

MARKEL CORP
Form 10-K
February 28, 2014
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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, 2013
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.

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the shares of the registrant's Common Stock held by non-affiliates as of June 30, 2013 was approximately \$7,085,000,000.

The number of shares of the registrant's Common Stock outstanding at February 10, 2014: 13,985,396.

Documents Incorporated By Reference

The portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 12, 2014, referred to in Part III.

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BUSINESS OVERVIEW

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

On May 1, 2013, we completed the acquisition of Alterra Capital Holdings Limited (Alterra), a Bermuda-headquartered global enterprise providing diversified specialty property and casualty insurance and reinsurance products to corporations, public entities and other property and casualty insurers. Total purchase consideration was \$3.3 billion. The acquisition of Alterra creates additional size and scale, providing us with additional insurance and investment opportunities.

Specialty Insurance and Reinsurance

The specialty insurance market differs significantly from the standard market. In the standard market, insurance rates and forms are highly regulated, products and coverages are largely uniform with relatively predictable exposures and companies tend to compete for customers on the basis of price. In contrast, the specialty market provides coverage for hard-to-place risks that generally do not fit the underwriting criteria of standard carriers.

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

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

We also participate in the reinsurance market in certain classes of reinsurance product offerings, which were expanded in 2013 through the acquisition of Alterra. In the reinsurance market, our clients are other insurance companies, or cedents. We typically write our reinsurance products in the form of treaty reinsurance contracts, which are contractual arrangements that provide for automatic reinsuring of a type or category of risk underwritten by cedents. Generally, we participate on reinsurance treaties with a number of other reinsurers, each with an allocated portion of the treaty, with the terms and conditions of the treaty being substantially the same for each participating reinsurer. With treaty reinsurance contracts, we do not separately evaluate each of the individual risks assumed under the contracts and are largely dependent on the individual underwriting decisions made by the cedent. Accordingly, we review and analyze the cedent's risk management and underwriting practices in deciding whether to provide treaty reinsurance and in pricing of treaty reinsurance contracts.

Our reinsurance products are written on both a quota share and excess of loss basis. Quota share contracts require us to share the losses and expenses in an agreed proportion with the cedent. Excess of loss contracts require us to indemnify the cedent against all or a specified portion of losses and expenses in excess of a specified dollar or percentage amount. In both types of contracts, we may provide a ceding commission to the cedent.

We distinguish ourselves in the reinsurance market by the expertise of our underwriting teams, our access to global reinsurance markets, our ability to offer large lines and our ability to customize reinsurance solutions to fit our client's needs. Our specialty reinsurance product offerings include coverage for property, professional liability, automobile, general casualty and credit and surety risks.

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Markets

In the United States, we write business in the excess and surplus lines (E&S) and specialty admitted insurance and reinsurance markets. In 2012, the E&S market represented approximately \$35 billion, or 7%, of the approximately \$523 billion United States property and casualty industry.⁽¹⁾ In 2012, our legacy Markel operations were the eighth largest E&S writer in the United States as measured by direct premium writings and Alterra's legacy operations were the twenty-ninth.⁽¹⁾

Our E&S insurance operations are conducted through Essex Insurance Company (Essex), domiciled in Delaware, and Evanston Insurance Company (Evanston), domiciled in Illinois. The majority of our specialty admitted insurance operations are conducted through Markel Insurance Company (MIC), domiciled in Illinois; Markel American Insurance Company (MAIC), domiciled in Virginia; FirstComp Insurance Company (FCIC), domiciled in Nebraska; and Essentia Insurance Company (Essentia), domiciled in Missouri.

As a result of the acquisition of Alterra, we have expanded our United States insurance and reinsurance operations, effective May 1, 2013. Our E&S insurance operations include Alterra Excess & Surplus Insurance Company (AESIC) and our specialty admitted operations include Alterra America Insurance Company (AAIC), both domiciled in Delaware. Our United States reinsurance operations are conducted through Alterra Reinsurance USA Inc. (Alterra Re USA), a Connecticut-domiciled reinsurance company.

In Europe, we participate in the London insurance 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 Markel Syndicate 3000, through which our Lloyd's of London (Lloyd's) operations are conducted. Markel Syndicate 3000 is managed by Markel Syndicate Management Limited (MSM). As a result of the acquisition of Alterra, our Lloyd's operations also include Alterra Corporate Capital 2 Limited and Alterra Corporate Capital 3 Limited, corporate capital providers to Lloyd's Syndicate 1400. Since October 1, 2013, MSM has also managed Lloyd's Syndicate 1400. Markel International is headquartered in London, England. In addition to regional offices in the United Kingdom, Markel International has offices in Canada, Spain, Germany, Sweden, Switzerland, the Netherlands, Hong Kong, China, Malaysia and Singapore. The London insurance market, which produced approximately \$69 billion of gross written premium in 2012,⁽²⁾ is the largest insurance market in Europe and third largest in the world.⁽³⁾ In 2012, gross premium written through Lloyd's syndicates generated approximately half of the London market's international insurance business,⁽²⁾ making Lloyd's the world's largest commercial surplus lines insurer⁽¹⁾ and fourth largest reinsurer.⁽⁴⁾ Corporate capital providers often provide a majority of a syndicate's capacity and also generally own or control the syndicate's managing agent. This structure permits the capital provider to exert greater influence on, and demand greater accountability for, underwriting results. In 2012, corporate capital providers accounted for approximately 89% of total underwriting capacity in Lloyd's.⁽⁵⁾ Our other European operations acquired through Alterra are conducted through Markel Europe plc (Markel Europe), which is headquartered in Dublin, Ireland. Markel Europe also operates branches in London, England and Zurich, Switzerland.

We also added insurance and reinsurance operations in Bermuda and Latin America through the acquisition of Alterra. In Bermuda, we conduct our insurance and reinsurance operations through Markel Bermuda Limited (Markel Bermuda), which is registered as a Class 4 insurer and a Class C long term insurer under the insurance laws of Bermuda. In Latin America, we provide reinsurance through MSM in Rio de Janeiro, Brazil, using Lloyd's admitted status, through Markel Europe using a representative office in Bogota, Colombia and a service company in Buenos Aires, Argentina, and through Markel Resseguradora do Brasil S.A. (Markel Brazil), a reinsurance company in Rio de Janeiro. Additionally, MIICL, Markel Syndicate 3000 and Lloyd's Syndicate 1400 are able to offer reinsurance in a number of other Latin American countries from their offices outside of Latin America.

- (1) U.S. Surplus Lines Segment Review Special Report, A.M. Best (September 23, 2013).
- (2) London Company Market Statistics Report, International Underwriting Association (October 2013).
- (3) UK Insurance Key Facts, Association of British Insurers (September 2013).
- (4) Global Reinsurance Segment Review Special Report, A.M. Best (August 26, 2013).
- (5) Lloyd's Annual Report 2012.

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In 2013, 25% of consolidated gross premium writings related to foreign risks (i.e., coverage for risks located outside of the United States), of which 25% were from the United Kingdom and 13% were from Canada. In 2012, 30% of our premium writings related to foreign risks, of which 20% were from the United Kingdom and 16% were from Canada. In 2011, 31% of our premium writings related to foreign risks, of which 20% were from the United Kingdom and 18% were from Canada. In each of these years, there were no other individual foreign countries from which premium writings were material. Premium writings are attributed to individual countries based upon location of risk.

Most of our business is placed through insurance and reinsurance brokers. Some of our insurance business is also placed through managing general agents. We seek to develop and capitalize on relationships with insurance and reinsurance brokers, insurance and reinsurance companies, large global corporations and financial intermediaries to develop and underwrite business. As a result of the acquisition of Alterra, a significant volume of premium for the property and casualty insurance and reinsurance industry is produced through a small number of large insurance and reinsurance brokers. During the year ended December 31, 2013, the top three independent brokers accounted for approximately 19% of our gross premiums written.

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 a diverse portfolio of products, each with its own distinct competitive environment, which enables us to be responsive to changes in market conditions for individual product lines. 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 and reinsurers from entering our markets of the property and casualty industry. Market conditions and capital capacity influence the degree of competition at any point in time. Periods of intense competition, which typically include broader coverage terms, lower prices and excess underwriting capacity, are referred to as a "soft market." A favorable insurance market is commonly referred to as a "hard market" and is characterized by stricter coverage terms, higher prices and lower underwriting capacity. During soft markets, unfavorable conditions exist due in part to what many perceive as excessive amounts of capital in the industry. In an attempt to use their capital, many insurance companies seek to write additional premiums without appropriate regard for ultimate profitability, and standard insurance companies are more willing to write specialty coverages. The opposite is typically true during hard markets. Historically, the performance of the property and casualty reinsurance and insurance industries has tended to fluctuate in cyclical periods of price competition and excess underwriting capacity, followed by periods of high premium rates and shortages of underwriting capacity. This cyclical market pattern can be more pronounced in the specialty insurance and reinsurance markets in which we compete than the standard insurance market.

We have experienced soft insurance market conditions including price deterioration in virtually all of our product lines since the mid-2000s. During 2011, unfavorable pricing trends continued for some of our product lines; however, price declines stabilized for most of our product lines, and we achieved moderate price increases in several lines. During 2012 and 2013, we have generally seen low to mid-single digit favorable rate changes in many of our product lines as market conditions improved and revenues, gross receipts and payrolls of our insureds were favorably impacted by improving economic conditions; however, during the fourth quarter of 2013, we began to experience softening prices on our catastrophe exposed property product lines and in our reinsurance book. Despite stabilization

of prices on certain product lines during the most recent three years, we still consider the overall property and casualty insurance market to be soft. We routinely review the pricing of our major product lines and will continue to pursue price increases for most product lines in 2014, when possible. However, when we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume may vary when we alter our product offerings to maintain or improve underwriting profitability.

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Underwriting Philosophy

By focusing on market niches where we have underwriting expertise, we seek to earn consistent underwriting profits, which 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. To facilitate this strategy, we have a product line leadership group that has primary responsibility for both developing and maintaining underwriting and pricing guidelines on our existing products and new product development. The product line leadership group is under the direction of our Chief Underwriting Officer.

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 2013, our combined ratio was 97%. 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 property and casualty industry's combined ratio for the past five years.

Combined Ratios

Underwriting Segments

We historically defined our underwriting segments based on the areas of the specialty insurance market in which we compete: the E&S, specialty admitted and London markets. As a result of the acquisition of Alterra, we formed a new operating segment, effective May 1, 2013. During 2013, results attributable to Alterra were being separately evaluated by management. The Alterra segment is comprised of all of the active property and casualty underwriting operations of the former Alterra companies.

For purposes of segment reporting, our Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued prior to, or in conjunction with, acquisitions. The lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits. Alterra previously offered life and annuity reinsurance products. In 2010, Alterra ceased writing life and annuity reinsurance contracts and placed this business into run-off. Results attributable to the run-off of life and annuity reinsurance business are included in our Other Insurance (Discontinued Lines) segment.

Beginning in 2014, we will monitor and report our ongoing underwriting operations in the following three segments: U.S. Insurance, International Insurance and Global Reinsurance. The U.S. Insurance segment will include all direct business and facultative placements written by our insurance subsidiaries domiciled in the United States. The International Insurance segment will include all direct business and facultative placements written by our insurance subsidiaries domiciled outside of the United States, including our syndicates at Lloyd's. The Global Reinsurance segment will include all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions will continue to be reported as the Other Insurance (Discontinued Lines) segment.

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See note 20 of the notes to consolidated financial statements for additional segment reporting disclosures.

Markel Corporation

2013 Consolidated Gross Premium Volume (\$3.9 billion)

Excess and Surplus Lines Segment

The E&S market focuses on hard-to-place risks and loss exposures that generally cannot be written in the standard market. United States insurance regulations generally require an E&S account to be declined by admitted carriers before an E&S company may write the business. E&S eligibility allows our insurance subsidiaries to underwrite unique loss exposures with more flexible policy forms and unregulated premium rates. This typically results in coverages that are more restrictive and more expensive than coverages in the standard market.

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

Our Excess and Surplus Lines segment reported gross premium volume of \$1.1 billion, earned premiums of \$856.6 million and an underwriting profit of \$171.5 million in 2013.

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Excess and Surplus Lines Segment
2013 Gross Premium Volume (\$1.1 billion)

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

- Property and Casualty
- Professional Liability
- Other Product Lines

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

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

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

- excess and umbrella products, which provide coverage over approved underlying insurance carriers on either an occurrence or claims-made basis;
- environmental products, which include environmental consultants' professional liability, contractors' pollution liability and site-specific environmental impairment liability coverages;
- transportation-related products, which provide auto physical damage coverage for high-value automobiles as well as all types of specialty commercial vehicles, dealers' open lot and garagekeeper legal liability coverages, vehicular liability and physical damage coverages for local and intermediate haul commercial trucks and liability coverage to operators of non-emergency ambulances and multi-line specialty products designed for the unique characteristics of the garage industry;

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inland marine products, which provide a number of specialty coverages for risks such as motor truck cargo coverage for damage to third party cargo while in transit, warehouseman's legal liability coverage for damage to third party goods in storage, contractor's equipment coverage for first party property damage and builder's risk coverage; ocean marine products, which provide general liability, professional liability, property and cargo coverages for marine artisan contractors, boat dealers and marina owners including hull physical damage, protection and indemnity and third party property coverages for ocean cargo; casualty facultative reinsurance written for individual casualty risks focusing on general liability, products liability, automobile liability and certain classes of miscellaneous professional liability and targeting classes which include low frequency, high severity, short-tail general liability risks; railroad-related products, which provide first party coverages for short-line and regional railroads, scenic and tourist railroads, commuter and light rail trains and railroad equipment; and public entity insurance and reinsurance programs, which provide coverage for government entities including counties, municipalities, schools and community colleges.

Specialty Admitted Segment

Our Specialty Admitted segment writes risks that, although unique and hard-to-place in the standard market, must remain with an admitted insurance company for marketing and regulatory reasons. 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. 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.

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

The majority of the business produced by this segment is written on an admitted basis either through MIC, MAIC, FCIC or Essentia. MIC, MAIC and Essentia are licensed to write property and casualty insurance in all 50 states and the District of Columbia. MAIC is also licensed to write property and casualty insurance in Puerto Rico. Essentia is also licensed in the U.S. Virgin Islands and specializes in coverage for classic cars and boats. FCIC is currently licensed in 28 states and specializes in workers' compensation coverage.

Our Specialty Admitted segment reported gross premium volume of \$900.0 million, earned premiums of \$745.0 million and an underwriting profit of \$21.4 million in 2013.

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Specialty Admitted Segment

2013 Gross Premium Volume (\$900 million)

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

• Workers' Compensation

• Property and Casualty

• Personal Lines

• Other Product Lines

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

Property and casualty products included in this segment are offered on a monoline or package basis and generally target specialized commercial markets and customer groups. Targeted groups include youth and recreation oriented organizations, social service organizations, museums and historic homes, performing arts organizations, senior living facilities and wineries.

Personal lines products provide first and third party coverages for a variety of personal watercrafts including vintage boats, high performance boats and yachts and recreational vehicles, including motorcycles, snowmobiles and ATVs. Additionally, property coverages are offered for mobile homes, dwellings and homeowners that do not qualify for standard homeowner's coverage. Other products offered include special event protection, supplemental natural disaster coverage, renters' protection coverage, excess flood coverage. In January 2013, we expanded our personal lines products through the acquisition of Essentia, which underwrites insurance exclusively for Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency (collectively, Hagerty) throughout the United States. Hagerty offers insurance for classic cars, vintage boats, motorcycles and related automotive collectibles.

Other product lines within the Specialty Admitted segment include:

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

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

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

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

• accident and health products offer liability and accident insurance for amateur sports organizations, monoline accident and medical coverage for various niche markets and short-term medical insurance.

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London Insurance Market Segment

The London insurance market is known for its ability to provide innovative, tailored coverage and capacity for unique and hard-to-place risks. Hard-to-place risks in the London market are generally distinguishable from standard risks due to the complexity or significant size of the risk. It is primarily a broker market, which means that insurance brokers bring most of the business to the market. The London market is also largely a subscription market, which means that loss exposures brought into the market are typically insured by more than one insurance company or Lloyd's syndicate, often due to the high limits of insurance coverage required. We write business on both a direct and subscription basis in the London market. When we write business in the subscription market, we prefer to participate as lead underwriter in order to control underwriting terms, policy conditions and claims handling.

In this segment, we participate in the London market through Markel International. Markel International writes specialty property, casualty, professional liability, equine, marine, energy and trade credit insurance on a direct and reinsurance basis. Business is written worldwide through either MIICL or Markel Syndicate 3000.

Our London Insurance Market segment reported gross premium volume of \$914.5 million, earned premiums of \$781.6 million and an underwriting profit of \$95.5 million in 2013.

In 2013, 82% of gross premium written in the London Insurance Market segment related to foreign risks, of which 25% was from the United Kingdom and 16% was from Canada. In 2012, 84% of gross premium written in the London Insurance Market segment related to foreign risks, of which 20% was from the United Kingdom and 16% was from Canada. In 2011, 85% of gross premium written in the London Insurance Market segment related to foreign risks, of which 20% was from the United Kingdom and 18% was from Canada. In each of these years, there were no other individual foreign countries from which premium writings were material.

London Insurance Market Segment

2013 Gross Premium Volume (\$914 million)

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

• Marine and Energy

• Professional and General Liability

• Reinsurance

• Property

• Other Product Lines

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

Professional and general liability products include professional indemnity, directors' and officers' liability, intellectual property, some miscellaneous defense costs, incidental commercial crime, general and products liability coverages targeting consultants, construction professionals, financial service professionals, professional practices, social welfare organizations and medical products. Professional and general liability products are written on a worldwide basis, limiting exposure in the United States.

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

Property products target a wide range of insureds, providing coverage ranging from fire to catastrophe perils such as earthquake and windstorm. Business is written primarily on an open market basis for direct and facultative risks targeting Fortune 1000 companies on a worldwide basis by our underwriters to London brokers, with each risk being considered on its own merits. We also provide property coverage for small to medium-sized commercial risks on both a stand-alone and package basis through our branch offices.

Other product lines within the London Insurance Market segment include:

- crime coverage primarily targeting financial institutions and providing protection for bankers' blanket bond, computer crime and commercial fidelity;
- contingency coverage including event cancellation, non-appearance and prize indemnity;
- accident and health coverage targeting affinity groups and schemes, high value and high risks accounts and sports groups;
- coverage for equine-related risks such as horse mortality, theft, infertility, transit and specified perils;
- specialty coverages include mortality risks for farms, zoos, animal theme parks and safari parks;
- short-term trade credit coverage for commercial risks, including insolvency and protracted default as well as political risks coverage in conjunction with commercial risks for currency inconvertibility, government action, import and export license cancellation, public buyer default and war; and
- products liability, excess and umbrella and environmental liability coverages targeted at Canadian domiciled insureds.

Alterra Segment

The Alterra segment provides diversified specialty insurance and reinsurance products to corporations, public entities and other property and casualty insurers through offices in the United States, the United Kingdom, Ireland, Switzerland, Bermuda and Latin America.

The Alterra segment reported gross premium volume of \$1.0 billion, earned premiums of \$848.3 million and an underwriting loss of \$154.9 million in 2013. In 2013, 23% of gross premium written in the Alterra segment related to foreign risks, of which 24% was from the United Kingdom. In 2013, there were no other individual foreign countries from which premium writings were material. In 2013, the top three independent brokers accounted for approximately 40% of gross premiums written in the Alterra segment.

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Alterra Segment
2013 Gross Premium Volume (\$1.0 billion)

The Alterra segment is comprised of the following underwriting units:

- U.S. Insurance
- Global Insurance
- Alterra at Lloyd's
- Global Reinsurance

The U.S. Insurance unit offers property and casualty insurance coverage from offices in the United States. The Alterra segment participates in the excess and surplus lines market through AESIC and in the admitted insurance market through AAIC. AESIC is authorized to write business in 49 states and the District of Columbia, Puerto Rico and the U.S. Virgin Islands. AAIC is licensed to write business in all 50 states and the District of Columbia. Products offered within the U.S. Insurance unit include excess liability, marine, professional liability and property.

The Global Insurance unit offers property and casualty excess of loss insurance through Markel Bermuda and Markel Europe from offices in Bermuda, Dublin, London and Zurich to Fortune 1000 companies. Products offered within the Global Insurance unit include excess liability, professional liability and property. Professional liability products include errors and omissions insurance, employment practices liability insurance and directors and officers insurance. Excess liability products include excess umbrella liability insurance, excess product liability insurance, excess medical malpractice insurance and excess product recall insurance. These products are underwritten on an individual risk basis.

Alterra at Lloyd's offers property and casualty quota share and excess of loss insurance and reinsurance through its Lloyd's Syndicate 1400 from its offices in London and Zurich, primarily to medium- to large-sized international clients. Products offered within the Lloyd's group include accident & health, agriculture, financial institutions, international casualty, marine, professional liability and property.

The Alterra segment's Global Reinsurance unit offers property and casualty quota share and excess of loss reinsurance through Alterra Re USA, Alterra at Lloyd's, Markel Europe, Markel Bermuda and Markel Brazil to insurance and reinsurance companies worldwide. Alterra Re USA is licensed or accredited to provide reinsurance in all 50 states and the District of Columbia. We typically write our reinsurance products in the Alterra segment in the form of treaty reinsurance contracts, on both a quota share and excess of loss basis. Our reinsurance products may include features such as contractual provisions that require our cedent to share in a portion of losses resulting from ceded risks, may require payment of additional premium amounts if we incur greater losses than those projected at the time of the execution of the contract, may require reinstatement premium to restore the coverage after there has been a loss occurrence or may provide for experience refunds if the losses we incur are less than those projected at the time the contract is executed. Reinsurance products offered include agriculture, auto, credit and surety, general casualty, marine and energy, professional liability, property and workers' compensation.

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Ceded Reinsurance

We purchase reinsurance and retrocessional reinsurance to manage our net retention on individual risks and overall exposure to losses, while providing us with the ability to offer 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. In a retrocession transaction, a reinsurer transfers, or cedes, all or part of its exposure in return for a portion of the premium. As part of our underwriting philosophy, we have historically sought to offer products with limits that did not require significant reinsurance. Following the acquisition of Alterra, we now have certain insurance and reinsurance products that have typically required higher levels of reinsurance. We purchase catastrophe reinsurance coverage for our catastrophe-exposed policies, and we seek to manage our exposures under this coverage so that no exposure to any one reinsurer is material to our ongoing business. Net retention of gross premium volume was 83% in 2013 and 88% in 2012. We do not purchase or sell finite reinsurance products or use other structures that would have the effect of discounting loss reserves.

Our ceded reinsurance and retrocessional contracts do 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 ceded reinsurance guidelines. To participate in our reinsurance program, prospective companies generally must: (i) maintain an A.M. Best Company (Best) or Standard & Poor's (S&P) rating of "A" (excellent) or better; (ii) maintain minimum capital and surplus of \$500 million and (iii) provide collateral for recoverables in excess of an individually established amount. In addition, certain foreign reinsurers for our United States insurance operations must provide collateral equal to 100% of recoverables, with the exception of reinsurers who have been granted authorized status by an insurance company's state of domicile. Lloyd's syndicates generally must have a minimum of a "B" rating from Moody's Investors Service (Moody's) to be our reinsurers. Over time, we will attempt to bring the reinsurance programs used within the Alterra segment into compliance with our internal ceded reinsurance guidelines.

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

The following table displays balances recoverable from our ten largest reinsurers by group at December 31, 2013. The contractual obligations under reinsurance and retrocessional contracts are typically with individual subsidiaries of the group or syndicates at Lloyd's and are not typically guaranteed by other group members or syndicates at Lloyd's. These ten reinsurance groups represent approximately 62% of our \$2.0 billion reinsurance recoverable balance before considering allowances for bad debts.

Reinsurers	A.M. Best Rating	Reinsurance Recoverable (dollars in thousands)
Fairfax Financial Group	A	\$212,591
Munich Re Group	A+	186,457
Lloyd's of London	A	159,342
AXIS Capital Holdings Limited	A	143,949
Alleghany Corporation	A	117,729
Platinum Underwriters Holdings Ltd	A	106,397
Partner Re Group	A+	105,627
Swiss Re Group	A+	83,562

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XL Capital Group	A	81,844
Arch Insurance Group	A+	72,320
Reinsurance recoverable on paid and unpaid losses for ten largest reinsurers		1,269,818
Total reinsurance recoverable on paid and unpaid losses		\$2,032,626

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

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

See note 16 of the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our ceded reinsurance programs and exposures.

Investments

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

The investment portfolio acquired through the Alterra acquisition was previously managed by third-party investment managers. After the acquisition, we transitioned the investment management function to our employees. Alterra's investment portfolio was comprised of hedge funds, equity method investments and fixed maturities that were generally longer duration than our historical fixed maturity portfolio. We are in the process of realigning the acquired investment portfolio with Markel's investment philosophy and target investment portfolio allocations by increasing our holdings in equity securities and liquidating the hedge fund portfolio.

We evaluate our investment performance by analyzing taxable equivalent total investment return. Taxable equivalent total investment return includes items that impact net income, such as coupon interest on fixed maturities, dividends on equity securities and realized investment gains or losses, as well as changes in unrealized gains or losses, which do not impact net income. Certain items that are included in net investment income have been excluded from the calculation of taxable equivalent total investment return, such as amortization and accretion of premiums and discounts on our fixed maturity portfolio, to provide a comparable basis for measuring our investment return against industry investment returns. The calculation of taxable equivalent total investment return also includes the current tax benefit associated with income on certain investments that is either taxed at a lower rate than the statutory income tax rate or is not fully included in federal taxable income. We believe the taxable equivalent total investment return is a better reflection of the economics of our decision to invest in certain asset classes. See "Investing Results" in Management's Discussion & Analysis of Financial Condition and Results of Operations for further detail regarding the components of taxable equivalent total investment return. In 2013, net investment income was \$317.4 million and net realized investment gains were \$63.2 million. During the year ended December 31, 2013, net unrealized gains on investments increased by \$262.0 million. We do not lower the quality of our investment portfolio in order to enhance or maintain yields. We focus on long-term total investment return, understanding that the level of realized and unrealized investment gains or losses may vary from one period to the next.

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

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Annual Taxable Equivalent Total Investment Returns

	Years Ended December 31,					Weighted	Weighted	
	2013	2012	2011	2010	2009	Average	Average	
						Five-Year	Ten-Year	
						Annual	Annual	
						Return	Return	
Equities	33.3	% 19.6	% 3.8	% 20.8	% 25.7	% 21.6	% 12.4	%
Fixed maturities	0.0	% 5.1	% 7.6	% 5.4	% 9.8	% 4.9	% 4.4	%
Total portfolio, before foreign currency effect	6.9	% 8.6	% 6.7	% 8.1	% 11.7	% 8.2	% 6.0	%
Total portfolio	6.8	% 9.0	% 6.5	% 7.9	% 13.2	% 8.4	% 6.0	%
Invested assets, end of year (in millions)	\$17,612	\$9,333	\$8,728	\$8,224	\$7,849			

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

Our fixed maturity portfolio has an average rating of "AA," with approximately 97% rated "A" or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At December 31, 2013, less than 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

At December 31, 2013, we held fixed maturities of \$45.7 million, or less than 1% of invested assets, from sovereign and non-sovereign issuers domiciled in Portugal, Ireland, Italy, Greece or Spain and \$2.0 billion, or 12% of invested assets, from sovereign and non-sovereign issuers domiciled in other European countries including supranationals. At December 31, 2012, we held fixed maturities of \$38.9 million, or less than 1% of invested assets, from sovereign and non-sovereign issuers domiciled in Portugal, Ireland, Italy, Greece or Spain and \$630.3 million, or 7% of invested assets, from sovereign and non-sovereign issuers domiciled in other European countries including supranationals. The increase in invested assets from other European sovereign and non-sovereign issuers in 2013 was attributable to the investment portfolio acquired through the Alterra acquisition.

The following chart presents our fixed maturity portfolio, at estimated fair value, by rating category at December 31, 2013.

2013 Credit Quality of Fixed Maturity Portfolio (\$10.1 billion)

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

Markel Ventures

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

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

Our Markel Ventures operations are comprised of a diverse portfolio of industrial and service companies from various industries, including manufacturers of dredging equipment, high-speed bakery equipment, laminated furniture products and food processing equipment, an owner and operator of manufactured housing communities, a real estate investment fund manager, a residential homebuilder, a retail intelligence services company, a manager of behavioral health programs, a provider of concierge medical and executive health services, a manufacturer and lessor of trailer tubes used by industrial, chemical and distribution companies to transport gas and liquids and a manufacturer of laminated oak and composite wood flooring used in the assembly of truck trailers, intermodal containers and truck bodies. While each of these companies are operated independently from one another, we aggregate their financial results into two industry groups: manufacturing and non-manufacturing.

In 2013, our Markel Ventures operations reported revenues of \$686.4 million and net income to shareholders of \$23.8 million.

See note 21 of the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our Markel Ventures operations.

Shareholder Value

Our financial goals are to earn consistent underwriting and operating profits and superior investment returns to build shareholder value. More specifically, we measure financial success by our ability to compound growth in book value per share at a high rate of return over a long period of time. To mitigate the effects of short-term volatility, we generally use five-year time periods to measure ourselves. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting, operating and investing results. For the year ended December 31, 2013, book value per share increased 18% primarily due to equity issued in connection with the acquisition of Alterra, which was accretive to book value, net income to shareholders of \$281.0 million and a \$184.6 million increase in net unrealized gains on investments, net of taxes. For the year ended December 31, 2012,

book value per share increased 15% primarily due to net income to shareholders of \$253.4 million and a \$242.2 million increase in net unrealized gains on investments, net of taxes. Over the past five years, we have grown book value per share at a compound annual rate of 17% to \$477.16 per share.

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The following graph presents book value per share for the past five years as of December 31.

Book Value Per Share

Regulatory Environment

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

United States Insurance Regulation

Overview. Our U.S. insurance subsidiaries are subject to varying degrees of regulation and supervision in the jurisdictions in which they do business. Each state has its own regulatory authority for insurance that is generally responsible for the direct regulation of the business of insurance conducted in that state. In addition, the National Association of Insurance Commissioners (NAIC), comprised of the insurance commissioners of each U.S. jurisdiction, develops or amends model statutes and regulations that in turn most states adopt. While the U.S. federal government and its regulatory agencies generally do not directly regulate the business of insurance, there have been recent federal initiatives that impact the business of insurance.

State Insurance Regulation. In the United States, authority for the regulation, supervisory and administration of the business of insurance in each state is generally delegated to a state commissioner heading a regulatory body responsible for the business of insurance. Through this authority, 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 insurers; and the establishment of loss reserves. Our U.S. insurance subsidiaries that operate on an admitted basis are typically subject to regulatory rate and form review, while our U.S. excess and surplus lines insurance subsidiaries generally operate free of rate and form regulation.

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Holding Company Statutes. In addition to regulatory supervision of our domestic insurance subsidiaries, we are subject to state statutes governing insurance holding company systems. Typically, such statutes require that we periodically file information with the appropriate state insurance commissioner, including information concerning our capital structure, ownership, financial condition, material transactions and general business operations. In addition, these statutes also 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. Additional requirements include group-level reporting, submission of an annual enterprise risk report by a regulated insurance company's ultimate controlling person and information regarding an insurer's non-insurer's affiliates.

Risk Based Capital Requirements. The NAIC uses a risk based capital formula that is designed to measure the capital of an insurer taking into account the company's investments and products. These requirements provide a formula which, for property and casualty insurance companies, establishes capital thresholds for four categories of risk: asset risk, insurance risk, interest rate risk and business risk. At December 31, 2013, the capital and surplus of each of our United States insurance subsidiaries was above the minimum regulatory thresholds.

Excess and Surplus Lines. The regulation of our U.S. insurance subsidiaries' excess and surplus lines insurance business differs significantly from the regulation of our admitted business. Our surplus lines subsidiaries are subject to the surplus lines regulation and reporting requirements of the jurisdictions in which they are eligible to write surplus lines insurance. Although the surplus lines business is generally less regulated than admitted business, regulations apply to surplus lines placements under the laws of every state.

Dividends. The laws of the domicile states of our U.S. 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, 2013, our United States insurance subsidiaries could pay up to \$296.9 million during the following 12 months under the ordinary dividend regulations.

Trade Practices. State insurance laws and regulations include numerous provisions governing trade practices and the marketplace activities of insurers, including provisions governing marketing and sales practices, policyholder services, claims management and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

Investment Regulation. Investments by our domestic insurance companies must comply with applicable laws and regulations that prescribe the kind, quality and concentration of investments. In general, these laws and regulations permit investments in federal, state and municipal obligations, corporate bonds, preferred and common equity securities, mortgage loans, real estate and certain other investments, subject to specified limits and certain other qualifications.

The Terrorism Risk Insurance Act. The Terrorism Risk Insurance Act of 2002, as amended (TRIA), has established a federal program that provides for a system of shared public and private compensation for insured losses resulting from acts of terrorism. The program is currently scheduled to expire on December 31, 2014. TRIA is applicable to almost all commercial lines of property and casualty insurance but excludes commercial auto, burglary and theft, surety, professional liability and farm owners' multi-peril insurance. Insurers with direct commercial property and casualty insurance exposure in the United States are required to participate in the program and make available coverage for certified acts of terrorism. Federal participation will be triggered under TRIA when the Secretary of Treasury certifies an act of terrorism.

Federal Regulation. Although the federal government and its regulatory agencies generally do not directly regulate the business of insurance, federal initiatives could have an impact on our business in a variety of ways. The Dodd

Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was enacted in 2010 and effected sweeping changes to financial services regulation in the United States. The Dodd-Frank Act created two new federal government bodies, the Federal Insurance Office (FIO) and the Financial Stability Oversight Council (FSOC), which may impact the regulation of insurance. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited powers to preempt certain types of state insurance laws. The FIO also can recommend to the FSOC that it designate an insurer as an entity posing risks to the United States financial stability in the event of the insurer's material financial distress or failure. We have not been so designated.

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United Kingdom Insurance Regulation

Under the Financial Services and Markets Act 2000 (FSMA), it is unlawful to carry on insurance business in the United Kingdom without permission to do so from the relevant regulators. Before April 1, 2013, the Financial Services Authority (FSA) was responsible for supervising all securities, banking and insurance business in the United Kingdom. With the enactment of the Financial Services Act 2012 (which amended FSMA), the FSA was replaced by two regulators: the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). An independent Financial Policy Committee (FPC) at the Bank of England supervises the financial services sector at a macro level, responding to sectoral issues that could threaten economic and financial stability.

Since April 1, 2013, when regulatory responsibility for the insurance firms in the United Kingdom was given to the PRA and the FCA, MIICL and our Lloyd's operations have been "dual regulated firms"; each firm is authorized by the PRA and regulated by both the PRA and the FCA. The PRA is a subsidiary of the Bank of England and is responsible for the prudential regulation and supervision of banks, building societies, credit unions, major investment firms and insurers, including the Society of Lloyd's and managing agents that participate in the Lloyd's market. The two statutory objectives of the PRA are to promote the safety and soundness of the firms it regulates and, specific to insurers, to contribute to securing an appropriate degree of protection for those who are, or may become, policyholders. The FCA, which is separate from the Bank of England, is accountable to HM Treasury and ultimately the United Kingdom Parliament. The FCA supervises the day-to-day conduct of insurance firms and other authorized firms operating in the United Kingdom, including those participating in the Lloyd's market and UK insurance intermediaries. The overarching strategic objective of the FCA is to ensure that the relevant markets function well. The FCA also has three operational objectives: securing an appropriate degree of protection for customers, protecting and enhancing the integrity of the UK financial system, and promoting effective competition in the interests of consumers.

The PRA oversees compliance with established periodic auditing and reporting requirements, minimum solvency margins and individual capital assessment requirements and dividend restrictions, while both the PRA and the FCA oversee compliance with risk assessment reviews, restrictions governing the appointment of key officers, restrictions governing controlling ownership interests and various other requirements. In addition, both the PRA and FCA have arrangements with Lloyd's for cooperation on supervision and enforcement of the Lloyd's market. We are required to provide 14 days advance notice to the PRA for any dividends from MIICL. In addition, our United Kingdom insurance subsidiaries must comply with the United Kingdom Companies Act of 2006, which provides that dividends may only be paid out of profits available for that purpose. MIICL must also provide 14 days advance written notice to the PRA of any transaction or proposed transaction with a connected or related person.

Bermuda Insurance Regulation

The insurance and reinsurance industry in Bermuda is regulated by the Bermuda Monetary Authority (BMA). Markel Bermuda is regulated by the BMA under the Insurance Act 1978 of Bermuda and its related regulations (Bermuda Insurance Act). The Bermuda Insurance Act imposes solvency and liquidity standards and auditing and reporting requirements on Markel Bermuda and grants to the BMA powers to supervise, investigate and intervene in the affairs of Bermuda insurance and reinsurance companies.

Markel Bermuda is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements. The enhanced capital requirement is determined by reference to a risk-based capital model that determines a control threshold for statutory capital and surplus by taking into account the risk characteristics of different aspects of the insurer's business. At December 31, 2013, Markel Bermuda satisfied both the enhanced capital requirements and the minimum solvency and liquidity requirements.

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Under the Bermuda Insurance Act, Markel Bermuda is prohibited from paying or declaring dividends during a fiscal year if it is in breach of its enhanced capital requirement, solvency margin or minimum liquidity ratio or if the declaration or payment of the dividend would cause a breach. If an insurer fails to meet its solvency margin or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the BMA. Further, Markel Bermuda is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus as set forth in its previous year's statutory balance sheet unless it files with the BMA an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. Markel Bermuda must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. In addition, as a long-term insurer, Markel Bermuda may not declare or pay a dividend to any person other than a policyholder unless the value of the assets in its long-term business fund exceeds the liabilities of its long-term business by the amount of the dividend and at least the prescribed minimum solvency margin. At December 31, 2013, Markel Bermuda could pay up to \$375.8 million during the following 12 months without making any additional filings with the BMA.

Other Insurance Jurisdictions

A major regulatory initiative currently under way in the European Union (E.U.) is the Solvency II Directive (Solvency II), a new set of capital adequacy and risk management regulations that will directly impact our European based subsidiaries. Solvency II will replace existing insurance directives to create a pan-European, risk based solvency regime and affects all insurers and reinsurers throughout the E.U. and is scheduled to enter into force on January 1, 2016. The Solvency II regime is based on three pillars: financial requirements; governance and risk management requirements; and disclosure requirements. The European Commission is developing detailed rules that will complement the high-level principles of the Solvency II directive. Rules must be implemented into national legislation of the E.U. member states by March 31, 2015. It is possible that Solvency II may affect the U.S. parents of European subsidiaries, depending partly on whether U.S. insurance regulations are deemed equivalent to Solvency II.

In addition, as a global provider of specialty insurance and reinsurance, our insurance subsidiaries must comply with various regulatory requirements in jurisdictions where they conduct business in addition to the jurisdictions in which they are domiciled. For example, our Lloyd's operations must comply with applicable Latin America regulatory requirements in connection with our Latin American reinsurance operations. In addition to the regulatory requirements imposed by the jurisdictions in which an insurer or reinsurer is licensed, a reinsurer's business operations are affected by regulatory requirements governing credit for reinsurance in other jurisdictions in which its ceding companies are located. In general, a ceding company that obtains reinsurance from a reinsurer that is licensed, accredited or approved by the jurisdiction in which the ceding company files statutory financial statements is permitted to reflect in its statutory financial statements a credit in an aggregate amount equal to the liability for unearned premiums and loss reserves and loss expense reserves ceded to the reinsurer. Many jurisdictions also permit ceding companies to take credit on their statutory financial statements for reinsurance obtained from unlicensed or non-admitted reinsurers if certain prescribed security arrangements are made. As an example, Markel Bermuda is not licensed, accredited or approved in any jurisdiction other than Bermuda. As a result, many of our reinsurance customers require Markel Bermuda to provide a letter of credit or enter into other security arrangements.

Other Regulation

In connection with our acquisition of Abbey Protection plc in January 2014, we became the owner of Abbey Legal Services which employs approximately 80 lawyers who provide legal services to small and medium-sized enterprises in the United Kingdom. The legal services of Abbey Legal Services are authorized and regulated by the Solicitors Regulation Authority, an independent regulatory body of the Law Society of England and Wales.

Ratings

Financial stability and strength are important purchase considerations of policyholders, cedents 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.

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Best assigns financial strength ratings (FSRs) to property and casualty 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 ceded 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).

Fourteen of our fifteen insurance subsidiaries are rated by Best. Twelve of our insurance subsidiaries rated by Best have been assigned an FSR of "A" (excellent), one is rated "A-" (excellent) and one is rated "B++" (good). Our Lloyd's syndicates are part of a group rating for the Lloyd's overall market, which has been assigned an FSR of "A" (excellent) by Best.

Fourteen of our fifteen insurance subsidiaries are rated by S&P. Thirteen of our fourteen insurance subsidiaries rated by S&P have been assigned an FSR of "A" (strong) and one is rated "A-" (strong). Our Lloyd's syndicates are part of a group rating for the Lloyd's overall market, which has been assigned an FSR of "A+" (strong) by S&P.

Thirteen of our fifteen insurance subsidiaries are rated by Fitch Ratings (Fitch). All thirteen of our insurance subsidiaries rated by Fitch have been assigned an FSR of "A" (strong). Our Lloyd's syndicates are part of a group rating for the Lloyd's overall market, which has been assigned an FSR of "A+" (strong) by Fitch.

Six of our fifteen insurance subsidiaries are rated by Moody's Corporation (Moody's). Five of our six insurance subsidiaries rated by Moody's have been assigned an FSR of "A2" (good) and one is rated "A3" (good).

The various rating agencies typically charge companies fees for the rating and other services they provide. During 2013, we paid rating agencies, including Best, S&P, Fitch and Moody's, \$2.2 million for their services.

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 many of the significant risks that could affect our operations and financial results. We are also subject to the following risks.

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

Our results may be affected because actual insured or reinsured losses differ from our loss reserves. Significant periods of time often elapse between the occurrence of an insured or reinsured loss, the reporting of the loss to us and our payment of that loss. To recognize liabilities for unpaid losses, we establish reserves as balance sheet liabilities

representing estimates of amounts needed to pay reported and unreported losses and the related loss adjustment expenses. The process of estimating loss reserves is a difficult and complex exercise involving many variables and subjective judgments. This process may become more difficult if we experience a period of rising inflation. As part of the reserving process, we review historical data and consider the impact of such factors as:

- trends in claim frequency and severity,
- changes in operations,
- emerging economic and social trends,
- uncertainties relating to asbestos and environmental exposures,
- inflation or deflation, and
- changes in the regulatory and litigation environments.

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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 loss reserves will result in additional charges to earnings, which may be material.

In addition, reinsurance reserves are subject to greater uncertainty than insurance reserves primarily because a reinsurer relies on the original underwriting decisions made by ceding companies. As a result, we are subject to the risk that our ceding companies may not have adequately evaluated the risks reinsured by us and the premiums ceded may not adequately compensate us for the risks we assume. In addition, reinsurance reserves may be less reliable than insurance reserves because there is generally a longer lapse of time from the occurrence of the event to the reporting of the loss or benefit to the reinsurer and ultimate resolution or settlement of the loss.

Changes in the assumptions and estimates used in establishing reserves for our life and annuity reinsurance book could result in material increases in our estimated loss reserves for such business. As part of the acquisition of Alterra, we acquired a life and annuity reinsurance book, which has been in run-off since 2010. The life and annuity reinsurance contracts expose us to mortality risk, which is the risk that the level of death claims may differ from that which we assumed in establishing the reserves for our life and annuity reinsurance contracts. Some of our life and annuity reinsurance contracts expose us to longevity risk, which is the risk that an insured person will live longer than expected when the reserves were established, or morbidity risk, which is the risk that an insured person will become critically ill or disabled. Our reserving process for the life and annuity reinsurance book is designed with the objective of establishing appropriate reserves for the risks we assumed. Among other things, these processes rely heavily on analysis of mortality, longevity and morbidity trends, lapse rates, interest rates and expenses. As of December 31, 2013, our reserves for life and annuity benefits totaled \$1.5 billion.

We expect mortality, morbidity, longevity, and lapse experience to fluctuate somewhat from period to period, but believe they should remain reasonably predictable over a period of many years. Mortality, longevity, morbidity or lapse experience that is less favorable than the mortality, longevity, morbidity or lapse rates that we used in establishing the reserves for a reinsurance agreement will negatively affect our net income because the reserves we originally set for the risks we assumed may not be sufficient to cover the future claims and expense payments. Furthermore, even if the total benefits paid over the life of the contract do not exceed the expected amount, unexpected increases in the incidence of deaths or illness can cause us to pay more benefits in a given reporting period than expected, adversely affecting our net income in any particular reporting period. Fluctuations in interest rates will impact the performance of our investments. If there are changes to any of the above factors to the point where a reserve deficiency exists, a charge to earnings will be recorded, which may have a material adverse impact on our results of operations and financial condition.

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

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

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

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Competition in the property and casualty insurance industry could adversely affect our ability to improve or maintain underwriting margins or to grow or maintain premium volume. The insurance and reinsurance markets have historically been cyclical, characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted more favorable rate levels. 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 underwriting profitability. During soft markets, it is very difficult for us to grow or maintain premium volume levels without sacrificing underwriting profits. If we are not successful in maintaining rates or achieving rate increases, it may be difficult for us to improve or maintain underwriting margins or to grow or maintain premium volume levels.

We invest a significant portion of our invested assets in equity securities, which may result in significant variability in our investment results and may adversely impact shareholders' equity. Additionally, our equity investment portfolio is concentrated, and declines in the value of these significant investments could adversely affect our financial results. Equity securities were 49% and 62% of our shareholders' equity at December 31, 2013 and 2012, respectively. Equity securities have historically produced higher returns than fixed maturities; however, investing in equity securities may result in significant variability in investment returns from one period to the next. In volatile financial markets, we could experience significant declines in the fair value of our equity investment portfolio, which would result in a material decrease in shareholders' equity. Our equity portfolio is concentrated in particular issuers and industries and, as a result, a decline in the fair value of these concentrated investments also could result in a material decrease in shareholders' equity. A material decrease in shareholders' equity may adversely impact our ability to carry out our business plans.

Deterioration in financial markets could lead to investment losses and adverse effects on our business. The severe downturn in the public debt and equity markets beginning in 2008, reflecting uncertainties associated with the mortgage and credit crises, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions, resulted in significant realized and unrealized losses in our investment portfolio. In the event of another major financial crisis (for example, a crisis precipitated by one or more of the following: the failure to adequately address U.S. government deficit spending and tax revenue generation, downgrades or defaults in U.S. or foreign sovereign debt obligations, the collapse of the Eurozone or material changes to the monetary policies of the U.S. Federal Reserve), we could incur substantial realized and unrealized investment losses in future periods, which would have an adverse impact on our results of operations, financial condition, debt and financial strength ratings, insurance subsidiaries' capital and ability to access capital markets.

We rely on the purchase of reinsurance and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement. We purchase reinsurance and retrocessional reinsurance to manage our net retention on individual risks and overall exposure to losses, while providing us with the ability to offer policies with sufficient limits to meet policyholder needs. The ceding of insurance does not legally discharge us from our primary liability for the full amount of the policies. Reliance on reinsurance may create credit risk as a result of the reinsurer's inability or unwillingness to pay reinsurance claims when due. Deterioration in the credit quality of existing reinsurers or disputes over the terms of reinsurance could result in charges to earnings, which may have a material adverse impact on our results of operations and financial condition. The availability and cost of reinsurance are determined by market conditions beyond our control. There is no guarantee that our desired amounts of reinsurance or retrocessional reinsurance will be available in the marketplace in the future.

Our information technology systems could fail or suffer a security breach, which could adversely affect our business or reputation. Our business is dependent upon the successful functioning and security of our computer systems. Among other things, we rely on these systems to interact with producers and insureds, to perform actuarial and other

modeling functions, to underwrite business, to prepare policies and process premiums, to process claims and make claims payments, and to prepare internal and external financial statements and information. A significant failure of these systems, whether because of a breakdown, natural disaster or an attack on our systems, could have a material adverse effect on our business. In addition, a security breach of our computer systems could damage our reputation or result in material liabilities.

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The integration of acquired companies may not be as successful as we anticipate. We have recently engaged in a number of acquisitions in an effort to achieve profitable growth in our insurance operations (the most significant of which was our 2013 acquisition of Alterra) and to create additional value on a diversified basis in our Markel Ventures operations. Acquisitions present operational, strategic and financial risks, as well as risks associated with liabilities arising from the previous operations of the acquired companies. All of these risks are magnified in the case of an acquisition as large as the Alterra acquisition. Assimilation of the operations and personnel of acquired companies may prove more difficult than anticipated, which may result in failure to achieve financial objectives associated with the acquisition or diversion of management attention. In addition, integration of formerly privately-held companies into the management and internal control and financial reporting systems of a publicly-held company presents additional risks.

Since the May 2013 acquisition of Alterra, we have made substantial progress in the integration of Alterra's business; however, we are still working to integrate information technology, accounting and operating systems. Although we expect that the realization of efficiencies related to the integration of the Alterra business will offset incremental transaction, integration and restructuring costs over time, we cannot give any assurance that this net benefit will be achieved in the near term, if at all. In addition, the success of the integration will depend upon our ability to retain key employees. If, despite retention efforts, key employees depart, our business could be adversely impacted.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or on our results of operations. We seek to limit our loss exposure in a variety of ways, including adhering to maximum limitations on policies written in defined geographical zones, limiting program size for each client, establishing per risk and per occurrence limitations for each event, employing coverage restrictions and following prudent underwriting guidelines for each program written. We also seek to limit our loss exposure through geographic diversification. Underwriting is a matter of judgment, involving assumptions about matters that are inherently unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. One or more future events could result in claims that substantially exceed our expectations, which could have a material adverse effect on our financial condition and our results of operations, possibly to the extent of eliminating our shareholders' equity. In addition, we seek to limit loss exposures by policy terms, exclusion from coverage and choice of legal forum. Disputes relating to coverage and choice of legal forum also arise. As a result, various provisions of our policies, such as choice of forum, limitations or exclusions from coverage may not be enforceable in the manner we intend and some or all of our loss limitation methods may prove ineffective.

The effects of emerging claim and coverage issues on our business are uncertain. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either broadening coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance or reinsurance contracts may not be known for many years after a contract is issued.

We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel. Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct or grow our business. Over the near term, the risks may be greater as we continue with the integration of the Alterra acquisition.

Our expanding international operations expose us to increased investment, political and economic risks, including foreign currency and credit risk. Our expanding international operations in the United Kingdom, Europe, Asia and

South America expose us to increased investment, political and economic risks, including foreign currency and credit risk. Changes in the value of the U.S. dollar relative to other currencies could have an adverse effect on our results of operations and financial condition. Our investments in non-U.S.-denominated securities are subject to fluctuations in non-U.S. securities and currency markets, and those markets can be volatile.

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We are rated by Best, S&P, Fitch and Moody's, and a decline in these ratings could affect our standing in the insurance industry and cause our sales and earnings to decrease. Ratings are an important factor in establishing the competitive position of insurance and reinsurance companies. Certain of our insurance and reinsurance company subsidiaries are rated by Best, S&P, Fitch or Moody's. Our ratings are subject to periodic review, and we cannot be sure that we will be able to retain our current or any future ratings. If our ratings are reduced from their current levels by the rating agencies, our competitive position in our target markets within the insurance industry could suffer and it would be more difficult for us to market our products. A ratings downgrade could also adversely limit our access to capital markets, which may increase the cost of debt. A significant downgrade could result in a substantial loss of business as policyholders move to other companies with higher claims-paying and financial strength ratings.

We depend on a few brokers for a large portion of our revenues and the loss of business provided by any one of them could adversely affect us. We market our insurance and reinsurance worldwide through insurance and reinsurance brokers. In the year ended December 31, 2013, our top three independent brokers represented approximately 19% of our gross premiums written. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

Employee error and misconduct may be difficult to detect and prevent and may result in significant losses. There have been a number of cases involving misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, or failure to comply with regulatory requirements or our internal policies may result in losses. It is not always possible to deter or prevent employee errors or misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

Associates

At December 31, 2013, we had approximately 7,200 employees, of whom approximately 3,300 were employed within our insurance operations and approximately 3,900 were employed within our Markel Ventures operations.

Table of ContentsSELECTED FINANCIAL DATA (dollars in millions, except per share data) ^{(1), (2)}

	2013	2012	2011	
Results of Operations				
Earned premiums	\$3,232	\$2,147	\$1,979	
Net investment income	317	282	264	
Total operating revenues	4,323	3,000	2,630	
Net income (loss) to shareholders	281	253	142	
Comprehensive income (loss) to shareholders	459	504	252	
Diluted net income (loss) per share	\$22.48	\$25.89	\$14.60	
Financial Position				
Total investments, cash and cash equivalents and restricted cash and cash equivalents (invested assets)	\$17,612	\$9,333	\$8,728	
Total assets	23,956	12,557	11,532	
Unpaid losses and loss adjustment expenses	10,262	5,371	5,399	
Senior long-term debt and other debt	2,256	1,493	1,294	
Shareholders' equity	6,674	3,889	3,388	
Common shares outstanding (at year end, in thousands)	13,986	9,629	9,621	
OPERATING PERFORMANCE MEASURES ^(1, 2, 3)				
Operating Data				
Book value per common share outstanding	\$477.16	\$403.85	\$352.10	
Growth (decline) in book value per share	18	% 15	% 8	%
5-Year CAGR in book value per share ⁽⁴⁾	17	% 9	% 9	%
Closing stock price	\$580.35	\$433.42	\$414.67	
Ratio Analysis				
U.S. GAAP combined ratio ⁽⁵⁾	97	% 97	% 102	%
Investment yield ⁽⁶⁾	3	% 4	% 4	%
Taxable equivalent total investment return ⁽⁷⁾	7	% 9	% 7	%
Investment leverage ⁽⁸⁾	2.6	2.4	2.6	
Debt to capital	25	% 28	% 28	%

(1) Reflects the acquisition of Alterra Capital Holdings Limited effective May 1, 2013, which included the issuance of equity totaling \$2.3 billion.

(2) Effective January 1, 2012, we prospectively adopted Financial Accounting Standards Board Accounting Standards Update No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.

(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 & Analysis of Financial Condition and Results of Operations.

(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.

(6) Investment yield reflects net investment income as a percentage of monthly average invested assets at amortized cost.

(7) See "Investing Results" in Management's Discussion & Analysis of Financial Condition and Results of Operations for detail regarding the calculation of taxable equivalent total investment return.

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

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2010	2009	2008	2007	2006	2005	2004	5-Year CAGR ⁽³⁾	10-Year CAGR ⁽³⁾	
\$1,731	\$1,816	\$2,022	\$2,117	\$2,184	\$1,938	\$2,054	10	% 6	%
273	260	282	305	269	242	204	2	% 6	%
2,225	2,069	1,977	2,551	2,576	2,200	2,262	17	% 8	%
267	202	(59)	406	393	148	165	—	—	
431	591	(403)	337	551	64	273	—	—	
\$27.27	\$20.52	\$(5.95)	\$40.64	\$39.40	\$14.80	\$16.41	—	—	
\$8,224	\$7,849	\$6,893	\$7,775	\$7,524	\$6,588	\$6,317	21	% 13	%
10,826	10,242	9,512	10,164	10,117	9,814	9,398	20	% 11	%
5,398	5,427	5,492	5,526	5,584	5,864	5,482	13	% 8	%
1,016	964	694	691	866	849	855	—	—	
3,172	2,774	2,181	2,641	2,296	1,705	1,657	25	% 17	%
9,718	9,819	9,814	9,957	9,994	9,799	9,847	—	—	
\$326.36	\$282.55	\$222.20	\$265.26	\$229.78	\$174.04	\$168.22	17	% 13	%
16	% 27	% (16)	% 15	% 32	% 3	% 20	% —	—	
13	% 11	% 10	% 18	% 16	% 11	% 20	% —	—	
\$378.13	\$340.00	\$299.00	\$491.10	\$480.10	\$317.05	\$364.00	—	—	
97	% 95	% 99	% 88	% 87	% 101	% 96	% —	—	
4	% 4	% 4	% 4	% 4	% 4	% 4	% —	—	
8	% 13	% (10)	% 5	% 11	% 2	% 8	% —	—	
2.6	2.8	3.2	2.9	3.3	3.9	3.8	—	—	
24	% 26	% 24	% 21	% 27	% 33	% 34	% —	—	

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CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(dollars in thousands)	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$10,129,141 in 2013 and \$4,562,278 in 2012)	\$ 10,142,536	\$ 4,979,283
Equity securities (cost of \$1,566,553 in 2013 and \$1,387,305 in 2012)	3,251,798	2,406,951
Short-term investments (estimated fair value approximates cost)	1,452,288	973,330
Total Investments	14,846,622	8,359,564
Cash and cash equivalents	1,978,526	863,766
Restricted cash and cash equivalents	786,926	109,415
Receivables	1,141,773	413,883
Reinsurance recoverable on unpaid losses	1,854,414	778,774
Reinsurance recoverable on paid losses	102,002	51,145
Deferred policy acquisition costs	260,967	157,465
Prepaid reinsurance premiums	383,559	110,332
Goodwill	967,717	674,930
Intangible assets	565,083	374,295
Other assets	1,067,922	663,019
Total Assets	\$ 23,955,511	\$ 12,556,588
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	\$ 10,262,056	\$ 5,371,426
Life and annuity benefits	1,486,574	—
Unearned premiums	2,127,115	1,000,261
Payables to insurance and reinsurance companies	295,496	103,212
Senior long-term debt and other debt (estimated fair value of \$2,372,000 in 2013 and \$1,688,000 in 2012)	2,256,227	1,492,550
Other liabilities	777,850	613,897
Total Liabilities	17,205,318	8,581,346
Redeemable noncontrolling interests	72,183	86,225
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,288,863	908,980
Retained earnings	2,294,909	2,068,340
Accumulated other comprehensive income	1,089,805	911,337
Total Shareholders' Equity	6,673,577	3,888,657
Noncontrolling interests	4,433	360
Total Equity	6,678,010	3,889,017
Total Liabilities and Equity	\$ 23,955,511	\$ 12,556,588

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands, except per share data)		
OPERATING REVENUES			
Earned premiums	\$3,231,616	\$2,147,128	\$1,979,340
Net investment income	317,373	282,107	263,676
Net realized investment gains:			
Other-than-temporary impairment losses	(4,706	) (12,078	) (14,250
Other-than-temporary impairment losses recognized in other comprehensive income	—	—	(5,946
Other-than-temporary impairment losses recognized in net income	(4,706	) (12,078	) (20,196
Net realized investment gains, excluding other-than-temporary impairment losses	67,858	43,671	56,053
Net realized investment gains	63,152	31,593	35,857
Other revenues	710,942	539,284	351,077
Total Operating Revenues	4,323,083	3,000,112	2,629,950
OPERATING EXPENSES			
Losses and loss adjustment expenses	1,816,273	1,154,068	1,209,986
Underwriting, acquisition and insurance expenses	1,312,312	929,472	810,179
Amortization of intangible assets	55,223	33,512	24,291
Other expenses	663,528	478,248	309,046
Total Operating Expenses	3,847,336	2,595,300	2,353,502
Operating Income	475,747	404,812	276,448
Interest expense	114,004	92,762	86,252
Income Before Income Taxes	361,743	312,050	190,196
Income tax expense	77,898	53,802	41,710
Net Income	283,845	258,248	148,486
Net income attributable to noncontrolling interests	2,824	4,863	6,460
Net Income to Shareholders	\$281,021	\$253,385	\$142,026
OTHER COMPREHENSIVE INCOME			
Change in net unrealized gains on investments, net of taxes:			
Net holding gains arising during the period	\$225,545	\$266,425	\$141,839
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	(141	) (160	) 3,943
Reclassification adjustments for net gains included in net income	(40,830	) (24,051	) (22,341
Change in net unrealized gains on investments, net of taxes	184,574	242,214	123,441
Change in foreign currency translation adjustments, net of taxes	(10,143	) 1,534	(4,191
Change in net actuarial pension loss, net of taxes	4,065	6,664	(9,459
Total Other Comprehensive Income	178,496	250,412	109,791
Comprehensive Income	462,341	508,660	258,277
Comprehensive income attributable to noncontrolling interests	2,852	4,858	6,424
Comprehensive Income to Shareholders	\$459,489	\$503,802	\$251,853
NET INCOME PER SHARE			
Basic	\$22.57	\$25.96	\$14.66

Diluted	\$22.48	\$25.89	\$14.60
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See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
December 31, 2010	9,718	\$ 884,457	\$ 1,735,973	\$ 551,093	\$ 3,171,523	\$ 871	\$ 3,172,394	\$ 15,298
Net income (loss)			142,026	—	142,026	(190)	141,836	6,650
Other comprehensive income (loss)			—	109,827	109,827	—	109,827	(36)
Comprehensive Income (Loss)					251,853	(190)	251,663	6,614
Issuance of common stock	16	1,182	—	—	1,182	—	1,182	—
Repurchase of common stock	(113)	—	(42,913)	—	(42,913)	—	(42,913)	—
Restricted stock awards expensed	—	5,818	—	—	5,818	—	5,818	—
Acquisitions	—	—	—	—	—	—	—	62,189
Other	—	50	—	—	50	(79)	(29)	(9,870)
December 31, 2011	9,621	\$ 891,507	\$ 1,835,086	\$ 660,920	\$ 3,387,513	\$ 602	\$ 3,388,115	\$ 74,231
Net income (loss)			253,385	—	253,385	(262)	253,123	5,125
Other comprehensive income (loss)			—	250,417	250,417	—	250,417	(5)
Comprehensive Income (Loss)					503,802	(262)	503,540	5,120
Issuance of common stock	47	9,145	—	—	9,145	—	9,145	—
Repurchase of common stock	(39)	—	(16,873)	—	(16,873)	—	(16,873)	—
Restricted stock awards expensed	—	6,462	—	—	6,462	—	6,462	—
Acquisitions	—	—	—	—	—	—	—	15,055
Adjustment of redeemable noncontrolling interests	—	—	(3,101)	—	(3,101)	—	(3,101)	3,101
Purchase of noncontrolling interest	—	1,430	—	—	1,430	—	1,430	(3,573)
Other	—	436	(157)	—	279	20	299	(7,709)
	9,629	\$ 908,980	\$ 2,068,340	\$ 911,337	\$ 3,888,657	\$ 360	\$ 3,889,017	\$ 86,225

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December 31, 2012												
Net income (loss)			281,021	—	281,021	(958)	280,063	3,782			
Other comprehensive income			—	178,468	178,468	—		178,468	28			
Comprehensive Income (Loss)					459,489	(958	)	458,531	3,810		
Issuance of common stock	71	24,518	—	—	24,518	—		24,518	—			
Repurchase of common stock	(109)	—	(57,388)	—		(57,388)	—		
Restricted stock awards expensed	(3	)	25,239	—	—	25,239	—	25,239	—		
Acquisition of Alterra	4,398	2,330,199	—	—	2,330,199	—		2,330,199	—			
Adjustment of redeemable noncontrolling interests	—	—	1,963	—	1,963	—		1,963	(1,963)		
Purchase of noncontrolling interest	—	(136)	—	—	(136)	—	(136)	(11,716)
Other	—	63	973	—	1,036	5,031		6,067	(4,173)		
December 31, 2013	13,986	\$3,288,863	\$2,294,909	\$1,089,805	\$6,673,577	\$4,433		\$6,678,010	\$72,183			

See accompanying notes to consolidated financial statements.

Table of ContentsMARKEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$283,845	\$258,248	\$148,486
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense	4,050	37,648	5,649
Depreciation and amortization	190,066	87,326	70,572
Net realized investment gains	(63,152)	(31,593)	(35,857)
Decrease (increase) in receivables	142,065	(36,590)	(10,745)
Decrease (increase) in deferred policy acquisition costs	(103,704)	37,209	(5,891)
Increase (decrease) in unpaid losses and loss adjustment expenses, net	290,130	(28,052)	57,000
Decrease in life and annuity benefits	(40,235)	—	—
Increase in unearned premiums, net	97,249	71,073	59,612
Increase (decrease) in payables to insurance and reinsurance companies	(150,764)	19,190	(3,665)
Increase (decrease) in income taxes payable	81,995	(9,909)	28,036
Other	13,976	(12,017)	(1,879)
Net Cash Provided By Operating Activities	745,521	392,533	311,318
INVESTING ACTIVITIES			
Proceeds from sales of fixed maturities and equity securities	879,564	336,548	288,046
Proceeds from maturities, calls and prepayments of fixed maturities	1,475,938	510,697	343,502
Cost of fixed maturities and equity securities purchased	(1,651,397)	(426,439)	(713,102)
Net change in short-term investments	(470,423)	(428,292)	(216,972)
Proceeds from sales of equity method investments	313,557	—	—
Cost of equity method investments	(38,018)	(40,650)	(9,880)
Change in restricted cash and cash equivalents	(263,014)	(37,642)	(16,795)
Additions to property and equipment	(47,725)	(45,519)	(60,132)
Acquisitions, net of cash acquired	(12,198)	(243,675)	(120,102)
Other	1,103	(2,158)	14,329
Net Cash Provided (Used) By Investing Activities	187,387	(377,130)	(491,106)
FINANCING ACTIVITIES			
Additions to senior long-term debt and other debt	547,214	492,792	336,181
Repayment and retirement of senior long-term debt and other debt	(321,978)	(313,790)	(90,557)
Repurchases of common stock	(57,388)	(16,873)	(42,913)
Issuance of common stock	24,518	9,145	1,182
Purchase of redeemable noncontrolling interests	(11,852)	(2,143)	—
Distributions to noncontrolling interests	(5,124)	(7,684)	(9,259)
Other	(23)	(19,485)	(45)
Net Cash Provided By Financing Activities	175,367	141,962	194,589
Effect of foreign currency rate changes on cash and cash equivalents	6,485	3,142	(1,823)
Increase in cash and cash equivalents	1,114,760	160,507	12,978
Cash and cash equivalents at beginning of year	863,766	703,259	690,281
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$1,978,526	\$863,766	\$703,259

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Markel Corporation is a diverse financial holding company serving a variety of niche markets. Markel Corporation's principal business markets and underwrites specialty insurance products. Through its wholly-owned subsidiary, Markel Ventures, Inc. (Markel Ventures), Markel Corporation also owns interests in various industrial and service businesses that operate outside of the specialty insurance marketplace.

On May 1, 2013 (the Acquisition Date), Markel Corporation completed the acquisition of 100% of the issued and outstanding common stock of Alterra Capital Holdings Limited (Alterra) pursuant to an agreement dated December 18, 2012 which provided for the merger of Alterra with one of Markel Corporation's subsidiaries. Total purchase consideration was \$3.3 billion. Alterra was a Bermuda-headquartered global enterprise providing diversified specialty insurance and reinsurance products to corporations, public entities and other property and casualty insurers.

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 its subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements include the results of operations and cash flows of Alterra from the Acquisition Date to December 31, 2013 and not in any prior periods, except with respect to the Supplemental Pro Forma Information included in note 2. The Company consolidates the results of its Markel Ventures subsidiaries on a one-month lag. Certain prior year amounts have been reclassified to conform to the current presentation, including the separate presentation of restricted cash and cash equivalents on the consolidated balance sheets and corresponding change in cash flows from investing activities on the consolidated statements of cash flows.

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. Quarterly reviews include evaluating the adequacy of reserves for unpaid losses and loss adjustment expenses, life and annuity reinsurance benefit reserves, litigation contingencies, the reinsurance allowance for doubtful accounts and income tax liabilities, as well as analyzing the recoverability of deferred tax assets, estimating reinsurance premiums written and earned and evaluating the investment portfolio for other-than-temporary declines in estimated fair value. Estimates and assumptions for goodwill and intangible assets are reviewed in conjunction with an acquisition and goodwill and indefinite-lived intangible assets are reassessed at least annually for impairment. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

c)Investments. Available-for-sale investments are recorded at estimated fair value. Unrealized gains and losses on investments, net of deferred income taxes, are included in accumulated other comprehensive income in shareholders' equity. The Company completes a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary.

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

Investments accounted for under the equity method of accounting are recorded at cost within other assets on the consolidated balance sheets and subsequently increased or decreased by the Company's proportionate share of the net income or loss of the investee. The Company records its proportionate share of net income or loss of the investee in

net investment income. The Company records its proportionate share of other comprehensive income or loss of the investee as a component of other comprehensive income. Dividends or other equity distributions are recorded as a reduction of the investment. The Company reviews equity method investments for impairment when events or circumstances indicate that a decline in the fair value of the investment below its carrying value is other-than-temporary.

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

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e)Receivables. Receivables include amounts receivable from agents, brokers and insureds, which represent premiums that are both currently due and amounts not yet due on insurance and reinsurance policies. Premiums for insurance policies are generally due at inception. Premiums for reinsurance policies generally become due over the period of coverage based on the policy terms. The Company monitors the credit risk associated with premiums receivable, taking into consideration the fact that in certain instances credit risk may be reduced by the Company's right to offset loss obligations or unearned premiums against premiums receivable. Amounts deemed uncollectible are charged to net income in the period they are determined. Changes in the estimate of reinsurance premiums written will result in an adjustment to premiums receivable in the period they are determined.

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 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 are deferred and amortized over the related policy period, generally one year. Concurrent with the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2010-26, Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, effective January 1, 2012, the Company only defers acquisition costs incurred that are related directly to the successful acquisition of new or renewal insurance contracts, including commissions to agents and brokers and premium taxes. Commissions received related to reinsurance premiums ceded are netted against broker commissions 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 and Intangible Assets. Goodwill and intangible assets are recorded as a result of business acquisitions. Goodwill represents the excess of the amount paid to acquire a business over the net fair value of assets acquired and liabilities assumed at the date of acquisition. Indefinite-lived and other intangible assets are recorded at fair value as of the acquisition date. The determination of the fair value of certain assets acquired and liabilities assumed involves significant judgment and the use of valuation models and other estimates, which require assumptions that are inherently subjective. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. Intangible assets with definite lives are amortized using the straight-line method over their estimated useful lives, generally five to 20 years, and are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable.

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, ten to 40 years for buildings, seven to 40 years for land improvements, three to ten years for furniture and equipment and three to 25 years for other property and equipment).

j)Redeemable Noncontrolling Interests. The Company owns controlling interests in various companies through its Markel Ventures operations. Under the terms of certain of the acquisition and related agreements, the Company has the option to acquire the remaining equity interests and the remaining equity interests have the option to sell their interests to the Company in the future. The redemption value of the remaining equity interests is generally based on the respective company's earnings in specified periods preceding the redemption date. The redeemable noncontrolling interests generally become redeemable through 2018.

The Company recognizes changes in the redemption value that exceed the carrying value of redeemable noncontrolling interests to retained earnings as if the balance sheet date were also the redemption date. Changes in the redemption value also result in an adjustment to net income to shareholders in the calculation of basic and diluted net income per share. The adjustment recorded to retained earnings during 2013 and 2012 was a decrease of \$2.0 million and an increase of \$3.1 million, respectively. There were no adjustments recorded to retained earnings in 2011 because the redemption values of the redeemable noncontrolling interests were less than or approximated their carrying values.

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

l)Unpaid Losses and Loss Adjustment Expenses. Unpaid losses and loss adjustment expenses on our property and casualty insurance business 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, except for reserves assumed in connection with an acquisition, which are recorded at fair value at the acquisition date. Recorded reserves are estimates, and the ultimate liability may be greater or less than the estimates.

m)Life and Annuity Benefits. Prior to its acquisition by the Company, Alterra entered into long duration reinsurance contracts for life and annuity benefits which subject the Company to mortality, longevity and morbidity risks. The assumptions used to determine policy benefit reserves were determined at the Acquisition Date and are generally locked-in for the life of the contract unless an unlocking event occurs. To the extent existing policy reserves, together with the present value of future gross premiums and expected investment income earned thereon, are not adequate to cover the present value of future benefits, settlement and maintenance costs, the locked-in assumptions are revised to current best estimate assumptions and a charge to earnings for life and annuity benefits is recognized at that time. Because of the assumptions and estimates used in establishing reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates.

Results attributable to the run-off of life and annuity reinsurance business are included in other revenues and other expenses in the Company's consolidated statements of income and comprehensive income and as part of the Company's Other Insurance (Discontinued Lines) segment.

n)Revenue Recognition.

Property and Casualty Premiums

Insurance premiums are generally earned on a pro rata basis over the policy period, typically one year. The cost of reinsurance ceded 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.

Assumed reinsurance premiums are recorded at the inception of each contract based upon contract terms and information received from cedents and brokers and are earned on a pro rata basis over the coverage period, or for multi-year contracts, in proportion with the underlying risk exposure to the extent there is variability in the exposure through the coverage period. Changes in reinsurance premium estimates are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding changes in underlying exposures is obtained. Any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined. 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.

Certain contracts that the Company writes provide for reinstatement of coverage. Reinstatement premiums are the premiums for the restoration of the insurance or reinsurance limit of a contract to its full amount after a loss occurrence by the insured or reinsured. The Company accrues for reinstatement premiums resulting from losses recorded. Such accruals are based upon contractual terms and management judgment is involved with respect to the amount of losses recorded. Changes in estimates of losses recorded on contracts with reinstatement premium features will result in changes in reinstatement premiums based on contractual terms. Reinstatement premiums are recognized at the time losses are recorded and are earned on a pro-rata basis over the coverage period.

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Other Revenues

Other revenues primarily relate to the Company's Markel Ventures operations and consist of revenues from the sale of manufactured products and service revenues. Revenues from manufactured products are generally recognized at the time title transfers to the customer, which occurs at the point of shipment or delivery to the customer, depending on the terms of the sales arrangement. Revenues from services are generally recognized as the services are performed. Services provided pursuant to a contract are recognized either over the contract period or upon completion of the elements specified in the contract, depending on the terms of the contract.

o) Stock-based Compensation. Stock-based compensation expense is recognized as part of underwriting, acquisition and insurance expenses over the requisite service period. Stock-based compensation expense, net of taxes, was \$18.4 million in 2013, \$4.4 million in 2012 and \$4.0 million in 2011. See note 12.

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

The Company manages its exposure to foreign currency risk primarily by matching assets and liabilities denominated in the same currency. To the extent that assets and liabilities in foreign currencies are not matched, the Company is exposed to foreign currency risk. For functional currencies, the related exchange rate fluctuations are reflected in other comprehensive income. The cumulative foreign currency translation adjustment, net of taxes, was a loss of \$11.2 million and \$1.1 million at December 31, 2013 and 2012, respectively.

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

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

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

s) Net Income Per Share. Basic net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares outstanding during the year. Unvested share-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating awards and are included in the computation of net income per share. Non-participating unvested share-based compensation awards are excluded from the computation of net income per share. Diluted net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of

common shares and dilutive potential common shares outstanding during the year. See note 12(b).

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t)Recent Accounting Pronouncements. Effective January 1, 2013, the Company adopted FASB ASU No. 2013-02, Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends FASB Accounting Standards Codification (ASC) 220, Comprehensive Income, to improve the reporting of reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 requires information about reclassifications out of accumulated other comprehensive income to be reported in one place, by component. The guidance also requires disclosure of the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows. The Company has included the additional disclosures required by ASU No. 2013-02 in note 13.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU No. 2013-11 requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. Otherwise, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU No. 2013-11 becomes effective for the Company during the first quarter of 2014. The adoption of this ASU is not expected to impact the Company's financial position, results of operations or cash flows.

2. Acquisitions

Acquisition of Alterra

a)Overview. On May 1, 2013, the Company completed the acquisition of 100% of the the issued and outstanding common stock of Alterra pursuant to an agreement dated December 18, 2012 (the Merger Agreement) which provided for the merger of Alterra with one of the Company's subsidiaries. Alterra was a Bermuda-headquartered global enterprise providing diversified specialty property and casualty insurance and reinsurance products to corporations, public entities and other property and casualty insurers. The acquisition of Alterra creates additional size and scale, providing additional insurance and investment opportunities for the Company. As a result of the acquisition of Alterra, the Company formed a new operating segment, the Alterra segment. Results attributable to Alterra's property and casualty insurance and reinsurance business are included in the Alterra segment. Alterra also offered life and annuity reinsurance products. In 2010, Alterra ceased writing life and annuity reinsurance contracts and placed this business into run-off. Results attributable to the run-off of life and annuity reinsurance business are included in the Company's Other Insurance (Discontinued Lines) segment. See note 20 for further discussion of the Company's operating segments.

Pursuant to the terms of the Merger Agreement, on the Acquisition Date, equity holders of Alterra received, in exchange for each share of Alterra common stock held (other than restricted shares that did not vest in connection with the transaction), (1) 0.04315 shares of the Company's common stock and (2) \$10.00 in cash. Equity holders of Alterra received total consideration of \$3.3 billion, consisting of cash consideration of \$964.3 million and stock consideration of 4.3 million shares of the Company's common stock.

Following the acquisition, the Company's board of directors consists of all ten members from its pre-acquisition board of directors and two additional members who were designated by Alterra and approved by the Company's Nominating/Corporate Governance Committee.

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b)Purchase Price. The Company's total purchase price for Alterra as of the Acquisition Date was calculated as follows:

(in thousands, except per share amounts)

Shares of Alterra common stock outstanding as of the Acquisition Date	96,433
Exchange ratio per the Merger Agreement	0.04315
Markel share issuance to Alterra shareholders	4,161
Shares of Alterra restricted stock outstanding as of the Acquisition Date	2,239
Incentive award ratio per the Merger Agreement	0.06252
Markel restricted stock issuance to Alterra restricted stock holders	140
Multiplied by Markel's weighted average stock price on April 30, 2013 ⁽¹⁾	\$529.59
Markel share and restricted stock issuance consideration, net of taxes	\$2,267,648
Alterra common shares outstanding as of the Acquisition Date that received cash consideration	96,433
Multiplied by cash price per share component per the Merger Agreement	\$10.00
Markel cash consideration	\$964,330
Fair value of Markel warrant issuance to Alterra warrant holders as of the Acquisition Date	\$73,685
Fair value of Markel stock option issuance to Alterra stock option holders as of the Acquisition Date, net of taxes	\$12,335
Fair value of partially vested Markel restricted stock unit issuance as of the Acquisition Date, net of taxes	\$6,867
Unrecognized compensation on unvested restricted stock and restricted stock units	\$(20,572)
Total acquisition consideration	\$3,304,293

⁽¹⁾ The fair value of the shares issued by the Company was calculated as the weighted average price of the Company's stock on April 30, 2013, the day preceding the Acquisition Date.

As part of the consideration, the Company issued replacement warrants, options and restricted stock awards to holders of Alterra warrants, options and restricted stock awards. The acquisition consideration related to the options, restricted stock and restricted stock units issued was net of income taxes of \$1.9 million, \$10.1 million and \$0.7 million, respectively. See note 12 for additional information about the equity awards issued in connection with the acquisition.

c)Fair Value of Net Assets Acquired and Liabilities Assumed. The purchase price was allocated to the acquired assets and liabilities of Alterra based on estimated fair values at the Acquisition Date. The Company recognized goodwill of \$295.7 million, all of which was recorded within the Alterra segment and is primarily attributable to Alterra's assembled workforce and synergies that are expected to result upon integration of Alterra into the Company's insurance operations and investing activities. None of the goodwill that was recorded is deductible for income tax purposes. The Company also recognized indefinite lived intangible assets of \$37.5 million and other intangible assets of \$170.0 million, which will be amortized over a weighted average period of 17 years.

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The following table summarizes the fair values of the assets acquired and liabilities assumed at the Acquisition Date. (dollars in thousands)

ASSETS	
Investments	\$6,407,841
Cash and cash equivalents	1,036,274
Restricted cash and cash equivalents	414,497
Receivables	866,388
Reinsurance recoverable on unpaid losses	1,169,084
Reinsurance recoverable on paid losses	80,672
Prepaid reinsurance premiums	317,445
Other assets	859,884
LIABILITIES	
Unpaid losses and loss adjustment expenses	4,719,461
Life and annuity benefits	1,477,482
Unearned premiums	1,075,610
Payables to insurance and reinsurance companies	342,858
Senior long-term debt	512,463
Other liabilities	223,108
Net assets	2,801,103
Goodwill	295,690
Intangible assets	207,500
Acquisition date fair value	\$3,304,293

An explanation of the significant adjustments for fair value and the related impact on amortization is as follows:

Investments - Fixed maturity investments acquired include a net increase of \$223.1 million to adjust the historical carrying amount of Alterra's investments to their estimated fair value as of the Acquisition Date. The difference in the historical amortized cost of the fixed maturity investments acquired and their estimated fair value as of the Acquisition Date, \$495.5 million, represents incremental premium that will be amortized to net investment income over the term of the underlying securities. The amount of the unamortized incremental premium as of December 31, 2013 was \$398.1 million, which will be amortized over a weighted average remaining term of approximately five years. The decrease in the unamortized incremental premium is due to amortization expense of \$58.3 million and sales of securities.

Intangible assets - Establish the estimated fair value of intangible assets related to Alterra (see below for further detail).

Unearned Premiums - Unearned premiums acquired include a decrease of \$176.3 million to adjust the carrying value of Alterra's historical unearned premiums to fair value as of the Acquisition Date. The adjustment consists of the present value of the expected underwriting profit within the unearned premiums liability less costs to service the related policies and a risk premium. This adjustment will be amortized to underwriting, acquisition and insurance expenses over a weighted average period of approximately one year, as the contracts for business in-force as of the Acquisition Date expire.

Unpaid losses and loss adjustment expenses - Unpaid losses and loss adjustment expenses acquired include an increase of \$120.8 million to adjust the carrying value of Alterra's historical unpaid losses and loss adjustment expenses, net of related reinsurance recoverable, to fair value as of the Acquisition Date. The estimated fair value consists of the present value of the expected net loss and loss adjustment expense payments plus a risk premium. This adjustment, plus the \$26.5 million unamortized fair value adjustment included in Alterra's historical unpaid losses and loss adjustment expenses, will be amortized to losses and loss adjustment expenses over a weighted average period of approximately five years, based on the estimated payout pattern of net reserves as of the Acquisition Date. As of December 31, 2013, the unamortized fair value adjustment included in unpaid losses and loss adjustment expenses was \$136.5 million, which will be amortized over a weighted average remaining period of approximately four years.

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Life and Annuity Benefits - Life and annuity benefits acquired include an increase of \$329.6 million to adjust the carrying value of Alterra's historical life and annuity benefits to fair value as of the Acquisition Date. The estimated fair value consists of the present value of the expected net life and annuity benefit payments plus a risk premium. See note 10 for detail regarding accounting for life and annuity benefits.

Senior long-term debt - Senior long-term debt acquired includes an increase of \$71.9 million to adjust the carrying value of Alterra's senior long-term debt to its estimated fair value based on prevailing interest rates and other factors as of the Acquisition Date. This adjustment will be amortized to interest expense over the term of the notes. See note 11. As of December 31, 2013, the unamortized premium on the acquired senior long-term debt was \$66.1 million.

The following table summarizes the intangible assets recorded in connection with the acquisition, and as of December 31, 2013.

(dollars in thousands)	Amount	Economic Useful Life
Customer relationships	\$132,000	18 years
Broker relationships	19,000	18 years
Technology	18,000	Ten years
Trade names	1,000	One year
Lloyd's syndicate capacity	12,000	Indefinite
Insurance licenses	25,500	Indefinite
Intangible assets, before amortization, as of the Acquisition Date	207,500	
Amortization (from the Acquisition Date through December 31, 2013)	7,785	
Net intangible assets as of December 31, 2013	\$199,715	

Customer relationships represent policyholder relationships and the network of insurance companies through which Alterra conducted its operations. The fair value of customer relationships and broker relationships was estimated using the income approach. Critical inputs into the valuation model for customer relationships and broker relationships include estimates of expected premium and attrition rates, and discounting at a weighted average cost of capital. Technology represents the intangible asset related to Alterra's internally developed software and was valued using the income approach.

The fair value of Lloyd's syndicate capacity and insurance licenses was estimated using the market approach. Lloyd's syndicate capacity represents Alterra's authorized premium income limit to write insurance business in the Lloyd's of London (Lloyd's) insurance market. The Lloyd's capacity is renewed annually at no cost to the Company or may be freely purchased or sold, subject to Lloyd's approval. The ability to write insurance business within the syndicate capacity is indefinite with the premium income limit being set annually by the Company, subject to Lloyd's approval.

d)Income Taxes. As a result of the acquisition, Alterra and its non-U.S. subsidiaries became controlled foreign corporations subject to U.S. income tax at a statutory rate of 35%. The acquisition was taxable to U.S. shareholders of Alterra, and Markel has elected to treat it as an asset acquisition under section 338(g) of the U.S. Internal Revenue Code of 1986 (IRC), as amended.

Effective May 1, 2013, the Company made an IRC section 953(d) election with respect to Markel Bermuda Limited (Markel Bermuda, formerly known as Alterra Bermuda Limited), a wholly-owned subsidiary of Alterra. As a result of the 953(d) election, Markel Bermuda is treated as a domestic corporation for U.S. tax purposes and, accordingly, is required to record deferred taxes at the 35% statutory U.S. rate.

As part of the allocation of the purchase price, the Company recorded net deferred tax assets of \$310.1 million. Of this amount, \$343.9 million represents deferred tax assets related to accrued losses and loss adjustment expenses and life

and annuity benefits, which were partially offset by deferred tax liabilities of \$64.6 million related to the estimated fair value of the intangible assets recorded. Other net deferred tax assets recorded primarily relate to differences between financial reporting and tax bases of the acquired assets and liabilities as of the Acquisition Date. At December 31, 2013, earnings of Alterra's foreign subsidiaries are considered reinvested indefinitely, consistent with the Company's other foreign subsidiaries, and no provision for deferred U.S. income tax has been recorded. As of December 31, 2013, the allocation of the purchase price reflects an increase of \$54.3 million in the amount recorded for net deferred tax assets from the allocation initially reported at June 30, 2013 and a corresponding reduction in the amount recorded for goodwill.

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e)Transaction and Acquisition-Related Costs. The following table summarizes transaction and acquisition-related costs incurred by the Company in connection with the acquisition, all of which were included in underwriting, acquisition and insurance expenses in the consolidated statements of income and comprehensive income.

(dollars in thousands)	Year Ended December 31, 2013
Transaction costs	\$15,981
Acquisition-related costs:	
Severance costs	31,734
Stay bonuses	14,804
Acceleration of Alterra long-term incentive compensation awards and restricted stock awards	12,621
Total transaction and acquisition-related costs	\$75,140

Transaction costs primarily consist of due diligence, legal and investment banking costs. Per the terms of the Merger Agreement, transaction costs attributable to Alterra were recorded and paid by Alterra prior to the Acquisition Date (\$23.0 million) and are not included within the Company's consolidated statements of income and comprehensive income.

In connection with the acquisition, Alterra instituted a retention plan for certain employees under which Alterra committed to the payment of stay bonuses to such employees one year from the Acquisition Date, provided they remain employed with the Company through that date. Payments may be accelerated for certain qualifying employment terminations.

Prior to its acquisition by the Company, Alterra granted long term incentive awards to certain employees to be paid in the form of cash on March 1, 2016, provided they remain employed with the Company on that date. Payments may be accelerated prior to March 1, 2016 for certain qualifying employment terminations. Additionally, as part of the purchase consideration, the Company issued replacement restricted stock awards to holders of Alterra restricted stock awards. As a result of separations made in connection with the acquisition, the Company recognized expense totaling \$12.6 million related to the acceleration of certain of these awards during the year ended December 31, 2013.

f)Financial Results. The following table summarizes the results of Alterra since the Acquisition Date that have been included within the Company's consolidated statements of income and comprehensive income.

(dollars in thousands)	Year Ended December 31, 2013
Operating revenues	\$912,387
Net loss to shareholders	\$(93,074)

g)Supplemental Pro Forma Information (unaudited). Alterra's results have been included in the Company's Consolidated Financial Statements from the Acquisition Date to December 31, 2013. The following table presents unaudited pro forma consolidated information for the years ended December 31, 2013 and 2012 and assumes the Company's acquisition of Alterra occurred on January 1, 2012. The pro forma financial information is presented for informational purposes only and does not necessarily reflect the results that would have occurred had the acquisition taken place on January 1, 2012, nor is it necessarily indicative of future results. Significant adjustments used to determine pro forma results include amortization of intangible assets and amortization of fair value adjustments discussed in c) above, and the corresponding income tax effects. The Company also excluded certain charges from the pro forma results, including transaction costs incurred by the Company (\$16.0 million) and Alterra (\$23.0 million)

totaling \$39.0 million for the year ended December 31, 2013, severance costs attributable to the acquisition totaling \$31.7 million for the year ended December 31, 2013, and stay bonuses of \$14.8 million for the year ended December 31, 2013. The acceleration of compensation expense during the year ended December 31, 2013 related to Alterra's long-term incentive compensation awards and restricted stock awards was attributable to the acquisition; however, the incremental expense recognized during the period only represents a timing difference in the recognition of expense. Therefore, it was not excluded from the pro forma underwriting results.

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(in thousands, except per share amounts)	Unaudited			
	Consolidated Pro Forma		Years Ended December 31,	
	2013	2012		
Earned premiums	\$3,680,220	\$3,509,834		
Operating revenues	4,899,628	4,561,107		
Net income to shareholders	422,829	308,496		
U.S. GAAP combined ratio ⁽¹⁾	95	% 99		%
Basic net income per share	\$30.33	\$21.79		
Diluted net income per share	\$30.19	\$21.71		
Weighted average common shares outstanding:				
Basic	14,007	14,014		
Diluted	14,069	14,065		

⁽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.

Acquisition of Essentia

On January 1, 2013, the Company completed its acquisition of 100% of the outstanding shares of Essentia Insurance Company (Essentia), a company that underwrites insurance exclusively for Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency (collectively, Hagerty) throughout the United States. Hagerty offers insurance for classic cars, vintage boats, motorcycles and related automotive collectibles. The Company recognized intangible assets of \$35.4 million associated with this acquisition, which includes \$25.0 million of customer relationships to be amortized over a weighted average period of six years. Results attributable to this acquisition are included in the Specialty Admitted segment.

On January 1, 2014, Hagerty exercised its option to purchase 9.9% of the outstanding shares of Essentia, which reduced the Company's ownership interest in Essentia to 90.1%.

Acquisition of Abbey Protection

On January 17, 2014, the Company completed its acquisition of 100% of the issued and to be issued share capital of Abbey Protection plc (Abbey), an integrated specialty insurance and consultancy group headquartered in London. Abbey's business is focused on the underwriting and sale of insurance products to small and medium-sized enterprises and affinity groups in the United Kingdom providing protection against legal expenses and professional fees incurred as a result of legal actions or investigations by tax authorities, as well as providing a range of complementary legal, professional and reinsurance services.

Total consideration for this acquisition was \$190.0 million, all of which was cash consideration. The purchase price allocation for Abbey will be completed in the first quarter of 2014.

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3. Investments

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

(dollars in thousands)	December 31, 2013				
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$1,215,522	\$9,051	\$(30,342)	\$ —	\$1,194,231
Obligations of states, municipalities and political subdivisions	2,986,758	116,341	(27,384)	—	3,075,715
Foreign governments	1,484,818	30,647	(54,411)	—	1,461,054
Commercial mortgage-backed securities	379,555	62	(11,796)	—	367,821
Residential mortgage-backed securities	875,902	13,046	(16,442)	(2,258)	870,248
Asset-backed securities	189,646	257	(1,614)	—	188,289
Corporate bonds	2,996,940	54,777	(61,650)	(4,889)	2,985,178
Total fixed maturities	10,129,141	224,181	(203,639)	(7,147)	10,142,536
Equity securities:					
Insurance, banks and other financial institutions	422,975	592,112	(4)	—	1,015,083
Industrial, consumer and all other	1,143,578	1,094,251	(1,114)	—	2,236,715
Total equity securities	1,566,553	1,686,363	(1,118)	—	3,251,798
Short-term investments	1,452,270	18	—	—	1,452,288
Investments, available-for-sale	\$13,147,964	\$1,910,562	\$(204,757)	\$ (7,147)	\$14,846,622
December 31, 2012					
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$297,663	\$19,844	\$—	\$ —	\$317,507
Obligations of states, municipalities and political subdivisions	2,586,867	245,057	(362)	—	2,831,562
Foreign governments	503,844	52,764	—	—	556,608
Residential mortgage-backed securities	202,644	14,996	(5)	(2,258)	215,377
Asset-backed securities	13,828	517	—	—	14,345
Corporate bonds	957,432	93,395	(121)	(6,822)	1,043,884
Total fixed maturities	4,562,278	426,573	(488)	(9,080)	4,979,283
Equity securities:					
Insurance, banks and other financial institutions	508,771	389,434	(138)	—	898,067
Industrial, consumer and all other	878,534	637,783	(7,433)	—	1,508,884
Total equity securities	1,387,305	1,027,217	(7,571)	—	2,406,951
Short-term investments	973,318	26	(14)	—	973,330

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Investments, available-for-sale	\$6,922,901	\$1,453,816	\$(8,073)	\$ (9,080)	\$8,359,564
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b)The following tables summarize gross unrealized investment losses by the length of time that securities have continuously been in an unrealized loss position.

(dollars in thousands)	December 31, 2013		12 months or longer		Total	
	Less than 12 months	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$587,929	\$(30,342)	\$—	\$—	\$587,929	\$(30,342)
Obligations of states, municipalities and political subdivisions	513,608	(27,238)	3,512	(146)	517,120	(27,384)
Foreign governments	950,040	(54,411)	—	—	950,040	(54,411)
Commercial mortgage-backed securities	357,737	(11,796)	—	—	357,737	(11,796)
Residential mortgage-backed securities	437,675	(18,700)	—	—	437,675	(18,700)
Asset-backed securities	142,011	(1,614)	—	—	142,011	(1,614)
Corporate bonds	1,817,737	(66,539)	—	—	1,817,737	(66,539)
Total fixed maturities	4,806,737	(210,640)	3,512	(146)	4,810,249	(210,786)
Equity securities:						
Insurance, banks and other financial institutions	144	(4)	—	—	144	(4)
Industrial, consumer and all other	20,943	(714)	27,735	(400)	48,678	(1,114)
Total equity securities	21,087	(718)	27,735	(400)	48,822	(1,118)
Total	\$4,827,824	\$(211,358)	\$31,247	\$(546)	\$4,859,071	\$(211,904)

At December 31, 2013, the Company held 1,364 securities with a total estimated fair value of \$4.9 billion and gross unrealized losses of \$211.9 million. Of these 1,364 securities, nine securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of \$31.2 million and gross unrealized losses of \$0.5 million. Of these securities, eight securities were fixed maturities and one was an equity security. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost. The Company has the ability and intent to hold the equity security for a period of time sufficient to allow for the anticipated recovery of its fair value.

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	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than- Temporary Impairment Losses
Fixed maturities:						
Obligations of states, municipalities and political subdivisions	\$2,833	\$(46)	\$3,616	\$(316)	\$6,449	\$(362)
Residential mortgage-backed securities	364	(2,260)	201	(3)	565	(2,263)
Corporate bonds	—	(6,822)	3,860	(121)	3,860	(6,943)
Total fixed maturities	3,197	(9,128)	7,677	(440)	10,874	(9,568)
Equity securities:						
Insurance, banks and other financial institutions	2,431	(138)	—	—	2,431	(138)
Industrial, consumer and all other	82,109	(7,310)	1,983	(123)	84,092	(7,433)
Total equity securities	84,540	(7,448)	1,983	(123)	86,523	(7,571)
Short-term investments	228,820	(14)	—	—	228,820	(14)
Total	\$316,557	\$(16,590)	\$9,660	\$(563)	\$326,217	\$(17,153)

At December 31, 2012, the Company held 35 securities with a total estimated fair value of \$326.2 million and gross unrealized losses of \$17.2 million. Of these 35 securities, ten securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of \$9.7 million and gross unrealized losses of \$0.6 million. Of these securities, eight securities were fixed maturities and two were equity securities.

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

For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. For fixed maturities where the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost, a decline in fair value is considered to be other-than-temporary and is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. If the decline in fair value of a fixed maturity below its amortized cost is considered to be other-than-temporary based upon other considerations, the Company compares the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security

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

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When assessing whether it intends to sell a fixed maturity or if it is likely to be required to sell a fixed maturity before recovery of its amortized cost, the Company evaluates facts and circumstances including decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and, ultimately, current market prices. Additional information on the methodology and significant inputs, by security type, that the Company used to determine the amount of credit loss recognized on fixed maturities with declines in fair value below amortized cost that were considered to be other-than-temporary is provided below.

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

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

- fundamentals of the issuer, including current and projected operating results, current liquidity position and ability to raise capital;
- fundamentals of the industry in which the issuer operates;
- expectations of defaults and recovery rates;
- changes in ratings by rating agencies;
- other relevant market considerations; and
- receipt of interest payments.

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

c)The amortized cost and estimated fair value of fixed maturities at December 31, 2013 are shown below by contractual maturity.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	\$885,726	\$891,654
Due after one year through five years	2,891,314	2,947,173
Due after five years through ten years	2,217,759	2,254,169
Due after ten years	2,689,239	2,623,182
Commercial mortgage-backed securities	8,684,038	8,716,178
Residential mortgage-backed securities	379,555	367,821
Asset-backed securities	875,902	870,248
Total fixed maturities	189,646	188,289
	\$10,129,141	\$10,142,536

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 fixed maturities was 4.8 years.

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Interest:			
Municipal bonds (tax-exempt)	\$82,308	\$90,316	\$94,457
Municipal bonds (taxable)	28,041	22,663	23,277
Other taxable bonds	134,377	107,270	117,242
Short-term investments, including overnight deposits	3,573	2,755	2,484
Dividends on equity securities	48,641	50,416	35,996
Change in fair value of credit default swap	10,460	16,641	(4,103)
Income from equity method investments	21,898	1,961	584
Other	355	(41)	1,551)
	329,653	291,981	271,488
Investment expenses	(12,280)	(9,874)	(7,812)
Net investment income	\$317,373	\$282,107	\$263,676

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Cumulative credit loss, beginning of year	\$21,370	\$21,370	\$10,307
Additions:			
Other-than-temporary impairment losses not previously recognized	—	—	875
Increases related to other-than-temporary impairment losses previously recognized	—	—	10,203
Total additions	—	—	11,078
Reductions:			
Sales or maturities of fixed maturities on which credit losses were recognized	(8,622)	—	(15)
Cumulative credit loss, end of year	\$12,748	\$21,370	\$21,370

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Realized gains:			
Sales of fixed maturities	\$13,772	\$18,337	\$17,035
Sales of equity securities	73,592	29,578	36,863
Other	5,940	749	2,626
Total realized gains	93,304	48,664	56,524
Realized losses:			
Sales of fixed maturities	(25,168	) (563	) (410
Sales of equity securities	(278	) (342	) (61
Other-than-temporary impairments	(4,706	) (12,078	) (20,196
Other	—	(4,088) —
Total realized losses	(30,152	) (17,071	) (20,667
Net realized investment gains	\$63,152	\$31,593	\$35,857
Change in net unrealized gains on investments:			
Fixed maturities	\$(403,610	) \$51,783	\$190,976
Equity securities	665,599	302,013	(8,250
Short-term investments	6	12	(4
Net increase	\$261,995	\$353,808	\$182,722

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Fixed maturities:			
Obligations of states, municipalities and political subdivisions	\$(1,242) \$—	\$—
Residential mortgage-backed securities	(640	) —	(11,078
Total fixed maturities	(1,882	) —	(11,078
Equity securities:			
Insurance, banks and other financial institutions	—	(10,336	) (4,251
Industrial, consumer and all other	(2,824	) (1,742	) (4,867
Total equity securities	(2,824	) (12,078	) (9,118
Total	\$(4,706	) \$(12,078	) \$(20,196

h)As of December 31, 2013 and December 31, 2012, the Company had restricted assets totaling \$6.1 billion and \$1.4 billion, respectively. Restricted assets held in trust or on deposit for the benefit of policyholders or ceding companies or to support underwriting activities were \$5.2 billion and \$1.3 billion as of December 31, 2013 and December 31, 2012, respectively, of which \$3.7 billion at December 31, 2013 was attributable to Alterra. Additionally, the Company has pledged investments and cash and cash equivalents totaling \$695.1 million and \$23.2 million as of December 31, 2013 and December 31, 2012, respectively, as security for letters of credit that have been issued by various banks on behalf of the Company, of which \$645.4 million at December 31, 2013 was attributable to Alterra.

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Total restricted assets are included on the Company's consolidated balance sheets as follows.

(dollars in thousands)	December 31, 2013	December 31, 2012
Investments, available-for-sale	\$5,225,701	\$1,262,755
Restricted cash and cash equivalents	786,926	109,415
Other assets	76,752	—
Total	\$6,089,379	\$1,372,170

i) At December 31, 2013 and December 31, 2012, investments in U.S. Treasury securities and obligations of U.S. government agencies were the only investments in any one issuer that exceeded 10% of shareholders' equity.

At December 31, 2013, the Company's ten largest equity holdings represented \$1.5 billion, or 46%, of the equity portfolio. Investments in the property and casualty insurance industry represented \$568.3 million, or 17%, of the equity portfolio at December 31, 2013. Investments in the property and casualty insurance industry included a \$371.1 million investment in the common stock of Berkshire Hathaway Inc.

4. Receivables

The following table presents the components of receivables.

(dollars in thousands)	December 31, 2013	2012
Amounts receivable from agents, brokers and insureds	\$1,058,021	\$332,570
Trade accounts receivable	85,203	73,512
Employee stock loans receivable (see note 12(c))	12,822	11,413
Other	5,420	12,982
	1,161,466	430,477
Allowance for doubtful receivables	(19,693	) (16,594
Receivables	\$1,141,773	\$413,883

5. Deferred Policy Acquisition Costs

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Balance, beginning of year	\$157,465	\$194,674	\$188,783
Policy acquisition costs deferred	575,417	390,900	485,345
Amortization of policy acquisition costs	(471,915) (428,109) (479,454
Deferred policy acquisition costs	\$260,967	\$157,465	\$194,674

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Transaction costs and other acquisition-related expenses ⁽¹⁾	\$75,140	\$—	\$—
Prospective adoption of FASB ASU No. 2010-26 ⁽²⁾	—	43,093	—
Other amortization of policy acquisition costs	471,915	385,016	479,454
Other operating expenses	765,257	501,363	330,725
Underwriting, acquisition and insurance expenses	\$1,312,312	\$929,472	\$810,179

In connection with the acquisition of Alterra, the Company incurred transaction costs of \$16.0 million for the year ended December 31, 2013, which primarily consist of due diligence, legal and investment banking costs.

⁽¹⁾ Additionally, the Company incurred severance costs of \$31.7 million, stay bonuses of \$14.8 million and other compensation costs totaling \$12.6 million related to the acceleration of certain long-term incentive compensation awards and restricted stock awards that were granted by Alterra prior to the acquisition.

Effective January 1, 2012, the Company prospectively adopted FASB ASU No. 2010-26, Accounting for Costs

⁽²⁾ Associated with Acquiring or Renewing Insurance Contracts. At December 31, 2011, deferred policy acquisition costs included \$43.1 million of costs that no longer met the criteria for deferral as of January 1, 2012 and were recognized into income during 2012, consistent with policy terms.

6. Property and Equipment

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

(dollars in thousands)	December 31,	
	2013	2012
Land	\$48,036	\$45,199
Buildings	59,307	53,767
Leasehold improvements	68,363	55,626
Land improvements	57,673	51,512
Furniture and equipment	217,528	211,354
Other	104,690	85,714
	555,597	503,172
Accumulated depreciation and amortization	(207,688	) (172,943
Property and equipment	\$347,909	\$330,229

Depreciation and amortization expense of property and equipment was \$51.5 million, \$36.0 million and \$24.2 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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

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7. Goodwill and Intangible Assets

The following table presents the components of goodwill.

(dollars in thousands)	Excess and Surplus Lines Segment	Specialty Admitted Segment	London Insurance Market Segment	Alterra Segment	Other ⁽¹⁾	Total
January 1, 2012	\$ 81,770	\$64,914	\$309,064	\$—	\$151,813	\$607,561
Acquisitions	—	26,140	—	—	40,888	67,028
Foreign currency movements and other adjustments	—	—	596	—	(255)	341
December 31, 2012	\$ 81,770	\$91,054	\$309,660	\$—	\$192,446	\$674,930
Acquisitions (see note 2)	—	—	—	295,690	1,185	296,875
Foreign currency movements and other adjustments	—	—	(2,088)	—	(2,000)	(4,088)
December 31, 2013	\$ 81,770	\$91,054	\$307,572	\$295,690	\$191,631	\$967,717

⁽¹⁾ Amounts included in Other above are related to the Company's Markel Ventures operations.

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. There were no impairment losses recognized during 2013 or 2012.

The following table presents the components of intangible assets with a net carrying amount.

(dollars in thousands)	December 31,		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$298,886	\$(43,286)	\$171,591	\$(29,955)
Broker relationships	178,693	(23,255)	135,867	(12,317)
Trade names	65,880	(12,666)	75,781	(9,075)
Technology	56,429	(16,222)	40,109	(11,785)
Insurance licenses	40,185	(133)	4,300	(67)
Lloyd's syndicate capacity	12,000	—	—	—
Other	14,197	(5,625)	14,558	(4,712)
Total	\$666,270	\$(101,187)	\$442,206	\$(67,911)

Amortization of intangible assets was \$55.2 million, \$33.5 million and \$24.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. Amortization of intangible assets is estimated to be \$45.7 million for 2014, \$44.7 million for 2015, \$41.8 million for 2016, \$40.4 million for 2017 and \$40.2 million for 2018. Indefinite-lived intangible assets were \$58.0 million at December 31, 2013 and \$10.1 million at December 31, 2012.

In 2013, the Company acquired \$247.0 million of intangible assets. The definite-lived intangible assets acquired are expected to be amortized over a weighted average period of 15.5 years. The definite-lived intangible assets acquired during 2013 include customer relationships, broker relationships, trade names and technology, which are expected to be amortized over a weighted average period of 18.0, 11.2, 4.5 and 10.0 years, respectively.

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8. Income Taxes

Income before income taxes includes the following components.

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Domestic operations	\$325,133	\$126,466	\$200,446
Foreign operations	36,610	185,584	(10,250)
Income before income taxes	\$361,743	\$312,050	\$190,196

Income tax expense includes the following components.

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Current:			
Domestic	\$50,683	\$14,340	\$35,721
Foreign	23,165	1,814	340
Total current tax expense	73,848	16,154	36,061
Deferred:			
Domestic	23,906	(3,734)	436
Foreign	(19,856)	41,382	5,213
Total deferred tax expense	4,050	37,648	5,649
Income tax expense	\$77,898	\$53,802	\$41,710

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

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

The Company made income tax payments of \$35.7 million, \$30.0 million and \$35.0 million in 2013, 2012 and 2011, respectively. Current income taxes payable were \$84.2 million and \$2.2 million at December 31, 2013 and 2012, 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,			
	2013	2012	2011	
United States corporate tax rate	35	% 35	% 35	%
Tax-exempt investment income	(9)	(12)	(18))
Uncertain tax positions	—	—	(2))
Foreign operations	(4)	(5)	6)
Other	—	(1)	1)
Effective tax rate	22	% 17	% 22	%

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

(dollars in thousands)	December 31,	
	2013	2012
Assets:		
Differences between financial reporting and tax bases	\$139,357	\$81,305
Unpaid losses and loss adjustment expenses	283,365	122,217
Life and annuity benefits	161,209	—
Unearned premiums recognized for income tax purposes	76,862	42,938
Other-than-temporary impairments not yet deductible for income tax purposes	34,978	40,450
Net operating loss carryforwards	43,010	7,388
Tax credit carryforwards	33,773	41,387
Total gross deferred tax assets	772,554	335,685
Liabilities:		
Differences between financial reporting and tax bases	46,699	33,323
Deferred policy acquisition costs	65,543	36,039
Net unrealized gains on investments	459,015	406,295
Amortization of goodwill and other intangible assets	97,580	28,931
Total gross deferred tax liabilities	668,837	504,588
Net deferred tax asset (liability)	\$103,717	\$(168,903)

The net deferred tax asset at December 31, 2013 was included in other assets on the consolidated balance sheet. The net deferred tax liability at December 31, 2012 was included in other liabilities on the consolidated balance sheet.

At December 31, 2013, the Company had tax credit carryforwards of \$33.8 million. The earliest any of these credits will expire is 2019.

At December 31, 2013, the Company had net operating losses of \$73.1 million that can be used to offset future income that is taxable in the United States from Markel Capital Limited, a wholly owned United Kingdom subsidiary. The Company's ability to use these losses in the United States expires between the years 2021 and 2032. At December 31, 2013, the Company had net operating losses of \$81.6 million that can be used to offset future income that is taxable in the United States. The Company's ability to use these losses in the United States expires between the years 2027 and 2033.

The Company estimates that it will realize \$668.8 million of the gross deferred tax assets, including net operating losses, recorded at December 31, 2013 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 \$103.7 million of gross deferred tax assets by generating future taxable income and by using prudent and feasible tax planning strategies if future taxable income is not sufficient.

At December 31, 2013, the Company had unrecognized tax benefits of \$18.2 million. If recognized, \$15.9 million of these tax benefits would decrease the annual effective tax rate. The Company does not currently anticipate any significant changes in unrecognized tax benefits during 2014.

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The following table presents a reconciliation of unrecognized tax benefits.

(dollars in thousands)	Years Ended December 31,	
	2013	2012
Unrecognized tax benefits, beginning of year	\$18,870	\$19,586
Increases based upon tax positions taken during the current year	—	888
Increases for tax positions taken in prior years	—	218
Decreases for tax positions taken in prior years	—	(764)
Lapse of statute of limitations	(651)	(1,058)
Unrecognized tax benefits, end of year	\$18,219	\$18,870

At December 31, 2013, earnings of the Company's foreign subsidiaries, with the exception of our Bermuda subsidiaries, are considered reinvested indefinitely and no provision for deferred United States income taxes has been recorded. It is not practicable to determine the amount of unrecorded deferred tax liabilities associated with such earnings due to the complexity of this calculation.

The Company is subject to income tax in the United States and in foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities for years ended before January 1, 2010.

9. 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.

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Net reserves for losses and loss adjustment expenses, beginning of year	\$4,592,652	\$4,607,767	\$4,600,316
Foreign currency movements, commutations and other	(780)	) 30,359	(7,496)
Adjusted net reserves for losses and loss adjustment expenses, beginning of year	4,591,872	4,638,126	4,592,820
Incurred losses and loss adjustment expenses:			
Current year	2,227,402	1,553,070	1,563,993
Prior years	(411,129)	) (399,002)	) (354,007)
Total incurred losses and loss adjustment expenses	1,816,273	1,154,068	1,209,986
Payments:			
Current year	670,928	268,745	291,837
Prior years	906,302	931,955	898,318
Total payments	1,577,230	1,200,700	1,190,155
Effect of foreign currency rate changes	(7,915)	) 1,158	(4,884)
Net reserves for losses and loss adjustment expenses of acquired insurance companies	3,584,642	—	—
Net reserves for losses and loss adjustment expenses, end of year	8,407,642	4,592,652	4,607,767
Reinsurance recoverable on unpaid losses	1,854,414	778,774	791,102
Gross reserves for losses and loss adjustment expenses, end of year	\$10,262,056	\$5,371,426	\$5,398,869

Beginning of year net reserves for losses and loss adjustment expenses are adjusted, when applicable, for the impact of changes in foreign currency rates, commutations and other items. In 2013, beginning of year net reserves for losses and loss adjustment expenses were increased by a movement of \$0.7 million in foreign currency rates of exchange, which was more than offset by commutations. In 2012, beginning of year net reserves for losses and loss adjustment

expenses were increased by a movement of \$23.4 million in foreign currency rates of exchange. In 2011, beginning of year net reserves for losses and loss adjustment expenses were decreased by a movement of \$14.1 million in foreign currency rates of exchange, which was offset in part by increases for other items including commutations.

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As a result of the acquisition of Alterra, the Company recorded net reserves for losses and loss adjustment expenses of \$3.6 billion as of the Acquisition Date. These reserves were recorded at fair value as part of the Company's purchase accounting. See note 2 for a discussion of the Company's acquisition of Alterra.

In 2013, incurred losses and loss adjustment expenses included \$411.1 million of favorable development on prior years' loss reserves, which was primarily due to \$293.9 million of loss reserve redundancies experienced in the London Insurance Market segment and on the professional and products liability and casualty programs within the Excess and Surplus Lines segment as actual claims reporting patterns on prior accident years have been more favorable than the Company's actuarial analyses initially anticipated. The favorable development on prior years' loss reserves in 2013 was partially offset by \$30.1 million of adverse development in prior years' loss reserves on asbestos and environmental (A&E) exposures.

During the third quarter of each of the past three years, the Company completed an in-depth, actuarial review of its A&E exposures. Over the past few years, the number of A&E claims reported each year across the property and casualty industry has been on the decline. However, at the same time, the likelihood of making an indemnity payment has risen, thus increasing the average cost per reported claim. During our 2012 annual review, we reduced our estimate of the ultimate claims count, while increasing our estimate of the number of claims that would ultimately be closed with an indemnity payment. During our 2013 annual review, our expectation of the severity of the outcome of known claims increased. As a result, prior years' loss reserves for A&E exposures were increased by \$28.4 million in 2013 and \$31.1 million in 2012. During the 2011 review, the Company determined that no adjustment to loss reserves was necessary.

Current year incurred losses and loss adjustment expenses for 2012 included \$99.6 million of estimated net losses related to Hurricane Sandy. Current year incurred losses and loss adjustment expenses for 2011 included \$150.9 million of estimated net losses related to the Thai floods, Hurricane Irene, U.S. tornadoes, Japanese earthquake and tsunami, Australian floods and New Zealand earthquakes. The estimated net losses on these natural catastrophes in 2012 and 2011 were net of estimated reinsurance recoverables of \$77.6 million and \$36.3 million, respectively.

In 2012, incurred losses and loss adjustment expenses included \$399.0 million of favorable development on prior years' loss reserves, which was primarily due to \$336.7 million of loss reserve redundancies experienced in the London Insurance Market segment and on the professional and products liability and casualty programs within the Excess and Surplus Lines segment as actual claims reporting patterns on prior accident years have been more favorable than the Company's actuarial analyses initially anticipated. The favorable development on prior years' loss reserves in 2012 was partially offset by \$38.2 million of adverse development in prior years' loss reserves on A&E exposures.

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

Inherent in the Company's reserving practices is the desire to establish loss reserves that are more likely redundant than deficient. As such, the Company seeks to establish loss reserves that will ultimately prove to be adequate. As part of the Company's acquisition of insurance operations, to the extent the reserving philosophy of the acquired business differs from the Company's reserving philosophy, the post-acquisition loss reserves will be built until total loss reserves are consistent with the Company's target level of confidence. Furthermore, the Company's philosophy is to price its insurance products to make an underwriting profit. Management continually attempts to improve its loss

estimation process by refining its ability to analyze loss development patterns, claim payments and other information, but uncertainty remains regarding the potential for adverse development of estimated ultimate liabilities.

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The Company uses a variety of techniques to establish the liabilities for unpaid losses and loss adjustment expenses, all of which involve significant judgments and assumptions. These techniques include detailed statistical analysis of past claim reporting, settlement activity, claim frequency and severity, policyholder loss experience, industry loss experience and changes in market conditions, policy forms and exposures. Greater judgment may be required when new product lines are introduced or when there have been changes in claims handling practices, as the statistical data available may be insufficient. The Company's estimates reflect implicit and explicit assumptions regarding the potential effects of external factors, including economic and social inflation, judicial decisions, changes in law, general economic conditions and recent trends in these factors. In some of the Company's markets, and where the Company acts as a reinsurer, the timing and amount of information reported about underlying claims are in the control of third parties. There is often a time lag between cedents establishing case reserves and re-estimating their reserves, and notifying the Company of the new or revised case reserves. 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 A&E exposures, are adequate. However, there is no precise method for evaluating the impact of any significant factor on the adequacy of reserves, and actual results will differ from original estimates.

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

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

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Net reserves for A&E losses and loss adjustment expenses, beginning of year	\$260,791	\$244,772	\$216,034
Commutations and other	(5,067	) (897	) 36,271
Adjusted net reserves for A&E losses and loss adjustment expenses, beginning of year	255,724	243,875	252,305
Incurring losses and loss adjustment expenses	30,128	38,179	(134
Payments	(13,658	) (21,263	) (7,399
Net reserves for A&E losses and loss adjustment expenses, end of year	272,194	260,791	244,772
Reinsurance recoverable on unpaid losses	100,784	100,063	89,391
Gross reserves for A&E losses and loss adjustment expenses, end of year	\$372,978	\$360,854	\$334,163

Commutations and other for the year ended December 31, 2011 included a \$40.0 million adjustment related to commutations completed by Markel International, which involved the termination of ceded reinsurance contracts. The adjustment was made with respect to commuted recoverables where the amount of the balance due from reinsurers was offset in full by a provision within the reinsurance allowance. The adjustment reduced the reinsurance recoverable on unpaid losses with a corresponding reduction to the reinsurance allowance for doubtful accounts. Accordingly, there was no impact on the reinsurance recoverable on unpaid losses or on net reserves for A&E losses and loss adjustment expenses, net of the reinsurance allowance, for any period presented. See note 16 for further discussion of the corresponding reduction to the reinsurance allowance.

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At December 31, 2013, asbestos-related reserves were \$284.3 million and \$206.6 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 \$165.3 million and \$106.9 million, respectively, at December 31, 2013. Inception-to-date net paid losses and loss adjustment expenses for A&E related exposures totaled \$398.0 million at December 31, 2013, which includes \$79.1 million of litigation-related expense.

The Company's reserves for losses and loss adjustment expenses related to A&E exposures represent management's best estimate of ultimate settlement values. A&E reserves are monitored by management, and the Company's statistical analysis of these reserves is reviewed by the Company's independent actuaries. A&E exposures are subject to significant uncertainty due to potential loss severity and frequency resulting from the uncertain and unfavorable legal climate. A&E reserves could be subject to increases in the future; however, management believes the Company's gross and net A&E reserves at December 31, 2013 are adequate.

10. Life and Annuity Benefits

The following table presents life and annuity benefits as of December 31, 2013:

	(dollars in thousands)
Life	\$190,765
Annuities	1,194,558
Accident and health	101,251
	\$1,486,574

Life and annuity benefits are compiled on a reinsurance contract-by-contract basis and are discounted using standard actuarial techniques and cash flow models. Since the development of the life and annuity reinsurance reserves is based upon cash flow projection models, the Company must make estimates and assumptions based on cedent experience, industry mortality tables, and expense and investment experience, including a provision for adverse deviation. The assumptions used to determine policy benefit reserves were determined at the Acquisition Date and are generally locked-in for the life of the contract unless an unlocking event occurs. To the extent existing policy reserves, together with the present value of future gross premiums and expected investment income earned thereon, are not adequate to cover the present value of future benefits, settlement and maintenance costs, the locked-in assumptions are revised to current best estimate assumptions and a charge to earnings for life and annuity benefits is recognized at that time.

Because of the assumptions and estimates used in establishing the Company's reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. The average discount rate for the life and annuity benefit reserves was 2.3% as of December 31, 2013. As of December 31, 2013, the largest life and annuity benefits reserve for a single contract was 34.8% of the total. No annuities included in life and annuity benefits in the consolidated balance sheet are subject to discretionary withdrawal.

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11. Senior Long-Term Debt and Other Debt

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

(dollars in thousands)	December 31, 2013	2012
6.80% unsecured senior notes, due February 15, 2013, interest payable semi-annually, net of unamortized discount of \$45 in 2012	\$—	\$246,619
7.20% unsecured senior notes, due April 14, 2017, interest payable semi-annually, net of unamortized premium of \$4,822 in 2013	95,451	—
7.125% unsecured senior notes, due September 30, 2019, interest payable semi-annually, net of unamortized discount of \$1,626 in 2013 and \$1,909 in 2012	348,374	348,091
6.25% unsecured senior notes, due September 30, 2020, interest payable semi-annually, net of unamortized premium of \$61,273 in 2013	411,273	—
5.35% unsecured senior notes, due June 1, 2021, interest payable semi-annually, net of unamortized discount of \$1,531 in 2013 and \$1,738 in 2012	248,469	248,262
4.90% unsecured senior notes, due July 1, 2022, interest payable semi-annually, net of unamortized discount of \$2,374 in 2013 and \$2,653 in 2012	347,626	347,347
3.625% unsecured senior notes, due March 30, 2023, interest payable semi-annually, net of unamortized discount of \$1,860 in 2013	248,140	—
7.35% unsecured senior notes, due August 15, 2034, interest payable semi-annually, net of unamortized discount of \$2,185 in 2013 and \$2,291 in 2012	197,815	197,710
5.0% unsecured senior notes, due March 30, 2043, interest payable semi-annually, net of unamortized discount of \$6,551 in 2013	243,449	—
Other debt, at various interest rates ranging from 2.5% to 6.5%	115,630	104,521
Senior long-term debt and other debt	\$2,256,227	\$1,492,550

On July 2, 2012, the Company issued \$350 million of 4.90% unsecured senior notes due July 1, 2022. Net proceeds to the Company were \$347.2 million. On August 1, 2012, the Company used a portion of these proceeds to redeem its 7.50% unsecured senior debentures due August 22, 2046 at a redemption price equal to 100% of their principal amount, or \$150 million. This redemption resulted in a loss of \$4.1 million, which is reflected in net realized investment gains. The proceeds from the July 2012 issuance were also used to pre-fund the repayment of the Company's 6.80% unsecured senior notes due February 15, 2013.

On February 15, 2013, the Company repaid its 6.80% unsecured senior notes (\$246.7 million principal amount outstanding at December 31, 2012).

On March 8, 2013, the Company issued \$250 million of 3.625% unsecured senior notes due March 30, 2023 and \$250 million of 5.0% unsecured senior notes due March 30, 2043. Net proceeds to the Company were approximately \$491.2 million, to be used for general corporate purposes.

On April 16, 2007, Alterra USA Holdings Limited (Alterra USA), a wholly-owned indirect subsidiary of Alterra, privately issued \$100 million of 7.20% unsecured senior notes due April 14, 2017 (the 7.20% unsecured senior notes). The 7.20% unsecured senior notes are Alterra USA's senior unsecured obligations and rank equally in right of payment with all existing and future senior unsecured indebtedness of Alterra USA. The 7.20% unsecured senior notes are fully and unconditionally guaranteed by Alterra. The principal amount of the 7.20% unsecured senior notes outstanding as of the Acquisition Date was \$90.6 million. As of the Acquisition Date, the 7.20% unsecured senior notes were recorded at their estimated fair value of \$95.8 million.

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On September 27, 2010, Alterra Finance LLC, a wholly-owned indirect subsidiary of Alterra, issued \$350 million of 6.25% unsecured senior notes due September 30, 2020 (the 6.25% unsecured senior notes). The 6.25% unsecured senior notes are Alterra Finance LLC's senior unsecured obligations and rank equally in right of payment with all of Alterra Finance LLC's future unsecured and unsubordinated indebtedness and rank senior to all of Alterra Finance LLC's future subordinated indebtedness. The 6.25% unsecured senior notes are fully and unconditionally guaranteed by Alterra on a senior unsecured basis. The guarantee ranks equally with all of Alterra's existing and future unsecured and unsubordinated indebtedness and ranks senior to all of Alterra's future subordinated indebtedness. As of the Acquisition Date, the 6.25% unsecured senior notes were recorded at their estimated fair value of \$416.6 million.

Alterra Finance LLC is a finance subsidiary and has no independent activities, assets or operations other than in connection with the 6.25% unsecured senior notes.

The Company's 7.35% unsecured senior notes due August 15, 2034 are not redeemable. The Company's other unsecured senior notes are redeemable by the Company at any time, subject to payment of a make-whole premium to the noteholders. None of the Company's senior long-term debt is subject to any sinking fund requirements.

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

The estimated fair value based on quoted market prices of the Company's senior long-term debt and other debt was \$2.4 billion and \$1.7 billion at December 31, 2013 and 2012, respectively.

The following table summarizes the future principal payments due at maturity on senior long-term debt and other debt as of December 31, 2013.

Years Ending December 31,	(dollars in thousands)
2014	\$28,795
2015	6,102
2016	11,822
2017	105,987
2018	2,278
2019 and thereafter	2,051,275
Total principal payments	\$2,206,259
Net unamortized premium	49,968
Senior long-term debt and other debt	\$2,256,227

The Company also maintains a revolving credit facility for working capital and other general corporate purposes that expires September 2015. Effective July 12, 2013, the capacity of the Company's revolving credit facility was increased from \$150 million to \$300 million, as previously provided for by the terms of the revolving credit facility. The Company may select from two interest rate options for balances outstanding under the revolving credit facility and pays a commitment fee (0.25% at December 31, 2013) on the unused portion of the facility based on the Company's debt to equity leverage ratio as calculated under the agreement. At December 31, 2013 and 2012, the Company had no borrowings outstanding under the revolving credit facility.

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Alterra and Markel Bermuda are party to a \$900 million secured credit facility (the senior credit facility), which expires on December 15, 2015. The senior credit facility provides for secured letters of credit to be issued for the account of Alterra, Markel Bermuda and certain other subsidiaries of Alterra and for loans to Alterra and Markel Bermuda. Loans under the senior credit facility are subject to a sublimit of \$250 million. Subject to certain conditions and at the request of Alterra, the aggregate commitments of the lenders under the senior credit facility may be increased up to a total of \$1.4 billion. The Company pays a fee of 0.40% for outstanding letters of credit under the senior credit facility and a commitment fee of 0.125% on the total unused portion of the senior credit facility. At December 31, 2013, the Company had no borrowings outstanding under the senior credit facility. At December 31, 2013, \$472.3 million of letters of credit were issued and outstanding under the senior credit facility.

At December 31, 2013, the Company was in compliance with all covenants contained in its revolving credit facility and senior credit facility. To the extent that the Company is not in compliance with its covenants, the Company's access to these credit facilities could be restricted.

The Company paid \$114.5 million, \$92.9 million and \$84.1 million in interest on its senior long-term debt and other debt during the years ended December 31, 2013, 2012 and 2011, respectively.

12. Shareholders' Equity

a)The Company had 50,000,000 shares of no par value common stock authorized of which 13,985,620 shares and 9,629,160 shares were issued and outstanding at December 31, 2013 and 2012, respectively. The Company also has 10,000,000 shares of no par value preferred stock authorized, none of which was issued or outstanding at December 31, 2013 or 2012.

During 2013, the Company repurchased 77,693 shares of common stock at a cost of \$40.9 million under a share repurchase program that was approved by the Company's Board of Directors in November 2010 (the 2010 Program). As of December 31, 2013, the Company had repurchased 232,535 shares of common stock at a cost of \$101.4 million under the 2010 Program. In November 2013, the Board of Directors approved a new share repurchase program that provides for the repurchase of up to \$300 million of common stock (the 2013 Program) to replace the 2010 Program. The 2013 Program has no expiration date but may be terminated by the Board of Directors at any time. As of December 31, 2013, the Company had not repurchased any shares of common stock under the 2013 Program.

b)Net income per share was determined by dividing adjusted net income to shareholders by the applicable weighted average shares outstanding. Unvested share-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating awards and are included in the computation of net income per share. Non-participating unvested share-based compensation awards are excluded from the computation of net income per share. Diluted net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the year. Average closing common stock market prices are used to calculate the dilutive effect attributable to restricted stock.

(in thousands, except per share amounts)	Years Ended December 31,		
	2013	2012	2011
Net income to shareholders	\$281,021	\$253,385	\$142,026
Adjustment of redeemable noncontrolling interests	1,963	(3,101)) —
Adjusted net income to shareholders	\$282,984	\$250,284	\$142,026
Basic common shares outstanding	12,538	9,640	9,686
Dilutive potential common shares from conversion of options	12	6	20

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Dilutive potential common shares from conversion of non-participating restricted stock	36	20	20
Diluted shares outstanding	12,586	9,666	9,726
Basic net income per share	\$22.57	\$25.96	\$14.66
Diluted net income per share	\$22.48	\$25.89	\$14.60

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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 33,454 and 46,889 shares were available for purchase at December 31, 2013 and 2012, respectively. At December 31, 2013 and 2012, loans outstanding under the plan, which are included in receivables on the consolidated balance sheets, totaled \$12.8 million and \$11.4 million, respectively.

d)In April 2012, the Company adopted the 2012 Equity Incentive Compensation Plan (2012 Compensation Plan), which replaced the Markel Corporation Omnibus Incentive Plan (Omnibus Incentive Plan). The 2012 Compensation Plan provides for grants and awards of restricted stock, restricted stock units, performance grants, and other stock based awards to employees and directors and is administered by the Compensation Committee of the Company's Board of Directors (Compensation Committee). At December 31, 2013, there were 146,768 shares reserved for issuance under the 2012 Compensation Plan.

Restricted stock units are awarded to certain associates and executive officers based upon meeting performance conditions determined by the Compensation Committee. These awards generally 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. During 2013, the Company awarded 13,648 restricted stock units to associates and executive officers based on performance conditions being met.

Restricted stock units also are awarded to associates and executive officers to assist the Company in securing or retaining the services of key employees. In May 2013, the Compensation Committee awarded 31,669 restricted stock units to certain associates and executive officers to assist the Company in retaining the services of key employees. The restricted stock units had a grant-date fair value of \$16.6 million. The awards vest over a three year period and entitle the recipient to receive one share of the Company's common stock for each vested restricted stock unit. Also during 2013, the Company awarded 1,833 restricted stock units to associates and executive officers as a hiring or retention incentive. These awards generally vest over a three-year period and entitle the recipient to receive one share of the Company's common stock for each vested restricted stock unit.

During 2013, the Company awarded 1,710 shares of restricted stock to its non-employee directors. The shares awarded to non-employee directors will vest in 2014.

The following table summarizes nonvested share-based awards.

	Number of Awards	Weighted Average Grant-Date Fair Value
Nonvested awards at January 1, 2013	55,580	\$ 388.58
Granted	48,860	517.24
Vested	(5,729)	) 428.78
Nonvested awards at December 31, 2013	98,711	\$ 449.93

The fair value of the Company's share-based awards issued under the Omnibus Incentive Plan was determined based on the average price of the Company's common shares on the grant date. The fair value of the Company's share-based awards granted under the 2012 Compensation Plan 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 the Company's share-based awards granted in 2013, 2012 and 2011 was \$517.24, \$412.04 and \$408.60, respectively. As of December 31, 2013, unrecognized compensation cost related to nonvested share-based awards was \$25.3 million, which is expected to be recognized over a weighted average period of 2.5 years. The fair value of the Company's share-based awards that vested during 2013, 2012 and 2011 was \$2.5 million, \$4.7 million and \$5.3 million, respectively.

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e)In connection with the acquisition of Aspen Holdings, Inc. in October 2010, the Company provided for the conversion of options issued under the Aspen Holdings, Inc. 2008 Stock Option Plan and the Aspen Holdings, Inc. 2008 Stock Option Plan for Non-Employee Directors (the Aspen Option Plans) into options to purchase 58,116 of the Company's common shares. No further options are available for issuance under the Aspen Option Plans. The options issued were fully vested and exercisable upon conversion and expire ten years from the original date of issue or sooner upon the recipient's termination of employment or death. The options issued had a weighted average exercise price of \$225.94 and a grant-date fair value of \$157.15.

The following table summarizes additional information with respect to these options.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value (in millions)
Outstanding and exercisable, January 1, 2013	5,678	\$225.83		
Exercised	957	\$204.83		
Outstanding and exercisable, December 31, 2013	4,721	\$230.08	4.4	\$1.7

During 2013, 957 options were exercised under the Aspen Option Plans, resulting in cash proceeds of \$0.2 million and a current tax benefit of \$0.1 million. The intrinsic value of options exercised in 2013 was \$0.3 million. During 2012, 39,183 options were exercised under the Aspen Option Plans, resulting in cash proceeds of \$9.1 million and a current tax benefit of \$2.5 million. The intrinsic value of options exercised in 2012 was \$7.1 million. During 2011, 5,660 options were exercised under the Aspen Option Plans, resulting in cash proceeds of \$1.2 million and a current tax benefit of \$0.4 million. The intrinsic value of options exercised in 2011 was \$1.1 million.

f)In May 2013, in connection with the acquisition of Alterra, the Company issued 101,875 replacement options and 154,103 restricted stock awards to holders of Alterra options and restricted stock awards. The replacement options and restricted stock awards were issued under the terms and conditions of the Alterra Capital Holdings Limited 2008 Stock Incentive Plan, the Alterra Capital Holdings Limited 2006 Equity Incentive Plan and the Alterra Capital Holdings Limited 2000 Stock Incentive Plan (collectively, the Alterra Equity Award Plans). No further options or restricted stock awards are available for issuance under the Alterra Equity Award Plans.

The replacement options issued were fully vested and exercisable as of the Acquisition Date and had a weighted average exercise price of \$398.96 and a grant-date fair value of \$140.08, which was included in the acquisition consideration. The fair value of the options was estimated on the grant date using the Black-Scholes option pricing model. Assumptions used in the pricing model included an expected annual volatility of 19.04%, a risk-free rate of approximately 0.20% and an expected term of approximately two years. The expected annual volatility was based on the historical volatility of the Company's stock and other factors. The risk-free rate was based on the U.S. Treasury yield curve, with a remaining term equal to the expected term assumption at the grant date. The expected term of the options granted represents the period of time that the options were expected to be outstanding at the grant date.

The following table summarizes additional information with respect to these options.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value (in millions)
Outstanding and exercisable, May 1, 2013	101,875	\$398.96		

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Exercised	65,934	\$391.64		
Outstanding and exercisable, December 31, 2013	35,941	\$412.39	2.6	\$6.0

From the Acquisition Date through December 31, 2013, 65,934 options were exercised under the Alterra Equity Award Plans, resulting in cash proceeds of \$24.3 million and a current tax benefit of \$0.8 million. The intrinsic value of options exercised in 2013 was \$9.4 million.

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The replacement restricted stock awards issued by the Company had a grant date fair value of \$81.6 million, or \$529.59 per share. The awards were partially vested as of the Acquisition Date and had a weighted average remaining service period of approximately one year. As a result, \$61.0 million was recognized as part of the Acquisition Consideration and \$20.6 million will be recognized as compensation expense over the remaining service period of the awards. The fair value of the replacement restricted stock awards was determined based on the weighted average price of the Company's stock on April 30, 2013, the day preceding the Acquisition Date. The following table summarizes activity related to these nonvested restricted stock awards.

	Number of Awards	Weighted Average Grant-Date Fair Value
Nonvested awards issued on May 1, 2013	154,103	\$ 529.59
Vested	(77,941	) 529.59
Forfeited	(7,751	) 529.59
Nonvested awards at December 31, 2013	68,411	\$ 529.59

The Company recognized compensation expense totaling \$12.7 million during the year ended December 31, 2013 related to these restricted stock awards. As of December 31, 2013, unrecognized compensation cost related to the nonvested restricted stock awards was \$4.6 million, which is expected to be recognized over a weighted average period of less than one year. The fair value of the restricted stock awards that vested during 2013 was \$41.3 million.

g) In accordance with the terms of the Merger Agreement, the Company also assumed outstanding warrants to purchase Alterra common stock. Holders of the warrants had the option to surrender them for consideration specified in the Merger Agreement, which included cash and registered shares of the Company's common stock, or to have them remain outstanding as "Company Converted Warrants," in which case the holders would be entitled to a combination of cash and unregistered shares of the Company's common stock upon exercise of the warrants. The warrants of all warrant holders who elected to exercise in conjunction with the Acquisition Date were considered to have been exercised on May 1, 2013. The Company issued 225,529 Company Converted Warrants with a fair value of \$73.7 million to Alterra warrant holders who elected not to surrender their warrants in connection with the merger. Three holders who elected to have their warrants remain outstanding subsequently exercised a total of 225,499 warrants and received a total of 100,115 shares of the Company's common stock under the cashless exercise provision of the warrants. As of December 31, 2013, the Company had outstanding warrants to purchase 30 shares of its common stock.

13. Other Comprehensive Income

Other comprehensive income includes net holding gains arising during the period, changes in unrealized other-than-temporary impairment losses on fixed maturities arising during the period and reclassification adjustments for net gains included in net income. Other comprehensive income also includes changes in foreign currency translation adjustments and changes in net actuarial pension loss.

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The following table presents the change in accumulated other comprehensive income by component, net of taxes and noncontrolling interests.

(dollars in thousands)	Unrealized Holding Gains on Available-for- Sale Securities	Foreign Currency	Net Actuarial Pension Loss	Total
December 31, 2010	\$ 581,278	\$ 1,541	\$(31,726)	\$ 551,093
Other comprehensive income (loss) before reclassifications	145,782	(4,155)	(10,890)	130,737
Amounts reclassified from accumulated other comprehensive income	(22,341)	—	1,431	(20,910)
Total other comprehensive income (loss)	123,441	(4,155)	(9,459)	109,827
December 31, 2011	\$ 704,719	\$(2,614)	\$(41,185)	\$ 660,920
Other comprehensive income before reclassifications	266,265	1,539	4,670	272,474
Amounts reclassified from accumulated other comprehensive income	(24,051)	—	1,994	(22,057)
Total other comprehensive income	242,214	1,539	6,664	250,417
December 31, 2012	\$ 946,933	\$(1,075)	\$(34,521)	\$ 911,337
Other comprehensive income (loss) before reclassifications	225,404	(10,171)	2,517	217,750
Amounts reclassified from accumulated other comprehensive income	(40,830)	—	1,548	(39,282)
Total other comprehensive income (loss)	184,574	(10,171)	4,065	178,468
December 31, 2013	\$ 1,131,507	\$(11,246)	\$(30,456)	\$ 1,089,805

The following table summarizes the tax expense (benefit) associated with each component of other comprehensive income.

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Change in net unrealized gains on investments:			
Net holding gains arising during the period	\$93,837	\$ 122,524	\$ 68,064
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	(34)	(49)	2,107)
Reclassification adjustments for net gains included in net income	(16,382)	(10,881)	(10,890)
Change in net unrealized gains on investments	77,421	111,594	59,281
Change in foreign currency translation adjustments	(1,619)	(446)	250)
Change in net actuarial pension loss	1,015	1,991	(3,153)
Total	\$76,817	\$ 113,139	\$ 56,378

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The following table presents the details of amounts reclassified from accumulated other comprehensive income into income, by component.

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Unrealized holding gains on available-for-sale securities:			
Other-than-temporary impairment losses	\$(4,706)	\$(12,078)	\$(20,196)
Net realized investment gains, excluding other-than-temporary impairment losses	61,918	47,010	53,427
Total before taxes	57,212	34,932	33,231
Income taxes	(16,382)	(10,881)	(10,890)
Reclassification of unrealized holding gains, net of taxes	\$40,830	\$24,051	\$22,341
Net actuarial pension loss:			
Underwriting, acquisition and insurance expenses	\$(1,934)	\$(2,590)	\$(1,908)
Income taxes	386	596	477
Reclassification of net actuarial pension loss, net of taxes	\$(1,548)	\$(1,994)	\$(1,431)

14. Derivatives

The Company is a party to a credit default swap agreement, under which third party credit risk is transferred from a counterparty to the Company. The Company entered into the credit default swap agreement for investment purposes. At both December 31, 2013 and 2012, the notional amount of the credit default swap was \$33.1 million, which represented the Company's aggregate exposure to losses if specified credit events involving third party reference entities occur. These third party reference entities are specified under the terms of the agreement and represent a portfolio of names upon which the Company has assumed credit risk from the counterparty. The Company's exposure to loss from any one reference entity is limited to \$20.0 million. The credit default swap has a scheduled termination date of December 2014.

The credit default swap is accounted for as a derivative instrument and is recorded at fair value with any changes in fair value recorded in net investment income. At December 31, 2013 and 2012, the credit default swap had a fair value of \$2.2 million and \$12.7 million, respectively. The fair value of the credit default swap is included in other liabilities on the consolidated balance sheets. Net investment income in 2013 and 2012 included favorable changes in the fair value of the credit default swap of \$10.5 million and \$16.6 million, respectively. Net investment income in 2011 included an adverse change in the fair value of the credit default swap of \$4.1 million.

Since entering into the credit default swap agreement, the Company has paid \$16.9 million to settle its obligations related to credit events. These payments reduced the Company's liability related to its credit default swap.

The fair value of the credit default swap is determined by the Company using a Gaussian copula valuation model, a market standard model for valuing credit default swaps. The fair value is dependent upon several inputs, including changes in interest rates, credit spreads, expected default rates, changes in credit quality, future expected recovery rates and other market factors. The significant unobservable inputs used in the fair value measurement of the credit default swap are expected default rates and future expected recovery rates. The Company determines these unobservable inputs based upon default rates and recovery rates used to price similar credit default swap indices. A significant increase in expected default rates in isolation results in a significantly higher fair value measurement, while a significant decrease in expected default rates results in a significantly lower fair value measurement. A significant increase in future expected recovery rates in isolation results in a significantly lower fair value measurement, while a significant decrease in future expected recovery rates results in a significantly higher fair value measurement. Generally, a change in the assumption used for expected default rates is accompanied by a directionally opposite

change in future expected recovery rates. The fair value measurement of the credit default swap at December 31, 2013 included expected default rates ranging between less than 1% and 4%, with a weighted-average expected default rate of less than 1%, and future expected recovery rates ranging between 20% and 40%, with a weighted-average future expected recovery rate of 39%. The fair value measurement of the credit default swap at December 31, 2012 included expected default rates ranging between 1% and 43%, with a weighted-average expected default rate of 3%, and future expected recovery rates ranging between 20% and 40%, with a weighted-average future expected recovery rate of 39%.

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The Company's valuation policies and procedures for the credit default swap are determined by an internal investment manager with oversight provided by the Company's Chief Financial Officer and Chief Investment Officer. Fair value measurements are analyzed quarterly to ensure the change in fair value from prior periods is reasonable relative to recent market trends. Additionally, the reported fair value of the credit default swap is compared to results from similar valuation models.

See note 15 for further discussion of the Company's credit default swap.

The Company had no other material derivative instruments at December 31, 2013.

15. Fair Value Measurements

FASB ASC 820-10, Fair Value Measurements and Disclosures, establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability.

Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

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

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

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

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

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

validates prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

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

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Fair value for investments available-for-sale is measured based upon quoted prices in active markets, if available. Due to variations in trading volumes and the lack of quoted market prices, fixed maturities are classified as Level 2 investments. The fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data described above. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate. Significant inputs used to determine the fair value of obligations of states, municipalities and political subdivisions, corporate bonds and obligations of foreign governments include reported trades, benchmark yields, issuer spreads, bids, offers, credit information and estimated cash flows. Significant inputs used to determine the fair value of commercial mortgage-backed securities, residential mortgage-backed securities and asset-backed securities include the type of underlying assets, benchmark yields, prepayment speeds, collateral information, tranche type and volatility, estimated cash flows, credit information, default rates, recovery rates, issuer spreads and the year of issue.

Derivatives. Derivatives are recorded at fair value on a recurring basis and include a credit default swap. The fair value of the credit default swap is measured by the Company using an external valuation model. See note 14 for a discussion of the valuation model for the credit default swap, including the key inputs and assumptions used in the model and a description of the valuation processes used by the Company. Due to the significance of unobservable inputs required in measuring the fair value of the credit default swap, the credit default swap has been classified as Level 3 within the fair value hierarchy.

Senior long-term debt and other debt. Senior long-term debt and other debt is carried at amortized cost with the estimated fair value disclosed on the consolidated balance sheets. Senior long-term debt and other debt is classified as Level 2 within the fair value hierarchy due to variations in trading volumes and the lack of quoted market prices. Fair value for senior long-term debt and other debt is generally derived through recent reported trades for identical securities, making adjustments through the reporting date, if necessary, based upon available market observable data including U.S. Treasury securities and implied credit spreads. Significant inputs used to determine the fair value of senior long-term debt and other debt include reported trades, benchmark yields, issuer spreads, bids and offers.

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

(dollars in thousands)	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$—	\$1,194,231	\$—	\$1,194,231
Obligations of states, municipalities and political subdivisions	—	3,075,715	—	3,075,715
Foreign governments	—	1,461,054	—	1,461,054
Commercial mortgage-backed securities	—	367,821	—	367,821
Residential mortgage-backed securities	—	870,248	—	870,248
Asset-backed securities	—	188,289	—	188,289
Corporate bonds	—	2,985,178	—	2,985,178
Total fixed maturities	—	10,142,536	—	10,142,536
Equity securities:				
Insurance, banks and other financial institutions	1,015,083	—	—	1,015,083

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Industrial, consumer and all other	2,236,715	—	—	2,236,715
Total equity securities	3,251,798	—	—	3,251,798
Short-term investments	1,312,561	139,727	—	1,452,288
Total investments available-for-sale	\$4,564,359	\$10,282,263	\$—	\$14,846,622
Liabilities:				
Derivative contracts	\$—	\$—	\$2,230	\$2,230

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(dollars in thousands)	December 31, 2012			Total
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$—	\$317,507	\$—	\$317,507
Obligations of states, municipalities and political subdivisions	—	2,831,562	—	2,831,562
Foreign governments	—	556,608	—	556,608
Residential mortgage-backed securities	—	215,377	—	215,377
Asset-backed securities	—	14,345	—	14,345
Corporate bonds	—	1,043,884	—	1,043,884
Total fixed maturities	—	4,979,283	—	4,979,283
Equity securities:				
Insurance, banks and other financial institutions	898,067	—	—	898,067
Industrial, consumer and all other	1,508,884	—	—	1,508,884
Total equity securities	2,406,951	—	—	2,406,951
Short-term investments	888,758	84,572	—	973,330
Total investments available-for-sale	\$3,295,709	\$5,063,855	\$—	\$8,359,564
Liabilities:				
Derivative contracts	\$—	\$—	\$12,690	\$12,690

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

(dollars in thousands)	2013	2012
Derivatives, beginning of period	\$12,690	\$29,331
Total gains included in:		
Net income	(10,460	) (16,641
Other comprehensive income	—	—
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Derivatives, end of period	\$2,230	\$12,690
Net unrealized gains included in net income relating to liabilities held at December 31, 2013 and 2012 ⁽¹⁾	\$10,460	\$16,641

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

There were no transfers into or out of Level 1 and Level 2 during 2013 or 2012. Except as disclosed in note 2, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2013 and 2012.

16. Reinsurance

The Company uses reinsurance and retrocessional reinsurance to manage its net retention on individual risks and overall exposure to losses while providing it with the ability to offer policies with sufficient limits to meet policyholder needs. As part of the Company's underwriting philosophy, the Company has historically sought to offer products with limits that did not require significant reinsurance. Following the acquisition of Alterra, the Company now has certain insurance and reinsurance products that have typically required higher levels of reinsurance. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of

the premium. In a retrocessional reinsurance transaction, a reinsurance 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 or retrocessional agreement.

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A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. 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, 2013 and 2012, balances recoverable from the Company's ten largest reinsurers, by group, represented approximately 62% and 74%, respectively, of the reinsurance recoverable on paid and unpaid losses, before considering reinsurance allowances. At December 31, 2013, the Company's largest reinsurance balance was due from the Fairfax Financial Group and represented 10% of the reinsurance recoverable on paid and unpaid losses, before considering reinsurance allowances.

To further reduce credit exposure to reinsurance recoverable balances, the Company has received collateral, including letters of credit and trust accounts, from certain reinsurers. Collateral related to these reinsurance agreements is available, without restriction, when the Company pays losses covered by the reinsurance agreements.

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

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Reinsurance allowance, beginning of year	\$71,148	\$69,067	\$155,190
Additions	13,621	24,179	8,504
Deductions	(8,559	) (22,098	) (94,627
Reinsurance allowance, end of year	\$76,210	\$71,148	\$69,067

Deductions for the year ended December 31, 2011 included a \$78.5 million adjustment related to commutations completed by Markel International, which involved the termination of ceded reinsurance contracts. Of the total adjustment, \$40.0 million related to reinsurance recoverables on losses and loss adjustment expenses for A&E related exposures. The adjustment had no impact on the reinsurance recoverable on unpaid losses, net of the reinsurance allowance, for any period presented.

Management believes the Company's reinsurance allowance for doubtful accounts is adequate at December 31, 2013; however, the deterioration in the credit quality of existing reinsurers or disputes over reinsurance and retrocessional contracts could result in additional charges.

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

(dollars in thousands)	Years Ended December 31,					
	2013		2012		2011	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$3,143,957	\$2,947,812	\$2,115,353	\$2,057,735	\$1,957,397	\$1,873,512
Assumed	776,269	1,016,853	398,328	376,186	333,854	338,183
Ceded	(683,543	) (733,049	) (299,555	) (286,793	) (249,413	) (232,355
Net premiums	\$3,236,683	\$3,231,616	\$2,214,126	\$2,147,128	\$2,041,838	\$1,979,340

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$269.4 million, \$165.8 million and \$159.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The percentage of ceded earned premiums to gross earned premiums was 18%, 12% and 11% for the years ended December 31, 2013, 2012 and 2011, respectively.

17. Commitments and Contingencies

a)The Company leases substantially all of its facilities and certain furniture and equipment under noncancelable operating leases with remaining terms up to 21 years.

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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, 2013.

Years Ending December 31,	(dollars in thousands)
2014	\$32,783
2015	29,114
2016	22,977
2017	27,955
2018	26,440
2019 and thereafter	160,454
Total	\$299,723

Rental expense was \$35.3 million, \$28.1 million and \$25.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

b) On August 8, 2013, the Company, through its wholly-owned subsidiary, Alterra Holdings Limited, and several other third-party investors, executed a subscription agreement with New Point VI Limited (New Point VI) to purchase common shares of New Point VI. New Point VI is the holding company of New Point Re VI Limited, a Bermuda-domiciled reinsurance company that offers fully-collateralized retrocessional reinsurance to the property reinsurance catastrophe market, incepting between January 1, 2014 and December 31, 2014. Following execution of the subscription agreement and subsequent issuance of common shares, the Company holds approximately 34% of the issued and outstanding common shares of New Point VI. The Company's initial commitment under the subscription agreement with New Point VI was \$75.0 million. As of December 31, 2013, the Company's total capital contributions to New Point VI totaled \$7.8 million, which reduced its commitment under the subscription agreement to \$67.2 million. During February 2014, the Company invested an additional \$6.5 million under the subscription agreement.

c) Contingencies arise in the normal course of the Company's operations and are not expected to have a material impact on the Company's financial condition or results of operations.

18. 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 not material to the Company's consolidated financial statements.

19. Statutory Financial Information

a) Statutory capital and surplus and statutory net income (loss) for the Company's wholly-owned insurance and reinsurance subsidiaries as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, respectively, is summarized below.

(dollars in thousands)	Statutory Capital and Surplus	
	2013	2012
United States	\$2,399,356	\$1,455,077
United Kingdom	\$517,571	\$485,043
Bermuda	\$1,503,004	N/A
Other	\$171,410	N/A

As of December 31, 2013, the amount of statutory capital and surplus necessary to satisfy regulatory requirements is not significant in relation to actual statutory capital and surplus.

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(dollars in thousands)	Statutory Net Income (Loss)		
	Years Ended December 31,		
	2013	2012	2011
United States	\$235,009	\$127,179	\$180,744
United Kingdom	\$117,020	\$82,573	\$18,386
Bermuda	\$93,953	N/A	N/A
Other	\$(12,617	) N/A	N/A

United States

The laws of the domicile states of the Company's domestic insurance and reinsurance 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 and reinsurance subsidiaries require prior approval for payment of extraordinary as opposed to ordinary dividends. At December 31, 2013, the Company's domestic insurance and reinsurance subsidiaries could pay up to \$296.9 million during the following 12 months under the ordinary dividend regulations.

In converting from U.S. 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 gains or losses relating to fixed maturities in shareholders' equity. The Company does not use any permitted statutory accounting practices that are different from prescribed statutory accounting practices which impact statutory capital and surplus.

United Kingdom

The Company's United Kingdom insurance subsidiaries are authorized by the Prudential Regulation Authority (PRA) and regulated by both the PRA and the Financial Conduct Authority (FCA). The PRA oversees compliance with established periodic auditing and reporting requirements, minimum solvency margins and individual capital assessment requirements and dividend restrictions, while both the PRA and the FCA oversee compliance with risk assessment reviews and various other requirements. The ability of Markel International Insurance Company Limited to pay dividends is limited by applicable PRA requirements, which require 14 days advance notice to the PRA of the intention to declare and pay a dividend. Markel Syndicate Management Limited, the manager of the Company's syndicates at Lloyd's, is required to satisfy the solvency requirements of Lloyd's. In addition, the Company's United Kingdom subsidiaries must comply with the United Kingdom Companies Act of 2006, which provides that dividends may only be paid out of profits available for that purpose. As of December 31, 2013, earnings of the Company's United Kingdom subsidiaries are considered reinvested indefinitely for U.S. income tax purposes and will not be made available for distributions to the holding company.

Bermuda

Markel Bermuda is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements. The enhanced capital requirement is determined by reference to a risk-based capital model that determines a control threshold for statutory capital and surplus by taking into account the risk characteristics of different aspects of the insurer's business. At December 31, 2013, Markel Bermuda satisfied both the enhanced capital requirements and the minimum solvency and liquidity requirements.

Under the Bermuda Insurance Act, Markel Bermuda is prohibited from paying or declaring dividends during a fiscal year if it is in breach of its enhanced capital requirement, solvency margin or minimum liquidity ratio or if the declaration or payment of the dividend would cause a breach. If an insurer fails to meet its solvency margin or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the Bermuda Monetary Authority (BMA). Further, Markel Bermuda is prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus as set forth in its previous year's statutory balance sheet unless it files with the BMA an affidavit

stating that it will continue to meet its solvency margin and minimum liquidity ratio. Markel Bermuda must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. In addition, as a long-term insurer, Markel Bermuda may not declare or pay a dividend to any person other than a policyholder unless the value of the assets in its long-term business fund exceeds the liabilities of its long-term business by the amount of the dividend and at least the prescribed minimum solvency margin. As of December 31, 2013, Markel Bermuda could pay up to \$375.8 million during the following 12 months without making any additional filings with the BMA.

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Other Jurisdictions

The Company's other foreign subsidiaries are subject to capital and solvency requirements in their respective jurisdictions of domicile that govern their ability to declare and pay dividends. As of December 31, 2013, earnings of our foreign subsidiaries are considered reinvested indefinitely for U.S. income tax purposes and will not be made available for distributions to the holding company.

b) Lloyd's sets the corporate members' required capital annually based on each syndicates' business plans, rating environment, reserving environment and input arising from Lloyd's discussions with, inter alia, regulatory and rating agencies. Such required capital is referred to as Funds at Lloyd's (FAL), and comprises cash and investments. The amount of cash and investments held as FAL as of December 31, 2013 was \$972.5 million. The amount which the Company provides as FAL is not available for distribution to the holding company. The Company's corporate members may also be required to maintain funds under the control of Lloyd's in excess of their capital requirements and such funds also may not be available for distribution to the holding company.

20. Segment Reporting Disclosures

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

As a result of the acquisition of Alterra, the Company formed a new operating segment, effective May 1, 2013. The Alterra segment is comprised of all of the active property and casualty operations of the former Alterra companies, which provide specialty insurance and reinsurance products worldwide. During 2013, results attributable to Alterra were separately evaluated by management.

For purposes of segment reporting, the Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued prior to, or in conjunction with, acquisitions. Alterra previously offered life and annuity reinsurance products. In 2010, Alterra ceased writing life and annuity reinsurance contracts and placed this business into run-off. Results attributable to the run-off of life and annuity reinsurance business are included in the Company's Other Insurance (Discontinued Lines) segment.

All investing activities related to the Company's insurance operations are included in the Investing segment.

The Company's Markel Ventures operations primarily consist of controlling interests in various industrial and service businesses. For purposes of segment reporting, the Company's Markel Ventures operations are not considered to be a reportable operating segment.

The following table summarizes the Company's gross written premiums by country. Gross written premiums are attributed to individual countries based upon location of risk.

(dollars in thousands)	Years Ended December 31,							
	2013	% of Total	2012	% of Total	2011	% of Total		
United States	\$2,934,868	75	% \$1,768,011	70	% \$1,590,238	69	%	
United Kingdom	245,143	6	147,891	6	139,349	6		
Canada	128,420	3	120,542	5	126,434	6		
Other countries	611,795	16	477,237	19	435,230	19		
Total	\$3,920,226	100	% \$2,513,681	100	% \$2,291,251	100	%	

Most of the Company's gross written premiums are placed through insurance and reinsurance brokers. The top three independent brokers accounted for approximately 19% of consolidated gross premiums written for the year ended December 31, 2013 and approximately 40% of gross premiums written in the Alterra segment.

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Segment profit for the Investing segment is measured by net investment income and net realized investment gains or losses. 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 or loss for the Company's operating segments also includes other revenues and other expenses, primarily related to the run-off of managing general agent operations that were discontinued in conjunction with acquisitions. Other revenues and other expenses in the Other Insurance (Discontinued Lines) segment are comprised of the results attributable to the run-off of life and annuity reinsurance business.

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

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

(dollars in thousands)	Year Ended December 31, 2013						
	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Alterra	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	\$1,070,520	\$899,996	\$914,480	\$1,035,190	\$ 40	\$—	\$3,920,226
Net written premiums	911,870	855,381	792,158	677,233	41	—	3,236,683
Earned premiums	856,629	744,993	781,637	848,317	40	—	3,231,616
Losses and loss adjustment expenses	(341,661)	(410,068)	(386,416)	(647,546)	(30,582)	—	(1,816,273)
Transaction costs and other acquisition-related expenses ⁽¹⁾	—	—	—	(75,140)	—	—	(75,140)
Amortization of policy acquisition costs	(147,996)	(137,181)	(149,191)	(37,547)	—	—	(471,915)
Other operating expenses	(195,464)	(176,346)	(150,537)	(243,022)	112	—	(765,257)
Underwriting profit (loss)	171,508	21,398	95,493	(154,938)	(30,430)	—	103,031
Net investment income	—	—	—	—	—	317,373	317,373
Net realized investment gains	—	—	—	—	—	63,152	63,152
Other revenues (insurance)	—	13,648	5,002	4,714	1,130	—	24,494
Other expenses (insurance)	—	(17,087)	(5,065)	—	(28,126)	—	(50,278)
Segment profit (loss)	\$171,508	\$17,959	\$95,430	\$(150,224)	\$(57,426)	\$380,525	\$457,772
Other revenues (Markel Ventures)							686,448
Other expenses (Markel Ventures)							(613,250)
Amortization of intangible assets							(55,223)
Interest expense							(114,004)
Income before income taxes							\$361,743
U.S. GAAP combined ratio ⁽²⁾	80	% 97	% 88	% 118	% NM	⁽³⁾	97 %

(1)

In connection with the acquisition of Alterra, the Company incurred transaction costs of \$16.0 million for the year ended December 31, 2013, which primarily consist of due diligence, legal and investment banking costs. Additionally, the Company incurred severance costs of \$31.7 million, stay bonuses of \$14.8 million and other compensation costs totaling \$12.6 million related to the acceleration of certain long-term incentive compensation awards and restricted stock awards that were granted by Alterra prior to the acquisition.

The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of

(2) incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(3) NM — Ratio is not meaningful.

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	Year Ended December 31, 2012						
(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Other Insurance (Discontinued Lines)	Investing	Consolidated	
Gross premium volume	\$956,273	\$669,692	\$887,720	\$(4)	\$—	\$2,513,681	
Net written premiums	811,601	628,147	774,383	(5)	—	2,214,126	
Earned premiums	793,159	588,758	765,216	(5)	—	2,147,128	
Losses and loss adjustment expenses	(388,793)	(381,870)	(362,330)	(21,075)	—	(1,154,068)	
Prospective adoption of FASB ASU No. 2010-26 (1)	(17,456)	(13,577)	(12,060)	—	—	(43,093)	
Other amortization of policy acquisition costs	(135,573)	(96,770)	(152,673)	—	—	(385,016)	
Other operating expenses	(201,196)	(143,377)	(156,587)	(203)	—	(501,363)	
Underwriting profit (loss)	50,141	(46,836)	81,566	(21,283)	—	63,588	
Net investment income	—	—	—	—	282,107	282,107	
Net realized investment gains	—	—	—	—	31,593	31,593	
Other revenues (insurance)	—	44,968	4,964	—	—	49,932	
Other expenses (insurance)	—	(41,425)	(3,867)	—	—	(45,292)	
Segment profit (loss)	\$50,141	\$(43,293)	\$82,663	\$(21,283)	\$313,700	\$381,928	
Other revenues (Markel Ventures)						489,352	
Other expenses (Markel Ventures)						(432,956)	
Amortization of intangible assets						(33,512)	
Interest expense						(92,762)	
Income before income taxes						\$312,050	
U.S. GAAP combined ratio ⁽²⁾	94	% 108	% 89	% NM	⁽³⁾	97	%

Effective January 1, 2012, the Company prospectively adopted FASB ASU No. 2010-26, Accounting for Costs

(1) Associated with Acquiring or Renewing Insurance Contracts. At December 31, 2011, deferred policy acquisition costs included \$43.1 million of costs that no longer met the criteria for deferral as of January 1, 2012 and were recognized into income during 2012, consistent with policy terms.

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

(3) NM — Ratio is not meaningful.

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	Year Ended December 31, 2011						
(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Other Insurance (Discontinued Lines)	Investing	Consolidated	
Gross premium volume	\$893,427	\$572,392	\$825,301	\$131	\$—	\$2,291,251	
Net written premiums	772,279	543,213	726,359	(13)	—	2,041,838	
Earned premiums	756,306	527,293	695,753	(12)	—	1,979,340	
Losses and loss adjustment expenses	(318,583)	(364,144)	(531,625)	4,366	—	(1,209,986)	
Amortization of policy acquisition costs	(172,269)	(129,731)	(177,454)	—	—	(479,454)	
Other operating expenses	(156,419)	(78,509)	(96,149)	352	—	(330,725)	
Underwriting profit (loss)	109,035	(45,091)	(109,475)	4,706	—	(40,825)	
Net investment income	—	—	—	—	263,676	263,676	
Net realized investment gains	—	—	—	—	35,857	35,857	
Other revenues (insurance)	—	33,545	—	—	—	33,545	
Other expenses (insurance)	—	(33,722)	—	—	—	(33,722)	
Segment profit (loss)	\$109,035	\$(45,268)	\$(109,475)	\$4,706	\$299,533	\$258,531	
Other revenues (Markel Ventures)						317,532	
Other expenses (Markel Ventures)						(275,324)	
Amortization of intangible assets						(24,291)	
Interest expense						(86,252)	
Income before income taxes						\$190,196	
U.S. GAAP combined ratio ⁽¹⁾	86	% 109	% 116	% NM	(2)	102	%

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

⁽²⁾ NM — Ratio is not meaningful.

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b)The following table summarizes deferred policy acquisition costs, unearned premiums and unpaid losses and loss adjustment expenses by segment.

(dollars in thousands)	Deferred Policy Acquisition Costs	Unearned Premiums	Unpaid Losses and Loss Adjustment Expenses
December 31, 2013			
Excess and Surplus Lines	\$ 69,849	\$ 469,148	\$ 1,998,359
Specialty Admitted	77,118	391,606	878,564
London Insurance Market	53,420	321,383	1,909,612
Alterra	60,580	944,978	4,996,722
Other Insurance (Discontinued Lines)	—	—	478,799
Total	\$ 260,967	\$ 2,127,115	\$ 10,262,056
December 31, 2012			
Excess and Surplus Lines	\$ 59,158	\$ 410,731	\$ 2,152,253
Specialty Admitted	43,810	280,811	796,093
London Insurance Market	54,497	308,719	1,958,249
Other Insurance (Discontinued Lines)	—	—	464,831
Total	\$ 157,465	\$ 1,000,261	\$ 5,371,426

c)The following table summarizes segment earned premiums by major product grouping.

(dollars in thousands)	Property	Casualty	Professional Liability	Workers' Compensation	Other	Consolidated
Year Ended December 31, 2013						
Excess and Surplus Lines	\$ 115,773	\$ 253,195	\$ 208,732	\$ —	\$ 278,929	\$ 856,629
Specialty Admitted	230,068	232,868	—	253,347	28,710	744,993
London Insurance Market	230,278	124,843	176,302	—	250,214	781,637
Alterra	215,488	172,736	165,934	31,347	262,812	848,317
Other Insurance (Discontinued Lines)	—	—	—	—	40	40
Earned premiums	\$ 791,607	\$ 783,642	\$ 550,968	\$ 284,694	\$ 820,705	\$ 3,231,616
Year Ended December 31, 2012						
Excess and Surplus Lines	\$ 109,607	\$ 227,880	\$ 189,199	\$ —	\$ 266,473	\$ 793,159
Specialty Admitted	148,311	163,955	—	242,021	34,471	588,758
London Insurance Market	259,571	126,441	162,554	—	216,650	765,216
Other Insurance (Discontinued Lines)	—	—	—	—	(5)	(5)
Earned premiums	\$ 517,489	\$ 518,276	\$ 351,753	\$ 242,021	\$ 517,589	\$ 2,147,128
Year Ended December 31, 2011						
Excess and Surplus Lines	\$ 103,406	\$ 214,565	\$ 197,131	\$ —	\$ 241,204	\$ 756,306
Specialty Admitted	135,077	140,805	—	200,797	50,614	527,293
London Insurance Market	231,798	117,062	173,101	—	173,792	695,753
Other Insurance (Discontinued Lines)	—	—	—	—	(12)	(12)
Earned premiums	\$ 470,281	\$ 472,432	\$ 370,232	\$ 200,797	\$ 465,598	\$ 1,979,340

The Company does not manage products at this level of aggregation. The Company offers a diverse portfolio of products and manages these products in logical groupings within each operating segment.

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

(dollars in thousands)	December 31,		
	2013	2012	2011
Segment assets:			
Investing	\$17,550,332	\$9,277,697	\$8,692,391
Underwriting	5,468,731	2,387,305	2,209,431
Total segment assets	23,019,063	11,665,002	10,901,822
Markel Ventures operations	936,448	891,586	630,281
Total assets	\$23,955,511	\$12,556,588	\$11,532,103

e) Beginning in 2014, the Company will monitor and report its ongoing underwriting operations in the following three segments: U.S. Insurance, International Insurance and Global Reinsurance. The U.S. Insurance segment will include all direct business and facultative placements written by the Company's insurance subsidiaries domiciled in the United States. The International Insurance segment will include all direct business and facultative placements written by the Company's insurance subsidiaries domiciled outside of the United States, including the Company's syndicates at Lloyd's. The Global Reinsurance segment will include all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions will continue to be reported as the Other Insurance (Discontinued Lines) segment.

21. Other Revenues and Other Expenses

The following table summarizes the components of other revenues and other expenses.

(dollars in thousands)	Years Ended December 31,					
	2013		2012		2011	
	Other Revenues	Other Expenses	Other Revenues	Other Expenses	Other Revenues	Other Expenses
Insurance:						
Managing general agent operations	\$17,399	\$20,382	\$48,056	\$43,069	\$31,136	\$30,728
Life and annuity	1,130	28,126	—	—	—	—
Other	5,965	1,770	1,876	2,223	2,409	2,994
	24,494	50,278	49,932	45,292	33,545	33,722
Markel Ventures:						
Manufacturing	495,138	437,712	366,886	328,484	214,668	192,503
Non-Manufacturing	191,310	175,538	122,466	104,472	102,864	82,821
	686,448	613,250	489,352	432,956	317,532	275,324
Total	\$710,942	\$663,528	\$539,284	\$478,248	\$351,077	\$309,046

The Company's Markel Ventures operations primarily consist of controlling interests in various industrial and service businesses and are viewed by management as separate and distinct from the Company's insurance operations. While each of the companies is operated independently from one another, management aggregates financial results into two industry groups: manufacturing and non-manufacturing.

The financial results of the companies in which the Company owns controlling interests have been consolidated in our financial statements. The financial results of those companies in which the Company owns a noncontrolling interest are accounted for under the equity method of accounting.

The increase in other revenues and other expenses attributable to Markel Ventures in each of the years presented was primarily due to acquisitions.

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22. Employee Benefit Plans

a)The Company maintains defined contribution plans for employees of its United States insurance operations in accordance with Section 401(k) of the IRC. Employees of the Company's Markel Ventures subsidiaries are provided post-retirement benefits under separate plans. The Company also provides various defined contribution plans for employees of its international insurance operations, which are in line with local market terms and conditions of employment. Expenses relating to the Company's defined contribution plans, including the defined contribution plans of Alterra effective May 1, 2013, were \$24.3 million, \$19.1 million and \$17.8 million in 2013, 2012 and 2011, respectively.

b)The Terra Nova Pension Plan is a defined benefit plan which covers Markel International employees who meet the eligibility conditions set out in the plan. The plan has been closed to new participants since 2001. The cost of providing pensions for employees is charged to earnings over the average working life of employees according to actuarial recommendations. Final benefits are based on the employee's years of credited service and the higher of pensionable compensation received in the calendar year preceding retirement or the best average pensionable compensation received in any three consecutive years in the ten years preceding retirement. Effective April 1, 2012, employees are no longer accruing benefits for future service in the Terra Nova Pension Plan. The Company uses December 31 as the measurement date for the Terra Nova Pension Plan.

The following table summarizes the funded status of the Terra Nova Pension Plan and the amounts recognized on the accompanying consolidated balance sheets of the Company.

(dollars in thousands)	Years Ended December 31,	
	2013	2012
Change in projected benefit obligation:		
Projected benefit obligation at beginning of period	\$151,327	\$141,163
Service cost	—	361
Interest cost	6,533	6,815
Participant contributions	—	81
Benefits paid	(3,542	) (2,938
Actuarial loss (gain)	5,459	(601
Effect of foreign currency rate changes	3,233	6,446
Projected benefit obligation at end of year	\$163,010	\$151,327
Change in plan assets:		
Fair value of plan assets at beginning of period	\$164,090	\$139,325
Actual gain on plan assets	19,430	15,251
Employer contributions	5,338	5,737
Participant contributions	—	81
Benefits paid	(3,542	) (2,938
Effect of foreign currency rate changes	4,121	6,634
Fair value of plan assets at end of year	\$189,437	\$164,090
Funded status of the plan	\$26,427	\$12,763
Net actuarial pension loss	42,941	48,021
Total	\$69,368	\$60,784

Net actuarial pension loss is recognized as a component of accumulated other comprehensive income, net of a tax benefit of \$12.4 million and \$13.5 million in 2013 and 2012, respectively. The asset for pension benefits, also referred to as the funded status of the plan, at December 31, 2013 and December 31, 2012 was included in other assets on the consolidated balance sheet.

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The following table summarizes the components of net periodic benefit cost (income) and the weighted average assumptions for the Terra Nova Pension Plan.

(dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Components of net periodic benefit cost (income):			
Service cost	\$—	\$361	\$1,357
Interest cost	6,533	6,815	7,115
Expected return on plan assets	(10,825)	(9,788)	(9,834)
Amortization of net actuarial pension loss	1,934	2,590	1,908
Net periodic benefit cost (income)	\$(2,358)	\$(22)	\$546
Weighted average assumptions as of December 31:			
Discount rate	4.7	% 4.5	% 4.8
Expected return on plan assets	6.6	% 6.6	% 6.6
Rate of compensation increase	3.2	% 3.1	% 3.2

The projected benefit obligation and the net periodic benefit cost (income) are determined by independent actuaries using assumptions provided by the Company. In determining the discount rate, the Company uses the current yield on high-quality, fixed-income investments that have maturities corresponding to the anticipated timing of estimated defined benefit payments. The Company's discount rate approximates a bond yield from a published index that includes "AA" rated corporate bonds with maturities of 15 years or more. The expected return on plan assets is estimated based upon the anticipated average yield on plan assets and reflects expected changes in the allocation of plan assets. Asset returns reflect management's belief that 4.5% is a reasonable rate of return to anticipate for fixed maturities given current market conditions and future expectations. In addition, the expected return on plan assets includes an assumption that equity securities will outperform fixed maturities by approximately 3.5% over the long term. The rate of compensation increase is based upon historical experience and management's expectation of future compensation.

Management's discount rate and rate of compensation increase assumptions at December 31, 2013 were used to calculate the Company's projected benefit obligation. Management's discount rate, expected return on plan assets and rate of compensation increase assumptions at December 31, 2012 were used to calculate the net periodic benefit income for 2013. The Company estimates that net periodic benefit income in 2014 will include an expense of \$1.6 million resulting from the amortization of the net actuarial pension loss included as a component of accumulated other comprehensive income at December 31, 2013.

The fair values of each of the plan's assets are measured using quoted prices in active markets for identical assets, which represent Level 1 inputs within the fair value hierarchy established in FASB ASC 820-10. The following table summarizes the fair value of plan assets as of December 31, 2013 and 2012.

(dollars in thousands)	December 31,	
	2013	2012
Plan assets:		
Fixed maturity index funds	\$70,997	\$64,357
Equity security index funds	118,431	99,727
Cash and cash equivalents	9	6
Total	\$189,437	\$164,090

The Company's target asset allocation for the plan is 54% equity securities and 46% fixed maturities. At December 31, 2013, the actual allocation of assets in the plan was 63% equity securities and 37% fixed maturities. At December 31,

2012, the actual allocation of plan assets was 61% equity securities and 39% fixed maturities.

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Investments are managed by a third-party investment manager. Equity securities are invested in two index funds that are allocated 25% to shares of United Kingdom companies and 75% to companies in other markets. The primary objective of investing in these funds is to earn rates of return that are consistently in excess of inflation. Investing in equity securities, historically, has provided rates of return that are higher than investments in fixed maturities. As the Company's obligations under this pension plan are expected to be paid out over a period in excess of 30 years, the Company primarily invests in equity securities. Fixed maturity investments are allocated between five index funds, two that include United Kingdom government securities, one that includes securities issued by other foreign governments and two that include United Kingdom corporate securities. The assets in these funds are invested to meet the Company's obligations for current pensioners and those individuals nearing retirement. The plan does not invest in the Company's common shares.

At December 31, 2013 and 2012, the fair value of plan assets exceeded the plan's accumulated benefit obligation of \$146.0 million and \$133.5 million, respectively. The Company expects to make plan contributions of \$5.6 million in 2014.

The benefits expected to be paid in each year from 2014 to 2018 are \$3.8 million, \$3.9 million, \$4.0 million, \$4.1 million and \$4.2 million, respectively. The aggregate benefits expected to be paid in the five years from 2019 to 2023 are \$22.5 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's projected benefit obligation at December 31, 2013 and include estimated future employee service.

c)AMF Bakery Systems (AMF), one of the Company's Markel Ventures subsidiaries, participated in a multiemployer defined benefit pension plan, Regime de retraite patronal-syndical (Quebec) de l'A.I.M. (Quebec pension plan no. 26467). The multiemployer plan covered approximately 90 union employees within the Canadian operations of AMF. In December 2011, AMF gave notice to the trustees of the multiemployer plan of its intent to withdraw. As a result, AMF established a liability of \$2.0 million for its obligations under the multiemployer plan. During the year ended December 31, 2012, a \$2.4 million payment, which represented approximately 95% of AMF's determined deficit payment, was remitted to the plan. The withdrawal report was approved by the Regie des rentes du Quebec in December 2013, and AMF paid \$0.1 million to settle its remaining obligations under the multiemployer plan.

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23. Markel Corporation (Parent Company Only) Financial Information

The following parent company only condensed financial information reflects the financial position, results of operations and cash flows of Markel Corporation.

CONDENSED BALANCE SHEETS

	December 31,	
	2013	2012
	(dollars in thousands)	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$66,154 in 2013 and \$80,631 in 2012)	\$67,363	\$84,158
Equity securities (cost of \$197,549 in 2013 and \$270,157 in 2012)	392,123	426,409
Short-term investments (estimated fair value approximates cost)	654,971	664,986
Total Investments	1,114,457	1,175,553
Cash and cash equivalents	207,352	237,816
Restricted cash and cash equivalents	1,010	662
Receivables	14,326	13,994
Investments in consolidated subsidiaries	6,826,790	3,656,577
Notes receivable from subsidiaries	168,611	173,913
Income taxes receivable	5,320	6,623
Net deferred tax asset	—	6,595
Other assets	102,193	99,107
Total Assets	\$8,440,059	\$5,370,840
LIABILITIES AND SHAREHOLDERS' EQUITY		
Senior long-term debt	\$1,633,873	\$1,388,029
Net deferred tax liability	40,443	—
Other liabilities	92,166	94,154
Total Liabilities	1,766,482	1,482,183
Total Shareholders' Equity	6,673,577	3,888,657
Total Liabilities and Shareholders' Equity		