

# 2014

## **Markel Corporation**

**Annual Report & Form 10-K**



## THE CORPORATE PROFILE

Markel Corporation is a diverse financial holding company serving a variety of niche markets. Our principal business markets and underwrites specialty insurance products.

In each of our businesses, we seek to provide quality products and excellent customer service so that we can be a market leader.

Our financial goals are to earn consistent underwriting and operating profits and superior investment returns to build shareholder value.

## THE MARKEL STYLE

Markel has a Commitment to Success. We believe in hard work and a zealous pursuit of excellence while keeping a sense of humor. Our creed is honesty and fairness in all our dealings.

The Markel way is to seek to be a market leader in each of our pursuits. We seek to know our customers' needs and to provide our customers with quality products and service.

Our pledge to our shareholders is that we will build the financial value of our Company. We respect our relationship with our suppliers and have a commitment to our communities.

We are encouraged to look for a better way to do things...to challenge management. We have the ability to make decisions or alter a course quickly. The Markel approach is one of spontaneity and flexibility. This requires a respect for authority but a disdain of bureaucracy.

At Markel, we hold the individual's right to self-determination in the highest light, providing an atmosphere in which people can reach their personal potential. Being results-oriented, we are willing to put aside individual concerns in the spirit of teamwork to achieve success.

Above all, we enjoy what we are doing. There is excitement at Markel, one that comes from innovating, creating, striving for a better way, sharing success with others...winning.

# Highlights

## FINANCIAL HIGHLIGHTS

(dollars in millions, except per share data)

	2014	2013*	2012
Gross premium volume	\$ 4,806	\$ 3,920	\$ 2,514
Net written premiums	3,917	3,237	2,214
Earned premiums	3,841	3,232	2,147
U.S. GAAP combined ratio	95%	97%	97%
Total operating revenues	5,134	4,323	3,000
Net income to shareholders	321	281	253
Comprehensive income to shareholders	936	459	504
Total investments and cash and cash equivalents	\$ 18,638	\$ 17,612	\$ 9,333
Total assets	25,200	23,956	12,557
Senior long-term debt and other debt	2,254	2,256	1,493
Shareholders' equity	7,595	6,674	3,889
Debt to capital	23%	25%	28%
<b>PER SHARE DATA</b>			
Common shares outstanding (at year end, in thousands)	13,962	13,986	9,629
Diluted net income	\$ 22.27	\$ 22.48	\$ 25.89
Book value	\$ 543.96	\$ 477.16	\$ 403.85
Growth in book value	14%	18%	15%

\*Includes Alterra Capital Holdings Limited since its acquisition on May 1, 2013.

## OPERATING HIGHLIGHTS

- Operating revenues surpassed \$5 billion
- Strong investment performance with a taxable-equivalent total investment return of 7%, driven by a 19% return on equities
- Combined ratio of 95%
- Comprehensive income to shareholders of \$936 million, which drove growth in book value per share of 14% for the year
- Debt to capital ratio of 23%, our lowest since 2007
- Expanded our insurance operations through our acquisition of Abbey and our non-insurance operations through our acquisition of Cottrell

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# 2014

## To Our Business Partners

Here is our annual report to you for the year 2014. If you are reading this, it's probably because you already own Markel. This is your company. You own it and we work for you. In the course of this report we'll attempt to answer two major questions that we think you would want to know as owners of the business, namely, "How are we doing, and, what's next?"

If for some reason you are reading this and you don't own Markel, we hope that you will want to rectify that void by the time you finish.

*Our goal at Markel is to build one of the world's great companies.* The markers of success in achieving that goal will be outstanding long-term financial results AND an enduring culture that attracts the best associates, customers, and shareholders. We've pursued this dream through three generations of family ownership and over three decades of public ownership and so far...so good.

## Question # 1 – How are we doing?

This was a watershed year for your company. The financial results only hint at the progress made at Markel in multiple dimensions. The people of this company went from a sprint to hyper-speed in adapting to a changing world. We learned important lessons about how to manage and continue to build an enterprise of increasing scale and complexity. First things first, to the associates of Markel, thank you for your amazing efforts.

2014 was a year of great progress, top to bottom. Total revenues grew 19% to \$5.1 billion versus \$4.3 billion. In our insurance operations, we wrote \$4.8 billion of premium volume compared to \$3.9 billion a year ago. Most importantly, this was profitable volume with a combined ratio of 95% compared to 97% in 2013. We earned 7.4% on our investment portfolio with equity returns of 18.6% and fixed income returns of 6.5%. In our Markel Ventures operations revenues totaled \$838.1 million versus \$686.4 million a year ago and we earned Adjusted EBITDA of \$95.1 million compared to \$83.8 million a year ago.

<i>(in millions, except per share data)</i>	<b>2014</b>	2013	2012	2011	2010	2009	2008	2007	2006
Total operating revenues	\$ <b>5,134</b>	4,323	3,000	2,630	2,225	2,069	1,977	2,551	2,576
Gross written premiums	\$ <b>4,806</b>	3,920	2,514	2,291	1,982	1,906	2,213	2,359	2,536
Combined ratio	<b>95%</b>	97%	97%	102%	97%	95%	99%	88%	87%
Investment portfolio	\$ <b>18,638</b>	17,612	9,333	8,728	8,224	7,849	6,893	7,775	7,524
Portfolio per share	<b>\$1,334.89</b>	1,259.26	969.23	907.20	846.24	799.34	702.34	780.84	752.80
Net income (loss) to shareholders	\$ <b>321</b>	281	253	142	267	202	(59)	406	393
Comprehensive income (loss) to shareholders	\$ <b>936</b>	460	504	252	431	591	(403)	337	551
Shareholders' equity	\$ <b>7,595</b>	6,674	3,889	3,388	3,172	2,774	2,181	2,641	2,296
Book value per share	\$ <b>543.96</b>	477.16	403.85	352.10	326.36	282.55	222.20	265.26	229.78
5-Year CAGR in book value per share <sup>(1)</sup>	<b>14%</b>	17%	9%	9%	13%	11%	10%	18%	16%

<sup>(1)</sup> CAGR—compound annual growth rate

In sum, financially, we earned comprehensive income of \$935.9 million and the net change in our book value per share was \$66.80. There will be many more numbers and tables in the body of this report but suffice it to say that the people of Markel produced outstanding financial results in 2014.

Our associates enjoyed new challenges and opportunities throughout Markel. We expanded in financial size through organic growth and the ongoing successful integration of the Alterra acquisition. We began operating in new territories around the globe, we introduced new insurance offerings, and we added new services and products in our Markel Ventures operations. Associates at Markel should never be bored. There are ongoing opportunities to learn and build at this company. The combination of ongoing personal growth opportunities along with our consistent values as described in the Markel Style, make Markel a wonderful company in which to build a career.

We served our customers. That is why we are in business. During 2014 we provided for our customers with over \$1.9 billion of payments for when the earth shook, winds blew, or other unforeseen events, caused covered insured losses. Within Markel Ventures, among other things, we built equipment which our customers used to bake bread, dredge, and haul cars, general cargo, and industrial supplies. We provided affordable housing and

medical needs for thousands. We helped retailers with analytics and data they use to run their businesses.

And for our shareholders, the price of each share of Markel rose 18% from \$580.35 to \$682.84 during the year.

While the short-term annual financial results were great, and the stock price went up, results from any single year do not reliably describe the real accomplishments and progress at your company. It takes longer to make valid judgments.

To begin to correct for this short-term distortion, we as senior managers mechanically use a rolling five-year measurement period to calibrate things like our incentive compensation. The reason we do that is to get a more accurate proxy of measuring our progress in accomplishing the more important long-term goals. We think that time horizon is a bit longer than what most companies use. We also think that orienting ourselves towards long-term thinking offers us a huge advantage. With a long term focus, difficult decisions oftentimes become easier and more obvious.

The answer to the question of, "How we are doing?" also becomes clearer and more accurate when we start to look at five-year measurement terms. In the last five years, revenues grew 148% from \$2.1 billion to

2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	20-Year CAGR <sup>(1)</sup>
\$ 2,200	2,262	2,092	1,770	1,397	1,094	524	426	419	367	344	280	16%
\$ 2401	2,518	2,572	2,218	1,774	1,132	595	437	423	414	402	349	14%
101%	96%	99%	103%	124%	114%	101%	98%	99%	100%	99%	97%	—
\$ 6,588	6,317	5,350	4,314	3,591	3,136	1,625	1,483	1,410	1,142	927	622	19%
\$672.34	641.49	543.31	438.79	365.70	427.79	290.69	268.49	257.51	209.20	170.95	115.45	13%
\$ 148	165	123	75	(126)	(28)	41	57	50	47	34	19	15%
\$ 64	273	222	73	(77)	82	(40)	68	92	56	75	(10)	14%
\$ 1,705	1,657	1,382	1,159	1,085	752	383	425	357	268	213	139	22%
\$174.04	168.22	140.38	117.89	110.50	102.63	68.59	77.02	65.18	49.16	39.37	25.71	16%
11%	20%	13%	13%	18%	21%	22%	23%	26%	26%	31%	17%	—

\$5.1 billion. The book value per share rose 93% from \$282.55 to \$543.96 and we earned comprehensive income of \$2.6 billion in the last five years as compared to \$1.1 billion in the previous five-year period. If the Beatles meant to write a song about us, "It's getting better all the time" might have been the one they had in mind.

The most robust evidence of success in "How we are doing?" can be seen in the embedded 21 year table of financial results that we include in this report. We encourage you to spend just as much time with the numbers and trends in that table as with the words in this letter. The two are intertwined. The culture, the dreams, the vision, and the tasks we describe in the letter, produce the numbers you see in the table.

We would not have been as successful producing those results without our vision as stated in the Markel Style, AND, our words about culture, and values, and dreams, would ring hollow had we not produced the economic results described in the table. They are one.

## **Question # 2 – What's next?**

To think about, "What's next?" consider the words of the famous Virginian Patrick Henry when he said, "I know of no way of judging the future but by the past." Much of what we are reporting to you on our recent results came from four distinct decisions during the last few years. We believe in the dictum that "excellence comes from experimentation rather than design." Here are some examples of the experiments/decisions we've made in recent years and how they are influencing current results.

First, several years ago we decided to pursue the "One Markel" initiative. Historically, Markel grew predominantly by acquisition. While we added our culture and incentive systems to the businesses we acquired, we largely left them to operate as they had in the past. Silos of IT systems, marketing channels, relationships, and product decisions, among

other items, were largely left in the hands of the managers of the acquired companies. We modestly carried products, people and ideas from one unit to the other, but not massively so. Fortunately, the company grew and we earned wonderful financial results for a long period of time with that general approach.

As always though, the world changed, and we needed to change with it. With the increasing pace of business today as supported by information technology developments, we needed to increase our speed and scalability. The "One Markel" initiative truly changed the mindset of Markel from that of a confederation of individual units into one global company.

In the early 1990's, one knowledgeable investor remarked that they were impressed with Markel, and our creativity and financial performance, but they were concerned that our approach was not scalable. They were right. After several decades of success, we concluded that we were nearing the limits of scalability with our previous approach. So we changed.

It is impossible to overstate the importance of this decision.

It touches everything we do and it is different from our historical approach. That is wonderful. While our values and principles have and will remain unchanged, the tools and specifics needed to successfully operate a business change all the time. We keep what should remain, and we change what needs to be changed. Count on us to continue this effort forever.

Second, the mindset change from One Markel contributed to our decision to purchase Alterra and roughly double the size of the company in one fell swoop.

The thing about doing things in units of "one fell swoop" as opposed to sips, or incrementally, is that it forces you to accept change immediately. Business as usual just doesn't work and you must find a different way to do things.

Ironically, it can often be the hardest to accept change at a successful organization. The mindset of “if it ain’t broke, why fix it?” can easily develop when things are going well. The world in 2015 and beyond has no place for that mentality. However things are, they can be better, and the forced reexamination of our business to figure out overnight how to operate a company that was twice its previous size served us well.

We accepted that challenge and we continue to rise to it. The actions we took, and the new mindset, will serve us well into the future.

Third, we decided to integrate the relevant Alterra operations from day one as opposed to simply bolting it on to our existing operations. This was a different approach than our previous insurance acquisitions and a new day-one mindset going into a deal. So far, this approach has worked extremely well. We’ve had a smoother integration of Alterra than any other previous insurance acquisition at Markel.

The Reinsurance and Global divisions of Alterra were new to us, but those businesses benefited from the increasing scale and value of the Markel brand immediately.

At the same time, we also kept many of our historical practices while integrating Alterra. For example, we strengthened loss reserves for the post acquisition Alterra business to be consistent with our more likely redundant than deficient reserving philosophy even though this approach penalizes the “reported” short-term earnings. We think this approach reinforces and builds our culture of conservatism and ends up producing better real economics over time. We also introduced our longer term and entrepreneurial incentive compensation arrangements to the Alterra associates which have worked so well in reinforcing our culture and producing great financial results for associates and shareholders over long periods at Markel.

Fourth, we pursued the creation and expansion of Markel Ventures.

From the start in 2005 when we purchased 80% of AMF with its roughly \$60 million in revenue, Markel Ventures ended 2014 with revenues of \$838.1 million and Adjusted EBITDA of \$95.1 million. Markel Ventures now stands as a real, and meaningful contributor to the wealth creation underway at Markel Corporation.

Markel Ventures does two things for Markel. One, it gives us another option for capital allocation decisions. Secondly, it makes a bunch of money. As one frame of reference for that statement, consider Markel Corporation 10 short years ago. In 2004, we earned underwriting premiums of just over \$2 billion and underwriting profits of \$72 million. While the language used to describe underwriting profits from insurance operations, and cash flows from non-financial businesses, are different, it’s not that hard to translate. Underwriting earnings are generally comparable to Earnings Before Interest Expense, Taxes, Depreciation, and Amortization. They equal the acronym EBITDA. In 2014, the Adjusted EBITDA of Markel Ventures, which also excludes a non-cash goodwill impairment charge of \$13.7 million, totaled \$95.1 million. This stuff is starting to add up.

Most companies are limited in how they think about what they can do with capital. They are constrained by several factors. Many need to reinvest in their business just to keep it viable and competitive. We specifically choose to avoid those industries as much as possible. Many see themselves as narrow providers of specific products or services with limited interest, imagination, or desire, to move beyond those realms. We are fueled by imagination and the desire to grow, *and*, we believe it is necessary in a changing world to do so.

Many are constrained by short-term shareholders with little or no confidence in management to make rational and appropriate economic decisions. We continue to do our best to earn the right as managers to make broader decisions with capital than is the current custom in financial markets. We’ve earned excellent returns on our historical insurance and investment activities, and we’ve now developed a mature and robust business in

Markel Ventures as well. We hope you are pleased and encouraged with this development. As managers and shareholders ourselves, we are.

This record, and this trust between shareholders and managers, creates the opportunity for us to continue our triage of how we allocate capital.

First, we look to support organic growth in our existing insurance and Markel Ventures operations. We have a team of proven, successful operators within the walls of Markel. Our first choice is to give them more resources when they have the opportunity to put money to work effectively.

Second, we can pursue acquisitions in the realm of insurance or non-insurance businesses (that should cover it). We have experience and a proven track record of being able to successfully acquire and operate businesses all around the world. In the short-term, we can do math and count money. We can, with reasonable precision, know what things cost and what returns we can earn when we own them. We've done that.

More importantly, in the longer term, we see that our *values* and our *culture* work all around the globe. Talented people want to be part of this company. With talented and honest people we can accomplish anything. As such, in the long run we expect the businesses we buy to grow far beyond our initial estimates of size and profitability and to eventually exceed our wildest expectations. We do more of what works, and we give more resources to the talented associates who make good things happen. We do less of what doesn't work, and we reallocate those resources to others.

This works. It is what matters over time.

We ask for an unusual degree of trust and flexibility from our owners and we try our best to be explicit in communicating how we are proceeding with our plan to build one of the world's great businesses. The good news is that you have decades of evidence demonstrating that

we deserve this trust and will carry on in building the value of your company. We intend to keep going.

Thirdly, we acquire publicly traded equity and fixed income securities for the dual purposes of supporting our insurance operations and earning good returns on our capital. The great news to report is that our investments did what they are supposed to do. They supported the insurance operations AND they produced excellent returns on our capital.

As to our equity selection process we continue to use our durable four step process in seeking excellent long-term investments. We look for, one, profitable businesses with good returns on capital and modest leverage; two, management teams with equal measures of talent and integrity; three, businesses with reinvestment opportunities and/or capital discipline, at; four, reasonable valuations. You'll find this language in every Markel annual report since 1999. We believed in this approach since the beginning. We just started explicitly stating it in the annual report that year. Expect this language to continue in future annual reports.

As to our fixed income operations, we look for the highest quality fixed income securities that we can find to match up against our insurance liabilities. In large measure, we match the expected duration and currencies of our insurance liabilities to fixed income securities with similar durations and currencies. We do not attempt to forecast or profit from interest rate or currency movements. While we remain humble about our ability to earn returns from forecasting the future, we do remain responsible for protecting our balance sheet against big changes in those factors. As such, we continue to own a portfolio of fixed income securities which mature faster than what we expect from incoming insurance claims. We will continue to maintain this modest override from our normal design until such time as interest rates are higher than current levels. We just don't think we are being paid appropriately to take the risks of owning long-term bonds so we won't do it. It is the same decision any underwriter at Markel would make when they don't think the rewards justify the risk.



We manage practically all of our investments in house at an extraordinarily low cost. At year end the total investment portfolio stood at \$18.6 billion. Our total in house management costs remain a single digit number of basis points of that number and can't even be measured until you get to hundredths of a percent. Additionally, we tend to be incredibly tax efficient in managing our investments given our long-term ability to buy and hold quality equity investments. This is a massive addition to the long-term returns you earn as shareholders.

We continue to use our four lenses to find and select investments and we often ignore investment fashions and conventional wisdom while doing so. Currently, two features of today's marketplace strike us as good examples of ways in which we behave differently than most institutions.

One example is the current move to passive and indexed investments. One goal of indexers is to reduce investment costs. Count us in for that part. As we cited earlier, we operate at very low investment management cost levels. The problem with indexing, and when it cycles in and out of favor, is that it is a relatively brainless activity. Certain behaviors and practices get reinforced by money gushing in or out of indexes, and prices of real companies get distorted in the process. We've been around long enough to have witnessed the dreadful returns experienced by indexers in the late 90's and early 2000's. We'll try to use brains and common sense to avoid the excesses of index strategies while at the same time competing toe to toe with them on costs. Our record of now being in our third decade of outperforming the S&P 500 should give you some confidence in our approach.

A second example of how markets periodically become unhinged from long-term reality can be seen in the current action of the oil market. Arguably, oil is the most liquid, important and globally traded commodity on the face of the earth. Hundreds if not thousands of companies participate in the energy business. Hundreds

of thousands if not millions of people work in, and study this field. The fact that oil could sell for over \$100 per barrel, and for less than half that price within a few short months, should be about all of the evidence you need to dismiss those who believe in efficient markets, or forecasting just about anything.

Our investment record has not and will not be based on our ability to forecast the future of geopolitical changes, interest rates, currency moves, technological change or any other factor that occupies the minds and hours of countless investment professionals. We simply accept that all of those things will continue to fluctuate and change, and that our four part process does the best job we know of finding the people and financial circumstances who will make the best of whatever happens.

Our fourth and final choice for capital allocation happens when we believe that the repurchase of our own shares creates better returns than any of the first three choices. We've only purchased modest amounts of our stock over the years and we believe that you are better served when we can reinvest capital into businesses which create attractive recurring returns.

## **The Past – Chapters 1994 to 2014**

Financially, our past can be described by the 21 year table that shows our growth in measures such as profitability, net worth, revenues and returns on capital. On all of those measures, we've earned wonderful returns over meaningful periods of time. More importantly, what created those numbers was the leadership, integrity, creativity, flexibility, and adaptability to whatever opportunities came about and in how we responded to changes in economic conditions.

A review of the past, chapter 2014

In our insurance operations we enjoyed a wonderful year in 2014.

By way of a list, here are some of the features from 2014:

1. We made massive progress on the integration of the Alterra operations. Markel operates as a unified company. The process created more scalability and efficiency from our legacy and newer insurance operations.
2. We began a concerted and explicit effort to improve our operational efficiency and discipline to augment our historically strong skills of creativity and relationship building.
3. We systematically created opportunities for our associates to pursue personal development opportunities and transfer knowledge across the organization.
4. We globalized our information technology structure to increase efficiency and increase our opportunity to scale up our business.
5. We developed quick and meaningful actuarial tools that help our underwriters make faster and more accurate decisions.
6. We added analytics capabilities to improve day-to-day decision making regarding catastrophe related exposures, reinsurance market conditions, terrorism issues, and other risk factors.
7. We added new products and exited others that did not meet our profitability requirements.
8. We added internal incentives designed to reward harder to measure front end instances of creativity and ingenuity, in addition to the more traditional incentives associated with back end financial results.
9. We redesigned work flows to increase speed, accuracy and accountability.
10. We amalgamated our claims departments into one global department.
11. We unified our marketing approach to increase the value of the Markel brand.
12. We expanded the very nature of our insurance activities with the ongoing growth of Abbey Protection.
13. And more...

This is just a partial list of activities in our insurance operations. Suffice it to say that we sprinted hard in 2014 as an organization and this is a different and better company than before.

A similar and partial list for Markel Ventures includes the following:

1. We acquired Cottrell. The leading manufacturer of car hauling trailers in the U.S.
2. We added to the size and scale of AMF Bakery systems, now known as the Markel Food Group, with the Tromp acquisitions in the Netherlands.
3. We acquired additional manufactured housing communities at Parkland Ventures.
4. We opened four new offices at PartnerMD.
5. We expanded and deepened strategic customer relationships at RetailData.
6. We demonstrated continuity with successful leadership succession plans.
7. And more...

### **The always “treasured” accounting discussion**

Feel free to skip ahead here. As Winston Churchill said, “The length of this document defends it well against the risk of it being read.” That’s okay; the gist of this section tries to communicate two thoughts. The first and most important message, which we discussed last year, is that, in order to understand the financial performance of Markel, it is becoming just as important to focus on our statement of cash flows, and our income statement, as it is on the more historically important balance sheet. We believe that the combination of these statements which over time reconcile to the *relative* measure of *rate of change* in book value per share is equally if not more important than the *absolute* measure of where the book value per share stands at any given point in time. To gain confidence and understanding of that point of view requires diving into the world of accounting.

The second and less important message is that we incurred a minor charge for goodwill impairment within our Markel Ventures operations in 2014. This reduces the reported rate of change in the five-year growth rate of book value per share this year and for the next four years by an amount that doesn't even add up to 1%. After that, it will increase the rate of change in this measurement by a roughly similar amount for the next five years. There is no material economic effect from this adjustment.

We are writing about this because sometimes the rules of accounting seem to describe things in a different way than how we as business people might view something. In 2014 Markel Ventures earned over \$95 million of Adjusted EBITDA. Despite that aggregate performance we recorded a \$13.7 million goodwill charge to write down a portion of acquisition costs. For all of Markel Ventures, total goodwill on our balance sheet now stands at roughly \$216.0 million following this charge.

Making money and taking charges at the same time might strike you as a bit contradictory. That's why we're writing about this. We're trying to give you as much clarity as we can about both the economic conditions of our business as well as about accounting rules so that you can gain insight into how your company is doing. We think it is worth adding some commentary to the raw numbers to give you a clearer picture of how things are going.

Some of our Markel Ventures acquisitions have worked out better than we expected so far, and some have not. Given our heritage and culture of balance sheet conservatism *and* (and the word *and* is really important here) the unit level at which we review entity level balance sheets; we recorded a write-off of the goodwill associated with one unit. We remain optimistic about the long-term economic prospects of that business. We also made the sorts of changes and adaptations that you would expect of us at that unit as well as with each and every other business we manage.

From an accounting perspective, we are required to look at the recoverability of goodwill at the "reporting unit" level and each Markel Ventures affiliate group is a reporting unit for this purpose. If, instead, Markel Ventures was aggregated into one reporting unit, with Adjusted EBITDA of over \$95 million compared to a goodwill balance of \$216.0 million, it is likely that an impairment charge would not be necessary.

Accounting for goodwill involves multiple layers of judgment, in addition to the cold hard facts. We'll attempt to peel the onion of some of the layers of judgment that frame our goodwill accounting in order to try to help you understand the underlying economic reality at your company. We make every decision with the goal of trying to build the long-term value of your company. That never changes.

Specifically, when we make acquisitions we normally make an accounting entry to establish an initial balance for goodwill. We do this allocation in complete accord with GAAP. While a large amount of judgment is involved in this process, we first allocate purchase price to specific assets and liabilities with easily identifiable market prices and intangible assets that can be amortized. Roughly speaking, whatever amount is left over after those allocations is deemed to be goodwill. To the extent this process results in lower amounts of non-amortizable goodwill, it lowers current income by the amount of amortization of the intangible assets and makes the balance sheet more conservative over time.

In general, when compared to our insurance operations, the Markel Ventures companies tend to have smaller amounts of fixed assets and larger amounts of goodwill as a percentage of the total balance sheet. For non-financial based companies, these facts tend to correlate with the circumstances you would find at a good business. They are markers consistent with a company that produces good cash flows and earnings, and at the same time, doesn't need to make massive capital investments. The value of a business like this

tends to come more from cash flows they produce rather than the accumulation of easily marketable asset portfolios.

While accountants appropriately try to make sure that accounting statements provide users with information that helps them understand the underlying economic reality at any given company, it is a tough task to accomplish. Accounting rules change over time. In previous accounting eras, a rough justice approach to goodwill prevailed where the entire amount of goodwill was written off over a number of years. In other eras, different amortization schedules prevailed, and different accounts could be expensed at different rates.

In today's world, accountants mandate that the goodwill amounts on a balance sheet must be constantly evaluated and reviewed. Many billable hours are consumed in this process. This is a one-way process where goodwill might be currently perceived as impaired and therefore charges are taken. If subsequent circumstances improve, the goodwill that was written off in previous periods will never be restored and written back up.

In another instance of making money and taking charges at the same time, consider the "Other-Than-Temporary Impairment" accounting treatment that applies to our portfolio of publicly traded securities. While our overall equity portfolio earned 18.6% in percentage terms and \$611.0 million in dollars, we charged \$4.5 million against our net income for certain lots within that overall portfolio that were deemed by accounting policies to be "other-than-temporarily impaired." If those securities rise in market price in subsequent periods they will not be written up. The gains will only show up in the income statement when they get sold. This is a small amount relative to the balances involved, but it illustrates how items can travel around between income statements and balance sheets in a way that can be confusing. Fortunately, the net change in book value calculation that you can perform by using the balance sheet rather than the income statement corrects for this effect.

As we wrote last year, historically Markel Corporation was largely and accurately described as an insurance company. As an insurance company, the balance sheet towered over the income statement and the statement of cash flows as the most important of the three financial statements. We always embraced a culture of conservatism and did our best to make sure that balance sheet was as conservatively stated as possible.

Nothing about that has or will change.

The good news remains that in our view the most important single financial metric of *net change in book value per share* will still do an excellent job of accurately describing the economic progress we are making at your company.

To give you some degree of understanding as to why we're so focused on the compound annual growth rate (CAGR) in book value per share, consider the following. For the last five years, the CAGR in book value per share was 14%. For the same five years, the CAGR of the Markel Stock price was 15%. For the 21 years listed in the table, the CAGR in book value per share was 16%. The 21 year CAGR for the stock price was 15%.

It is no accident that those numbers are so similar. If you want to have an idea of what you'll earn in the future from owning Markel, our estimate stops and starts with the *rate* at which the long-term CAGR of book value per share grows. The long-term *rate* of increase in that number is the least worst proxy to determine how we are doing as managers in building the value of your company.

We try to make the growth in book value per share as high as it can be in each and every aspect of our insurance, investing, Markel Ventures, and capital allocation decisions.

**Final note-** If it is of any comfort to you as readers, five out of the six people signing this letter wished that we didn't write about accounting. But as Bono of U2 sings in One Love, "We get to carry each other." The sixth member of the band looks forward to not writing about accounting as well, but feels that it is of mortal importance to understand the nuances and challenges involved in translating between GAAP accounting procedures and economic reality.

## The Future – 2015 and beyond

In all of these activities throughout the entirety of the Markel Corporation we continued our long-term path of building one of the world's great companies.

Our simple forecast for "What's next?" is *more of the same*. We will continue to come to work every day. We will think creatively about how to operate our business more efficiently and effectively, we will think about what businesses we should pursue and what we should cede to others, we will try to attract and retain the most talented people we can find who share our values, and bring increasing skills and talents to the company. We will dedicate ourselves to learning continuously, and we will never stop. While "getting better all the time" is a pleasant tune when you hear the Beatles sing it, the reality is that it describes an eternally challenging, but magnificent, quest.

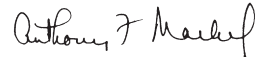
This is not a new statement in 2014. It's what we've done continuously at Markel since Sam Markel started this company with an idea in 1930.

We are not done. We enjoy the process of getting better and we will continue to work at that task. As such, the next chapter for us is more of the same...*more*.

Thank you again for your confidence and trust in us as managers of your company. We look forward to reporting to you on our ongoing progress and we deeply appreciate the opportunity to build this institution and what it represents.



Alan I. Kirshner, *Chairman of the Board and Chief Executive Officer*



Anthony F. Markel, *Vice Chairman*



Steven A. Markel, *Vice Chairman*



F. Michael Crowley, *President and Co-Chief Operating Officer*



Thomas S. Gayner, *President and Chief Investment Officer*



Richard R. Whitt, III, *President and Co-Chief Operating Officer*

## BUSINESS OVERVIEW

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

On May 1, 2013, we completed the acquisition of Alterra Capital Holdings Limited (Alterra), a Bermuda-headquartered global enterprise providing diversified specialty property and casualty insurance and reinsurance products to corporations, public entities and other property and casualty insurers.

### Specialty Insurance and Reinsurance

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

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

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

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

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

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



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## Markets

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In the United States, we write business in the excess and surplus lines (E&S) and specialty admitted insurance and reinsurance markets. In 2013, the E&S market represented approximately \$38 billion, or 7%, of the approximately \$546 billion United States property and casualty industry.<sup>(1)</sup> In 2013, we were the sixth largest E&S writer in the United States as measured by direct premium writings.<sup>(1)</sup>

Our E&S insurance operations are conducted through Essex Insurance Company (Essex) and Alterra Excess & Surplus Insurance Company (AESIC), both domiciled in Delaware, and Evanston Insurance Company (Evanston), domiciled in Illinois. The majority of our specialty admitted insurance operations are conducted through Markel Insurance Company (MIC), domiciled in Illinois; Markel American Insurance Company (MAIC), domiciled in Virginia; FirstComp Insurance Company (FCIC), domiciled in Nebraska; Essentia Insurance Company (Essentia), domiciled in Missouri; and Alterra America Insurance Company (AAIC), domiciled in Delaware. Our United States reinsurance operations are conducted through Alterra Reinsurance USA Inc. (Alterra Re USA), a Delaware-domiciled reinsurance company.

In Europe, we participate in the London insurance market through Markel Capital Limited (Markel Capital) and Markel International Insurance Company Limited (MIICL). Markel Capital is the corporate capital provider for Markel Syndicate 3000, through which our Lloyd's of London (Lloyd's) operations are conducted. Markel Syndicate 3000 is managed by Markel Syndicate Management Limited (MSM). In 2013, our Lloyd's operations also included Lloyd's Syndicate 1400, which is also managed by MSM. Business previously written by Alterra on Lloyd's Syndicate 1400 is now being written on Markel Syndicate 3000 and MSM continues to manage the run-off of Lloyd's Syndicate 1400. Markel Capital and MIICL are headquartered in London, England and have offices across the United Kingdom, Europe, Canada, Latin America, Asia Pacific and the Middle East through which we are able to offer insurance and reinsurance. The London insurance market, which produced approximately \$68 billion of gross written premium in 2013,<sup>(2)</sup> is the largest insurance market in Europe and third largest in the world.<sup>(3)</sup> In 2013, gross premium written through Lloyd's syndicates generated roughly 60% of the London market's international insurance business,<sup>(2)</sup> making Lloyd's the world's largest commercial surplus lines insurer<sup>(1)</sup> and fourth largest reinsurer.<sup>(4)</sup> Corporate capital providers often provide a majority of a syndicate's capacity and also generally own or control the syndicate's managing agent. This structure permits the capital provider to exert greater influence on, and demand greater accountability for, underwriting results. In 2013, corporate capital providers accounted for approximately 88% of total underwriting capacity in Lloyd's.<sup>(5)</sup> Through 2014, our other European insurance and reinsurance operations primarily have been conducted through Markel Europe plc (Markel Europe), which is headquartered in Dublin, Ireland. Beginning January 1, 2015, business previously underwritten by Markel Europe generally will be underwritten by MIICL.

In Latin America, we provide reinsurance through MIICL, using our representative office in Bogota, Colombia, and our service company in Buenos Aires, Argentina; through Markel Resseguradora do Brasil S.A. (Markel Brazil), our reinsurance company in Rio de Janeiro, Brazil; and through Markel Syndicate 3000, using Lloyd's admitted status in Rio de Janeiro. Additionally, MIICL and Markel Syndicate 3000 are able to offer reinsurance in a number of Latin American countries through offices outside of Latin America.

In Bermuda, we write business in the worldwide insurance and reinsurance markets. Bermuda's share of the global reinsurance market was approximately 8% in 2013.<sup>(6)</sup> We conduct our Bermuda operations through Markel Bermuda Limited (Markel Bermuda), which is registered as a Class 4 insurer and Class C long-term insurer under the insurance laws of Bermuda.

Our reinsurance operations, which include our operations based in the United States, the United Kingdom, Latin America and Bermuda, as described above, made us the 34th largest reinsurer in 2013, as measured by worldwide gross reinsurance premium writings.<sup>(4)</sup>

(1) *U.S. Surplus Lines Segment Review Special Report*, A.M. Best (September 15, 2014).

(2) *London Company Market Statistics Report*, International Underwriting Association (October 2014).

(3) *UK Insurance Key Facts*, Association of British Insurers (2014).

(4) *Global Reinsurance Segment Review Special Report*, A.M. Best (September 8, 2014).

(5) *Lloyd's Annual Report 2013*.

(6) *Bermuda Insurance Market Report 2014*, Deloitte Limited (2014).

## BUSINESS OVERVIEW (continued)

In 2014, 27% of consolidated gross premium writings related to foreign risks (i.e., coverage for risks located outside of the United States), of which 34% were from the United Kingdom and 10% were from Canada. In 2013, 25% of our premium writings related to foreign risks, of which 25% were from the United Kingdom and 13% were from Canada. In 2012, 30% of our premium writings related to foreign risks, of which 20% were from the United Kingdom and 16% were from Canada. In each of these years, there was no other individual foreign country from which premium writings were material. Premium writings are attributed to individual countries based upon location of risk.

Most of our business is placed through insurance and reinsurance brokers. Some of our insurance business is also placed through managing general agents. We seek to develop and capitalize on relationships with insurance and reinsurance brokers, insurance and reinsurance companies, large global corporations and financial intermediaries to develop and underwrite business. A significant volume of premium for the property and casualty insurance and reinsurance industry is produced through a small number of large insurance and reinsurance brokers. During the years ended December 31, 2014 and 2013, the top three independent brokers accounted for approximately 28% and 24%, respectively, of our gross premiums written.

## Competition

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

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

We have experienced soft insurance market conditions, including price deterioration in virtually all of our product lines, since the mid-2000s. Beginning in 2012, prices stabilized and we have generally seen low to mid-single digit favorable rate changes in many of our product lines as market conditions improved and revenues, gross receipts and payrolls of our insureds were favorably impacted by improving economic conditions; however, during the latter part of 2013 and continuing into 2014, we have experienced softening prices on our international catastrophe-exposed property product lines and in our property reinsurance book. Despite stabilization of prices on certain product lines during the most recent three years, we still consider the overall property and casualty insurance market to be soft. We routinely review the pricing of our major product lines and will continue to pursue price increases for most product lines in 2015, when possible. However, when we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume may vary when we alter our product offerings to maintain or improve underwriting profitability.



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## Underwriting Philosophy

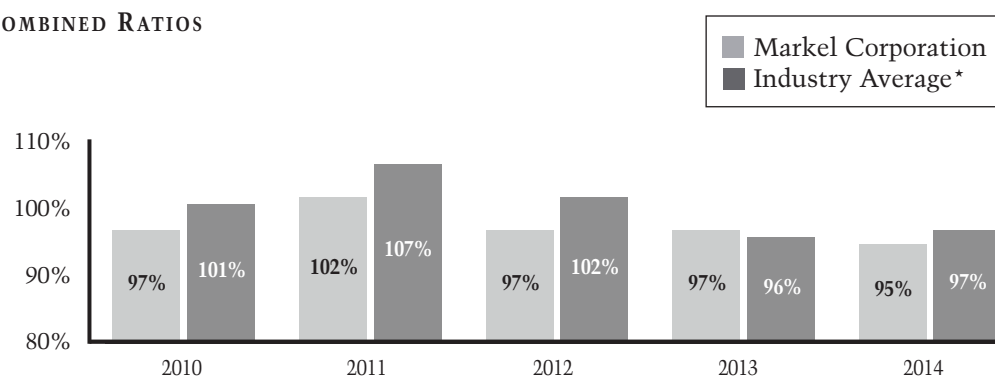
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By focusing on market niches where we have underwriting expertise, we seek to earn consistent underwriting profits, which are a key component of our strategy. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk. We use underwriting profit or loss as a basis for evaluating our underwriting performance. To facilitate this strategy, we have a product line leadership group that has primary responsibility for both developing and maintaining underwriting and pricing guidelines on our existing products and new product development. The product line leadership group is under the direction of our Chief Underwriting Officer.

The combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums. A combined ratio less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. In 2014, our combined ratio was 95%. See Management's Discussion & Analysis of Financial Condition and Results of Operations for further discussion of our underwriting results.

The following graph compares our combined ratio to the property and casualty industry's combined ratio for the past five years.

### COMBINED RATIOS



\* Source: A.M. Best Company. Industry Average is estimated for 2014.

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## Underwriting Segments

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In conjunction with the continued integration of Alterra into our insurance operations, during the first quarter of 2014, we changed the way we aggregate and monitor our ongoing underwriting results. Effective January 1, 2014, we monitor and report our ongoing underwriting operations in the following three segments: U.S. Insurance, International Insurance and Reinsurance. In determining how to aggregate and monitor our underwriting results, management considers many factors, including the geographic location and regulatory environment of the insurance entity underwriting the risk, the nature of the insurance product sold, the type of account written and the type of customer served.

The U.S. Insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled in the United States. The International Insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled outside of the United States, including our syndicate at Lloyd's. The Reinsurance segment includes all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions, are reported in the Other Insurance (Discontinued Lines) segment. The lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits. Underwriting results attributable to Alterra are included in each of our underwriting segments effective May 1, 2013. Alterra previously offered life and annuity reinsurance products. In 2010, Alterra ceased writing

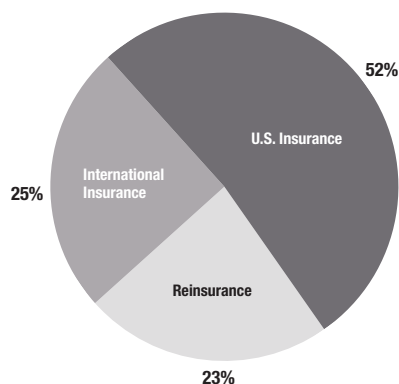
## BUSINESS OVERVIEW (continued)

life and annuity reinsurance contracts and placed this business into run-off. Results attributable to the run-off of life and annuity reinsurance business are included in our Other Insurance (Discontinued Lines) segment.

See note 19 of the notes to consolidated financial statements for additional segment reporting disclosures.

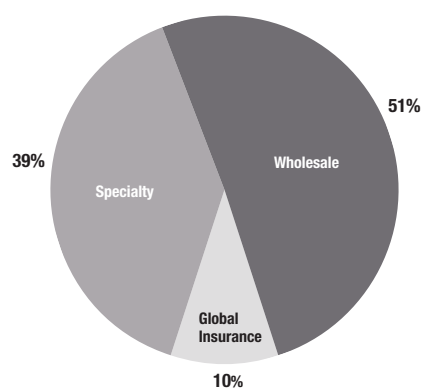
### MARKEL CORPORATION

#### 2014 CONSOLIDATED GROSS PREMIUM VOLUME (\$4.8 BILLION)



### U.S. Insurance Segment

Our U.S. Insurance segment includes both hard-to-place risks written outside of the standard market on an excess and surplus lines basis and unique and hard-to-place risks that must be written on an admitted basis due to marketing and regulatory reasons. Business in this segment is written through our Wholesale, Specialty and Global Insurance divisions.



#### Wholesale Division

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

Our E&S business is written through two distribution channels, professional surplus lines general agents who have limited quoting and binding authority and wholesale brokers. The majority of our E&S business produced by this segment is written on a surplus lines basis through Essex, Evanston or AESIC.

### *Specialty Division*

The Specialty division writes program insurance and other specialty coverages for well-defined niche markets, primarily on an admitted basis. Our business written in the admitted market focuses on risks that, although unique and hard-to-place in the standard market, must remain with an admitted insurance company for marketing and regulatory reasons. Hard-to-place risks written in the admitted market cover insureds engaged in similar, but highly specialized activities who require a total insurance program not otherwise available from standard insurers or insurance products that are overlooked by large admitted carriers. The admitted market is subject to more state regulation than the E&S market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as state guaranty funds and assigned risk plans.

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

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

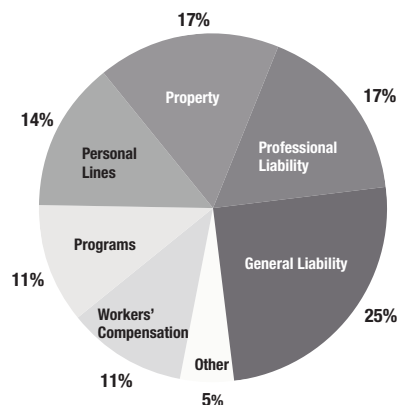
### *Global Insurance Division*

The Global Insurance division writes risks outside of the standard market on both an admitted and non-admitted basis and is comprised of business previously written by Alterra. The portion of Global Insurance division business written by our U.S. insurance subsidiaries is included in this segment, and the remainder is included in the International Insurance segment. U.S. business produced by this division is primarily written on either AESIC or AAIC. AESIC is authorized to write property and casualty insurance in 49 states and the District of Columbia, Guam, Puerto Rico and the U.S. Virgin Islands. AAIC is licensed to write property and casualty insurance in all 50 states and the District of Columbia.

Our U.S. Insurance segment reported gross premium volume of \$2.5 billion, earned premiums of \$2.0 billion and an underwriting profit of \$99.3 million in 2014.

### **U.S. INSURANCE SEGMENT**

#### **2014 GROSS PREMIUM VOLUME (\$2.5 BILLION)**



## BUSINESS OVERVIEW (continued)

Product offerings within the U.S. Insurance segment fall within the following major product groupings:

- General Liability
- Professional Liability
- Property
- Personal Lines
- Programs
- Workers' Compensation
- Other Product Lines

General Liability product offerings include a variety of primary and excess liability coverages targeting apartments and office buildings, retail stores and contractors, as well as business in the life sciences, energy, medical, recreational and hospitality industries. Specific products include the following:

- excess and umbrella products, which provide coverage over approved underlying insurance carriers on either an occurrence or claims-made basis;
- products liability products, which provide coverage on either an occurrence or claims-made basis to manufacturers, distributors, importers and re-packagers of manufactured products;
- environmental products, which include environmental consultants' professional liability, contractors' pollution liability and site-specific environmental impairment liability coverages; and
- casualty facultative reinsurance written for individual casualty risks focusing on general liability, products liability, automobile liability and certain classes of miscellaneous professional liability and targeting classes which include low frequency, high severity general liability risks.

Professional liability coverages include unique solutions for highly specialized professions, including architects and engineers, lawyers, agents and brokers, service technicians and computer consultants. We offer claims-made medical malpractice coverage for doctors and dentists; claims-made professional liability coverage to individual healthcare providers such as therapists, pharmacists, physician assistants and nurse anesthetists; and coverages for medical facilities and other allied healthcare risks such as clinics, laboratories, medical spas, home health agencies, small hospitals, pharmacies and senior living facilities. Other professional liability coverages include union liability, executive liability for financial institutions and Fortune 1000 companies, and management liability. Our management liability coverages, which can be bundled or written monoline, include employment practices liability, directors' and officers' liability and fiduciary liability coverages. Additionally, we offer a data privacy and security product, which provides coverage for data breach and privacy liability, data breach loss to insureds and electronic media coverage.

Property coverages consist principally of fire, allied lines (including windstorm, hail and water damage) and other specialized property coverages, including catastrophe-exposed property risks such as earthquake and wind on both a primary and excess basis. Catastrophe-exposed property risks are typically larger and are lower frequency and higher severity in nature than more standard property risks. Our property risks range from small, single-location accounts to large, multi-state, multi-location accounts. Other types of property products include:

- inland marine products, which provide a number of specialty coverages for risks such as motor truck cargo coverage for damage to third party cargo while in transit, warehouseman's legal liability coverage for damage to third party goods in storage, contractor's equipment coverage for first party property damage, builder's risk coverage and fine arts coverage; and
- railroad-related products, which provide first party coverages for short-line and regional railroads, scenic and tourist railroads, commuter and light rail trains and railroad equipment.

Personal lines products provide first and third party coverages for classic cars and a variety of personal watercrafts including vintage boats, high performance boats and yachts and recreational vehicles, such as motorcycles, snowmobiles and ATVs. Based on the seasonal nature of much of our personal lines business, we generally will experience higher claims activity during the second and third quarters of the year. Additionally, property coverages are offered for mobile homes, dwellings and homeowners that do not qualify for standard homeowner's coverage. Other products offered include special event protection, supplemental natural disaster coverage, renters' protection coverage and excess flood coverage.

Program business included in this segment is offered on a monoline or package basis and generally targets specialized commercial markets and customer groups. Targeted groups include youth and recreation oriented organizations and camps, child care operators, social service organizations, museums and historic homes, performing arts organizations, senior living facilities and wineries. Other program business written in this segment includes:

- general agent programs that use managing general agents to offer single source admitted and non-admitted programs for a specific class or line of business;
- first and third party coverages for small fishing ventures, charters, utility boats and boat rentals; and
- property and liability coverages for farms and animal boarding, breeding and training facilities.

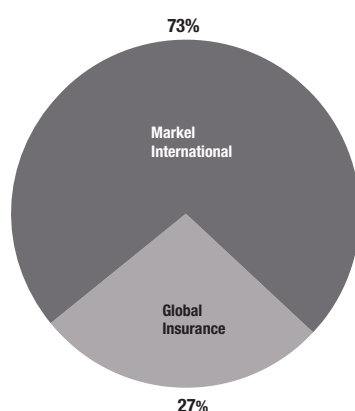
Workers' compensation products provide wage replacement and medical benefits to employees injured in the course of employment and target main-street, service and artisan contractor businesses, retail stores and restaurants.

Other product lines within the U.S. Insurance segment include:

- transportation-related products, which provide auto physical damage coverage for high-value automobiles as well as all types of specialty commercial vehicles, dealers' open lot and garagekeeper legal liability coverages, vehicular liability and physical damage coverages for local and intermediate haul commercial trucks and liability coverage to operators of non-emergency ambulances and multi-line specialty products designed for the unique characteristics of the garage industry;
- ocean marine products, which provide general liability, professional liability, property and cargo coverages for marine artisan contractors, boat dealers and marina owners including hull physical damage, protection and indemnity and third party property coverages for ocean cargo; and
- coverages for equine-related risks, such as horse mortality, theft, infertility, transit and specified perils.

## International Insurance Segment

Our International Insurance segment writes risks that are characterized by either the unique nature of the exposure or the high limits of insurance coverage required by the insured. Business included in this segment is produced through our Markel International and Global Insurance divisions.



## BUSINESS OVERVIEW (continued)

### *Markel International Division*

The Markel International division writes business worldwide from our London-based platform, including Markel Syndicate 3000, through which our Lloyd's operations are conducted, and MIICL. The London insurance market is known for its ability to provide innovative, tailored coverage and capacity for unique and hard-to-place risks. Hard-to-place risks in the London market are generally distinguishable from standard risks due to the complexity or significant size of the risk. It is primarily a broker market, which means that insurance brokers bring most of the business to the market. Risks written in the Markel International division are written on either a direct basis or a subscription basis, the latter of which means that loss exposures brought into the market are typically insured by more than one insurance company or Lloyd's syndicate, often due to the high limits of insurance coverage required. When we write business in the subscription market, we prefer to participate as lead underwriter in order to control underwriting terms, policy conditions and claims handling.

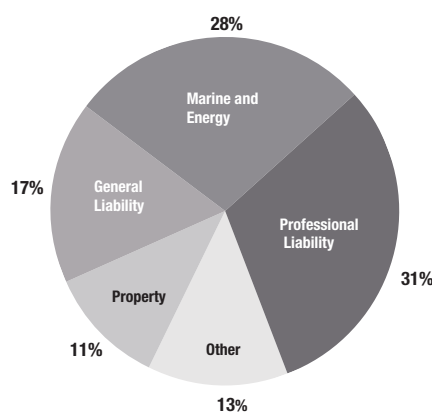
### *Global Insurance Division*

Global Insurance division business written by our non-U.S. insurance subsidiaries, which primarily targets Fortune 1000 accounts, is included in the International segment. The Global Insurance division is comprised of business previously written by Alterra and is written through Markel Bermuda and MIICL, as well as Markel Europe through 2014.

In 2014, 67% of gross premium written in the International Insurance segment related to foreign risks, of which 37% was from the United Kingdom and 14% was from Canada. In 2013, 68% of gross premium written in the International Insurance segment related to foreign risks, of which 24% was from the United Kingdom and 17% was from Canada. In 2012, 85% of gross premium written in the International Insurance segment related to foreign risks, of which 20% was from the United Kingdom and 18% was from Canada. In each of these years, there was no other individual foreign country from which premium writings were material.

Our International Insurance segment reported gross premium volume of \$1.2 billion, earned premiums of \$909.7 million and an underwriting profit of \$67.3 million in 2014.

### INTERNATIONAL INSURANCE SEGMENT 2014 GROSS PREMIUM VOLUME (\$1.2 BILLION)



Product offerings within the International segment fall within the following major product groupings:

- Professional Liability
- Marine and Energy
- General Liability
- Property
- Other Product Lines

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Professional liability products are written on a worldwide basis and include professional indemnity, directors' and officers' liability, errors and omissions, employment practices liability and intellectual property. Our target industries include U.S. and international public companies, as well as large professional firms, including lawyers, financial institutions, accountants, consultants, and architects and engineers.

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

General liability products are written on a worldwide basis and include general and products liability coverages targeting consultants, construction professionals, financial service professionals, professional practices, social welfare organizations and medical products. We also write excess liability coverage, which includes excess product liability, excess medical malpractice and excess product recall insurance in the following industries: healthcare, pharmaceutical, medical products, life sciences, transportation, heavy industrial and energy.

Property products target a wide range of insureds, providing coverage ranging from fire to catastrophe perils such as earthquake and windstorm. Business is written primarily on an open market basis for direct and facultative risks targeting Fortune 1000 and large, multi-national companies on a worldwide basis. We also provide property coverage for small to medium-sized commercial risks on both a stand-alone and package basis.

Other product lines within the International Insurance segment include:

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

## Reinsurance Segment

Our Reinsurance segment includes property and casualty treaty reinsurance products offered to other insurance and reinsurance companies globally through the broker market. Our treaty reinsurance offerings include both quota share and excess of loss reinsurance and are typically written on a participation basis, which means each reinsurer shares proportionally in the business ceded under the reinsurance treaty written. Our reinsurance products may include features such as contractual provisions that require our cedent to share in a portion of losses resulting from ceded risks, may require payment of additional premium amounts if we incur greater losses than those projected at the time of the execution of the contract, may require reinstatement premium to restore the coverage after there has been a loss occurrence or may provide for experience refunds if the losses we

## BUSINESS OVERVIEW (continued)

incur are less than those projected at the time the contract is executed. Our reinsurance product offerings are underwritten by our Global Reinsurance division and our Markel International division. The Global Reinsurance division operates from platforms in the United States, Bermuda and Europe and is primarily comprised of business previously written by Alterra. Business written in the Global Reinsurance division is produced through Alterra Re USA and Markel Bermuda. Alterra Re USA is licensed or accredited to provide reinsurance in all 50 states and the District of Columbia. The Markel International division conducts its reinsurance operations from its London-based platform, as described above, and from its platform in Latin America, which includes Markel Brazil.

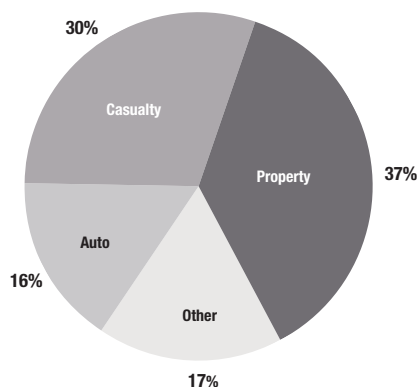
In 2014, 43% of gross premium written in the Reinsurance segment related to foreign risks, of which 31% was from the United Kingdom. In 2013, 42% of gross premium written in the Reinsurance segment related to foreign risks, of which 27% was from the United Kingdom. In 2012, 55% of gross premium written in the Reinsurance segment related to foreign risks, of which 22% was from the United Kingdom. In each of these years, there was no other individual foreign country from which premium writings were material.



Our Reinsurance segment reported gross premium volume of \$1.1 billion, earned premiums of \$908.4 million and an underwriting profit of \$38.9 million in 2014.

### REINSURANCE SEGMENT

#### 2014 GROSS PREMIUM VOLUME (\$1.1 BILLION)



Product offerings within the Reinsurance segment fall within the following major product groupings:

- Property
- Casualty
- Auto
- Other



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Property treaty products are offered on an excess of loss and quota share basis for catastrophe, per risk and retrocessional exposures worldwide. Our catastrophe exposures are generally written on an excess of loss basis and target both personal and commercial lines of business providing coverage for losses from natural disasters, including hurricanes, wind storms and earthquakes. We also reinsure individual property risks such as buildings, structures, equipment and contents and provide coverage for both personal lines and commercial property exposures. Our retrocessional products provide coverage for all types of underlying exposures and geographic zones. A significant portion of the property treaty business covers United States exposures, with the remainder coming from international property exposures.

Our casualty treaty reinsurance programs are written on a quota share and excess of loss basis and include general liability, professional liability, workers' compensation, medical malpractice and environmental impairment liability. General liability reinsurance includes umbrella and excess casualty products that are written worldwide. Our professional liability reinsurance programs are offered worldwide and consist of directors and officers liability, including publicly traded, private, and non-profit companies in both commercial and financial institution arenas; lawyers errors and omissions for small, medium and large-sized law firms; accountants errors and omissions for small and medium-sized firms; technology errors and omissions and cyber liability focusing on network security and privacy exposures. Our workers' compensation business includes catastrophe-exposed workers' compensation business. Medical malpractice reinsurance products are offered in the United States and include quota share, excess of loss and stop loss coverage for physician and surgeon medical malpractice specialty writers, member-owned hospital writers focusing on small-to-medium size facilities, national hospital writers focused on primary or lower excess layers on medium size facilities and long-term care writers focused on privately held, religious based or state sponsored non-profit programs. Environmental treaty reinsurance provides coverage for pollution legal liability, contractors pollution and professional liability exposures on both a nationwide and regional basis within the United States.

Auto reinsurance treaty products are offered on a quota share and excess of loss basis and include commercial and non standard personal auto exposures predominantly in the United States. Commercial auto coverage is provided to national and regional carriers while non standard personal auto coverage is offered to regional and single state ceding companies. Our auto reinsurance treaty products previously included exposures in the United Kingdom; however, we ceased writing any new auto business in the United Kingdom in 2014.

Other treaty reinsurance products offered in the Reinsurance segment include:

- aviation, which includes commercial airline hull and liability coverage as well as general aviation for risks worldwide;
- structured and whole turnover credit, political risk, mortgage and contract and commercial surety reinsurance programs covering worldwide exposures;
- onshore and offshore marine and energy risks on a worldwide basis, including hull, cargo and liability;
- agriculture reinsurance for Multi-Peril Crop Insurance, hail and related exposures, covering risks located in the United States and Canada; and
- public entity reinsurance products, which offer customized programs for government risk solutions, including counties, municipalities, schools, public housing authorities and special districts (e.g. water, sewer, parks) located in the United States. Types of coverage include general liability, property, environmental impairment liability, data breach, workers' compensation and errors and omissions.

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## Ceded Reinsurance

We purchase reinsurance and retrocessional reinsurance to manage our net retention on individual risks and overall exposure to losses, while providing us with the ability to offer policies with sufficient limits to meet policyholder needs. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocession transaction, a reinsurer transfers, or cedes, all or part of its exposure in return for a portion of the premium.

## BUSINESS OVERVIEW (continued)

Following the acquisition of Alterra, we have more insurance and reinsurance products that have typically required higher levels of reinsurance than our historical product offerings required. We purchase catastrophe reinsurance coverage for our catastrophe-exposed policies, and we seek to manage our exposures under this coverage so that no exposure to any one reinsurer is material to our ongoing business. Net retention of gross premium volume was 82% in 2014 and 83% in 2013. We do not purchase or sell finite reinsurance products or use other structures that would have the effect of discounting loss reserves.

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

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

The following table displays balances recoverable from our ten largest reinsurers by group at December 31, 2014. The contractual obligations under reinsurance and retrocessional contracts are typically with individual subsidiaries of the group or syndicates at Lloyd's and are not typically guaranteed by other group members or syndicates at Lloyd's. These ten reinsurance groups represent approximately 63% of our \$2.0 billion reinsurance recoverable balance before considering allowances for bad debts.

Reinsurers	A.M. Best Rating	Reinsurance Recoverable
		<i>(dollars in thousands)</i>
Fairfax Financial Group	A	\$ 203,119
Munich Re Group	A+	200,172
AXIS Capital Holdings Limited	A+	156,005
Lloyd's of London	A	136,340
Alleghany Corporation	A	133,683
Partner Re Group	A+	116,218
Platinum Underwriters Holdings Ltd	A	110,898
Swiss Re Group	A+	83,354
XL Capital Group	A	68,609
Arch Insurance Group	A+	68,042
Reinsurance recoverable on paid and unpaid losses for ten largest reinsurers		1,276,440
Total reinsurance recoverable on paid and unpaid losses		\$ 2,030,688

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

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

See note 15 of the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our ceded reinsurance programs and exposures.

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

The investment portfolio acquired through the Alterra acquisition was comprised of hedge funds, equity method investments and fixed maturities that were generally longer duration than our historical fixed maturity portfolio. In order to align the acquired investment portfolio with Markel's investment philosophy and target investment portfolio allocations, we have liquidated substantially all of the hedge fund portfolio and continue to increase our holdings in equity securities and fixed maturity tax-exempt municipal securities.

We evaluate our investment performance by analyzing taxable equivalent total investment return. Taxable equivalent total investment return includes items that impact net income, such as coupon interest on fixed maturities, dividends on equity securities and realized investment gains or losses, as well as changes in unrealized gains or losses, which do not impact net income. Certain items that are included in net investment income have been excluded from the calculation of taxable equivalent total investment return, such as amortization and accretion of premiums and discounts on our fixed maturity portfolio, to provide a comparable basis for measuring our investment return against industry investment returns. The calculation of taxable equivalent total investment return also includes the current tax benefit associated with income on certain investments that is either taxed at a lower rate than the statutory income tax rate or is not fully included in federal taxable income. We believe the taxable equivalent total investment return is a better reflection of the economics of our decision to invest in certain asset classes. See "Investing Results" in Management's Discussion & Analysis of Financial Condition and Results of Operations for further detail regarding the components of taxable equivalent total investment return. In 2014, net investment income was \$363.2 million and net realized investment gains were \$46.0 million. During the year ended December 31, 2014, net unrealized gains on investments increased by \$981.0 million. We do not lower the quality of our investment portfolio in order to enhance or maintain yields. We focus on long-term total investment return, understanding that the level of realized and unrealized investment gains or losses may vary from one period to the next.

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

#### ANNUAL TAXABLE EQUIVALENT TOTAL INVESTMENT RETURNS

	Years Ended December 31,					Weighted Average Five-Year Annual Return	Weighted Average Ten-Year Annual Return
	2014	2013	2012	2011	2010		
Equities	18.6%	33.3%	19.6%	3.8%	20.8%	20.4%	13.4%
Fixed maturities <sup>(1)</sup>	6.5%	0.0%	5.1%	7.6%	5.4%	4.7%	4.8%
Total portfolio, before foreign currency effect	8.9%	6.9%	8.6%	6.7%	8.1%	7.9%	6.5%
Total portfolio	7.4%	6.8%	9.0%	6.5%	7.9%	7.4%	6.2%
Invested assets, end of year (in millions)	\$18,638	\$17,612	\$ 9,333	\$ 8,728	\$ 8,224		

<sup>(1)</sup> Includes short-term investments, cash and cash equivalents and restricted cash and cash equivalents.

## BUSINESS OVERVIEW (continued)

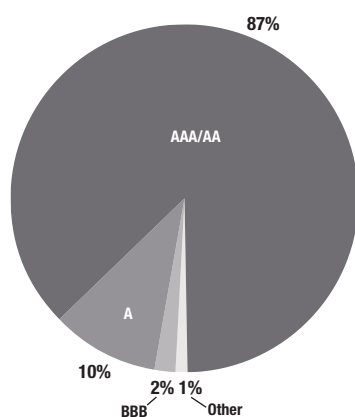
We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. S&P and Moody's provide corporate and municipal debt ratings based on their assessments of the credit quality of an obligor with respect to a specific obligation. S&P's ratings range from "AAA" (capacity to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

Our fixed maturity portfolio has an average rating of "AA," with approximately 97% rated "A" or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At December 31, 2014, less than 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

At December 31, 2014, we held fixed maturities of \$7.7 million, or less than 1% of invested assets, from sovereign and non-sovereign issuers domiciled in Portugal, Ireland, Italy, Greece or Spain and \$1.9 billion, or 10% of invested assets, from sovereign and non-sovereign issuers domiciled in other European countries including supranationals. At December 31, 2013, we held fixed maturities of \$45.7 million, or less than 1% of invested assets, from sovereign and non-sovereign issuers domiciled in Portugal, Ireland, Italy, Greece or Spain and \$2.0 billion, or 12% of invested assets, from sovereign and non-sovereign issuers domiciled in other European countries including supranationals.

The following chart presents our fixed maturity portfolio, at estimated fair value, by rating category at December 31, 2014.

### 2014 CREDIT QUALITY OF FIXED MATURITY PORTFOLIO (\$10.4 BILLION)



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

## Markel Ventures

Through our wholly-owned subsidiary Markel Ventures, Inc. (Markel Ventures), we own interests in various industrial and service businesses that operate outside of the specialty insurance marketplace. These businesses are viewed by management as separate and distinct from our insurance operations. Local management teams oversee the day-to-day operations of these companies, while strategic decisions are made in conjunction with members of our executive management team, principally our President and Chief Investment Officer.

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

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Our Markel Ventures operations are comprised of a diverse portfolio of industrial and service companies from various industries, including manufacturers of dredging equipment, high-speed bakery equipment, food processing equipment and car hauler equipment and parts, an owner and operator of manufactured housing communities, a residential homebuilder, a manager of behavioral health programs and a manufacturer of laminated oak and composite wood flooring used in the assembly of truck trailers, intermodal containers and truck bodies, among others. While each of the companies in our Markel Ventures operations are operated independently from one another, we aggregate their financial results into two industry groups: manufacturing and non-manufacturing.

In 2014, our Markel Ventures operations reported revenues of \$838.1 million and net income to shareholders of \$9.6 million.

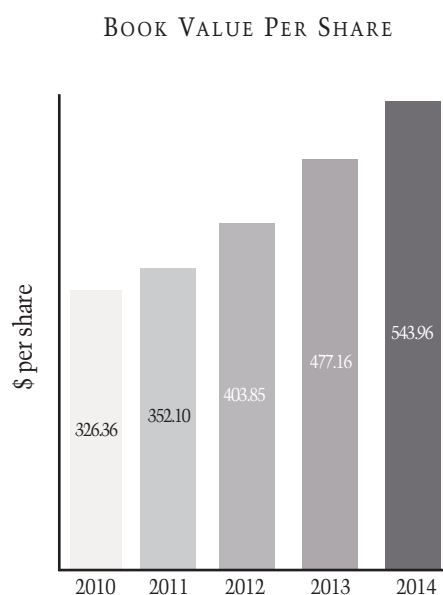
See note 20 of the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our Markel Ventures operations.

## Shareholder Value

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Our financial goals are to earn consistent underwriting and operating profits and superior investment returns to build shareholder value. More specifically, we measure financial success by our ability to compound growth in book value per share at a high rate of return over a long period of time. To mitigate the effects of short-term volatility, we generally use five-year time periods to measure ourselves. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting, operating and investing results. For the year ended December 31, 2014, book value per share increased 14% primarily due to net income to shareholders of \$321.2 million and a \$661.7 million increase in net unrealized gains on investments, net of taxes. For the year ended December 31, 2013, book value per share increased 18% primarily due to equity issued in connection with the acquisition of Alterra, which was accretive to book value, net income to shareholders of \$281.0 million and a \$184.6 million increase in net unrealized gains on investments, net of taxes. Over the past five years, we have grown book value per share at a compound annual rate of 14% to \$543.96 per share.

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



## BUSINESS OVERVIEW (continued)

### Regulatory Environment

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

#### United States Insurance Regulation

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

*State Insurance Regulation.* In the United States, authority for the regulation, supervision and administration of the business of insurance in each state is generally delegated to a state commissioner heading a regulatory body responsible for the business of insurance. Through this authority, state regulatory authorities have broad regulatory, supervisory and administrative powers relating to solvency standards; the licensing of insurers and their agents; the approval of forms and policies used; the nature of, and limitations on, insurers' investments; the form and content of annual statements and other reports on the financial condition of insurers; and the establishment of loss reserves. Our U.S. insurance subsidiaries that operate on an admitted basis are typically subject to regulatory rate and form review, while our U.S. excess and surplus lines insurance subsidiaries generally operate free of rate and form regulation.

*Holding Company Statutes.* In addition to regulatory supervision of our domestic insurance subsidiaries, we are subject to state statutes governing insurance holding company systems. Typically, such statutes require that we periodically file information with the appropriate state insurance commissioner, including information concerning our capital structure, ownership, financial condition, material transactions with affiliates and general business operations. In addition, these statutes also require approval of changes in control of an insurer or an insurance holding company. Generally, control for these purposes is defined as ownership or voting power of 10% or more of a company's voting shares. Additional requirements include group-level reporting, submission of an annual enterprise risk report by a regulated insurance company's ultimate controlling person and information regarding an insurer's non-insurer affiliates.

*Risk Based Capital Requirements.* The NAIC uses a risk based capital formula that is designed to measure the capital of an insurer taking into account the company's investments and products. These requirements provide a formula which, for property and casualty insurance companies, establishes capital thresholds for four categories of risk: asset risk, insurance risk, interest rate risk and business risk. At December 31, 2014, the capital and surplus of each of our United States insurance subsidiaries was above the minimum regulatory thresholds.

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

*Dividends.* The laws of the domicile states of our U.S. insurance subsidiaries govern the amount of dividends that may be paid to our holding company, Markel Corporation. Generally, statutes in the domicile states of our insurance subsidiaries require prior approval for payment of extraordinary, as opposed to ordinary, dividends. At December 31, 2014, our United States insurance subsidiaries could pay up to \$310.6 million during the following 12 months under the ordinary dividend regulations.



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

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

*The Terrorism Risk Insurance Act.* The Terrorism Risk Insurance Act of 2002, as amended (TRIA), has established a federal program that provides for a system of shared public and private compensation for certain insured losses resulting from acts of terrorism. In early 2015 the program was extended for another six years, and is now scheduled to expire in 2020. In addition, the most recent extension of TRIA (1) raises the threshold for the program to go into effect (the triggering event) from \$100 million in losses to \$200 million, in \$20 million increments starting in January 2016 and (2) increases the amount that insurers must cover as a whole through co-payments and deductibles, which is known in the industry as the aggregate retention. The aggregate retention amount will rise by \$2 billion a year to \$37.5 billion from \$27.5 billion, starting in 2016. TRIA is applicable to almost all commercial lines of property and casualty insurance but excludes commercial auto, burglary and theft, surety, professional liability and farm owners' multi-peril insurance. Insurers with direct commercial property and casualty insurance exposure in the United States are required to participate in the program and make available coverage for certified acts of terrorism. Federal participation will be triggered under TRIA when the Secretary of Treasury certifies an act of terrorism.

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

On December 12, 2013, the FIO delivered a report to Congress on how to modernize and improve the system of insurance regulation in the U.S. The report recommended that, in the short term, the U.S. system of insurance regulation can be modernized through state-based improvements combined with certain federal actions. The report identified areas for direct federal involvement in international standard setting, the FIO participation in supervisory colleges, which monitor the regulation of large national and internationally active insurance groups, and federal pursuit of international covered agreements to afford nationally uniform treatment of reinsurance collateral requirements. The report also made several recommendations for state reform of insurance regulation, including changes to the state regulation of insurance company solvency, group supervision and corporate governance. The FIO report stated that the system of U.S. insurance regulation can be modernized and improved in the short-term, while warning that if the states do not act in the near term to effectively regulate matters on a consistent and cooperative basis, in the FIO's view there will be a greater role for federal regulation of insurance.

## **United Kingdom Insurance Regulation**

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

## BUSINESS OVERVIEW (continued)

Since April 1, 2013, when regulatory responsibility for the insurance firms in the United Kingdom was given to the PRA and the FCA, MIICL and MSM, our Lloyd's managing agent, have been "dual regulated firms"; each firm is authorized by the PRA and regulated by both the PRA and the FCA. In addition, in January 2014, we completed the acquisition of Abbey Protection plc (Abbey), an integrated specialty insurance and consultancy group headquartered in London. Abbey Protection Group Limited, a wholly-owned subsidiary of Abbey, is an FCA-authorized insurance intermediary that produces insurance to both MIICL and third party insurance carriers in the UK.

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

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

### **Bermuda Insurance Regulation**

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

Markel Bermuda is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements. The enhanced capital requirement is determined by reference to a risk-based capital model that determines a control threshold for statutory capital and surplus by taking into account the risk characteristics of different aspects of the insurer's business. At December 31, 2014, Markel Bermuda satisfied both the enhanced capital requirements and the minimum solvency and liquidity requirements.

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



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payment of those dividends it files with the BMA an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. Markel Bermuda must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. In addition, as a long-term insurer, Markel Bermuda may not declare or pay a dividend to any person other than a policyholder unless the value of the assets in its long-term business fund, as certified by Markel Bermuda's approved actuary, exceeds the liabilities of its long-term business by the amount of the dividend and at least the prescribed minimum solvency margin. At December 31, 2014, Markel Bermuda could pay up to \$472.7 million during the following 12 months without making any additional filings with the BMA.

### **Other Insurance Jurisdictions**

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

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

### **Other Regulation**

*Solicitors Regulation Authority.* In connection with our acquisition of Abbey Protection plc in January 2014, we became the owner of Abbey Protection Group Limited (trading as Abbey Legal Services). Abbey Legal Services employs approximately 80 lawyers who provide legal services to small and medium-sized enterprises in the United Kingdom and owns Lewis Hymanson Small Solicitors LLP (LHS), a full service commercial law firm in Manchester, England. Both LHS and the legal services of Abbey Legal Services are authorized and regulated by the Solicitors Regulation Authority (SRA). The SRA is an independent regulatory body of the Law Society of England and Wales which regulates the conduct of solicitors and law firms to protect consumers and to support the rule of law and the administration of justice. The SRA works within a statutory framework for regulation provided by the Solicitors Act 1974, the Administration of Justice Act 1985 and, primarily, by the Legal Services Act 2007.

## BUSINESS OVERVIEW (continued)

### Ratings

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

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

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

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

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

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

The various rating agencies typically charge companies fees for the rating and other services they provide. During 2014, we paid rating agencies, including Best, S&P, Fitch and Moody's, \$1.5 million for their services.

### Risk Factors

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

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

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

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

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

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

**Changes in the assumptions and estimates used in establishing reserves for our life and annuity reinsurance book could result in material increases in our estimated loss reserves for such business.** As part of the acquisition of Alterra, we acquired a life and annuity reinsurance book, which has been in run-off since 2010. The life and annuity reinsurance contracts expose us to mortality risk, which is the risk that the level of death claims may differ from that which we assumed in establishing the reserves for our life and annuity reinsurance contracts. Some of our life and annuity reinsurance contracts expose us to longevity risk, which is the risk that an insured person will live longer than expected when the reserves were established, or morbidity risk, which is the risk that an insured person will become critically ill or disabled. Our reserving process for the life and annuity reinsurance book is designed with the objective of establishing appropriate reserves for the risks we assumed. Among other things, these processes rely heavily on analysis of mortality, longevity and morbidity trends, lapse rates, interest rates and expenses. As of December 31, 2014, our reserves for life and annuity benefits totaled \$1.3 billion.

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

## BUSINESS OVERVIEW (continued)

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

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

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

**Competition in the insurance and reinsurance markets could reduce our underwriting margins.** Insurance and reinsurance markets are highly competitive. We compete on an international and regional basis with major U.S., Bermuda, European, and other international insurers and reinsurers and with underwriting syndicates, some of which have greater financial, marketing, and management resources than we do. Recent industry consolidation, including business combinations among insurance and other financial services companies, has resulted in larger competitors with even greater financial resources. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets. In addition, capital market participants have created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates, and less favorable policy terms and conditions, which could reduce our underwriting margins and have a material adverse effect on our results of operations and financial condition.

**The historical cyclical nature of the property and casualty insurance industry could adversely affect our ability to improve or maintain underwriting margins or to grow or maintain premium volume.** The insurance and reinsurance markets have historically been cyclical, characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted more favorable rate levels. Among our competitive strengths have been our specialty product focus and our niche market strategy. These strengths also make us vulnerable in periods of intense competition to actions by other insurance companies who seek to write additional premiums without appropriate regard for underwriting profitability. During soft markets, it is very difficult for us to grow or maintain premium volume levels without sacrificing underwriting profits. If we are not successful in maintaining rates or achieving rate increases, it may be difficult for us to improve or maintain underwriting margins or to grow or maintain premium volume levels.

**We invest a significant portion of our invested assets in equity securities, which may result in significant variability in our investment results and may adversely impact shareholders' equity. Additionally, our equity investment portfolio is concentrated, and declines in the value of these significant investments could adversely affect our financial results.** Equity securities were 54% and 49% of our shareholders' equity at December 31, 2014 and 2013, respectively. Equity securities have historically produced higher returns than fixed maturities; however, investing in equity securities may result in significant variability in investment returns from one period to the next. In volatile financial markets, we could experience

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significant declines in the fair value of our equity investment portfolio, which would result in a material decrease in shareholders' equity. Our equity portfolio is concentrated in particular issuers and industries and, as a result, a decline in the fair value of these concentrated investments also could result in a material decrease in shareholders' equity. A material decrease in shareholders' equity may adversely impact our ability to carry out our business plans.

**Deterioration in financial markets could lead to investment losses and adverse effects on our business.** In the event of a major financial crisis, similar to the downturn in the public debt and equity markets that began in 2008 (for example, a crisis precipitated by one or more of the following: the failure to adequately address U.S. government deficit spending and tax revenue generation, downgrades or defaults in U.S. or foreign sovereign debt obligations, the collapse of the Eurozone or material changes to the monetary policies of the U.S. Federal Reserve or the European Central Bank), we could incur substantial realized and unrealized investment losses in future periods, which would have an adverse impact on our results of operations, financial condition, debt and financial strength ratings, insurance subsidiaries' capital and ability to access capital markets.

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

**Our information technology systems could fail or suffer a security breach, which could adversely affect our business or reputation or result in the loss of sensitive information.** Our businesses are dependent upon the successful functioning and security of our computer systems or the computer systems of third parties. Among other things, we rely on these systems to interact with producers, insureds, customers, clients, and other third parties, to perform actuarial and other modeling functions, to underwrite business, to prepare policies and process premiums, to process claims and make claims payments, to prepare internal and external financial statements and information, as well as to engage in a wide variety of other business activities. A significant failure of our computer systems, or those of third parties upon which we may rely, whether because of a breakdown, natural disaster or an attack on our systems, could compromise our personal, confidential and proprietary information as well as that of our customers and business partners, impede or interrupt our business operations and could result in other negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and fines, litigation and monetary and reputational damages.

In addition, we are subject to numerous data privacy laws and regulations enacted in the jurisdictions in which we do business. A misuse or mishandling of confidential or proprietary information being sent to or received from a client, employee or third party could result in legal liability, regulatory action and reputational harm. Third parties to whom we outsource certain of our functions are also subject to these risks, and their failure to adhere to these laws and regulations could negatively impact us.

Further, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to protect this confidential and proprietary information, we may be unable to do so in all cases, especially with customers, business partners and other third parties who may not have or use appropriate controls to protect confidential information.

While we maintain cyber risk insurance providing first party and third party coverages, such insurance may not cover all costs associated with the consequences of personal and confidential and proprietary information being compromised. As a result, in the event of a material cyber security breach, our results of operations could be materially, adversely affected.

**We may not find suitable acquisition candidates or new insurance or non-insurance ventures and even if we do, we may not successfully integrate any such acquired companies or successfully invest in such ventures.** As part of our growth strategy, we continue to evaluate possible acquisition transactions on an ongoing basis, and at any given time we may be engaged in discussions



## BUSINESS OVERVIEW (continued)

with respect to possible acquisitions and new ventures. We may not be able to identify suitable acquisition targets or ventures, any such transactions may not be financed or completed on acceptable terms and our future acquisitions or ventures may not be successful.

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

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

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

**We could be adversely affected by the loss of one or more key executives or by an inability to attract and retain qualified personnel.** Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct or grow our business.

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

**We are rated by Best, S&P, Fitch and Moody's, and a decline in these ratings could affect our standing in the insurance industry and cause our sales and earnings to decrease.** Ratings are an important factor in establishing the competitive position of insurance and reinsurance companies. Certain of our insurance and reinsurance company subsidiaries are rated by Best, S&P, Fitch or Moody's. Our ratings are subject to periodic review, and we cannot be sure that we will be able to

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retain our current or any future ratings. If our ratings are reduced from their current levels by the rating agencies, our competitive position in our target markets within the insurance industry could suffer and it would be more difficult for us to market our products. A ratings downgrade could also adversely limit our access to capital markets, which may increase the cost of debt. A significant downgrade could result in a substantial loss of business as policyholders move to other companies with higher claims-paying and financial strength ratings.

**We depend on a few brokers for a large portion of our revenues and the loss of business provided by any one of them could adversely affect us.** We market our insurance and reinsurance worldwide through insurance and reinsurance brokers. For the year ended December 31, 2014, our top three independent brokers represented approximately 28% of our gross premiums written. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

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

**Our businesses and operations are subject to applicable laws and regulations relating to sanctions and foreign corrupt practices, the violation of which could adversely affect our operations.** In our global businesses and operations we are required to comply with the economic sanctions and embargo programs administered by the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") and similar multi-national bodies and governmental agencies worldwide, as well as applicable anti-corruption laws and regulations of the United States and other jurisdictions where we operate, including the United Kingdom and Europe. A violation of a sanction, embargo program, or anti-corruption law, could subject us, and individual employees, to a regulatory enforcement action as well as significant civil and criminal penalties. In addition, a violation could result in defaults under our outstanding indebtedness or credit facilities or damage our businesses and/or our reputation. Those penalties or defaults, or damage to our businesses and/or reputation, could have a material adverse effect on our results of operations and financial condition.

**Compliance with the legal and regulatory requirements applicable to our businesses is extensive. Any failure to comply could have a material adverse effect on our businesses.** Our businesses are highly dependent on our ability to engage on a daily basis in a large number of financial and operational activities, including among others insurance underwriting, claim processing and investment activities, many of which are highly complex. These activities often are subject to internal guidelines and policies, as well as legal and regulatory standards, including, among others, those related to privacy, anti-corruption, anti-bribery and global finance and insurance matters. Our continued expansion into new markets has brought about additional requirements. While we believe that we have adopted appropriate risk management and compliance programs, compliance risks will continue to exist, particularly as we adapt to new rules and regulations. Failure to comply with, or to obtain, appropriate authorizations and/or exemptions under any applicable laws and regulations could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we conduct business and could subject us to fines, penalties, equitable relief and changes to our business practices. In addition, a failure to comply could result in defaults under our outstanding indebtedness or credit facilities or damage our businesses and/or our reputation. Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our results of operations and financial condition.

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## Associates

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At December 31, 2014, we had approximately 8,600 employees, of whom approximately 3,600 were employed within our insurance operations and approximately 5,000 were employed within our Markel Ventures operations.

SELECTED FINANCIAL DATA (dollars in millions, except per share data) <sup>(1), (2)</sup>

	2014	2013	2012
<b>RESULTS OF OPERATIONS</b>			
Earned premiums	\$ 3,841	\$ 3,232	\$ 2,147
Net investment income	363	317	282
Total operating revenues	5,134	4,323	3,000
Net income (loss) to shareholders	321	281	253
Comprehensive income (loss) to shareholders	936	459	504
Diluted net income (loss) per share	\$ 22.27	\$ 22.48	\$ 25.89
<b>FINANCIAL POSITION</b>			
Total investments, cash and cash equivalents and restricted cash and cash equivalents (invested assets)	\$ 18,638	\$ 17,612	\$ 9,333
Total assets	25,200	23,956	12,557
Unpaid losses and loss adjustment expenses	10,404	10,262	5,371
Senior long-term debt and other debt	2,254	2,256	1,493
Shareholders' equity	7,595	6,674	3,889
Common shares outstanding (at year end, in thousands)	13,962	13,986	9,629

OPERATING PERFORMANCE MEASURES <sup>(1,2,3)</sup>

<b>OPERATING DATA</b>			
Book value per common share outstanding	\$ 543.96	\$ 477.16	\$ 403.85
Growth (decline) in book value per share	14%	18%	15%
5-Year CAGR in book value per share <sup>(4)</sup>	14%	17%	9%
Closing stock price	\$ 682.84	\$ 580.35	\$ 433.42
<b>RATIO ANALYSIS</b>			
U.S. GAAP combined ratio <sup>(5)</sup>	95%	97%	97%
Investment yield <sup>(6)</sup>	2%	3%	4%
Taxable equivalent total investment return <sup>(7)</sup>	7%	7%	9%
Investment leverage <sup>(8)</sup>	2.5	2.6	2.4
Debt to capital	23%	25%	28%

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

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

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

<sup>(4)</sup> CAGR—compound annual growth rate.



2011	2010	2009	2008	2007	2006	2005	5-Year CAGR <sup>(4)</sup>	10-Year CAGR <sup>(4)</sup>
\$ 1,979	\$ 1,731	\$ 1,816	\$ 2,022	\$ 2,117	\$ 2,184	\$ 1,938	<b>16%</b>	<b>6%</b>
264	273	260	282	305	269	242	<b>7%</b>	<b>6%</b>
2,630	2,225	2,069	1,977	2,551	2,576	2,200	<b>20%</b>	<b>9%</b>
142	267	202	(59)	406	393	148	—	—
252	431	591	(403)	337	551	64	—	—
\$ 14.60	\$ 27.27	\$ 20.52	\$ (5.95)	\$ 40.64	\$ 39.40	\$ 14.80	—	—
\$ 8,728	\$ 8,224	\$ 7,849	\$ 6,893	\$ 7,775	\$ 7,524	\$ 6,588	<b>19%</b>	<b>11%</b>
11,532	10,826	10,242	9,512	10,164	10,117	9,814	<b>20%</b>	<b>10%</b>
5,399	5,398	5,427	5,492	5,526	5,584	5,864	<b>14%</b>	<b>7%</b>
1,294	1,016	964	694	691	866	849	—	—
3,388	3,172	2,774	2,181	2,641	2,296	1,705	<b>22%</b>	<b>16%</b>
9,621	9,718	9,819	9,814	9,957	9,994	9,799	—	—
\$ 352.10	\$ 326.36	\$ 282.55	\$ 222.20	\$ 265.26	\$ 229.78	\$ 174.04	<b>14%</b>	<b>12%</b>
8%	16%	27%	(16)%	15%	32%	3%	—	—
9%	13%	11%	10%	18%	16%	11%	—	—
\$ 414.67	\$ 378.13	\$ 340.00	\$ 299.00	\$ 491.10	\$ 480.10	\$ 317.05	—	—
102%	97%	95%	99%	88%	87%	101%	—	—
4%	4%	4%	4%	4%	4%	4%	—	—
7%	8%	13%	(10)%	5%	11%	2%	—	—
2.6	2.6	2.8	3.2	2.9	3.3	3.9	—	—
28%	24%	26%	24%	21%	27%	33%	—	—

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

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

<sup>(7)</sup> See “Investing Results” in Management’s Discussion & Analysis of Financial Condition and Results of Operations for detail regarding the calculation of taxable equivalent total investment return.

<sup>(8)</sup> Investment leverage represents total invested assets divided by shareholders’ equity.

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
	<i>(dollars in thousands)</i>	
<b>ASSETS</b>		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$9,929,137 in 2014 and \$10,129,141 in 2013)	\$ 10,422,882	\$ 10,142,536
Equity securities (cost of \$1,951,658 in 2014 and \$1,566,553 in 2013)	4,137,576	3,251,798
Short-term investments (estimated fair value approximates cost)	1,594,849	1,452,288
Total Investments	16,155,307	14,846,622
Cash and cash equivalents	1,960,169	1,978,526
Restricted cash and cash equivalents	522,225	786,926
Receivables	1,135,217	1,141,773
Reinsurance recoverable on unpaid losses	1,868,669	1,854,414
Reinsurance recoverable on paid losses	102,206	102,002
Deferred policy acquisition costs	353,410	260,967
Prepaid reinsurance premiums	365,458	383,559
Goodwill	1,049,115	967,717
Intangible assets	702,747	565,083
Other assets	985,834	1,067,922
<b>TOTAL ASSETS</b>	<b>\$ 25,200,357</b>	<b>\$ 23,955,511</b>
<b>LIABILITIES AND EQUITY</b>		
Unpaid losses and loss adjustment expenses	\$ 10,404,152	\$ 10,262,056
Life and annuity benefits	1,305,818	1,486,574
Unearned premiums	2,245,690	2,127,115
Payables to insurance and reinsurance companies	276,122	295,496
Senior long-term debt and other debt (estimated fair value of \$2,493,000 in 2014 and \$2,372,000 in 2013)	2,253,594	2,256,227
Other liabilities	1,051,931	777,850
Total Liabilities	17,537,307	17,205,318
Redeemable noncontrolling interests	61,048	72,183
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,308,395	3,288,863
Retained earnings	2,581,866	2,294,909
Accumulated other comprehensive income	1,704,557	1,089,805
Total Shareholders' Equity	7,594,818	6,673,577
Noncontrolling interests	7,184	4,433
Total Equity	7,602,002	6,678,010
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 25,200,357</b>	<b>\$ 23,955,511</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	2013	2012
	<i>(dollars in thousands, except per share data)</i>		
<b>OPERATING REVENUES</b>			
Earned premiums	\$ 3,840,912	\$ 3,231,616	\$ 2,147,128
Net investment income	363,230	317,373	282,107
Net realized investment gains:			
Other-than-temporary impairment losses	(4,784)	(4,706)	(12,078)
Net realized investment gains, excluding other-than-temporary impairment losses	50,784	67,858	43,671
Net realized investment gains	46,000	63,152	31,593
Other revenues	883,525	710,942	539,284
Total Operating Revenues	5,133,667	4,323,083	3,000,112
<b>OPERATING EXPENSES</b>			
Losses and loss adjustment expenses	2,202,467	1,816,273	1,154,068
Underwriting, acquisition and insurance expenses	1,460,882	1,312,312	929,472
Amortization of intangible assets	57,627	55,223	33,512
Other expenses	854,871	663,528	478,248
Total Operating Expenses	4,575,847	3,847,336	2,595,300
Operating Income	557,820	475,747	404,812
Interest expense	117,442	114,004	92,762
Income Before Income Taxes	440,378	361,743	312,050
Income tax expense	116,690	77,898	53,802
<b>Net Income</b>	\$ 323,688	\$ 283,845	\$ 258,248
Net income attributable to noncontrolling interests	2,506	2,824	4,863
<b>NET INCOME TO SHAREHOLDERS</b>	\$ 321,182	\$ 281,021	\$ 253,385
<b>OTHER COMPREHENSIVE INCOME</b>			
Change in net unrealized gains on investments, net of taxes:			
Net holding gains arising during the period	\$ 687,735	\$ 225,545	\$ 266,425
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	173	(141)	(160)
Reclassification adjustments for net gains included in net income	(26,161)	(40,830)	(24,051)
Change in net unrealized gains on investments, net of taxes	661,747	184,574	242,214
Change in foreign currency translation adjustments, net of taxes	(32,241)	(10,143)	1,534
Change in net actuarial pension loss, net of taxes	(14,750)	4,065	6,664
Total Other Comprehensive Income	614,756	178,496	250,412
<b>Comprehensive Income</b>	\$ 938,444	\$ 462,341	\$ 508,660
Comprehensive income attributable to noncontrolling interests	2,510	2,852	4,858
<b>COMPREHENSIVE INCOME TO SHAREHOLDERS</b>	\$ 935,934	\$ 459,489	\$ 503,802
<b>NET INCOME PER SHARE</b>			
Basic	\$ 22.38	\$ 22.57	\$ 25.96
Diluted	\$ 22.27	\$ 22.48	\$ 25.89

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

<i>(in thousands)</i>	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
December 31, 2011	9,621	\$ 891,507	\$1,835,086	\$ 660,920	\$3,387,513	\$ 602	\$3,388,115	\$ 74,231
Net income (loss)			253,385	—	253,385	(262)	253,123	5,125
Other comprehensive income (loss)			—	250,417	250,417	—	250,417	(5)
<b>Comprehensive Income (Loss)</b>					503,802	(262)	503,540	5,120
Issuance of common stock	47	9,145	—	—	9,145	—	9,145	—
Repurchase of common stock	(39)	—	(16,873)	—	(16,873)	—	(16,873)	—
Restricted stock awards expensed	—	6,462	—	—	6,462	—	6,462	—
Acquisitions	—	—	—	—	—	—	—	15,055
Adjustment of redeemable noncontrolling interests	—	—	(3,101)	—	(3,101)	—	(3,101)	3,101
Purchase of noncontrolling interest	—	1,430	—	—	1,430	—	1,430	(3,573)
Other	—	436	(157)	—	279	20	299	(7,709)
December 31, 2012	9,629	908,980	2,068,340	911,337	3,888,657	360	3,889,017	86,225
Net income (loss)			281,021	—	281,021	(958)	280,063	3,782
Other comprehensive income			—	178,468	178,468	—	178,468	28
<b>Comprehensive Income (Loss)</b>					459,489	(958)	458,531	3,810
Issuance of common stock	71	24,518	—	—	24,518	—	24,518	—
Repurchase of common stock	(109)	—	(57,388)	—	(57,388)	—	(57,388)	—
Restricted stock awards expensed	(3)	25,239	—	—	25,239	—	25,239	—
Acquisition of Alterra	4,398	2,330,199	—	—	2,330,199	—	2,330,199	—
Adjustment of redeemable noncontrolling interests	—	—	1,963	—	1,963	—	1,963	(1,963)
Purchase of noncontrolling interest	—	(136)	—	—	(136)	—	(136)	(11,716)
Other	—	63	973	—	1,036	5,031	6,067	(4,173)
December 31, 2013	13,986	3,288,863	2,294,909	1,089,805	6,673,577	4,433	6,678,010	72,183
Net income (loss)			321,182	—	321,182	(1,981)	319,201	4,487
Other comprehensive income			—	614,752	614,752	—	614,752	4
<b>Comprehensive Income (Loss)</b>					935,934	(1,981)	933,953	4,491
Issuance of common stock	19	5,691	—	—	5,691	—	5,691	—
Repurchase of common stock	(43)	—	(26,053)	—	(26,053)	—	(26,053)	—
Restricted stock awards expensed	—	22,935	—	—	22,935	—	22,935	—
Adjustment of redeemable noncontrolling interests	—	—	(8,186)	—	(8,186)	—	(8,186)	8,186
Purchase of noncontrolling interest	—	(10,257)	—	—	(10,257)	905	(9,352)	(18,566)
Other	—	1,163	14	—	1,177	3,827	5,004	(5,246)
<b>DECEMBER 31, 2014</b>	<b>13,962</b>	<b>\$3,308,395</b>	<b>\$2,581,866</b>	<b>\$1,704,557</b>	<b>\$7,594,818</b>	<b>\$ 7,184</b>	<b>\$7,602,002</b>	<b>\$ 61,048</b>

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
	<i>(dollars in thousands)</i>		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 323,688	\$ 283,845	\$ 258,248
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income tax expense	84,543	4,050	37,648
Depreciation and amortization	203,580	190,066	87,326
Net realized investment gains	(46,000)	(63,152)	(31,593)
Decrease (increase) in receivables	21,148	142,065	(36,590)
Decrease (increase) in deferred policy acquisition costs	(99,387)	(103,704)	37,209
Increase (decrease) in unpaid losses and loss adjustment expenses, net	249,873	290,130	(28,052)
Decrease in life and annuity benefits	(62,883)	(40,235)	—
Increase in unearned premiums, net	147,840	97,249	71,073
Increase (decrease) in payables to insurance and reinsurance companies	(45,204)	(150,764)	19,190
Increase (decrease) in income taxes payable	(46,576)	81,995	(9,909)
Other	(13,830)	13,976	(12,017)
Net Cash Provided By Operating Activities	716,792	745,521	392,533
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales of fixed maturities and equity securities	1,286,871	879,564	336,548
Proceeds from maturities, calls and prepayments of fixed maturities	1,420,817	1,475,938	510,697
Cost of fixed maturities and equity securities purchased	(3,153,055)	(1,651,397)	(426,439)
Net change in short-term investments	(129,164)	(470,423)	(428,292)
Proceeds from sales of equity method investments	107,292	313,557	—
Cost of equity method investments	(16,081)	(38,018)	(40,650)
Change in restricted cash and cash equivalents	264,701	(263,014)	(37,642)
Additions to property and equipment	(82,132)	(47,725)	(45,519)
Acquisitions, net of cash acquired	(319,086)	(12,198)	(243,675)
Other	(2,368)	1,103	(2,158)
Net Cash Provided (Used) By Investing Activities	(622,205)	187,387	(377,130)
<b>FINANCING ACTIVITIES</b>			
Additions to senior long-term debt and other debt	89,480	547,214	492,792
Repayment and retirement of senior long-term debt and other debt	(83,722)	(321,978)	(313,790)
Repurchases of common stock	(26,053)	(57,388)	(16,873)
Issuance of common stock	5,691	24,518	9,145
Purchase of redeemable noncontrolling interests	(25,918)	(11,852)	(2,143)
Distributions to noncontrolling interests	(5,245)	(5,124)	(7,684)
Other	(21,357)	(23)	(19,485)
Net Cash Provided (Used) By Financing Activities	(67,124)	175,367	141,962
Effect of foreign currency rate changes on cash and cash equivalents	(45,820)	6,485	3,142
Increase (decrease) in cash and cash equivalents	(18,357)	1,114,760	160,507
Cash and cash equivalents at beginning of year	1,978,526	863,766	703,259
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 1,960,169</b>	<b>\$ 1,978,526</b>	<b>\$ 863,766</b>

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

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

On May 1, 2013 (the Acquisition Date), Markel Corporation completed the acquisition of 100% of the issued and outstanding common stock of Alterra Capital Holdings Limited (Alterra).

**a) Basis of Presentation.** The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and its subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements include the results of operations and cash flows of Alterra from the Acquisition Date to December 31, 2014 and not in any prior periods, except with respect to the Supplemental Pro Forma Information included in note 2. The Company consolidates the results of its Markel Ventures subsidiaries on a one-month lag. Certain prior year amounts have been reclassified to conform to the current presentation.

**b) Use of Estimates.** The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Management periodically reviews its estimates and assumptions. Quarterly reviews include evaluating the adequacy of reserves for unpaid losses and loss adjustment expenses, life and annuity reinsurance benefit reserves, litigation contingencies, the reinsurance allowance for doubtful accounts and income tax liabilities, as well as analyzing the recoverability of deferred tax assets, estimating reinsurance premiums written and earned and evaluating the investment portfolio for other-than-temporary declines in estimated fair value. Estimates and assumptions for goodwill and intangible assets are reviewed in conjunction with an acquisition, and goodwill and indefinite-lived intangible assets are reassessed at least annually for impairment. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

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

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

Investments accounted for under the equity method of accounting are recorded at cost within other assets on the consolidated balance sheets and subsequently increased or decreased by the Company's proportionate share of the net income or loss of the investee. The Company records its proportionate share of net income or loss of the investee in net investment income. The Company records its proportionate share of other comprehensive income or loss of the investee as a component of other comprehensive income. Dividends or other equity distributions are recorded as a reduction of the investment. The Company reviews equity method investments for impairment when events or circumstances indicate that a decline in the fair value of the investment below its carrying value is other-than-temporary.

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

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

**f) Reinsurance Recoverables.** Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. Allowances are established for amounts deemed uncollectible and reinsurance recoverables are recorded net of these allowances. The Company evaluates the financial condition of its reinsurers and monitors concentration risk to minimize its exposure to significant losses from individual reinsurers.

**g) Deferred Policy Acquisition Costs.** Costs directly related to the acquisition of insurance premiums are deferred and amortized over the related policy period, generally one year. Concurrent with the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, effective January 1, 2012, the Company only defers acquisition costs incurred that are related directly to the successful acquisition of new or renewal insurance contracts, including commissions to agents and brokers and premium taxes. Commissions received related to reinsurance premiums ceded are netted against broker commissions in determining acquisition costs eligible for deferral. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company does not consider anticipated investment income in determining whether a premium deficiency exists.

**h) Goodwill and Intangible Assets.** Goodwill and intangible assets are recorded as a result of business acquisitions. Goodwill represents the excess of the amount paid to acquire a business over the net fair value of assets acquired and liabilities assumed at the date of acquisition. Indefinite-lived and other intangible assets are recorded at fair value as of the acquisition date. The determination of the fair value of certain assets acquired and liabilities assumed involves significant judgment and the use of valuation models and other estimates, which require assumptions that are inherently subjective. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. Intangible assets with definite lives are amortized using the straight-line method over their estimated useful lives, generally five to 20 years, and are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable.

**i) Property and Equipment.** Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives (generally, the life of the lease for leasehold improvements, ten to 40 years for buildings, seven to 40 years for land improvements, three to ten years for furniture and equipment and three to 25 years for other property and equipment).

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

The Company recognizes changes in the redemption value that exceed the carrying value of redeemable noncontrolling interests to retained earnings as if the balance sheet date were also the redemption date. Changes in the redemption value also result in an adjustment to net income to shareholders in the calculation of basic and diluted net income per share. The adjustment recorded to retained earnings during 2014, 2013 and 2012 was an increase of \$8.2 million, a decrease of \$2.0 million, and an increase of \$3.1 million, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

**l) Unpaid Losses and Loss Adjustment Expenses.** Unpaid losses and loss adjustment expenses on our property and casualty insurance business are based on evaluations of reported claims and estimates for losses and loss adjustment expenses incurred but not reported. Estimates for losses and loss adjustment expenses incurred but not reported are based on reserve development studies, among other things. The Company does not discount reserves for losses and loss adjustment expenses to reflect estimated present value, except for reserves assumed in connection with an acquisition, which are recorded at fair value at the acquisition date. Recorded reserves are estimates, and the ultimate liability may be greater or less than the estimates.

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

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

**n) Revenue Recognition.**

*Property and Casualty Premiums*

Insurance premiums are generally earned on a pro rata basis over the policy period, typically one year. The cost of reinsurance ceded is initially recorded as prepaid reinsurance premiums and is amortized over the reinsurance contract period in proportion to the amount of insurance protection provided. Premiums ceded are netted against premiums written.

Assumed reinsurance premiums are recorded at the inception of each contract based upon contract terms and information received from cedents and brokers and are earned on a pro rata basis over the coverage period, or for multi-year contracts, in proportion with the underlying risk exposure to the extent there is variability in the exposure through the coverage period. Changes in reinsurance premium estimates are expected and may result in significant adjustments in any period. These estimates change over time as additional information regarding changes in underlying exposures is obtained. Any subsequent differences arising on such estimates are recorded as premiums written in the period they are determined. The Company uses the periodic method to account for assumed reinsurance from foreign reinsurers. The Company's foreign reinsurers provide sufficient information to record foreign assumed business in the same manner as the Company records assumed business from United States reinsurers.

Certain contracts that the Company writes provide for reinstatement of coverage. Reinstatement premiums are the premiums for the restoration of the insurance or reinsurance limit of a contract to its full amount after a loss occurrence by the insured or reinsured. The Company accrues for reinstatement premiums resulting from losses recorded. Such accruals are based upon

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contractual terms and management judgment is involved with respect to the amount of losses recorded. Changes in estimates of losses recorded on contracts with reinstatement premium features will result in changes in reinstatement premiums based on contractual terms. Reinstatement premiums are recognized at the time losses are recorded and are earned on a pro-rata basis over the coverage period.

#### *Other Revenues*

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

**o) Stock-based Compensation.** Stock-based compensation expense is recognized as part of underwriting, acquisition and insurance expenses over the requisite service period. Stock-based compensation expense, net of taxes, was \$18.7 million in 2014, \$18.4 million in 2013 and \$4.4 million in 2012. See note 12.

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

The Company manages its exposure to foreign currency risk primarily by matching assets, other than goodwill and intangible assets, and liabilities denominated in the same currency. To the extent that assets and liabilities in foreign currencies are not matched, the Company is exposed to foreign currency risk. For functional currencies, the related exchange rate fluctuations are reflected in other comprehensive income. The cumulative foreign currency translation adjustment, net of taxes, was a loss of \$43.5 million and \$11.2 million at December 31, 2014 and 2013, respectively.

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

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

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

**s) Net Income Per Share.** Basic net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares outstanding during the year. Diluted net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the year. See note 12[b].

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

**t) Recent Accounting Pronouncements.** Effective January 1, 2014, the Company adopted FASB ASU No. 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. ASU No. 2013-11 requires that a liability related to an unrecognized tax benefit be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. In that case, the liability associated with the unrecognized tax benefit is presented in the financial statements as a reduction to the related deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. Otherwise, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The adoption of this guidance did not have an impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. ASU No. 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2017 and may be applied retrospectively or under a modified retrospective method where the cumulative effect is recognized at the date of initial application. Early application is not permitted. The Company is currently evaluating ASU No. 2014-09 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

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## 2. Acquisitions

### **Acquisition of Alterra**

**a) Overview.** On May 1, 2013, the Company completed the acquisition of 100% of the the issued and outstanding common stock of Alterra pursuant to an agreement dated December 18, 2012 (the Merger Agreement) which provided for the merger of Alterra with one of the Company's subsidiaries. Alterra was a Bermuda-headquartered global enterprise providing diversified specialty property and casualty insurance and reinsurance products to corporations, public entities and other property and casualty insurers. Results attributable to Alterra's property and casualty insurance and reinsurance business are included in each of the Company's underwriting segments, which were redefined during the first quarter of 2014. Previously, Alterra also offered life and annuity reinsurance products. In 2010, Alterra ceased writing life and annuity reinsurance contracts and placed this business into run-off. Results attributable to the run-off of Alterra's life and annuity reinsurance business are included in the Company's Other Insurance (Discontinued Lines) segment. See note 19 for further discussion of the Company's reportable segments.

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

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

*(in thousands, except per share amounts)*

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

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

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

**c) Fair Value of Net Assets Acquired and Liabilities Assumed.** The purchase price was allocated to the acquired assets and liabilities of Alterra based on estimated fair values at the Acquisition Date. The Company recognized goodwill of \$295.7 million, which is primarily attributable to Alterra's assembled workforce and synergies that are expected to result upon integration of Alterra into the Company's insurance operations and investing activities. See note 7 for goodwill recorded by reportable segment. None of the goodwill that was recorded is deductible for income tax purposes. The Company also recognized indefinite lived intangible assets of \$37.5 million and other intangible assets of \$170.0 million, which will be amortized over a weighted average period of 17 years.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Acquisition Date.

(dollars in thousands)

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

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

- *Investments* – Fixed maturity investments acquired include a net increase of \$223.1 million to adjust the historical carrying amount of Alterra's investments to their estimated fair value as of the Acquisition Date. The difference in the historical amortized cost of the fixed maturity investments acquired and their estimated fair value as of the Acquisition Date, \$495.5 million, represents incremental premium that will be amortized to net investment income over the term of the underlying securities. The amount of the unamortized incremental premium as of December 31, 2014 and 2013 was \$281.1 million and \$398.1 million, respectively. The decrease in the unamortized incremental premium is due to amortization expense of \$59.3 million and \$58.3 million for the years ended December 31, 2014 and 2013, respectively, and sales of securities.
- *Intangible assets* – Establish the estimated fair value of intangible assets related to Alterra (see below for further detail).
- *Unearned Premiums* – Unearned premiums acquired include a decrease of \$176.3 million to adjust the carrying value of Alterra's historical unearned premiums to fair value as of the Acquisition Date. The adjustment consists of the present value of the expected underwriting profit within the unearned premiums liability less costs to service the related policies and a risk premium. This adjustment was amortized to underwriting, acquisition and insurance expenses over a weighted average period of approximately one year, as the contracts for business in-force as of the Acquisition Date expired. As of December 31, 2014, this adjustment was fully amortized.
- *Unpaid losses and loss adjustment expenses* – Unpaid losses and loss adjustment expenses acquired include an increase of \$120.8 million to adjust the carrying value of Alterra's historical unpaid losses and loss adjustment expenses, net of related reinsurance recoverable, to fair value as of the Acquisition Date. The estimated fair value consists of the present value of the expected net loss and loss adjustment expense payments plus a risk premium. This adjustment, plus the \$26.5 million unamortized fair value adjustment included in Alterra's historical unpaid losses and loss adjustment expenses, will be amortized to losses and loss adjustment expenses over a weighted average period of approximately five years, based on the

estimated payout pattern of net reserves as of the Acquisition Date. The amount of the unamortized fair value adjustment included in unpaid losses and loss adjustment expenses as of December 31, 2014 and 2013 was \$114.6 million and \$136.5 million, respectively.

- *Life and Annuity Benefits* – Life and annuity benefits acquired include an increase of \$329.6 million to adjust the carrying value of Alterra's historical life and annuity benefits to fair value as of the Acquisition Date. The estimated fair value consists of the present value of the expected net life and annuity benefit payments plus a risk premium. See note 10 for detail regarding accounting for life and annuity benefits.
- *Senior long-term debt* – Senior long-term debt acquired includes an increase of \$71.9 million to adjust the carrying value of Alterra's senior long-term debt to its estimated fair value based on prevailing interest rates and other factors as of the Acquisition Date. This adjustment will be amortized to interest expense over the term of the notes. See note 11. The amount of the unamortized premium on the acquired senior long-term debt as of December 31, 2014 and 2013 was \$56.7 million and \$66.1 million, respectively.

The following table summarizes the intangible assets recorded in connection with the acquisition.

<i>(dollars in thousands)</i>	Amount	Economic Useful Life
Customer relationships	\$ 132,000	18 years
Broker relationships	19,000	18 years
Technology	18,000	Ten years
Trade names	1,000	One year
Lloyd's syndicate capacity	12,000	Indefinite
Insurance licenses	25,500	Indefinite
Intangible assets as of the Acquisition Date	\$ 207,500	

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

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

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

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

As part of the allocation of the purchase price, the Company recorded net deferred tax assets of \$310.1 million. Of this amount, \$343.9 million represents deferred tax assets related to accrued losses and loss adjustment expenses and life and annuity benefits, which were partially offset by deferred tax liabilities of \$64.6 million related to the estimated fair value of the



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

intangible assets recorded. Other net deferred tax assets recorded primarily relate to differences between financial reporting and tax bases of the acquired assets and liabilities as of the Acquisition Date. As of the Acquisition Date, earnings of Alterra's foreign subsidiaries are considered reinvested indefinitely, consistent with the Company's other foreign subsidiaries, and no provision for deferred U.S. income tax was recorded.

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

<i>(dollars in thousands)</i>	Year Ended December 31, 2013
Transaction costs	\$ 15,981
Acquisition-related costs:	
Severance costs	31,734
Stay bonuses	14,804
Acceleration of Alterra long-term incentive compensation awards and restricted stock awards	12,621
<b>TOTAL TRANSACTION AND ACQUISITION-RELATED COSTS</b>	<b>\$ 75,140</b>

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

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

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

**f) Financial Results.** The following table summarizes the results of Alterra from the Acquisition Date through December 31, 2013 that have been included within the Company's consolidated statements of income and comprehensive income.

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



**g) Supplemental Pro Forma Information (unaudited).** Alterra's results have been included in the Company's Consolidated Financial Statements from the Acquisition Date to December 31, 2014. The following table presents unaudited pro forma consolidated information for the years ended December 31, 2013 and 2012 and assumes the Company's acquisition of Alterra occurred on January 1, 2012. The pro forma financial information is presented for informational purposes only and does not necessarily reflect the results that would have occurred had the acquisition taken place on January 1, 2012, nor is it necessarily indicative of future results. Significant adjustments used to determine pro forma results include amortization of intangible assets and amortization of fair value adjustments discussed in c) above, and the corresponding income tax effects. The Company also excluded certain charges from the pro forma results, including transaction costs incurred by the Company (\$16.0 million) and Alterra (\$23.0 million) totaling \$39.0 million for the year ended December 31, 2013, severance costs attributable to the acquisition totaling \$31.7 million for the year ended December 31, 2013, and stay bonuses of \$14.8 million for the year ended December 31, 2013. The acceleration of compensation expense during the year ended December 31, 2013 related to Alterra's long-term incentive compensation awards and restricted stock awards was attributable to the acquisition; however, the incremental expense recognized during the period only represents a timing difference in the recognition of expense. Therefore, it was not excluded from the pro forma underwriting results.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

***Acquisition of Abbey Protection***

On January 17, 2014, the Company completed its acquisition of 100% of the share capital of Abbey Protection plc (Abbey), an integrated specialty insurance and consultancy group headquartered in London. Abbey's business is focused on the underwriting and sale of insurance products to small and medium-sized enterprises and affinity groups in the United Kingdom providing protection against legal expenses and professional fees incurred as a result of legal actions or investigations by tax authorities, as well as providing a range of complementary legal and professional consulting services. Results attributable to Abbey's insurance operations are included in the International Insurance segment. Results attributable to Abbey's consultancy operations are reported with the Company's non-insurance operations, which are not included in a reportable segment.

Total consideration for this acquisition was \$190.7 million, all of which was cash consideration. The purchase price was allocated to the acquired assets and liabilities based on estimated fair values on January 17, 2014. The Company recognized goodwill of \$65.8 million, of which \$43.0 million was allocated to the International Insurance segment and \$22.8 million was allocated to the Company's non-insurance operations. None of the goodwill recognized is expected to be deductible for income tax purposes. The goodwill is primarily attributable to Abbey's assembled workforce and synergies that are expected to result upon integration of Abbey into the Company's insurance operations. The Company also recognized other intangible assets of \$113.4 million, including \$103.5 million of customer relationships and \$9.9 million of trade names. These intangible assets are expected to be amortized over 20 years and 14 years, respectively.

***Acquisition of Essentia***

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

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

***Markel Ventures Acquisitions***

In July 2014, the Company acquired 100% of the outstanding shares of Cottrell, Inc. (Cottrell), a privately held company headquartered in Gainesville, Georgia. Cottrell is a leading manufacturer of over-the-road car hauler equipment and related car hauler parts. In June and August 2014, ParkLand Ventures also completed the acquisition of several manufactured housing communities. Total consideration for these non-insurance acquisitions was \$187.0 million, which primarily consisted of cash consideration. Total consideration includes the estimated fair value of contingent consideration we expect to pay based on Cottrell's earnings, as defined in the stock purchase agreement, in 2014 and 2015. The Company recognized goodwill of \$38.7 million related to these acquisitions, the majority of which we expect to amortize for income tax purposes. The Company also recognized other intangible assets of \$78.7 million, including \$53.7 million of customer relationships and \$13.0 million of trade names, which are expected to be amortized over a weighted average period of 17 years and 10 years, respectively. Results attributable to these acquisitions are included with the Company's non-insurance operations, which are not included in a reportable segment.

### 3. Investments

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

	December 31, 2014				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other- Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 662,462	\$ 12,963	\$ (2,163)	\$ —	\$ 673,262
Obligations of states, municipalities and political subdivisions	4,075,748	245,158	(3,359)	—	4,317,547
Foreign governments	1,458,255	154,707	(1,041)	—	1,611,921
Commercial mortgage-backed securities	427,904	5,325	(2,602)	—	430,627
Residential mortgage-backed securities	954,263	34,324	(3,482)	(2,258)	982,847
Asset-backed securities	100,073	99	(682)	—	99,490
Corporate bonds	2,250,432	69,016	(10,441)	(1,819)	2,307,188
Total fixed maturities	9,929,137	521,592	(23,770)	(4,077)	10,422,882
Equity securities:					
Insurance, banks and other financial institutions	523,739	789,717	(1,531)	—	1,311,925
Industrial, consumer and all other	1,427,919	1,403,566	(5,834)	—	2,825,651
Total equity securities	1,951,658	2,193,283	(7,365)	—	4,137,576
Short-term investments	1,594,819	36	(6)	—	1,594,849
INVESTMENTS, AVAILABLE-FOR-SALE	\$ 13,475,614	\$ 2,714,911	\$ (31,141)	\$ (4,077)	\$ 16,155,307

	December 31, 2013				
<i>(dollars in thousands)</i>	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other- Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities and obligations of U.S. government agencies	\$ 1,215,522	\$ 9,051	\$ (30,342)	\$ —	\$ 1,194,231
Obligations of states, municipalities and political subdivisions	2,986,758	116,341	(27,384)	—	3,075,715
Foreign governments	1,484,818	30,647	(54,411)	—	1,461,054
Commercial mortgage-backed securities	379,555	62	(11,796)	—	367,821
Residential mortgage-backed securities	875,902	13,046	(16,442)	(2,258)	870,248
Asset-backed securities	189,646	257	(1,614)	—	188,289
Corporate bonds	2,996,940	54,777	(61,650)	(4,889)	2,985,178
Total fixed maturities	10,129,141	224,181	(203,639)	(7,147)	10,142,536
Equity securities:					
Insurance, banks and other financial institutions	422,975	592,112	(4)	—	1,015,083
Industrial, consumer and all other	1,143,578	1,094,251	(1,114)	—	2,236,715
Total equity securities	1,566,553	1,686,363	(1,118)	—	3,251,798
Short-term investments	1,452,270	18	—	—	1,452,288
INVESTMENTS, AVAILABLE-FOR-SALE	\$ 13,147,964	\$ 1,910,562	\$ (204,757)	\$ (7,147)	\$ 14,846,622

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	December 31, 2014					
	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
<i>(dollars in thousands)</i>						
Fixed maturities:						
U.S. Treasury securities and obligations of U.S. government agencies	\$ 108,250	\$ (62)	\$ 163,359	\$ (2,101)	\$ 271,609	\$ (2,163)
Obligations of states, municipalities and political subdivisions	58,583	(542)	92,441	(2,817)	151,024	(3,359)
Foreign governments	18,856	(386)	56,217	(655)	75,073	(1,041)
Commercial mortgage-backed securities	45,931	(210)	147,558	(2,392)	193,489	(2,602)
Residential mortgage-backed securities	9,613	(2,285)	207,374	(3,455)	216,987	(5,740)
Asset-backed securities	30,448	(20)	45,160	(662)	75,608	(682)
Corporate bonds	141,176	(2,263)	621,821	(9,997)	762,997	(12,260)
Total fixed maturities	412,857	(5,768)	1,333,930	(22,079)	1,746,787	(27,847)
Equity securities:						
Insurance, banks and other financial institutions	16,219	(1,531)	—	—	16,219	(1,531)
Industrial, consumer and all other	86,062	(5,834)	—	—	86,062	(5,834)
Total equity securities	102,281	(7,365)	—	—	102,281	(7,365)
Short-term investments	181,964	(6)	—	—	181,964	(6)
TOTAL	\$ 697,102	\$ (13,139)	\$ 1,333,930	\$ (22,079)	\$ 2,031,032	\$ (35,218)

At December 31, 2014, the Company held 552 securities with a total estimated fair value of \$2.0 billion and gross unrealized losses of \$35.2 million. Of these 552 securities, 396 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of \$1.3 billion and gross unrealized losses of \$22.1 million. All 396 securities were fixed maturities, of which 391 represent securities acquired in the Alterra transaction, for which a new amortized cost was established at fair value as of the Acquisition Date. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost.

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

At December 31, 2013, the Company held 1,364 securities with a total estimated fair value of \$4.9 billion and gross unrealized losses of \$211.9 million. Of these 1,364 securities, nine securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of \$31.2 million and gross unrealized losses of \$0.5 million. Of these securities, eight securities were fixed maturities and one was an equity security.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

When assessing whether it intends to sell a fixed maturity or if it is likely to be required to sell a fixed maturity before recovery of its amortized cost, the Company evaluates facts and circumstances including decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and, ultimately, current market prices.

c) The amortized cost and estimated fair value of fixed maturities at December 31, 2014 are shown below by contractual maturity.

<i>(dollars in thousands)</i>	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 747,997	\$ 752,715
Due after one year through five years	2,007,798	2,059,192
Due after five years through ten years	2,026,628	2,142,582
Due after ten years	3,664,474	3,955,429
	8,446,897	8,909,918
Commercial mortgage-backed securities	427,904	430,627
Residential mortgage-backed securities	954,263	982,847
Asset-backed securities	100,073	99,490
TOTAL FIXED MATURITIES	\$ 9,929,137	\$ 10,422,882

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and the lenders may have the right to put the securities back to the borrower. Based on expected maturities, the estimated average duration of fixed maturities was 5.8 years.

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

	Years Ended December 31,		
<i>(dollars in thousands)</i>	2014	2013	2012
Interest:			
Municipal bonds (tax-exempt)	\$ 98,262	\$ 82,308	\$ 90,316
Municipal bonds (taxable)	49,345	28,041	22,663
Other taxable bonds	152,789	134,377	107,270
Short-term investments, including overnight deposits	5,959	3,573	2,755
Dividends on equity securities	65,031	48,641	50,416
Change in fair value of credit default swap	2,230	10,460	16,641
Income from equity method investments	4,766	21,898	1,961
Other	108	355	(41)
	378,490	329,653	291,981
Investment expenses	(15,260)	(12,280)	(9,874)
NET INVESTMENT INCOME	\$ 363,230	\$ 317,373	\$ 282,107

e) Cumulative credit losses recognized in net income on fixed maturities where other-than-temporary impairment was identified and a portion of the other-than-temporary impairment was included in other comprehensive income were \$12.7 million at December 31, 2014 and 2013 and \$21.4 million at December 31, 2012.

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

	Years Ended December 31,		
<i>(dollars in thousands)</i>	2014	2013	2012
Realized gains:			
Sales of fixed maturities	\$ 8,417	\$ 13,772	\$ 18,337
Sales of equity securities	51,356	73,592	29,578
Other	15,205	5,940	749
Total realized gains	74,978	93,304	48,664
Realized losses:			
Sales of fixed maturities	(18,136)	(25,168)	(563)
Sales of equity securities	(802)	(278)	(342)
Other-than-temporary impairments	(4,784)	(4,706)	(12,078)
Other	(5,256)	—	(4,088)
Total realized losses	(28,978)	(30,152)	(17,071)
NET REALIZED INVESTMENT GAINS	\$ 46,000	\$ 63,152	\$ 31,593
Change in net unrealized gains on investments:			
Fixed maturities	\$ 480,350	\$ (403,610)	\$ 51,783
Equity securities	500,673	665,599	302,013
Short-term investments	12	6	12
NET INCREASE	\$ 981,035	\$ 261,995	\$ 353,808



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Other-than-temporary impairment losses recognized in net income and included in net realized investment gains included losses attributable to equity securities totaling \$4.5 million, \$2.8 million and \$12.1 million for the years ended December 31, 2014, 2013 and 2012, respectively. Other-than-temporary impairment losses recognized in net income and included in net realized investment gains included losses attributable to fixed maturities totaling \$0.3 million and \$1.9 million for the years ended December 31, 2014 and 2013, respectively.

g) The following table presents the components of restricted assets.

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
Restricted assets held in trust or on deposit to support underwriting activities	\$ 4,961,061	\$ 5,161,871
Investments and cash and cash equivalents pledged as security for letters of credit	635,340	695,072
Investments and cash pledged as collateral for credit default swap	—	33,430
Cash held in escrow for Abbey acquisition	—	199,006
TOTAL	\$ 5,596,401	\$ 6,089,379

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

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
Investments, available-for-sale	\$ 5,040,413	\$ 5,225,701
Restricted cash and cash equivalents	522,225	786,926
Other assets	33,763	76,752
TOTAL	\$ 5,596,401	\$ 6,089,379

h) At December 31, 2014 and December 31, 2013, investments in U.S. Treasury securities and obligations of U.S. government agencies were the only investments in any one issuer that exceeded 10% of shareholders' equity.

At December 31, 2014, the Company's ten largest equity holdings represented \$1.9 billion, or 45%, of the equity portfolio. Investments in the property and casualty insurance industry represented \$756.3 million, or 18%, of the equity portfolio at December 31, 2014. Investments in the property and casualty insurance industry included a \$470.7 million investment in the common stock of Berkshire Hathaway Inc.

#### 4. Receivables

The following table presents the components of receivables.

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
Amounts receivable from agents, brokers and insureds	\$ 1,031,519	\$ 1,058,021
Trade accounts receivable	97,225	85,203
Employee stock loans receivable (see note 12(c))	15,044	12,822
Other	8,601	5,420
	1,152,389	1,161,466
Allowance for doubtful receivables	(17,172)	(19,693)
RECEIVABLES	\$ 1,135,217	\$ 1,141,773

## 5. Deferred Policy Acquisition Costs

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Balance, beginning of year	\$ 260,967	\$ 157,465	\$ 194,674
Policy acquisition costs deferred	754,303	577,620	390,360
Amortization of policy acquisition costs	(654,916)	(471,915)	(428,109)
Foreign currency movements	(6,944)	(2,203)	540
DEFERRED POLICY ACQUISITION COSTS	\$ 353,410	\$ 260,967	\$ 157,465

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Transaction costs and other acquisition-related expenses <sup>(1)</sup>	\$ —	\$ 75,140	\$ —
Prospective adoption of FASB ASU No. 2010-26 <sup>(2)</sup>	—	—	43,093
Other amortization of policy acquisition costs	654,916	471,915	385,016
Other operating expenses	805,966	765,257	501,363
UNDERWRITING, ACQUISITION AND INSURANCE EXPENSES	\$ 1,460,882	\$ 1,312,312	\$ 929,472

<sup>(1)</sup> In connection with the acquisition of Alterra, the Company incurred transaction costs of \$16.0 million for the year ended December 31, 2013, which primarily consist of due diligence, legal and investment banking costs. Additionally, the Company incurred severance costs of \$31.7 million, stay bonuses of \$14.8 million and other compensation costs totaling \$12.6 million related to the acceleration of certain long-term incentive compensation awards and restricted stock awards that were granted by Alterra prior to the acquisition.

<sup>(2)</sup> Effective January 1, 2012, the Company prospectively adopted FASB ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. At December 31, 2011, deferred policy acquisition costs included \$43.1 million of costs that no longer met the criteria for deferral as of January 1, 2012 and were recognized into income during 2012, consistent with policy terms.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 6. Property and Equipment

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

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
Land	\$ 56,848	\$ 48,036
Buildings	78,786	59,307
Leasehold improvements	98,098	68,363
Land improvements	70,596	57,673
Furniture and equipment	255,566	217,528
Other	116,884	104,690
	676,778	555,597
Accumulated depreciation and amortization	(255,388)	(207,688)
PROPERTY AND EQUIPMENT	\$ 421,390	\$ 347,909

Depreciation and amortization expense of property and equipment was \$51.2 million, \$51.5 million and \$36.0 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company does not own any material properties. The Company leases substantially all of the facilities used by its insurance operations and certain furniture and equipment under operating leases. The Company leases offices for the U.S. Insurance segment in Glen Allen, Virginia and in 25 other locations; the Company leases offices for the International Insurance segment in London, England, Hamilton, Bermuda and 35 other locations; and the Company leases offices for the Reinsurance segment primarily in Summit, New Jersey and Hamilton, Bermuda. The Company's Markel Ventures operations own certain of their office, clinic, manufacturing, warehouse and distribution facilities and lease others. The Company believes these facilities are suitable and adequate for the Company's insurance and non-insurance operations.

## 7. Goodwill and Intangible Assets

The following table presents the components of goodwill. As described in note 19, effective January 1, 2014, the Company redefined its segments. As a result, goodwill was reallocated as of December 31, 2012 using a relative fair value allocation approach. The following table presents the components of goodwill by reportable segment.

<i>(dollars in thousands)</i>	U.S. Insurance	International Insurance	Reinsurance	Other <sup>(1)</sup>	Total
January 1, 2013	\$ 172,824	\$ 309,662	\$ —	\$192,444	\$ 674,930
Acquisitions (see note 2)	107,755	65,190	122,745	1,185	296,875
Foreign currency movements and other adjustments	—	(2,088)	—	(2,000)	(4,088)
December 31, 2013	\$ 280,579	\$ 372,764	\$ 122,745	\$ 191,629	\$ 967,717
Acquisitions (see note 2)	—	<b>42,989</b>	—	<b>61,539</b>	<b>104,528</b>
Impairment loss	—	—	—	<b>(13,737)</b>	<b>(13,737)</b>
Foreign currency movements and other adjustments	—	<b>(7,570)</b>	—	<b>(1,823)</b>	<b>(9,393)</b>
<b>DECEMBER 31, 2014<sup>(2)</sup></b>	<b>\$ 280,579</b>	<b>\$ 408,183</b>	<b>\$ 122,745</b>	<b>\$ 237,608</b>	<b>\$ 1,049,115</b>

<sup>(1)</sup> Amounts included in Other above are related to the Company's non-insurance operations, which are not included in a reportable segment.

<sup>(2)</sup> Goodwill is net of accumulated impairment losses of \$13.7 million included in Other.

Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. The Company completes an annual test during the fourth quarter of each year based upon the results of operations through September 30. As part of our annual impairment test, during the fourth quarter of 2014, the Company recorded a non-cash goodwill impairment charge of \$13.7 million to other expenses, to reduce the carrying value of the Diamond Healthcare reporting unit's goodwill to its implied fair value. Diamond Healthcare's operations consist of the planning, development and operation of behavioral health services in partnership with healthcare organizations, and are reported in our non-insurance operations. The Company determined the goodwill for the reporting unit was impaired as a result of lower than expected earnings and lower estimated future earnings. To determine the value of the impairment loss, the Company estimated the fair value of the reporting unit primarily using an income approach based on a discounted cash flow model.

There were no impairment losses recognized during 2013 or 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	December 31,			
	2014		2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>(dollars in thousands)</i>				
Customer relationships	\$ 452,157	\$ (69,483)	\$ 298,886	\$ (43,286)
Broker relationships	175,681	(34,827)	178,693	(23,255)
Trade names	94,795	(17,673)	65,880	(12,666)
Technology	62,288	(22,671)	56,429	(16,222)
Insurance licenses	39,985	—	40,185	(133)
Lloyd's syndicate capacity	12,000	—	12,000	—
Other	18,903	(8,408)	14,197	(5,625)
TOTAL	\$ 855,809	\$ (153,062)	\$ 666,270	\$ (101,187)

Amortization of intangible assets was \$57.6 million, \$55.2 million and \$33.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Amortization of intangible assets is estimated to be \$58.3 million for 2015, \$55.2 million for 2016, \$52.8 million for 2017, \$52.5 million for 2018 and \$46.7 million for 2019. Indefinite-lived intangible assets were \$58.0 million at December 31, 2014 and December 31, 2013.

In 2014, the Company acquired \$204.4 million of intangible assets. The definite-lived intangible assets acquired are expected to be amortized over a weighted average period of 16.8 years. The definite-lived intangible assets acquired during 2014 include customer relationships, trade names and technology, which are expected to be amortized over a weighted average period of 18.6, 12.5 and 7.0 years, respectively.

## 8. Income Taxes

Income before income taxes includes the following components.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Domestic operations	\$ 240,279	\$ 325,133	\$ 126,466
Foreign operations	200,099	36,610	185,584
INCOME BEFORE INCOME TAXES	\$ 440,378	\$ 361,743	\$ 312,050

Income tax expense includes the following components.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Current:			
Domestic	\$ 7,573	\$ 50,683	\$ 14,340
Foreign	24,574	23,165	1,814
Total current tax expense	32,147	73,848	16,154
Deferred:			
Domestic	43,673	23,906	(3,734)
Foreign	40,870	(19,856)	41,382
Total deferred tax expense	84,543	4,050	37,648
INCOME TAX EXPENSE	\$ 116,690	\$ 77,898	\$ 53,802

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

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

The Company made income tax payments of \$89.5 million, \$35.7 million and \$30.0 million in 2014, 2013 and 2012, respectively. Current income taxes payable were \$37.6 million and \$84.2 million at December 31, 2014 and 2013, respectively, and were included in other liabilities on the consolidated balance sheets.

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

	Years Ended December 31,		
	2014	2013	2012
United States corporate tax rate	35%	35%	35%
Tax-exempt investment income	(9)	(9)	(12)
Tax credits	(1)	—	—
Foreign operations	—	(4)	(5)
Other	1	—	(1)
EFFECTIVE TAX RATE	26%	22%	17%

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(dollars in thousands)	December 31,	
	2014	2013
<b>Assets:</b>		
Unpaid losses and loss adjustment expenses	\$ 239,588	\$ 283,365
Life and annuity benefits	143,102	161,209
Unearned premiums recognized for income tax purposes	108,960	76,862
Net operating loss carryforwards	36,359	43,010
Tax credit carryforwards	32,525	33,773
Other-than-temporary impairments not yet deductible for income tax purposes	28,106	34,978
Differences between financial reporting and tax bases	132,878	139,357
Total gross deferred tax assets	721,518	772,554
Less valuation allowance	(4,801)	—
Total gross deferred tax assets, net of allowance	716,717	772,554
<b>Liabilities:</b>		
Net unrealized gains on investments	759,212	459,015
Amortization of goodwill and other intangible assets	106,927	97,580
Deferred policy acquisition costs	101,766	65,543
Differences between financial reporting and tax bases	59,359	46,699
Total gross deferred tax liabilities	1,027,264	668,837
NET DEFERRED TAX ASSET (LIABILITY)	\$ (310,547)	\$ 103,717

The net deferred tax liability at December 31, 2014 was included in other liabilities on the consolidated balance sheet. The net deferred tax asset at December 31, 2013 was included in other assets on the consolidated balance sheet.

At December 31, 2014, the Company had tax credit carryforwards of \$32.5 million. The earliest any of these credits will expire is 2019.

At December 31, 2014, the Company had net operating losses of \$61.9 million that can be used to offset future income that is taxable in the United States from Markel Capital Limited, a wholly owned United Kingdom subsidiary. The Company's ability to use these losses in the United States expires between the years 2021 and 2032. At December 31, 2014, the Company had net operating losses of \$61.2 million that can be used to offset future income that is taxable in the United States. The Company's ability to use these losses in the United States expires between the years 2027 and 2033.

The Company believes that it is more likely than not that it will realize \$716.7 million of gross deferred tax assets, including net operating losses, recorded at December 31, 2014, through generating taxable income or the reversal of existing temporary differences attributable to the gross deferred tax liabilities. The Company recorded a valuation allowance to offset the deferred tax asset on losses incurred in our Brazilian subsidiary.

At December 31, 2014, the Company had unrecognized tax benefits of \$17.7 million. If recognized, \$15.6 million of these tax benefits would decrease the annual effective tax rate. The Company does not currently anticipate any significant changes in unrecognized tax benefits during 2015.



The following table presents a reconciliation of unrecognized tax benefits.

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2014	2013
Unrecognized tax benefits, beginning of year	\$ 18,219	\$ 18,870
Increases for tax positions taken in prior years	3	—
Lapse of statute of limitations	(522)	(651)
UNRECOGNIZED TAX BENEFITS, END OF YEAR	\$ 17,700	\$ 18,219

At December 31, 2014, earnings of the Company's foreign subsidiaries, with the exception of certain of our Bermuda subsidiaries, are considered reinvested indefinitely and no provision for deferred United States income taxes has been recorded. It is not practicable to determine the amount of unrecorded deferred tax liabilities associated with such earnings due to the complexity of this calculation.

The Company is subject to income tax in the United States and in foreign jurisdictions. With few exceptions, the Company is no longer subject to income tax examination by tax authorities for years ended before January 1, 2011.

## 9. Unpaid Losses and Loss Adjustment Expenses

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Net reserves for losses and loss adjustment expenses, beginning of year	\$ 8,407,642	\$ 4,592,652	\$ 4,607,767
Foreign currency movements, commutations and other	(137,385)	(780)	30,359
Adjusted net reserves for losses and loss adjustment expenses, beginning of year	8,270,257	4,591,872	4,638,126
Incurred losses and loss adjustment expenses:			
Current year	2,638,012	2,227,402	1,553,070
Prior years	(435,545)	(411,129)	(399,002)
Total incurred losses and loss adjustment expenses	2,202,467	1,816,273	1,154,068
Payments:			
Current year	502,107	670,928	268,745
Prior years	1,436,851	906,302	931,955
Total payments	1,938,958	1,577,230	1,200,700
Effect of foreign currency rate changes	(19,476)	(7,915)	1,158
Net reserves for losses and loss adjustment expenses of acquired insurance companies	21,193	3,584,642	—
Net reserves for losses and loss adjustment expenses, end of year	8,535,483	8,407,642	4,592,652
Reinsurance recoverable on unpaid losses	1,868,669	1,854,414	778,774
GROSS RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	\$ 10,404,152	\$ 10,262,056	\$ 5,371,426

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Beginning of year net reserves for losses and loss adjustment expenses are adjusted, when applicable, for the impact of changes in foreign currency rates, commutations and other items. In 2014, beginning of year net reserves for losses and loss adjustment expenses were decreased by a movement of \$127.7 million in foreign currency rates of exchange. In 2013, beginning of year net reserves for losses and loss adjustment expenses were increased by a movement of \$0.7 million in foreign currency rates of exchange, which was more than offset by commutations. In 2012, beginning of year net reserves for losses and loss adjustment expenses were increased by a movement of \$23.4 million in foreign currency rates of exchange.

In 2014, the Company recorded net reserves for losses and loss adjustment expenses of \$21.2 million as a result of the acquisition of Abbey. These reserves were recorded at fair value as part of the Company's purchase accounting.

In 2014, incurred losses and loss adjustment expenses included \$435.5 million of favorable development on prior years' loss reserves, which was due in part to \$250.4 million of loss reserve redundancies on our long-tail casualty and professional liability lines within the U.S. Insurance segment and on our professional liability and marine and energy product lines within the International Insurance segment, as actual claims reporting patterns on prior accident years have been more favorable than the Company's actuarial analyses initially anticipated. The favorable development on prior years' loss reserves in 2014 was partially offset by \$32.8 million of adverse development in prior years' loss reserves on asbestos and environmental (A&E) exposures.

Once a year, generally during the third quarter, the Company completes an in-depth, actuarial review of its A&E exposures. Over the past few years, the number of A&E claims reported each year across the property and casualty industry has been on the decline. However, at the same time, the likelihood of making an indemnity payment has risen, thus increasing the average cost per reported claim. During the 2012 annual review, the Company reduced its estimate of the ultimate claims count, while increasing its estimate of the number of claims that would ultimately be closed with an indemnity payment. During the annual review for both 2014 and 2013, the Company increased its expectation of the severity of the outcome of certain claims subject to litigation. As the ultimate outcome of known claims increases, the Company's expected ultimate closure value on unreported claims also increases. As a result, prior years' loss reserves for A&E exposures were increased by \$27.2 million in 2014, \$28.4 million in 2013 and \$31.1 million in 2012.

In 2013, the Company recorded net reserves for losses and loss adjustment expenses of \$3.6 billion as a result of the acquisition of Alterra. These reserves were recorded at fair value as part of the Company's purchase accounting. See note 2 for a discussion of the Company's acquisition of Alterra.

In 2013, incurred losses and loss adjustment expenses included \$411.1 million of favorable development on prior years' loss reserves, which was due in part to \$255.2 million of loss reserve redundancies on our long-tail casualty and professional liability product lines within the U.S. Insurance segment and on our professional liability and marine and energy product lines within the International Insurance segment, as actual claims reporting patterns on prior accident years have been more favorable than the Company's actuarial analyses initially anticipated. The favorable development on prior years' loss reserves in 2013 was partially offset by \$30.1 million of adverse development in prior years' loss reserves on A&E exposures.

Current year incurred losses and loss adjustment expenses for 2012 included \$99.6 million of estimated net losses related to Hurricane Sandy. The estimated net losses on Hurricane Sandy were net of estimated reinsurance recoverables of \$77.6 million.

In 2012, incurred losses and loss adjustment expenses included \$399.0 million of favorable development on prior years' loss reserves, which was due in part to \$292.3 million of loss reserve redundancies on our long-tail casualty and professional liability lines within our U.S. Insurance segment and on our professional liability and marine and energy product lines within the International Insurance segment, as actual claims reporting patterns on prior accident years have been more favorable than the Company's actuarial analyses initially anticipated. The favorable development on prior years' loss reserves in 2012 was partially offset by \$38.2 million of adverse development in prior years' loss reserves on A&E exposures.

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Inherent in the Company's reserving practices is the desire to establish loss reserves that are more likely redundant than deficient. As such, the Company seeks to establish loss reserves that will ultimately prove to be adequate. As part of the Company's acquisition of insurance operations, to the extent the reserving philosophy of the acquired business differs from the Company's reserving philosophy, the post-acquisition loss reserves will be built until total loss reserves are consistent with the Company's target level of confidence. Furthermore, the Company's philosophy is to price its insurance products to make an underwriting profit. Management continually attempts to improve its loss estimation process by refining its ability to analyze loss development patterns, claim payments and other information, but uncertainty remains regarding the potential for adverse development of estimated ultimate liabilities.

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Net reserves for A&E losses and loss adjustment expenses, beginning of year	\$ 272,194	\$ 260,791	\$ 244,772
Commutations and other	115	(5,067)	(897)
Adjusted net reserves for A&E losses and loss adjustment expenses, beginning of year	272,309	255,724	243,875
Incurred losses and loss adjustment expenses	32,840	30,128	38,179
Payments	(17,426)	(13,658)	(21,263)
Net reserves for A&E losses and loss adjustment expenses, end of year	287,723	272,194	260,791
Reinsurance recoverable on unpaid losses	102,719	100,784	100,063
GROSS RESERVES FOR A&E LOSSES AND LOSS ADJUSTMENT EXPENSES, END OF YEAR	\$ 390,442	\$ 372,978	\$ 360,854

At December 31, 2014, asbestos-related reserves were \$290.1 million and \$218.9 million on a gross and net basis, respectively. Net reserves for reported claims and net incurred but not reported reserves for A&E exposures were \$173.8 million and \$113.9 million, respectively, at December 31, 2014. Inception-to-date net paid losses and loss adjustment expenses for A&E related exposures totaled \$415.7 million at December 31, 2014, which includes \$85.7 million of litigation-related expense.

The Company's reserves for losses and loss adjustment expenses related to A&E exposures represent management's best estimate of ultimate settlement values. A&E reserves are monitored by management, and the Company's statistical analysis of these reserves is reviewed by the Company's independent actuaries. A&E exposures are subject to significant uncertainty due to potential loss severity and frequency resulting from the uncertain and unfavorable legal climate. A&E reserves could be subject to increases in the future; however, management believes the Company's gross and net A&E reserves at December 31, 2014 are adequate.

## 10. Life and Annuity Benefits

The following table presents life and annuity benefits.

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
Life	\$ 182,604	\$ 190,765
Annuities	1,031,946	1,194,558
Accident and health	91,268	101,251
TOTAL	\$ 1,305,818	\$ 1,486,574

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

Because of the assumptions and estimates used in establishing the Company's reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. The average discount rate for the life and annuity benefit reserves was 2.3% as of December 31, 2014.

As of December 31, 2014, the largest life and annuity benefits reserve for a single contract was 33.5% of the total.

No annuities included in life and annuity benefits in the consolidated balance sheet are subject to discretionary withdrawal.

## 11. Senior Long-Term Debt and Other Debt

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

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
7.20% unsecured senior notes, due April 14, 2017, interest payable semi-annually, net of unamortized premium of \$3,526 in 2014 and \$4,822 in 2013	\$ 94,155	\$ 95,451
7.125% unsecured senior notes, due September 30, 2019, interest payable semi-annually, net of unamortized discount of \$1,343 in 2014 and \$1,626 in 2013	348,657	348,374
6.25% unsecured senior notes, due September 30, 2020, interest payable semi-annually, net of unamortized premium of \$53,172 in 2014 and \$61,273 in 2013	403,172	411,273
5.35% unsecured senior notes, due June 1, 2021, interest payable semi-annually, net of unamortized discount of \$1,325 in 2014 and \$1,531 in 2013	248,675	248,469
4.90% unsecured senior notes, due July 1, 2022, interest payable semi-annually, net of unamortized discount of \$2,095 in 2014 and \$2,374 in 2013	347,905	347,626
3.625% unsecured senior notes, due March 30, 2023, interest payable semi-annually, net of unamortized discount of \$1,659 in 2014 and \$1,860 in 2013	248,341	248,140
7.35% unsecured senior notes, due August 15, 2034, interest payable semi-annually, net of unamortized discount of \$2,078 in 2014 and \$2,185 in 2013	197,922	197,815
5.0% unsecured senior notes, due March 30, 2043, interest payable semi-annually, net of unamortized discount of \$6,327 in 2014 and \$6,551 in 2013	243,673	243,449
Other debt, at various interest rates ranging from 1.6% to 6.5%	121,094	115,630
<b>SENIOR LONG-TERM DEBT AND OTHER DEBT</b>	<b>\$ 2,253,594</b>	<b>\$ 2,256,227</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

On September 27, 2010, Alterra Finance LLC, a wholly-owned indirect subsidiary of Alterra, issued \$350 million of 6.25% unsecured senior notes due September 30, 2020 (the 6.25% unsecured senior notes). The 6.25% unsecured senior notes are Alterra Finance LLC's senior unsecured obligations and rank equally in right of payment with all of Alterra Finance LLC's future unsecured and unsubordinated indebtedness and rank senior to all of Alterra Finance LLC's future subordinated indebtedness. The 6.25% unsecured senior notes are fully and unconditionally guaranteed by Alterra on a senior unsecured basis. The guarantee ranks equally with all of Alterra's existing and future unsecured and unsubordinated indebtedness and ranks senior to all of Alterra's future subordinated indebtedness. As of the Acquisition Date, the 6.25% unsecured senior notes were recorded at their estimated fair value of \$416.6 million. Alterra Finance LLC is a finance subsidiary and has no independent activities, assets or operations other than in connection with the 6.25% unsecured senior notes.

On June 30, 2014, Markel Corporation entered into agreements guaranteeing the 7.20% unsecured senior notes and 6.25% unsecured senior notes. These guarantee agreements were issued pursuant to supplemental indentures entered into by the Company on June 30, 2014 and are in addition to the existing guarantees provided by Alterra.

Effective August 1, 2014, both Alterra Finance and Alterra USA provided guarantees for the Company's revolving credit facility. As a result, the Company's revolving credit facility ranks equally with the 6.25% unsecured senior notes and the 7.20% unsecured senior notes.

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

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

The estimated fair value based on quoted market prices of the Company's senior long-term debt and other debt was \$2.5 billion and \$2.4 billion at December 31, 2014 and 2013, respectively.

The following table summarizes the future principal payments due at maturity on senior long-term debt and other debt as of December 31, 2014.

Years Ending December 31,	(dollars in thousands)
2015	\$ 23,340
2016	21,850
2017	112,942
2018	2,348
2019	352,199
2020 and thereafter	1,699,044
Total principal payments	\$ 2,211,723
Net unamortized premium	41,871
SENIOR LONG-TERM DEBT AND OTHER DEBT	\$ 2,253,594

On August 1, 2014, the Company entered into a credit agreement for a revolving credit facility, which provides \$300 million of capacity for future acquisitions, investments, repurchases of capital stock of the Company and for general corporate purposes. At the Company's discretion, \$200 million of the total capacity may be used for secured letters of credit. The Company may increase the capacity of the facility to \$500 million subject to certain terms and conditions. The Company pays interest on balances outstanding under the facility and a utilization fee for letters of credit issued under the facility. The Company also pays a commitment fee (0.225% at December 31, 2014) on the unused portion of the facility based on the Company's debt to equity leverage ratio as calculated under the credit agreement. Markel Corporation, along with Alterra Finance and Alterra USA, guaranteed the Company's obligations under the facility. At December 31, 2014, the Company had no borrowings outstanding under this revolving credit facility. This facility replaced the Company's previous \$300 million revolving credit facility and expires in August 2019.

Alterra and Markel Bermuda are party to a secured credit facility (the senior credit facility), which expires on December 15, 2015. On August 1, 2014, the Company reduced the capacity of the senior credit facility from \$900 million to \$650 million. The senior credit facility provides for secured letters of credit to be issued for the account of Alterra, Markel Bermuda and certain other subsidiaries of Alterra and for loans to Alterra and Markel Bermuda. Loans under the senior credit facility are subject to a sublimit of \$250 million. Subject to certain conditions and at the request of Alterra, the aggregate commitments of the lenders under the senior credit facility may be increased up to a total of \$1.4 billion. The Company pays a fee of 0.40% for outstanding letters of credit under the senior credit facility and a commitment fee of 0.125% on the total unused portion of the senior credit facility. At December 31, 2014 and 2013, the Company had no borrowings outstanding under the senior credit facility. At December 31, 2014, \$374.5 million of letters of credit were issued and outstanding under the senior credit facility.

At December 31, 2014, the Company was in compliance with all covenants contained in its revolving credit facility and senior credit facility. To the extent that the Company is not in compliance with its covenants, the Company's access to these credit facilities could be restricted.

The Company paid \$125.8 million, \$114.5 million and \$92.9 million in interest on its senior long-term debt and other debt during the years ended December 31, 2014, 2013 and 2012, respectively.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. Shareholders' Equity

a) The Company had 50,000,000 shares of no par value common stock authorized of which 13,961,675 shares and 13,985,620 shares were issued and outstanding at December 31, 2014 and 2013, respectively. The Company also has 10,000,000 shares of no par value preferred stock authorized, none of which was issued or outstanding at December 31, 2014 or 2013.

The Company's Board of Directors has approved the repurchase of up to \$300 million of common stock under a share repurchase program (the Program). Under the Program, the Company may repurchase outstanding shares of common stock from time to time, primarily through open-market transactions. The Program has no expiration date but may be terminated by the Board of Directors at any time. As of December 31, 2014, the Company had repurchased 34,385 shares of common stock at a cost of \$20.5 million under the Program.

b) Net income per share was determined by dividing adjusted net income to shareholders by the applicable weighted average shares outstanding. Diluted net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the year. Average closing common stock market prices are used to calculate the dilutive effect attributable to restricted stock.

<i>(in thousands, except per share amounts)</i>	Years Ended December 31,		
	2014	2013	2012
Net income to shareholders	\$ 321,182	\$ 281,021	\$ 253,385
Adjustment of redeemable noncontrolling interests	(8,186)	1,963	(3,101)
Adjusted net income to shareholders	\$ 312,996	\$ 282,984	\$ 250,284
Basic common shares outstanding	13,984	12,538	9,640
Dilutive potential common shares from conversion of options	11	12	6
Dilutive potential common shares from conversion of restricted stock	62	36	20
Diluted shares outstanding	14,057	12,586	9,666
Basic net income per share	\$ 22.38	\$ 22.57	\$ 25.96
Diluted net income per share	\$ 22.27	\$ 22.48	\$ 25.89

c) The Company's Employee Stock Purchase and Bonus Plan provides a method for employees and directors to purchase shares of the Company's common stock on the open market. The plan encourages share ownership by providing for the award of bonus shares to participants equal to 10% of the net increase in the number of shares owned under the plan in a given year, excluding shares acquired through the plan's loan program component. Under the loan program, the Company offers subsidized unsecured loans so participants may purchase shares and awards bonus shares equal to 5% of the shares purchased with a loan. The Company has authorized 100,000 shares for purchase under this plan, of which 20,740 and 33,454 shares were available for purchase at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, loans outstanding under the plan, which are included in receivables on the consolidated balance sheets, totaled \$15.0 million and \$12.8 million, respectively.

d) In April 2012, the Company adopted the 2012 Equity Incentive Compensation Plan (2012 Compensation Plan), which replaced the Markel Corporation Omnibus Incentive Plan (Omnibus Incentive Plan). The 2012 Compensation Plan provides for grants and awards of restricted stock, restricted stock units, performance grants, and other stock based awards to employees and directors and is administered by the Compensation Committee of the Company's Board of Directors (Compensation Committee). At December 31, 2014, there were 145,253 shares reserved for issuance under the 2012 Compensation Plan.

Restricted stock units are awarded to certain associates and executive officers based upon meeting performance conditions determined by the Compensation Committee. These awards generally vest at the end of the third year following the year for which the Compensation Committee determines performance conditions have been met. At the end of the vesting period,

recipients are entitled to receive one share of the Company's common stock for each vested restricted stock unit. During 2014, the Company awarded 17,917 restricted stock units to associates and executive officers based on performance conditions being met.

Restricted stock units also are awarded to associates and executive officers to assist the Company in securing or retaining the services of key employees. During 2014, the Company awarded 8,950 restricted stock units to associates and executive officers as a hiring or retention incentive. The restricted stock units had a grant-date fair value of \$5.4 million. These awards generally vest over a three-year period and entitle the recipient to receive one share of the Company's common stock for each vested restricted stock unit.

During 2014, the Company awarded 1,413 shares of restricted stock to its non-employee directors. The shares awarded to non-employee directors will vest in 2015.

The following table summarizes nonvested share-based awards.

	Number of Awards	Weighted Average Grant-Date Fair Value
Nonvested awards at January 1, 2014	98,711	\$ 449.93
Granted	28,280	583.74
Vested	(8,479)	491.51
Forfeited	(380)	411.00
Nonvested awards at December 31, 2014	118,132	\$ 479.11

The fair value of the Company's share-based awards issued under the Omnibus Incentive Plan was determined based on the average price of the Company's common shares on the grant date. The fair value of the Company's share-based awards granted under the 2012 Compensation Plan is determined based on the closing price of the Company's common shares on the grant date. The weighted average grant-date fair value of the Company's share-based awards granted in 2014, 2013 and 2012 was \$583.74, \$517.24 and \$412.04, respectively. As of December 31, 2014, unrecognized compensation cost related to nonvested share-based awards issued under the Omnibus Incentive Plan and 2012 Compensation plan was \$22.8 million, which is expected to be recognized over a weighted average period of 2.2 years. The fair value of the Company's share-based awards that vested during 2014, 2013 and 2012 was \$4.2 million, \$2.5 million and \$4.7 million, respectively.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value (in millions)
Outstanding and exercisable, January 1, 2014	35,941	\$ 412.39		
Exercised	13,636	\$ 413.06		
Outstanding and exercisable, December 31, 2014	22,305	\$ 411.98	1.7	\$ 6.1

During 2014, 13,636 options were exercised under the Alterra Equity Award Plans, resulting in cash proceeds of \$5.6 million and a current tax benefit of \$0.8 million. The intrinsic value of options exercised in 2014 was \$2.5 million. From the Acquisition Date through December 31, 2013, 65,934 options were exercised under the Alterra Equity Award Plans, resulting in cash proceeds of \$24.3 million and a current tax benefit of \$0.8 million. The intrinsic value of options exercised in 2013 was \$9.4 million.

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

	Number of Awards	Weighted Average Grant-Date Fair Value
Nonvested awards at January 1, 2014	68,411	\$ 529.59
Vested	(34,119)	529.59
Forfeited	(377)	529.59
Nonvested awards at December 31, 2014	33,915	\$ 529.59

The Company recognized compensation expense totaling \$3.9 million and \$12.7 million for the years ended December 31, 2014 and 2013, respectively, related to these restricted stock awards. As of December 31, 2014, unrecognized compensation cost related to the nonvested restricted stock awards was \$0.6 million, which is expected to be recognized over a weighted average period of less than one year. The fair value of the restricted stock awards that vested during 2014 and 2013 was \$18.1 million and \$41.3 million, respectively.

### 13. Other Comprehensive Income

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

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

<i>(dollars in thousands)</i>	Unrealized Holding Gains on Available-for- Sale Securities	Foreign Currency	Net Actuarial Pension Loss	Total
December 31, 2011	\$ 704,719	\$ (2,614)	\$ (41,185)	\$ 660,920
Other comprehensive income before reclassifications	266,265	1,539	4,670	272,474
Amounts reclassified from accumulated other comprehensive income	(24,051)	—	1,994	(22,057)
Total other comprehensive income	242,214	1,539	6,664	250,417
December 31, 2012	\$ 946,933	\$ (1,075)	\$ (34,521)	\$ 911,337
Other comprehensive income (loss) before reclassifications	225,404	(10,171)	2,517	217,750
Amounts reclassified from accumulated other comprehensive income	(40,830)	—	1,548	(39,282)
Total other comprehensive income (loss)	184,574	(10,171)	4,065	178,468
December 31, 2013	\$ 1,131,507	\$ (11,246)	\$ (30,456)	\$ 1,089,805
Other comprehensive income (loss) before reclassifications	687,908	(32,245)	(16,516)	639,147
Amounts reclassified from accumulated other comprehensive income	(26,161)	—	1,766	(24,395)
Total other comprehensive income (loss)	661,747	(32,245)	(14,750)	614,752
<b>December 31, 2014</b>	<b>\$ 1,793,254</b>	<b>\$ (43,491)</b>	<b>\$ (45,206)</b>	<b>\$ 1,704,557</b>

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Change in net unrealized gains on investments:			
Net holding gains arising during the period	\$ 328,564	\$ 93,837	\$ 122,524
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	614	(34)	(49)
Reclassification adjustments for net gains included in net income	(9,890)	(16,382)	(10,881)
Change in net unrealized gains on investments	319,288	77,421	111,594
Change in foreign currency translation adjustments	1,918	(1,619)	(446)
Change in net actuarial pension loss	(3,687)	1,015	1,991
TOTAL	\$ 317,519	\$ 76,817	\$ 113,139

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
Unrealized holding gains on available-for-sale securities:			
Other-than-temporary impairment losses	\$ (4,784)	\$ (4,706)	\$ (12,078)
Net realized investment gains, excluding other-than-temporary impairment losses	40,835	61,918	47,010
Total before taxes	36,051	57,212	34,932
Income taxes	(9,890)	(16,382)	(10,881)
Reclassification of unrealized holding gains, net of taxes	\$ 26,161	\$ 40,830	\$ 24,051
Net actuarial pension loss:			
Underwriting, acquisition and insurance expenses	\$ (2,084)	\$ (1,934)	\$ (2,590)
Income taxes	318	386	596
Reclassification of net actuarial pension loss, net of taxes	\$ (1,766)	\$ (1,548)	\$ (1,994)

## 14. Fair Value Measurements

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

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

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

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

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

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

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

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

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

*Derivatives.* Derivatives are recorded at fair value on a recurring basis and, prior to its scheduled termination in December 2014, included a credit default swap. The fair value of the credit default swap was measured by the Company using an external valuation model with any changes in fair value recorded in net investment income. Due to the significance of unobservable inputs required in measuring the fair value of the credit default swap, the credit default swap was classified as Level 3 within the fair value hierarchy. As of December 31, 2013, the fair value of the credit default swap was included in other liabilities on the consolidated balance sheet. Net investment income in 2014, 2013 and 2012 included favorable changes in the fair value of the credit default swap of \$2.2 million, \$10.5 million and \$16.6 million, respectively. The Company had no other material derivative instruments at December 31, 2014 or 2013.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	December 31, 2014			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ —	\$ 673,262	\$ —	\$ 673,262
Obligations of states, municipalities and political subdivisions	—	4,317,547	—	4,317,547
Foreign governments	—	1,611,921	—	1,611,921
Commercial mortgage-backed securities	—	430,627	—	430,627
Residential mortgage-backed securities	—	982,847	—	982,847
Asset-backed securities	—	99,490	—	99,490
Corporate bonds	—	2,307,188	—	2,307,188
Total fixed maturities	—	10,422,882	—	10,422,882
Equity securities:				
Insurance, banks and other financial institutions	1,311,925	—	—	1,311,925
Industrial, consumer and all other	2,825,651	—	—	2,825,651
Total equity securities	4,137,576	—	—	4,137,576
Short-term investments	1,469,975	124,874	—	1,594,849
Total investments available-for-sale	\$ 5,607,551	\$ 10,547,756	\$ —	\$ 16,155,307

	December 31, 2013			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ —	\$ 1,194,231	\$ —	\$ 1,194,231
Obligations of states, municipalities and political subdivisions	—	3,075,715	—	3,075,715
Foreign governments	—	1,461,054	—	1,461,054
Commercial mortgage-backed securities	—	367,821	—	367,821
Residential mortgage-backed securities	—	870,248	—	870,248
Asset-backed securities	—	188,289	—	188,289
Corporate bonds	—	2,985,178	—	2,985,178
Total fixed maturities	—	10,142,536	—	10,142,536
Equity securities:				
Insurance, banks and other financial institutions	1,015,083	—	—	1,015,083
Industrial, consumer and all other	2,236,715	—	—	2,236,715
Total equity securities	3,251,798	—	—	3,251,798
Short-term investments	1,312,561	139,727	—	1,452,288
Total investments available-for-sale	\$ 4,564,359	\$ 10,282,263	\$ —	\$ 14,846,622
Liabilities:				
Derivative contracts	\$ —	\$ —	\$ 2,230	\$ 2,230

There were no transfers into or out of Level 1 and Level 2 during 2014 or 2013.

Except as disclosed in note 2, the Company did not have other any assets or liabilities measured at fair value on a non-recurring basis during the years ended December 31, 2014 and 2013.



## 15. Reinsurance

The Company uses reinsurance and retrocessional reinsurance to manage its net retention on individual risks and overall exposure to losses while providing it with the ability to offer policies with sufficient limits to meet policyholder needs. Historically, the Company's products were written with limits that did not require significant reinsurance. Following the acquisition of Alterra, the Company has certain insurance and reinsurance products that use higher levels of reinsurance. In a reinsurance transaction, an insurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. In a retrocessional reinsurance transaction, a reinsurance company transfers, or cedes, all or part of its exposure in return for a portion of the premium. The ceding of insurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company will be required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocessional agreement.

A credit risk exists with ceded reinsurance to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance or retrocessional contracts. Allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. At December 31, 2014 and 2013, balances recoverable from the Company's ten largest reinsurers, by group, represented approximately 63% and 62%, respectively, of the reinsurance recoverable on paid and unpaid losses, before considering reinsurance allowances. At December 31, 2014, the Company's largest reinsurance balance was due from the Fairfax Financial Group and represented 10% of the reinsurance recoverable on paid and unpaid losses, before considering reinsurance allowances.

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

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Reinsurance allowance, beginning of year	\$ 76,210	\$ 71,148	\$ 69,067
Additions	10,316	13,621	24,179
Deductions	(26,713)	(8,559)	(22,098)
Reinsurance allowance, end of year	\$ 59,813	\$ 76,210	\$ 71,148

Management believes the Company's reinsurance allowance for doubtful accounts is adequate at December 31, 2014; however, the deterioration in the credit quality of existing reinsurers or disputes over reinsurance and retrocessional contracts could result in additional charges.

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

<i>(dollars in thousands)</i>	Years Ended December 31,					
	2014		2013		2012	
	Written	Earned	Written	Earned	Written	Earned
Direct	\$ 3,478,273	\$ 3,443,912	\$ 3,143,957	\$ 2,947,812	\$ 2,115,353	\$ 2,057,735
Assumed	1,327,240	1,298,371	776,269	1,016,853	398,328	376,186
Ceded	(888,498)	(901,371)	(683,543)	(733,049)	(299,555)	(286,793)
NET PREMIUMS	\$ 3,917,015	\$ 3,840,912	\$ 3,236,683	\$ 3,231,616	\$ 2,214,126	\$ 2,147,128

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$423.1 million, \$269.4 million and \$165.8 million for the years ended December 31, 2014, 2013 and 2012, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The percentage of ceded earned premiums to gross earned premiums was 19%, 18% and 12% for the years ended December 31, 2014, 2013 and 2012, respectively. The percentage of assumed earned premiums to net earned premiums was 34%, 31% and 18% for the years ended December 31, 2014, 2013 and 2012, respectively.

## 16. Commitments and Contingencies

a) The Company leases substantially all of its facilities and certain furniture and equipment under noncancelable operating leases with remaining terms up to 20 years.

The following table summarizes the Company's minimum annual rental commitments, excluding taxes, insurance and other operating costs payable directly by the Company, for noncancelable operating leases at December 31, 2014.

Years Ending December 31,	(dollars in thousands)
2015	\$ 28,434
2016	23,636
2017	28,124
2018	26,549
2019	25,169
2020 and thereafter	151,000
<b>TOTAL</b>	<b>\$ 282,912</b>

Rental expense was \$42.7 million, \$35.3 million and \$28.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

## 17. Related Party Transactions

The Company engages in certain related party transactions in the normal course of business. These transactions are at arm's length and are not material to the Company's consolidated financial statements.

## 18. Statutory Financial Information

a) Statutory capital and surplus and statutory net income (loss) for the Company's wholly-owned insurance subsidiaries as of December 31, 2014 and 2013 and for the years ended December 31, 2014, 2013 and 2012, respectively, is summarized below.

(dollars in thousands)	Statutory Capital and Surplus	
	2014	2013
United States	\$ 2,619,001	\$ 2,396,530
United Kingdom	\$ 604,564	\$ 510,426
Bermuda	\$ 1,890,920	\$ 1,503,004
Other	\$ 177,738	\$ 172,447

As of December 31, 2014, the amount of statutory capital and surplus necessary to satisfy regulatory requirements is not significant in relation to actual statutory capital and surplus.

<i>(dollars in thousands)</i>	Statutory Net Income (Loss)		
	Years Ended December 31,		
	2014	2013	2012
United States	\$ 212,909	\$ 235,009	\$ 127,179
United Kingdom	\$ 70,632	\$ 109,983	\$ 82,573
Bermuda	\$ 162,809	\$ 249,772	N/A
Other	\$ 1,271	\$ (12,617)	N/A

### ***United States***

The laws of the domicile states of the Company's U.S. insurance subsidiaries govern the amount of dividends that may be paid to the Company. Generally, statutes in the domicile states of the Company's U.S. insurance subsidiaries require prior approval for payment of extraordinary, as opposed to ordinary, dividends. At December 31, 2014, the Company's U.S. insurance subsidiaries could pay up to \$310.6 million during the following 12 months under the ordinary dividend regulations.

In converting from U.S. statutory accounting principles to U.S. GAAP, typical adjustments include deferral of policy acquisition costs, differences in the calculation of deferred income taxes and the inclusion of net unrealized gains or losses relating to fixed maturities in shareholders' equity. The Company does not use any permitted statutory accounting practices that are different from prescribed statutory accounting practices which impact statutory capital and surplus.

### ***United Kingdom***

The Company's United Kingdom insurance subsidiary and its Lloyd's managing agent are authorized by the Prudential Regulation Authority (PRA) and regulated by both the PRA and the Financial Conduct Authority (FCA). The PRA oversees compliance with established periodic auditing and reporting requirements, minimum solvency margins and individual capital assessment requirements and dividend restrictions, while both the PRA and the FCA oversee compliance with risk assessment reviews and various other requirements. Markel International Insurance Company Limited (MIICL) is required to give 14 days advance notice to the PRA for any dividends from MIICL. Markel Syndicate Management Limited, the managing agent of the Company's syndicate at Lloyd's, is required to satisfy the solvency requirements of Lloyd's. In addition, the Company's United Kingdom subsidiaries must comply with the United Kingdom Companies Act of 2006, which provides that dividends may only be paid out of profits available for that purpose. As of December 31, 2014, earnings of the Company's United Kingdom subsidiaries are considered reinvested indefinitely for U.S. income tax purposes and will not be made available for distributions to the holding company.

### ***Bermuda***

Markel Bermuda is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements. The enhanced capital requirement is determined by reference to a risk-based capital model that determines a control threshold for statutory capital and surplus by taking into account the risk characteristics of different aspects of the insurer's business. At December 31, 2014, Markel Bermuda satisfied both the enhanced capital requirements and the minimum solvency and liquidity requirements.

Under the Bermuda Insurance Act, Markel Bermuda is prohibited from paying or declaring dividends during a fiscal year if it is in breach of its enhanced capital requirement, solvency margin or minimum liquidity ratio or if the declaration or payment of the dividend would cause a breach. If an insurer fails to meet its solvency margin or minimum liquidity ratio on the last day of any financial year, it is prohibited from declaring or paying any dividends during the next financial year without the approval of the Bermuda Monetary Authority (BMA). Further, Markel Bermuda is prohibited from declaring or paying, in any financial year, dividends of more than 25% of its total statutory capital and surplus as set forth in its previous year's statutory balance sheet unless at least seven days before payment of those dividends it files with the BMA an affidavit stating that it will continue to meet its solvency margin and minimum liquidity ratio. Markel Bermuda must obtain the BMA's prior approval for a reduction by 15% or more of the total statutory capital as set forth in its previous year's financial statements. In addition, as a long-term

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

insurer, Markel Bermuda may not declare or pay a dividend to any person other than a policyholder unless the value of the assets in its long-term business fund, as certified by Markel Bermuda's approved actuary, exceeds the liabilities of its long-term business by the amount of the dividend and at least the prescribed minimum solvency margin. As of December 31, 2014, Markel Bermuda could pay up to \$472.7 million during the following 12 months without making any additional filings with the BMA.

### ***Other Jurisdictions***

The Company's other foreign subsidiaries are subject to capital and solvency requirements in their respective jurisdictions of domicile that govern their ability to declare and pay dividends. As of December 31, 2014, earnings of our foreign subsidiaries are considered reinvested indefinitely for U.S. income tax purposes and will not be made available for distributions to the holding company.

b) Lloyd's sets the corporate members' required capital annually based on each syndicates' business plans, rating environment, reserving environment and input arising from Lloyd's discussions with, inter alia, regulatory and rating agencies. Such required capital is referred to as Funds at Lloyd's (FAL), and comprises cash and investments. The amount of cash and investments held as FAL as of December 31, 2014 was \$784.6 million. The amount which the Company provides as FAL is not available for distribution to the holding company. The Company's corporate members may also be required to maintain funds under the control of Lloyd's in excess of their capital requirements and such funds also may not be available for distribution to the holding company.

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### 19. Segment Reporting Disclosures

In conjunction with the continued integration of Alterra into the Company's insurance operations, during the first quarter of 2014, the Company changed the way it aggregates and monitors its ongoing underwriting results. Effective January 1, 2014, the Company monitors and reports its ongoing underwriting operations in the following three segments: U.S. Insurance, International Insurance and Reinsurance. In determining how to aggregate and monitor its underwriting results, the Company considers many factors, including the geographic location and regulatory environment of the insurance entity underwriting the risk, the nature of the insurance product sold, the type of account written and the type of customer served. The U.S. Insurance segment includes all direct business and facultative placements written by the Company's insurance subsidiaries domiciled in the United States. The International Insurance segment includes all direct business and facultative placements written by the Company's insurance subsidiaries domiciled outside of the United States, including the Company's syndicate at Lloyd's. The Reinsurance segment includes all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions, including the results attributable to the run-off of life and annuity reinsurance business previously written by Alterra, are reported in the Other Insurance (Discontinued Lines) segment. All investing activities related to the Company's insurance operations are included in the Investing segment.

The Company's non-insurance operations include its Markel Ventures operations, which primarily consist of controlling interests in various industrial and service businesses. The Company's non-insurance operations also include the results of the Company's legal and professional consulting services, which were acquired through the acquisition of Abbey in January 2014. For purposes of segment reporting, the Company's non-insurance operations are not considered to be a reportable segment.

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

<i>(dollars in thousands)</i>	Years Ended December 31,					
	2014	% of Total	2013	% of Total	2012	% of Total
United States	\$ 3,523,239	73%	\$ 2,934,868	75%	\$ 1,768,011	70%
United Kingdom	441,669	9	245,143	6	147,891	6
Canada	125,617	3	128,420	3	120,542	5
Other countries	714,988	15	611,795	16	477,237	19
TOTAL	\$ 4,805,513	100%	\$ 3,920,226	100%	\$ 2,513,681	100%

Most of the Company's gross written premiums are placed through insurance and reinsurance brokers. During the years ended December 31, 2014 and 2013, the top three independent brokers accounted for approximately 28% and 24% of consolidated gross premiums written. During the years ended December 31, 2014 and 2013, the top three independent brokers accounted for approximately 68%, of gross premiums written in the Reinsurance segment and 41% and 42%, respectively, of gross premiums written in the International Insurance segment.

Segment profit for the Investing segment is measured by net investment income and net realized investment gains or losses. Segment profit or loss for each of the Company's underwriting segments is measured by underwriting profit or loss. The property and casualty insurance industry commonly defines underwriting profit or loss as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. Underwriting profit or loss does not replace operating income or net income computed in accordance with U.S. GAAP as a measure of profitability. Underwriting profit or loss provides a basis for management to evaluate the Company's underwriting performance. Segment profit or loss for the Company's underwriting segments also includes other revenues and other expenses, primarily related to the run-off of managing general agent operations that were discontinued in conjunction with acquisitions. Other revenues and other expenses in the Other Insurance (Discontinued Lines) segment are comprised of the results attributable to the run-off of life and annuity reinsurance business.

For management reporting purposes, the Company allocates assets to its underwriting, investing and non-insurance operations. Underwriting assets are all assets not specifically allocated to the Investing segment or to the Company's non-insurance operations. Underwriting and investing assets are not allocated to the U.S. Insurance, International Insurance, Reinsurance or Other Insurance (Discontinued Lines) segments since the Company does not manage its assets by underwriting segment. The Company does not allocate capital expenditures for long-lived assets to any of its underwriting segments for management reporting purposes.

All segment disclosures for the prior periods have been revised to be consistent with the new segment structure.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Year Ended December 31, 2014					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	\$ 2,493,823	\$ 1,200,403	\$ 1,112,728	\$ (1,441)	\$ —	\$ 4,805,513
Net written premiums	2,071,466	889,336	956,584	(371)	—	3,917,015
Earned premiums	2,022,860	909,679	908,385	(12)	—	3,840,912
Losses and loss adjustment expenses:						
Current accident year	(1,340,129)	(660,409)	(637,474)	—	—	(2,638,012)
Prior accident years	216,557	166,615	79,951	(27,578)	—	435,545
Amortization of policy acquisition costs	(403,233)	(141,394)	(110,289)	—	—	(654,916)
Other operating expenses	(396,737)	(207,175)	(201,673)	(381)	—	(805,966)
Underwriting profit (loss)	99,318	67,316	38,900	(27,971)	—	177,563
Net investment income	—	—	—	—	363,230	363,230
Net realized investment gains	—	—	—	—	46,000	46,000
Other revenues (insurance)	2,478	21,827	2,696	1,631	—	28,632
Other expenses (insurance)	(5,149)	(18,706)	(1,847)	(37,132)	—	(62,834)
Segment profit (loss)	\$ 96,647	\$ 70,437	\$ 39,749	\$ (63,472)	\$ 409,230	\$ 552,591
Other revenues (non-insurance)						854,893
Other expenses (non-insurance)						(792,037)
Amortization of intangible assets						(57,627)
Interest expense						(117,442)
INCOME BEFORE INCOME TAXES						\$ 440,378
U.S. GAAP COMBINED RATIO <sup>(1)</sup>	95%	93%	96%	NM <sup>(2)</sup>		95%

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

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

Year Ended December 31, 2013

<i>(dollars in thousands)</i>	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	\$ 2,252,739	\$ 1,101,099	\$ 566,348	\$ 40	\$ —	\$ 3,920,226
Net written premiums	1,915,770	840,050	480,822	41	—	3,236,683
Earned premiums	1,727,766	833,984	669,826	40	—	3,231,616
Losses and loss adjustment expenses:						
Current accident year	(1,173,258)	(588,759)	(465,385)	—	—	(2,227,402)
Prior accident years	298,113	130,660	12,938	(30,582)	—	411,129
Transaction costs and other acquisition-related expenses <sup>(1)</sup>	(12,724)	(13,366)	(49,050)	—	—	(75,140)
Amortization of policy acquisition costs	(287,795)	(138,626)	(45,494)	—	—	(471,915)
Other operating expenses	(409,886)	(171,666)	(183,817)	112	—	(765,257)
Underwriting profit (loss)	142,216	52,227	(60,982)	(30,430)	—	103,031
Net investment income	—	—	—	—	317,373	317,373
Net realized investment gains	—	—	—	—	63,152	63,152
Other revenues (insurance)	13,648	4,284	5,432	1,130	—	24,494
Other expenses (insurance)	(17,087)	(5,065)	—	(28,126)	—	(50,278)
Segment profit (loss)	\$ 138,777	\$ 51,446	\$ (55,550)	\$ (57,426)	\$ 380,525	\$ 457,772
Other revenues (non-insurance)						686,448
Other expenses (non-insurance)						(613,250)
Amortization of intangible assets						(55,223)
Interest expense						(114,004)
INCOME BEFORE INCOME TAXES						\$ 361,743
U.S. GAAP COMBINED RATIO <sup>(2)</sup>	92%	94%	109%	NM <sup>(3)</sup>		97%

<sup>(1)</sup> In connection with the acquisition of Alterra, the Company incurred transaction costs of \$16.0 million for the year ended December 31, 2013, which primarily consist of due diligence, legal and investment banking costs. Additionally, the Company incurred severance costs of \$31.7 million, stay bonuses of \$14.8 million and other compensation costs totaling \$12.6 million related to the acceleration of certain long-term incentive compensation awards and restricted stock awards that were granted by Alterra prior to the acquisition.

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

<sup>(3)</sup> NM — Ratio is not meaningful.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Year Ended December 31, 2012					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	\$ 1,595,849	\$ 788,092	\$ 129,744	\$ (4)	\$ —	\$ 2,513,681
Net written premiums	1,418,579	677,344	118,208	(5)	—	2,214,126
Earned premiums	1,360,229	672,405	114,499	(5)	—	2,147,128
Losses and loss adjustment expenses:						
Current accident year	(984,018)	(492,177)	(76,875)	—	—	(1,553,070)
Prior accident years	225,870	172,758	21,449	(21,075)	—	399,002
Prospective adoption of FASB ASU No. 2010-26 <sup>(1)</sup>	(31,033)	(10,597)	(1,463)	—	—	(43,093)
Other amortization of policy acquisition costs	(243,466)	(130,637)	(10,913)	—	—	(385,016)
Other operating expenses	(327,682)	(153,545)	(19,933)	(203)	—	(501,363)
Underwriting profit (loss)	(100)	58,207	26,764	(21,283)	—	63,588
Net investment income	—	—	—	—	282,107	282,107
Net realized investment gains	—	—	—	—	31,593	31,593
Other revenues (insurance)	44,968	4,964	—	—	—	49,932
Other expenses (insurance)	(41,425)	(3,867)	—	—	—	(45,292)
Segment profit (loss)	\$ 3,443	\$ 59,304	\$ 26,764	\$ (21,283)	\$ 313,700	\$ 381,928
Other revenues (non-insurance)						489,352
Other expenses (non-insurance)						(432,956)
Amortization of intangible assets						(33,512)
Interest expense						(92,762)
INCOME BEFORE INCOME TAXES						\$ 312,050
U.S. GAAP COMBINED RATIO <sup>(2)</sup>	100%	91%	77%	NM <sup>(3)</sup>		97%

<sup>(1)</sup> Effective January 1, 2012, the Company prospectively adopted FASB ASU No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. At December 31, 2011, deferred policy acquisition costs included \$43.1 million of costs that no longer met the criteria for deferral as of January 1, 2012 and were recognized into income during 2012, consistent with policy terms.

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

<sup>(3)</sup> NM — Ratio is not meaningful.

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

(dollars in thousands)	Deferred Policy Acquisition Costs	Unearned Premiums	Unpaid Losses and Loss Adjustment Expenses
December 31, 2014			
U.S. Insurance	\$ 165,333	\$ 1,110,910	\$ 3,577,166
International Insurance	47,618	491,708	3,353,417
Reinsurance	140,459	643,072	2,818,792
Other Insurance (Discontinued Lines)	—	—	654,777
TOTAL	\$ 353,410	\$ 2,245,690	\$ 10,404,152
December 31, 2013			
U.S. Insurance	\$ 151,015	\$ 1,058,529	\$ 3,572,667
International Insurance	50,425	516,689	3,399,228
Reinsurance	59,527	551,897	2,811,362
Other Insurance (Discontinued Lines)	—	—	478,799
TOTAL	\$ 260,967	\$ 2,127,115	\$ 10,262,056

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
U.S. Insurance:			
General liability	\$ 491,645	\$ 431,798	\$ 354,003
Professional liability	321,005	268,203	216,234
Property	266,019	190,530	141,568
Personal lines	299,442	185,935	86,217
Programs	244,216	205,004	135,037
Workers compensation	263,164	250,790	241,208
Other	137,369	195,506	185,962
Total U.S. Insurance	2,022,860	1,727,766	1,360,229
International Insurance:			
General liability	146,178	128,171	102,875
Professional liability	285,300	252,816	174,590
Property	76,691	91,497	48,483
Marine and energy	287,263	287,745	288,605
Other	114,247	73,755	57,852
Total International Insurance	909,679	833,984	672,405
Reinsurance:			
Property	270,461	227,394	71,172
Casualty	323,390	244,981	476
Auto	152,645	84,042	21,163
Other	161,889	113,409	21,688
Total Reinsurance	908,385	669,826	114,499
Other Insurance (Discontinued Lines)	(12)	40	(5)
TOTAL EARNED PREMIUMS	\$ 3,840,912	\$ 3,231,616	\$ 2,147,128

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

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

<i>(dollars in thousands)</i>	December 31,		
	2014	2013	2012
Segment assets:			
Investing	\$ 18,531,150	\$ 17,550,332	\$ 9,277,697
Underwriting	5,422,445	5,468,731	2,387,305
Total segment assets	23,953,595	23,019,063	11,665,002
Non-insurance operations	1,246,762	936,448	891,586
TOTAL ASSETS	\$ 25,200,357	\$ 23,955,511	\$ 12,556,588

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 20. Other Revenues and Other Expenses

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

(dollars in thousands)	Years Ended December 31,					
	2014		2013		2012	
	Other Revenues	Other Expenses	Other Revenues	Other Expenses	Other Revenues	Other Expenses
Insurance:						
Managing general agent operations	\$ 23,324	\$ 22,527	\$ 17,399	\$ 20,382	\$ 48,056	\$ 43,069
Life and annuity	1,631	37,132	1,130	28,126	—	—
Other	3,677	3,175	5,965	1,770	1,876	2,223
	28,632	62,834	24,494	50,278	49,932	45,292
Non-Insurance:						
Markel Ventures:						
Manufacturing	575,353	513,668	495,138	437,712	366,886	328,484
Markel Ventures:						
Non-Manufacturing	262,767	261,551	191,310	175,538	122,466	104,472
Other	16,773	16,818	—	—	—	—
	854,893	792,037	686,448	613,250	489,352	432,956
Total	\$ 883,525	\$ 854,871	\$ 710,942	\$ 663,528	\$ 539,284	\$ 478,248

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

## 21. Employee Benefit Plans

a) The Company maintains defined contribution plans for employees of its United States insurance operations in accordance with Section 401(k) of the IRC. Employees of the Company's Markel Ventures subsidiaries are provided post-retirement benefits under separate plans. The Company also provides various defined contribution plans for employees of its international insurance operations, which are in line with local market terms and conditions of employment. Expenses relating to the Company's defined contribution plans, including the defined contribution plans of Alterra effective May 1, 2013, were \$27.2 million, \$24.3 million and \$19.1 million in 2014, 2013 and 2012, respectively.

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

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

<i>(dollars in thousands)</i>	Years Ended December 31,	
	2014	2013
Change in projected benefit obligation:		
Projected benefit obligation at beginning of period	\$ 163,010	\$ 151,327
Interest cost	7,572	6,533
Plan amendments	495	—
Benefits paid	(4,424)	(3,542)
Actuarial loss	29,609	5,459
Effect of foreign currency rate changes	(10,706)	3,233
Projected benefit obligation at end of year	\$ 185,556	\$ 163,010
Change in plan assets:		
Fair value of plan assets at beginning of period	\$ 189,437	\$ 164,090
Actual gain on plan assets	22,395	19,430
Employer contributions	5,610	5,338
Benefits paid	(4,424)	(3,542)
Effect of foreign currency rate changes	(11,619)	4,121
Fair value of plan assets at end of year	\$ 201,399	\$ 189,437
Funded status of the plan	\$ 15,843	\$ 26,427
Net actuarial pension loss	61,378	42,941
TOTAL	\$ 77,221	\$ 69,368

Net actuarial pension loss is recognized as a component of accumulated other comprehensive income, net of a tax benefit of \$16.2 million and \$12.4 million in 2014 and 2013, respectively. The asset for pension benefits, also referred to as the funded status of the plan, at December 31, 2014 and December 31, 2013 was included in other assets on the consolidated balance sheets.

The following table presents the changes in plan assets and projected benefit obligation recognized in accumulated other comprehensive income.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Net actuarial gain (loss)	\$ (20,521)	\$ 3,146	\$ 6,065
Amortization of:			
Net actuarial loss	1,589	1,934	2,590
Prior service costs	495	—	—
Tax benefit (expense)	3,687	(1,015)	(1,991)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	\$ (14,750)	\$ 4,065	\$ 6,664

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

(dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
Components of net periodic benefit income:			
Service cost	\$ —	\$ —	\$ 361
Interest cost	7,572	6,533	6,815
Expected return on plan assets	(12,812)	(10,825)	(9,788)
Amortization of prior service cost	495	—	—
Amortization of net actuarial pension loss	1,589	1,934	2,590
NET PERIODIC BENEFIT INCOME	\$ (3,156)	\$ (2,358)	\$ (22)
Weighted average assumptions as of December 31:			
Discount rate	3.8%	4.7%	4.5%
Expected return on plan assets	6.0%	6.6%	6.6%
Rate of compensation increase	2.9%	3.2%	3.1%

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

Management's discount rate and rate of compensation increase assumptions at December 31, 2014 were used to calculate the Company's projected benefit obligation. Management's discount rate, expected return on plan assets and rate of compensation increase assumptions at December 31, 2013 were used to calculate the net periodic benefit income for 2014. The Company estimates that net periodic benefit income in 2015 will include an expense of \$2.4 million resulting from the amortization of the net actuarial pension loss included as a component of accumulated other comprehensive income at December 31, 2014.

The fair values of each of the plan's assets are measured using quoted prices in active markets for identical assets, which represent Level 1 inputs within the fair value hierarchy established in FASB ASC 820-10. The following table summarizes the fair value of plan assets as of December 31, 2014 and 2013.

(dollars in thousands)	December 31,	
	2014	2013
Plan assets:		
Fixed maturity index funds	\$ 114,243	\$ 70,997
Equity security index funds	87,148	118,431
Cash and cash equivalents	8	9
TOTAL	\$ 201,399	\$ 189,437

During 2014, the Company revised the target asset allocation and adjusted the investment balances to reduce risk while maintaining long-term return objectives. The Company's target asset allocation for the plan is 46% equity securities and 54% fixed maturities. At December 31, 2014, the actual allocation of assets in the plan was 43% equity securities and 57% fixed maturities. At December 31, 2013, the actual allocation of plan assets was 63% equity securities and 37% fixed maturities.

Investments are managed by a third party investment manager. Equity securities are invested in an index fund where 30% is indexed to United Kingdom equities and 70% is indexed to other markets. Assets are also invested in a mutual fund with a diversified global portfolio of equities, government bonds and investment grade debt. The primary objective of investing in these funds is to earn rates of return that are consistently in excess of inflation. Investing in equity securities, historically, has provided rates of return that are higher than investments in fixed maturities. Fixed maturity investments are allocated between five mutual funds; two index funds that include United Kingdom government securities, one index fund that includes securities issued by other foreign governments, one mutual fund that includes investment grade corporate bonds from the United Kingdom and foreign markets and one index fund that includes United Kingdom corporate securities. The assets in these funds are invested to meet the Company's obligations for current pensioners and those individuals nearing retirement. The plan does not invest in the Company's common shares.

At December 31, 2014 and 2013, the fair value of plan assets exceeded the plan's accumulated benefit obligation of \$166.9 million and \$146.0 million, respectively. The Company does not expect to have any required contributions or make any voluntary plan contributions in 2015.

The benefits expected to be paid in each year from 2015 to 2019 are \$4.0 million, \$4.1 million, \$4.1 million, \$4.2 million and \$4.3 million, respectively. The aggregate benefits expected to be paid in the five years from 2020 to 2024 are \$23.1 million. The expected benefits to be paid are based on the same assumptions used to measure the Company's projected benefit obligation at December 31, 2014 and include estimated future employee service.

## 22. Markel Corporation (Parent Company Only) Financial Information

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

### CONDENSED BALANCE SHEETS

	December 31,	
	2014	2013
	<i>(dollars in thousands)</i>	
<b>ASSETS</b>		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of \$47,346 in 2014 and \$66,154 in 2013)	\$ 48,807	\$ 67,363
Equity securities (cost of \$193,864 in 2014 and \$197,549 in 2013)	434,714	392,123
Short-term investments (estimated fair value approximates cost)	764,953	654,971
Total Investments	1,248,474	1,114,457
Cash and cash equivalents	243,702	207,352
Restricted cash and cash equivalents	959	1,010
Receivables	16,110	14,326
Investments in consolidated subsidiaries	7,560,862	6,826,790
Notes receivable from subsidiaries	212,631	168,611
Income taxes receivable	10,951	5,320
Other assets	93,434	102,193
<b>TOTAL ASSETS</b>	<b>\$ 9,387,123</b>	<b>\$ 8,440,059</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Senior long-term debt	\$ 1,635,173	\$ 1,633,873
Net deferred tax liability	74,534	40,443
Other liabilities	82,598	92,166
Total Liabilities	1,792,305	1,766,482
Total Shareholders' Equity	7,594,818	6,673,577
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 9,387,123</b>	<b>\$ 8,440,059</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2014	2013	2012
	<i>(dollars in thousands)</i>		
<b>REVENUES</b>			
Net investment income	\$ 5,354	\$ 21,946	\$ 30,619
Dividends on common stock of consolidated subsidiaries	217,121	806,233	337,585
Net realized investment gains:			
Other-than-temporary impairment losses	(120)	(15)	(38)
Net realized investment gains, excluding other-than-temporary impairment losses	3,873	67,232	14,926
Net realized investment gains	3,753	67,217	14,888
Other	—	1	3
<b>TOTAL REVENUES</b>	<b>226,228</b>	<b>895,397</b>	<b>383,095</b>
<b>EXPENSES</b>			
Interest expense	94,097	92,743	87,391
Other expenses	2,685	2,617	1,166
<b>TOTAL EXPENSES</b>	<b>96,782</b>	<b>95,360</b>	<b>88,557</b>
Income Before Equity in Undistributed Earnings of Consolidated Subsidiaries and Income Taxes	129,446	800,037	294,538
Equity in undistributed earnings of consolidated subsidiaries	163,341	(520,323)	(61,663)
Income tax benefit	(28,395)	(1,307)	(20,510)
<b>NET INCOME TO SHAREHOLDERS</b>	<b>\$ 321,182</b>	<b>\$ 281,021</b>	<b>\$ 253,385</b>
<b>OTHER COMPREHENSIVE INCOME TO SHAREHOLDERS</b>			
Change in net unrealized gains on investments, net of taxes:			
Net holding gains arising during the period	\$ 32,118	\$ 66,623	\$ 10,897
Consolidated subsidiaries' net holding gains arising during the period	655,617	158,922	255,528
Consolidated subsidiaries' change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	173	(141)	(160)
Reclassification adjustments for net gains (losses) included in net income to shareholders	(1,874)	(43,220)	11,847
Consolidated subsidiaries' reclassification adjustments for net gains (losses) included in net income to shareholders	(24,287)	2,390	(35,898)
Change in net unrealized gains on investments, net of taxes	661,747	184,574	242,214
Change in foreign currency translation adjustments, net of taxes	1,949	(2,670)	(242)
Consolidated subsidiaries' change in foreign currency translation adjustments, net of taxes	(34,194)	(7,501)	1,781
Consolidated subsidiaries' change in net actuarial pension loss, net of taxes	(14,750)	4,065	6,664
Total Other Comprehensive Income to Shareholders	614,752	178,468	250,417
<b>COMPREHENSIVE INCOME TO SHAREHOLDERS</b>	<b>\$ 935,934</b>	<b>\$ 459,489</b>	<b>\$ 503,802</b>



## CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
	<i>(dollars in thousands)</i>		
<b>OPERATING ACTIVITIES</b>			
Net income to shareholders	\$ 321,182	\$ 281,021	\$ 253,385
Adjustments to reconcile net income to shareholders to net cash provided by operating activities	(218,396)	186,574	(153,773)
NET CASH PROVIDED BY OPERATING ACTIVITIES	102,786	467,595	99,612
<b>INVESTING ACTIVITIES</b>			
Proceeds from sales of fixed maturities and equity securities	9,306	142,259	149,314
Proceeds from maturities, calls and prepayments of fixed maturities	15,710	2,819	64,340
Cost of fixed maturities and equity securities purchased	(687)	(23,412)	(139,681)
Net change in short-term investments	(109,728)	10,251	(374,801)
Securities received from subsidiaries as dividends or repayment of notes receivable	89,996	249,996	260,088
Decrease in notes receivable due from subsidiaries	28,506	5,302	66,802
Capital contributions to subsidiaries	(74,788)	(67,878)	(198,349)
Acquisitions	—	(1,017,988)	(100,409)
Cost of equity method investments	—	(5,291)	(38,250)
Change in restricted cash and cash equivalents	51	(348)	(204)
Additions to property and equipment	(342)	(3,653)	(9,437)
Other	(2,150)	3,207	(4,369)
NET CASH USED BY INVESTING ACTIVITIES	(44,126)	(704,736)	(324,956)
<b>FINANCING ACTIVITIES</b>			
Additions to senior long-term debt	—	491,235	347,207
Repayment and retirement of senior long-term debt	—	(246,665)	(157,359)
Repurchases of common stock	(26,053)	(57,388)	(16,873)
Issuance of common stock	5,691	24,518	9,145
Other	(1,948)	(5,023)	436
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(22,310)	206,677	182,556
Increase (decrease) in cash and cash equivalents	36,350	(30,464)	(42,788)
Cash and cash equivalents at beginning of year	207,352	237,816	280,604
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 243,702	\$ 207,352	\$ 237,816

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 23. Quarterly Financial Information (unaudited)

The following table presents the unaudited quarterly results of consolidated operations for 2014, 2013 and 2012.

<i>(dollars in thousands, except per share amounts)</i>	Quarters Ended			
	Mar. 31	June 30	Sept. 30	Dec. 31
<b>2014</b>				
Operating revenues	\$ 1,239,655	\$ 1,258,971	\$ 1,299,286	\$ 1,335,755
Net income	87,501	41,141	76,824	118,222
Net income to shareholders	87,716	40,068	75,803	117,595
Comprehensive income to shareholders	230,273	250,588	36,502	418,571
Net income per share:				
Basic	\$ 6.28	\$ 2.67	\$ 5.33	\$ 8.10
Diluted	6.25	2.66	5.30	8.05
Common stock price ranges:				
High	\$ 596.87	\$ 655.75	\$ 666.00	\$ 707.36
Low	527.17	593.76	623.90	632.65
<b>2013</b>				
Operating revenues	\$ 819,864	\$ 1,031,769	\$ 1,191,665	\$ 1,279,785
Net income	89,263	28,676	66,967	98,939
Net income to shareholders	88,902	27,756	65,599	98,764
Comprehensive income (loss) to shareholders	257,684	(149,054)	144,409	206,450
Net income per share:				
Basic	\$ 9.53	\$ 2.24	\$ 4.69	\$ 6.98
Diluted	9.50	2.24	4.67	6.95
Common stock price ranges:				
High	\$ 510.05	\$ 546.94	\$ 549.09	\$ 582.59
Low	434.98	501.76	506.64	511.06
<b>2012</b>				
Operating revenues	\$ 733,135	\$ 693,247	\$ 765,775	\$ 807,955
Net income	57,713	90,768	51,674	58,093
Net income to shareholders	57,253	89,687	49,653	56,792
Comprehensive income to shareholders	205,945	73,416	147,454	76,987
Net income per share:				
Basic	\$ 5.94	\$ 8.44	\$ 5.33	\$ 6.25
Diluted	5.92	8.42	5.32	6.23
Common stock price ranges:				
High	\$ 451.90	\$ 453.50	\$ 459.90	\$ 502.20
Low	398.65	421.00	420.00	425.17

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



The Board of Directors and Shareholders  
Markel Corporation:

We have audited the accompanying consolidated balance sheets of Markel Corporation and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Markel Corporation and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

The Company prospectively adopted Financial Accounting Standards Board Accounting Standards Update 2010-26 related to the deferral of insurance policy acquisition costs incurred on new or renewal insurance contracts on January 1, 2012.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Markel Corporation's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**KPMG LLP**

Richmond, Virginia  
February 27, 2015

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



The Board of Directors and Shareholders  
Markel Corporation:

We have audited Markel Corporation's (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Markel Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Markel Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

Richmond, Virginia  
February 27, 2015

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING



Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management does not expect that its internal control over financial reporting 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. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. 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. The design of any system of internal control over financial reporting 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.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, we have concluded that we maintained effective internal control over financial reporting as of December 31, 2014.

KPMG LLP, our independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, which is included herein.

Alan I. Kirshner  
Chief Executive Officer

Anne G. Waleski  
Chief Financial Officer

February 27, 2015

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Critical Accounting Estimates

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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 its subsidiaries. For a discussion of our significant accounting policies, see note 1 of the notes to consolidated financial statements.

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

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

#### *Unpaid Losses and Loss Adjustment Expenses*

Our consolidated balance sheet included estimated unpaid losses and loss adjustment expenses of \$10.4 billion and reinsurance recoverable on unpaid losses of \$1.9 billion at December 31, 2014 compared to \$10.3 billion and \$1.9 billion, respectively, at December 31, 2013. We do not discount our reserves for losses and loss adjustment expenses to reflect estimated present value, except for reserves assumed in connection with an acquisition, which are recorded at fair value at the acquisition date.

We accrue liabilities for unpaid losses and loss adjustment expenses based upon estimates of the ultimate amounts payable. We maintain reserves for specific claims incurred and reported (case reserves) and reserves for claims incurred but not reported (IBNR reserves).

Reported claims are in various stages of the settlement process, and the corresponding reserves for reported claims are based upon all information available to us. Case reserves consider our estimate of the ultimate cost to settle the claims, including investigation and defense of lawsuits resulting from the claims, and may be subject to adjustment for differences between costs originally estimated and costs subsequently re-estimated or incurred. Claims are settled based upon their merits, and some claims may take years to settle, especially if legal action is involved.

For our insurance operations, we are generally notified of insured losses by our insureds or their brokers. Based on this information, we establish case reserves by estimating the expected ultimate losses from the claim (including any administrative costs associated with settling the claim). Our claims personnel use their knowledge of the specific claim along with internal and external experts, including underwriters, actuaries and legal counsel, to estimate the expected ultimate losses.

For our reinsurance operations, case reserves are generally established based on reports received from ceding companies or their brokers. For excess of loss contracts, we are typically notified of insurance losses on specific contracts and record a case reserve for the estimated expected ultimate losses from the claim. For quota share contracts, we typically receive aggregated claims information and record a case reserve based on that information. As with insurance business, we evaluate this information and estimate the expected ultimate losses.

As of any balance sheet date, all claims have not yet been reported, and some claims may not be reported for many years. As a result, the liability for unpaid losses and loss adjustment expenses includes significant estimates for incurred but not reported claims.

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There is normally a time lag between when a loss event occurs and when it is actually reported to us. The actuarial methods that we use to estimate losses have been designed to address the lag in loss reporting as well as the delay in obtaining information that would allow us to more accurately estimate future payments. There is also often a time lag between cedents establishing case reserves and re-estimating their reserves, and notifying us of the new or revised case reserves. As a result, the reporting lag is more pronounced in our reinsurance contracts than in our insurance contracts due to the reliance on ceding companies to report their claims to us. On reinsurance transactions, the reporting lag will generally be 60 to 90 days after the end of a reporting period, but can be longer in some cases. Based on the experience of our actuaries and management, we select loss development factors and trending techniques to mitigate the difficulties caused by reporting lags. We regularly evaluate and update our loss development and trending factor selections using cedent specific and industry data.

U.S. GAAP requires that IBNR reserves be based on the estimated ultimate cost of settling claims, including the effects of inflation and other social and economic factors, using past experience adjusted for current trends and any other factors that would modify past experience. IBNR reserves are generally calculated by subtracting paid losses and case reserves from estimated ultimate losses. IBNR reserves were 65% of total unpaid losses and loss adjustment expenses at December 31, 2014 compared to 64% at December 31, 2013.

Our liabilities for unpaid losses and loss adjustment expenses can generally be categorized into two distinct groups, short-tail business and long-tail business. Short-tail business refers to lines of business, such as property, accident and health, automobile, watercraft and marine hull exposures, for which losses are usually known and paid shortly after the loss actually occurs. Long-tail business describes lines of business for which specific losses may not be known and reported for some period and losses take much longer to emerge. Given the time frame over which long-tail exposures are ultimately settled, there is greater uncertainty and volatility in these lines than in short-tail lines of business. Our long-tail coverages consist of most casualty lines, including professional liability, directors' and officers' liability, products liability, general and excess liability and excess and umbrella exposures, as well as workers' compensation insurance. Some factors that contribute to the uncertainty and volatility of long-tail casualty programs, and thus require a significant degree of judgment in the reserving process, include the inherent uncertainty as to the length of reporting and payment development patterns, the possibility of judicial interpretations or legislative changes, including changes in workers' compensation benefit laws, that might impact future loss experience relative to prior loss experience and the potential lack of comparability of the underlying data used in performing loss reserve analyses.

Our ultimate liability may be greater or less than current reserves. Changes in our estimated ultimate liability for loss reserves generally occur as a result of the emergence of unanticipated loss activity, the completion of specific actuarial or claims studies or changes in internal or external factors. We closely monitor new information on reported claims and use statistical analyses prepared by our actuaries to evaluate the adequacy of our recorded reserves. We are required to exercise considerable judgment when assessing the relative credibility of loss development trends. Our philosophy is to establish loss reserves that are more likely redundant than deficient. This means that we seek to establish loss reserves that will ultimately prove to be adequate. As a result, if new information or trends indicate an increase in frequency or severity of claims in excess of what we initially anticipated, we generally respond quickly and increase loss reserves. If, however, frequency or severity trends are more favorable than initially anticipated, we often wait to reduce our loss reserves until we can evaluate experience in additional periods to confirm the credibility of the trend. In addition, for long-tail lines of business, trends develop over longer periods of time, and as a result, we give credibility to these trends more slowly than for short-tail or less volatile lines of business.

Each quarter, our actuaries prepare estimates of the ultimate liability for unpaid losses and loss adjustment expenses based on established actuarial methods. Management reviews these estimates, supplements the actuarial analyses with information provided by claims, underwriting and other operational personnel and determines its best estimate of loss reserves, which is recorded in our financial statements. Our procedures for determining the adequacy of loss reserves at the end of the year are substantially similar to the procedures applied at the end of each interim period.

Additionally, once a year, generally during the third quarter, we conduct a detailed review of our liability for unpaid losses and loss adjustment expenses for asbestos and environmental (A&E) claims. If there is significant development on A&E claims in advance of the annual review, such development is considered by our actuaries and by management as part of our quarterly review process. We consider a detailed annual review appropriate because A&E claims develop slowly, are typically reported and paid many years after the loss event occurs and, historically, have exhibited a high degree of variability.



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Any adjustments to reserves resulting from our interim or year-end reviews, including changes in estimates, are recorded as a component of losses and loss adjustment expenses in the period of the change. Reserve changes that increase previous estimates of ultimate claims cost are referred to as unfavorable or adverse development, deficiencies or reserve strengthening. Reserve changes that decrease previous estimates of ultimate claims cost are referred to as favorable development or redundancies.

In establishing our liabilities for unpaid losses and loss adjustment expenses, our actuaries estimate an ultimate loss ratio, by accident year or policy year, for each of our product lines with input from our underwriting and claims associates. In estimating an ultimate loss ratio for a particular line of business, our actuaries may use one or more actuarial reserving methods and select from these a single point estimate. To varying degrees, these methods include detailed statistical analysis of past claim reporting, settlement activity, claim frequency and severity, policyholder loss experience, industry loss experience and changes in market conditions, policy forms and exposures. The actuarial methods we use include:

*Initial Expected Loss Ratio Method* – This method multiplies earned premiums by an expected loss ratio. The expected loss ratio is selected utilizing industry data, our historical data, frequency-severity and rate level forecasts and professional judgment.

*Paid Loss Development* – This method uses historical loss payment patterns to estimate future loss payment patterns. Our actuaries use the historical loss patterns to develop factors that are applied to current paid loss amounts to calculate expected ultimate losses.

*Incurred Loss Development* – This method uses historical loss reporting patterns to estimate future loss reporting patterns. Our actuaries use the historical loss patterns to develop factors that are applied to current reported losses to calculate expected ultimate losses.

*Bornhuetter-Ferguson Paid Loss Development* – This method divides the projection of ultimate losses into the portion that has already been paid and the portion that has yet to be paid. The portion that has yet to be paid is estimated as the product of three amounts: the premium earned for the exposure period, the expected loss ratio and the percentage of ultimate losses that are still unpaid. The expected loss ratio is selected by considering historical loss ratios, adjusted for any known changes in pricing, loss trends, adequacy of case reserves, changes in administrative practices and other relevant factors.

*Bornhuetter-Ferguson Incurred Loss Development* – This method is identical to the Bornhuetter-Ferguson paid loss development method, except that it uses the percentage of ultimate losses that are still unreported, instead of the percentage of ultimate losses that are still unpaid.

*Frequency/Severity* – Under this method, expected ultimate losses are equal to the product of the expected ultimate number of claims and the expected ultimate average cost per claim. Our actuaries use historical reporting patterns and severity patterns to develop factors that are applied to the current reported amounts to calculate expected ultimate losses.

*Outstanding to IBNR Ratio Method* – Under this method, IBNR is based on a detailed review of remaining open claims. This method assumes that the estimated future loss development is indicated by the current level of case reserves.

Each actuarial method has its own set of assumptions and its own strengths and limitations, with no one method being better than the others in all situations. Our actuaries select the reserving methods that they believe will produce the most reliable estimate for the class of business being evaluated. Greater judgment may be required when we introduce new product lines or when there have been changes in claims handling practices, as the statistical data available may be insufficient. In these instances, we may rely upon assumptions applied to similar lines of business, rely more heavily on industry experience, take into account changes in underwriting guidelines and risk selection or review the impact of changes in claims reserving practices with claims personnel.

For example, in January 2013, we acquired Essentia Insurance Company, a company that underwrites insurance exclusively for Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency (collectively, Hagerty). Hagerty offers liability and physical damage insurance for classic cars, vintage boats, motorcycles and related automotive collectibles. Because Markel had limited exposure to such risks in the past, we supplemented our limited data and loss experience with third-party data. Working

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with Hagerty, we were able to obtain loss development triangles for the business Hagerty had underwritten with their previous carriers. Markel now aggregates that data with our own data for use in the pricing of and reserving for the Hagerty portfolio of business.

A key assumption in most actuarial analyses is that past development patterns will repeat themselves in the future, absent a significant change in internal or external factors that influence the ultimate cost of our unpaid losses and loss adjustment expenses. Our estimates reflect implicit and explicit assumptions regarding the potential effects of external factors, including economic and social inflation, judicial decisions, changes in law, general economic conditions and recent trends in these factors. Our actuarial analyses are based on statistical analysis but also consist of reviewing internal factors that are difficult to analyze statistically, including underwriting and claims handling changes. In some of our markets, and where we act as a reinsurer, the timing and amount of information reported about underlying claims are in the control of third parties. This can also affect estimates and require re-estimation as new information becomes available.

As indicated above, we may use one or more actuarial reserving methods, which incorporate numerous underlying judgments and assumptions, to establish our estimate of ultimate loss reserves. While we use our best judgment in establishing our estimate for loss reserves, applying different assumptions and variables could lead to significantly different loss reserve estimates.

Loss frequency and loss severity are two key measures of loss activity that often result in adjustments to actuarial assumptions relative to ultimate loss reserve estimates. Loss frequency measures the number of claims per unit of insured exposure. When the number of newly reported claims is higher than anticipated, generally speaking, loss reserves are increased. Conversely, loss reserves are generally decreased when fewer claims are reported than expected. Loss severity measures the average size of a claim. When the average severity of reported claims is higher than originally estimated, loss reserves are typically increased. When the average claim size is lower than anticipated, loss reserves are typically decreased. For example, in each of the past three years, we experienced redundancies on prior years' loss reserves in our specified medical product line as a result of decreases in loss severity, while over the past three years we have experienced deficiencies on prior years' loss reserves related to our A&E exposures as a result of increases in loss severity.

Changes in prior years' loss reserves, including the trends and factors that impacted loss reserve development, as well as the likelihood that such trends and factors could result in future loss reserve development, are discussed in further detail under "Results of Operations."

Loss reserves are established at management's best estimate, which is generally higher than the corresponding actuarially calculated point estimate. The actuarial point estimate represents our actuaries' estimate of the most likely amount that will ultimately be paid to settle the loss reserves we have recorded at a particular point in time; however, there is inherent uncertainty in the point estimate as it is the expected value in a range of possible reserve estimates. In some cases, actuarial analyses, which are based on statistical analysis, cannot fully incorporate all of the subjective factors that affect development of losses. In other cases, management's perspective of these more subjective factors may differ from the actuarial perspective. Subjective factors where management's perspective may differ from that of the actuaries include: the credibility and timeliness of claims information received from third parties, economic and social inflation, judicial decisions, changes in law, changes in underwriting or claims handling practices, general economic conditions, the risk of moral hazard and other current and developing trends within the insurance and reinsurance markets, including the effects of competition. As a result, the actuarially calculated point estimates for each of our lines of business represent starting points for management's quarterly review of loss reserves.

In management's opinion, the actuarially calculated point estimate generally underestimates both the ultimate favorable impact of a hard insurance market and the ultimate adverse impact of a soft insurance market. Therefore, the percentage by which management's best estimate exceeds the actuarial point estimate will generally be higher during a soft market than during a hard market. Management's best estimate of net reserves for unpaid losses and loss adjustment expenses exceeded the actuarially calculated point estimate by \$637 million, or 8.2%, at December 31, 2014, compared to \$591 million, or 7.7%, at December 31, 2013. The increase in the percentage of management's best estimate over the actuarially calculated point estimate is primarily attributable to an increase in the level of confidence of net reserves for unpaid losses and loss adjustment expenses

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

attributable to the more volatile, long-tail product lines that we began writing in connection with the acquisition of Alterra Capital Holdings Limited (Alterra). In 2013, the percentage by which management's best estimate exceeded the actuarially calculated point estimate was lower for loss reserves held on these product lines than our historical carried reserves. Although we believe the loss reserves recorded in connection with the acquisition of Alterra were adequate, management is applying its more conservative reserving philosophy to reserves on premiums earned after the acquisition.

The difference between management's best estimate and the actuarially calculated point estimate in both 2014 and 2013 is primarily associated with our long-tail business. Actuarial estimates can underestimate the adverse effects of a soft insurance market because the impact of changes in risk selection and terms and conditions can be difficult to quantify. In addition, the frequency of claims may increase in a recessionary environment. Similarly, the risk an insured will intentionally cause or be indifferent to loss may increase during an economic downturn, and the attention to loss prevention measures may decrease. These subjective factors affect the development of losses and represent instances where management's perspectives may differ from those of our actuaries. As a result, management has attributed less credibility than our actuaries to favorable trends experienced on our long-tail business during soft market periods and has not incorporated these favorable trends into its best estimate to the same extent as the actuaries.

Management also considers the range, or variability, of reasonably possible losses determined by our actuaries when establishing its best estimate for loss reserves. The actuarial ranges represent our actuaries' estimate of a likely lowest amount and highest amount that will ultimately be paid to settle the loss reserves we have recorded at a particular point in time. The range determinations are based on estimates and actuarial judgments and are intended to encompass reasonably likely changes in one or more of the factors that were used to determine the point estimates. Using statistical models, our actuaries establish high and low ends of a range of reasonable reserve estimates for each of our operating segments.

The following table summarizes our reserves for net unpaid losses and loss adjustment expenses and the actuarially established high and low ends of a range of reasonable reserve estimates, by segment, at December 31, 2014.

<i>(dollars in millions)</i>	Net Loss Reserves Held <sup>(1)</sup>	Low End of Actuarial Range <sup>(2)</sup>	High End of Actuarial Range <sup>(2)</sup>
U.S. Insurance	\$ 2,974.1	\$ 2,569.4	\$ 3,051.1
International Insurance	2,330.8	1,870.1	2,464.7
Reinsurance	2,616.2	1,837.2	3,167.6
Other Insurance (Discontinued Lines)	499.7	115.8	1,030.7

<sup>(1)</sup> As described in note 2 of the notes to consolidated financial statements, unpaid losses and loss adjustment expenses attributable to Alterra were recorded at fair value as of May 1, 2013 (the Acquisition Date), which consists of the present value of the expected net loss and loss adjustment expense payments plus a risk premium. The net loss reserves presented in this table represent our estimated future payments for losses and loss adjustment expenses, whereas the reserves for unpaid losses and loss adjustment expenses included in the consolidated balance sheet include the unamortized portion of the fair value adjustment recorded at the Acquisition Date.

<sup>(2)</sup> Due to the actuarial methods used to determine the separate ranges for each segment of our business, it is not appropriate to aggregate the high or low ends of the separate ranges to determine the high and low ends of the actuarial range on a consolidated basis.

Undue reliance should not be placed on these ranges of estimates as they are only one of many points of reference used by management to determine its best estimate of ultimate losses. Further, actuarial ranges may not be a true reflection of the potential variability between loss reserves estimated at the balance sheet date and the ultimate cost of settling claims. Actuarial ranges are developed based on known events as of the valuation date, while ultimate losses are subject to events and circumstances that are unknown as of the valuation date.

We place less reliance on the range established for our Other Insurance (Discontinued Lines) segment than on the ranges established for our other operating segments. The range established for our Other Insurance (Discontinued Lines) segment includes exposures related to acquired lines of business, many of which are no longer being written, that were not subject to our underwriting discipline and controls prior to our acquisition. Additionally, A&E exposures, which are subject to an uncertain and unfavorable legal environment, account for approximately 60% of the loss reserves considered in the range established for our Other Insurance (Discontinued Lines) segment.

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Our exposure to A&E claims results from policies written by acquired insurance operations before their acquisitions. The exposure to A&E claims originated from umbrella, excess and commercial general liability (CGL) insurance policies and assumed reinsurance contracts that were written on an occurrence basis from the 1970s to mid-1980s. Exposure also originated from claims-made policies that were designed to cover environmental risks provided that all other terms and conditions of the policy were met. A&E claims include property damage and clean-up costs related to pollution, as well as personal injury allegedly arising from exposure to hazardous materials. After 1986, we began underwriting CGL coverage with pollution exclusions, and in some lines of business we began using a claims-made form. These changes significantly reduced our exposure to future A&E claims on post-1986 business.

There is significant judgment required in estimating the amount of our potential exposure from A&E claims due to the limited and variable historical data on A&E losses as compared to other types of claims, the potential significant reporting delays of claims from insureds to insurance companies and the continuing evolution of laws and judicial interpretations of those laws relative to A&E exposures. Due to these unique aspects of A&E exposures, the ultimate value of loss reserves for A&E claims cannot be estimated using traditional methods and is subject to greater uncertainty than other types of claims. Other factors contributing to the significant uncertainty in estimating A&E reserves include: uncertainty as to the number and identity of insureds with potential exposure; uncertainty as to the number of claims filed by exposed, but not ill, individuals; uncertainty as to the settlement values to be paid; difficulty in properly allocating responsibility and liability for the loss, especially if the claim involves multiple insurance providers or multiple policy periods; growth in the number and significance of bankruptcies of asbestos defendants; uncertainty as to the financial status of companies that insured or reinsured all or part of A&E claims; and inconsistent court decisions and interpretations with respect to underlying policy intent and coverage.

Due to these uncertainties, it is not possible to estimate our ultimate liability for A&E exposures with the same degree of reliability as with other types of exposures. Future development will be affected by the factors mentioned above and could have a material effect on our results of operations, cash flows and financial position. As of December 31, 2014, our consolidated balance sheet included estimated net reserves for A&E losses and loss adjustment expenses of \$287.7 million. We seek to establish appropriate reserve levels for A&E exposures; however, these reserves could increase in the future. These reserves are not discounted to present value and are forecasted to pay out over the next 40 to 50 years.

#### *Life and Annuity Benefits*

Prior to its acquisition, Alterra entered into life and annuity reinsurance contracts which subject us to mortality, longevity and morbidity risks. The related reserves are compiled by our actuaries on a reinsurance contract-by-contract basis and are computed on a discounted basis using standard actuarial techniques and cash flow models. Since the development of our life and annuity reinsurance reserves is based upon cash flow projection models, we must make estimates and assumptions based on cedent experience, industry mortality tables, and expense and investment experience, including a provision for adverse deviation. The assumptions used to determine policy benefit reserves were determined as of the Acquisition Date and are generally locked-in for the life of the contract unless an unlocking event occurs. To the extent existing policy reserves, together with the present value of future gross premiums and expected investment income earned thereon, are not adequate to cover the present value of future benefits, settlement and maintenance costs, the locked-in assumptions are revised to current best estimate assumptions and a charge to earnings for life and annuity benefits is recognized at that time. Our consolidated balance sheets at December 31, 2014 and 2013 included reserves for life and annuity benefits of \$1.3 billion and \$1.5 billion, respectively.

Because of the assumptions and estimates used in establishing reserves for life and annuity benefit obligations and the long-term nature of these reinsurance contracts, the ultimate liability may be greater or less than the estimates. The average discount rate for the life and annuity benefit reserves was 2.3% as of December 31, 2014.

#### *Reinsurance Premiums*

Our assumed reinsurance premiums are recorded at the inception of each contract based upon contract terms and information received from cedents and brokers. For excess of loss contracts, the amount of minimum or deposit premium is usually contractually documented at inception, and variances between this premium and final premium are generally small. An

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

adjustment is made to the minimum or deposit premium, when notified, if there are changes in underlying exposures insured. For quota share contracts, gross premiums written are normally estimated at inception based on information provided by cedents or brokers. We generally record such premiums using the cedent's initial estimates, and then adjust them as more current information becomes available, with such adjustments recorded as premiums written in the period they are determined. We believe that the cedent's estimate of the volume of business they expect to cede to us usually represents the best estimate of gross premium written at the beginning of the contract. As the contract progresses, we monitor actual premium received in conjunction with correspondence from the cedent in order to refine our estimate. Variances from original premium estimates are normally greater for quota share contracts than excess of loss contracts. Premiums are earned on a pro rata basis over the coverage period, or for multi-year contracts, in proportion with the underlying risk exposure to the extent there is variability in the exposure throughout the coverage period. The impact of premium adjustments to net income may be mitigated by related acquisition costs and losses.

Certain contracts we write, particularly property catastrophe reinsurance contracts, provide for reinstatements of coverage. Reinstatement premiums are the premiums for the restoration of the reinsurance limit of a contract to its full amount after a loss occurrence by the reinsured. The purpose of optional and required reinstatements is to permit the reinsured to reinstate the reinsurance coverage at a pre-determined price level once a loss event has penetrated the reinsurance layer. In addition, required reinstatement premiums permit the reinsurer to obtain additional premiums to cover the additional loss limits provided.

We accrue for reinstatement premiums resulting from losses recorded. Such accruals are based upon contractual terms and the only element of management judgment involved is with respect to the amount of losses recorded. Changes in estimates of losses recorded on contracts with reinstatement premium features will result in changes in reinstatement premiums based on contractual terms. Reinstatement premiums are recognized at the time we record losses and are earned on a pro-rata basis over the coverage period.

### *Ceded Reinsurance Allowance for Doubtful Accounts*

We evaluate and adjust reserves for uncollectible ceded reinsurance based upon our collection experience, the financial condition of our reinsurers, collateral held and the development of our gross loss reserves. Our consolidated balance sheets at December 31, 2014 and 2013 included a reinsurance allowance for doubtful accounts of \$59.8 million and \$76.2 million, respectively. The decrease in the reinsurance allowance for doubtful accounts in 2014 was due to write-offs of uncollectible balances and a decrease in the estimate of uncollectible reinsurance recoverables as December 31, 2014.

Reinsurance recoverables recorded on insurance losses ceded under reinsurance contracts are subject to judgments and uncertainties similar to those involved in estimating gross loss reserves. In addition to these uncertainties, our reinsurance recoverables may prove uncollectible if the reinsurers are unable or unwilling to perform under the reinsurance contracts. In establishing our reinsurance allowance for amounts deemed uncollectible, we evaluate the financial condition of our reinsurers and monitor concentration of credit risk arising from our exposure to individual reinsurers. To determine if an allowance is necessary, we consider, among other factors, published financial information, reports from rating agencies, payment history, collateral held and our legal right to offset balances recoverable against balances we may owe. Our ceded reinsurance allowance for doubtful accounts is subject to uncertainty and volatility due to the time lag involved in collecting amounts recoverable from reinsurers. Over the period of time that losses occur, reinsurers are billed and amounts are ultimately collected, economic conditions, as well as the operational and financial performance of particular reinsurers, may change and these changes may affect the reinsurers' willingness and ability to meet their contractual obligation to us. It is also difficult to fully evaluate the impact of major catastrophic events on the financial stability of reinsurers, as well as the access to capital that reinsurers may have when such events occur. The ceding of insurance does not legally discharge us from our primary liability for the full amount of the policies, and we will be required to pay the loss and bear collection risk if the reinsurers fail to meet their obligations under the reinsurance contracts.



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### *Income Taxes and Uncertain Tax Positions*

The preparation of our consolidated income tax provision, including the evaluation of tax positions we have taken or expect to take on our income tax returns, requires significant judgment. In evaluating our tax positions, we recognize the tax benefit from an uncertain tax position only if, based on the technical merits of the position, it is more likely than not that the tax position will be sustained upon examination by the taxing authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach, whereby the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement is recognized. The tax positions that we have taken or expect to take are based upon the application of tax laws and regulations, which are subject to interpretation, judgment and uncertainty. As a result, our actual liability for income taxes may differ significantly from our estimates.

We record deferred income taxes as assets or liabilities on our consolidated balance sheets to reflect the net tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. At December 31, 2014, our net deferred tax liability was \$310.5 million compared to a net deferred tax asset of \$103.7 million at December 31, 2013. The change in net deferred taxes in 2014 was driven by an increase in the deferred tax liability related to accumulated other comprehensive income resulting from an increase in net unrealized gains on investments in 2014.

Deferred tax assets are reduced by a valuation allowance when management believes it is more likely than not that some, or all, of the deferred tax assets will not be realized. As of December 31, 2014, our deferred tax assets were net of a valuation allowance of \$4.8 million. We did not have a valuation allowance on our deferred tax assets at December 31, 2013. In evaluating our ability to realize our deferred tax assets and assessing the need for a valuation allowance at December 31, 2014 and 2013, we made estimates regarding the future taxable income of our foreign subsidiaries and judgments about our ability to pursue prudent and feasible tax planning strategies. A change in any of these estimates and judgments could result in the need to increase our valuation allowance through a charge to earnings. See note 8 of the notes to consolidated financial statements for further discussion of our consolidated income tax provision, uncertain tax positions and net operating losses.

### *Goodwill and Intangible Assets*

Our consolidated balance sheet as of December 31, 2014 included goodwill and intangible assets of approximately \$1.8 billion. Goodwill and intangible assets are recorded as a result of business acquisitions. Goodwill represents the excess of the amount paid to acquire a business over the net fair value of assets acquired and liabilities assumed at the date of acquisition. Indefinite-lived and other intangible assets are recorded at fair value as of the acquisition date. The determination of the fair value of certain assets acquired and liabilities assumed involves significant judgment and the use of valuation models and other estimates, which require assumptions that are inherently subjective. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually. Intangible assets with definite lives are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. We completed our annual test for impairment during the fourth quarter of 2014 based upon results of operations through September 30, 2014.

For some reporting units, we elected to assess qualitative factors (commonly referred to as "Step 0") to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. This assessment serves as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. For other reporting units, we elected to bypass Step 0 and perform Step 1 of the goodwill impairment test, which includes determining whether the carrying amount of a reporting unit, including goodwill, exceeds its estimated fair value. If the carrying amount exceeds its fair value, then Step 2 of the goodwill impairment test is performed by estimating the fair value of individual assets (including identifiable intangible assets) and liabilities of the reporting unit. The excess of the estimated fair value of the reporting unit over the estimated fair value of net assets would establish the implied value of goodwill. The excess of the recorded amount of goodwill over the implied value is charged to net income as an impairment loss.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

A significant amount of judgment is required in performing goodwill impairment tests. When using the qualitative approach, we considered macroeconomic factors such as industry and market conditions. We also considered reporting unit-specific events, actual financial performance versus expectations and management's future business expectations. As part of our Step 0 evaluation of reporting units with material goodwill, we considered the fact that many of the businesses had been recently acquired in orderly transactions between market participants, and our purchase price represented fair value at acquisition. There were no events since acquisition which had a significant impact on the fair value of these reporting units. For reporting units which we tested quantitatively, we estimated fair value primarily using an income approach based on a discounted cash flow model. The cash flow projections used in the discounted cash flow model included management's best estimate of future growth and margins. The discount rates used to determine the fair value estimates were developed based on the capital asset pricing model using market-based inputs as well as an assessment of the inherent risk in projected future cash flows.

With the exception of the Markel Ventures Diamond Healthcare reporting unit, we believe the fair value of each of our reporting units exceeded its respective carrying amount as of October 1, 2014 and December 31, 2014. Additionally, we do not believe we are at risk of failing Step 1 at any of our reporting units with the result being a material impairment of goodwill.

During the fourth quarter of 2014, we recorded a non-cash goodwill impairment charge of \$13.7 million to other expenses, to reduce the carrying value of the Diamond Healthcare reporting unit's goodwill to its implied fair value. We determined the goodwill for the reporting unit was impaired as a result of lower than expected earnings and lower estimated future earnings. We believe the performance of this reporting unit has been impacted by a decline in general healthcare market conditions, the anticipated impacts of the Patient Protection and Affordable Care Act (the Act), and the impact of the Act on changes to behavioral healthcare services. Diamond Healthcare's operations consist of the planning, development and operation of behavioral health services in partnership with healthcare organizations. To determine the value of the impairment loss, we estimated the fair value of the reporting unit primarily using an income approach based on a discounted cash flow model. As described above, the cash flow projections are management's best estimate of future growth and margins. After recording this charge, the Diamond Healthcare reporting unit's goodwill was \$14.9 million, which we consider immaterial.

### *Investments*

We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. All securities with unrealized losses are reviewed. For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. For fixed maturities where we intend to sell the security or it is more likely than not that we will be required to sell the security before recovery of its amortized cost, a decline in fair value is considered to be other-than-temporary and is recognized in net income based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security. If the decline in fair value of a fixed maturity below its amortized cost is considered to be other-than-temporary based upon other considerations, we compare the estimated present value of the cash flows expected to be collected to the amortized cost of the security. The extent to which the estimated present value of the cash flows expected to be collected is less than the amortized cost of the security represents the credit-related portion of the other-than-temporary impairment, which is recognized in net income, resulting in a new cost basis for the security. Any remaining decline in fair value represents the non-credit portion of the other-than-temporary impairment, which is recognized in other comprehensive income. The discount rate used to calculate the estimated present value of the cash flows expected to be collected is the effective interest rate implicit for the security at the date of purchase.

We consider many factors in completing our quarterly review of securities with unrealized losses for other-than-temporary impairment, including the length of time and the extent to which fair value has been below cost and the financial condition and near-term prospects of the issuer. For equity securities, the ability and intent to hold the security for a period of time sufficient to allow for any anticipated recovery is considered. For fixed maturities, we consider whether we intend to sell the security or if it is more likely than not that we will be required to sell the security before recovery, the implied yield-to-maturity, the credit quality of the issuer and the ability to recover all amounts outstanding when contractually due. When assessing whether we intend to sell a fixed maturity or if it is likely that we will be required to sell a fixed maturity before recovery of its amortized cost, we evaluate facts and circumstances including, but not limited to, decisions to reposition the investment portfolio, potential sales of investments to meet cash flow needs and potential sales of investments to capitalize on favorable pricing.



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Risks and uncertainties are inherent in our other-than-temporary decline in fair value assessment methodology. The risks and uncertainties include, but are not limited to, incorrect or overly optimistic assumptions about the financial condition, liquidity or near-term prospects of an issuer, inadequacy of any underlying collateral, unfavorable changes in economic or social conditions and unfavorable changes in interest rates or credit ratings. Changes in any of these assumptions could result in charges to earnings in future periods.

Losses from write downs for other-than-temporary declines in the estimated fair value of investments, while potentially significant to net income, do not have an impact on our financial position. Since our investment securities are considered available-for-sale and are recorded at estimated fair value, unrealized losses on investments are already included in accumulated other comprehensive income. See note 3(b) of the notes to consolidated financial statements for further discussion of our assessment methodology for other-than-temporary declines in the estimated fair value of investments.

## Our Business

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The following discussion and analysis should be read in conjunction with Selected Financial Data, the consolidated financial statements and related notes and the discussion under Risk Factors, "Critical Accounting Estimates" and "Safe Harbor and Cautionary Statement."

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

On May 1, 2013, we completed the acquisition of 100% of the issued and outstanding common stock of Alterra, a Bermuda-headquartered global enterprise providing diversified specialty property and casualty insurance and reinsurance products to corporations, public entities and other property and casualty insurers. In conjunction with the continued integration of Alterra into our insurance operations, during the first quarter of 2014, we changed the way we aggregate and monitor our ongoing underwriting results. Effective January 1, 2014, we monitor and report our ongoing underwriting operations in the following three segments: U.S. Insurance, International Insurance and Reinsurance. In determining how to aggregate and monitor our underwriting results, management considers many factors, including the geographic location and regulatory environment of the insurance entity underwriting the risk, the nature of the insurance product sold, the type of account written and the type of customer served. All segment disclosures for the prior periods have been revised to be consistent with the new segment structure.

The U.S. Insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled in the United States. The International Insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled outside of the United States, including our syndicate at Lloyd's of London (Lloyd's). The Reinsurance segment includes all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions, are reported in the Other Insurance (Discontinued Lines) segment. Underwriting results attributable to Alterra are included in each of our underwriting segments effective May 1, 2013. All investing activities related to our insurance operations are included in the Investing segment.

Our U.S. Insurance segment includes both hard-to-place risks written outside of the standard market on an excess and surplus lines basis and unique and hard-to-place risks that must be written on an admitted basis due to marketing and regulatory reasons. The following products are included in this segment: catastrophe-exposed property, professional liability, products liability, general liability, commercial umbrella, marine, workers' compensation, classic automobiles, specialty program insurance for well-defined niche markets, personal property and liability coverages and other coverages tailored for unique

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

exposures. Business in this segment is written through our Wholesale, Specialty and Global Insurance divisions. The Wholesale division writes commercial risks, primarily on an excess and surplus lines basis, using a network of wholesale brokers managed on a regional basis. The Specialty division writes program insurance and other specialty coverages for well-defined niche markets, primarily on an admitted basis. The Global Insurance division writes risks outside of the standard market on both an admitted and non-admitted basis and is comprised of business previously written by Alterra. Global Insurance division business written by our U.S. insurance subsidiaries is included in this segment.

Our International Insurance segment writes risks that are characterized by either the unique nature of the exposure or the high limits of insurance coverage required by the insured. Risks written in the International Insurance segment are written on either a direct basis or a subscription basis, the latter of which means that loss exposures brought into the market are typically insured by more than one insurance company or Lloyd's syndicate. When we write business in the subscription market, we prefer to participate as lead underwriter in order to control underwriting terms, policy conditions and claims handling. Products offered within our International Insurance segment include primary and excess of loss property, casualty, excess liability, professional liability, equine, marine, energy and trade credit insurance. Business included in this segment is produced through our Markel International and Global Insurance divisions. The Markel International division writes business worldwide from our London-based platform, which includes our syndicate at Lloyd's. Global Insurance division business written by our non-U.S. insurance subsidiaries, which primarily targets Fortune 1000 accounts, is included in this segment.

Our Reinsurance segment includes property, casualty and specialty treaty reinsurance products offered to other insurance and reinsurance companies globally through the broker market. Our treaty reinsurance offerings include both quota share and excess of loss reinsurance. Principal lines of business include: property (including catastrophe-exposed property), auto, general casualty, credit, surety, workers' compensation, professional liability, and marine and energy. Our reinsurance product offerings are underwritten by our Global Reinsurance division, which is primarily comprised of business previously written by Alterra, and our Markel International division.

For purposes of segment reporting, the Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued prior to, or in conjunction with, acquisitions. The lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits. Alterra previously offered life and annuity reinsurance products. In 2010, Alterra ceased writing life and annuity reinsurance contracts and placed this business into run-off. Results attributable to the run-off of Alterra's life and annuity reinsurance business are included in the Other Insurance (Discontinued Lines) segment. This segment also includes development on asbestos and environmental loss reserves, none of which are related to the acquisition of Alterra.

In January 2014, we completed the acquisition of 100% of the share capital of Abbey Protection plc (Abbey), an integrated specialty insurance and consultancy group headquartered in London. Abbey's business is focused on the underwriting and sale of insurance products to small and medium-sized enterprises and affinity groups in the United Kingdom providing protection against legal expenses and professional fees incurred as a result of legal actions or investigations by tax authorities, as well as providing a range of complementary legal and professional consulting services. Results attributable to Abbey's insurance operations are included in the International Insurance segment. Results attributable to Abbey's consultancy operations are reported with our non-insurance operations, which are not included in a reportable segment.

In January 2013, we acquired Essentia Insurance Company, a company that underwrites insurance exclusively for Hagerty Insurance Agency and Hagerty Classic Marine Insurance Agency (collectively, Hagerty) throughout the United States. Hagerty offers insurance for classic cars, vintage boats, motorcycles and related automotive collectibles. Results attributable to Hagerty are included in the U.S. Insurance segment.

A favorable insurance market is commonly referred to as a "hard market" within the insurance industry and is characterized by stricter coverage terms, higher prices and lower underwriting capacity. Periods of intense competition, which typically include broader coverage terms, lower prices and excess underwriting capacity, are referred to as a "soft market." We have experienced soft insurance market conditions, including price deterioration in virtually all of our product lines, since the mid-2000s.

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Beginning in 2011, price declines stabilized for most of our product lines and over the past three years we have seen low to mid-single digit favorable rate changes in many of our product lines as market conditions improved and revenues, gross receipts and payrolls of our insureds were favorably impacted by improving economic conditions. However, during the fourth quarter of 2013 and continuing into 2014, we began to experience softening prices on our international catastrophe-exposed property product lines and in our property reinsurance book. Despite stabilization of prices on certain product lines, we still consider the overall property and casualty market to be soft. We will continue to pursue price increases in 2015 when possible; however, when we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume may vary when we alter our product offerings to maintain or improve underwriting profitability.

Through our wholly-owned subsidiary Markel Ventures, Inc. (Markel Ventures), we own interests in various industrial and service businesses that operate outside of the specialty insurance marketplace. These businesses are viewed by management as separate and distinct from our insurance operations and are comprised of a diverse portfolio of companies from different industries, including manufacturing, healthcare, consumer and business and financial services. Local management teams oversee the day-to-day operations of these companies, while strategic decisions are made in conjunction with members of our executive management team, principally our President and Chief Investment Officer. While each of these companies is operated independently, we aggregate their financial results into two industry groups: manufacturing and non-manufacturing. Our strategy in making these investments is similar to our strategy for purchasing equity securities. We seek to invest in profitable companies, with honest and talented management, that exhibit reinvestment opportunities and capital discipline, at reasonable prices. We intend to own the businesses acquired for a long period of time.

On July 23, 2014, we acquired 100% of the outstanding shares of Cottrell, Inc. (Cottrell), a privately held company headquartered in Gainesville, Georgia. Cottrell is a leading manufacturer of over-the-road car hauler equipment and related car hauler parts. Results attributable to Cottrell are included with the Company's non-insurance operations, which are not included in a reportable segment.

For further discussion of our lines of business, principal products offered, distribution channels, competition, underwriting philosophy and our Markel Ventures operations, see the discussion under Business Overview.

## Key Performance Indicators

We measure financial success by our ability to compound growth in book value per share at a high rate of return over a long period of time. To mitigate the effects of short-term volatility, we measure ourselves over a five-year period. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting, operating and investing results. We measure underwriting results by our underwriting profit or loss and combined ratio. We measure operating results, which primarily consists of our Markel Ventures operations, by earnings before interest, income taxes, depreciation and amortization (EBITDA), which is a non-GAAP financial measure, in conjunction with U.S. GAAP measures, including revenues and net income. Because EBITDA excludes interest, income taxes, depreciation and amortization, it provides an indicator of economic performance that is useful to both management and investors in evaluating our Markel Ventures businesses as it is not affected by levels of debt, interest rates, effective tax rates or levels of depreciation and amortization resulting from purchase accounting. We measure investing results by our taxable equivalent total investment return. These measures are discussed in greater detail under "Results of Operations."

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Results of Operations

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Underwriting profit	\$ 177,563	\$ 103,031	\$ 63,588
Net investment income	363,230	317,373	282,107
Net realized investment gains	46,000	63,152	31,593
Other revenues	883,525	710,942	539,284
Amortization of intangible assets	(57,627)	(55,223)	(33,512)
Other expenses	(854,871)	(663,528)	(478,248)
Interest expense	(117,442)	(114,004)	(92,762)
Income tax expense	(116,690)	(77,898)	(53,802)
Net income attributable to noncontrolling interests	(2,506)	(2,824)	(4,863)
NET INCOME TO SHAREHOLDERS	\$ 321,182	\$ 281,021	\$ 253,385

Net income to shareholders increased 14% from 2013 to 2014 due to more favorable underwriting results and higher investment income in 2014, partially offset by higher income tax expense compared to 2013. Net income to shareholders increased 11% from 2012 to 2013 due to more favorable underwriting results and higher investment income in 2013, partially offset by higher income tax expense compared to 2012. The components of net income to shareholders are discussed in further detail under "Underwriting Results," "Life and Annuity Benefits," "Investing Results," "Markel Ventures Operations" and "Interest Expense and Income Taxes."

### Underwriting Results

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

The following table presents selected data from our underwriting operations.

(dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
Gross premium volume	\$ 4,805,513	\$ 3,920,226	\$ 2,513,681
Net written premiums	\$ 3,917,015	\$ 3,236,683	\$ 2,214,126
Net retention	82%	83%	88%
Earned premiums	\$ 3,840,912	\$ 3,231,616	\$ 2,147,128
Losses and loss adjustment expenses	\$ 2,202,467	\$ 1,816,273	\$ 1,154,068
Underwriting, acquisition and insurance expenses	\$ 1,460,882	\$ 1,312,312	\$ 929,472
Underwriting profit	\$ 177,563	\$ 103,031	\$ 63,588
U.S. GAAP Combined Ratios <sup>(1)</sup>			
U.S. Insurance	95%	92%	100%
International Insurance	93%	94%	91%
Reinsurance	96%	109%	77%
Other Insurance (Discontinued Lines)	NM <sup>(2)</sup>	NM <sup>(2)</sup>	NM <sup>(2)</sup>
Markel Corporation (Consolidated)	95%	97%	97%

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

<sup>(2)</sup> NM—Ratio is not meaningful. Further discussion of Other Insurance (Discontinued Lines) underwriting loss follows.

The decrease in the consolidated combined ratio from 2013 to 2014 was driven by a lower expense ratio, partially offset by a less favorable prior accident years' loss ratio compared to 2013. Underwriting, acquisition and insurance expenses in 2013 included transaction and other acquisition-related costs of \$75.1 million attributable to the acquisition of Alterra, or two points on the combined ratio. These costs include transaction costs totaling \$16.0 million, which primarily consist of due diligence, legal and investment banking costs, severance costs of \$31.7 million, stay bonuses of \$14.8 million, and other compensation costs totaling \$12.6 million, related to the acceleration of certain long-term incentive compensation awards and restricted stock awards that were granted by Alterra prior to the acquisition. Excluding transaction and other acquisition-related costs incurred in 2013, the 2014 expense ratio was comparable to 2013.

The consolidated combined ratio was flat from 2012 to 2013, as a lower current accident year loss ratio and lower expense ratio were offset by a less favorable prior accident years' loss ratio compared to 2012. The decrease in the consolidated current accident year loss ratio in 2013 was due to the impact of catastrophes in 2012 and improved underwriting results within our U.S. Insurance segment in 2013 compared to 2012. This improvement was partially offset by higher attritional losses in our International Insurance and Reinsurance segments, due in part to the contribution of premium from products previously written by Alterra, which generally carry higher loss ratios than the rest of the business written in these segments. The 2012 combined ratio included \$107.4 million, or five points, of underwriting loss from Hurricane Sandy which occurred during October 2012.

The decrease in the consolidated expense ratio in 2013 reflected higher earned premiums in each of our operating segments in 2013 compared to 2012, and a favorable impact attributable to the contribution of earnings from Alterra in 2013, primarily in our International Insurance segment. The impact of transaction and other acquisition-related costs in 2013 was offset by the impact of prospective adoption of Financial Accounting Standards Board Accounting Standards Update No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASU No. 2010-26), in 2012. The prospective adoption of ASU No. 2010-26 increased our consolidated underwriting, acquisition and insurance expenses by \$43.1 million in 2012, or two

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

points on the combined ratio. Likewise, the 2012 combined ratios of the U.S. Insurance, International Insurance and Reinsurance segments included two points, two points and one point, respectively, of underwriting, acquisition and insurance expenses related to the prospective adoption of ASU No. 2010-26.

The 2014 combined ratio included \$435.5 million of favorable development on prior years' loss reserves compared to \$411.1 million in 2013 and \$399.0 million in 2012. The benefit of the favorable development on prior years' loss reserves had less of an impact on the combined ratio in 2014 compared to 2013 and 2013 compared to 2012 due to higher earned premium volume in 2014 and 2013, respectively. Favorable development on prior years' loss reserves in 2013 included \$20.8 million of favorable development on Hurricane Sandy. The favorable development on prior years' loss reserves during all three years was primarily due to loss reserve redundancies on our long-tail casualty and professional liability lines within our U.S. Insurance segment and on our professional liability and marine and energy product lines within the International Insurance segment. Redundancies on these product lines totaled \$250.4 million in 2014, \$255.2 million in 2013 and \$292.3 million in 2012.

Over the past three years, we have experienced significant redundancies on prior years' loss reserves despite the soft market conditions we have operated in since 2005. The favorable trend in prior years' loss reserves is due in part to the adverse impact of the soft market not being as significant as originally anticipated. Given the volatile nature of our long-tail books of business, the ultimate impact of the soft market could not be quantified when we initially established loss reserves for these years. In each of the past three years, actual claims development patterns have been more favorable than we initially anticipated.

In connection with our quarterly reviews of loss reserves, the actuarial methods we used have exhibited a favorable trend for the 2009 to 2013 accident years. This trend was observed using statistical analysis of actual loss experience for those years, particularly with regard to our long-tail books of business within the U.S. Insurance and International Insurance segments, which developed more favorably than we had expected based upon our historical experience. As actual losses experienced on these accident years have continued to be lower than anticipated, it has become more likely that the underwriting results will prove to be better than originally estimated. Additionally, as most actuarial methods rely upon historical reporting patterns, the favorable trends experienced on earlier accident years have resulted in a re-estimation of our ultimate incurred losses on more recent accident years. When we experience loss frequency or loss severity trends that are more favorable than we initially anticipated, we often evaluate the loss experience over a period of several years in order to assess the relative credibility of loss development trends. In each of the past three years, based upon our evaluations of claims development patterns in our long-tail, and often volatile, lines of business, we gave greater credibility to the favorable trend. As a result, our actuaries reduced their estimates of ultimate losses, and management incorporated this favorable trend into its best estimate and reduced prior years' loss reserves accordingly.

While we believe it is possible that there will be additional redundancies on prior years' loss reserves in 2015, we caution readers not to place undue reliance on this favorable trend. Since 2005, competition has been strong, which resulted in deterioration in pricing through 2010. Further, the ultimate impact that the financial crisis and related economic recession of 2008 and 2009 will have on our underwriting results is difficult to quantify. The impact on our underwriting results from the soft insurance market and adverse economic conditions cannot be fully quantified in advance.

The following discussion provides more detail by segment of the underwriting results described above. Following this segment-based discussion is a summary table of prior years' loss reserve development.

### *U.S. Insurance Segment*

The combined ratio for the U.S. Insurance segment for 2014 was 95% compared to 92% in 2013 and 100% in 2012 (including four points of underwriting losses related to Hurricane Sandy). The increase in the 2014 combined ratio was due to less favorable development of prior years' loss reserves, partially offset by a lower current accident year loss ratio and a lower expense ratio compared to 2013. The U.S. Insurance segment's 2013 current accident year loss ratio included \$24.3 million, or one point, of unfavorable development on pre-acquisition accident years' loss reserves for Alterra. Excluding the impact of Alterra pre-acquisition loss reserve development in 2013, the current accident year loss ratio for the U.S. Insurance segment was comparable to 2014. The improvement in the 2014 expense ratio reflects the impact of transaction and acquisition-related costs attributable to the acquisition of Alterra in 2013, which added one point to the U.S. Insurance segment's 2013 expense ratio.



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The combined ratio decreased from 2012 to 2013 due to a lower current accident year loss ratio, more favorable development of prior years' loss reserves and a lower expense ratio. The improvement in the current accident year loss ratio in 2013 was driven by the impact of losses related to Hurricane Sandy in 2012. The lower current accident year loss ratio in 2013 also reflected more favorable rates on our workers' compensation business and a higher proportion of non-California workers' compensation business (which carries a lower loss ratio than California workers' compensation business) during 2013 compared to 2012. Also contributing to the lower current accident year loss ratio in 2013 was the contribution of premium from the Hagerty business, which carries a lower loss ratio than the rest of the U.S. Insurance segment. The favorable impact of our Hagerty and workers' compensation business on the 2013 current accident year loss ratio was partially offset by \$24.3 million of unfavorable development on Alterra pre-acquisition loss reserves that was included in current year losses in 2013, as described above. The improvement in the 2013 expense ratio was due to the impact of the prospective adoption of ASU No. 2010-26 in 2012 and higher premium volume in 2013 compared to 2012, partially offset by the impact of commission expense on the Hagerty business, which has a higher overall commission rate than the rest of the U.S. Insurance segment. The 2012 combined ratio included \$31.0 million, or two points, of underwriting, acquisition and insurance expenses related to the prospective adoption of ASU No. 2010-26.

The U.S. Insurance segment's 2014 combined ratio included \$216.6 million of favorable development on prior years' loss reserves compared to \$298.1 million in 2013 and \$225.9 million in 2012. The 2013 combined ratio also included \$24.3 million of unfavorable development attributable to Alterra pre-acquisition accident years that was included in current year losses in 2013, as described above. In all three years, the redundancies on prior years' loss reserves experienced within the U.S. Insurance segment were primarily on our casualty and professional liability product lines. As the average loss severity or claim frequency estimates on these long-tail books of business have decreased, our actuarial estimates of the ultimate liability for unpaid losses and loss adjustment expenses were reduced, and management reduced prior years' loss reserves accordingly. Redundancies on prior years' loss reserves were higher in 2013 than 2014 and 2012 due in part to reductions in our loss estimates on Hurricane Sandy, which occurred during the fourth quarter of 2012. Additionally, during the fourth quarter of 2013, we reduced prior years' loss reserves by \$27.3 million related to resolution of claims under expired commercial general liability policies.

In 2014, favorable development on our professional liability product lines was partially offset by adverse development of \$20.2 million on our architects and engineers product line, primarily on the 2008 through 2013 accident years. In 2013, favorable development on our professional liability product lines was partially offset by adverse development of \$7.0 million on our architects and engineers product line, primarily on the 2009 and 2010 accident years. The adverse development on this product line was driven by an increase in the frequency of high severity claims. Based on this experience, our actuaries increased their estimates of ultimate losses and management increased prior years' loss reserves accordingly. We took significant corrective actions on our architects and engineers product line during 2014, including exiting certain classes and states and reunderwriting and re-pricing the ongoing business. The favorable development on prior years' loss reserves in the U.S. Insurance segment in 2014 and 2013 also included \$25.7 million and \$32.8 million, respectively, of redundancies at our workers' compensation unit. In 2014, the redundancies in our workers' compensation unit were most significant on the 2012 and 2013 accident years. In 2013, the redundancies on our workers' compensation unit were most significant on the 2011 and 2012 accident years. Over the last two years, management has gained more confidence in the actuarial projections on this product line, as compared to when we began writing this business in 2010, and reduced prior years' loss reserves accordingly. Favorable development on prior years' loss reserves in the U.S. Insurance segment in 2013 also included \$27.9 million of redundancies of prior years' loss reserves at the specialty programs unit, primarily on the 2012 and 2007 through 2009 accident years, due in part to more favorable than expected experience on our general liability product lines.

In 2014, we experienced \$93.4 million of redundancies on various long-tail casualty lines, primarily on the 2007 to 2012 accident years, due in part to lower loss severity than originally anticipated. In 2013, we experienced \$136.3 million of redundancies on various long-tail casualty lines, which included \$27.3 million of redundancies related to resolution of claims under expired commercial general liability policies. The remaining redundancies on our long-tail casualty lines in 2013 were spread across several accident years, due in part to lower claim frequencies than originally anticipated. In 2012, we experienced \$105.1 million of redundancies on various long-tail casualty lines, spread across several accident years, due in part to lower claim frequencies than originally anticipated. Our brokerage casualty business includes product lines that are long-tail and



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

volatile in nature. In 2003, as a result of previous adverse loss experience, we took significant corrective actions within our brokerage casualty operations, including the re-underwriting and re-pricing of the ongoing business. As a result of these changes, we have experienced higher redundancies in the 2003 and subsequent accident years. During 2014, actual incurred losses and loss adjustment expenses on prior accident years for reported claims on certain long-tail casualty lines were \$62.9 million less than we anticipated in our actuarial analyses. During 2013, actual incurred losses and loss adjustment expenses on prior accident years for reported claims on certain long-tail casualty lines were \$77.8 million less than we anticipated in our actuarial analyses. During 2012, actual incurred losses and loss adjustment expenses on prior accident years for reported claims on certain long-tail casualty lines were \$49.8 million less than we anticipated in our actuarial analyses. As a result, our actuaries reduced their estimates of ultimate losses in 2014, 2013 and 2012, and management assigned greater credibility to this favorable experience and reduced prior years' loss reserves accordingly.

Excluding the adverse development on our architects and engineers product line, as described above, the favorable development of prior years' loss reserves during 2014 included \$48.4 million of redundancies on our professional liability programs, of which \$25.6 million was on the 2013 accident year. In 2013, excluding the adverse development on our architects and engineers product line, favorable development of prior years' loss reserves included \$22.8 million of redundancies on our professional liability programs, of which \$20.6 million was on the 2011 and 2012 accident years. The favorable development of prior years' loss reserves during 2012 included \$39.1 million of redundancies on our professional liability programs, of which \$38.4 million was on the 2009 to 2011 accident years. In all three years, the product line that produced the majority of the redundancy was specified medical, driven by lower loss severity than was originally anticipated. As a result of the decreases in severity, our actuarial estimates of the ultimate liability for unpaid losses and loss adjustment expenses were reduced, and management reduced prior years' loss reserves accordingly.

### *International Insurance Segment*

The combined ratio for the International Insurance segment was 93% for 2014 compared to 94% for 2013 and 91% for 2012 (including five points of underwriting losses related to Hurricane Sandy). The decrease in the 2014 combined ratio was driven by more favorable development of prior years' loss reserves, partially offset by a higher current accident year loss ratio. The International Insurance segment's 2013 current accident year loss ratio included \$11.7 million, or one point, of favorable development on pre-acquisition accident years' loss reserves for Alterra. Excluding the impact of Alterra pre-acquisition loss reserve development in 2013, the 2013 current accident year loss ratio for the International Insurance segment was comparable to 2014. The 2013 expense ratio for the International Insurance segment included \$13.4 million, or two points, of transaction and acquisition-related costs attributable to the acquisition of Alterra. Excluding the impact of transaction and acquisition-related costs in 2013, the 2014 expense ratio increased compared to 2013 due to higher general expenses in 2014.

The combined ratio for the International Insurance segment increased from 2012 to 2013 due to a higher attritional losses and less favorable development of prior year losses, partially offset by a lower expense ratio and lower catastrophe losses. The increase in the attritional loss ratio and decrease in the expense ratio was driven by the contribution of earnings from Alterra in 2013. Our general and professional liability product lines within the Global Insurance division generally have higher attritional loss ratios than other products in the International Insurance segment. Additionally, the Global Insurance division uses higher levels of reinsurance than the rest of the International Insurance segment, and the related ceding commissions result in a lower overall commission rate. The impact of underwriting, acquisition and insurance expenses in 2012 related to our prospective adoption of ASU No. 2010-26 was comparable to the impact of transaction and acquisition-related costs in 2013.

The International Insurance segment's 2014 combined ratio included \$166.6 million of favorable development on prior years' loss reserves, compared to \$130.7 million in 2013 and \$172.8 million in 2012. In all three years, the redundancies on prior years' loss reserves were most significant on our professional liability and marine and energy product lines, driven by favorable claims settlements on significant loss events and lower than expected claims activity on prior accident years. The redundancies on our

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professional liability product lines within the International Insurance segment were also due in part to the adverse impact of the disruptions in the financial markets during 2008 and 2009 not being as significant as initially anticipated. Redundancies on prior years' loss reserves in 2014 included \$62.7 million of favorable development on our professional liability product lines, compared to \$46.8 million in 2013 and \$87.1 million in 2012. Favorable development on our marine and energy product lines totaled \$45.9 million in 2014, \$49.3 million in 2013 and \$61.0 million in 2012. In 2014, the redundancies on prior years' loss reserves were most significant on the 2010 to 2012 accident years. In 2013, the redundancies on prior years' loss reserves were most significant on the 2010 and 2011 accident years. In 2012, the redundancies on prior years' loss reserves were most significant on the 2009 and 2010 accident years. The 2013 combined ratio for the International Insurance segment also included \$11.7 million of favorable development attributable to Alterra pre-acquisition accident years that was included in current year losses in 2013, as described above.

#### *Reinsurance Segment*

The combined ratio for the Reinsurance segment was 96% for 2014 compared to 109% for 2013 (including four points of underwriting losses related to natural catastrophes) and 77% for 2012 (including 13 points of underwriting losses related to Hurricane Sandy). The 2013 combined ratio for the Reinsurance segment included \$49.1 million, or seven points, of transaction and acquisition-related costs attributable to the acquisition of Alterra. Excluding the impact of catastrophe losses and transaction and acquisition-related costs in 2013, the combined ratio decreased in 2014 compared to 2013 due to more favorable development on prior years' loss reserves. In 2013, excluding the impact of transaction and acquisition-related costs in 2013 and catastrophe losses in 2012 and 2013, the combined ratio increased compared to 2012 due to a higher loss ratio and higher expense ratio. The increase in the loss ratio from 2012 to 2013 reflects the contribution of premium from Alterra in 2013, much of which is comprised of long-tail casualty lines of business. We also experienced higher attritional loss ratios within our Markel International division in 2013, due in part to the premium contribution from Alterra product lines, which generally carry higher attritional loss ratios than the rest of the division. The increase in the 2013 expense ratio was due to an increase in the contribution of quota share reinsurance business in 2013, which generally carries a higher commission rate than our excess of loss reinsurance business.

The Reinsurance segment's 2014 combined ratio included \$80.0 million of redundancies on prior years' loss reserves compared to \$12.9 million of redundancies in 2013 and \$21.4 million in 2012. The favorable development on prior years' loss reserves in 2014 occurred in a variety of our product lines, with the largest contribution from our short-tail property lines. The redundancies on prior years' loss reserves in 2014, 2013 and 2012 included \$44.7 million, \$12.1 million and \$18.5 million, respectively, of favorable development on our property lines of business, due in part to lower than expected development on loss events that occurred in prior accident years and lower than expected claims activity on prior accident years. The 2013 combined ratio also included \$23.2 million of favorable development attributable to Alterra pre-acquisition accident years that was included in current year losses in 2013. After considering the favorable development attributable to Alterra pre-acquisition accident years in 2013, favorable development on prior years' loss reserves had less of an impact on the combined ratio compared to 2012 due to higher earned premium volume in 2013.

#### *Other Insurance (Discontinued Lines) Segment*

The majority of the losses and loss adjustment expenses and the underwriting, acquisition and insurance expenses for the Other Insurance (Discontinued Lines) segment are associated with A&E exposures or discontinued Alterra and Markel International programs, most of which were discontinued upon acquisition, or shortly thereafter. Given the insignificant amount of premium earned in the Other Insurance (Discontinued Lines) segment, we evaluate this segment's underwriting performance in terms of dollars of underwriting profit or loss instead of its combined ratio.

The Other Insurance (Discontinued Lines) segment produced an underwriting loss of \$28.0 million in 2014 compared to an underwriting loss of \$30.4 million in 2013 and an underwriting loss of \$21.3 million in 2012. The underwriting loss in 2014 included \$32.8 million of adverse loss reserve development on A&E exposures, compared to \$30.1 million in 2013 and \$38.2 million in 2012.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

We complete an annual review of our A&E exposures during the third quarter of the year unless circumstances suggest an earlier review is appropriate. Based on recent activity on a small number of claims, we accelerated our annual review to the second quarter during 2014. Over the past few years, the number of A&E claims reported each year across the property and casualty industry has been on the decline. However, at the same time, the likelihood of making an indemnity payment has risen, thus increasing the average cost per reported claim. During our 2012 annual review, we reduced our estimate of the ultimate claims count, while increasing our estimate of the number of claims that would ultimately be closed with an indemnity payment. During our 2013 and 2014 annual reviews, we increased our expectation of the severity of the outcome of certain claims subject to litigation. As the ultimate outcome of known claims increases, our expected ultimate closure value on unreported claims also increases. As a result, prior years' loss reserves for A&E exposures were increased by \$27.2 million in 2014, \$28.4 million in 2013 and \$31.1 million in 2012 related to our annual review. The need to increase A&E loss reserves in each of the past three 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. Adverse development of A&E reserves in 2012 was partially offset by favorable movements in prior years' loss reserves and allowances for reinsurance bad debt related to discontinued lines of business originally written by our Markel International division.

A&E loss reserves are subject to significant uncertainty due to potential loss severity and frequency resulting from an uncertain and unfavorable legal climate. Our A&E reserves are not discounted to present value and are forecasted to pay out over the next 40 to 50 years. We seek to establish appropriate reserve levels for A&E exposures; however, these reserves could be subject to increases in the future. See note 9(b) of the notes to consolidated financial statements for further discussion of our exposures to A&E claims.

The following tables summarize the increases (decreases) in prior years' loss reserves by segment, as discussed above.

Year Ended December 31, 2014					
(dollars in millions)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Total
U.S. Insurance:					
Casualty	\$ (93.4)				\$ (93.4)
Professional liability:					
Architects and engineers	20.2				20.2
All other	(48.4)				(48.4)
Workers' compensation	(25.7)				(25.7)
International Insurance:					
Professional liability		\$ (62.7)			(62.7)
Marine and energy		(45.9)			(45.9)
Reinsurance:					
Property			\$ (44.7)		(44.7)
Other Insurance (Discontinued Lines):					
A&E exposures				\$ 32.8	32.8
Net other prior years' redundancy	(69.3)	(58.0)	(35.3)	(5.1)	(167.7)
Increase (decrease)	\$ (216.6)	\$ (166.6)	\$ (80.0)	\$ 27.7	\$ (435.5)

Year Ended December 31, 2013					
<i>(dollars in millions)</i>	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Total
U.S. Insurance:					
Casualty	\$ (136.3)				\$ (136.3)
Professional liability:					
Architects and engineers	7.0				7.0
All other	(22.8)				(22.8)
Workers' compensation	(32.8)				(32.8)
Specialty programs	(27.9)				(27.9)
International Insurance:					
Professional liability		\$ (46.8)			(46.8)
Marine and energy		(49.3)			(49.3)
Reinsurance:					
Property			\$ (12.1)		(12.1)
Other Insurance (Discontinued Lines):					
A&E exposures				\$ 30.1	30.1
Net other prior years' redundancy	(85.3)	(34.6)	(0.8)	0.5	(120.2)
Increase (decrease)	\$ (298.1)	\$ (130.7)	\$ (12.9)	\$ 30.6	\$ (411.1)

Year Ended December 31, 2012					
<i>(dollars in millions)</i>	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Total
U.S. Insurance:					
Casualty	\$ (105.1)				\$ (105.1)
Professional liability:	(39.1)				(39.1)
International Insurance:					
Professional liability		\$ (87.1)			(87.1)
Marine and energy		(61.0)			(61.0)
Reinsurance:					
Property			\$ (18.5)		(18.5)
Other Insurance (Discontinued Lines):					
A&E exposures				\$ 38.2	38.2
Net other prior years' redundancy	(81.7)	(24.7)	(2.9)	(17.1)	(126.4)
Increase (decrease)	\$ (225.9)	\$ (172.8)	\$ (21.4)	\$ 21.1	\$ (399.0)

Over the past three years, we have experienced favorable development on prior years' loss reserves ranging from 5% to 9% of beginning of year net loss reserves. In 2014, we experienced favorable development of \$435.5 million, or 5% of beginning of year net loss reserves, compared to \$411.1 million, or 9% of beginning of year net loss reserves, in 2013 and \$399.0 million, or 9% of beginning of year net loss reserves, in 2012.

It is difficult for management to predict the duration and magnitude of an existing trend and, on a relative basis, it is even more difficult to predict the emergence of factors or trends that are unknown today but may have a material impact on loss reserve development. In assessing the likelihood of whether the above favorable trends will continue and whether other trends may develop, we believe that a reasonably likely movement in prior years' loss reserves during 2015 would range from a deficiency of less than 1%, or \$50 million, to a redundancy of approximately 6%, or \$500 million, of December 31, 2014 net loss reserves.

# MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

## Premiums

The following table summarizes gross premium volume by segment.

GROSS PREMIUM VOLUME (dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
U.S. Insurance	\$ 2,493,823	\$ 2,252,739	\$ 1,595,849
International Insurance	1,200,403	1,101,099	788,092
Reinsurance	1,112,728	566,348	129,744
Other Insurance (Discontinued Lines)	(1,441)	40	(4)
<b>TOTAL</b>	<b>\$ 4,805,513</b>	<b>\$ 3,920,226</b>	<b>\$ 2,513,681</b>

Gross premium volume increased 23% in 2014 compared to 2013 and 56% in 2013 compared to 2012. The increase in gross premium volume in both periods was primarily due to the inclusion of premiums attributable to Alterra from May 1, 2013, which impacted all three of our ongoing underwriting segments in 2013 and 2014. In 2014, the increase in gross written premiums in our U.S. Insurance segment is also attributable to higher premiums in our Wholesale division, primarily on our casualty product lines, and in our Specialty division across various product lines. Additionally, the U.S. Insurance segment included \$217.9 million and \$194.7 million of gross written premiums from Hagerty in 2014 and 2013, respectively, which we began writing in the first quarter of 2013. The increase in gross written premiums in our Reinsurance segment in 2014 is also attributable to renewals in 2014 on policies previously written by Alterra, which typically occur in the early part of the year and occurred prior to our acquisition in 2013. In our International segment, gross written premiums in 2014 included \$46.4 million of premiums attributable to Abbey, which was acquired in January 2014. Foreign currency exchange rate movements did not have a significant impact on gross premium volume in any period presented.

The following table summarizes net written premiums by segment.

NET WRITTEN PREMIUMS (dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
U.S. Insurance	\$ 2,071,466	\$ 1,915,770	\$ 1,418,579
International Insurance	889,336	840,050	677,344
Reinsurance	956,584	480,822	118,208
Other Insurance (Discontinued Lines)	(371)	41	(5)
<b>TOTAL</b>	<b>\$ 3,917,015</b>	<b>\$ 3,236,683</b>	<b>\$ 2,214,126</b>

Net retention of gross premium volume was 82% in 2014 compared to 83% in 2013 and 88% in 2012. Historically, our products were written with limits that did not require significant reinsurance. Following the acquisition of Alterra, we have certain insurance and reinsurance products that use higher levels of reinsurance. We purchase reinsurance and retrocessional reinsurance in order to manage our net retention on individual risks and enable us to write policies with sufficient limits to meet policyholder needs.

The following table summarizes earned premiums by segment.

EARNED PREMIUMS (dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
U.S. Insurance	\$ 2,022,860	\$ 1,727,766	\$ 1,360,229
International Insurance	909,679	833,984	672,405
Reinsurance	908,385	669,826	114,499
Other Insurance (Discontinued Lines)	(12)	40	(5)
<b>TOTAL</b>	<b>\$ 3,840,912</b>	<b>\$ 3,231,616</b>	<b>\$ 2,147,128</b>

Consolidated earned premiums increased 19% in 2014 compared to 2013 and 51% in 2013 compared to 2012. The increase in earned premiums in both periods was driven by the increase in gross written premiums, as described above. The U.S. Insurance segment included \$203.4 million of earned premiums from Hagerty in 2014 compared to \$97.8 million in 2013. Foreign currency exchange rate movements did not have a significant impact on earned premiums in any period presented.

## Life and Annuity Benefits

The Other Insurance (Discontinued Lines) segment included other revenues of \$1.6 million and other expenses of \$37.1 million for 2014 and other revenues of \$1.1 million and other expenses of \$28.1 million for 2013, related to the life and annuity reinsurance business, which was assumed through the acquisition of Alterra on May 1, 2013. This business is in run-off, and we are not writing any new life and annuity reinsurance contracts. The life and annuity benefit reserves are recorded on a discounted present value basis using assumptions that were determined at the Acquisition Date. The accretion of this discount is recognized in the statement of income and comprehensive income as other expenses. The increase in other expenses in 2014 reflects a full year of accretion in 2014 compared to only eight months in 2013. Invested assets and the related investment income that support the life and annuity reinsurance contracts are reported in the Investing segment. As a result, we expect the results reported in the Other Insurance (Discontinued Lines) segment attributable to our life and annuity business will continue to reflect losses in future periods due to the accretion of the discount on the life and annuity benefit reserves, which are forecasted to pay out over the next 40 to 50 years. Other revenues attributable to the life and annuity business included in the Other Insurance (Discontinued Lines) segment represent ongoing premium adjustments on existing contracts.

## Investing Results

Our business strategy recognizes the importance of both consistent underwriting and operating profits and superior investment returns to build shareholder value. We rely on sound underwriting practices to produce investable funds while minimizing underwriting risk. We evaluate our investment performance by analyzing taxable equivalent total investment return. Taxable equivalent total investment return includes items that impact net income, such as coupon interest on fixed maturities, dividends on equity securities and realized investment gains or losses, as well as changes in unrealized gains or losses, which do not impact net income. Certain items that are included in net investment income have been excluded from the calculation of taxable equivalent total investment return, such as amortization and accretion of premiums and discounts on our fixed maturity portfolio, to provide a comparable basis for measuring our investment return against industry investment returns. The calculation of taxable equivalent total investment return also includes the current tax benefit associated with income on certain investments that is either taxed at a lower rate than the statutory income tax rate or is not fully included in federal taxable income. We believe the taxable equivalent total investment return is a better reflection of the economics of our decision to invest in certain asset classes. We focus on our long-term investment return, understanding that the level of realized and unrealized investment gains or losses may vary from one period to the next.

The following table summarizes our investment performance.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Net investment income	\$ 363,230	\$ 317,373	\$ 282,107
Net realized investment gains	\$ 46,000	\$ 63,152	\$ 31,593
Change in net unrealized gains on investments	\$ 981,035	\$ 261,995	\$ 353,808
Investment yield <sup>(1)</sup>	2.4%	2.6%	3.7%
Taxable equivalent total investment return, before foreign currency effect	8.9%	6.9%	8.6%
Taxable equivalent total investment return	7.4%	6.8%	9.0%
Invested assets, end of year	\$ 18,637,701	\$ 17,612,074	\$ 9,332,745

<sup>(1)</sup> Investment yield reflects net investment income as a percentage of monthly average invested assets at amortized cost.



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table reconciles investment yield to taxable equivalent total investment return.

	Years Ended December 31,		
	2014	2013	2012
Investment yield <sup>(1)</sup>	2.4%	2.6%	3.7%
Adjustment of investment yield from book value to market value	(0.4)%	(0.3)%	(0.5)%
Net amortization of net premium on fixed maturity securities	0.6%	0.7%	0.2%
Net realized investment gains and change in net unrealized gains on investments	5.9%	2.3%	4.3%
Taxable equivalent effect for interest and dividends <sup>(2)</sup>	0.4%	0.4%	0.6%
Other <sup>(3)</sup>	(1.5)%	1.1%	0.7%
Taxable equivalent total investment return	7.4%	6.8%	9.0%

<sup>(1)</sup> Investment yield reflects net investment income as a percentage of monthly average invested assets at amortized cost.

<sup>(2)</sup> Adjustment to tax-exempt interest and dividend income to reflect a taxable equivalent basis.

<sup>(3)</sup> Adjustment to reflect the impact of changes in foreign currency exchange rates and time-weighting the inputs to the calculation of taxable equivalent total investment return.

Investments, cash and cash equivalents and restricted cash and cash equivalents (invested assets) increased 6% in 2014. The increase in the investment portfolio in 2014 was attributable to an increase in net unrealized gains on investments of \$981.0 million and cash flows from operations of \$716.8 million. Invested assets increased 89% in 2013. The increase in the investment portfolio in 2013 was attributable to the investment portfolio acquired through the Alterra acquisition, as well as an increase in net unrealized gains on investments of \$262.0 million and cash flows from operations of \$745.5 million.

During 2012, we increased our holdings of equity securities to capitalize on opportunities in the equity markets. We also increased our holdings of cash and cash equivalents and short-term investments and reduced our holdings of fixed maturities. During 2013 and 2014, we continued to limit our allocation of funds for purchases of fixed maturities. Due to the current low interest rate environment, we have chosen to take a more defensive posture, earning lower investment yields in order to maintain a high level of liquidity and have flexibility in how we allocate capital. We continued repositioning the investment portfolio acquired through the Alterra acquisition to be more consistent with our historical investment portfolio allocation by replacing fixed maturity corporate and mortgage-backed securities with fixed maturity tax-exempt municipal securities and equity securities. We also allocated more cash and cash equivalents to short-term investments to achieve higher returns while still maintaining adequate liquidity. At December 31, 2014, equity securities represented 22% of our invested assets compared to 18% at December 31, 2013. At December 31, 2014, short-term investments, cash and cash equivalents and restricted cash and cash equivalents represented 22% of our invested assets compared to 24% at December 31, 2013.

Net investment income increased 14% in 2014, primarily due to higher average invested assets in 2014 compared to 2013 as a result of the acquisition of Alterra. In 2014, net investment income was net of \$59.3 million of amortization expense as a result of establishing a new amortized cost for Alterra's fixed maturity securities as of the Acquisition Date, compared to \$58.3 million in 2013. Net investment income increased 13% in 2013 compared to 2012, driven by \$74.3 million of net investment income attributable to the investment portfolio acquired through the Alterra acquisition. In 2013, net investment income attributable to the investment portfolio acquired through the Alterra acquisition was partially offset by lower investment income on fixed maturities compared to 2012, as we decreased our holdings in fixed maturities and increased our holdings in cash and cash equivalents during 2013. Net investment income in 2014, 2013 and 2012 included favorable changes in the fair value of our credit default swap of \$2.2 million, \$10.5 million and \$16.6 million, respectively. The fair value of the credit default swap, which expired in December 2014, was a liability of \$2.2 million at December 31, 2013.



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Net realized investment gains were \$46.0 million, \$63.2 million and \$31.6 million in 2014, 2013 and 2012, respectively. Net realized investment gains include both gains and losses from sales of securities and losses from write downs for other-than-temporary declines in the estimated fair value of investments. In 2014, net realized investment gains included \$4.8 million of write downs for other-than-temporary declines in the estimated fair value of investments compared to \$4.7 million and \$12.1 million in 2013 and 2012, respectively. In 2014, 2013 and 2012, net realized investment gains were related to equity securities and fixed maturities that were sold because of our decision to reallocate capital to other equity securities or fixed maturities with greater potential for long-term investment returns.

Net realized investment gains in 2014, 2013 and 2012 included \$18.9 million, \$25.4 million and \$0.9 million, respectively, of realized losses from sales of fixed maturities and equity securities. Proceeds received on securities sold at a loss were \$1.1 billion in 2014, \$545.3 million in 2013 and \$11.9 million in 2012. During 2014 and 2013, we repositioned the investment portfolio acquired through the Alterra acquisition to be more consistent with our target portfolio allocation.

Approximately 92% of the gross realized losses in 2014 related to securities that had been in a continuous unrealized loss position for less than one year. Gross realized losses in 2014 included \$4.8 million of write downs for other-than-temporary declines in the estimated fair value of investments. These write downs were made with respect to 24 equity securities and three fixed maturities. We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. At December 31, 2014, we held securities with gross unrealized losses of \$35.2 million, or less than 1% of invested assets. All securities with unrealized losses were reviewed, and we believe that there were no other securities with indications of declines in estimated fair value that were other-than-temporary at December 31, 2014. However, given the volatility in the debt and equity markets, we caution readers that further declines in fair value could be significant and may result in additional other-than-temporary impairment charges in future periods. Variability in the timing of realized and unrealized gains and losses is to be expected. See note 3(b) of the notes to consolidated financial statements for further discussion of unrealized losses.

Approximately 95% of the gross realized losses in 2013 related to securities that had been in a continuous unrealized loss position for less than one year. Gross realized losses in 2013 included \$4.7 million of write downs for other-than-temporary declines in the estimated fair value of investments. These write downs were made with respect to six equity securities and four fixed maturities.

Approximately 99% of the gross realized losses in 2012 related to securities that had been in a continuous unrealized loss position for less than one year. Gross realized losses in 2012 included \$12.1 million of write downs for other-than-temporary declines in the estimated fair value of investments. These write downs were made with respect to five equity securities.

In 2014, net unrealized gains on investments increased \$981.0 million due to an increase in the estimated fair value of our equity portfolio, as a result of strong overall equity market performance, and our fixed income portfolio, as interest rates decreased during 2014. In 2013, net unrealized gains on investments increased \$262.0 million primarily due to an increase in the estimated fair value of our equity portfolio as a result of strong overall equity market performance, partially offset by a decline in the estimated fair value of fixed income securities as interest rates increased during 2013. The decline in the fair value of the fixed income portfolio was more significant for fixed income securities in the investment portfolio acquired through the Alterra acquisition, as their fixed income securities have a longer weighted average effective duration than our historical fixed income portfolio. In 2012, net unrealized gains on investments increased \$353.8 million, due to increases in the estimated fair value of our equity portfolio as a result of continued improvement in financial market conditions during 2012.

# MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

## Markel Ventures Operations

Our Markel Ventures operations are comprised of a diverse portfolio of industrial and service businesses that operate outside of the specialty insurance marketplace. These businesses are viewed by management as separate and distinct from our insurance operations. While each of these companies are operated independently from one another, we aggregate their financial results into two industry groups: manufacturing and non-manufacturing.

We consolidate our Markel Ventures operations on a one-month lag. Operating revenues and expenses associated with our Markel Ventures operations are included in other revenues and other expenses in the consolidated statements of income and comprehensive income. See note 20 of the notes to consolidated financial statements for the components of other revenues and other expenses associated with Markel Ventures.

The following tables summarize the amounts recognized in the consolidated balance sheets and consolidated statements of income related to Markel Ventures.

<i>(dollars in thousands)</i>	December 31,	
	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 106,552	\$ 61,742
Receivables	92,036	78,764
Goodwill	215,967	191,629
Intangible assets	237,070	182,599
Other assets	534,725	421,714
<b>TOTAL ASSETS</b>	<b>\$ 1,186,350</b>	<b>\$ 936,448</b>
<b>LIABILITIES AND EQUITY</b>		
Senior long-term debt and other debt <sup>(1)</sup>	\$ 359,263	\$ 217,119
Other liabilities	213,794	146,343
<b>Total Liabilities</b>	<b>573,057</b>	<b>363,462</b>
Redeemable noncontrolling interests	61,048	72,183
Shareholders' equity <sup>(2)</sup>	553,972	501,370
Noncontrolling interests	(1,727)	(567)
<b>Total Equity</b>	<b>552,245</b>	<b>500,803</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 1,186,350</b>	<b>\$ 936,448</b>

<sup>(1)</sup> Senior long-term debt and other debt as of December 31, 2014 and 2013 included \$252.9 million and \$116.4 million, respectively, of debt due to other subsidiaries of Markel Corporation, which is eliminated in consolidation.

<sup>(2)</sup> Shareholders' equity includes \$498.6 million and \$444.1 million as of December 31, 2014 and 2013, respectively, which represents Markel Corporation's investment in Markel Ventures and is eliminated in consolidation.

(dollars in thousands)	Years Ended December 31,		
	2014	2013	2012
OPERATING REVENUES			
Net investment income	\$ 4	\$ 4	\$ 4
Other revenues	838,121	686,448	489,352
Total Operating Revenues	838,125	686,452	489,356
OPERATING EXPENSES			
Amortization of intangible assets	24,283	20,674	18,684
Other expenses	775,219	613,250	432,956
Total Operating Expenses	799,502	633,924	451,640
Operating Income	38,623	52,528	37,716
Interest expense <sup>(1)</sup>	13,400	11,230	11,269
Income Before Income Taxes	25,223	41,298	26,447
Income tax expense	13,160	14,654	8,109
Net Income	12,063	26,644	18,338
Net income attributable to noncontrolling interests	2,506	2,824	4,863
NET INCOME TO SHAREHOLDERS	\$ 9,557	\$ 23,820	\$ 13,475

<sup>(1)</sup> Interest expense for the years ended December 31, 2014, 2013 and 2012 includes intercompany interest expense of \$8.7 million, \$6.4 million and \$6.4 million, respectively, which is eliminated in consolidation.

Revenues from our Markel Ventures operations increased in 2014 compared to 2013 primarily due to the acquisition of Cottrell in July 2014 and the acquisition of Eagle Construction of VA LLC (Eagle) in August 2013. We also experienced higher revenues in our manufacturing operations in 2014, primarily driven by cyclical changes in industry demand for transportation equipment, partially offset by lower revenues in our other existing manufacturing operations, due to fewer orders and shipments in 2014 compared to 2013. Net income to shareholders from our Markel Ventures operations decreased in 2014 compared to 2013 due to less favorable results in our manufacturing and non-manufacturing operations in 2014, which were partially offset by net income to shareholders attributable to acquisitions. The decrease in net income to shareholders in our manufacturing operations in 2014 was due in part to lower revenues, as described above. The decrease in net income to shareholders in our non-manufacturing operations was primarily attributable to a \$13.7 million non-cash goodwill impairment charge in the fourth quarter of 2014 related to the Diamond Healthcare reporting unit. Revenues and net income to shareholders from our Markel Ventures operations increased in 2013 compared to 2012 primarily due to our acquisition of Eagle, Reading Bakery Systems (Reading) in September 2012 and Havco WP LLC in April 2012 and more favorable results at AMF Bakery Systems (AMF).

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table summarizes the cash flows attributable to Markel Ventures for the years ended December 31, 2014, 2013 and 2012.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Cash and cash equivalents, beginning of year	\$ 61,742	\$ 55,048	\$ 35,756
Net cash provided by operating activities	59,915	75,926	47,020
Net cash used by investing activities	(189,729)	(60,533)	(190,060)
Net cash provided (used) by financing activities <sup>(1,2)</sup>	174,624	(8,699)	162,332
Increase in cash and cash equivalents	44,810	6,694	19,292
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 106,552	\$ 61,742	\$ 55,048

<sup>(1)</sup> Net cash provided (used) by financing activities for the years ended December 31, 2014, 2013 and 2012 includes capital contributions from our holding company of \$64.8 million, \$28.7 million and \$193.4 million, respectively, which are eliminated in consolidation.

<sup>(2)</sup> Net cash provided by financing activities for the year ended December 31, 2014 includes net additions to debt of \$136.5 million, which are eliminated in consolidation. Net cash used by financing activities for the year ended December 31, 2013 includes repayments of debt totaling \$5.3 million which are eliminated in consolidation. Net cash provided by financing activities for the year ended December 31, 2012 includes additions to debt of \$8.8 million, which are eliminated in consolidation.

Markel Ventures earnings before goodwill impairment, interest, income taxes, depreciation and amortization (Adjusted EBITDA) is a non-GAAP financial measure. We use Markel Ventures Adjusted EBITDA as an operating performance measure in conjunction with U.S. GAAP measures, including revenues and net income, to monitor and evaluate the performance of our Markel Ventures operations. Because Adjusted EBITDA excludes goodwill impairment, interest, income taxes, depreciation and amortization, it provides an indicator of economic performance that is useful to both management and investors in evaluating our Markel Ventures businesses as it is not affected by levels of debt, interest rates, effective tax rates, levels of depreciation and amortization resulting from purchase accounting, or non-recurring charges. The following table reconciles Adjusted EBITDA of Markel Ventures, net of noncontrolling interests, to consolidated net income to shareholders.

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2014	2013	2012
Markel Ventures Adjusted EBITDA – Manufacturing	\$ 71,133	\$ 64,415	\$ 44,963
Markel Ventures Adjusted EBITDA – Non-Manufacturing	23,931	19,372	15,398
Markel Ventures Adjusted EBITDA – Total	95,064	83,787	60,361
Goodwill impairment	(13,737)	—	—
Interest expense <sup>(1)</sup>	(12,184)	(9,283)	(9,782)
Income tax expense	(12,848)	(13,988)	(7,868)
Depreciation expense	(24,706)	(19,313)	(14,205)
Amortization of intangible assets	(22,032)	(17,383)	(15,031)
Markel Ventures net income to shareholders	9,557	23,820	13,475
Net income from other Markel operations	311,625	257,201	239,910
NET INCOME TO SHAREHOLDERS	\$ 321,182	\$ 281,021	\$ 253,385

<sup>(1)</sup> Interest expense for the years ended December 31, 2014, 2013 and 2012 includes intercompany interest expense of \$8.7 million, \$6.4 million and \$6.4 million, respectively.

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Adjusted EBITDA from our Markel Ventures manufacturing operations increased in 2014 compared to 2013 due to our acquisition of Cottrell. In 2013, adjusted EBITDA from our Markel Ventures manufacturing operations increased compared to 2012 primarily due to our acquisition of Reading and more favorable results at AMF. Adjusted EBITDA from our Markel Ventures non-manufacturing operations increased in 2013 compared to 2012 primarily due to our acquisition of Eagle.

## Interest Expense and Income Taxes

Interest expense was \$117.4 million in 2014 compared to \$114.0 million in 2013 and \$92.8 million in 2012. The increase in interest expense in 2014 compared to 2013 and 2013 compared to 2012 was due in part to interest expense associated with our 6.25% unsecured senior notes and 7.20% unsecured senior notes, which were assumed in connection with the acquisition of Alterra, partially offset by the repayment of our \$250 million 6.80% unsecured senior notes in February 2013. Interest expense associated with our 6.25% and 7.20% unsecured senior notes was \$18.9 million in 2014 and \$13.2 million in 2013. Interest expense also increased in 2014 and 2013 due to our \$500 million combined issuance in March 2013 of 3.625% unsecured senior notes and 5.0% unsecured senior notes. In 2013, increased interest expense associated with our first full year of interest from our \$350 million issuance in July 2012 of 4.90% unsecured senior notes was offset by the redemption of our \$150 million 7.50% unsecured senior debentures in August 2012.

The effective tax rate was 26% in 2014 compared to 22% in 2013 and 17% in 2012. In all three periods, the effective tax rate differs from the statutory tax rate of 35% primarily as a result of tax-exempt investment income. The increase in the effective tax rate in 2014 was driven by higher earnings taxed at 35% in 2014 and a smaller benefit from our foreign operations in 2014, which are taxed at a lower rate. The increase in the effective tax rate in 2013 was driven by higher earnings taxed at a 35% tax rate and a smaller tax benefit related to tax-exempt investment income, which resulted from having higher income before income taxes in 2013 compared to 2012.

With few exceptions, we are no longer subject to income tax examination by tax authorities for years ended before January 1, 2011. See note 8 of the notes to consolidated financial statements for a discussion of factors affecting the realization of our gross deferred tax assets and unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in our income tax returns.

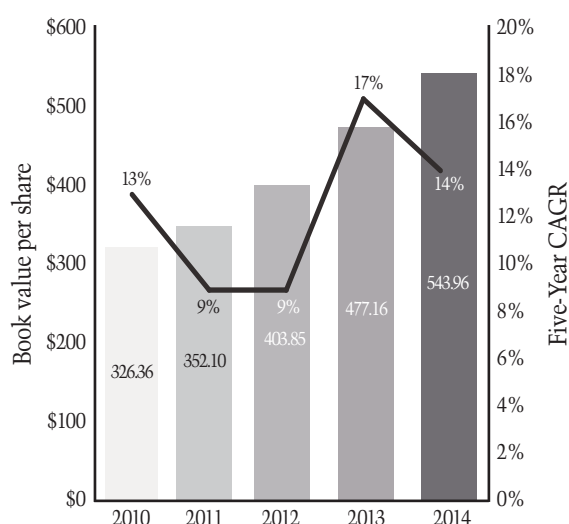
## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Comprehensive Income to Shareholders

Comprehensive income to shareholders was \$935.9 million, \$459.5 million and \$503.8 million in 2014, 2013 and 2012, respectively. Comprehensive income to shareholders for 2014 included net income to shareholders of \$321.2 million, an increase in net unrealized gains on investments, net of taxes, of \$661.7 million and a decrease in foreign currency translation adjustments, net of taxes, of \$32.2 million. Comprehensive income to shareholders for 2013 included net income to shareholders of \$281.0 million and an increase in net unrealized gains on investments, net of taxes, of \$184.6 million. Comprehensive income to shareholders for 2012 included net income to shareholders of \$253.4 million and an increase in net unrealized gains on investments, net of taxes, of \$242.2 million.

For the year ended December 31, 2014, book value per share increased 14% primarily due to comprehensive income to shareholders, as described above. For the year ended December 31, 2013, book value per share increased 18% primarily due to equity issued in connection with the acquisition of Alterra, which was accretive to book value, and comprehensive income to shareholders, as described above.

The following graph presents book value per share and the five-year compound annual growth rate (CAGR) in book value per share for the past five years as of December 31.



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## Claims and Reserves

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We maintain reserves for specific claims incurred and reported, reserves for claims incurred but not reported and reserves for uncollectible reinsurance. Our ultimate liability may be greater or less than current reserves. In the insurance industry, there is always the risk that reserves may prove inadequate. We continually monitor reserves using new information on reported claims and a variety of statistical techniques. Anticipated inflation is reflected implicitly in the reserving process through analysis of cost trends and the review of historical development. We do not discount our reserves for losses and loss adjustment expenses to reflect estimated present value, except for reserves assumed in connection with an acquisition, which are recorded at fair value at the acquisition date.

The first line of the following table shows our net reserves for losses and loss adjustment expenses adjusted for commutations, foreign currency movements and other items. This adjustment is accomplished by revising the reserves for losses and loss adjustment expenses as originally estimated at the end of each year and all prior years for reserves either reassumed from reinsurers or ceded back to cedents through reinsurance commutation agreements. Adjustments also are made for the effects of changes in foreign currency rates since the reserves for losses and loss adjustment expenses were originally estimated. Net reserves for losses and loss adjustment expenses of acquired insurance companies are included in the year of acquisition.

The upper portion of the table shows the cumulative amount paid with respect to the previously recorded reserves as of the end of each succeeding year. The lower portion of the table shows the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year, including cumulative payments made since the end of the respective year. For example, the liability for losses and loss adjustment expenses at the end of 2009 for 2009 and all prior years, adjusted for commutations, foreign currency movements and other items, was originally estimated to be \$4,534.2 million. Five years later, as of December 31, 2014, this amount was re-estimated to be \$3,358.2 million, of which \$2,280.4 million had been paid, leaving a reserve of \$1,077.8 million for losses and loss adjustment expenses for 2009 and prior years remaining unpaid as of December 31, 2014.



# MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table represents the development of reserves for losses and loss adjustment expenses for the period 2004 through 2014.

<i>(dollars in millions)</i>	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>Net reserves, end of year, adjusted for commutations, foreign currency movements and other</b>	<b>\$ 3,830.0</b>	<b>4,187.7</b>	<b>4,288.4</b>	<b>4,338.5</b>	<b>4,551.5</b>	<b>4,534.2</b>	<b>4,595.1</b>	<b>4,605.0</b>	<b>4,542.3</b>	<b>8,270.3</b>	<b>8,535.5</b>
Paid (cumulative) as of:											
One year later	717.2	799.5	783.8	727.6	759.5	796.1	898.3	932.0	906.3	<b>1,436.9</b>	
Two years later	1,256.5	1,375.4	1,312.1	1,270.8	1,364.8	1,417.0	1,531.0	1,548.7	<b>1,506.7</b>		
Three years later	1,667.4	1,752.4	1,689.6	1,686.3	1,841.0	1,881.5	1,918.5	<b>1,937.2</b>			
Four years later	1,932.9	2,018.2	1,994.1	1,983.9	2,189.7	2,118.7	<b>2,180.8</b>				
Five years later	2,114.0	2,243.3	2,201.5	2,245.4	2,350.9	<b>2,280.4</b>					
Six years later	2,293.2	2,406.5	2,396.8	2,353.7	<b>2,471.6</b>						
Seven years later	2,418.4	2,581.1	2,473.2	<b>2,438.6</b>							
Eight years later	2,545.1	2,642.7	<b>2,543.3</b>								
Nine years later	2,587.0	<b>2,699.4</b>									
Ten years later	<b>2,626.2</b>										
Reserves re-estimated as of:											
One year later	3,779.4	4,055.4	4,091.1	4,174.7	4,316.1	4,256.1	4,241.3	4,206.0	4,131.2	<b>7,834.8</b>	
Two years later	3,624.7	3,905.0	3,952.1	3,939.3	4,079.3	3,912.9	3,866.1	3,864.0	<b>3,830.7</b>		
Three years later	3,540.2	3,801.2	3,764.8	3,724.9	3,814.5	3,620.5	3,611.2	<b>3,660.9</b>			
Four years later	3,512.2	3,691.6	3,604.1	3,523.6	3,618.3	3,423.0	<b>3,499.1</b>				
Five years later	3,465.9	3,579.6	3,449.8	3,374.7	3,464.6	<b>3,358.2</b>					
Six years later	3,383.8	3,465.2	3,351.5	3,260.8	<b>3,426.3</b>						
Seven years later	3,300.6	3,399.6	3,280.4	<b>3,229.0</b>							
Eight years later	3,253.7	3,350.1	<b>3,266.2</b>								
Nine years later	3,219.7	<b>3,347.1</b>									
Ten years later	<b>3,216.5</b>										
<b>Net cumulative redundancy</b>	<b>\$ 613.5</b>	<b>840.6</b>	<b>1,022.2</b>	<b>1,109.5</b>	<b>1,125.2</b>	<b>1,176.0</b>	<b>1,096.0</b>	<b>944.1</b>	<b>711.6</b>	<b>435.5</b>	
Cumulative %	16%	20%	24%	26%	25%	26%	24%	21%	16%	5%	
Gross reserves, end of year, adjusted for commutations, foreign currency movements and other	\$ 5,197.5	5,959.7	5,391.8	5,280.1	5,515.5	5,352.5	5,352.7	5,366.6	5,297.6	10,169.9	10,404.2
Reinsurance recoverable, adjusted for commutations, foreign currency movements and other	1,367.5	1,772.0	1,103.4	941.6	964.0	818.3	757.6	761.6	755.3	1,899.6	1,868.7
<b>Net reserves, end of year, adjusted for commutations, foreign currency movements and other</b>	<b>\$ 3,830.0</b>	<b>4,187.7</b>	<b>4,288.4</b>	<b>4,338.5</b>	<b>4,551.5</b>	<b>4,534.2</b>	<b>4,595.1</b>	<b>4,605.0</b>	<b>4,542.3</b>	<b>8,270.3</b>	<b>8,535.5</b>
Gross re-estimated reserves	4,445.0	4,938.3	4,220.7	4,027.4	4,210.1	4,035.6	4,161.5	4,376.0	4,542.8	9,694.2	
Re-estimated recoverable	1,228.5	1,591.2	954.5	798.4	783.8	677.4	662.4	715.1	712.1	1,859.4	
<b>Net re-estimated reserves</b>	<b>\$ 3,216.5</b>	<b>3,347.1</b>	<b>3,266.2</b>	<b>3,229.0</b>	<b>3,426.3</b>	<b>3,358.2</b>	<b>3,499.1</b>	<b>3,660.9</b>	<b>3,830.7</b>	<b>7,834.8</b>	
<b>Gross cumulative redundancy</b>	<b>\$ 752.5</b>	<b>1,021.4</b>	<b>1,171.1</b>	<b>1,252.7</b>	<b>1,305.4</b>	<b>1,316.9</b>	<b>1,191.2</b>	<b>990.6</b>	<b>754.8</b>	<b>475.7</b>	

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Net cumulative redundancy represents the change in the estimate from the original balance sheet date to the date of the current estimate. For example, the liability for losses and loss adjustment expenses developed a \$1,176.0 million redundancy from December 31, 2009 to December 31, 2014. Conditions and trends that have affected the development of loss reserves in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future redundancies or deficiencies based on the table. Gross cumulative redundancy is presented before deductions for reinsurance. Gross deficiencies and redundancies may be significantly more or less than net deficiencies and redundancies due to the nature and extent of applicable reinsurance. The net and gross cumulative redundancies as of December 31, 2014 for 2013 and prior years were primarily due to redundancies that developed during 2014 in the U.S. Insurance and International Insurance segments on the 2009 to 2013 accident years. See "Underwriting Results" for further discussion of changes in prior years' loss reserves.

See note 9 of the notes to consolidated financial statements and the discussion under "Critical Accounting Estimates" for a discussion of estimates and assumptions related to the reserves for losses and loss adjustment expenses.

## Liquidity and Capital Resources

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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 capital ratio was 23% at December 31, 2014 and 25% at December 31, 2013. From time to time, our debt to capital ratio may increase due to business opportunities that may be financed in the short term with debt. Alternatively, our debt to capital ratio may fall below our target capital structure, which provides us with additional borrowing capacity to respond when future opportunities arise.

At December 31, 2014, our holding company (Markel Corporation) held \$1.5 billion of invested assets, which approximated 16 times annual interest expense of the holding company, compared to \$1.3 billion of invested assets at December 31, 2013. The increase in invested assets is primarily the result of dividends and loan repayments received from our subsidiaries of \$282.1 million and an increase in unrealized gains on our investment portfolio, partially offset by cash paid for interest and income taxes. In order to maintain prudent levels of liquidity, we seek to maintain invested assets at Markel Corporation of at least two times annual interest expense. The excess liquidity at Markel Corporation is available to increase capital at our insurance subsidiaries, complete acquisitions, repurchase shares of our common stock or retire debt.

Under the terms of the agreements in which we acquired controlling interests in certain Markel Ventures subsidiaries, the remaining equity interests have the option to sell their interests to us in the future. These redeemable noncontrolling interests generally become redeemable through 2018; however, the occurrence, timing and redemption value of these transactions is uncertain. As of December 31, 2014, redeemable noncontrolling interests totaled \$61.0 million.

In October 2010, we completed our acquisition of Aspen Holdings, Inc. (Aspen). As part of the consideration for this acquisition, Aspen shareholders received contingent value rights that may result in the payment of additional cash consideration depending, among other things, upon the development of pre-acquisition loss reserves and loss sensitive profit commissions over time. Based on current expectations, we do not believe contingent consideration payments, if any, related to these contingent value rights would have a material impact on our liquidity.

During 2013, we repurchased 77,693 shares of common stock at a cost of \$40.9 million under a share repurchase program that was approved by our Board of Directors in November 2010 (the 2010 Program). In November 2013, our Board of Directors approved a new share repurchase program that provides for the repurchase of up to \$300 million of common stock (the 2013 Program) to replace the 2010 Program. The 2013 Program has no expiration date but may be terminated by the Board of Directors at any time. As of December 31, 2014, we had repurchased 34,385 shares of common stock at a cost of \$20.5 million under the 2013 program.

MANAGEMENT'S DISCUSSION & ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Our insurance operations collect premiums and pay claims, reinsurance costs and operating expenses. Premiums collected and positive cash flows from the insurance operations are invested primarily in short-term investments and long-term fixed maturities. Short-term investments held by our insurance subsidiaries provide liquidity for projected claims, reinsurance costs and operating expenses. As a holding company, Markel Corporation receives cash from its subsidiaries as reimbursement for operating and other administrative expenses it incurs. The reimbursements are made within the guidelines of various management agreements between the holding company and its subsidiaries.

The holding company has historically relied upon dividends from its domestic subsidiaries to meet debt service obligations. Under the insurance laws of the various states in which our domestic insurance subsidiaries are incorporated, an insurer is restricted in the amount of dividends it may pay without prior approval of regulatory authorities. At December 31, 2014, our domestic insurance subsidiaries and Markel Bermuda could pay ordinary dividends of \$783.3 million during the following twelve months under these laws.

There are also regulatory restrictions on the amount of dividends that our foreign insurance subsidiaries may pay based on applicable laws in Ireland and the United Kingdom. At December 31, 2014, earnings of our foreign subsidiaries are considered reinvested indefinitely for U.S. income tax purposes. At December 31, 2014, cash and cash equivalents, restricted cash and cash equivalents and short-term investments of \$1.1 billion were held by our foreign subsidiaries. We do not expect the amount of cash and cash equivalents, restricted cash and cash equivalents and short-term investments that are attributable to earnings that are considered reinvested indefinitely, and not available for distributions to the holding company, to have a material effect on our liquidity or capital resources.

Net cash provided by operating activities was \$716.8 million, \$745.5 million and \$392.5 million in 2014, 2013 and 2012, respectively. The decrease in 2014 compared to 2013 was due to higher payments for income taxes in 2014. These payments were partially offset by higher cash flows from investment income during 2014, primarily due to higher average invested assets in 2014 compared to 2013 as a result of the acquisition of Alterra. The increase in 2013 compared to 2012 was due to higher cash flows from underwriting and investing activities, primarily as a result of the acquisition of Alterra. The increase in cash flows from underwriting activities was also driven by higher premium volume, primarily in our U.S. Insurance segment.

Net cash used by investing activities was \$622.2 million in 2014 compared to net cash provided by investing activities of \$187.4 million in 2013 and net cash used by investing activities of \$377.1 million in 2012. Net cash used by investing activities in 2014 included \$319.1 million of cash, net of cash acquired, used to complete acquisitions. During 2013, we used net cash of \$12.2 million for acquisitions. The acquisition of Alterra resulted in net cash received as a result of Alterra's cash balance exceeding cash paid for the acquisition by \$49.5 million. Net cash used by investing activities in 2012 included \$243.7 million of cash, net of cash acquired, used to complete acquisitions. See note 2 of the notes to consolidated financial statements for a discussion of acquisitions. We received cash from our equity method investments of \$107.3 million and \$313.6 million during 2014 and 2013, respectively, which includes redemptions from our hedge fund portfolio acquired through the Alterra acquisition that is included in other assets on the consolidated balance sheets. During 2013 we began repositioning the investment portfolio acquired through the Alterra acquisition, which continued into 2014, to be more consistent with our target investment portfolio allocation by replacing fixed maturity corporate and mortgage-backed securities with fixed maturity tax-exempt municipal securities and equity securities. During 2014 and 2013, we have continued to limit our allocation of funds for purchases of fixed maturities and maintained high levels of cash and cash equivalents and short-term investments. Due to the current low interest rate environment, we have chosen to take a more defensive posture, earning lower investment yields in order to maintain a high level of liquidity and have flexibility in how we allocate capital. Cash flow from investing activities is affected by various factors such as anticipated payment of claims, financing activity, acquisition opportunities and individual buy and sell decisions made in the normal course of our investment portfolio management.

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Invested assets increased to \$18.6 billion at December 31, 2014 from \$17.6 billion at December 31, 2013. Net unrealized gains on investments, net of taxes, were \$1.8 billion at December 31, 2014 compared to \$1.1 billion at December 31, 2013. The increase in net unrealized gains on investments, net of taxes, in 2014 was primarily due to an increase in the estimated fair value of our equity portfolio as a result of improving market conditions during 2014. Equity securities were \$4.1 billion, or 22% of invested assets, at December 31, 2014 compared to \$3.3 billion, or 18% of invested assets, at December 31, 2013. The increase in equity securities as a percent of invested assets in 2014 is attributable to an increase in unrealized gains on equity securities and purchases of equity securities. At December 31, 2014, short-term investments, cash and cash equivalents and restricted cash and cash equivalents represented 22% of our invested assets compared to 24% at December 31, 2013. See note 3(g) of the notes to consolidated financial statements for a discussion of restricted assets.

Net cash used by financing activities was \$67.1 million in 2014 compared to net cash provided by financing activities of \$175.4 million and \$142.0 million in 2013 and 2012, respectively. During 2014, we used cash of \$25.9 million to purchase additional interests in our Market Ventures businesses. During 2013, we received net proceeds of \$491.2 million associated with the issuance of \$250 million of 3.625% unsecured senior notes due March 30, 2023 and \$250 million of 5.0% unsecured senior notes due March 30, 2043. On February 15, 2013, we repaid our 6.80% unsecured senior notes, which had an outstanding principal balance of \$246.7 million. During 2012, we received net proceeds of \$347.2 million associated with the issuance of \$350 million of 4.90% unsecured senior notes due July 1, 2022. We used a portion of these proceeds to redeem our 7.50% unsecured debentures due August 22, 2046 at a redemption price equal to 100% of their principal amount, or \$150 million. Proceeds were also used to pre-fund the repayment of our 6.80% unsecured senior notes due February 15, 2013 at their maturity (\$246.7 million principal amount outstanding at December 31, 2012). During 2014, 2013 and 2012, cash of \$26.1 million, \$57.4 million and \$16.9 million, respectively, was used to repurchase shares of our common stock.

In recent years, we have completed numerous reinsurance commutations, which involve the termination of ceded or assumed reinsurance contracts. Our commutation strategy related to ceded reinsurance contracts is to reduce credit exposure and eliminate administrative expenses associated with the run-off of reinsurance placed with certain reinsurers. Our commutation strategy related to assumed reinsurance contracts is to reduce our loss exposure to long-tailed liabilities assumed under reinsurance agreements that were entered into by companies we acquired prior to our acquisition. We will continue to pursue commutations, or similar reinsurance transactions, when we believe they meet our objectives. We had no significant commutations during the past three years.

We have credit risk to the extent any of our reinsurers are unwilling or unable to meet their obligations under our ceded reinsurance agreements. We attempt to minimize credit exposure to reinsurers through adherence to internal reinsurance guidelines. We monitor changes in the financial condition of each of our reinsurers, and we assess our concentration of credit risk on a regular basis. At December 31, 2014, our reinsurance recoverable balance for the ten largest reinsurers was \$1.3 billion, representing 63% of our consolidated balance, before considering allowances for bad debts. All of our ten largest reinsurers were rated "A" or better by A.M. Best. We are the beneficiary of letters of credit, trust accounts and funds withheld in the aggregate amount of \$289.5 million at December 31, 2014, collateralizing reinsurance recoverable balances due from our ten largest reinsurers. See note 15 of the notes to consolidated financial statements for further discussion of reinsurance recoverables and exposures. While we believe that net reinsurance recoverable balances are collectible, deterioration in reinsurers' ability to pay, or collection disputes, could adversely affect our operating cash flows, financial position and results of operations.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table summarizes case reserves and IBNR reserves, by segment. As described in note 2 to consolidated financial statements, unpaid losses and loss adjustment expenses attributable to Alterra were recorded at fair value as of the Acquisition Date, which consists of the present value of the expected net loss and loss adjustment expense payments plus a risk premium. Unpaid losses and loss adjustment expenses included in the consolidated balance sheet include the unamortized portion of the fair value adjustment recorded at the Acquisition Date; however, as this amount does not represent case or IBNR reserves, it is excluded from the table below.

<i>(dollars in thousands)</i>	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Consolidated
December 31, 2014					
Case reserves	\$ 979,088	\$ 1,266,222	\$ 984,627	\$ 332,712	\$ 3,562,649
IBNR reserves	2,586,505	2,036,744	1,781,569	322,065	6,726,883
TOTAL	\$ 3,565,593	\$ 3,302,966	\$ 2,766,196	\$ 654,777	\$ 10,289,532
December 31, 2013					
Case reserves	\$ 1,027,163	\$ 1,295,100	\$ 998,488	\$ 278,383	\$ 3,599,134
IBNR reserves	2,533,847	2,049,551	1,742,644	200,416	6,526,458
TOTAL	\$ 3,561,010	\$ 3,344,651	\$ 2,741,132	\$ 478,799	\$ 10,125,592

Unpaid losses and loss adjustment expenses were \$10.4 billion and \$10.3 billion at December 31, 2014 and 2013, respectively. See note 9 of the notes to consolidated financial statements and "Critical Accounting Estimates" for a discussion of estimates and assumptions related to unpaid losses and loss adjustment expenses.

The following table summarizes our contractual cash payment obligations at December 31, 2014.

<i>(dollars in thousands)</i>	Payments Due by Period <sup>(1)</sup>				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Senior long-term debt and other debt <sup>(2)</sup>	\$ 3,429,746	\$ 149,601	\$ 378,718	\$ 581,287	\$ 2,320,140
Operating leases	282,912	28,434	51,760	51,718	151,000
Unpaid losses and loss adjustment expenses (estimated)	10,289,532	2,386,882	3,192,037	1,881,348	2,829,265
Life and annuity benefits (estimated)	1,837,053	105,891	190,456	166,719	1,373,987
TOTAL	\$ 15,839,243	\$ 2,670,808	\$ 3,812,971	\$ 2,681,072	\$ 6,674,392

<sup>(1)</sup> See notes 9, 10, 11 and 16 of the notes to consolidated financial statements for further discussion of these obligations.

<sup>(2)</sup> Amounts include interest.

Senior long-term debt and other debt, excluding net unamortized premium, was \$2.3 billion at December 31, 2014 and 2013.

On August 1, 2014, we entered into a credit agreement for a revolving credit facility, which provides \$300 million of capacity for future acquisitions, investments, repurchases of our capital stock and for general corporate purposes. At our discretion, \$200 million of the total capacity may be used for secured letters of credit. This facility replaced our previous \$300 million revolving credit facility and expires in August 2019. As of December 31, 2014 and 2013, there were no borrowings outstanding under our revolving credit facility.

On August 1, 2014, we reduced the capacity of the Alterra/Markel Bermuda senior credit facility from \$900 million to \$650 million. Loans under the senior credit facility are subject to a sublimit of \$250 million. As of December 31, 2014, there were no borrowings outstanding under the \$650 million senior credit facility and there were \$374.5 million of letters of credit that were issued and outstanding.

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We were in compliance with all covenants contained in our revolving and senior credit facilities at December 31, 2014. To the extent that we are not in compliance with our covenants, our access to the credit facilities could be restricted. While we believe this to be unlikely, the inability to access the credit facilities could adversely affect our liquidity. See note 11 of the notes to consolidated financial statements for further discussion of our revolving and senior credit facilities.

Reserves for unpaid losses and loss adjustment expenses represent future contractual obligations associated with property and casualty insurance and reinsurance contracts issued to our policyholders or other insurance companies. Information presented in the table of contractual cash payment obligations is an estimate of our future payment of claims as of December 31, 2014. Payment patterns for losses and loss adjustment expenses were generally based upon historical claims patterns. Each claim is settled individually based upon its merits and certain claims may take years to settle, especially if legal action is involved. The actual cash payments for settled claims will vary, possibly significantly, from the estimates shown in the preceding table. The unpaid losses and loss adjustment expenses in the table above are our gross estimates of known liabilities as of December 31, 2014. The expected payments by period are the estimated payments at a future time, whereas the reserves for unpaid losses and loss adjustment expenses included in the consolidated balance sheet include the unamortized portion of the fair value adjustment recorded at the Acquisition Date for unpaid losses and loss adjustment expenses assumed in the Alterra acquisition.

Reserves for life and annuity benefits represent future contractual obligations associated with reinsurance contracts issued to other insurance companies. Information presented in the table of contractual cash payment obligations is an estimate of our future payment of benefits as of December 31, 2014. The assumptions used in estimating the likely payments due by period are based on cedent experience, industry mortality tables, and our expense experience. Due to the inherent uncertainty in the process of estimating the timing of such payments, there is a risk that the amounts paid in any such period can be significantly different from the estimates shown in the preceding table. The life and annuity benefits in the above table are our gross estimates of known obligations as of December 31, 2014. These obligations are computed on a net present value basis in the consolidated balance sheet as of December 31, 2014, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

At December 31, 2014, we had unrecognized tax benefits of \$17.7 million related to uncertain tax positions. Due to the high degree of uncertainty regarding the timing of potential future cash flows associated with our unrecognized tax benefits, we are unable to make a reasonably reliable estimate of the amount and period in which any liabilities might be paid. See note 8 of the notes to consolidated financial statements for further discussion of our expectations regarding changes in unrecognized tax benefits during 2015.

At December 31, 2014, we had \$5.0 billion of invested assets or other assets held in trust or on deposit for the benefit of policyholders or ceding companies or to support underwriting activities. Additionally, we have pledged investments and cash and cash equivalents totaling \$635.3 million at December 31, 2014 as security for letters of credit that have been issued by various banks on our behalf. These invested assets and the related liabilities are included on our consolidated balance sheet. See note 3(g) of the notes to consolidated financial statements for further discussion of restrictions over our invested assets.

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. The National Association of Insurance Commissioners (NAIC) developed a model law and risk-based capital formula designed to help regulators identify domestic property and casualty insurers that may be inadequately capitalized. Under the NAIC's requirements, a domestic insurer must maintain total capital and surplus above a calculated threshold or face varying levels of regulatory action. Capital adequacy of our foreign insurance subsidiaries is regulated by applicable laws of the United Kingdom, Bermuda and other jurisdictions. At December 31, 2014, the capital and surplus of each of our insurance subsidiaries significantly exceeded the amount of statutory capital and surplus necessary to satisfy regulatory requirements.

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



## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Market Risk Disclosures

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Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Our primary market risks have been equity price risk associated with investments in equity securities, interest rate risk associated with investments in fixed maturities and foreign currency exchange rate risk associated with our international operations. Various companies within our Markel Ventures operations are subject to commodity risk; however, this risk is not material to the Company.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. General concern exists about municipalities that experience financial difficulties during periods of adverse economic conditions. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically either general obligation or revenue bonds related to essential products and services.

The estimated fair value of our investment portfolio at December 31, 2014 was \$18.6 billion, 78% of which was invested in fixed maturities, short-term investments, cash and cash equivalents and restricted cash and cash equivalents and 22% of which was invested in equity securities. At December 31, 2013, the estimated fair value of our investment portfolio was \$17.6 billion, 82% of which was invested in fixed maturities, short-term investments, cash and cash equivalents and restricted cash and cash equivalents and 18% of which was invested in equity securities.

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

### Credit Risk

We monitor our investment 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 97% rated "A" or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At December 31, 2014, less than 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

Our fixed maturity portfolio includes securities issued by foreign governments. General concern exists about the financial difficulties facing certain European countries in light of the adverse economic conditions experienced over the past several years. We monitor developments in foreign countries, currencies and issuers that could pose risks to our fixed maturity portfolio, including ratings downgrades, political and financial changes and the widening of credit spreads. We believe that our fixed maturity portfolio is highly diversified and is comprised of high quality securities.

We obtain information from news services, rating agencies and various financial market participants to assess potential negative impacts on a country or company's financial risk profile. We analyze concentrations within our fixed maturity portfolio by country, currency and issuer, which allows us to assess our level of diversification with respect to these exposures, reduce



troubled exposures should they occur and mitigate any future financial distress that these exposures could cause. The following tables present the estimated fair values of foreign exposures included in our fixed maturity portfolio.

<i>(dollars in thousands)</i>	December 31, 2014			
	Sovereign	Non-Sovereign Financial Institutions	Non-Sovereign Non-Financial Institutions	Total
European exposures:				
Portugal, Ireland, Italy, Greece and Spain	\$ —	\$ 5,471	\$ 2,210	\$ 7,681
Eurozone (excluding Portugal, Ireland, Italy, Greece and Spain)	928,730	265,591	131,873	1,326,194
Supranationals	—	217,953	—	217,953
Other	129,201	128,111	148,201	405,513
Total European exposures	1,057,931	617,126	282,284	1,957,341
All other foreign (non-European) exposures	553,990	148,187	128,639	830,816
Total foreign exposures	\$ 1,611,921	\$ 765,313	\$ 410,923	\$ 2,788,157

<i>(dollars in thousands)</i>	December 31, 2013			
	Sovereign	Non-Sovereign Financial Institutions	Non-Sovereign Non-Financial Institutions	Total
European exposures:				
Portugal, Ireland, Italy, Greece and Spain	\$ —	\$ 42,966	\$ 2,684	\$ 45,650
Eurozone (excluding Portugal, Ireland, Italy, Greece and Spain)	888,653	319,343	159,509	1,367,505
Supranationals	—	226,462	—	226,462
Other	85,478	184,681	183,646	453,805
Total European exposures	974,131	773,452	345,839	2,093,422
All other foreign (non-European) exposures	486,923	138,960	141,601	767,484
Total foreign exposures	\$ 1,461,054	\$ 912,412	\$ 487,440	\$ 2,860,906

## Equity Price Risk

We invest a portion of shareholder funds in equity securities, which have historically produced higher long-term returns relative to fixed maturities. We seek to invest in profitable companies, with honest and talented management, that exhibit reinvestment opportunities and capital discipline, at reasonable prices. We intend to hold these investments over the long term and focus on long-term total investment return, understanding that the level of unrealized gains or losses on investments may vary from one period to the next. The changes in the estimated fair value of the equity portfolio are presented as a component of shareholders' equity in accumulated other comprehensive income, net of taxes. See note 3(a) of the notes to consolidated financial statements for disclosure of gross unrealized gains and losses by investment category.

At December 31, 2014, our equity portfolio was concentrated in terms of the number of issuers and industries. Such concentrations can lead to higher levels of price volatility. At December 31, 2014, our ten largest equity holdings represented \$1.9 billion, or 45%, of the equity portfolio. Investments in the property and casualty insurance industry represented \$756.3 million, or 18%, of our equity portfolio at December 31, 2014. Our investments in the property and casualty insurance industry included a \$470.7 million investment in the common stock of Berkshire Hathaway Inc., a company whose subsidiaries engage in a number of diverse business activities in addition to insurance. We have investment guidelines that set limits on the equity holdings of our insurance subsidiaries.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

The following table summarizes our equity price risk and shows the effect of a hypothetical 35% increase or decrease in market prices as of December 31, 2014 and 2013. The selected hypothetical changes do not indicate what could be the potential best or worst case scenarios.

<i>(dollars in millions)</i>	Estimated Fair Value	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Prices	Estimated Hypothetical Percentage Increase (Decrease) in Shareholders' Equity
As of December 31, 2014				
Equity securities	\$ 4,138	35% increase 35% decrease	\$ 5,586 2,689	12.8% (12.8)
As of December 31, 2013				
Equity securities	\$ 3,252	35% increase 35% decrease	\$ 4,390 2,114	11.4% (11.4)

### Interest Rate Risk

Our fixed maturity investments and borrowings are subject to interest rate risk. Increases and decreases in interest rates typically result in decreases and increases, respectively, in the fair value of these financial instruments.

The majority of our investable assets come from premiums paid by policyholders. These funds are invested predominantly in high quality corporate, government and municipal bonds with relatively short durations. The fixed maturity portfolio, including short-term investments and cash and cash equivalents, has an average duration of 4.2 years and an average rating of "AA." See note 3(c) of the notes to consolidated financial statements for disclosure of contractual maturity dates of our fixed maturity portfolio. The changes in the estimated fair value of the fixed maturity portfolio are presented as a component of shareholders' equity in accumulated other comprehensive income, net of taxes.

We work to manage the impact of interest rate fluctuations on our fixed maturity portfolio. The effective duration of the fixed maturity portfolio is managed with consideration given to the estimated duration of our liabilities. We have investment guidelines that limit the maximum duration and maturity of the fixed maturity portfolio.

We use a commercially available model to estimate the effect of interest rate risk on the fair values of our fixed maturity portfolio and borrowings. The model estimates the impact of interest rate changes on a wide range of factors including duration, prepayment, put options and call options. Fair values are estimated based on the net present value of cash flows, using a representative set of possible future interest rate scenarios. The model requires that numerous assumptions be made about the future. To the extent that any of the assumptions are invalid, incorrect estimates could result. The usefulness of a single point-in-time model is limited, as it is unable to accurately incorporate the full complexity of market interactions.

The following table summarizes our interest rate risk and shows the effect of hypothetical changes in interest rates as of December 31, 2014 and 2013. The selected hypothetical changes do not indicate what could be the potential best or worst case scenarios.

(dollars in millions)	Estimated Fair Value	Hypothetical Change in Interest Rates (bp=basis points)	Estimated Fair Value after Hypothetical Change in Interest Rates	Hypothetical Percentage Increase (Decrease) in	
				Fair Value of Fixed Maturities	Shareholders' Equity
FIXED MATURITY INVESTMENTS					
As of December 31, 2014					
Total fixed maturity investments	\$ 10,423	200 bp decrease	\$ 11,734	12.6%	11.6%
		100 bp decrease	11,057	6.1	5.6
		100 bp increase	9,812	(5.9)	(5.4)
		200 bp increase	9,222	(11.5)	(10.6)
As of December 31, 2013					
Total fixed maturity investments	\$ 10,143	200 bp decrease	\$ 11,231	10.7%	10.9%
		100 bp decrease	10,661	5.1	5.2
		100 bp increase	9,636	(5.0)	(5.1)
		200 bp increase	9,163	(9.7)	(9.8)
LIABILITIES <sup>(1)</sup>					
As of December 31, 2014					
Borrowings	\$ 2,493	200 bp decrease	\$ 2,878		
		100 bp decrease	2,673		
		100 bp increase	2,333		
		200 bp increase	2,190		
As of December 31, 2013					
Borrowings	\$ 2,372	200 bp decrease	\$ 2,752		
		100 bp decrease	2,550		
		100 bp increase	2,213		
		200 bp increase	2,072		

<sup>(1)</sup> Changes in estimated fair value have no impact on shareholders' equity.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Foreign Currency Exchange Rate Risk

We have foreign currency exchange rate risk associated with certain of our assets and liabilities. We manage this risk primarily by matching assets and liabilities in each foreign currency, other than goodwill and intangible assets, as closely as possible. To assist with the matching of assets and liabilities in foreign currencies, we periodically purchase foreign currency forward contracts and we purchase or sell foreign currencies in the open market. Our forward contracts are generally designated as specific hedges for financial reporting purposes. As such, realized and unrealized gains and losses on these hedges are recorded as currency translation adjustments and are part of other comprehensive income. Our forward contracts generally have maturities of three months. As of December 31, 2014 and 2013, the carrying value of goodwill and intangible assets denominated in a foreign currency, which is not matched or hedged, was \$262.9 million and \$86.3 million, respectively. The increase is primarily due to the acquisition of 100% of the share capital of Abbey that was completed in January 2014. Abbey's goodwill and intangible assets are denominated in United Kingdom Sterling. At December 31, 2014 and 2013, substantially all of our other assets and liabilities denominated in foreign currencies were either matched or hedged.

At December 31, 2014 and 2013, approximately 86% and 83%, respectively, of our invested assets were denominated in United States Dollars. At those dates, the largest foreign currency holdings within our invested assets were the Euro and United Kingdom Sterling.

### Impact of Inflation

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Property and casualty insurance premiums are established before the amount of losses and loss adjustment expenses, or the extent to which inflation may affect such expenses, is known. Consequently, in establishing premiums, we attempt to anticipate the potential impact of inflation. We also consider inflation in the determination and review of reserves for losses and loss adjustment expenses and life and annuity benefits since portions of these reserves are expected to be paid over extended periods of time. This is especially true for our long-tailed lines of business. Alterra previously offered life and annuity reinsurance products. Although this business is in run-off, we must monitor the effects inflation and changing interest rates have on the related reserves. We regularly complete loss recognition testing to ensure that held reserves are sufficient to meet our future claim obligations in the current investment environment.

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## Controls and Procedures

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As of December 31, 2014, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15 (Disclosure Controls). This evaluation was conducted under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO).

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

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we carried out an evaluation, under the supervision and with the participation of our management, including the CEO and the CFO, of the effectiveness of our internal control over financial reporting as of December 31, 2014. See Management's Report on Internal Control over Financial Reporting and our independent registered public accounting firm's attestation report on the effectiveness of our internal control over financial reporting.

During the fourth quarter of 2014, we completed the transition of a significant part of the acquired Alterra operations to our general ledger accounting system, which allows for additional financial reporting functionality and efficiency.

There were no other changes in our internal control over financial reporting during the fourth quarter of 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

### Safe Harbor and Cautionary Statement

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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. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management.

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" 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;
- the effect of cyclical trends, including demand and pricing in the insurance and reinsurance markets;
- actions by competitors, including consolidation, and the effect of competition on market trends and pricing;
- we offer insurance and reinsurance coverage against terrorist acts in connection with some of our programs, and in other instances we are legally required to offer terrorism insurance; in both circumstances, we actively manage our exposure, but if there is a covered terrorist attack, we could sustain material losses;
- the frequency and severity of man-made and natural catastrophes (including earthquakes and weather-related catastrophes) may exceed expectations, are unpredictable and, in the case of weather-related catastrophes, may be exacerbated if, as many forecast, conditions in the oceans and atmosphere result in increased hurricane, flood, drought or other adverse weather-related activity;
- emerging claim and coverage issues, changing legal and social trends, and inherent uncertainties (including but not limited to those uncertainties associated with our A&E reserves) in the loss estimation process can adversely impact the adequacy of our loss reserves and our allowance for reinsurance recoverables;
- reinsurance reserves are subject to greater uncertainty than insurance reserves, primarily because of reliance upon the original underwriting decisions made by ceding companies and the longer lapse of time from the occurrence of loss events to their reporting to the reinsurer for ultimate resolution;
- changes in the assumptions and estimates used in establishing reserves for our life and annuity reinsurance book (which is in runoff), for example, changes in assumptions and estimates of mortality, longevity, morbidity and interest rates, could result in material increases in our estimated loss reserves for such business;
- adverse developments in insurance coverage litigation or other legal or administrative proceedings could result in material increases in our estimates of loss reserves;
- the failure of any loss limitation methods we employ;
- changes in the availability, costs and quality of reinsurance coverage, which may impact our ability to write certain lines of business;
- industry and economic conditions, deterioration in reinsurer credit quality and coverage disputes can affect the ability or willingness of reinsurers to pay balances due;
- after the commutation of ceded reinsurance contracts, any subsequent adverse development in the re-assumed loss reserves will result in a charge to earnings;
- regulatory actions can impede our ability to charge adequate rates and efficiently allocate capital;

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- economic conditions, actual or potential defaults in sovereign debt obligations, volatility in interest and foreign currency exchange rates and changes in market value of concentrated investments can have a significant impact on the fair value of our fixed maturities and equity securities, as well as the carrying value of our other assets and liabilities, and this impact may be heightened by market volatility;
  - a number of factors may adversely affect the markets served by our Market Ventures operations and negatively impact their revenues and profitability, including, among others: economic conditions; changes in government support for education, healthcare and infrastructure projects; changes in capital spending levels; changes in the housing market; and volatility in interest and foreign currency exchange rates;
  - economic conditions may adversely affect our access to capital and credit markets;
  - we have substantial investments in municipal bonds (approximately \$4.3 billion at December 31, 2014) and, although less than 15% of our municipal bond portfolio is tied to any one state, widespread defaults could adversely affect our results of operations and financial condition;
  - the impacts of periods of slow economic growth; the continuing effects of government intervention into the markets to address financial downturns (including, among other things, the effects of the Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations adopted thereunder); the outcome of economic and currency concerns in the Eurozone; material changes to the monetary policies of central banks, including the U.S. Federal Reserve and the European Central Bank; and the combined impact of the foregoing on our industry, business and investment portfolio;
  - the impacts that the political and civil unrest in Ukraine and related sanctions imposed on Russia by the U.S. and other Western European governments may have on our businesses and the markets they serve or that any disruption in European or worldwide economic conditions generally arising from this situation may have on our business, industry or investment portfolio;
  - the impacts that the Israeli-Palestinian conflict may have on our businesses and the markets they serve or that any disruptions in Middle Eastern or worldwide economic conditions generally arising from this conflict may have on our business, industry or investment portfolio;
  - the impacts that health epidemics and pandemics may have on our business operations and claims activity;
  - the impact of the implementation of U.S. health care reform legislation and regulations under that legislation on our business;
  - our business is dependent upon the successful functioning and security of our computer systems; if our information technology systems fail or suffer a security breach, our business or reputation could be adversely impacted;
  - we have recently completed a number of acquisitions, which may increase our operational and control risks for a period of time;
  - we may not realize the contemplated benefits, including cost savings and synergies, of our acquisitions;
  - any determination requiring the write-off of a significant portion of our goodwill and intangible assets;
  - the loss of services of any executive officer or other key personnel could adversely impact our operations;
  - our expanding international operations expose us to increased investment, political and economic risks, including foreign currency and credit risk;
  - the effectiveness of our procedures for compliance with existing and ever increasing guidelines, policies and legal and regulatory standards, rules, laws and regulations; and
  - adverse changes in our assigned financial strength or debt ratings could adversely impact our ability to attract and retain business or obtain capital.

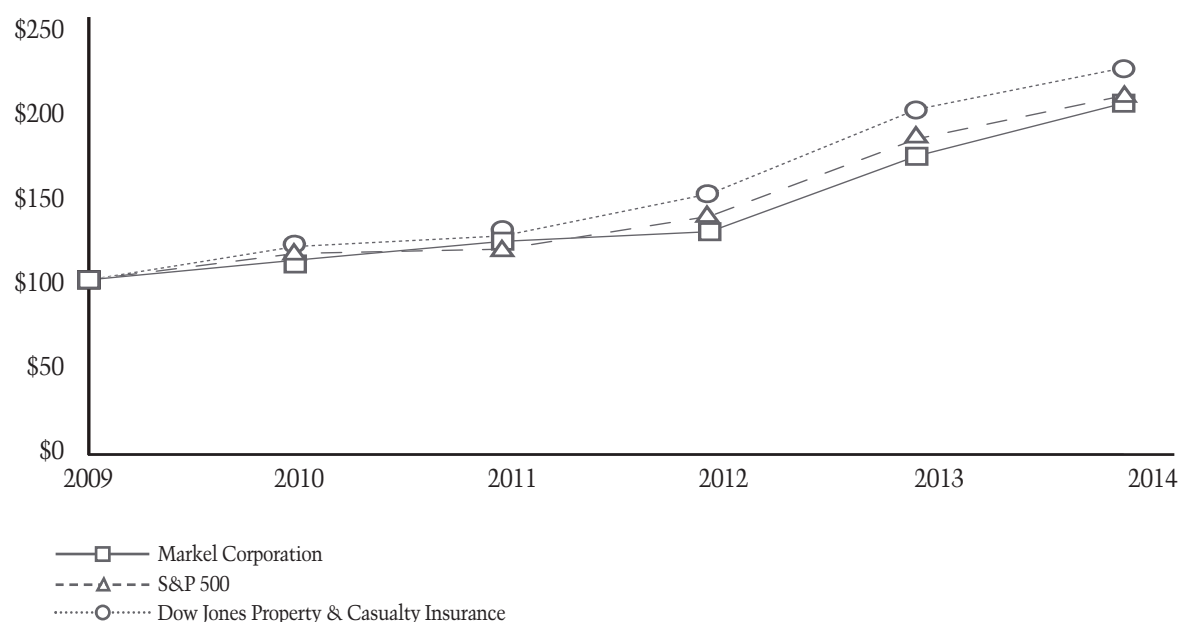
Our premium volume, underwriting and investment results and results from our non-insurance operations have been and will continue to be potentially materially affected by these factors. By making forward-looking statements, we do not intend to become obligated to publicly update or revise any such statements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



## OTHER INFORMATION

## Performance Graph

The following graph compares the cumulative total return (based on share price) on our common stock with the cumulative total return of companies included in the S&P 500 Index and the Dow Jones Property & Casualty Insurance Companies Index. This information is not necessarily indicative of future results.



	Years Ended December 31,					
	2009 <sup>(1)</sup>	2010	2011	2012	2013	2014
Markel Corporation	\$ 100	\$ 111	\$ 122	\$ 127	\$ 171	\$ 201
S&P 500	100	115	117	136	180	205
Dow Jones Property & Casualty Insurance	100	119	125	149	197	221

<sup>(1)</sup> \$100 invested on December 31, 2009 in our common stock or the listed index. Includes reinvestment of dividends.

## Market and Dividend Information

Our common stock trades on the New York Stock Exchange under the symbol MKL. The number of shareholders of record as of February 9, 2015 was approximately 400. The total number of shareholders, including those holding shares in street name or in brokerage accounts, is estimated to be in excess of 100,000. Our current strategy is to retain earnings and, consequently, we have not paid and do not expect to pay a cash dividend on our common stock.

High and low common stock prices as reported on the New York Stock Exchange composite tape for 2014 were \$707.36 and \$527.17, respectively. See note 23 of the notes to consolidated financial statements for additional common stock price information.

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## Available Information and Shareholder Relations

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This document represents Markel Corporation's Annual Report and Form 10-K, which is filed with the Securities and Exchange Commission.

Information about Markel Corporation, including exhibits filed as part of this Form 10-K, may be obtained by writing Mr. Bruce Kay, Investor Relations, at the address of the corporate offices listed below, or by calling (800) 446-6671.

We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. Our website address is [www.markelcorp.com](http://www.markelcorp.com).

## Transfer Agent

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American Stock Transfer & Trust Co., LLC, Operations Center, 6201 15th Avenue, Brooklyn, NY 11219  
(800) 937-5449 (718) 921-8124

## Code of Conduct

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We have adopted a code of business conduct and ethics (Code of Conduct) which is applicable to all directors and associates, including executive officers. We have posted the Code of Conduct on our website at [www.markelcorp.com](http://www.markelcorp.com). We intend to satisfy applicable disclosure requirements regarding amendments to, or waivers from, provisions of our Code of Conduct by posting such information on our website. Shareholders may obtain printed copies of the Code of Conduct by writing Mr. Bruce Kay, Investor Relations, at the address of the corporate offices listed below, or by calling (800) 446-6671.

## Annual Shareholders' Meeting

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Shareholders of Markel Corporation are invited to attend the Annual Meeting to be held at Altria Theater, 6 North Laurel Street, Richmond, Virginia at 4:30 p.m., May 11, 2015.

## Corporate Offices

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Markel Corporation, 4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148  
(804) 747-0136 (800) 446-6671

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors

Alan I. Kirshner <i>Chairman of the Board and Chief Executive Officer</i>	Lemuel E. Lewis <i>Retired Executive Vice President and Chief Financial Officer Landmark Communications, Inc.</i>	Michael O'Reilly <i>Retired Vice Chairman The Chubb Corporation</i>
J. Alfred Broadus, Jr. <i>Private Investor</i>	Anthony F. Markel <i>Vice Chairman</i>	Michael J. Schewel <i>Partner McGuireWoods LLP</i>
K. Bruce Connell <i>Retired Executive Vice President XL Group plc</i>	Steven A. Markel <i>Vice Chairman</i>	Jay M. Weinberg <i>Chairman Emeritus Hirschler Fleischer, a professional corporation</i>
Douglas C. Eby <i>Retired President Torrar LLC</i>	Darrell D. Martin <i>Retired Executive Vice President and Chief Financial Officer Markel Corporation</i>	Debora J. Wilson <i>Retired President and Chief Executive Officer The Weather Channel</i>
Stewart M. Kasen <i>Retired President and Chief Executive Officer S &amp; K Famous Brands, Inc.</i>		

### Executive Officers

Alan I. Kirshner <i>Chairman of the Board and Chief Executive Officer since 1986. Director since 1978. Age 79.</i>
Anthony F. Markel <i>Vice Chairman since May 2008. President and Chief Operating Officer from March 1992 to May 2008. Director since 1978. Age 73.</i>
Steven A. Markel <i>Vice Chairman since March 1992. Director since 1978. Age 66.</i>
F. Michael Crowley <i>President and Co-Chief Operating Officer since May 2010. President, Markel Specialty from February 2009 to May 2010. President of Willis HRH North America from October 2008 to January 2009. President of Hilb Rogal &amp; Hobbs Company from September 2005 to October 2008. Age 63.</i>
Thomas S. Gayner <i>President and Chief Investment Officer since May 2010. Chief Investment Officer since January 2001. President, Markel-Gayner Asset Management Corporation, a subsidiary, since December 1990. Director from 1998 to 2004. Age 53.</i>
Richard R. Whitt, III <i>President and Co-Chief Operating Officer since May 2010. Senior Vice President and Chief Financial Officer from May 2005 to May 2010. Age 51.</i>
Gerard Albanese, Jr. <i>Executive Vice President and Chief Underwriting Officer since May 2010. Chief Underwriting Officer since January 2009. President and Chief Operating Officer, Markel International Limited, a subsidiary, from September 2003 to August 2008. Age 62.</i>
Britton L. Glisson <i>President, Global Insurance since November 2014 and Chief Administrative Officer since February 2009. President, Markel Insurance Company, a subsidiary, from October 1996 to March 2009. Age 58.</i>
Bradley J. Kiscaden <i>Executive Vice President and Chief Actuarial Officer since July 2012. Chief Actuarial Officer since March 1999. Age 52.</i>
Anne G. Waleski <i>Executive Vice President and Chief Financial Officer since May 2014. Vice President and Chief Financial Officer since May 2010. Treasurer from August 2003 to November 2011. Age 48.</i>

UNITED STATES SECURITIES AND  
EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

Annual report pursuant to Section 13 or  
15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2014

Commission File Number 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its  
charter)

A Virginia Corporation  
IRS Employer Identification No.  
54-1959284

4521 Highwoods Parkway, Glen Allen,  
Virginia 23060-6148 (Address of principal  
executive offices) (Zip code)

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

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

Common Stock, no par value  
New York Stock Exchange, Inc.  
(title of each class and name of the  
exchange on which registered)

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

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

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

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

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

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

Indicate by check mark whether the  
registrant is a large accelerated filer, an  
accelerated filer, a non-accelerated filer or a

smaller reporting company. See the  
definitions of "large accelerated filer,"  
"accelerated filer" and "smaller reporting  
company" in Rule 12b-2 of the Exchange Act.  
Large accelerated filer ☒  
Accelerated filer ☐  
Non-accelerated filer ☐  
Smaller reporting company ☐

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

The aggregate market value of the shares of  
the registrant's Common Stock held by  
non-affiliates as of June 30, 2014 was  
approximately \$8,808,000,000.

The number of shares of the registrant's  
Common Stock outstanding at February 9,  
2015: 13,962,386.

Documents Incorporated By Reference

The portions of the registrant's Proxy  
Statement for the Annual Meeting of  
Shareholders scheduled to be held on  
May 11, 2015, referred to in Part III.

Index and Cross References-Form 10-K  
Annual Report

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\*Portions of Item 10 and Items 11, 12, 13  
and 14 will be incorporated by reference  
from the Registrant's Proxy Statement for  
its 2015 Annual Meeting of Shareholders  
pursuant to instructions G(1) and G(3) of  
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Part IV

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

b. See Index to Exhibits and Item 15a(3)

c. See Index to Financial Statements  
and Item 15a(2)

Exhibit Index

2.1 Agreement and Plan of Merger, dated as  
of December 18, 2012, by and among  
Alterra Capital Holdings Limited, Markel  
Corporation and Commonwealth Merger  
Subsidiary Limited (2.1)<sup>a</sup>

3(i) Amended and Restated Articles of  
Incorporation (3.1)<sup>b</sup>

3(ii) Bylaws, as amended (3.1)<sup>c</sup>

4.7 Indenture dated as of June 5, 2001  
between Markel Corporation and The  
Chase Manhattan Bank, as Trustee (4.1)<sup>d</sup>

4.8 Form of Third Supplemental Indenture  
dated as of August 13, 2004 between  
Markel Corporation and JPMorgan Chase  
Bank (formerly known as The Chase  
Manhattan Bank), as Trustee, including  
form of the securities as Exhibit A (4.2)<sup>e</sup>

4.9 Form of Fifth Supplemental Indenture  
dated as of September 22, 2009 between  
Markel Corporation and The Bank of New  
York Mellon (as successor to The Chase  
Manhattan Bank), as Trustee, including  
form of the securities as Exhibit A (4.2)<sup>f</sup>

4.10 Form of Sixth Supplemental Indenture  
dated as of June 1, 2011 between Markel  
Corporation and The Bank of New York  
Mellon (as successor to The Chase  
Manhattan Bank), as Trustee, including  
form of the securities as Exhibit A (4.2)<sup>g</sup>

4.11 Form of Seventh Supplemental Indenture dated as of July 2, 2012 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.2)<sup>h</sup>

4.12 Form of Eighth Supplemental Indenture dated as of March 8, 2013 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.2)<sup>i</sup>

4.13 Form of Ninth Supplemental Indenture dated as of March 8, 2013 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (4.3)<sup>i</sup>

4.14 Indenture dated as of September 1, 2010, among Alterra Finance LLC, Alterra Capital Holdings Limited and The Bank of New York Mellon, as Trustee (4.14)<sup>j</sup>

4.15 First Supplemental Indenture, dated as of September 27, 2010 between Alterra Finance LLC, Alterra Capital Holdings Limited and The Bank of New York Mellon, as Trustee, including the form of the securities as Exhibit A (4.15)<sup>j</sup>

4.16 Form of Second Supplemental Indenture dated as of June 30, 2014 among Alterra Finance LLC, Alterra Capital Holdings Limited and the Bank of New York Mellon, as Trustee (4.16)<sup>k</sup>

4.17 Form of Guaranty Agreement by Markel Corporation dated as of June 30, 2014 in connection with the Alterra Finance LLC 6.25% Senior Notes due 2020 (4.17)<sup>k</sup>

The registrant hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of all other instruments defining the rights of holders of long-term debt of the registrant and its subsidiaries.

10.1 Form of Credit Agreement dated as of August 1, 2014 among Markel Corporation, Markel Bermuda Limited, Alterra Reinsurance USA Inc., Alterra Finance LLC, Alterra USA Holdings Limited, the lenders party from time to time thereto, and Wells Fargo Bank, National Association, Administrative Agent, a Fronting Bank and Swingline Lender (4.1)<sup>k</sup>

10.2 Credit Agreement, dated as of December 16, 2011, among Alterra Capital Holdings Limited, Alterra Bermuda Limited (n/k/a Markel Bermuda Limited), the lenders parties thereto and Bank of America, N.A., as Administrative Agent (4.5)<sup>l</sup>

10.3 First Amendment and Consent dated as of February 7, 2013, to the Credit Agreement among Alterra Capital Holdings

Limited, Alterra Bermuda Limited (n/k/a Markel Bermuda Limited), the lenders parties thereto and Bank of America, N.A., as Administrative Agent (4.6)<sup>l</sup>

10.4 Form of Second Amendment dated as of March 14, 2014, to the Credit Agreement among Alterra Capital Holdings Limited, Markel Bermuda Limited (f/k/a Alterra Bermuda Limited), the lenders party thereto and Bank of America, N.A., as Administrative Agent (4.7)<sup>l</sup>

10.5 Form of Guaranty Agreement by Markel Corporation dated March 14, 2014 in connection with the Credit Agreement dated December 16, 2011 (4.8)<sup>l</sup>

10.6 Form of Third Amendment dated as of August 1, 2014, to the Credit Agreement among Alterra Capital Holdings Limited, Markel Bermuda Limited (f/k/a Alterra Bermuda Limited), the lenders party thereto and Bank of America, N.A., as Administrative Agent (4.6)<sup>k</sup>

10.7 Markel Corporation 2012 Equity Incentive Compensation Plan (Appendix A)<sup>m</sup>

10.8 Form of Amended and Restated Employment Agreement with Alan I. Kirshner (10.2)<sup>n</sup>

10.9 Form of Amended and Restated Employment Agreement with Steven A. Markel (10.3)<sup>n</sup>

10.10 Form of Amended and Restated Employment Agreement with Anthony F. Markel (10.4)<sup>n</sup>

10.11 Form of Executive Employment Agreement with F. Michael Crowley, Thomas S. Gayner, Richard R. Whitt, III, Gerard Albanese, Jr., Britton L. Glisson, Anne G. Waleski and Bradley J. Kiscaden (10.5)<sup>n</sup>

10.12 Schedule of Base Annual Salaries for Executive Officers effective May 1, 2013 and Restricted Stock Units awarded on May 13, 2013 (10.1)<sup>j</sup>

10.13 Description of annual base salary for Anne G. Waleski effective June 1, 2014<sup>ab</sup>

10.14 Markel Corporation Executive Bonus Plan (10.3)<sup>o</sup>

10.15 Description of Awards Under Executive Bonus Plan and 2012 Equity Incentive Compensation Plan for 2014 (10.1)<sup>l</sup>

10.16 Employee Stock Purchase and Bonus Plan (10.9)<sup>n</sup>

10.17 Markel Corporation Omnibus Incentive Plan (Appendix B)<sup>p</sup>

10.18 Form of Restricted Stock Award Agreement for Outside Directors (10.2)<sup>q</sup>

10.19 Form of Restricted Stock Unit Award Agreement for Executive Officers under the Markel Corporation Omnibus Incentive Plan (10.1)<sup>r</sup>

10.20 Form of Restricted Stock Unit Award Agreement for Executive Officers under the

Markel Corporation 2012 Equity Incentive Compensation Plan (10.1)<sup>s</sup>

10.21 Form of 2009 Restricted Stock Unit Award Agreement for Executive Officers (10.2)<sup>t</sup>

10.22 Form of Restricted Stock Unit Award Agreement for Executive Officers (revised 2010) (10.2)<sup>u</sup>

10.23 Form of Amended and Restated May 2010 Restricted Stock Unit Award Agreement for Executive Officers (10.1)<sup>v</sup>

10.24 May 2010 Restricted Stock Units Deferral Election Form (10.2)<sup>v</sup>

10.25 Description of Permitted Acceleration of Vesting Date of Restricted Stock Units by Up to Thirty Days (10.2)<sup>w</sup>

10.26 Form of May 2011 Restricted Stock Unit Award Agreement for Anne Waleski (10.1)<sup>b</sup>

10.27 Description of Non-Employee Director Compensation<sup>x</sup>

10.28 Aspen Holdings, Inc. Amended and Restated 2008 Stock Option Plan (99.1)<sup>y</sup>

10.29 Form of Time Based Restricted Stock Unit Award Agreement for Executive Officers for the 2012 Equity Incentive Compensation Plan (10.22)<sup>z</sup>

10.30 Form of Performance Based Restricted Stock Unit Award Agreement for Executive Officers for the 2012 Equity Incentive Compensation Plan (10.23)<sup>z</sup>

10.31 Restricted Stock Units Deferral Election Form for the 2012 Equity Incentive Compensation Plan (10.24)<sup>z</sup>

10.32 Alterra Capital Holdings Limited 2008 Stock Incentive Plan (99.1)<sup>aa</sup>

10.33 Alterra Capital Holdings Limited 2006 Equity Incentive Plan (99.2)<sup>aa</sup>

10.34 Alterra Capital Holdings Limited 2000 Stock Incentive Plan (99.3)<sup>aa</sup>

21 Certain Subsidiaries of Markel Corporation<sup>\*\*</sup>

23 Consent of KPMG LLP<sup>\*\*</sup>

31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)<sup>\*\*</sup>

31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)<sup>\*\*</sup>

32.1 Certification of Principal Executive Officer furnished Pursuant to 18 U.S.C. Section 1350<sup>\*\*</sup>

32.2 Certification of Principal Financial Officer furnished Pursuant to 18 U.S.C. Section 1350<sup>\*\*</sup>

101 The following consolidated financial statements from Markel Corporation's Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 27, 2015, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and



Comprehensive Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.\*\*

\*\* Filed with this report

a. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on December 19, 2012.

b. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on May 13, 2011.

c. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on November 18, 2011.

d. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on June 5, 2001.

e. 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 11, 2004.

f. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on September 21, 2009.

g. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on May 31, 2011.

h. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on June 29, 2012.

i. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on March 7, 2013.

j. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended June 30, 2013.

k. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended June 30, 2014.

l. 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, 2014.

m. Incorporated by reference from the Appendix shown in parentheses filed with the Commission in the Registrant's Proxy Statement and Definitive 14A filed March 16, 2012.

n. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on

Form 10-K for the year ended December 31, 2008.

o. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on May 27, 2005.

p. Incorporated by reference from the Appendix shown in parentheses filed with the Commission in the Registrant's Proxy Statement and Definitive 14A filed April 2, 2003.

q. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended June 30, 2012.

r. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on March 3, 2008.

s. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 8-K filed on May 17, 2013.

t. 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, 2009.

u. 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, 2010.

v. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended June 30, 2010.

w. 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, 2008.

x. Incorporated by reference from Item 5.02 filed with the Commission in the Registrant's report on Form 8-K filed on May 17, 2013.

y. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's Registration Statement on Form S-8 (Reg. No. 333-170047).

z. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-K for the year ended December 31, 2012.

aa. Incorporated by reference from the Exhibit shown in parentheses filed with the Commission in the Registrant's Registration Statement on Form S-8 (Reg. No. 333-188294).

ab. Incorporated by reference from Item 5.02 filed with the Commission in the Registrant's report on Form 8-K filed on May 14, 2014.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

## MARKEL CORPORATION

By: /s/ Steven A. Markel  
Steven A. Markel  
Vice Chairman  
February 27, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title
<u>/s/ Alan I. Kirshner</u> , Alan I. Kirshner	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)
<u>/s/ Anthony F. Markel</u> , Anthony F. Markel	Director
<u>/s/ Steven A. Markel</u> , Steven A. Markel	Director
<u>/s/ Anne G. Waleski</u> , Anne G. Waleski	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
<u>/s/ Nora N. Crouch</u> , Nora N. Crouch	Controller and Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ J. Alfred Broaddus, Jr.</u> , J. Alfred Broaddus, Jr.	Director
<u>/s/ K. Bruce Connell</u> , K. Bruce Connell	Director
<u>/s/ Douglas C. Eby</u> , Douglas C. Eby	Director
<u>/s/ Stewart M. Kasen</u> , Stewart M. Kasen	Director
<u>/s/ Lemuel E. Lewis</u> , Lemuel E. Lewis	Director
<u>/s/ Darrell D. Martin</u> , Darrell D. Martin	Director
<u>/s/ Michael O'Reilly</u> , Michael O'Reilly	Director
Michael J. Schewel	Director
<u>/s/ Jay M. Weinberg</u> , Jay M. Weinberg	Director
<u>/s/ Debora J. Wilson</u> , Debora J. Wilson	Director

\*Signed as of February 27, 2015

## MARKEL CORPORATION

### Headquarters

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Richmond, Virginia

### Asia Pacific

Asia Square, Singapore · Beijing, China · Causeway Bay, Hong Kong · Dubai, UAE · Kuala Lumpur, Malaysia · Labuan, Malaysia · Tokyo, Japan

### Bermuda

Hamilton, Bermuda

### Canada

Calgary, Canada · Montreal, Canada · Toronto, Canada · Vancouver, Canada

### Europe

Barcelona, Spain · Dublin, Ireland · Hamburg, Germany · Le Centaure, France · Madrid, Spain · Munich, Germany · Rotterdam, Netherlands · Stockholm, Sweden · Zurich, Switzerland

### Latin America

Bogotá, Colombia · Buenos Aires, Argentina · Rio de Janeiro, Brazil

### United Kingdom

Birmingham, England · Bridport, England · Bristol, England · Cheshire, England · Leeds, England · London, England · Manchester, England · Reigate, England · Rugby, England · Surrey, England

### United States

Alpharetta, GA · Chicago, IL · Cranston, RI · Dallas, TX · Deerfield, IL · Denver, CO · Geneva, IL · Henderson, NV · Kansas City, MO · Kennesaw, GA · New York, NY · Omaha, NE · Ontario, CA · Overland Park, KS · Pewaukee, WI · Plano, TX · Pleasanton, CA · Red Bank, NJ · San Francisco, CA · Scottsdale, AZ · South Burlington, VT · Summit, NJ · Tampa, FL · Warrenton, VA · Windsor, CT · Woodland Hills, CA



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## MARKEL CORPORATION (continued)

### Markel Ventures

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**AMF Bakery Systems**

Richmond, Virginia

**Cottrell, Inc.**

Gainesville, Georgia

**Diamond Healthcare Corporation**

Richmond, Virginia

**Eagle Construction of VA, LLC**

Glen Allen, Virginia

**Ellicott Dredge Enterprises, LLC**

Baltimore, Maryland

**Havco WP LLC**

Cape Girardeau, Missouri

**Panel Specialists, Inc.**

Temple, Texas

**ParkLand Ventures, Inc.**

Glen Allen, Virginia

**PartnerMD, LLC**

Richmond, Virginia

**Reading Bakery Systems**

Reading, Pennsylvania

**RetailData, LLC**

Richmond, Virginia

**Solbern, Inc.**

Fairfield, New Jersey

**Tromp Bakery Equipment B.V.**

Gorinchem, The Netherlands

**Weldship Corporation**

Bethlehem, Pennsylvania

**Markel Corporation**  
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