

MARKEL CORP
Form 10-Q
November 04, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2008**

or

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

Commission File Number: 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

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Virginia **54-1959284**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148
(Address of principal executive offices)
(Zip Code)
(804) 747-0136
(Registrant's telephone number, including area code)

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

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

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

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

Number of shares of the registrant's common stock outstanding at October 31, 2008: 9,811,009

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Markel Corporation

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

| | September 30, 2008 | December 31, 2007 |
|---|-------------------------------|----------------------|
| | <i>(dollars in thousands)</i> | |
| ASSETS | | |
| Investments, available-for-sale, at estimated fair value: | | |
| Fixed maturities (amortized cost of \$4,958,869 in 2008 and \$5,318,114 in 2007) | \$ 4,757,062 | \$ 5,323,750 |
| Equity securities (cost of \$1,039,444 in 2008 and \$1,263,266 in 2007) | 1,463,772 | 1,854,062 |
| Short-term investments (estimated fair value approximates cost) | 324,468 | 51,552 |
| Investments in affiliates | 92,134 | 81,181 |
| Total Investments | 6,637,436 | 7,310,545 |
| Cash and cash equivalents | 588,459 | 477,661 |
| Receivables | 337,532 | 296,295 |
| Reinsurance recoverable on unpaid losses | 1,157,278 | 1,072,918 |
| Reinsurance recoverable on paid losses | 59,377 | 78,306 |
| Deferred policy acquisition costs | 207,337 | 202,291 |
| Prepaid reinsurance premiums | 104,446 | 114,711 |
| Goodwill and intangible assets | 344,626 | 344,911 |
| Other assets | 494,624 | 236,781 |
| Total Assets | \$ 9,931,115 | \$ 10,134,419 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Unpaid losses and loss adjustment expenses | \$ 5,789,273 | \$ 5,525,573 |
| Unearned premiums | 937,965 | 940,309 |
| Payables to insurance companies | 58,852 | 39,790 |
| Senior long-term debt (estimated fair value of \$533,000 in 2008 and \$706,000 in 2007) | 588,386 | 680,698 |
| Other liabilities | 243,958 | 306,887 |
| Total Liabilities | 7,618,434 | 7,493,257 |
| Shareholders' equity: | | |
| Common stock | 870,528 | 866,362 |
| Retained earnings | 1,330,974 | 1,417,269 |
| Accumulated other comprehensive income | 111,179 | 357,531 |
| Total Shareholders' Equity | 2,312,681 | 2,641,162 |
| Commitments and contingencies | | |
| Total Liabilities and Shareholders' Equity | \$ 9,931,115 | \$ 10,134,419 |

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income (Loss)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|-------------------|------------------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 |
| <i>(dollars in thousands, except per share data)</i> | | | | |
| OPERATING REVENUES | | | | |
| Earned premiums | \$ 516,063 | \$ 535,517 | \$ 1,520,187 | \$ 1,598,092 |
| Net investment income | 68,232 | 80,938 | 220,765 | 235,487 |
| Net realized investment gains (losses) | (168,679) | 3,000 | (200,247) | 64,730 |
| Total Operating Revenues | 415,616 | 619,455 | 1,540,705 | 1,898,309 |
| OPERATING EXPENSES | | | | |
| Losses and loss adjustment expenses | 456,172 | 285,286 | 1,029,005 | 839,108 |
| Underwriting, acquisition and insurance expenses | 186,206 | 182,026 | 552,069 | 561,094 |
| Amortization of intangible assets | 1,141 | 597 | 3,239 | 1,195 |
| Total Operating Expenses | 643,519 | 467,909 | 1,584,313 | 1,401,397 |
| Operating Income (Loss) | (227,903) | 151,546 | (43,608) | 496,912 |
| Interest expense | 11,024 | 13,601 | 35,789 | 43,385 |
| Income (Loss) Before Income Taxes | (238,927) | 137,945 | (79,397) | 453,527 |
| Income tax expense (benefit) | (96,640) | 45,592 | (53,340) | 141,299 |
| Net Income (Loss) | \$ (142,287) | \$ 92,353 | \$ (26,057) | \$ 312,228 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Net unrealized holding gains (losses) on investments arising during the period, net of taxes | \$ (122,832) | \$ 18,116 | \$ (374,303) | \$ (14,030) |
| Reclassification adjustments for net gains (losses) on investments included in net income (loss), net of taxes | 109,749 | (1,950) | 130,583 | (45,086) |
| Currency translation adjustments, net of taxes | (3,647) | 2,708 | (3,380) | 4,369 |
| Change in net actuarial pension loss, net of taxes | 195 | 321 | 748 | 940 |
| Total Other Comprehensive Income (Loss) | (16,535) | 19,195 | (246,352) | (53,807) |
| Comprehensive Income (Loss) | \$ (158,822) | \$ 111,548 | \$ (272,409) | \$ 258,421 |
| NET INCOME (LOSS) PER SHARE | | | | |
| Basic | \$ (14.46) | \$ 9.28 | \$ (2.63) | \$ 31.34 |
| Diluted | \$ (14.46) | \$ 9.26 | \$ (2.63) | \$ 31.28 |

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders' Equity

| | Nine Months Ended September 30, 2008 2007 (dollars in thousands) | |
|---|--|---------------------|
| COMMON STOCK | | |
| Balance at beginning of period | \$ 866,362 | \$ 854,561 |
| Restricted stock units expensed | 2,971 | 2,284 |
| Cumulative effect of adoption of FASB Interpretation No. 48 | | 2,831 |
| Other | 1,195 | 6,158 |
| Balance at end of period | \$ 870,528 | \$ 865,834 |
| RETAINED EARNINGS | | |
| Balance at beginning of period | \$ 1,417,269 | \$ 1,015,679 |
| Net income (loss) | (26,057) | 312,228 |
| Repurchases of common stock | (60,238) | (24,210) |
| Cumulative effect of adoption of FASB Interpretation No. 48 | | 20,131 |
| Balance at end of period | \$ 1,330,974 | \$ 1,323,828 |
| ACCUMULATED OTHER COMPREHENSIVE INCOME | | |
| Net unrealized holding gains on investments, net of taxes: | | |
| Balance at beginning of period | \$ 388,521 | \$ 462,482 |
| Net unrealized losses on investments, net of taxes | (243,720) | (59,116) |
| Balance at end of period | 144,801 | 403,366 |
| Cumulative translation adjustments, net of taxes: | | |
| Balance at beginning of period | (7,523) | (11,316) |
| Currency translation adjustments, net of taxes | (3,380) | 4,369 |
| Balance at end of period | (10,903) | (6,947) |
| Net actuarial pension loss, net of taxes: | | |
| Balance at beginning of period | (23,467) | (25,013) |
| Change in net actuarial pension loss, net of taxes | 748 | 940 |
| Balance at end of period | (22,719) | (24,073) |
| Balance at end of period | \$ 111,179 | \$ 372,346 |
| SHAREHOLDERS' EQUITY AT END OF PERIOD | \$ 2,312,681 | \$ 2,562,008 |

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Nine Months Ended September 30, | |
|---|--|-------------------|
| | 2008 | 2007 |
| | <i>(dollars in thousands)</i> | |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (26,057) | \$ 312,228 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | 354,904 | 71,098 |
| Net Cash Provided By Operating Activities | 328,847 | 383,326 |
| INVESTING ACTIVITIES | | |
| Proceeds from sales of fixed maturities and equity securities | 570,166 | 772,440 |
| Proceeds from maturities, calls and prepayments of fixed maturities | 316,474 | 144,813 |
| Cost of fixed maturities and equity securities purchased | (594,487) | (1,307,396) |
| Net change in short-term investments | (272,855) | 64,007 |
| Cost of investments in affiliates | (11,634) | |
| Acquisitions, net of cash acquired | (3,050) | (8,103) |
| Other | (69,375) | (12,322) |
| Net Cash Used By Investing Activities | (64,761) | (346,561) |
| FINANCING ACTIVITIES | | |
| Repayment and retirement of senior long-term debt | (93,050) | (73,032) |
| Retirement of Junior Subordinated Deferrable Interest Debentures | | (111,012) |
| Repurchases of common stock | (60,238) | (24,210) |
| Net Cash Used By Financing Activities | (153,288) | (208,254) |
| Increase (decrease) in cash and cash equivalents | 110,798 | (171,489) |
| Cash and cash equivalents at beginning of period | 477,661 | 555,115 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 588,459 | \$ 383,626 |

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

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

The consolidated balance sheet as of September 30, 2008, the related consolidated statements of operations and comprehensive income (loss) for the quarters and nine months ended September 30, 2008 and 2007, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the nine months ended September 30, 2008 and 2007 are unaudited. In the opinion of management, all adjustments necessary for fair presentation of such consolidated financial statements have been included. Such adjustments consist only of normal, recurring items. Interim results are not necessarily indicative of results of operations for the entire year. The consolidated balance sheet as of December 31, 2007 was derived from the Company's audited annual consolidated financial statements.

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

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. Readers are urged to review the Company's 2007 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

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

2. Net Income (Loss) per Share

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

| <i>(in thousands, except per share amounts)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|---|--|-------------|--|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net income (loss) as reported | \$ (142,287) | \$ 92,353 | \$ (26,057) | \$ 312,228 |
| Basic common shares outstanding | 9,842 | 9,957 | 9,897 | 9,962 |
| Dilutive potential common shares | | 18 | | 19 |
| Diluted shares outstanding | 9,842 | 9,975 | 9,897 | 9,981 |
| Basic net income (loss) per share | \$ (14.46) | \$ 9.28 | \$ (2.63) | \$ 31.34 |
| Diluted net income (loss) per share | \$ (14.46) | \$ 9.26 | \$ (2.63) | \$ 31.28 |

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3. Reinsurance

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

| <i>(dollars in thousands)</i> | Quarter Ended September 30, | | | |
|-------------------------------|-----------------------------|------------|------------|------------|
| | 2008 | | 2007 | |
| | Written | Earned | Written | Earned |
| Direct | \$ 511,424 | \$ 534,958 | \$ 559,931 | \$ 564,865 |
| Assumed | 52,472 | 54,846 | 40,654 | 47,688 |
| Ceded | (65,793) | (73,741) | (87,021) | (77,036) |
| Net premiums | \$ 498,103 | \$ 516,063 | \$ 513,564 | \$ 535,517 |

| <i>(dollars in thousands)</i> | Nine Months Ended September 30, | | | |
|-------------------------------|---------------------------------|--------------|--------------|--------------|
| | 2008 | | 2007 | |
| | Written | Earned | Written | Earned |
| Direct | \$ 1,562,272 | \$ 1,584,990 | \$ 1,689,205 | \$ 1,696,960 |
| Assumed | 185,289 | 149,014 | 168,314 | 133,794 |
| Ceded | (205,273) | (213,817) | (243,819) | (232,662) |
| Net premiums | \$ 1,542,288 | \$ 1,520,187 | \$ 1,613,700 | \$ 1,598,092 |

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$126.5 million and \$16.4 million, respectively, for the quarters ended September 30, 2008 and 2007 and \$245.8 million and \$78.8 million, respectively, for the nine months ended September 30, 2008 and 2007. Both periods of 2008 include \$87.7 million of estimated reinsurance recoverables related to Hurricanes Gustav and Ike.

4. Investments

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

| <i>(dollars in thousands)</i> | September 30, 2008 | | | |
|--|--------------------|------------------------|-------------------------|----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Fixed maturities: | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 853,265 | \$ 9,503 | \$ (3,716) | \$ 859,052 |
| Obligations of states, municipalities and political subdivisions | 1,921,336 | 3,615 | (100,220) | 1,824,731 |
| Foreign governments | 296,201 | 6,078 | (1,548) | 300,731 |
| Public utilities | 93,593 | 264 | (1,915) | 91,942 |
| All other corporate bonds | 1,794,474 | 8,598 | (122,466) | 1,680,606 |
| Total fixed maturities | 4,958,869 | 28,058 | (229,865) | 4,757,062 |
| Equity securities: | | | | |
| Insurance companies, banks and trusts | 436,866 | 329,236 | (8,912) | 757,190 |
| Industrial, miscellaneous and all other | 602,578 | 133,224 | (29,220) | 706,582 |
| Total equity securities | 1,039,444 | 462,460 | (38,132) | 1,463,772 |
| Short-term investments | 324,461 | 8 | (1) | 324,468 |

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| | | | | |
|---------------------------------|--------------|------------|--------------|--------------|
| Investments, available-for-sale | \$ 6,322,774 | \$ 490,526 | \$ (267,998) | \$ 6,545,302 |
|---------------------------------|--------------|------------|--------------|--------------|

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

| <i>(dollars in thousands)</i> | Less than 12 months | | September 30, 2008 12 months or longer | | Total | |
|--|---------------------|---------------------|---|---------------------|---------------------|---------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Fixed maturities: | | | | | | |
| U.S. Treasury securities and obligations of U.S. government agencies | \$ 278,204 | \$ (3,176) | \$ 20,464 | \$ (540) | \$ 298,668 | \$ (3,716) |
| Obligations of states, municipalities and political subdivisions | 1,119,417 | (54,286) | 472,315 | (45,934) | 1,591,732 | (100,220) |
| Foreign governments | 90,326 | (1,230) | 16,478 | (318) | 106,804 | (1,548) |
| Public utilities | 62,216 | (1,894) | 4,635 | (21) | 66,851 | (1,915) |
| All other corporate bonds | 620,793 | (33,964) | 661,278 | (88,502) | 1,282,071 | (122,466) |
| Total fixed maturities | 2,170,956 | (94,550) | 1,175,170 | (135,315) | 3,346,126 | (229,865) |
| Equity securities: | | | | | | |
| Insurance companies, banks and trusts | 89,416 | (8,704) | 809 | (208) | 90,225 | (8,912) |
| Industrial, miscellaneous and all other | 153,269 | (25,729) | 31,881 | (3,491) | 185,150 | (29,220) |
| Total equity securities | 242,685 | (34,433) | 32,690 | (3,699) | 275,375 | (38,132) |
| Short-term investments | 4,989 | (1) | | | 4,989 | (1) |
| Total | \$ 2,418,630 | \$ (128,984) | \$ 1,207,860 | \$ (139,014) | \$ 3,626,490 | \$ (267,998) |

At September 30, 2008, the Company held 800 securities with a total estimated fair value of \$3.6 billion and gross unrealized losses of \$268.0 million. Of these 800 securities, 282 securities had been in a continuous unrealized loss position for greater than one year and had a total estimated fair value of \$1.2 billion and gross unrealized losses of \$139.0 million. Of these securities, 277 securities were fixed maturities where the Company expects to receive all interest and principal payments and five were equity securities. At September 30, 2008, none of these five equity securities had a fair value of 80% or less of their cost basis for a continuous period of six months or more. The Company believes all five equity securities have low market valuations due to market sentiment, as opposed to the operating fundamentals and financial conditions of the companies. The Company has the intent and ability to hold the fixed maturities and equity securities that were in an unrealized loss position at September 30, 2008 until they recover in value.

The Company completes a detailed analysis each quarter to assess whether the decline in the value of any investment below its cost basis is deemed other-than-temporary. All securities in an unrealized loss position are reviewed. Unless other factors cause the Company to reach a contrary conclusion, investments with a fair value of less than 80% of cost for more than 180 days are deemed to have a decline in value that is other-than-temporary. A decline in fair value that is considered to be other-than-temporary is charged to earnings based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security.

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

| <i>(dollars in thousands)</i> | Quarter Ended September 30, | |
|---|--|-------------|
| | 2008 | 2007 |
| Realized gains: | | |
| Sales of fixed maturities | \$ 723 | \$ 771 |
| Sales of equity securities | 8,690 | 4,333 |
| Other | 166 | |
| | 9,579 | 5,104 |
| Realized losses: | | |
| Sales of fixed maturities | (83,637) | (2,010) |
| Sales of equity securities | (14) | (94) |
| Other-than-temporary impairments | (94,607) | |
| | (178,258) | (2,104) |
| Net realized investment gains (losses) | \$ (168,679) | \$ 3,000 |
| Change in net unrealized holding gains: | | |
| Fixed maturities | \$ (98,711) | \$ 52,139 |
| Equity securities | 79,400 | (27,408) |
| Short-term investments | 7 | |
| Net increase (decrease) | \$ (19,304) | \$ 24,731 |

| <i>(dollars in thousands)</i> | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2008 | 2007 |
| Realized gains: | | |
| Sales of fixed maturities | \$ 9,425 | \$ 5,228 |
| Sales of equity securities | 65,948 | 73,529 |
| Other | 1,267 | 273 |
| | 76,640 | 79,030 |
| Realized losses: | | |
| Sales of fixed maturities | (85,495) | (6,084) |
| Sales of equity securities | (3,657) | (94) |
| Other-than-temporary impairments | (187,145) | (3,489) |
| Other | (590) | (4,633) |
| | (276,887) | (14,300) |
| Net realized investment gains (losses) | \$ (200,247) | \$ 64,730 |
| Change in net unrealized holding gains: | | |
| Fixed maturities | \$ (207,443) | \$ (38,142) |
| Equity securities | (166,468) | (53,427) |
| Short-term investments | 7 | |

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| | | |
|--------------|--------------|-------------|
| Net decrease | \$ (373,904) | \$ (91,569) |
|--------------|--------------|-------------|

Net realized investment gains (losses) included \$94.6 million of write downs for other-than-temporary declines in the estimated fair value of investments for the quarter ended September 30, 2008. The write downs were made with respect to seven equity securities, two nonredeemable preferred stocks and five fixed maturities. The two largest write downs of equity securities related to the Company's investments in General Electric Company and International Game Technology, for which the Company had write downs of \$32.7 million and \$16.1 million, respectively.

Given the magnitude of the unrealized losses associated with these securities and management's belief that these securities were unlikely to recover in the near term, the decline in value was

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deemed other-than-temporary and was charged to earnings. The two nonredeemable preferred stock write downs related to the Company's holdings in Fannie Mae and Freddie Mac and totaled \$9.0 million. The two largest write downs of fixed maturities related to the Company's investments in Morgan Stanley and Kaupthing Bank, an Icelandic financial institution, for which the Company had write downs of \$18.4 million and \$10.5 million, respectively. During the third quarter of 2008, the Company sold a portion of its holdings in Morgan Stanley and, as a result, determined that it no longer had the intent to hold this investment until it fully recovered its value. The write down on Kaupthing Bank was made because the Company believes it may not receive all interest and principal payments when due. The six investments discussed above represent 92% of the total other-than-temporary write down recorded in the third quarter of 2008. There were no write downs for other-than-temporary declines in the estimated fair value of investments for the quarter ended September 30, 2007.

Net realized investment gains (losses) included \$187.1 million and \$3.5 million of write downs for other-than-temporary declines in the estimated fair value of investments for the nine months ended September 30, 2008 and 2007, respectively. Net realized investment losses for the nine months ended September 30, 2008 included write downs for 15 equity securities, two nonredeemable preferred stocks and five fixed maturities. Approximately 40% of the write downs for the nine months ended September 30, 2008 were due to the determination that the Company no longer had the intent to hold these securities until they fully recovered in value as it began selling a portion of the securities in order to allocate capital to other securities with greater potential for long-term investment returns. The remainder of the write downs related to securities that had other indications of other-than-temporary impairment, including having fair values of less than 80% of cost for more than 180 days. The most significant write downs during the first six months of 2008 were related to the Company's investment in Citigroup Inc., a security that it began selling in March 2008, and to its investment in Bank of America Corporation, a security with significant declines in fair value that management believed would not recover in the near term. Write downs for Citigroup Inc. and Bank of America Corporation were \$37.6 million and \$17.0 million, respectively, for the nine months ended September 30, 2008. These two investments and the six investments discussed above for the third quarter of 2008 represent 76% of the total other-than-temporary write down recorded during the nine months ended September 30, 2008.

5. Hurricane Losses

The Company's results for the quarter and nine months ended September 30, 2008 include \$115.1 million of underwriting loss related to Hurricanes Gustav and Ike (2008 Hurricanes). The underwriting loss on the 2008 Hurricanes was comprised of \$109.1 million of estimated net losses and loss adjustment expenses and \$6.0 million of additional reinsurance costs.

The estimated net losses on the 2008 Hurricanes were net of estimated reinsurance recoverables of \$87.7 million. Both the gross and net loss estimates on the 2008 Hurricanes represent the Company's best estimate of losses based upon information currently available. The Company has used various loss estimation techniques to develop these estimates, including claims received to date and detailed policy level reviews. The Company's estimate is dependent on broad assumptions about coverage, liability and reinsurance. While the Company believes that its reserves for the 2008 Hurricanes as of September 30, 2008 are adequate, the Company continues to closely monitor reported claims and will adjust the estimates of gross and net losses as new information becomes available. Accordingly, the Company's actual ultimate net loss from these two events may differ materially from this estimate.

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6. Segment Reporting Disclosures

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

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

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

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

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

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

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

| <i>(dollars in thousands)</i> | Quarter Ended September 30, 2007 | | | | | |
|--|----------------------------------|--------------------|-------------------------|-----------|-------------|--------------|
| | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Investing | Other | Consolidated |
| Gross premium volume | \$ 338,340 | \$ 100,046 | \$ 161,853 | \$ | \$ 346 | \$ 600,585 |
| Net written premiums | 280,402 | 94,114 | 138,861 | | 187 | 513,564 |
| Earned premiums | \$ 292,277 | \$ 81,733 | \$ 161,320 | \$ | \$ 187 | \$ 535,517 |
| Losses and loss adjustment expenses: | | | | | | |
| Current year | 185,585 | 49,964 | 103,712 | | | 339,261 |
| Prior years | (51,630) | (3,007) | (20,020) | | 20,682 | (53,975) |
| Underwriting, acquisition and insurance expenses | 97,037 | 26,905 | 61,129 | | (3,045) | 182,026 |
| Underwriting profit (loss) | 61,285 | 7,871 | 16,499 | | (17,450) | 68,205 |
| Net investment income | | | | 80,938 | | 80,938 |
| Net realized investment gains | | | | 3,000 | | 3,000 |
| Segment profit (loss) | \$ 61,285 | \$ 7,871 | \$ 16,499 | \$ 83,938 | \$ (17,450) | \$ 152,143 |
| Amortization of intangible assets | | | | | | 597 |
| Interest expense | | | | | | 13,601 |

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| | | | | | |
|---|-----|-----|-----|-------------------|------------|
| Income before income taxes | | | | | \$ 137,945 |
| U.S. GAAP combined ratio ⁽¹⁾ | 79% | 90% | 90% | NM ⁽²⁾ | 87% |

- (1) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.
- (2) NM Ratio is not meaningful.

Table of Contents**Nine Months Ended September 30, 2008**

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

Nine Months Ended September 30, 2007

| <i>(dollars in thousands)</i> | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Investing | Other | Consolidated |
|--|---|-------------------------------|--|------------------|-------------------|---------------------|
| Gross premium volume | \$ 1,020,686 | \$ 272,788 | \$ 562,183 | \$ | \$ 1,862 | \$ 1,857,519 |
| Net written premiums | 864,830 | 254,600 | 492,689 | | 1,581 | 1,613,700 |
| Earned premiums | \$ 875,671 | \$ 239,253 | \$ 481,587 | \$ | \$ 1,581 | \$ 1,598,092 |
| Losses and loss adjustment expenses: | | | | | | |
| Current year | 528,180 | 145,856 | 302,933 | | | 976,969 |
| Prior years | (119,518) | (10,094) | (32,574) | | 24,325 | (137,861) |
| Underwriting, acquisition and insurance expenses | 304,315 | 84,764 | 178,990 | | (6,975) | 561,094 |
| Underwriting profit (loss) | 162,694 | 18,727 | 32,238 | | (15,769) | 197,890 |
| Net investment income | | | | 235,487 | | 235,487 |
| Net realized investment gains | | | | 64,730 | | 64,730 |
| Segment profit (loss) | \$ 162,694 | \$ 18,727 | \$ 32,238 | \$ 300,217 | \$ (15,769) | \$ 498,107 |
| Amortization of intangible assets | | | | | | 1,195 |
| Interest expense | | | | | | 43,385 |
| Income before income taxes | | | | | | \$ 453,527 |
| U.S. GAAP combined ratio ⁽¹⁾ | 81% | 92% | 93% | | NM ⁽²⁾ | 88% |

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- (1) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.
- (2) NM Ratio is not meaningful.

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

| <i>(dollars in thousands)</i> | September 30, 2008 | December 31, 2007 |
|-------------------------------|-------------------------------|------------------------------|
| Segment Assets: | | |
| Investing | \$ 7,225,895 | \$ 7,788,206 |
| Other | 2,705,220 | 2,346,213 |
| Total Assets | \$ 9,931,115 | \$ 10,134,419 |

7. Derivatives

In 2007, the Company entered into a credit default swap agreement, under which third party credit risk was transferred from a counterparty to the Company in exchange for \$30.0 million. The initial notional amount of the credit default swap was \$50.0 million, which represented the Company's aggregate exposure to losses if specified credit events involving third party reference entities occur. These third party reference entities are specified under the terms of the agreement and represent a portfolio of names upon which the Company has assumed credit risk from the counterparty. The Company's exposure to loss from any one reference entity is limited to \$20.0 million. The credit default swap agreement also provides for a \$10.0 million threshold, whereby the Company is not liable for the first \$10.0 million of losses on the portfolio. Once the \$10.0 million threshold is met, the Company is liable for a maximum of \$50.0 million of losses. 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. At September 30, 2008, the credit default swap had a fair value of \$44.9 million. The fair value of the credit default swap is determined by the Company using an external valuation model that is dependent upon several inputs, including changes in interest rates, credit spreads, expected default rates, changes in credit quality, future expected recovery rates and other market factors. Changes in fair value are recorded in net investment income. The fair value of the credit default swap is included in other liabilities on the consolidated balance sheet.

The Company's credit default swap included Lehman Brothers Holdings Inc. (Lehman Brothers) and Washington Mutual, Inc. (Washington Mutual) among its reference entities. On September 15, 2008, Lehman Brothers filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the Southern District of New York. On September 26, 2008, Washington Mutual filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the U.S. Bankruptcy Court for the District of Delaware. Both of these bankruptcies qualified as credit events as defined under the terms of the credit default swap agreement.

Since September 30, 2008, the Company has paid \$8.3 million and \$8.6 million to settle its obligations related to the Lehman Brothers and Washington Mutual credit events, respectively. In the case of Lehman Brothers, the aggregate loss was \$18.3 million, and the Company paid the excess over the \$10.0 million threshold. In the case of Washington Mutual, the Company paid the total amount of the loss. These payments reduced the Company's liability related to its credit default swap; as a result, the notional amount for which the Company has exposure decreased to \$33.1 million.

The Company had no other material derivative instruments at September 30, 2008.

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8. Employee Benefit Plans

a) Expenses relating to all of the Company's defined contribution plans were \$3.3 million and \$10.0 million, respectively, for the quarter and nine months ended September 30, 2008 and \$2.7 million and \$8.5 million, respectively, for the same periods in 2007.

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

| <i>(dollars in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------------|------------------------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 511 | \$ 551 | \$ 1,552 | \$ 1,621 |
| Interest cost | 1,541 | 1,402 | 4,678 | 4,124 |
| Expected return on plan assets | (1,899) | (1,842) | (5,763) | (5,419) |
| Amortization of net actuarial pension loss | 422 | 495 | 1,278 | 1,447 |
| Net periodic benefit cost | \$ 575 | \$ 606 | \$ 1,745 | \$ 1,773 |

The Company contributed \$2.7 million to the Terra Nova Pension Plan during the nine months ended September 30, 2008. The Company expects plan contributions to total \$3.0 million in 2008.

9. Contingencies

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

10. Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (Statement) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Statement No. 159 permits entities to choose to measure specified financial instruments and certain other eligible items at fair value, with changes in fair value recognized in earnings. Statement No. 159 became effective for the Company on January 1, 2008. The Company did not elect the fair value option for assets and liabilities currently held, and therefore, the adoption of this standard did not have an impact on its financial position, results of operations or cash flows.

11. Fair Value Measurements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. Statement No. 157 establishes a framework for measuring fair value, clarifies the definition of fair value within that framework and expands disclosure requirements regarding the use of fair value measurements. Statement No. 157 became effective for the Company on January 1, 2008. The adoption of Statement No. 157 did not have a material impact on the Company's financial position, results of operations or cash flows.

Statement No. 157 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

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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 Statement No. 157, 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. Fair value for these investments is measured based upon quoted prices in active markets, if available. Fair value is determined by the Company after considering various sources of information, including information provided by an independent pricing service. The Company analyzes the independent 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. Due to variations in trading volumes and the lack of quoted market prices for fixed maturities, the fair value of fixed maturities is normally derived through recent reported trades for identical or similar securities, making adjustments through the reporting date based upon available market observable data described above. If there are no recent reported trades, the fair value of fixed maturities may be derived through the use of matrix pricing or model processes, where future cash flow expectations are developed based upon collateral performance and discounted at an estimated market rate.

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

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 independent pricing model. See note

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7 for a discussion of the valuation model for the credit default swap, including the key inputs and assumptions to the model. Due to the significance of unobservable inputs required in measuring the fair value of the credit default swap, the credit default swap has been classified as Level 3 within the fair value hierarchy.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2008, by level within the fair value hierarchy.

| <i>(dollars in thousands)</i> | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|-----------|--------------|-----------|--------------|
| Assets: | | | | |
| Investments available for sale: | | | | |
| Fixed maturities | \$ | \$ 4,757,062 | \$ | \$ 4,757,062 |
| Equity securities | 1,463,772 | | | 1,463,772 |
| Short-term investments | 241,656 | 82,812 | | 324,468 |
| Liabilities: | | | | |
| Derivatives | \$ 414 | \$ | \$ 44,866 | \$ 45,280 |

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

| <i>(dollars in thousands)</i> | Derivatives |
|--|-------------------------|
| Beginning balance as of June 30, 2008 | \$ 37,196 |
| Total net losses included in: | |
| Net loss | 7,670 |
| Other comprehensive loss | |
| Net transfers into (out of) Level 3 | |
| Ending balance as of September 30, 2008 | \$ 44,866 |
| Net unrealized losses included in net loss for the period relating to liabilities held at September 30, 2008 | \$ 7,670 ⁽¹⁾ |

| <i>(dollars in thousands)</i> | Derivatives |
|--|--------------------------|
| Beginning balance as of January 1, 2008 | \$ 33,141 |
| Total net losses included in: | |
| Net loss | 11,725 |
| Other comprehensive loss | |
| Net transfers into (out of) Level 3 | |
| Ending balance as of September 30, 2008 | \$ 44,866 |
| Net unrealized losses included in net loss for the period relating to liabilities held at September 30, 2008 | \$ 11,725 ⁽¹⁾ |

⁽¹⁾ Included in net investment income in the consolidated statements of operations and comprehensive income (loss). The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the nine months ended September 30, 2008.

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12. Income Taxes

The Company recognized a tax benefit of 67% for the nine months ended September 30, 2008. The rate of tax benefit is higher than that obtained by applying the statutory rate of 35% to pre-tax losses due to the additional tax benefits associated with favorable permanent differences, principally tax exempt investment income. The provision for income tax benefit for the nine months ended September 30, 2008 has been calculated based on actual pre-tax loss and estimated permanent differences through that date. The estimated annual effective tax rate was 31% for the nine months ended September 30, 2007, which differs from the statutory rate primarily as a result of tax-exempt investment income.

During the quarter ended September 30, 2008, the Company's 2004 federal income tax year closed to audit by the Internal Revenue Service (IRS). No material adjustments were made to the Company's consolidated financial statements as a result of this examination. The Company is no longer subject to income tax examination by the IRS for years ended before January 1, 2006.

The Company had net deferred tax assets of \$275.3 million at September 30, 2008 compared to \$79.1 million at December 31, 2007. At both September 30, 2008 and December 31, 2007, net deferred tax assets included a valuation allowance of \$6.6 million. The increase in net deferred tax assets during 2008 was primarily due to the decrease in net unrealized holding gains on investments, other-than-temporary impairment charges included in the Company's pre-tax net loss, which are not yet deductible for tax purposes, and increases in net operating losses from the Company's foreign operations. In evaluating its ability to realize the net deferred tax assets and the adequacy of the valuation allowance at September 30, 2008, the Company made estimates regarding the future taxable income of our foreign subsidiaries and judgments about our ability to pursue prudent and feasible tax planning strategies. While the Company believes the valuation allowance at September 30, 2008 is adequate, changes in these estimates and assumptions could result in an increase in the valuation allowance through a charge to earnings.

There were no material changes in unrecognized tax benefits during the quarter or nine months ended September 30, 2008.

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

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

Critical Accounting Estimates

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

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

Readers are urged to review our 2007 Annual Report on Form 10-K for a more complete description of our critical accounting estimates.

Our Business

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

Our Excess and Surplus Lines segment is comprised of four underwriting units, our Specialty Admitted segment consists of three underwriting units and our London Insurance Market segment is comprised of Markel International's operations. In 2007, our Excess and Surplus Lines segment was comprised of five underwriting units. In early 2008, it was determined that the products previously written by the Markel Re unit would be combined into two of our existing underwriting units. Markel Re's excess and umbrella program and casualty facultative placements were transferred to the Markel Brokered Excess and Surplus Lines unit, while the alternative risk transfer programs were combined with the Markel Specialty Program Insurance unit. All business previously written by the Markel Re unit will continue to be included in the Excess and Surplus Lines segment's results.

Historically, the underwriting units included in the Excess and Surplus Lines segment have principally been product-focused specialists servicing brokers, agents and insureds across the United States from their respective underwriting unit locations. During 2008, we announced a multi-year operational and IT systems initiative, referred to as One Markel. Our overall goal for this initiative is to grow our business while maintaining our underwriting integrity, with unified systems greatly enhancing our ability to accomplish these goals. We believe this initiative will make doing business with us easier for our customers, streamline internal processes, reduce redundant technology and, over time, increase premium volume while reducing expenses. To accomplish these objectives, we are moving our business model to a customer-focused regional strategy. In the new model, Markel underwriters with access to and expertise in all of our product offerings will be physically closer to our producers. We also have completed a review of our existing technology and related systems infrastructure and have launched a systems implementation and integration project to develop common business applications that will better support our new business model. During the first quarter of 2009, all existing underwriting units in the Excess and Surplus Lines segment will begin to transition to the regional office model. Additionally, a new regional office was opened in Plano, Texas effective October 1, 2008, and this location has begun writing business. Once fully implemented, the new business model will ensure that most brokers, agents and insureds have easy access to the majority of Markel's products.

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

Our Specialty Admitted segment writes risks that, although unique and hard-to-place in the standard market, must remain with an admitted insurance company for marketing and regulatory reasons. Our underwriting units in this segment write specialty program insurance for well-defined niche markets and personal and commercial property and liability coverages.

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

For purposes of segment reporting, the Other segment includes lines of business that have been discontinued in conjunction with an acquisition.

Key Performance Indicators

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

Results of Operations

The following table compares the components of net income (loss).

| <i>(dollars in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|-----------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Underwriting profit (loss) | \$ (126,315) | \$ 68,205 | \$ (60,887) | \$ 197,890 |
| Net investment income | 68,232 | 80,938 | 220,765 | 235,487 |
| Net realized investment gains (losses) | (168,679) | 3,000 | (200,247) | 64,730 |
| Amortization of intangible assets | (1,141) | (597) | (3,239) | (1,195) |
| Interest expense | (11,024) | (13,601) | (35,789) | (43,385) |
| Income tax benefit (expense) | 96,640 | (45,592) | 53,340 | (141,299) |
| Net income (loss) | \$ (142,287) | \$ 92,353 | \$ (26,057) | \$ 312,228 |

The results for both the quarter and nine months ended September 30, 2008 declined compared to the same periods of 2007 due to less favorable underwriting and investment results. The net loss for the quarter and nine months ended September 30, 2008 included \$94.6 million and \$187.1 million, respectively, of write downs for other-than-temporary declines in the estimated fair value of investments. The decline in underwriting results for both periods of 2008 was due in part to \$115.1 million of underwriting loss related to Hurricanes Gustav and Ike (2008 Hurricanes). The components of net income (loss) are discussed in further detail under Underwriting

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Results, Investing Results and Other Expenses.

Underwriting Results

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

The following table compares selected data from our underwriting operations.

| <i>(dollars in thousands)</i> | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|------------|------------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Gross premium volume | \$ 563,896 | \$ 600,585 | \$ 1,747,561 | \$ 1,857,519 |
| Net written premiums | \$ 498,103 | \$ 513,564 | \$ 1,542,288 | \$ 1,613,700 |
| Net retention | 88% | 86% | 88% | 87% |
| Earned premiums | \$ 516,063 | \$ 535,517 | \$ 1,520,187 | \$ 1,598,092 |
| Losses and loss adjustment expenses | \$ 456,172 | \$ 285,286 | \$ 1,029,005 | \$ 839,108 |
| Underwriting, acquisition and insurance expenses | \$ 186,206 | \$ 182,026 | \$ 552,069 | \$ 561,094 |
| Underwriting profit (loss) | \$ (126,315) | \$ 68,205 | \$ (60,887) | \$ 197,890 |

U.S. GAAP Combined Ratios⁽¹⁾

| | | | | |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Excess and Surplus Lines | 110% | 79% | 97% | 81% |
| Specialty Admitted | 123% | 90% | 107% | 92% |
| London Insurance Market | 136% | 90% | 111% | 93% |
| Other | NM ⁽²⁾ | NM ⁽²⁾ | NM ⁽²⁾ | NM ⁽²⁾ |
| Markel Corporation (Consolidated) | 124% | 87% | 104% | 88% |

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

⁽²⁾ NM Ratio is not meaningful.

Both periods of 2008 included \$115.1 million of underwriting loss related to the 2008 Hurricanes. This underwriting loss was comprised of \$109.1 million of estimated net losses and loss adjustment expenses and \$6.0 million of additional reinsurance costs.

Our combined ratio was 124% (including 22 points of losses on the 2008 Hurricanes) and 104% (including 8 points of losses on the 2008 Hurricanes), respectively, for the quarter and nine months ended September 30, 2008 compared to 87% and 88%, respectively, for the same periods in 2007. Aside from the impact of hurricane losses, the combined ratio for both the quarter and nine months ended September 30, 2008 increased primarily due to higher loss ratios across all of the segments as compared to the same periods of 2007.

The combined ratio for the Excess and Surplus Lines segment was 110% (including 15 points of losses on the 2008 Hurricanes) and 97% (including 5 points of losses on the 2008 Hurricanes), respectively, for the quarter

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and nine months ended September 30, 2008 compared to 79% and 81%, respectively, for the same periods in 2007. Before considering the effects of the 2008 Hurricanes, the combined ratio increased for both periods of 2008 due to a higher current accident year loss ratio and lower favorable development of prior years' loss reserves than in the same periods of 2007. The higher current accident year loss ratio in both periods of 2008 is primarily attributable to softening insurance market conditions, which have resulted in price deterioration across most of our product lines, and increased costs associated with handling and paying claims. The Excess and Surplus Lines segment's combined ratio for the quarter and nine months ended September 30, 2008 included \$24.5 million and \$72.3 million, respectively, of favorable development on prior years' loss reserves compared to \$51.6 million and \$119.5 million, respectively, for the same periods in 2007.

The redundancies on prior years' loss reserves experienced within the Excess and Surplus Lines segment during both periods of 2008 and 2007 were primarily on our professional liability programs at the Markel Shand Professional/Products Liability unit. In both periods of 2008, these prior year loss reserve redundancies have decreased from the same periods of 2007 due to the softening of the insurance market, which has resulted in a deterioration in pricing at this unit in recent years. The loss reserve redundancies experienced in both periods of 2008 and 2007 were partially offset by adverse loss reserve development at the Markel Re unit, which primarily resulted from higher than expected average claim frequency and severity on two general liability programs within the Specialized Markel Alternative Risk Transfer (SMART) division. Both of these programs were cancelled in the first quarter of 2007.

During the nine months ended September 30, 2008, the Markel Re unit experienced \$31.6 million of adverse development on prior years' loss reserves, of which \$27.0 million related to two general liability programs within the SMART division. This adverse development was primarily on the 2005 to 2007 accident years. Prior to 2008, the majority of the open claims on these two programs were handled by a third-party administrator that was overseen by claims personnel at the Markel Re unit. During the second half of 2007, we began to transfer the handling of open claims from the third-party administrator to the Markel Re claims department. As part of this process, all transferred claims files are reviewed. This claim-by-claim review has revealed that case reserve strengthening was necessary. As a result, during 2008, our actuaries revised their estimates of the ultimate losses on these programs and management increased prior years' loss reserves accordingly.

The combined ratio for the Specialty Admitted segment was 123% (including 18 points of losses on the 2008 Hurricanes) and 107% (including 6 points of losses on the 2008 Hurricanes), respectively, for the quarter and nine months ended September 30, 2008 compared to 90% and 92%, respectively, for the same periods in 2007. Aside from the impact of the storms, the increase in the combined ratio for both periods of 2008 was due to a higher current accident year loss ratio and a higher expense ratio than in the same periods of 2007. The higher current accident year loss ratio in both periods of 2008 is primarily attributable to a greater than expected incidence of high severity property losses at the Markel Specialty Program Insurance unit. The increase in the expense ratio for both periods of 2008 was primarily the result of lower earned premiums compared to the same periods of 2007.

The combined ratio for the London Insurance Market segment was 136% (including 36 points of losses on the 2008 Hurricanes) and 111% (including 13 points of losses on the 2008 Hurricanes), respectively, for the quarter and nine months ended September 30, 2008 compared to 90% and 93%, respectively, for the same periods in 2007. Before considering the effects of the 2008 Hurricanes, the increase in the combined ratio in both periods of 2008 was primarily the result of a higher current accident year loss ratio as compared to the same periods of

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2007. The higher current accident year loss ratio in 2008 was primarily due to softening insurance market conditions, which have resulted in price deterioration across all of the divisions at this unit, and adverse loss experience on certain classes of business. This adverse experience was most notable within the Professional and Financial Risks division on the medical malpractice and construction professionals classes. The London Insurance Market segment's combined ratio for the quarter and nine months ended September 30, 2008 included \$13.6 million and \$42.7 million, respectively, of favorable development on prior years' loss reserves compared to \$20.0 million and \$32.6 million, respectively, for the same periods in 2007. The redundancies on prior years' loss reserves experienced within the London Insurance Market segment during both periods of 2008 were primarily within the Professional and Financial Risks, Retail and Marine and Energy divisions at Markel International. This favorable development on prior years' loss reserves was primarily on the 2002 to 2005 accident years and reflects improved risk selection and the favorable rates and terms associated with the London market in those years.

The Other segment produced an underwriting loss of \$24.3 million and \$23.6 million, respectively, for the quarter and nine months ended September 30, 2008 compared to an underwriting loss of \$17.5 million and \$15.8 million, respectively, for the same periods in 2007. The underwriting loss for both the quarter and nine months ended September 30, 2008 included \$24.9 million of loss reserve development on asbestos and environmental exposures and related reinsurance bad debt compared to \$34.0 million in both periods of 2007. For both periods of 2007, the increase in loss reserves for asbestos and environmental exposures was offset in part by favorable development of loss reserves in other discontinued lines of business. The increase in asbestos and environmental reserves in all periods was a result of the completion of our annual review of these exposures during the third quarters of 2008 and 2007. During each of these reviews, we noted higher than expected settlements on existing claims during the preceding twelve months, which caused us to increase our estimate of ultimate loss reserves for asbestos and environmental exposures. The need to increase asbestos and environmental loss reserves in each of the past two years demonstrates that these reserves are subject to significant uncertainty due to potential loss severity and frequency resulting from an uncertain and unfavorable legal climate. Our asbestos and environmental reserves are not discounted to present value and are forecasted to pay out over the next 50 years. We seek to establish appropriate reserve levels for asbestos and environmental exposures; however, these reserves could be subject to increases in the future.

Premiums and Net Retentions

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

| Quarter Ended September 30, | | Gross Premium Volume | | Nine Months Ended September 30, | |
|--------------------------------|------------|-------------------------------|--|------------------------------------|--------------|
| 2008 | 2007 | <i>(dollars in thousands)</i> | | 2008 | 2007 |
| \$ 298,180 | \$ 338,340 | Excess and Surplus Lines | | \$ 909,031 | \$ 1,020,686 |
| 99,050 | 100,046 | Specialty Admitted | | 266,238 | 272,788 |
| 166,484 | 161,853 | London Insurance Market | | 571,819 | 562,183 |
| 182 | 346 | Other | | 473 | 1,862 |
| \$ 563,896 | \$ 600,585 | Total | | \$ 1,747,561 | \$ 1,857,519 |

Gross premium volume for both the quarter and nine months ended September 30, 2008 decreased 6%, compared to the same periods in 2007. The decrease in both periods of 2008 was primarily the result of increased competition across many of our product lines and our decision to exit certain alternative risk transfer

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programs during 2007 that were previously underwritten by the Markel Re unit.

Competition in the property and casualty insurance industry has remained strong throughout the first nine months of 2008. We continue to see price deterioration in virtually all of our product areas as a result of intense competition, including the increased presence of standard insurance companies in our markets. However, given the rapid deterioration in underwriting capacity as a result of the disruptions in the financial markets and losses from catastrophes during 2008, the rate of decline has begun to slow. During the remainder of 2008 and into 2009, we believe that the decline in renewal rates will continue to slow and in certain lines rates may increase. We also expect that there will be increased opportunities for new business during this same period. When we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume has declined and, if the competitive environment does not improve, could decline further in the future.

| Quarter Ended | | Net Written Premiums | | Nine Months Ended | |
|---------------|------------|-------------------------------|--|-------------------|--------------|
| September 30, | | | | September 30, | |
| 2008 | 2007 | <i>(dollars in thousands)</i> | | 2008 | 2007 |
| \$ 264,974 | \$ 280,402 | Excess and Surplus Lines | | \$ 799,906 | \$ 864,830 |
| 91,447 | 94,114 | Specialty Admitted | | 242,082 | 254,600 |
| 141,541 | 138,861 | London Insurance Market | | 500,147 | 492,689 |
| 141 | 187 | Other | | 153 | 1,581 |
| \$ 498,103 | \$ 513,564 | Total | | \$ 1,542,288 | \$ 1,613,700 |

Net retention of gross premium volume was 88% for both periods of 2008 compared to 86% for the third quarter of 2007 and 87% for the nine months ended September 30, 2007. As part of our underwriting philosophy, we seek to offer products with limits that do not require significant amounts of reinsurance. We purchase reinsurance in order to reduce our retention on individual risks and enable us to write policies with sufficient limits to meet policyholder needs.

| Quarter Ended | | Earned Premiums | | Nine Months Ended | |
|---------------|------------|-------------------------------|--|-------------------|--------------|
| September 30, | | | | September 30, | |
| 2008 | 2007 | <i>(dollars in thousands)</i> | | 2008 | 2007 |
| \$ 275,893 | \$ 292,277 | Excess and Surplus Lines | | \$ 826,856 | \$ 875,671 |
| 78,707 | 81,733 | Specialty Admitted | | 234,154 | 239,253 |
| 161,320 | 161,320 | London Insurance Market | | 459,022 | 481,587 |
| 143 | 187 | Other | | 155 | 1,581 |
| \$ 516,063 | \$ 535,517 | Total | | \$ 1,520,187 | \$ 1,598,092 |

Earned premiums for the quarter and nine months ended September 30, 2008 decreased 4% and 5%, respectively, compared to the same periods in 2007. The decrease in both periods of 2008 was primarily due to lower earned premiums in the Excess and Surplus Lines segment as a result of lower gross premium volume over the last several quarters.

Investing Results

Net investment income for the third quarter of 2008 was \$68.2 million compared to \$80.9 million for the third quarter of 2007. Net investment income for the nine months ended September 30, 2008 was \$220.8 million compared to \$235.5 million for the same period of 2007. For the quarter and nine months ended September 30, 2008, the decrease in net investment income was primarily due to adverse changes in the fair value of our credit default swap of \$7.7 million and \$11.7 million, respectively. At September 30, 2008, the credit default swap

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had a notional amount of \$50.0 million and a fair value of \$44.9 million.

During September 2008, we received notice of two credit events, as defined under the terms of the credit default swap agreement, with respect to the bankruptcies of Lehman Brothers Holdings Inc. (Lehman Brothers) and Washington Mutual, Inc. (Washington Mutual). Since September 30, 2008, we paid the credit default counterparty \$8.3 million and \$8.6 million, respectively, to settle our obligations. As a result of these payments, the notional amount of the credit default swap decreased to \$33.1 million, which represents our aggregate exposure to losses if specified credit events involving additional third parties occur.

In both periods of 2008, investment yields have declined due in part to lower current yields on the portfolio as we have increased our allocation to short-term investments and cash and cash equivalents compared to the same periods of 2007. In addition to this change in investment allocation, short-term interest rates have decreased during the first nine months of 2008. Net investment income may continue to be impacted if short-term interest rates remain at current levels, or decline further, and we maintain or increase allocations to these liquid, short-duration holdings.

Net realized investment losses for the third quarter of 2008 were \$168.7 million compared to net realized investment gains of \$3.0 million for the third quarter of 2007. For the nine months ended September 30, 2008, net realized investment losses were \$200.2 million compared to net realized investment gains of \$64.7 million for the same period of 2007. Net realized investment losses for both periods of 2008 included losses on the sales of our investments in fixed maturities issued by Lehman Brothers and Washington Mutual of \$40.9 million and \$32.1 million, respectively.

Net realized investment losses for the third quarter of 2008 also included \$94.6 million of write downs for other-than-temporary declines in the estimated fair value of investments. These write downs were made with respect to seven equity securities, two nonredeemable preferred stocks and five fixed maturities. The two largest write downs of equity securities related to our investments in General Electric Company and International Game Technology, for which we had write downs of \$32.7 million and \$16.1 million, respectively. Given the magnitude of the unrealized losses associated with these securities and management's belief that these securities were unlikely to recover in the near term, the decline in value was deemed other-than-temporary and was charged to earnings. The two nonredeemable preferred stock write downs related to our holdings in Fannie Mae and Freddie Mac totaled \$9.0 million. The two largest write downs of fixed maturities related to our investments in Morgan Stanley and Kaupthing Bank, an Icelandic financial institution, for which we had write downs of \$18.4 million and \$10.5 million, respectively. During the third quarter of 2008, we sold a portion of our holdings in Morgan Stanley and, as a result, we determined that we no longer had the intent to hold this investment until it fully recovered its value. The write down on Kaupthing Bank was made because we believe we may not receive all interest and principal payments when due. The six investments discussed above represent 92% of the total other-than-temporary write down recorded in the third quarter of 2008. There were no write downs for other-than-temporary declines in the estimated fair value of investments for the third quarter of 2007.

Net realized investment gains (losses) included \$187.1 million and \$3.5 million of write downs for other-than-temporary declines in the estimated fair value of investments for the nine months ended September 30, 2008 and 2007, respectively. Net realized investment losses for the nine months ended September 30, 2008 included write downs for 15 equity securities, two nonredeemable preferred stocks and five fixed maturities. Approximately 40% of the write downs for the nine months ended September 30, 2008 were due to the

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determination that we no longer had the intent to hold these securities until they fully recovered in value as we began selling a portion of the securities in order to allocate capital to other securities with greater potential for long-term investment returns. The remainder of the write downs related to securities that had other indications of other-than-temporary impairment, including having fair values of less than 80% of cost for more than 180 days. The most significant write downs during the first six months of 2008 were related to our investment in Citigroup Inc., a security that we began selling in March 2008, and our investment in Bank of America Corporation, a security with significant declines in fair value that management believed would not recover in the near term. Write downs for Citigroup Inc. and Bank of America Corporation were \$37.6 million and \$17.0 million, respectively, for the nine months ended September 30, 2008. These two investments and the six investments discussed above for the third quarter of 2008 represent 76% of the total other-than-temporary write down recorded during the nine months ended September 30, 2008.

We complete a detailed analysis each quarter to assess whether the decline in the value of any investment below its cost basis is deemed other-than-temporary. At September 30, 2008, we held securities with gross unrealized losses of \$268.0 million, or less than 4% of invested assets. All securities in an unrealized loss position were reviewed, and we believe that there were no other securities with indications of declines in estimated fair value that were other-than-temporary at September 30, 2008. However, given the volatility in the debt and equity markets, we caution readers that additional declines in value could be significant and may result in other-than-temporary impairment charges in future periods.

Other Expenses

Interest expense for the third quarter of 2008 decreased to \$11.0 million from \$13.6 million in the third quarter of 2007. Interest expense for the nine months ended September 30, 2008 decreased to \$35.8 million from \$43.4 million in the same period of 2007. For both periods of 2008, the decrease compared to the same periods of 2007 was primarily due to the maturity of our 7.00% and 7.20% unsecured senior notes in May 2008 and August 2007, respectively.

We recognized a tax benefit of 67% for the nine months ended September 30, 2008. The rate of tax benefit is higher than that obtained by applying the statutory rate of 35% to pre-tax losses due to the additional tax benefits associated with favorable permanent differences, principally tax exempt investment income. The provision for income tax benefit for the nine months ended September 30, 2008 has been calculated based on actual pre-tax loss and estimated permanent differences through that date. The estimated annual effective tax rate was 31% for the nine months ended September 30, 2007, which differs from the statutory rate primarily as a result of tax-exempt investment income. During the quarter ended September 30, 2008, our 2004 federal income tax year closed to audit by the Internal Revenue Service (IRS). No material adjustments were made to our consolidated financial statements as a result of this examination. We are no longer subject to income tax examination by the IRS for years ended before January 1, 2006.

Comprehensive Income (Loss)

Comprehensive loss was \$158.8 million for the third quarter of 2008 compared to comprehensive income of \$111.5 million for the same period of 2007. Comprehensive loss for the third quarter of 2008 included net loss of \$142.3 million and net unrealized losses on investments, net of taxes, of \$13.1 million. Comprehensive income for the third quarter of 2007 included net income of \$92.4 million and net unrealized gains on investments, net of taxes, of \$16.2 million. For the nine months ended September 30, 2008, comprehensive loss

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was \$272.4 million compared to comprehensive income of \$258.4 million for the same period in 2007. Comprehensive loss for the nine months ended September 30, 2008 included net unrealized losses on investments, net of taxes, of \$243.7 million and net loss of \$26.1 million. Comprehensive income for the nine months ended September 30, 2007 included net income of \$312.2 million, partially offset by net unrealized losses on investments, net of taxes, of \$59.1 million.

Financial Condition

Invested assets were \$7.2 billion at September 30, 2008 compared to \$7.8 billion at December 31, 2007. Net unrealized holding gains on investments, net of taxes, were \$144.8 million at September 30, 2008 compared to \$388.5 million at December 31, 2007. The decrease in net unrealized holding gains on investments, net of taxes, for the nine months ended September 30, 2008 was primarily due to a decline in the market value of both our fixed maturity and equity portfolios as a result of the ongoing disruptions in the financial markets. Equity securities and investments in affiliates were \$1.6 billion, or 22% of invested assets, at September 30, 2008 compared to \$1.9 billion, or 25% of invested assets, at December 31, 2007.

Net cash provided by operating activities was \$328.8 million for the nine months ended September 30, 2008 compared to \$383.3 million for the same period of 2007. The decrease in 2008 was due in part to lower premium volume in the Excess and Surplus Lines segment, offset in part by lower income tax payments compared to 2007.

Net cash used by financing activities was \$153.3 million for the nine months ended September 30, 2008 compared to \$208.3 million for the same period of 2007. During 2008, we repaid \$93.1 million on our 7.00% unsecured senior notes, which matured May 15, 2008. During 2007, we redeemed the outstanding Junior Subordinated Deferrable Interest Debentures for \$111.0 million, and we repaid \$73.0 million on our 7.20% unsecured senior notes, which matured August 15, 2007. Cash of \$60.2 million and \$24.2 million was used to repurchase shares of our common stock during 2008 and 2007, respectively.

We seek to maintain prudent levels of liquidity and financial leverage for the protection of our policyholders, creditors and shareholders. Our target capital structure includes approximately 30% debt. Our debt to total capital ratio was 20% at both September 30, 2008 and December 31, 2007. From time to time, our debt to total capital ratio may increase due to business opportunities that may be financed in the short term with debt. Alternatively, our debt to total capital ratio may fall below our target capital structure, which provides us with additional borrowing capacity to respond quickly when future opportunities arise.

Our insurance operations require capital to support premium writings, and we remain committed to maintaining adequate capital and surplus at each of our insurance subsidiaries. Given the recent financial market disruption and resulting investment losses incurred during 2008, as well as the underwriting losses experienced as a result of the 2008 Hurricanes, we expect to make capital contributions to certain of our insurance subsidiaries before the end of 2008. We will determine the amount of capital to contribute after reviewing our 2009 business plans and considering investment market conditions during the fourth quarter of 2008, as well as our updated estimates of hurricane losses. Amounts contributed will be funded by invested assets from our holding company, which held \$742.3 million of invested assets, including \$127.7 million of short-term investments and cash and cash equivalents, at September 30, 2008.

We have entered into various agreements and commitments related to the One Market initiative discussed in

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further detail under Our Business. The systems implementation portion of this initiative is currently scheduled to be substantially completed by the end of 2010. We currently anticipate that the total cost we will pay to third-party vendors associated with this initiative will be approximately \$100 million, the majority of which we estimate will be capitalized and amortized over a period of five to seven years. Costs related to the One Market initiative are expected to be paid over the course of the next two to three years.

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

Since September 30, 2008, we borrowed \$100 million under our \$375 million revolving credit facility. If we had drawn on our credit facility during the third quarter, our debt to total capital ratio would have been 22.9% at September 30, 2008, which is well below our target capital structure. This excess capital provides additional liquidity in order to take advantage of business opportunities that may arise given current market conditions.

Shareholders' equity was \$2.3 billion at September 30, 2008 compared to \$2.6 billion at December 31, 2007. Book value per share decreased to \$235.72 at September 30, 2008 from \$265.26 at December 31, 2007 primarily due to \$272.4 million of comprehensive loss in 2008.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

There were no material changes to the market risk components described in our Annual Report on Form 10-K for the year ended December 31, 2007.

During the quarter ended September 30, 2008, there were significant disruptions in the financial markets. These market disruptions have resulted in a lack of liquidity within the credit markets, which has increased credit risk in the financial markets and resulted in the widening of credit spreads. Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. Net unrealized investment losses on fixed maturities were \$201.8 million at September 30, 2008, compared to net unrealized investment gains on fixed maturities of \$5.6 million at December 31, 2007. The adverse change in the value of our fixed maturity portfolio was due in part to increased credit risk as a result of the above events.

We monitor our portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit quality, investment grade securities. Our fixed maturity portfolio has an average rating of AA, with approximately 91% rated A or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At September 30, 2008, approximately 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued

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with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

Item 4. Controls and Procedures

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

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

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

There were no changes in our internal control over financial reporting during the third quarter of 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Safe Harbor and Cautionary Statement

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

There are risks and uncertainties that may cause actual results to differ materially from predicted results in forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additional factors that could cause actual results to differ from those predicted are set forth under Risk Factors and Safe Harbor and Cautionary Statement in our 2007 Annual Report on Form 10-K or are included in the items listed below:

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

we are legally required in certain instances to offer terrorism insurance and have attempted to manage our exposure; however, if there is a covered terrorist attack, we could sustain material losses;

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

the frequency and severity of catastrophic events is unpredictable and may be exacerbated if, as many forecast, conditions in the ocean and atmosphere result in increased hurricane or other adverse weather-related activity;

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

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

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

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

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

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

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

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we cannot predict the extent and duration of current economic and market disruptions; the effects of government interventions into the market to address these disruptions; and their combined impact on our industry, business and investment portfolio;

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

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

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

adverse changes in our assigned financial strength or debt ratings could impact our ability to attract and retain business or obtain capital.

Our premium volume and underwriting and investment results have been and will continue to be potentially materially affected by these factors. By making forward-looking statements, we do not intend to become obligated to publicly update or revise any such statements whether as a result of new information, future events or other changes. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as at their dates.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

The following supplements the discussion under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007:

Continued deterioration in the public debt and equity markets could lead to additional investment losses and adverse effects on our business. The severe downturn in the public debt and equity markets, reflecting uncertainties associated with the mortgage crisis, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions, has resulted in significant realized and unrealized losses in our investment portfolio. Depending on market conditions going forward, we could incur substantial additional realized and unrealized losses in future periods, which could have an adverse impact on our results of operations, financial condition, debt and financial strength ratings and ability to access capital markets.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our common stock repurchases for the quarter ended September 30, 2008.

Issuer Purchases of Equity Securities

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ¹ | (d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) |
|--|--|--|--|---|
| July 1, 2008 through July 31, 2008 | | | | \$ 81,746 |
| August 1, 2008 through August 31, 2008 | 45,900 | \$ 360.66 | 45,900 | \$ 65,191 |
| September 1, 2008 through September 30, 2008 | 4,900 | \$ 362.03 | 4,900 | \$ 63,417 |
| Total | 50,800 | \$ 360.79 | 50,800 | \$ 63,417 |

¹ The Board of Directors approved the repurchase of up to \$200 million of our common stock pursuant to a share repurchase program publicly announced on August 22, 2005 (the Program). Under the Program, we may repurchase outstanding shares of our common stock from time to time, primarily through open-market transactions. The Program has no expiration date but may be terminated by the Board of Directors at any time.

Item 6. Exhibits

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

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 4th day of November, 2008.

Markel Corporation

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

By /s/ Anthony F. Markel
Anthony F. Markel
Vice Chairman

By /s/ Steven A. Markel
Steven A. Markel
Vice Chairman

By /s/ Paul W. Springman
Paul W. Springman
President and Chief Operating Officer
(Principal Operating Officer)

By /s/ Thomas S. Gayner
Thomas S. Gayner
Executive Vice President and Chief Investment
Officer

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

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Exhibit Index

| Number | Description |
|---------------|--|
| 3(i) | Amended and Restated Articles of Incorporation, as amended (3(i))a |
| 3(ii) | Bylaws, as amended (4.2)b |
| 4(i) | Form of Credit Agreement dated August 25, 2005, among Markel Corporation, the lenders from time to time party thereto, SunTrust Bank, as Administrative Agent and Swingline Lender, Wachovia Bank, N.A., as Syndication Agent, and Barclays Bank PLC and HSBC Bank USA, N.A., as Co-Documentation Agents (4)c |
| 4(ii) | First Amendment dated March 17, 2006, to Credit Agreement dated August 25, 2005, among Markel Corporation, the banks and financial institutions from time to time party thereto, and SunTrust Bank, as Administrative Agent and Swingline Lender (4(ii))d The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instruments defining the rights of holders of long-term debt of the registrant and subsidiaries shown on the Consolidated Balance Sheet of the registrant at September 30, 2008 and the respective Notes thereto, included in this Quarterly Report on Form 10-Q. |
| 10.1 | Form of Restricted Stock Award Agreement for Directors* |
| 10.2 | Description of Permitted Acceleration of Vesting Date of Restricted Stock Units by Up to Thirty Days* |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)* |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)* |
| 32.1 | Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350* |
| 32.2 | Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350* |
| a. | Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended March 31, 2000. |
| b. | Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on August 20, 2007. |
| c. | Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended September 30, 2005. |
| d. | Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended March 31, 2006. |
| * | Filed with this report. |