MARKEL CORP
Form 10-Q
July 26, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2017
or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _______ to _______
Commission File Number: 001-15811

MARKEL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia	54-1959284
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148
(Address of principal executive offices)
(Zip Code)
(804) 747-0136
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares of the registrant's common stock outstanding at July 19, 2017: 13,911,416

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(dollars in thousands)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of $9,669,656 in 2017 and $9,591,734 in 2016)	$10,053,492	$9,891,510
Equity securities (cost of $2,653,010 in 2017 and $2,481,448 in 2016)	5,340,827	4,745,841
Short-term investments (estimated fair value approximates cost)	1,704,416	2,336,151
Total Investments	17,098,735	16,973,502
Cash and cash equivalents	2,315,212	1,738,747
Restricted cash and cash equivalents	271,031	346,417
Receivables	1,589,444	1,241,649
Reinsurance recoverable on unpaid losses	2,007,652	2,006,945
Reinsurance recoverable on paid losses	53,128	64,892
Deferred policy acquisition costs	489,836	392,410
Prepaid reinsurance premiums	344,639	299,923
Goodwill	1,216,403	1,142,248
Intangible assets	806,585	722,542
Other assets	1,010,676	946,024
Total Assets	$27,203,341	$25,875,299
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	$10,312,695	$10,115,662
Life and annuity benefits	1,061,298	1,049,654
Unearned premiums	2,712,597	2,263,838
Payables to insurance and reinsurance companies	259,801	231,327
Senior long-term debt and other debt (estimated fair value of $2,712,000 in 2017 and $2,721,000 in 2016)	2,485,671	2,574,529
Other liabilities	1,332,072	1,099,200
Total Liabilities	18,164,134	17,334,210
Redeemable noncontrolling interests	86,691	73,678
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,376,230	3,368,666
Retained earnings	3,666,246	3,526,395
Accumulated other comprehensive income	1,911,933	1,565,866
Total Shareholders' Equity	8,954,409	8,460,927
Noncontrolling interests	(1,893)	6,484
Total Equity	8,952,516	8,467,411
Total Liabilities and Equity	$27,203,341	$25,875,299

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands, except per share data)			
OPERATING REVENUES				
Earned premiums	$1,033,574	$950,859	$2,016,176	$1,908,545
Net investment income	99,299	94,996	199,667	186,290
Net realized investment gains:				
Other-than-temporary impairment losses	(604)	(3,675)	(3,817)	(12,080)
Net realized investment gains, excluding other-than-temporary impairment losses	18,231	20,916	42,309	50,500
Net realized investment gains	17,627	17,241	38,492	38,420
Other revenues	330,993	312,841	638,909	618,864
Total Operating Revenues	1,481,493	1,375,937	2,893,244	2,752,119
OPERATING EXPENSES				
Losses and loss adjustment expenses	522,978	511,556	1,134,697	985,520
Underwriting, acquisition and insurance expenses	400,035	375,580	773,266	740,268
Amortization of intangible assets	18,026	17,204	34,796	34,464
Other expenses	299,112	277,909	581,697	553,002
Total Operating Expenses	1,240,151	1,182,249	2,524,456	2,313,254
Operating Income	241,342	193,688	368,788	438,865
Interest expense	31,797	33,697	65,199	64,538
Loss on early extinguishment of debt	—	44,100	—	44,100
Income Before Income Taxes	209,545	115,891	303,589	330,227
Income tax expense	58,118	35,218	81,122	85,908
Net Income	151,427	80,673	222,467	244,319
Net income attributable to noncontrolling interests	1,767	1,876	2,938	5,152
Net Income to Shareholders	$149,660	$78,797	$219,529	$239,167
OTHER COMPREHENSIVE INCOME				
Change in net unrealized gains on investments, net of taxes:				
Net holding gains arising during the period	$190,069	$149,406	$350,349	$388,296
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	—	44	—	(23)
Reclassification adjustments for net gains included in net income	(222)	(10,567)	(9,391)	(23,550)
Change in net unrealized gains on investments, net of taxes	189,847	138,883	340,958	364,723
Change in foreign currency translation adjustments, net of taxes	1,962	(8,121)	3,507	2,208
Change in net actuarial pension loss, net of taxes	902	394	1,618	857
Total Other Comprehensive Income	192,711	131,156	346,083	367,788
Comprehensive Income	344,138	211,829	568,550	612,107
Comprehensive income attributable to noncontrolling interests	1,781	1,887	2,954	5,171
Comprehensive Income to Shareholders	$342,357	$209,942	$565,596	$606,936
NET INCOME PER SHARE				
Basic	$10.34	$5.44	$14.25	$16.65

Diluted	$10.31	$5.41	$14.20	$16.55

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
(Unaudited)

(in thousands)	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity	Noncontrolling Interests	Total Equity	Redeemable Noncontrolling Interests
December 31, 2015	13,959	$3,342,357	$3,137,285	$1,354,508	$7,834,150	$6,459	$7,840,609	$62,958
Net income			239,167	—	239,167	790	239,957	4,362
Other comprehensive income			—	367,769	367,769	—	367,769	19
Comprehensive Income					606,936	790	607,726	4,381
Issuance of common stock	48	4,101	—	—	4,101	—	4,101	—
Repurchase of common stock	(16)	—	(15,206)	—	(15,206)	—	(15,206)	—
Restricted stock units expensed	—	13,473	—	—	13,473	—	13,473	—
Adjustment of redeemable noncontrolling interests	—	—	(5,981)	—	(5,981)	—	(5,981)	5,981
Purchase of noncontrolling interest	—	899	—	—	899	—	899	(3,977)
Other	—	—	(3)	—	(3)	(45)	(48)	(3,142)
June 30, 2016	13,991	$3,360,830	$3,355,262	$1,722,277	$8,438,369	$7,204	$8,445,573	$66,201
December 31, 2016	13,955	$3,368,666	$3,526,395	$1,565,866	$8,460,927	$6,484	$8,467,411	$73,678
Net income (loss)			219,529	—	219,529	(307)	219,222	3,245
Other comprehensive income			—	346,067	346,067	—	346,067	16
Comprehensive Income (Loss)					565,596	(307)	565,289	3,261
Issuance of common stock	24	359	—	—	359	—	359	—
Repurchase of common stock	(61)	—	(59,194)	—	(59,194)	—	(59,194)	—
Restricted stock units expensed	—	10,568	—	—	10,568	—	10,568	—
Adjustment of redeemable	—	—	(20,284)	—	(20,284)	—	(20,284)	20,284

noncontrolling interests								
Purchase of noncontrolling interest	—	(2,910)	—	—	(2,910)	(8,109)	(11,019)	(6,179)
Other	—	(453)	(200)	—	(653)	39	(614)	(4,353)
June 30, 2017	13,918	$ 3,376,230	$ 3,666,246	$ 1,911,933	$ 8,954,409	$ (1,893)	$ 8,952,516	$ 86,691

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30,	
	2017	2016
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$222,467	$244,319
Adjustments to reconcile net income to net cash provided by operating activities	15,478	(174,105)
Net Cash Provided By Operating Activities	237,945	70,214
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	262,518	226,492
Proceeds from maturities, calls and prepayments of fixed maturities	676,023	471,907
Cost of fixed maturities and equity securities purchased	(939,314)	(1,324,755)
Net change in short-term investments	677,968	(348,335)
Proceeds from sales of equity method investments	2,881	6,479
Additions to property and equipment	(35,578)	(34,634)
Acquisitions, net of cash acquired	(202,033)	(5,762)
Other	(5,689)	(1,731)
Net Cash Provided (Used) By Investing Activities	436,776	(1,010,339)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	29,898	533,235
Repayment of senior long-term debt and other debt	(139,564)	(228,836)
Premiums and fees related to early extinguishment of debt	—	(43,691)
Repurchases of common stock	(59,194)	(15,206)
Issuance of common stock	359	4,101
Purchase of noncontrolling interests	(18,068)	(3,078)
Distributions to noncontrolling interests	(4,345)	(3,187)
Other	(7,705)	(13,428)
Net Cash Provided (Used) By Financing Activities	(198,619)	229,910
Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	24,977	1,912
Increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	501,079	(708,303)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	2,085,164	3,070,141
CASH, CASH EQUIVALENTS, RESTRICTED CASH AND RESTRICTED CASH EQUIVALENTS AT END OF PERIOD	$2,586,243	$2,361,838

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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 and programs. 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.

The consolidated balance sheet as of June 30, 2017, the related consolidated statements of income and comprehensive income for the quarters and six months ended June 30, 2017 and 2016, and the consolidated statements of changes in equity and cash flows for the six months ended June 30, 2017 and 2016 are unaudited. In the opinion of management, all adjustments necessary for fair presentation of such consolidated financial statements have been included. Such adjustments consist only of normal, recurring items. Interim results are not necessarily indicative of results of operations for the entire year. The consolidated balance sheet as of December 31, 2016 was derived from Markel Corporation's audited annual consolidated financial statements.

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 consolidated subsidiaries, as well as any variable interest entities (VIEs) that meet the requirements for consolidation (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. 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.

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. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. Readers are urged to review the Company's 2016 Annual Report on Form 10-K for a more complete description of the Company's business and accounting policies.

2. Recent Accounting Pronouncements

Effective for the year ended December 31, 2016, the Company adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-09, Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts, which requires significant new disclosures for insurers relating to short-duration insurance contract claims and the unpaid claims liability rollforward for long and short-duration contracts on both an annual and interim basis. Interim period disclosures required by ASU No. 2015-09 include a tabular rollforward and related qualitative information for the liability for unpaid losses and loss adjustment expenses. The interim disclosures were required beginning in the first quarter of 2017 and have been included in note 7.

Effective January 1, 2017, the Company early adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. Some of the topics covered by the ASU include the classification of debt prepayment and extinguishment costs, contingent consideration payments made after a business combination and distributions from equity method investees. Upon adoption of this ASU, the Company made an accounting policy election to use the cumulative earnings approach for presenting distributions received from equity method investees, which is consistent with its existing approach. Under this approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and presented in operating activities and those in excess of that amount will be treated as returns of investment and presented in financing activities. The provisions of ASU No. 2016-15 were adopted on a retrospective basis and did not impact the Company's financial position, results of operations or cash flows.

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Effective January 1, 2017, the Company early adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company previously presented changes in restricted cash and restricted cash equivalents on the statements of cash flows as an investing activity. The Company generally describes amounts held in trust or on deposit to support underwriting activities as well as amounts pledged as security for letters of credit as restricted cash or restricted cash equivalents. The provisions of ASU No. 2016-18 were adopted on a retrospective basis and did not impact the Company's financial position, results of operations or total comprehensive income. As a result of adoption of this ASU, investing cash inflows of $90.0 million attributed to the change in restricted cash for the six months ended June 30, 2016 were reclassified out of investing activities. The Company's statements of cash flows now include restricted cash and restricted cash equivalents in the beginning-of-period and end-of-period total amounts for cash, cash equivalents, restricted cash and restricted cash equivalents.

Effective January 1, 2017, the Company early adopted ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The guidance provides a screen to determine when a set of assets and activities is not a business. The provisions of ASU No. 2017-01 were adopted on a prospective basis and did not have an impact on the Company's financial position, results of operations or cash flows.

Effective January 1, 2017, the Company early adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU eliminates Step 2 of the goodwill impairment test, which is performed by estimating the fair value of individual assets and liabilities of the reporting unit to calculate the implied fair value of goodwill. Instead, an entity will record a goodwill impairment charge based on the excess of a reporting unit's carrying value over its estimated fair value, not to exceed the carrying amount of goodwill. The provisions of ASU No. 2017-04 were adopted on a prospective basis and 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. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Consideration (Reporting Revenue Gross versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers were all issued in 2016 as amendments to ASU No. 2014-09. These amendments will be evaluated and adopted in conjunction with ASU No. 2014-09. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2018 and will be applied using the modified retrospective method, whereby the cumulative effect of adoption will be recognized as an adjustment to retained earnings at the date of initial application. The adoption of this ASU will not impact the Company's insurance premium revenues or revenues from its investment portfolio, which totaled 77% of consolidated revenues for the year ended December 31, 2016, but may have an impact the Company's other revenues, which are primarily attributable to its non-insurance operations. The Company has completed an inventory of these revenue streams, which are comprised of a diverse portfolio of contracts across various industries, and has preliminarily concluded that over 80% of the Company's other revenues for the year ended December 31, 2016 will not be impacted by adoption of this ASU. The Company is still evaluating the impact, if any, on the remaining 20% of its other revenues for the year ended December 31, 2016. The Company also expects to provide additional disclosures in the notes to financial statements as required under the new guidance and is still assessing the full impact that adopting the new accounting guidance will have on its consolidated financial statements.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU significantly changes the income statement impact of equity investments and the recognition of changes in fair value of financial liabilities attributable to an entity's own credit risk when the fair value option is elected. The ASU requires equity instruments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value and to recognize any changes in fair value in net income rather than other comprehensive income. ASU No. 2016-01 becomes effective for the Company during the first quarter of 2018 and will be applied using a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The provisions related to equity investments without a readily determinable fair value will be applied prospectively to equity investments as of the adoption date. The Company is currently evaluating ASU No. 2016-01 to determine the impact that adopting this standard will have on the consolidated financial statements. Adoption of this ASU is not expected to have a material impact on the Company's financial position, cash flows, or total comprehensive income, but will have a material impact on the Company's results of operations as changes in fair value of equity instruments will be presented in net income rather than other comprehensive income. As of June 30, 2017, accumulated other comprehensive income included $1.8 billion of net unrealized gains on equity securities, net of taxes. See note 4(e) for details regarding the change in net unrealized gains on equity securities included in other comprehensive income (loss) for the quarters and six months ended June 30, 2017 and 2016.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The ASU requires lessees to record most leases on their balance sheets as a lease liability with a corresponding right-of-use asset, but continue to recognize the related leasing expense within net income. ASU No. 2016-02 becomes effective for the Company during the first quarter of 2019 and will be applied using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company's future minimum lease payments, which represent minimum annual rental commitments excluding taxes, insurance and other operating costs for noncancelable operating leases, and will be subject to this new guidance, totaled $234.3 million at December 31, 2016. The calculation of the lease liability and right-of-use asset requires further analysis of the underlying leases to determine which portions of the underlying lease payments are required to be included in the calculation. Adoption of this standard will impact the Company’s consolidated balance sheets but is not expected to have a material impact on the Company’s results of operations or cash flows. The Company is currently evaluating ASU No. 2016-02 to determine the magnitude of the impact that adopting this standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade, reinsurance, and other receivables as well as financial instruments measured at amortized cost. For available-for-sale debt securities, which are measured at fair value, the ASU requires entities to record impairments as an allowance, rather than a reduction of the amortized cost, as is currently required under the other-than-temporary impairment model. ASU No. 2016-13 becomes effective for the Company during the first quarter of 2020 and will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating ASU No. 2016-13 to determine the potential impact that adopting this standard will have on the consolidated financial statements. Application of the new expected loss model for measuring impairment losses will not impact the Company's investment portfolio, all of which is considered available-for sale, but will impact the Company's other financial assets, including its reinsurance recoverables. Upon adoption of this ASU, any impairment losses on the Company's available-for-sale debt securities will be recorded as an allowance, subject to reversal, rather than as a reduction in amortized cost.

The following ASU's relate to topics relevant to the Company's operations and were adopted effective January 1, 2017. These ASU's did not have a material impact on the Company’s financial position, results of operations or cash flows:

- ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory
- ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting
- ASU No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control
- ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business

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The following ASU’s relate to topics relevant to the Company's operations and are not yet effective. These ASU's are not expected to have a material impact on the Company's financial position, results of operations or cash flows:

- ASU No. 2016-16, Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory
- ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
- ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities
- ASU No. 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting

3. Acquisitions

SureTec Acquisition

On April 28, 2017, the Company completed the acquisition of SureTec Financial Corp. (SureTec), a Texas-based privately held surety company primarily offering contract, commercial and court bonds. Results attributable to this acquisition are included in the U.S. Insurance segment.

Total consideration for this acquisition was $246.9 million, which included cash consideration of $225.6 million. Total consideration includes the estimated fair value of contingent consideration we expect to pay based on SureTec's earnings, as defined in the merger agreement, for the years 2017 through 2020. The purchase price was allocated to the acquired assets and liabilities of SureTec based on estimated fair values on April 28, 2017. The Company recognized goodwill of $70.4 million, which is primarily attributable to synergies that are expected to result upon integration of SureTec into the Company's insurance operations. None of the goodwill recognized is expected to be deductible for income tax purposes. The Company also recognized other intangible assets of $103.0 million, which includes $92.0 million of agent relationships to be amortized over a weighted average period of 15 years.

Subsequent Events

On July 19, 2017, the Company entered into a definitive agreement to acquire 81% of Costa Farms, a Florida-based privately held grower of house and garden plants. Cash consideration for the purchase is currently estimated to be approximately $255 million; however, total consideration will include contingent consideration and additional cash consideration, which are expected to fluctuate based on actual conditions to be determined upon closing. The transaction is subject to customary closing conditions, and is expected to close in the third quarter of 2017. Upon completion of the acquisition, Costa Farm’s operating results will be included with the Company’s non-insurance operations, which are not included in a reportable segment.

On July 26, 2017, the Company entered into a definitive merger agreement to acquire State National Companies, Inc. (State National). State National is a leading specialty provider of property and casualty insurance services that includes both fronting services and collateral protection insurance coverage. Under the merger agreement, State National stockholders will receive cash for each outstanding share of State National common stock (other than restricted shares that do not vest in connection with the transaction). The aggregate merger consideration, which includes net cash payments for State National stock options and restricted stock, is expected to be approximately $919 million. The transaction is subject to customary closing conditions, including regulatory approvals and the approval of State National’s stockholders, and is expected to close in the fourth quarter of 2017.

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4. Investments

a)The following tables summarize the Company's available-for-sale investments. Commercial and residential mortgage-backed securities include securities issued by U.S. government-sponsored enterprises and U.S. government agencies.

	June 30, 2017				
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturities:					
U.S. Treasury securities	$138,404	$81	$(844)	$—	$137,641
U.S. government-sponsored enterprises	372,560	10,745	(1,426)	—	381,879
Obligations of states, municipalities and political subdivisions	4,477,463	196,535	(20,632)	—	4,653,366
Foreign governments	1,310,376	143,572	(2,231)	—	1,451,717
Commercial mortgage-backed securities	1,188,439	8,014	(13,054)	—	1,183,399
Residential mortgage-backed securities	830,679	21,786	(3,690)	—	848,775
Asset-backed securities	37,856	25	(84)	—	37,797
Corporate bonds	1,313,879	48,340	(3,301)	—	1,358,918
Total fixed maturities	9,669,656	429,098	(45,262)	—	10,053,492
Equity securities:					
Insurance, banks and other financial institutions	888,805	976,110	(586)	—	1,864,329
Industrial, consumer and all other	1,764,205	1,721,110	(8,817)	—	3,476,498
Total equity securities	2,653,010	2,697,220	(9,403)	—	5,340,827
Short-term investments	1,704,359	67	(10)	—	1,704,416
Investments, available-for-sale	$14,027,025	$3,126,385	$(54,675)	$—	$17,098,735

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(dollars in thousands)	December 31, 2016 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	$259,379	$99	$(894)	$ —	$258,584
U.S. government-sponsored enterprises	418,457	9,083	(4,328)	—	423,212
Obligations of states, municipalities and political subdivisions	4,324,332	145,678	(41,805)	—	4,428,205
Foreign governments	1,306,324	159,291	(2,153)	—	1,463,462
Commercial mortgage-backed securities	1,055,947	3,953	(19,544)	—	1,040,356
Residential mortgage-backed securities	779,503	18,749	(5,048)	(2,258)	790,946
Asset-backed securities	27,494	2	(158)	—	27,338
Corporate bonds	1,420,298	49,146	(9,364)	(673)	1,459,407
Total fixed maturities	9,591,734	386,001	(83,294)	(2,931)	9,891,510
Equity securities:					
Insurance, banks and other financial institutions	846,343	857,063	(5,596)	—	1,697,810
Industrial, consumer and all other	1,635,105	1,421,080	(8,154)	—	3,048,031
Total equity securities	2,481,448	2,278,143	(13,750)	—	4,745,841
Short-term investments	2,336,100	57	(6)	—	2,336,151
Investments, available-for-sale	$14,409,282	$2,664,201	$(97,050)	$ (2,931)	$16,973,502

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

(dollars in thousands)	June 30, 2017 Less than 12 months Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	12 months or longer Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Total Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturities:						
U.S. Treasury securities	$95,984	$ (741)	$7,427	$ (103)	$103,411	$ (844)
U.S. government-sponsored enterprises	137,702	(1,426)	—	—	137,702	(1,426)
Obligations of states, municipalities and political subdivisions	706,155	(17,574)	31,626	(3,058)	737,781	(20,632)
Foreign governments	122,855	(2,231)	—	—	122,855	(2,231)
Commercial mortgage-backed securities	536,397	(12,801)	14,693	(253)	551,090	(13,054)
Residential mortgage-backed securities	123,791	(1,806)	74,672	(1,884)	198,463	(3,690)
Asset-backed securities	22,992	(51)	5,106	(33)	28,098	(84)
Corporate bonds	378,552	(2,351)	74,071	(950)	452,623	(3,301)
Total fixed maturities	2,124,428	(38,981)	207,595	(6,281)	2,332,023	(45,262)
Equity securities:						
Insurance, banks and other financial institutions	955	(60)	1,375	(526)	2,330	(586)
Industrial, consumer and all other	88,643	(5,877)	9,288	(2,940)	97,931	(8,817)
Total equity securities	89,598	(5,937)	10,663	(3,466)	100,261	(9,403)
Short-term investments	56,385	(10)	—	—	56,385	(10)
Total	$2,270,411	$ (44,928)	$218,258	$ (9,747)	$2,488,669	$ (54,675)

At June 30, 2017, the Company held 572 securities with a total estimated fair value of $2.5 billion and gross unrealized losses of $54.7 million. Of these 572 securities, 89 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of $218.3 million and gross unrealized losses of $9.7 million. Of these securities, 73 securities were fixed maturities and 16 were equity securities. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost. The Company has the ability and intent to hold these equity securities for a period of time sufficient to allow for the anticipated recovery of their fair value.

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(dollars in thousands)	December 31, 2016 Less than 12 months Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	12 months or longer Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Total Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturities:						
U.S. Treasury securities	$122,950	$(894)	$—	$—	$122,950	$(894)
U.S. government-sponsored enterprises	220,333	(4,324)	7,618	(4)	227,951	(4,328)
Obligations of states, municipalities and political subdivisions	1,004,947	(37,685)	31,723	(4,120)	1,036,670	(41,805)
Foreign governments	68,887	(2,145)	5,005	(8)	73,892	(2,153)
Commercial mortgage-backed securities	749,889	(19,091)	29,988	(453)	779,877	(19,544)
Residential mortgage-backed securities	181,557	(4,987)	79,936	(2,319)	261,493	(7,306)
Asset-backed securities	14,501	(106)	5,869	(52)	20,370	(158)
Corporate bonds	494,573	(8,357)	93,790	(1,680)	588,363	(10,037)
Total fixed maturities	2,857,637	(77,589)	253,929	(8,636)	3,111,566	(86,225)
Equity securities:						
Insurance, banks and other financial institutions	8,808	(410)	37,973	(5,186)	46,781	(5,596)
Industrial, consumer and all other	98,406	(4,772)	29,650	(3,382)	128,056	(8,154)
Total equity securities	107,214	(5,182)	67,623	(8,568)	174,837	(13,750)
Short-term investments	504,211	(6)	—	—	504,211	(6)
Total	$3,469,062	$(82,777)	$321,552	$(17,204)	$3,790,614	$(99,981)

At December 31, 2016, the Company held 654 securities with a total estimated fair value of $3.8 billion and gross unrealized losses of $100.0 million. Of these 654 securities, 109 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of $321.6 million and gross unrealized losses of $17.2 million. Of these securities, 93 securities were fixed maturities and 16 were equity securities.

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

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

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

c)The amortized cost and estimated fair value of fixed maturities at June 30, 2017 are shown below by contractual maturity.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$455,586	$457,635
Due after one year through five years	1,224,123	1,267,114
Due after five years through ten years	1,568,950	1,645,516
Due after ten years	4,364,023	4,613,256
	7,612,682	7,983,521
Commercial mortgage-backed securities	1,188,439	1,183,399
Residential mortgage-backed securities	830,679	848,775
Asset-backed securities	37,856	37,797
Total fixed maturities	$9,669,656	$10,053,492

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Interest:				
Municipal bonds (tax-exempt)	$22,758	$22,563	$45,130	$44,485
Municipal bonds (taxable)	17,793	16,222	35,298	32,110
Other taxable bonds	36,296	36,959	71,184	72,278
Short-term investments, including overnight deposits	5,834	2,654	10,783	4,945
Dividends on equity securities	19,017	16,758	39,623	34,410
Income from equity method investments	1,802	3,921	6,395	3,668
Other	24	190	(205)	2,674
	103,524	99,267	208,208	194,570
Investment expenses	(4,225)	(4,271)	(8,541)	(8,280)
Net investment income	$99,299	$94,996	$199,667	$186,290

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Realized gains:				
Sales of fixed maturities	$554	$699	$757	$967
Sales of equity securities	1,295	17,798	16,533	45,526
Other	4,259	353	4,826	773
Total realized gains	6,108	18,850	22,116	47,266
Realized losses:				
Sales of fixed maturities	(412)	(142)	(602)	(555)
Sales of equity securities	(786)	(1,780)	(1,216)	(2,498)
Other-than-temporary impairments	(604)	(3,675)	(3,817)	(12,080)
Other	(81)	(718)	(286)	(2,996)
Total realized losses	(1,883)	(6,315)	(5,921)	(18,129)
Gains on securities measured at fair value through net income	13,402	4,706	22,297	9,283
Net realized investment gains	$17,627	$17,241	$38,492	$38,420
Change in net unrealized gains on investments included in other comprehensive income:				
Fixed maturities	$79,413	$213,026	$84,060	$452,982
Equity securities	204,372	42,786	423,424	139,744
Short-term investments	133	32	6	(35)
Net increase	$283,918	$255,844	$507,490	$592,691

5. 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, U.S. government-sponsored enterprises, municipal bonds, foreign government bonds, commercial mortgage-backed securities, residential mortgage-backed securities, asset-backed securities and corporate debt securities. Level 3 investments include the Company's investments in insurance-linked securities funds (the ILS Funds), as further described in note 12, which are not traded on an active exchange and are valued using unobservable inputs.

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.

Due to the significance of unobservable inputs required in measuring the fair value of the Company's investments in the ILS Funds, these investments are classified as Level 3 within the fair value hierarchy. Changes in fair value of the ILS Funds are included in net realized gains in net income. The fair value of the securities are derived using their reported net asset value (NAV) as the primary input, as well as other observable and unobservable inputs as deemed necessary by management. Management has obtained an understanding of the inputs, assumptions, process, and controls used to determine NAV, which is calculated by an independent third party. Unobservable inputs to the NAV calculations include assumptions around premium earnings patterns and loss reserve estimates for the underlying securitized reinsurance contracts in which the ILS Funds invest. Significant unobservable inputs used in the valuation of these investments include an adjustment to include the fair value of the equity that was issued by one of the ILS Funds in exchange for notes receivable, rather than cash, which is excluded from NAV. The Company's investments in the ILS Funds are redeemable annually as of January 1st of each calendar year.

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The Company's valuation policies and procedures for Level 3 investments are determined by management. Fair value measurements are analyzed quarterly to ensure the change in fair value from prior periods is reasonable relative to management's understanding of the underlying investments, recent market trends and external market data, which includes the price of a comparable security and an insurance-linked security index.

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

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

	June 30, 2017			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities	$—	$137,641	$—	$137,641
U.S. government-sponsored enterprises	—	381,879	—	381,879
Obligations of states, municipalities and political subdivisions	—	4,653,366	—	4,653,366
Foreign governments	—	1,451,717	—	1,451,717
Commercial mortgage-backed securities	—	1,183,399	—	1,183,399
Residential mortgage-backed securities	—	848,775	—	848,775
Asset-backed securities	—	37,797	—	37,797
Corporate bonds	—	1,358,918	—	1,358,918
Total fixed maturities	—	10,053,492	—	10,053,492
Equity securities:				
Insurance, banks and other financial institutions	1,680,416	—	183,913	1,864,329
Industrial, consumer and all other	3,476,498	—	—	3,476,498
Total equity securities	5,156,914	—	183,913	5,340,827
Short-term investments	1,614,064	90,352	—	1,704,416
Total investments available-for-sale	$6,770,978	$10,143,844	$183,913	$17,098,735

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	December 31, 2016			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities	$—	$258,584	$—	$258,584
U.S. government-sponsored enterprises	—	423,212	—	423,212
Obligations of states, municipalities and political subdivisions	—	4,428,205	—	4,428,205
Foreign governments	—	1,463,462	—	1,463,462
Commercial mortgage-backed securities	—	1,040,356	—	1,040,356
Residential mortgage-backed securities	—	790,946	—	790,946
Asset-backed securities	—	27,338	—	27,338
Corporate bonds	—	1,459,407	—	1,459,407
Total fixed maturities	—	9,891,510	—	9,891,510
Equity securities:				
Insurance, banks and other financial institutions	1,506,607	—	191,203	1,697,810
Industrial, consumer and all other	3,048,031	—	—	3,048,031
Total equity securities	4,554,638	—	191,203	4,745,841
Short-term investments	2,255,898	80,253	—	2,336,151
Total investments available-for-sale	$6,810,536	$9,971,763	$191,203	$16,973,502

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Equity securities, beginning of period	$178,043	$176,942	$191,203	$—
Purchases	1,250	25,000	7,250	195,250
Sales	(1,303)	(25,000)	(26,674)	(25,000)
Total gains included in:				
Net income	5,923	6,581	12,134	13,273
Other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Equity securities, end of period	$183,913	$183,523	$183,913	$183,523
Net unrealized gains included in net income relating to assets held at June 30, 2017 and 2016 (1)	$5,923	$6,581	$12,134	$13,273

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

There were no transfers into or out of Level 1 and Level 2 during the quarter and six months ended June 30, 2017 and 2016.

Except as disclosed in note 3, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the six months ended June 30, 2017 and 2016.

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6. Segment Reporting Disclosures

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 of London. 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, 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 the Company's 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 and the results of the Company's investment management services attributable to Markel CATCo Investment Management Ltd. For purposes of segment reporting, the Company's non-insurance operations are not considered to be a reportable segment.

Segment profit for the Investing segment is measured by net investment income and net realized investment gains. 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.

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

Quarter Ended June 30, 2017						
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$753,329	$355,949	$247,902	$ (16)	$—	$1,357,164
Net written premiums	630,453	286,833	220,466	(95)	—	1,137,657
Earned premiums	578,241	225,948	229,480	(95)	—	1,033,574
Losses and loss adjustment expenses:						
Current accident year	(379,809)	(158,590)	(146,186)	—	—	(684,585)
Prior accident years	77,266	55,262	28,151	928	—	161,607
Amortization of policy acquisition costs	(124,032)	(36,356)	(53,086)	—	—	(213,474)
Other operating expenses	(108,684)	(54,203)	(23,539)	(135)	—	(186,561)
Underwriting profit	42,982	32,061	34,820	698	—	110,561
Net investment income	—	—	—	—	99,299	99,299
Net realized investment gains	—	—	—	—	17,627	17,627
Other revenues (insurance)	1,043	574	—	771	—	2,388
Other expenses (insurance)	(85)	(2,728)	—	(7,169)	—	(9,982)
Segment profit (loss)	$43,940	$29,907	$34,820	$ (5,700)	$116,926	$219,893
Other revenues (non-insurance)						328,605
Other expenses (non-insurance)						(289,130)
Amortization of intangible assets						(18,026)
Interest expense						(31,797)
Income before income taxes						$209,545
U.S. GAAP combined ratio (1)	93 %	86 %	85 %	NM (2)		89 %

Quarter Ended June 30, 2016						
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$689,468	$318,581	$269,604	$ (4)	$—	$1,277,649
Net written premiums	579,233	244,636	226,681	(4)	—	1,050,546
Earned premiums	533,328	203,052	214,514	(35)	—	950,859
Losses and loss adjustment expenses:						
Current accident year	(352,092)	(146,453)	(152,693)	—	—	(651,238)
Prior accident years	66,332	39,002	34,644	(296)	—	139,682
Amortization of policy acquisition costs	(112,585)	(32,873)	(42,908)	—	—	(188,366)
Other operating expenses	(100,330)	(63,689)	(23,235)	40	—	(187,214)
Underwriting profit (loss)	34,653	(961)	30,322	(291)	—	63,723
Net investment income	—	—	—	—	94,996	94,996
Net realized investment gains	—	—	—	—	17,241	17,241
Other revenues (insurance)	958	609	—	446	—	2,013

Other expenses (insurance)	(684)	(2,137)	—	(7,199)	—	(10,020)
Segment profit (loss)	$34,927	$(2,489)	$30,322	$(7,044)	$112,237	$167,953
Other revenues (non-insurance)						310,828
Other expenses (non-insurance)						(267,889)
Amortization of intangible assets						(17,204)
Interest expense						(33,697)
Loss on early extinguishment of debt						(44,100)
Income before income taxes						$115,891
U.S. GAAP combined ratio [1]	94%	100%	86%	NM [2]		93%

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

(2) NM – Ratio is not meaningful.

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Six Months Ended June 30, 2017

(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$1,393,158	$629,117	$795,639	$ 1	$—	$2,817,915
Net written premiums	1,175,558	512,245	710,062	21	—	2,397,886
Earned premiums	1,127,577	433,461	455,117	21	—	2,016,176
Losses and loss adjustment expenses:						
Current accident year	(726,115)	(305,020)	(291,796)	—	—	(1,322,931)
Prior accident years	119,886	105,528	(43,412)	6,232	—	188,234
Amortization of policy acquisition costs	(236,998)	(71,079)	(109,945)	—	—	(418,022)
Other operating expenses	(202,059)	(106,478)	(46,408)	(299)	—	(355,244)
Underwriting profit (loss)	82,291	56,412	(36,444)	5,954	—	108,213
Net investment income	—	—	—	—	199,667	199,667
Net realized investment gains	—	—	—	—	38,492	38,492
Other revenues (insurance)	1,706	4,569	416	1,207	—	7,898
Other expenses (insurance)	(843)	(5,074)	—	(14,233)	—	(20,150)
Segment profit (loss)	$83,154	$55,907	$(36,028)	$ (7,072)	$238,159	$334,120
Other revenues (non-insurance)						631,011
Other expenses (non-insurance)						(561,547)
Amortization of intangible assets						(34,796)
Interest expense						(65,199)
Income before income taxes						$303,589
U.S. GAAP combined ratio [1]	93 %	87 %	108 %	NM [2]		95 %

Six Months Ended June 30, 2016

(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$1,337,258	$609,985	$723,090	$ (21)	$—	$2,670,312
Net written premiums	1,131,978	471,035	629,407	86	—	2,232,506
Earned premiums	1,065,796	418,397	424,133	219	—	1,908,545
Losses and loss adjustment expenses:						
Current accident year	(668,425)	(291,929)	(283,169)	—	—	(1,243,523)
Prior accident years	104,986	68,654	71,005	13,358	—	258,003
Amortization of policy acquisition costs	(220,589)	(67,145)	(90,601)	—	—	(378,335)
Other operating expenses	(189,789)	(118,023)	(54,047)	(74)	—	(361,933)
Underwriting profit	91,979	9,954	67,321	13,503	—	182,757
Net investment income	—	—	—	—	186,290	186,290
Net realized investment gains	—	—	—	—	38,420	38,420
Other revenues (insurance)	2,377	4,730	—	941	—	8,048
Other expenses (insurance)	(1,408)	(3,691)	—	(15,200)	—	(20,299)

Segment profit (loss)	$92,948	$10,993	$67,321	$ (756)	$224,710	$395,216
Other revenues (non-insurance)						610,816
Other expenses (non-insurance)						(532,703)
Amortization of intangible assets						(34,464)
Interest expense						(64,538)
Loss on early extinguishment of debt						(44,100)
Income before income taxes						$330,227
U.S. GAAP combined ratio [1]	91 %	98 %	84 %	NM [2]		90 %

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

(2) NM – Ratio is not meaningful.

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

(dollars in thousands)	June 30, 2017	December 31, 2016
Segment assets:		
Investing	$19,635,164	$19,029,584
Underwriting	6,080,825	5,397,696
Total segment assets	25,715,989	24,427,280
Non-insurance operations	1,487,352	1,448,019
Total assets	$27,203,341	$25,875,299

7. Unpaid Losses and Loss Adjustment Expenses

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

	Six Months Ended June 30,	
(dollars in thousands)	2017	2016
Net reserves for losses and loss adjustment expenses, beginning of year	$8,108,717	$8,235,288
Foreign currency movements	57,991	(42,388)
Adjusted net reserves for losses and loss adjustment expenses, beginning of year	8,166,708	8,192,900
Incurred losses and loss adjustment expenses:		
Current accident year	1,322,931	1,243,523
Prior accident years	(184,367)	(246,314)
Total incurred losses and loss adjustment expenses	1,138,564	997,209
Payments:		
Current accident year	186,138	155,573
Prior accident years	829,126	874,698
Total payments	1,015,264	1,030,271
Effect of foreign currency rate changes	2,333	1,374
Net reserves for losses and loss adjustment expenses of acquired insurance companies	12,702	—
Net reserves for losses and loss adjustment expenses, end of period	8,305,043	8,161,212
Reinsurance recoverable on unpaid losses	2,007,652	2,038,687
Gross reserves for losses and loss adjustment expenses, end of period	$10,312,695	$10,199,899

In March 2015, the Company completed a retroactive reinsurance transaction to cede to a third party a portfolio of policies primarily comprised of liabilities arising from asbestos and environmental exposures that originated before 1992. Effective March 31, 2017, the related reserves, which totaled $69.1 million, were formally transferred to the third party by way of a Part VII transfer pursuant to the Financial Services and Markets Act 2000 of the United Kingdom. The Part VII transfer eliminates the uncertainty regarding the potential for adverse development of estimated ultimate liabilities on the underlying policies. Upon completion of the transfer in the first quarter of 2017, the Company recognized a previously deferred gain of $3.9 million, which is included in losses and loss adjustment expenses on the consolidated statement of income and comprehensive income for the six months ended June 30, 2017. This amount is excluded from the prior years' incurred losses and loss adjustment expenses for the six months ended June 30, 2017 in the above table as the deferred gain was included in other liabilities on the consolidated balance sheet as of December 31, 2016, rather than unpaid losses and loss adjustment expenses.

For the six months ended June 30, 2016, incurred losses and loss adjustment expenses in the above table exclude $11.7 million of favorable development on prior years loss reserves included in losses and loss adjustment expenses on the consolidated statement of income and comprehensive income related to the commutation of a property and casualty deposit contract, for which the underlying deposit liability was included in other liabilities on the consolidated balance sheet as of December 31, 2015, rather than unpaid losses and loss adjustment expenses.

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For the six months ended June 30, 2017, the Company recorded net reserves for losses and loss adjustment expenses of $12.7 million as a result of the acquisition of SureTec.

For the six months ended June 30, 2017, incurred losses and loss adjustment expenses included $184.4 million of favorable development on prior years' loss reserves, which included $195.7 million of loss reserve redundancies on the Company's general liability, personal lines business and worker's compensation product lines within the U.S. Insurance segment, professional liability, general liability and marine and energy product lines within the International Insurance segment, and property and whole account product lines within the Reinsurance segment. Redundancies for the six months ended June 30, 2017 were partially offset by $85.0 million of adverse development resulting from a decrease in the discount rate, known as the Ogden Rate, used to calculate lump sum awards in United Kingdom (U.K.) bodily injury cases. Effective March 20, 2017, the Ogden Rate decreased from plus 2.5% to minus 0.75%, which represents the first rate change since 2001. The effect of the rate change is most impactful to the Company's U.K. auto casualty exposures through reinsurance contracts written in the Reinsurance segment. In late 2014, the Company ceased writing auto reinsurance in the U.K. The reduction in the Ogden Rate increased the expected claims payments on these exposures, and management increased loss reserves accordingly. The Company's estimate of the ultimate cost of settling these claims is based on many factors, and is subject to increase or decrease as the effect of changes in these factors becomes known over time.

For the six months ended June 30, 2016, incurred losses and loss adjustment expenses included $246.3 million of favorable development on prior years' loss reserves, which included $163.4 million of loss reserve redundancies on the Company's general liability and worker's compensation product lines within the U.S. Insurance segment, professional liability and marine and energy product lines within the International Insurance segment, and property and worker's compensation product lines within the Reinsurance segment. Redundancies for the six months ended June 30, 2016 were partially offset by $34.9 million of adverse development on our specified medical and medical malpractice product lines within the U.S. Insurance segment.

8. Senior Long-Term Debt

On April 12, 2017 the Company repaid its 7.20% unsecured senior notes due April 14, 2017 ($90.6 million principal outstanding at December 31, 2016).

9. Other Revenues and Other Expenses

The following tables summarize the components of other revenues and other expenses.

	Quarter Ended June 30,			
	2017		2016	
(dollars in thousands)	Other Revenues	Other Expenses	Other Revenues	Other Expenses
Insurance:				
Managing general agent operations	$1,617	$1,493	$1,567	$2,821
Life and annuity	771	7,169	446	7,199
Other	—	1,320	—	—
	2,388	9,982	2,013	10,020
Non-Insurance:				
Markel Ventures: Manufacturing	184,021	156,897	193,152	159,227
Markel Ventures: Non-Manufacturing	129,576	114,504	104,602	91,685
Investment management	9,277	11,195	7,350	10,836
Other	5,731	6,534	5,724	6,141

	328,605	289,130	310,828	267,889
Total	$330,993	$299,112	$312,841	$277,909

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(dollars in thousands)	Six Months Ended June 30, 2017 Other Revenues	2017 Other Expenses	2016 Other Revenues	2016 Other Expenses
Insurance:				
Managing general agent operations	$6,275	$3,346	$7,107	$5,099
Life and annuity	1,207	14,233	941	15,200
Other	416	2,571	—	—
	7,898	20,150	8,048	20,299
Non-Insurance:				
Markel Ventures: Manufacturing	361,156	310,550	385,843	319,593
Markel Ventures: Non-Manufacturing	239,376	212,115	198,430	180,118
Investment management	18,636	26,130	14,523	20,766
Other	11,843	12,752	12,020	12,226
	631,011	561,547	610,816	532,703
Total	$638,909	$581,697	$618,864	$553,002

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 businesses is operated independently from one another, management aggregates financial results into two industry groups: manufacturing and non-manufacturing.

10. Reinsurance

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

(dollars in thousands)	Quarter Ended June 30, 2017 Written	2017 Earned	2016 Written	2016 Earned
Direct	$1,046,833	$914,249	$957,244	$865,943
Assumed	310,331	312,538	320,405	295,868
Ceded	(219,507)	(193,213)	(227,103)	(210,952)
Net premiums	$1,137,657	$1,033,574	$1,050,546	$950,859

(dollars in thousands)	Six Months Ended June 30, 2017 Written	2017 Earned	2016 Written	2016 Earned
Direct	$1,896,317	$1,777,235	$1,836,332	$1,733,387
Assumed	921,598	620,107	833,980	585,931
Ceded	(420,029)	(381,166)	(437,806)	(410,773)
Net premiums	$2,397,886	$2,016,176	$2,232,506	$1,908,545

The percentage of ceded earned premiums to gross earned premiums was 16% for the quarter and six months ended June 30, 2017 and 18% for the quarter and six months ended June 30, 2016. The percentage of assumed earned premiums to net earned premiums was 30% and 31% for the quarters ended June 30, 2017 and 2016, respectively, and 31% for the six months ended June 30, 2017 and 2016.

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of $109.0 million and $75.5 million for the quarters ended June 30, 2017 and 2016, respectively, and $208.6 million and $206.1 million for the six months ended June 30, 2017 and 2016, respectively.

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11. Life and Annuity Benefits

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 are generally locked-in for the life of the contract unless an unlocking event occurs. Loss recognition testing is performed to determine if existing policy benefit reserves, together with the present value of future gross premiums and expected investment income earned thereon, are adequate to cover the present value of future benefits, settlement and maintenance costs. If the existing policy benefit reserves are not sufficient, 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.

Life and annuity benefits are also adjusted to the extent unrealized gains on the investments supporting the policy benefit reserves would result in a reserve deficiency if those gains were realized. During the quarter and six months ended June 30, 2016, the Company recognized a reserve deficiency resulting from a decrease in the market yield on the investment portfolio supporting the policy benefit reserves by increasing life and annuity benefits by $47.9 million and decreasing the change in net unrealized holding gains included in other comprehensive income by a corresponding amount. No adjustment was required for the quarter or six months ended June 30, 2017.

12. Variable Interest Entities

Markel CATCo Investment Management Ltd. (MCIM), a wholly-owned consolidated subsidiary of the Company, is an insurance-linked securities investment fund manager and insurance manager headquartered in Bermuda. Results attributable to MCIM are included with the Company's non-insurance operations, which are not included in a reportable segment.

MCIM manages a mutual fund company and reinsurance company, both of which were organized under Bermuda law. The mutual fund company issues multiple classes of nonvoting, redeemable preference shares to investors through its funds (the Funds) and the Funds are primarily invested in nonvoting shares of the reinsurance company. The underwriting results of the reinsurance company are attributed to the Funds through the issuance of nonvoting preference shares.

The Funds and the reinsurance company are considered VIEs, as their preference shareholders have no voting rights. MCIM has the power to direct the activities that most significantly impact the economic performance of these entities, but does not have a variable interest in any of the entities. Except as described below, the Company is not the primary beneficiary of the Funds or the reinsurance company, as the Company's involvement is generally limited to that of an investment or insurance manager, receiving fees that are at market and commensurate with the level of effort required. Investment management fees earned by the Company from unconsolidated Funds were $9.3 million and $7.4 million for the quarters ended June 30, 2017 and 2016, respectively, and $18.6 million and $14.5 million for the six months ended June 30, 2017 and 2016, respectively. The Company is the sole investor in one of the Funds, the Markel Diversified Fund, and consolidates that fund as its primary beneficiary.

As of June 30, 2017, total assets of the Markel Diversified Fund were $186.0 million and total liabilities were $63.8 million. As of December 31, 2016, total assets of the Markel Diversified Fund were $166.8 million and total liabilities were $64.6 million. The assets of the Markel Diversified Fund are available for use only by the Markel Diversified Fund, and are not available for use by the Company. Total assets of the Markel Diversified Fund include an investment in one of the unconsolidated Funds totaling $183.3 million as of June 30, 2017 and $165.1 million as of December 31, 2016, which represents 5% of the outstanding preference shares of that fund as of June 30, 2017 and

6% as of December 31, 2016. This investment is included in equity securities (available-for-sale) on the Company's consolidated balance sheets. Total liabilities of the Markel Diversified Fund for both periods includes a $62.5 million note payable, delivered as part of the consideration provided for its investment. This note payable is included in senior long-term debt and other debt on the Company's consolidated balance sheets. Other than the note payable, any liabilities held by the Markel Diversified Fund have no recourse to the Company's general credit.

The Company's exposure to risk from the unconsolidated Funds and reinsurance company is generally limited to its investment and any earned but uncollected fees. The Company has not issued any investment performance guarantees to these VIEs or their investors. As of June 30, 2017, total investment and insurance assets under management of MCIM for unconsolidated VIEs were $4.4 billion.

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13. Net Income per Share

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 period.

(in thousands, except per share amounts)	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net income to shareholders	$149,660	$78,797	$219,529	$239,167
Adjustment of redeemable noncontrolling interests	(5,141)	(2,529)	(20,284)	(5,981)
Adjusted net income to shareholders	$144,519	$76,268	$199,245	$233,186
Basic common shares outstanding	13,977	14,012	13,987	14,003
Dilutive potential common shares from conversion of options	2	4	2	5
Dilutive potential common shares from conversion of restricted stock	40	72	43	79
Diluted shares outstanding	14,019	14,088	14,032	14,087
Basic net income per share	$10.34	$5.44	$14.25	$16.65
Diluted net income per share	$10.31	$5.41	$14.20	$16.55

14. 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, for the six months ended June 30, 2017 and 2016.

(dollars in thousands)	Unrealized Holding Gains on Available-for-Sale Securities	Foreign Currency	Net Actuarial Pension Loss	Total
December 31, 2015	$ 1,472,762	$(72,696)	$(45,558)	$1,354,508
Other comprehensive income before reclassifications	388,273	2,189	—	390,462
Amounts reclassified from accumulated other comprehensive income	(23,550)	—	857	(22,693)
Total other comprehensive income	364,723	2,189	857	367,769
June 30, 2016	$ 1,837,485	$(70,507)	$(44,701)	$1,722,277
December 31, 2016	$ 1,714,930	$(84,406)	$(64,658)	$1,565,866
Other comprehensive income before reclassifications	350,349	3,491	—	353,840
Amounts reclassified from accumulated other comprehensive income	(9,391)	—	1,618	(7,773)
Total other comprehensive income	340,958	3,491	1,618	346,067
June 30, 2017	$ 2,055,888	$(80,915)	$(63,040)	$1,911,933

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

(dollars in thousands)	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Change in net unrealized gains on investments:				
Net holding gains arising during the period	$93,935	$71,381	$168,928	$187,880
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	—	9	—	(6)
Reclassification adjustments for net gains (losses) included in net income	136	(2,333)	(2,396)	(7,810)
Change in net unrealized gains on investments	94,071	69,057	166,532	180,064
Change in foreign currency translation adjustments	(466)	(1,618)	(503)	(1,695)
Change in net actuarial pension loss	154	86	333	188
Total	$93,759	$67,525	$166,362	$178,557

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

(dollars in thousands)	Quarter Ended June 30, 2017	Quarter Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Unrealized holding gains on available-for-sale securities:				
Other-than-temporary impairment losses	$(604)	$(3,675)	$(3,817)	$(12,080)
Net realized investment gains, excluding other-than-temporary impairment losses	690	16,575	15,604	43,440
Total before taxes	86	12,900	11,787	31,360
Income taxes	136	(2,333)	(2,396)	(7,810)
Reclassification of unrealized holding gains, net of taxes	$222	$10,567	$9,391	$23,550
Net actuarial pension loss:				
Underwriting, acquisition and insurance expenses	$(1,056)	$(480)	$(1,951)	$(1,045)
Income taxes	154	86	333	188
Reclassification of net actuarial pension loss, net of taxes	$(902)	$(394)	$(1,618)	$(857)

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15. Contingencies

In October 2010, the Company completed its acquisition of Aspen Holdings, Inc. (Aspen). As part of the consideration for that acquisition, Aspen shareholders received contingent value rights (CVRs), which are currently expected to result in the payment of additional cash consideration to CVR holders. Absent the litigation described below, the final amount to be paid to CVR holders would be determined after December 31, 2017, the CVR maturity date, based on, among other things, adjustments for the development of pre-acquisition loss reserves and loss sensitive profit commissions.
The CVR holder representative, Thomas Yeransian, has disputed the Company's estimation of the value of the CVRs. On September 15, 2016, Mr. Yeransian filed a suit alleging, among other things, that the Company is in default under the CVR agreement. The holder representative seeks: $47.3 million in damages, which represents the unadjusted value of the CVRs; plus interest (approximately $10.6 million through June 30, 2017) and default interest (up to an additional $9.3 million through June 30, 2017, depending on the date any default occurred); and an unspecified amount of punitive damages, costs, and attorneys' fees.
At the initial hearing held February 21, 2017, the judge stayed the proceedings and ordered the parties to discuss resolving the dispute pursuant to the independent CVR valuation procedure under the CVR agreement. The parties met on April 5, 2017, but were unsuccessful in reaching agreement on a process for resolving the dispute.
Management believes the holder representative's suit to be without merit and will vigorously defend against it. Further, management believes that any material loss resulting from the holder representative's suit to be remote and that the contractual contingent consideration payments related to the CVRs will not have a material impact on the Company's liquidity.
In addition, 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.

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

The accompanying consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and its consolidated subsidiaries, as well as any variable interest entities that meet the requirements for consolidation (the Company).

Our Business

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.

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 reinsurance 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. All investing activities related to our insurance operations are included in the Investing segment.

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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: general liability, professional liability, catastrophe-exposed property, personal property, workers' compensation, specialty program insurance for well-defined niche markets, and liability coverages and other coverages tailored for unique 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. 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, excess liability, professional liability, marine and energy and liability coverages and other coverages tailored for unique exposures. 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 and are typically written on a participation basis, which means each reinsurer shares proportionally in the business ceded under the reinsurance treaty written. Principal lines of business include: property (including catastrophe-exposed property), professional liability, general casualty, credit, surety, auto, and workers' compensation. Our reinsurance product offerings are underwritten by our Global Reinsurance division 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. The Other Insurance (Discontinued Lines) segment also includes development on asbestos and environmental loss reserves and the results attributable to the run-off of our life and annuity reinsurance business.

In April 2017, we completed the acquisition of SureTec Financial Corp. (SureTec), a Texas-based privately held surety company primarily offering contract, commercial and court bonds. Results attributable to SureTec are included in the U.S. Insurance segment.

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 businesses from various industries. 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. While each of these businesses is operated independently, we aggregate their financial results into two industry groups: manufacturing and non-manufacturing. Our manufacturing operations are comprised of manufacturers of transportation and other industrial equipment. Our non-manufacturing operations are comprised of businesses from several industry groups, including consumer goods and services (including healthcare) and business services. 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.

Our non-insurance operations also include our Markel CATCo operations, which are conducted through Markel CATCo Investment Management Ltd. (MCIM). MCIM is an insurance-linked securities investment fund manager and reinsurance manager headquartered in Bermuda focused on building and managing highly diversified, collateralized retrocession and reinsurance portfolios covering global property catastrophe risks.

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Critical Accounting Estimates

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

We review 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.

Readers are urged to review our 2016 Annual Report on Form 10-K for a more complete description of our critical accounting estimates.

Recent Accounting Pronouncements

The Financial Accounting Standards Board has recently issued several accounting standards updates (ASUs) that have the potential to impact our consolidated financial position, results of operations or cash flows upon adoption. The standards that we expect have the most potential to significantly impact us in future periods are as follows:

- ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606)
- ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities
- ASU No. 2016-02, Leases (Topic 842)
- ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

See note 2 of the notes to consolidated financial statements for discussion of these ASUs and the expected effects on our consolidated financial position, results of operations and cash flows.

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, investing and operating results. We measure underwriting results by our underwriting profit or loss and combined ratio. We measure investing results by our net investment income and net realized gains (losses) as well as our taxable equivalent total investment return. We measure our other operating results, which primarily consist of our Markel Ventures operations, by our revenues and net income (loss), as well as earnings before interest, income taxes, depreciation and amortization (EBITDA). Our quarterly performance measures are discussed below in greater detail under "Results of Operations."

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Results of Operations

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

(dollars in thousands)	Quarter Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
U.S. Insurance segment underwriting profit	$42,982	$34,653	$82,291	$91,979
International Insurance segment underwriting profit (loss)	32,061	(961)	56,412	9,954
Reinsurance segment underwriting profit (loss)	34,820	30,322	(36,444)	67,321
Other Insurance (Discontinued Lines) segment underwriting profit (loss)	698	(291)	5,954	