

for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Company evaluates the financial condition of its reinsurers and monitors concentration risk to minimize its exposure to significant losses from individual reinsurers.

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

h) Goodwill. Goodwill is tested for impairment at least annually. The Company completes its annual test during the fourth quarter of each year based upon the results of operations through September 30.

i) Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives (generally, the life of the lease for leasehold improvements, three to five years for furniture and equipment and three to ten years for other).

j) Income Taxes. The Company records deferred income taxes to reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized.

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

l) Revenue Recognition. Insurance premiums are earned on a pro rata basis over the policy period, generally one year. The cost of reinsurance is initially recorded as prepaid reinsurance premiums and is amortized over the reinsurance contract period in proportion to the amount of insurance protection provided. Premiums ceded are netted against premiums written. The Company uses the periodic method to account for assumed reinsurance from foreign reinsurers. The Company's foreign reinsurers provide sufficient information to record foreign assumed business in the same manner as the Company records assumed business from United States reinsurers.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Significant Accounting Policies (continued)

m) Stock Compensation Plans. The Company adopted Statement of Financial Accounting Standards (Statement) No. 123 (revised 2004), *Shared-Based Payment*, in 2006. The adoption of Statement No. 123 (revised 2004) did not have a material impact on the Company's financial position, results of operations or cash flows.

Prior to the adoption of Statement No. 123 (revised 2004), the Company applied the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, in accounting for stock-based compensation plans. Under the fair value method principles of Statement No. 123 (revised 2004), pro forma stock-based compensation expense, net of taxes, and pro forma net income would not have differed from amounts reported in 2005 and 2004.

Stock-based compensation expense is recognized as part of underwriting, acquisition and insurance expenses over the requisite service period. Stock-based compensation expense, net of taxes, was \$1.8 million in 2006, \$1.0 million in 2005 and \$1.8 million in 2004.

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

The Company manages its exposure to foreign currency risk primarily by matching assets and liabilities denominated in the same currency. To the extent that assets and liabilities in foreign currencies are not matched, the Company is exposed to foreign currency risk. For functional currencies, the related exchange rate fluctuations are reflected in other comprehensive income (loss).

o) Comprehensive Income. Comprehensive income represents all changes in equity that result from recognized transactions and other economic events during the period. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under U.S. GAAP are included in comprehensive income but excluded from net income, such as unrealized gains or losses on investments in fixed maturities and equity securities, foreign currency translation adjustments and, in 2006, net actuarial pension loss.

p) Net Income Per Share. Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares outstanding during the year. Prior to the conversion of the Company's convertible notes payable in

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December 2006, diluted net income per share reflected the application of the if-converted method as defined in Statement No. 128, *Earnings Per Share*.

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1. Summary of Significant Accounting Policies (continued)

q) Recent Accounting Pronouncements. In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*. Statement No. 155 requires companies to evaluate beneficial interests in securitized financial assets in order to identify whether those interests are freestanding derivatives or contain embedded derivatives that would have to be accounted for separately at fair value. In January 2007, the FASB issued Statement No. 133 Implementation Issue No. B40 (Issue No. B40), *Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets*. Issue No. B40 exempts securitized interests that contain only an embedded derivative that is tied to the prepayment risk of the underlying financial assets from the evaluation required by Statement No. 155. Statement No. 155 becomes effective for the Company in the first quarter of 2007. The Company will adopt Statement No. 155 and apply Issue No. B40 concurrently and does not expect the adoption of Statement No. 155 to have a material impact on its financial position, results of operations or cash flows.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 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. Statement No. 157 becomes effective for the Company in the first quarter of 2008. The Company does not expect the adoption of Statement No. 157 to have a material impact on its financial position, results of operations or cash flows.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48). FIN No. 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN No. 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN No. 48 becomes effective for the Company in the first quarter of 2007. Upon adoption, the Company will be required to apply the provisions of FIN No. 48 to all tax positions and any cumulative effect adjustment will be recognized as an adjustment to retained earnings. The Company is in the process of evaluating FIN No. 48 and currently estimates that the cumulative effect of applying this guidance will result in an increase to retained earnings at January 1, 2007 in the range of \$10 million to \$25 million as a result of decreasing reserves for uncertain tax positions. This estimate is subject to change as the Company completes its analysis.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. Investments**

a) The following tables summarize the Company's investments.

<i>(dollars in thousands)</i>	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 1,125,912	\$ 1,381	\$ (15,698)	\$ 1,111,595
Obligations of states, municipalities and political subdivisions	1,638,768	32,617	(1,430)	1,669,955
Foreign governments	177,890	1,292	(1,234)	177,948
Public utilities	85,531	589	(623)	85,497
Convertibles and bonds with warrants	4,922	134		5,056
All other corporate bonds	1,963,363	10,653	(23,098)	1,950,918
Total fixed maturities	4,996,386	46,666	(42,083)	5,000,969
Equity securities:				
Insurance companies, banks and trusts	511,021	358,226	(3,838)	865,409
Industrial, miscellaneous and all other	548,324	354,795	(2,255)	900,864
Total equity securities	1,059,345	713,021	(6,093)	1,766,273
Short-term investments	139,499			139,499
Investment in affiliates	73,439			73,439
TOTAL INVESTMENTS	\$ 6,268,669	\$ 759,687	\$ (48,176)	\$ 6,980,180

<i>(dollars in thousands)</i>	December 31, 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 957,528	\$ 2,326	\$ (15,772)	\$ 944,082
Obligations of states, municipalities and political subdivisions	1,550,968	33,770	(4,368)	1,580,370
Foreign governments	342,561	2,819	(2,398)	342,982

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Public utilities	55,952	914	(302)	56,564
Convertibles and bonds with warrants	48,129	1,799	(150)	49,778
All other corporate bonds	1,631,026	22,853	(14,359)	1,639,520
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fixed maturities	4,586,164	64,481	(37,349)	4,613,296
Equity securities:				
Insurance companies, banks and trusts	489,980	242,961	(7,250)	725,691
Industrial, miscellaneous and all other	450,310	208,913	(6,358)	652,865
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total equity securities	940,290	451,874	(13,608)	1,378,556
Short-term investments	248,541			248,541
Investments in affiliates	14,072			14,072
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL INVESTMENTS	\$ 5,789,067	\$ 516,355	\$ (50,957)	\$ 6,254,465
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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

	December 31, 2006					
	Less than 12 months		12 months or longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 220,397	\$ (979)	\$ 660,736	\$ (14,719)	\$ 881,133	\$ (15,698)
Obligations of states, municipalities and political subdivisions	47,119	(255)	172,027	(1,175)	219,146	(1,430)
Foreign governments	59,843	(653)	29,224	(581)	89,067	(1,234)
Public utilities	28,164	(197)	11,598	(426)	39,762	(623)
All other corporate bonds	805,556	(9,879)	533,614	(13,219)	1,339,170	(23,098)
Total fixed maturities	1,161,079	(11,963)	1,407,199	(30,120)	2,568,278	(42,083)
Equity securities:						
Insurance companies, banks and trusts	7,120	(1,154)	36,731	(2,684)	43,851	(3,838)
Industrial, miscellaneous and all other	4,511	(86)	30,710	(2,169)	35,221	(2,255)
Total equity securities	11,631	(1,240)	67,441	(4,853)	79,072	(6,093)
TOTAL	\$ 1,172,710	\$ (13,203)	\$ 1,474,640	\$ (34,973)	\$ 2,647,350	\$ (48,176)

At December 31, 2006, the Company held 503 securities with a total estimated fair value of \$2.6 billion and gross unrealized losses of \$48.2 million. Of the 503 securities, 322 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$1.5 billion and gross unrealized losses of \$35.0 million. Of these securities, 320 were fixed maturities where the Company expects to receive all interest and principal payments, and two were equity securities where the Company believed the market valuations were low due to market sentiment as opposed to the operating fundamentals and financial conditions of the companies. At December 31, 2006, all securities with unrealized losses were reviewed and the Company believes that there were no indications of declines in estimated fair value that were considered to be other-than-temporary.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**2. Investments (continued)**

	December 31, 2005					
	Less than 12 months		12 months or longer		Total	
	Fair	Unrealized	Unrealized		Unrealized	
	Value	Losses	Fair Value	Losses	Fair Value	Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 615,895	\$ (10,173)	\$ 234,836	\$ (5,599)	\$ 850,731	\$ (15,772)
Obligations of states, municipalities and political subdivisions	505,508	(4,041)	14,088	(327)	519,596	(4,368)
Foreign governments	128,381	(1,052)	60,582	(1,346)	188,963	(2,398)
Public utilities	15,805	(302)			15,805	(302)
Convertibles and bonds with warrants	17,980	(150)			17,980	(150)
All other corporate bonds	593,731	(10,515)	138,565	(3,844)	732,296	(14,359)
Total fixed maturities	1,877,300	(26,233)	448,071	(11,116)	2,325,371	(37,349)
Equity securities:						
Insurance companies, banks and trusts	65,893	(7,250)			65,893	(7,250)
Industrial, miscellaneous and all other	64,917	(6,358)			64,917	(6,358)
Total equity securities	130,810	(13,608)			130,810	(13,608)
TOTAL	\$ 2,008,110	\$ (39,841)	\$ 448,071	\$ (11,116)	\$ 2,456,181	\$ (50,957)

At December 31, 2005, the Company held 492 securities with a total estimated fair value of \$2.5 billion and gross unrealized losses of \$51.0 million. Of the 492 securities, 91 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$448.1 million and gross unrealized losses of \$11.1 million.

c) The amortized cost and estimated fair value of fixed maturities at December 31, 2006 are shown below by contractual maturity.

<i>(dollars in thousands)</i>	Amortized	Estimated
	Cost	Fair Value

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Due in one year or less	\$ 174,531	\$ 174,168
Due after one year through five years	1,281,828	1,275,911
Due after five years through ten years	1,607,833	1,597,725
Due after ten years	1,932,194	1,953,165
	<u> </u>	<u> </u>
TOTAL	\$ 4,996,386	\$ 5,000,969
	<u> </u>	<u> </u>

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the lenders may have the right to put the securities back to the borrower. Based on expected maturities, the estimated average duration of the fixed maturities was 4.7 years.

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

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2006	2005	2004
Interest:			
Municipal bonds (tax-exempt)	\$ 68,521	\$ 59,994	\$ 42,513
Taxable bonds	160,890	152,059	140,998
Short-term investments, including overnight deposits	24,899	16,342	10,066
Dividends on equity securities	25,892	22,330	18,709
Income from investments in affiliates	5,439		
Other	(5,526)	(199)	(119)
	280,115	250,526	212,167
Less investment expenses	9,099	8,547	8,135
NET INVESTMENT INCOME	\$ 271,016	\$ 241,979	\$ 204,032

e) The following table presents realized investment gains (losses) and the change in unrealized holding gains.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2006	2005	2004
Realized gains:			
Fixed maturities	\$ 18,077	\$ 15,954	\$ 34,270
Equity securities	69,497	21,664	12,429
	87,574	37,618	46,699
Realized losses:			
Fixed maturities	(13,728)	(16,475)	(22,197)
Equity securities	(8,296)	(467)	(20,363)
Other	(1,942)	(968)	
	(23,966)	(17,910)	(42,560)
NET REALIZED INVESTMENT GAINS	\$ 63,608	\$ 19,708	\$ 4,139
Change in unrealized holding gains:			
Fixed maturities	\$ (22,549)	\$ (63,528)	\$ 4,347

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Equity securities	268,662	(51,189)	159,123
	<hr/>	<hr/>	<hr/>
NET INCREASE (DECREASE)	\$ 246,113	\$ (114,717)	\$ 163,470
	<hr/>	<hr/>	<hr/>

f) At December 31, 2006, the Company had \$1.6 billion of investments and cash and cash equivalents (invested assets) held in trust or on deposit for the benefit of policyholders, reinsurers or banks in the event of default by the Company on its obligations. These invested assets and the related liabilities are included on the Company's consolidated balance sheet. The following discussion provides additional detail regarding irrevocable undrawn letters of credit and investments held in trust or on deposit.

The Company's United States insurance companies had invested assets with a carrying value of \$38.5 million and \$36.0 million on deposit with state regulatory authorities at December 31, 2006 and 2005, respectively.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Investments (continued)

Invested assets with a carrying value of \$8.3 million and \$8.9 million at December 31, 2006 and 2005, respectively, were held in trust for the benefit of cedents of the Company's United States insurance companies.

Invested assets with a carrying value of \$106.2 million and \$138.5 million at December 31, 2006 and 2005, respectively, were held in trust for the benefit of United States cedents of Markel International Insurance Company Limited (MIICL), a wholly-owned subsidiary, and to facilitate MIICL's accreditation as an alien reinsurer by certain states.

Invested assets with a carrying value of \$47.1 million and \$41.8 million at December 31, 2006 and 2005, respectively, were held in trust for the benefit of MIICL's United States surplus lines policyholders.

Invested assets with a carrying value of \$34.2 million and \$34.7 million at December 31, 2006 and 2005, respectively, were held in trust for the benefit of MIICL's Canadian cedents.

Banks have issued irrevocable undrawn letters of credit supporting the Company's contingent liabilities related to certain reinsurance business written in the United States by MIICL. The Company had deposited invested assets with a carrying value of \$36.6 million and \$37.3 million at December 31, 2006 and 2005, respectively, as collateral against these letters of credit.

The Company had deposited \$401.2 million and \$276.5 million of invested assets with Lloyd's to support its underwriting activities at December 31, 2006 and 2005, respectively. In addition, the Company had invested assets with a carrying value of \$945.4 million and \$1.1 billion at December 31, 2006 and 2005, respectively, held in trust for the benefit of syndicate policyholders.

g) At December 31, 2006 and 2005, investments in U.S. Treasury securities and obligations of U.S. government agencies were the only investments in any one issuer that exceeded 10% of shareholders' equity.

3. Receivables

The following table presents the components of receivables.

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	December 31,	
	2006	2005
<i>(dollars in thousands)</i>		
Amounts receivable from agents, brokers and insureds	\$ 267,530	\$ 277,076
Less allowance for doubtful receivables	6,637	7,618
	260,893	269,458
Other	62,089	65,055
RECEIVABLES	\$ 322,982	\$ 334,513

Amounts receivable from agents, brokers and insureds included \$56.1 million and \$57.1 million of accrued premium income at December 31, 2006 and 2005, respectively. Accrued premium income represents the difference between estimated cumulative ultimate gross written premiums and cumulative billed premiums. This timing difference arises because producers have obligated the Company to provide coverage but have not yet reported final policy information.

Table of Contents**3. Receivables (continued)**

Other receivables included \$20.5 million and \$43.0 million recoverable from Marsh, Inc. at December 31, 2006 and 2005, respectively. These amounts relate to the 2002 settlement of a reinsurance dispute with Marsh, Inc. and several reinsurers. As a result of the settlement, Marsh, Inc. agreed to pay 57% of future claims from the program involved in the dispute. The receivable from Marsh, Inc. was reduced \$11.4 million and \$14.3 million during 2006 and 2005, respectively, as a result of a decrease in the estimated loss reserves for the program that gave rise to the reinsurance dispute. Marsh, Inc. is a wholly-owned subsidiary of Marsh & McLennan Companies, Inc.

4. Deferred Policy Acquisition Costs

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

	Years Ended December 31,		
	2006	2005	2004
<i>(dollars in thousands)</i>			
Balance, beginning of year	\$ 212,329	\$ 204,579	\$ 200,284
Policy acquisition costs of sold subsidiary		(2,613)	
Policy acquisition costs deferred	538,640	485,258	491,067
Amortization of policy acquisition costs	(532,577)	(474,895)	(486,772)
DEFERRED POLICY ACQUISITION COSTS	\$ 218,392	\$ 212,329	\$ 204,579

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

	Years Ended December 31,		
	2006	2005	2004
<i>(dollars in thousands)</i>			
Amortization of policy acquisition costs	\$ 532,577	\$ 474,895	\$ 486,772
Other operating expenses	235,276	175,428	186,678
UNDERWRITING, ACQUISITION AND INSURANCE EXPENSES	\$ 767,853	\$ 650,323	\$ 673,450

5. Property and Equipment

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

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<i>(dollars in thousands)</i>	December 31,	
	2006	2005
Land	\$ 18,262	\$ 18,262
Leasehold improvements	30,171	28,835
Furniture and equipment	58,620	56,218
Other	1,798	1,516
	108,851	104,831
Less accumulated depreciation and amortization	62,884	55,287
PROPERTY AND EQUIPMENT	\$ 45,967	\$ 49,544

Depreciation and amortization expense of property and equipment was \$9.8 million, \$10.1 million and \$10.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company does not own any material properties as it leases substantially all of its facilities and certain furniture and equipment under operating leases with remaining terms up to approximately 12 years.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**5. Property and Equipment (continued)**

The following table summarizes the Company's minimum annual rental commitments, excluding taxes, insurance and other operating costs payable directly by the Company, for noncancelable operating leases at December 31, 2006.

Years Ending December 31,	<i>(dollars in thousands)</i>
2007	\$ 15,413
2008	14,425
2009	13,899
2010	12,297
2011	8,767
2012 and thereafter	30,487
TOTAL	\$ 95,288

Total rental expense for the years ended December 31, 2006, 2005 and 2004 was approximately \$15.5 million, \$13.2 million and \$13.3 million, respectively.

6. Goodwill

Goodwill is tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. There was no indication of goodwill impairment during 2006 or 2005.

The carrying amounts of goodwill by reporting unit at December 31, 2006 and 2005 were as follows: Excess and Surplus Lines, \$81.8 million, and London Insurance Market, \$257.9 million.

7. Income Taxes

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Income before income taxes includes the following components.

	Years Ended December 31,		
<i>(dollars in thousands)</i>	2006	2005	2004
Domestic	\$ 466,750	\$ 245,190	\$ 276,264
Foreign	86,651	(59,190)	(52,219)
INCOME BEFORE INCOME TAXES	\$ 553,401	\$ 186,000	\$ 224,045

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

Income tax expense includes the following components.

	Years Ended December 31,		
	2006	2005	2004
<i>(dollars in thousands)</i>			
Current:			
Federal domestic operations	\$ 130,180	\$ 81,892	\$ 84,749
Federal foreign operations	158	706	3,684
Total current tax expense	130,338	82,598	88,433
Deferred:			
Federal domestic operations	6,741	(15,180)	(7,100)
Federal foreign operations	(1,930)	(8,720)	(2,863)
Foreign foreign operations	25,750	(20,613)	(19,837)
Total deferred tax expense (benefit)	30,561	(44,513)	(29,800)
INCOME TAX EXPENSE	\$ 160,899	\$ 38,085	\$ 58,633

In general, the Company is not subject to state income taxation; therefore, state income tax expense is not material to the consolidated financial statements.

The Company made net income tax payments of \$145.6 million, \$65.9 million and \$94.2 million in 2006, 2005 and 2004, respectively. Current income taxes payable were \$12.2 million and \$19.6 million at December 31, 2006 and 2005, respectively, and were included in other liabilities on the consolidated balance sheets.

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

	Years Ended December 31,		
	2006	2005	2004
United States corporate tax rate	35%	35%	35%
Tax-exempt investment income	(5)	(12)	(7)
Sale of subsidiary		(4)	
Differences between financial reporting and tax bases			(2)

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Tax reserve adjustment		1	
Other	(1)		
EFFECTIVE TAX RATE	29%	20%	26%

Substantially all of the Company's continuing international operations are taxed directly or indirectly by both the United States and United Kingdom. However, subject to certain limitations, the United States allows a credit against its tax for any United Kingdom tax generated by Markel International. As a result of differences between the United States and United Kingdom tax systems, distinct deferred tax assets and deferred tax liabilities exist in each of these jurisdictions.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**7. Income Taxes (continued)**

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

	December 31,	
	2006	2005
<i>(dollars in thousands)</i>		
Assets:		
Differences between financial reporting and tax bases	\$ 108,674	\$ 95,527
Unpaid losses and loss adjustment expenses not yet deductible for income tax purposes	138,152	144,048
Unearned premiums recognized for income tax purposes	54,826	55,621
Net operating loss carryforwards	150,982	222,075
Domestic asset on foreign tax losses	25,658	66,971
Domestic asset on future foreign taxable items	65,232	62,919
Total gross deferred tax assets	543,524	647,161
Less valuation allowance	(43,899)	(44,381)
Total gross deferred tax assets, net of allowance	499,625	602,780
Liabilities:		
Differences between financial reporting and tax bases	78,973	41,800
Unpaid losses and loss adjustment expenses deductible for income tax purposes in excess of financial statement purposes	23	91,453
Deferred policy acquisition costs	67,541	67,872
Accumulated other comprehensive income	229,466	157,700
Reinsurance recoveries not yet subject to income tax		42,293
Domestic liability on future foreign deductible items	29,348	30,358
Domestic liability on undistributed earnings of foreign subsidiaries	27,129	16,358
Other	28,024	20,828
Total gross deferred tax liabilities	460,504	468,662
NET DEFERRED TAX ASSET	\$ 39,121	\$ 134,118
Net deferred tax asset - foreign	106,990	143,347
Net deferred tax liability - domestic	(67,869)	(9,229)
NET DEFERRED TAX ASSET	\$ 39,121	\$ 134,118

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The net deferred tax asset at December 31, 2006 and 2005 is included in other assets on the consolidated balance sheets.

Upon acquiring Markel International, the Company established a \$45.8 million valuation allowance, substantially all of which related to pre-acquisition losses at Markel Capital. A valuation allowance was considered necessary due to the uncertainty of realizing a future tax benefit on these losses. During 2006, \$0.5 million of the deferred tax asset was realized and the valuation allowance was reduced. During 2004, \$2.9 million of the deferred tax asset established upon the acquisition of Markel International was realized, and both the valuation allowance and goodwill were reduced. This reduction in the valuation allowance was partially offset by an increase of \$1.5 million resulting from management's determination that it is more likely than not that some of the Company's post-acquisition losses for its Bermuda-based subsidiary will not be realized.

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7. Income Taxes (continued)

At December 31, 2006, the Company had approximately \$505 million of net operating losses, which were principally attributed to Markel Capital. Approximately \$380 million of these losses can be carried forward indefinitely to offset Markel Capital's future taxable income, while remaining losses of \$125 million expire between the years 2018 and 2025. The Company estimates that it will realize \$292.3 million of the gross deferred tax assets, including net operating losses, recorded at December 31, 2006 through the reversal of existing temporary differences attributable to the gross deferred tax liabilities. The Company believes that it is more likely than not that it will realize the remaining \$158.4 million of gross deferred tax assets, net of the valuation allowance, by generating future taxable income and by utilizing prudent and feasible tax planning strategies if future taxable income is not sufficient. While management believes the valuation allowance at December 31, 2006 is adequate, changes in management's estimate of future taxable income to be generated by its foreign subsidiaries or changes in the Company's ability to utilize tax planning strategies could result in an increase in the valuation allowance through a charge to earnings.

Provisions for United States income taxes on undistributed earnings of foreign subsidiaries are made only on those amounts in excess of the funds that are considered to be permanently reinvested. Pre-acquisition earnings of the Company's foreign subsidiaries are considered permanently reinvested and no provision for United States income taxes has been recorded. If these pre-acquisition earnings were not considered permanently reinvested, the estimated additional deferred income tax liability would not be material to the Company's consolidated financial statements.

In July 2006, the Internal Revenue Service (IRS) completed its examination of the Company's 2003 federal income tax return. No material adjustments were made as a result of this examination. The Company's 2002 federal income tax return was closed to audit in September 2006. At that time, management determined that tax liabilities were less than previously estimated, resulting in a \$3.4 million reduction in 2006 income tax expense. In addition, the Company's 2001 federal income tax return was closed to audit in September 2005. At that time, management determined that tax liabilities were \$2.5 million less than previously estimated. This change in estimated tax liabilities was recognized as a reduction in 2005 income tax expense. Additionally, the Company's 2000 federal income tax return was closed to audit in September 2004. As a result, management determined that tax liabilities were \$22.5 million less than previously estimated. The Company reduced 2004 income tax expense by \$4.1 million, reduced goodwill related to the Markel International acquisition by \$14.7 million and increased common stock related to closed stock option plans by \$3.7 million.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. Unpaid Losses and Loss Adjustment Expenses**

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

	Years Ended December 31,		
	2006	2005	2004
<i>(dollars in thousands)</i>			
NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	\$ 4,039,377	\$ 3,841,091	\$ 3,315,599
Foreign currency movements, commutations, dispositions and other	172,492	(142,974)	91,618
ADJUSTED NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	4,211,869	3,698,117	3,407,217
Incurred losses and loss adjustment expenses:			
Current year	1,264,918	1,350,568	1,274,426
Prior years	(132,339)	(50,585)	33,917
TOTAL INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES	1,132,579	1,299,983	1,308,343
Payments:			
Current year	208,310	227,288	212,108
Prior years	799,519	717,157	679,624
TOTAL PAYMENTS	1,007,829	944,445	891,732
Foreign exchange adjustment	1,207	(28)	3,059
Reinsurance to close Lloyd's syndicates			14,204
Change in recoverable from Marsh, Inc. (see note 3)	(11,400)	(14,250)	
NET RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	4,326,426	4,039,377	3,841,091
Reinsurance recoverable on unpaid losses	1,257,453	1,824,300	1,641,276
GROSS RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	\$ 5,583,879	\$ 5,863,677	\$ 5,482,367

Beginning of year net reserves for losses and loss adjustment expenses are adjusted, when applicable, for the impact of changes in foreign currency rates, commutations, acquisitions and dispositions. In 2006, the increase in beginning of year net reserves for losses and loss adjustment expenses was primarily due to an unfavorable movement of \$101.9 million in the foreign currency rate of exchange between the United States Dollar and the United Kingdom Sterling and a \$51.8 million increase related to the completion of several reinsurance commutations. In 2005, the reduction to the beginning of year net reserves for losses and loss adjustment expenses was primarily due to a

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favorable movement of \$103.1 million in the foreign currency rate of exchange between the United States Dollar and the United Kingdom Sterling and a \$45.2 million decrease related to the sale of Corifrance. The increase in the beginning of year net reserves for losses and loss adjustment expenses in 2004 was primarily due to \$67.8 million of unfavorable movement in the foreign currency rate of exchange between the United States Dollar and the United Kingdom Sterling.

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8. Unpaid Losses and Loss Adjustment Expenses (continued)

In 2006, incurred losses and loss adjustment expenses included \$132.3 million of favorable development on prior years' loss reserves, which was primarily due to \$182.1 million of loss reserve redundancies experienced at the Shand Professional/Products Liability unit as a result of the favorable insurance market conditions experienced in recent years. This favorable development on prior years' loss reserves was partially offset by \$61.1 million of adverse loss reserve development on Hurricanes Katrina, Rita and Wilma (the 2005 Hurricanes). During 2006, losses on the 2005 Hurricanes were primarily concentrated in the contract property and delegated authority books of business included in the Excess and Surplus Lines and London Insurance Market segments. The Company also recognized \$16.7 million of adverse development on prior years' loss reserves on asbestos and environmental exposures and related reinsurance bad debt in 2006.

This year's review of asbestos and environmental loss reserves in both the U.S. and international operations was completed during the third quarter of 2006. During both the 2006 and 2005 reviews, the Company noted an increase in the severity of losses on reported claims, which resulted in an increase in the Company's estimate of ultimate loss reserves for asbestos and environmental exposures and related reinsurance bad debt. The increase in the allowance for potentially uncollectible reinsurance was required to provide for potential collection disputes with reinsurers and to increase reserves for financially weak or insolvent reinsurers.

Current year incurred losses and loss adjustment expenses for 2005 included \$188.7 million of net losses on the 2005 Hurricanes. Prior years incurred losses and loss adjustment expenses reflect favorable development in 2005 of \$50.6 million, which was primarily due to \$126.4 million of loss reserve redundancies experienced at the Shand Professional/Products Liability and Markel Specialty Program Insurance units as a result of the favorable insurance market conditions experienced in recent years. In 2005, the favorable development on prior years' loss reserves was partially offset by \$31.3 million of loss reserve development on asbestos and environmental exposures and related reinsurance bad debt and \$35.4 million of adverse development at the Markel Brokered Excess and Surplus Lines unit.

In 2005, the adverse development on prior years' loss reserves at the Markel Brokered Excess and Surplus Lines unit included \$26.1 million of losses related to general and products liability programs, including the California commercial and residential contractors programs, and claims handling costs associated with these and other programs. This adverse development was primarily for the 1999 to 2002 accident years and was based upon the Company's determination that the losses on reported claims for this book of business were higher than expected. In addition to the increase in losses on reported claims, a higher than expected incidence of newly reported claims was experienced.

In 2005, the adverse development discussed previously was more than offset by favorable development on prior years' loss reserves primarily as a result of the positive effect of price increases across most product lines in recent years. Of the \$126.4 million of loss reserve redundancies experienced at the Shand Professional/Product Liability and Markel Specialty Program Insurance units, \$111.1 million was related to favorable development on the 2002 to 2004 accident years. Approximately three-quarters of this redundancy was related to the specified medical, medical malpractice and products programs at the Shand Professional/Products Liability unit and the casualty programs at the Markel Specialty Program Insurance unit.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Unpaid Losses and Loss Adjustment Expenses (continued)

Prior years incurred losses and loss adjustment expenses of \$33.9 million in 2004 included loss reserve increases of \$55.3 million at the Markel Brokered Excess and Surplus Lines unit and \$30.0 million at Markel International, as well as allowances for potentially uncollectible reinsurance of \$19.0 million. These reserve increases were partially offset by net redundancies of \$70.4 million primarily from the Shand Professional/Products Liability, Markel Specialty Program Insurance and Essex Excess and Surplus Lines units.

The increase in prior years loss reserves for the Markel Brokered Excess and Surplus Lines unit included \$34.9 million of reserve increases during 2004, primarily related to the 1999 to 2002 accident years for the unit's California commercial and residential contractors programs. During 2004, the Company determined that the development of reported claims for this book of business was higher than expected. The remaining reserve increases at this unit were attributed to other casualty programs across various accident years.

The 2004 increase in prior years loss reserves at Markel International was primarily due to adverse development of the 1997 to 2001 accident years on the U.S. casualty reinsurance, financial institution risks, professional indemnity and general liability exposures, most of which are no longer written. The prior years loss reserve development was identified as part of a claims review concluded in early 2004, which indicated that these lines of business were taking longer to develop than previously estimated.

The 2004 increase in prior years loss reserves for allowances for potentially uncollectible reinsurance was primarily due to deterioration in the financial condition of several reinsurers who participated in reinsurance treaties covering business written in the Excess and Surplus Lines and Other segments.

In 2004, the net redundancies at the Shand Professional/Products Liability, Markel Specialty Program Insurance and Essex Excess and Surplus Lines units were primarily attributed to the 2002 and 2003 accident years and were due to the positive effect of price increases across most product lines. Approximately half of this redundancy was related to the medical malpractice and specified professions programs at the Shand Professional/Products Liability unit, the casualty and accident and health programs at the Markel Specialty Program Insurance unit and the casualty programs at the Essex Excess and Surplus Lines unit.

Reinsurance to close Lloyd's syndicates (RITC) represents the amount due from minority participants in a year of account. Prior to 2001, Markel Capital provided less than 100% of the capacity to the Company's syndicates. For years of account prior to 2001, the Company recorded its pro rata share of syndicates' assets, liabilities, revenues and expenses. The minority participants paid the Company to assume their share of outstanding liabilities and related claims handling costs (including claims incurred but not reported), net of estimated reinsurance recoverables. When RITC transactions were recorded, there was no impact to the Company's results of operations. As of January 1, 2005, all pre-2001 years of account were closed.

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8. Unpaid Losses and Loss Adjustment Expenses (continued)

Inherent in the Company's reserving practices is the desire to establish reserves that are more likely redundant than deficient. As such, the Company seeks to establish loss reserves that will ultimately prove to be adequate. Furthermore, the Company's philosophy is to price its insurance products to make an underwriting profit, not to increase written premiums. Management continually attempts to improve its loss estimation process by refining its ability to analyze loss development patterns, claim payments and other information, but uncertainty remains regarding the potential for adverse development of estimated ultimate liabilities.

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

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

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

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

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**8. Unpaid Losses and Loss Adjustment Expenses (continued)**

The following table provides a reconciliation of beginning and ending A&E reserves for losses and loss adjustment expenses, which are a component of consolidated reserves for losses and loss adjustment expenses.

	Years Ended December 31,		
	2006	2005	2004
<i>(dollars in thousands)</i>			
NET RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	\$ 211,283	\$ 243,196	\$ 250,709
Commutations and other	13,399	(43,749)	12,057
ADJUSTED NET RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, BEGINNING OF YEAR	224,682	199,447	262,766
Incurred losses and loss adjustment expenses	17,237	22,099	2,049
Payments	27,480	10,263	21,619
NET RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	214,439	211,283	243,196
Reinsurance recoverable on unpaid losses	145,524	184,480	188,683
GROSS RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	\$ 359,963	\$ 395,763	\$ 431,879

Incurred losses and loss adjustment expenses for 2006 and 2005 were primarily due to adverse development of asbestos-related reserves. At December 31, 2006, asbestos-related reserves were \$272.1 million and \$148.2 million on a gross and net basis, respectively.

Net reserves for reported claims and net incurred but not reported reserves for A&E exposures were \$123.2 million and \$91.2 million, respectively, at December 31, 2006. Inception-to-date net paid losses and loss adjustment expenses for A&E related exposures totaled \$314.8 million at December 31, 2006, which includes \$48.4 million of litigation-related expense.

The Company's reserves for losses and loss adjustment expenses related to A&E exposures represent management's best estimate of ultimate settlement values. A&E reserves are monitored by management, and the Company's statistical analysis of these reserves is reviewed by the Company's independent actuaries. A&E exposures are generally subject to significant uncertainty due to potential severity and an uncertain legal climate. A&E reserves could be subject to increases in the future; however, management believes the Company's gross and net A&E reserves at December 31, 2006 are adequate.

9. Convertible Notes Payable

During 2001, the Company issued \$408.0 million principal amount at maturity, \$112.9 million net proceeds, of Liquid Yield Option Notes (LYONs). The LYONs were zero coupon senior notes issued at a price of \$283.19 per LYON, representing a yield to maturity of 4.25%, with a stated maturity of June 5, 2031. Until their conversion in December 2006, the Company used the effective yield method to recognize the accretion of the discount from the issue price to the face amount of the LYONs at maturity. The accretion of the discount is included in interest expense.

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Table of Contents**9. Convertible Notes Payable (continued)**

As of April 1, 2005, each LYON became convertible into 1.1629 shares of the Company's common stock. During 2006, the LYONs were converted, which resulted in the issuance of approximately 335,000 shares of the Company's common stock. The weighted average number of common shares outstanding related to the LYONs was included in the Company's calculation of diluted net income per share for the year ended December 31, 2006. No LYONs had been converted as of December 31, 2005. The common shares that would have been issued if the LYONs had been converted were included in the Company's calculation of diluted net income per share for the year ended December 31, 2005.

The estimated fair value based on quoted market prices of the convertible notes payable was approximately \$108 million at December 31, 2005.

10. Senior Long-Term Debt

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

	December 31,	
	2006	2005
<i>(dollars in thousands)</i>		
7.20% unsecured senior notes, due August 15, 2007, interest payable semi-annually, net of unamortized discount of \$373 in 2006 and \$1,012 in 2005	\$ 72,659	\$ 72,020
7.00% unsecured senior notes, due May 15, 2008, interest payable semi-annually, net of unamortized discount of \$1,261 in 2006 and \$2,279 in 2005	91,789	95,221
6.80% unsecured senior notes, due February 15, 2013, interest payable semi-annually, net of unamortized discount of \$1,658 in 2006 and \$1,927 in 2005	245,007	244,738
7.35% unsecured senior notes, due August 15, 2034, interest payable semi-annually, net of unamortized discount of \$2,927 in 2006 and \$3,034 in 2005	197,073	196,966
7.50% unsecured senior debentures, due August 22, 2046, interest payable quarterly, net of unamortized discount of \$4,550 in 2006	145,450	
SENIOR LONG -TERM DEBT	\$ 751,978	\$ 608,945

On August 22, 2006, the Company issued \$150 million of 7.50% unsecured senior debentures due August 22, 2046. Net proceeds to the Company were \$145.4 million and a portion was used to retire the Junior Subordinated Deferrable Interest Debentures on January 2, 2007. The remaining proceeds will be used to retire the 7.20% unsecured senior notes due August 15, 2007, or for general corporate purposes.

On August 25, 2005, the Company entered into a revolving credit facility that provides \$375 million of capacity for working capital and other general corporate purposes and expires December 2010. The Company may select from two interest rate options for balances outstanding under the facility and pays a commitment fee (0.15% at December 31, 2006) on the unused portion of the facility based on the Company's debt to total capital ratio as calculated under the agreement. At both December 31, 2006 and 2005, the Company had no borrowings outstanding under the revolving credit facility.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**10. Senior Long-Term Debt (continued)**

At December 31, 2006, the Company was in compliance with all covenants contained in its revolving credit facility. To the extent that the Company was not in compliance with its covenants, the Company's access to the credit facility could be restricted. While the Company believes such events are unlikely, the inability to access the credit facility could adversely affect the Company's liquidity.

The Company's unsecured senior notes are not redeemable; however, the Company's 7.50% unsecured senior debentures are redeemable by the Company at any time after August 22, 2011. None of the Company's senior long-term debt is subject to any sinking fund requirements.

The estimated fair value based on quoted market prices of the Company's senior long-term debt was approximately \$801 million and \$647 million at December 31, 2006 and 2005, respectively.

The following table summarizes the future principal payments due at maturity on senior long-term debt as of December 31, 2006.

<u>Years Ending December 31,</u>	<i>(dollars in thousands)</i>
2007	\$ 73,032
2008	93,050
2009	
2010	
2011	
2012 and thereafter	596,665
TOTAL PRINCIPAL PAYMENTS	\$ 762,747
Less unamortized discount	(10,769)
SENIOR LONG-TERM DEBT	\$ 751,978

The Company paid \$46.7 million, \$44.5 million and \$31.4 million in interest on its senior long-term debt during the years ended December 31, 2006, 2005 and 2004, respectively.

11. Junior Subordinated Deferrable Interest Debentures (8.71% Junior Subordinated Debentures)

On January 8, 1997, the Company arranged the sale of \$150 million of Company-Obligated Mandatorily Redeemable Preferred Capital Securities (8.71% Capital Securities) issued under an Amended and Restated Declaration of Trust dated January 13, 1997 (the Declaration) by Markel Capital Trust I (the Trust), a statutory business trust sponsored and wholly-owned by the Company. Proceeds from the sale of the 8.71% Capital Securities were used to purchase the Company's 8.71% Junior Subordinated Debentures due January 1, 2046, issued to the Trust under an indenture dated January 13, 1997 (the Indenture). The 8.71% Junior Subordinated Debentures are the sole assets of the Trust. The Company has the right to defer interest payments on the 8.71% Junior Subordinated Debentures for up to five years. Taken together, the Company's obligations under the Debentures, the Indenture, the Declaration and a guarantee made by the Company provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of distributions and other amounts due on the 8.71% Capital Securities. No other subsidiary of the Company guarantees the 8.71% Junior Subordinated Debentures or the 8.71% Capital Securities. In the event of default under the Indenture, the Trust may not make distributions on,

Table of Contents**11. Junior Subordinated Deferrable Interest Debentures (8.71% Junior Subordinated Debentures) (continued)**

or repurchases of, the Trust's common securities. During a period in which the Company elects to defer interest payments or in the event of default under the Indenture, the Company may not make distributions on, or repurchases of, the Company's capital stock or debt securities ranking equal or junior to the 8.71% Junior Subordinated Debentures. In 2006, the Company repurchased \$34.7 million principal amount of its 8.71% Junior Subordinated Debentures. The Company redeemed the remaining outstanding 8.71% Junior Subordinated Debentures for \$111.0 million on January 2, 2007.

The Company paid \$10.6 million, \$12.8 million and \$13.1 million in interest on the 8.71% Junior Subordinated Debentures during the years ended December 31, 2006, 2005 and 2004, respectively. The estimated fair value based on quoted market prices of the 8.71% Junior Subordinated Debentures was approximately \$111 million and \$150 million at December 31, 2006 and 2005, respectively.

12. Shareholders' Equity

a) The Company had 50,000,000 shares of no par value common stock authorized of which 9,994,263 shares and 9,798,538 shares were issued and outstanding at December 31, 2006 and 2005, respectively. The Company also has 10,000,000 shares of no par value preferred stock authorized, none of which were issued or outstanding at December 31, 2006 or 2005.

In August 2005, the Company's Board of Directors approved the repurchase of up to \$200 million of common stock pursuant to a share repurchase program (the Program). Under the Program, the Company may repurchase outstanding shares of common stock from time to time, primarily through open-market transactions. The Program has no expiration date but may be terminated by the Board of Directors at any time. In 2006, the Company repurchased 139,800 shares of common stock at a cost of \$45.9 million under the Program.

b) Net income per share is determined by dividing net income by the applicable weighted average shares outstanding.

	Years Ended December 31,		
	2006	2005	2004
<i>(in thousands, except per share amounts)</i>			
Net income as reported	\$ 392,502	\$ 147,915	\$ 165,412
Interest expense, net of tax, on convertible notes payable	2,489	2,648	1,855
Adjusted net income	\$ 394,991	\$ 150,563	\$ 167,267
Basic common shares outstanding	9,709	9,827	9,849
Dilutive effect of convertible notes payable	303	335	335
Other dilutive potential common shares	12	9	6
Diluted shares outstanding	10,024	10,171	10,190

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Basic net income per share	\$ 40.43	\$ 15.05	\$ 16.79
Diluted net income per share	\$ 39.40	\$ 14.80	\$ 16.41

Average closing common stock market prices are used to calculate the dilutive effect attributable to stock options and restricted stock.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**12. Shareholders' Equity (continued)**

c) The Company's Employee Stock Purchase and Bonus Plan provides a method for employees and directors to purchase shares of the Company's common stock on the open market. The plan encourages share ownership by providing for the award of bonus shares to participants equal to 10% of the net increase in the number of shares owned under the plan in a given year, excluding shares acquired through the plan's loan program component. Under the loan program, the Company offers subsidized unsecured loans so participants may purchase shares and awards bonus shares equal to 5% of the shares purchased with a loan. The Company has authorized 100,000 shares for purchase under this plan, of which 13,198 and 21,267 shares were available for purchase at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, loans outstanding under the plan, which are included in receivables on the consolidated balance sheets, totaled \$16.2 million and \$17.3 million, respectively.

d) The Markel Corporation Omnibus Incentive Plan (Omnibus Incentive Plan) provides for grants or awards of cash, restricted stock, restricted stock units, performance grants and other stock-based awards to employees and directors. The Omnibus Incentive Plan does not authorize grants of stock options. The Omnibus Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors (Compensation Committee) and will terminate on March 5, 2013. At December 31, 2006, there were 150,000 shares reserved for issuance under the Omnibus Incentive Plan. As of December 31, 2006, 6,000 Restricted Stock Units, as defined by the Omnibus Incentive Plan, have been awarded to the Company's non-employee directors. The Company has also provided for performance-based Restricted Stock Unit awards to certain associates and executive officers. Under the terms of these awards, as of December 31, 2006, 18,746 Restricted Stock Units have been awarded to certain associates and executive officers based upon meeting performance conditions determined by a subcommittee of the Compensation Committee. Awards granted to non-employee directors vest ratably over a five-year period from the date of grant, while awards granted to certain associates and executive officers vest at the end of the fifth year following the year for which the Compensation Committee determines performance conditions have been met. At the end of the vesting period, recipients are entitled to receive one share of the Company's common stock for each vested Restricted Stock Unit.

The following table summarizes nonvested Restricted Stock Unit awards.

	Number	Weighted Average Grant-Date Fair Value
	of Units	
Nonvested units at January 1, 2006	16,502	\$ 304.99
Granted	5,444	324.00
Vested	(1,488)	275.03
	<hr/>	
Nonvested units at December 31, 2006	20,458	\$ 312.23
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The fair value of Restricted Stock Units is determined based on the closing price of the Company's common shares on the grant date. The weighted average grant-date fair value of Restricted Stock Units awarded in 2006, 2005 and 2004 was \$324.00, \$366.69 and \$268.99, respectively. As of December 31, 2006, unrecognized compensation cost related to nonvested Restricted Stock Units was \$3.3 million, which is expected to be recognized over a weighted average period of 3.1 years. The fair value of Restricted Stock Units vested during 2006, 2005 and 2004 was \$0.4 million, \$0.3 million and \$0.4 million, respectively.

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12. Shareholders' Equity (continued)

e) In connection with the acquisition of Markel International, the Company provided for the conversion of options under Markel International's Octavian Stock Option Plan (Octavian Plan) into options to purchase the Company's common shares. The Octavian Plan provided for the issuance of options to members of management of Octavian (now Markel Syndicate Management) based on profit commissions receivable by Markel Syndicate Management for the 1997 to 2000 years of account at Lloyd's. At December 31, 2006 and 2005, 444 options and 962 options, respectively, were outstanding and exercisable under the Octavian Plan. The outstanding options have a nominal exercise price, and no further options are available for issuance under the Octavian Plan. Options expire seven years from the date of issue.

The Company's weighted average remaining contractual life for stock options outstanding under the Octavian Plan was 3.3 years at December 31, 2006.

13. Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes net holding gains (losses) on securities arising during the period less reclassification adjustments for net gains included in net income. Other comprehensive income (loss) also includes foreign currency translation adjustments and, in 2006, net actuarial pension loss. The related tax expense (benefit) on net holding gains (losses) on securities arising during the period was \$108.4 million, \$(33.2) million and \$58.7 million for 2006, 2005 and 2004, respectively. The related tax expense on the reclassification adjustments for net gains included in net income was \$22.3 million, \$6.9 million and \$1.4 million for 2006, 2005 and 2004, respectively. The related tax expense (benefit) on foreign currency translation adjustments was \$(0.9) million, \$(5.2) million and \$0.5 million for 2006, 2005 and 2004, respectively. The related tax benefit on the net actuarial pension loss was \$13.5 million for 2006.

14. Reinsurance

The Company purchases reinsurance in order to reduce its retention on individual risks and enable it to underwrite policies with sufficient limits to meet policyholder needs. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. The ceding of insurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement.

A credit risk exists with reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. Allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. At December 31, 2006 and 2005, balances recoverable from the Company's ten largest reinsurers, by group, represented approximately 71% and 62%, respectively, of the reinsurance recoverable on paid and unpaid losses. At December 31, 2006, the Company's largest reinsurance balance was due from the Munich Re Group and represented 14% of the reinsurance recoverable on paid and unpaid losses.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**14. Reinsurance (continued)**

The following table summarizes the Company's reinsurance allowance for doubtful accounts.

	Years Ended December 31,		
	2006	2005	2004
<i>(dollars in thousands)</i>			
REINSURANCE ALLOWANCE, BEGINNING OF YEAR	\$ 194,337	\$ 177,441	\$ 149,398
Additions:			
Charged to expense	(1,686)	29,978	19,674
Charged to other accounts	15,700	2,657	4,697
RITC (see note 8)			5,542
TOTAL REINSURANCE ALLOWANCE ADDITIONS	14,014	32,635	29,913
Deductions	23,356	15,739	1,870
REINSURANCE ALLOWANCE, END OF YEAR	\$ 184,995	\$ 194,337	\$ 177,441

Amounts charged to expense in 2005 and 2004 were primarily due to the deterioration in the financial condition of certain reinsurers, most of whom no longer participate in treaties with the Company.

Management believes the Company's reinsurance allowance for doubtful accounts is adequate at December 31, 2006; however, the deterioration in the credit quality of existing reinsurers or disputes over reinsurance agreements could result in additional charges.

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

	Years Ended December 31,		
	2006	2005	2004

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<i>(dollars in thousands)</i>	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>	<u>Written</u>	<u>Earned</u>
Direct	\$ 2,365,802	\$ 2,374,250	\$ 2,252,730	\$ 2,272,038	\$ 2,355,796	\$ 2,405,687
Assumed	170,428	165,889	148,604	132,848	162,604	158,634
Ceded	(341,285)	(355,758)	(428,740)	(466,425)	(468,016)	(510,434)
Net Premiums	\$ 2,194,945	\$ 2,184,381	\$ 1,972,594	\$ 1,938,461	\$ 2,050,384	\$ 2,053,887

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$67.0 million, \$616.5 million and \$339.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. Ceded incurred losses and loss adjustment expenses in 2005 included ceded losses on the 2005 Hurricanes of \$567.9 million.

The percentage of assumed earned premiums to net earned premiums for the years ended December 31, 2006, 2005 and 2004 was approximately 8%, 7% and 8%, respectively.

Table of Contents**15. Contingencies**

The Company's estimates of losses from the 2005 Hurricanes assume that flood exclusions in its property policies apply to flood damage in the New Orleans area following Hurricane Katrina. However, beginning in late November 2006, Louisiana state and federal trial courts ruled in a number of cases (most of which the Company was not a party to) that flood damage following the New Orleans area levee breaches may not be excluded from coverage under policies similar to those the Company has written. These rulings are being appealed, and the outcome is uncertain. If the rulings are upheld and it is determined that flood damage is covered under the Company's policies, losses associated with Hurricane Katrina will increase. The Company is currently evaluating this impact and cannot quantify the range of the increase at this time, but it may be material.

In April 2006, the Company received notice of a lawsuit filed in the United States District Court for the Northern District of Georgia by New Cingular Wireless Headquarters, LLC and several other corporate insureds against Marsh & McLennan Companies, Inc., Aon Corporation and approximately 100 insurers, including the Company's subsidiary, Essex Insurance Company, and the Company's syndicate at Lloyd's, Markel Syndicate 3000. The lawsuit seeks unspecified monetary damages and alleges that brokers and insurers colluded and engaged in prohibited conduct via market service agreements and other means that resulted in inflated premiums and reduced coverage. The case has been transferred to the United States District Court in New Jersey for coordinated pre-trial proceedings in the consolidated case already pending there known as In re: Insurance Brokerage Antitrust Litigation. In February 2007, Essex Insurance Company and Markel Syndicate 3000 settled these claims against them. The settlement did not have a material impact on the Company's financial condition or results of operations.

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.

16. Related Party Transactions

The Company engages in certain related party transactions in the normal course of business. These transactions are at arm's length and are immaterial to the Company's consolidated financial statements.

17. Statutory Financial Information

a) The following table includes unaudited selected information for the Company's wholly-owned domestic insurance subsidiaries as filed with state insurance regulatory authorities.

<i>(dollars in thousands)</i>	<i>Years Ended December 31,</i>		
	2006	2005	2004
Net income	\$ 339,662	\$ 209,645	\$ 185,493

Statutory capital and surplus	\$ 1,376,836	\$ 1,147,519	\$ 1,140,975
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The laws of the domicile states of the Company's domestic insurance subsidiaries govern the amount of dividends that may be paid to the Company. Generally, statutes in the domicile states of the Company's domestic insurance subsidiaries require prior approval for payment of extraordinary as opposed to ordinary dividends. At December 31, 2006, the Company's domestic insurance subsidiaries could pay up to \$335.3 million during the following 12 months under the ordinary dividend regulations.

In converting from statutory accounting principles to U.S. GAAP, typical adjustments include deferral of policy acquisition costs, differences in the calculation of deferred income taxes and the inclusion of net unrealized holding gains or losses relating to fixed maturities in shareholders equity.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**17. Statutory Financial Information (continued)**

The Company does not use any permitted statutory accounting practices that are different from prescribed statutory accounting practices.

b) MIICL files an annual audited return with the Financial Services Authority (FSA) in the United Kingdom. Assets and liabilities reported within the annual FSA return are prepared subject to specified rules concerning valuation and admissibility.

The following table summarizes MIICL's unaudited estimated FSA Return net income (loss) and policyholders' surplus.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2006	2005	2004
Net income (loss)	\$ 27,610	\$ 13,490	\$ (3,454)
Policyholders' surplus	\$ 312,612	\$ 284,032	\$ 246,970

MIICL's ability to pay dividends is limited by applicable FSA requirements, which require MIICL to give 14 days advance notice to the FSA of its intention to declare and pay a dividend. In addition, MIICL must comply with the United Kingdom Companies Act of 1985, which provides that dividends may only be paid out of distributable profits.

18. 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. Lines of business that have been discontinued in conjunction with an acquisition and non-strategic insurance subsidiaries are included in Other for purposes of segment reporting.

The Company considers many factors, including the nature of the underwriting units' insurance products, production sources, distribution strategies and regulatory environment in determining how to aggregate operating segments.

For 2006, 22% of the Company's gross written premiums related to foreign risks, of which 36% were from the United Kingdom. For 2005, 21% of the Company's gross written premiums related to foreign risks, of which 42% were from the United Kingdom. For 2004, 24% of the Company's gross written premiums related to foreign risks, of which 40% were from the United Kingdom. In each of these years, the United Kingdom was the only individual foreign country from which gross written premiums were material. Gross written premiums are attributed to individual countries based upon location of risk.

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

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.

Table of Contents**18. Segment Reporting Disclosures (continued)**

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

	Year Ended December 31, 2006					
<i>(dollars in thousands)</i>	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Investing	Other	Consolidated
Gross premium volume	\$ 1,465,725	\$ 340,483	\$ 729,160	\$	\$ 862	\$ 2,536,230
Net written premiums	1,228,797	322,466	643,485		197	2,194,945
Earned premiums	1,242,184	317,401	624,599		197	2,184,381
Losses and loss adjustment expenses	538,943	180,556	391,395		21,685	1,132,579
Amortization of policy acquisition costs	308,518	76,153	147,906			532,577
Other operating expenses	115,408	32,596	85,322		1,950	235,276
Underwriting profit (loss)	279,315	28,096	(24)		(23,438)	283,949
Net investment income				271,016		271,016
Net realized investment gains				63,608		63,608
Segment profit (loss)	\$ 279,315	\$ 28,096	\$ (24)	\$ 334,624	\$ (23,438)	\$ 618,573
Interest expense						65,172
Income before income taxes						\$ 553,401
U.S. GAAP combined ratio ⁽¹⁾	78%	91%	100%		NM ⁽²⁾	87%

	Year Ended December 31, 2005					
<i>(dollars in thousands)</i>	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Investing	Other	Consolidated
Gross premium volume	\$ 1,439,744	\$ 318,717	\$ 640,986	\$	\$ 1,887	\$ 2,401,334
Net written premiums	1,160,948	299,665	510,836		1,145	1,972,594
Earned premiums	1,138,525	291,273	507,518		1,145	1,938,461
Losses and loss adjustment expenses	674,926	147,590	443,964		33,503	1,299,983
Amortization of policy acquisition costs	271,707	70,683	132,505			474,895
Other operating expenses	95,712	22,739	60,540		(3,563)	175,428
Underwriting profit (loss)	96,180	50,261	(129,491)		(28,795)	(11,845)
Net investment income				241,979		241,979
Net realized investment gains				19,708		19,708

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Segment profit (loss)	\$ 96,180	\$ 50,261	\$ (129,491)	\$ 261,687	\$ (28,795)	\$ 249,842
Interest expense						63,842
Income before income taxes						\$ 186,000
U.S. GAAP combined ratio ⁽¹⁾	92%	83%	126%		NM ⁽²⁾	101%

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

⁽²⁾ NM Ratio is not meaningful.

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Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**18. Segment Reporting Disclosures (continued)**

	Year Ended December 31, 2004					Consolidated
	Excess and Surplus Lines	Specialty Admitted	London		Other	
			Market	Investing		
<i>(dollars in thousands)</i>						
Gross premium volume	\$ 1,478,210	\$ 294,114	\$ 700,002	\$	\$ 46,074	\$ 2,518,400
Net written premiums	1,156,044	276,363	580,730		37,247	2,050,384
Earned premiums	1,146,142	265,671	604,070		38,004	2,053,887
Losses and loss adjustment expenses	655,801	142,654	474,186		35,702	1,308,343
Amortization of policy acquisition costs	260,130	64,381	153,898		8,363	486,772
Other operating expenses	82,661	20,693	75,893		7,431	186,678
Underwriting profit (loss)	147,550	37,943	(99,907)		(13,492)	72,094
Net investment income				204,032		204,032
Net realized investment gains				4,139		4,139
Segment profit (loss)	\$ 147,550	\$ 37,943	\$ (99,907)	\$ 208,171	\$ (13,492)	\$ 280,265
Interest expense						56,220
Income before income taxes						\$ 224,045
U.S. GAAP combined ratio ⁽¹⁾	87%	86%	117%		NM ⁽²⁾	96%

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

⁽²⁾ NM Ratio is not meaningful.

b) The following table summariz