MARKEL CORP
Form 10-Q
October 31, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007**

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	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

4521 Highwoods Parkway, Glen Allen, Virginia 23060-6148

(Address of principal executive offices)

(Zip Code)

(804) 747-0136

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 October 29, 2007: 9,956,743

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30, 2007	December 31, 2006
	(dollars in thousands)	
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of $5,371,115 in 2007 and $4,996,386 in 2006)	$ 5,337,556	$ 5,000,969
Equity securities (cost of $1,205,038 in 2007 and $1,059,345 in 2006)	1,858,539	1,766,273
Short-term investments (estimated fair value approximates cost)	75,492	139,499
Investments in affiliates	77,352	73,439
Total Investments	7,348,939	6,980,180
Cash and cash equivalents	383,626	555,115
Receivables	348,844	322,982
Reinsurance recoverable on unpaid losses	1,117,228	1,257,453
Reinsurance recoverable on paid losses	89,325	105,003
Deferred policy acquisition costs	219,432	218,392
Prepaid reinsurance premiums	132,841	117,889
Goodwill and intangible assets	345,861	339,717
Other assets	243,512	191,400
Total Assets	$ 10,229,608	$ 10,088,131
LIABILITIES AND SHAREHOLDERS EQUITY		
Unpaid losses and loss adjustment expenses	$ 5,611,043	$ 5,583,879
Unearned premiums	1,046,023	1,007,801
Payables to insurance companies	68,102	58,880
Senior long-term debt (estimated fair value of $709,000 in 2007 and $801,000 in 2006)	680,353	751,978
Junior Subordinated Deferrable Interest Debentures (estimated fair value of $111,000 in 2006)		106,379
Other liabilities	262,079	282,821
Total Liabilities	7,667,600	7,791,738
Shareholders equity:		
Common stock	865,834	854,561
Retained earnings	1,323,828	1,015,679
Accumulated other comprehensive income:		
Net unrealized holding gains on investments, net of taxes of $216,980 in 2007 and $249,029 in 2006	403,366	462,482
Cumulative translation adjustments, net of tax benefit of $3,740 in 2007 and $6,094 in 2006	(6,947)	(11,316)
Net actuarial pension loss, net of tax benefit of $12,962 in 2007 and $13,469 in 2006	(24,073)	(25,013)
Total Shareholders Equity	2,562,008	2,296,393

Commitments and contingencies		
Total Liabilities and Shareholders Equity	$ 10,229,608	$ 10,088,131

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(dollars in thousands, except per share data)			
OPERATING REVENUES				
Earned premiums	$ 535,517	$ 561,961	$ 1,598,092	$ 1,625,631
Net investment income	80,938	71,032	235,487	203,351
Net realized investment gains	3,000	1,421	64,730	39,850
Total Operating Revenues	619,455	634,414	1,898,309	1,868,832
OPERATING EXPENSES				
Losses and loss adjustment expenses	285,286	284,535	839,108	881,978
Underwriting, acquisition and insurance expenses	182,026	188,818	561,094	551,333
Amortization of intangible assets	597		1,195	
Total Operating Expenses	467,909	473,353	1,401,397	1,433,311
Operating Income	151,546	161,061	496,912	435,521
Interest expense	13,601	16,435	43,385	47,808
Income Before Income Taxes	137,945	144,626	453,527	387,713
Income tax expense	45,592	40,528	141,299	116,593
Net Income	$ 92,353	$ 104,098	$ 312,228	$ 271,120
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized gains (losses) on investments, net of taxes:				
Net holding gains (losses) arising during the period	$ 18,116	$ 134,271	$ (14,030)	$ 69,100
Less reclassification adjustments for net gains included in net income	(1,950)	(1,430)	(45,086)	(27,165)
Net unrealized gains (losses)	16,166	132,841	(59,116)	41,935
Currency translation adjustments, net of taxes	2,708	48	4,369	802
Amortization of net actuarial pension loss, net of taxes	321		940	
Total Other Comprehensive Income (Loss)	19,195	132,889	(53,807)	42,737
Comprehensive Income	$ 111,548	$ 236,987	$ 258,421	$ 313,857
NET INCOME PER SHARE				
Basic	$ 9.28	$ 10.77	$ 31.34	$ 27.99
Diluted	$ 9.26	$ 10.47	$ 31.28	$ 27.24

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Shareholders Equity

	Nine Months Ended September 30,	
	2007	2006
	(dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	$ 854,561	$ 743,503
Issuance of common stock	5,626	946
Cumulative effect of adoption of FASB Interpretation No. 48	2,831	
Restricted stock units expensed	2,284	1,036
Tax benefit on closed stock option plans	532	
Balance at end of period	$ 865,834	$ 745,485
RETAINED EARNINGS		
Balance at beginning of period	$ 1,015,679	$ 669,057
Net income	312,228	271,120
Repurchases of common stock	(24,210)	(45,879)
Cumulative effect of adoption of FASB Interpretation No. 48	20,131	
Balance at end of period	$ 1,323,828	$ 894,298
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Net unrealized holding gains on investments, net of taxes:		
Balance at beginning of period	$ 462,482	$ 302,509
Net unrealized gains (losses) on investments, net of taxes	(59,116)	41,935
Balance at end of period	403,366	344,444
Cumulative translation adjustments, net of taxes:		
Balance at beginning of period	(11,316)	(9,636)
Currency translation adjustments, net of taxes	4,369	802
Balance at end of period	(6,947)	(8,834)
Net actuarial pension loss, net of taxes:		
Balance at beginning of period	(25,013)	
Amortization of net actuarial pension loss, net of taxes	940	
Balance at end of period	(24,073)	
Balance at end of period	$ 372,346	$ 335,610
SHAREHOLDERS EQUITY AT END OF PERIOD	$ 2,562,008	$ 1,975,393

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 312,228	$ 271,120
Adjustments to reconcile net income to net cash provided by operating activities	71,098	91,336
Net Cash Provided By Operating Activities	383,326	362,456
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	772,440	1,157,057
Proceeds from maturities, calls and prepayments of fixed maturities	144,813	106,063
Cost of fixed maturities and equity securities purchased	(1,307,396)	(1,472,830)
Net change in short-term investments	64,007	(75,230)
Cost of investments in affiliates		(56,003)
Acquisitions, net of cash acquired	(8,103)	
Other	(12,322)	(10,006)
Net Cash Used By Investing Activities	(346,561)	(350,949)
FINANCING ACTIVITIES		
Additions to senior long-term debt		145,402
Repayment and retirement of senior long-term debt	(73,032)	(4,549)
Retirement of Junior Subordinated Deferrable Interest Debentures	(111,012)	(36,421)
Repurchases of common stock	(24,210)	(45,879)
Net Cash Provided (Used) By Financing Activities	(208,254)	58,553
Increase (decrease) in cash and cash equivalents	(171,489)	70,060
Cash and cash equivalents at beginning of period	555,115	333,757
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 383,626	$ 403,817

See accompanying notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

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

The consolidated balance sheet as of September 30, 2007, the related consolidated statements of income and comprehensive income for the quarters and nine months ended September 30, 2007 and 2006, the consolidated statements of changes in shareholders equity and the consolidated statements of cash flows for the nine months ended September 30, 2007 and 2006 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, 2006 was derived from the Company s audited annual consolidated financial statements.

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

The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the Company s annual consolidated financial statements and notes. Readers are urged to review the Company s 2006 Annual Report on Form 10-K for a more complete description of the Company s business and accounting policies.

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

2. Net Income per Share

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(amounts in thousands, except per share amounts)	**2007**	**2006**	**2007**	**2006**
Net income as reported	$ 92,353	$ 104,098	$ 312,228	$ 271,120
Interest expense, net of tax, on convertible notes payable		690		2,046
Adjusted net income	$ 92,353	$ 104,788	$ 312,228	$ 273,166
Basic common shares outstanding	9,957	9,662	9,962	9,685
Dilutive effect of convertible notes payable		332		332
Other dilutive potential common shares	18	12	19	10
Diluted shares outstanding	9,975	10,006	9,981	10,027
Basic net income per share	$ 9.28	$ 10.77	$ 31.34	$ 27.99
Diluted net income per share	$ 9.26	$ 10.47	$ 31.28	$ 27.24

Prior to the conversion of the Company s convertible notes payable in December 2006, diluted net income per

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share reflected the application of the if-converted method as defined in Statement of Financial Accounting Standards (Statement) No. 128, *Earnings Per Share*.

3. Reinsurance

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

(dollars in thousands)	**Quarter Ended September 30, 2007**		**2006**	
	Written	**Earned**	**Written**	**Earned**
Direct	$ 559,931	$ 564,865	$ 599,038	$ 610,612
Assumed	40,654	47,688	36,271	40,853
Ceded	(87,021)	(77,036)	(86,028)	(89,504)
Net premiums	$ 513,564	$ 535,517	$ 549,281	$ 561,961

(dollars in thousands)	**Nine Months Ended September 30, 2007**		**2006**	
	Written	**Earned**	**Written**	**Earned**
Direct	$ 1,689,205	$ 1,696,960	$ 1,823,777	$ 1,775,892
Assumed	168,314	133,794	147,794	126,278
Ceded	(243,819)	(232,662)	(272,691)	(276,539)
Net premiums	$ 1,613,700	$ 1,598,092	$ 1,698,880	$ 1,625,631

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of $16.4 million and $6.9 million, respectively, for the quarters ended September 30, 2007 and 2006 and $78.8 million and $56.1 million, respectively, for the nine months ended September 30, 2007 and 2006.

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

The Company redeemed $106.4 million principal amount of its 8.71% Junior Subordinated Debentures for $111.0 million on January 2, 2007. This redemption resulted in a loss of $4.6 million, which is reflected in net realized investment gains.

5. Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. The Company adopted the provisions of FIN 48 on January 1, 2007. In general, the Company is not subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years prior to 2003 and, accordingly, a liability for uncertain tax positions was not required for those years.

As a result of adopting FIN 48, retained earnings increased $20.1 million; goodwill decreased $9.4 million, primarily related to the Company s acquisition of Markel International; and common stock increased $2.8 million related to closed stock option plans and other capital transactions. In addition, the valuation allowance established upon the acquisition of Markel International and a corresponding deferred tax asset were both decreased by $37.5 million.

At the time it adopted FIN 48, the Company had unrecognized tax benefits of $45.8 million. If recognized, $6.8 million of these tax benefits would decrease the annual effective tax rate, $37.5 million would decrease goodwill and $1.5 million would decrease deferred tax assets in the year those benefits are realized. There were no significant changes in unrecognized tax benefits during the nine months ended September 30, 2007, and the Company does not currently anticipate any significant changes in unrecognized tax benefits during 2007.

The Company classifies all interest and penalties associated with uncertain tax positions as income tax expense. Upon adoption of FIN 48, the Company recorded a liability of $3.3 million related to interest and penalties in other liabilities.

The IRS is currently examining the Company s 2005 federal income tax return. The Company believes its income tax liabilities were adequate as of September 30, 2007; however, these liabilities could be adjusted as a result of this examination.

6. Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes net holding gains (losses) on investments arising during the period less reclassification adjustments for net gains included in net income. Other comprehensive income (loss) also includes foreign currency translation adjustments and, in 2007, the amortization of net actuarial pension loss. The related tax expense (benefit) on net holding gains (losses) on investments arising during the period was $9.7 million and $(7.8) million, respectively, for the quarter and nine months ended September 30, 2007 and $72.3 million and $37.2 million, respectively, for the same periods in 2006. The related tax expense on the reclassification adjustments for net gains included in net income was $1.1 million and $24.3 million, respectively, for the quarter and nine months ended September 30, 2007 and $0.8 million and $14.6 million, respectively, for the same periods in 2006. The related tax expense on foreign currency translation adjustments was $1.5 million and $2.4 million, respectively, for the quarter and nine months ended September 30, 2007 and less than $0.1 million and $0.4 million, respectively, for the same periods in 2006. The related tax expense on the amortization of net actuarial pension loss was $0.2 million and $0.5 million, respectively, for the quarter and nine months ended September 30, 2007.

7. Contingencies

The Company s estimates of losses from the 2005 Hurricanes assume that flood exclusions in its property policies will generally apply to flood damage in the New Orleans area following Hurricane Katrina. Beginning in late November 2006, Louisiana state and federal trial courts ruled in a number of cases (most of which the Company was not a party to) that flood damage following the New Orleans area levee breaches may not be excluded from coverage under policies similar to those the Company has written. The initial federal court ruling was appealed to the United States Court of Appeals for the Fifth Circuit, and that court overturned the trial court ruling, holding that flood exclusions in the policies under consideration unambiguously excluded coverage. While this ruling is favorable to the Company s position and is binding on federal trial courts in the Fifth Circuit

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(Louisiana, Mississippi and Texas) where much of the Katrina-related litigation is taking place, there is also pending litigation in state courts, which are not bound by the Fifth Circuit s ruling. If there are adverse rulings by Louisiana state appellate courts holding that flood damage is covered under the Company s policies, losses associated with Hurricane Katrina will increase. Given the significant uncertainties involved, the Company cannot quantify the potential adverse impact of any such rulings at this time, but it could be material.

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

8. Segment Reporting Disclosures

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

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

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

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

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

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

	Quarter Ended September 30, 2007					
(dollars in thousands)	**Excess and Surplus Lines**	**Specialty Admitted**	**London Insurance Market**	**Investing**	**Other**	**Consolidated**
Gross premium volume	$ 338,340	$ 100,046	$ 161,853	$	$ 346	$ 600,585
Net written premiums	280,402	94,114	138,861		187	513,564
Earned premiums	$ 292,277	$ 81,733	$ 161,320	$	$ 187	$ 535,517
Losses and loss adjustment expenses:						
Current year	185,585	49,964	103,712			339,261
Prior years	(51,630)	(3,007)	(20,020)		20,682	(53,975)
Underwriting, acquisition and insurance expenses	97,037	26,905	61,129		(3,045)	182,026
Underwriting profit (loss)	61,285	7,871	16,499		(17,450)	68,205
Net investment income				80,938		80,938
Net realized investment gains				3,000		3,000
Segment profit (loss)	$ 61,285	$ 7,871	$ 16,499	$ 83,938	$ (17,450)	$ 152,143
Amortization of intangible assets						597
Interest expense						13,601
Income before income taxes						$ 137,945
U.S. GAAP combined ratio[1]	79%	90%	90%		NM[2]	87%

	Quarter Ended September 30, 2006					
(dollars in thousands)	**Excess and Surplus Lines**	**Specialty Admitted**	**London Insurance Market**	**Investing**	**Other**	**Consolidated**
Gross premium volume	$ 362,569	$ 96,943	$ 175,584	$	$ 213	$ 635,309
Net written premiums	302,765	94,810	151,411		295	549,281
Earned premiums	$ 315,051	$ 83,047	$ 163,568	$	$ 295	$ 561,961
Losses and loss adjustment expenses:						
Current year	176,565	54,939	93,029			324,533
Prior years	(56,064)	(5,717)	5,052		16,731	(39,998)
Underwriting, acquisition and insurance expenses	102,110	25,075	61,212		421	188,818
Underwriting profit (loss)	92,440	8,750	4,275		(16,857)	88,608
Net investment income				71,032		71,032
Net realized investment gains				1,421		1,421
Segment profit (loss)	$ 92,440	$ 8,750	$ 4,275	$ 72,453	$ (16,857)	$ 161,061
Interest expense						16,435
Income before income taxes						$ 144,626

U.S. GAAP combined ratio[1]	71%	89%	97%	NM[2]	84%

[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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(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Investing	Other	Consolidated
	Nine Months Ended September 30, 2007					
Gross premium volume	$ 1,020,686	$ 272,788	$ 562,183	$	$ 1,862	$ 1,857,519
Net written premiums	864,830	254,600	492,689		1,581	1,613,700
Earned premiums	$ 875,671	$ 239,253	$ 481,587	$	$ 1,581	$ 1,598,092
Losses and loss adjustment expenses:						
Current year	528,180	145,856	302,933			976,969
Prior years	(119,518)	(10,094)	(32,574)		24,325	(137,861)
Underwriting, acquisition and insurance expenses	304,315	84,764	178,990		(6,975)	561,094
Underwriting profit (loss)	162,694	18,727	32,238		(15,769)	197,890
Net investment income				235,487		235,487
Net realized investment gains				64,730		64,730
Segment profit (loss)	$ 162,694	$ 18,727	$ 32,238	$ 300,217	$ (15,769)	$ 498,107
Amortization of intangible assets						1,195
Interest expense						43,385
Income before income taxes						$ 453,527
U.S. GAAP combined ratio[1]	81%	92%	93%		NM[2]	88%

(dollars in thousands)	Excess and Surplus Lines	Specialty Admitted	London Insurance Market	Investing	Other	Consolidated
	Nine Months Ended September 30, 2006					
Gross premium volume	$ 1,119,461	$ 270,092	$ 581,417	$	$ 601	$ 1,971,571
Net written premiums	935,681	257,308	505,709		182	1,698,880
Earned premiums	$ 932,656	$ 237,276	$ 455,517	$	$ 182	$ 1,625,631
Losses and loss adjustment expenses:						
Current year	537,488	150,670	278,276			966,434
Prior years	(125,995)	(10,908)	31,141		21,306	(84,456)
Underwriting, acquisition and insurance expenses	303,978	78,070	167,513		1,772	551,333
Underwriting profit (loss)	217,185	19,444	(21,413)		(22,896)	192,320
Net investment income				203,351		203,351
Net realized investment gains				39,850		39,850
Segment profit (loss)	$ 217,185	$ 19,444	$ (21,413)	$ 243,201	$ (22,896)	$ 435,521
Interest expense						47,808
Income before income taxes						$ 387,713
U.S. GAAP combined ratio[1]	77%	92%	105%		NM[2]	88%

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

[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)	**September 30, 2007**	**December 31, 2006**
Segment Assets:		
Investing	$ 7,732,565	$ 7,535,295
Other	2,497,043	2,552,836
Total Assets	$ 10,229,608	$ 10,088,131

9. Acquisitions

On April 2, 2007, the Company acquired a wholesale insurance broker that markets and underwrites social services insurance programs for a combination of cash and common stock. In connection with this acquisition, the Company recognized goodwill of $1.9 million and intangible assets of $8.8 million. The intangible assets are amortized on a straight-line basis over their estimated useful lives, which range from three years to four years. Results attributable to this acquisition are included in the Specialty Admitted segment.

On June 15, 2007, the Company acquired a managing general agent that markets and underwrites errors and omissions insurance products. In connection with this acquisition, the Company recognized intangible assets of $6.0 million, which are amortized on a straight-line basis over their estimated useful lives of 4.5 years. Results attributable to this acquisition are included in the Excess and Surplus Lines segment.

Amortization of intangible assets was $0.6 million and $1.2 million, respectively, for the quarter and nine months ended September 30, 2007.

10. Employee Benefit Plans

a) Expenses relating to all of the Company s defined contribution plans were $2.7 million and $8.5 million, respectively, for the quarter and nine months ended September 30, 2007 and $2.5 million and $7.7 million, respectively, for the same periods in 2006.

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

	Quarter Ended September 30,		**Nine Months Ended September 30,**	
(dollars in thousands)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 551	$ 471	$ 1,621	$ 1,456
Interest cost	1,402	1,128	4,124	3,276
Expected return on plan assets	(1,842)	(1,598)	(5,419)	(4,641)
Amortization of net actuarial pension loss	495	470	1,447	1,365
Net periodic benefit cost	$ 606	$ 471	$ 1,773	$ 1,456

The Company contributed $2.7 million to the Terra Nova Pension Plan during the nine months ended September 30, 2007. The Company expects plan contributions to total $3.0 million in 2007.

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11. Recent Accounting Pronouncements

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. Statement No. 159 permits entities to choose to measure specified financial instruments and certain other eligible items at fair value, with changes in fair value recognized in earnings. Statement No. 159 becomes effective for the Company in the first quarter of 2008. The Company is currently evaluating Statement No. 159 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

The Company adopted the recognition and disclosure provisions of Statement No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2006. Upon the adoption of Statement No. 158, the Company recorded a net actuarial pension loss, net of taxes, of $25.0 million as a component of other comprehensive income for the year ended December 31, 2006. The Company has since determined that the net actuarial pension loss recognized upon adoption should have been presented as a direct change to accumulated other comprehensive income at December 31, 2006 and not as a component of other comprehensive income for the year ended December 31, 2006. The Company plans to modify the presentation in its 2007 Annual Report on Form 10-K.

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

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

Critical Accounting Estimates

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

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

Readers are urged to review our 2006 Annual Report on Form 10-K for a more complete description of our critical accounting estimates.

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Our Business

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

Our Excess and Surplus Lines segment is comprised of five underwriting units, our Specialty Admitted segment consists of three underwriting units and our London Insurance Market segment is comprised of the ongoing operations of Markel International.

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

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

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

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

Key Performance Indicators

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

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Results of Operations

The following table compares the components of net income.

	Quarter Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2007**	**2006**	**2007**	**2006**
Underwriting profit	$ 68,205	$ 88,608	$ 197,890	$ 192,320
Net investment income	80,938	71,032	235,487	203,351
Net realized investment gains	3,000	1,421	64,730	39,850
Amortization of intangible assets	(597)		(1,195)	
Interest expense	(13,601)	(16,435)	(43,385)	(47,808)
Income tax expense	(45,592)	(40,528)	(141,299)	(116,593)
Net income	$ 92,353	$ 104,098	$ 312,228	$ 271,120

Net income for the quarter ended September 30, 2007 decreased 11% compared to the same period of 2006. Net income for the nine months ended September 30, 2007 increased 15% compared to the same period of 2006. The decrease in net income for the quarter ended September 30, 2007 was primarily due to lower underwriting profits, partially offset by higher net investment income as compared to the same period of 2006. The increase in net income for the nine months ended September 30, 2007 was primarily due to improved underwriting and investing results, partially offset by higher income tax expense as compared to the same period of 2006. The components of net income are discussed in further detail under Underwriting Results, Investing Results and Other Expenses.

Underwriting Results

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

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The following table compares selected data from our underwriting operations.

(dollars in thousands)	**Quarter Ended September 30, 2007**	**Quarter Ended September 30, 2006**	**Nine Months Ended September 30, 2007**	**Nine Months Ended September 30, 2006**
Gross premium volume	$ 600,585	$ 635,309	$ 1,857,519	$ 1,971,571
Net written premiums	$ 513,564	$ 549,281	$ 1,613,700	$ 1,698,880
Net retention	86%	86%	87%	86%
Earned premiums	$ 535,517	$ 561,961	$ 1,598,092	$ 1,625,631
Losses and loss adjustment expenses	$ 285,286	$ 284,535	$ 839,108	$ 881,978
Underwriting, acquisition and insurance expenses	$ 182,026	$ 188,818	$ 561,094	$ 551,333
Underwriting profit	$ 68,205	$ 88,608	$ 197,890	$ 192,320
U.S. GAAP Combined Ratios[1]				
Excess and Surplus Lines	79%	71%	81%	77%
Specialty Admitted	90%	89%	92%	92%
London Insurance Market	90%	97%	93%	105%
Other	NM (2)	NM (2)	NM (2)	NM (2)
Markel Corporation (Consolidated)	87%	84%	88%	88%

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

[2] NM Ratio is not meaningful.

Our combined ratio was 87% and 88%, respectively, for the quarter and nine months ended September 30, 2007 compared to 84% and 88%, respectively, for the same periods in 2006. The combined ratio for the third quarter of 2007 increased primarily due to lower underwriting profits within the Excess and Surplus Lines segment as compared to the third quarter of 2006. For the nine months ended September 30, 2007, lower underwriting profits within the Excess and Surplus Lines segment were offset by lower underwriting losses related to Hurricanes Katrina, Rita and Wilma (2005 Hurricanes) as compared to the same period of 2006. The combined ratio for the nine months ended September 30, 2006 included $53.3 million, or 3 points, of underwriting losses on the 2005 Hurricanes.

The combined ratio for the Excess and Surplus Lines segment was 79% and 81%, respectively, for the quarter and nine months ended September 30, 2007 compared to 71% and 77%, respectively, for the same periods in 2006. For both periods of 2007, the increase in the combined ratio was primarily due to a higher current accident year loss ratio than in 2006. The higher current accident year loss ratio in both periods of 2007 was attributable to softening insurance market conditions, which have resulted in price deterioration across many of our product lines, and to higher incurred losses at the Markel Re unit as compared to the same periods of 2006. The adverse loss experience at Markel Re resulted from higher than expected average claim frequency and severity and arose primarily from two general liability programs within the Specialized Markel Alternative Risk Transfer (SMART) division. Both programs were non-renewed in the first quarter of 2007. The nine months ended September 30, 2006 included unfavorable loss reserve development of $14.6 million on the 2005 Hurricanes.

The Excess and Surplus Lines segment s combined ratio for the quarter and nine months ended September 30, 2007 included $51.6 million and $119.5 million, respectively, of favorable development of prior years loss

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reserves compared to $56.1 million and $126.0 million, respectively, for the same periods in 2006. The redundancies on prior years loss reserves experienced within the Excess and Surplus Lines segment during both periods of 2007 were primarily on our professional liability programs at the Shand Professional/Products Liability unit and on our casualty programs at the Essex Excess and Surplus Lines unit. During both periods of 2006, the redundancies on prior years loss reserves experienced within the Excess and Surplus Lines segment were primarily on our professional liability programs at the Shand Professional/Products Liability unit. In both periods of 2007, the redundancies on prior years loss reserves at the Shand Professional/Products Liability unit decreased from the same periods of 2006 due to the softening of the insurance market, which has resulted in a deterioration in pricing at this unit. The favorable development on prior years loss reserves during both periods of 2007 within the casualty programs at the Essex Excess and Surplus Lines unit primarily resulted from better than expected case loss activity on the 2003 to 2006 accident years. These loss reserve redundancies experienced in the quarter and nine months ended September 30, 2007 were partially offset by adverse loss reserve development within the SMART division at the Markel Re unit.

The combined ratio for the Specialty Admitted segment was 90% and 92%, respectively, for the quarter and nine months ended September 30, 2007 compared to 89% and 92%, respectively, for the same periods in 2006. In both periods of 2007, a lower loss ratio was offset by a higher expense ratio as compared to the same periods of 2006.

The London Insurance Market segment s combined ratio was 90% and 93%, respectively, for the quarter and nine months ended September 30, 2007 compared to 97% and 105%, respectively, for the same periods in 2006. The improved underwriting performance for the third quarter of 2007 was primarily due to $20.0 million of favorable development on prior years loss reserves compared to $5.1 million of adverse development on prior years loss reserves during the same period of 2006. The nine months ended September 30, 2007 included $32.6 million of favorable development on prior years loss reserves compared to $31.1 million of adverse development on prior years loss reserves during the same period of 2006. The nine months ended September 30, 2006 included $42.9 million of adverse loss reserve development on the 2005 Hurricanes. In both periods of 2007, the improved underwriting performance resulting from favorable development of prior years loss reserves was offset in part by a higher current accident year loss ratio due in part to softening insurance market conditions. The current accident year loss ratio was also lower in both periods of 2006 due to lower than anticipated frequency and severity of current year losses on several property classes of business. The redundancies on prior years loss reserves experienced within the London Insurance Market segment during both periods of 2007 were primarily on our professional liability programs within the Retail and Professional and Financial Risks divisions at Markel International. This favorable development on prior years loss reserves reflects improved risk selection and the favorable rates and terms associated with the London market in recent years.

In all periods presented, we have experienced significant redundancies in prior years loss reserves on the 2002 to 2005 accident years. During 2007, we experienced redundancies on the 2006 accident year as well. The positive trend in these prior years loss reserves was partially the result of the more favorable rates and terms associated with a hard insurance market that began in 2000. While the favorable rates and terms obtained during the hard insurance market created an expectation of improved underwriting results, the impact from this favorable environment could not be fully quantified at that time and our initial estimates did not fully reflect this positive trend. The product lines most significantly impacted by the hard insurance market were, generally, long-tailed coverages including the professional liability coverages written by the Shand Professional/Products Liability unit and Markel International. Long-tail business describes lines of business for which specific losses

may not be known and reported for some period and losses take much longer to emerge. As actual losses experienced on these accident years have continued to be lower than anticipated, it has become more likely that the underwriting results will prove to be better than originally estimated. Over time, greater credibility has been given to this positive trend. In each period presented, we have updated the factors used in our actuarial methods to reflect this favorable trend, resulting in a reduction to prior years loss reserves.

While we believe it is possible that there will be additional redundancies on prior years loss reserves in 2008, we caution readers not to place undue reliance on this positive trend. Beginning in 2004, we saw a softening of the insurance market and experienced a slow down in the rate of increase in prices as a result of increased competition. Competition remained strong in 2005 and increased further in both 2006 and 2007, resulting in deterioration in pricing in each period. Similar to the impact of the hardening of the insurance market that began in 2000, the impact of the softening insurance market on our underwriting results cannot be fully quantified in advance. In both hard and soft insurance markets, our philosophy is to establish loss reserves that are more likely redundant than deficient; however, we do not expect that redundancies on prior years loss reserves will remain at the same levels in 2008 and beyond.

The Other segment produced an underwriting loss of $17.5 million and $15.8 million, respectively, for the quarter and nine months ended September 30, 2007 compared to an underwriting loss of $16.9 million and $22.9 million, respectively, for the same periods in 2006. The underwriting loss for both the quarter and nine months ended September 30, 2007 included $34.0 million of loss reserve development on asbestos and environmental exposures compared to $16.7 million in both periods of 2006. For both periods of 2007, the increase in loss reserves for asbestos and environmental exposures was offset in part by favorable development of loss reserves in other discontinued lines of business. The increase in asbestos and environmental reserves in all periods was a result of the completion of our annual review of these exposures during the third quarters of 2007 and 2006. During these reviews, we noted higher than expected settlements on existing claims during the past twelve months, which caused us to increase our estimate of ultimate loss reserves for asbestos and environmental exposures. The need to increase asbestos loss reserves in each of the past two years demonstrates that asbestos and environmental reserves are subject to significant uncertainty due to potential loss severity and frequency resulting from an uncertain and unfavorable legal climate. We have established asbestos and environmental reserves without regard to the potential passage of asbestos reform legislation. These reserves are not discounted to present value and are forecasted to pay out over the next 50 years. We seek to establish appropriate reserve levels for asbestos and environmental exposures; however, these reserves could be subject to increases in the future.

Premiums and Net Retentions

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

Gross Premium Volume

Quarter Ended September 30, 2007	**2006**	***(dollars in thousands)***	**Nine Months Ended September 30, 2007**	**2006**
$ 338,340	$ 362,569	Excess and Surplus Lines	$ 1,020,686	$ 1,119,461
100,046	96,943	Specialty Admitted	272,788	270,092
161,853	175,584	London Insurance Market	562,183	581,417
346	213	Other	1,862	601
$ 600,585	$ 635,309	Total	$ 1,857,519	$ 1,971,571

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Gross premium volume for the quarter and nine months ended September 30, 2007 decreased 5% and 6%, respectively, compared to the same periods in 2006. The decrease in both periods of 2007 was primarily the result of increased competition across many of our product lines and the decision to exit certain programs underwritten by Markel Re s SMART division that were not meeting our underwriting profit targets.

We expect that competition in the property and casualty insurance industry will remain strong throughout the remainder of 2007 and into 2008. With the exception of rate increases on certain catastrophe-exposed business, rates are generally lower compared to the prior year. Lines of business where rates have declined include our casualty, professional liability and non-catastrophe-exposed property programs. When we believe the prevailing market rates will not support our underwriting profit targets, the business is not written. As a result, gross premium volume may vary. We continue to focus on superior customer service, new product development, geographic expansion and increased marketing efforts to address softening insurance market conditions.

Net Written Premiums

Quarter Ended September 30, 2007	Quarter Ended September 30, 2006	*(dollars in thousands)*	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
$ 280,402	$ 302,765	Excess and Surplus Lines	$ 864,830	$ 935,681
94,114	94,810	Specialty Admitted	254,600	257,308
138,861	151,411	London Insurance Market	492,689	505,709
187	295	Other	1,581	182
$ 513,564	$ 549,281	Total	$ 1,613,700	$ 1,698,880

Net retention of gross premium volume was 86% for the third quarter of 2007 and 87% for the nine months ended September 30, 2007 compared to 86% for both periods of 2006. As part of our underwriting philosophy, we seek to offer products with limits that do not require significant amounts of reinsurance. We purchase reinsurance in order to reduce our retention on individual risks and enable us to write policies with sufficient limits to meet policyholder needs.

Earned Premiums

Quarter Ended September 30, 2007	Quarter Ended September 30, 2006	*(dollars in thousands)*	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
$ 292,277	$ 315,051	Excess and Surplus Lines	$ 875,671	$ 932,656
81,733	83,047	Specialty Admitted	239,253	237,276
161,320	163,568	London Insurance Market	481,587	455,517
187	295	Other	1,581	182
$ 535,517	$ 561,961	Total	$ 1,598,092	$ 1,625,631

Earned premiums for the quarter and nine months ended September 30, 2007 decreased 5% and 2%, respectively, compared to the same periods in 2006. For both periods of 2007, the decrease was due to lower earned premiums in the Excess and Surplus Lines segment as a result of lower gross premium volume compared to the same periods a year ago.

Investing Results

Net investment income for the third quarter of 2007 was $80.9 million compared to $71.0 million for the third quarter of 2006. Net investment income for the nine months ended September 30, 2007 was $235.5 million compared to $203.4 million for the same period of 2006. The increase in both periods of 2007 was primarily due to a larger investment portfolio compared to the same periods of 2006.

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Net realized investment gains for the third quarter of 2007 were $3.0 million compared to net realized investment gains of $1.4 million for the third quarter of 2006. For the nine months ended September 30, 2007, net realized investment gains were $64.7 million compared to $39.9 million for the same period last year. Variability in the timing of realized and unrealized investment gains and losses is to be expected.

At September 30, 2007, we held securities with gross unrealized losses of $97.2 million, or 1% of invested assets. At September 30, 2007, all securities with gross unrealized losses were reviewed, and we believe that there were no indications of declines in estimated fair value that were other-than-temporary.

Other Expenses

The estimated annual effective tax rate was 31% for the nine months ended September 30, 2007 compared to 30% for the same period in 2006. The estimated annual effective tax rate differs from the statutory tax rate of 35% primarily as a result of tax-exempt investment income.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). We adopted the provisions of FIN 48 on January 1, 2007. As a result of adopting FIN 48, retained earnings increased $20.1 million; goodwill decreased $9.4 million, primarily related to our acquisition of Markel International; and common stock increased $2.8 million related to closed stock option plans and other capital transactions. In addition, the valuation allowance established upon the acquisition of Markel International and a corresponding deferred tax asset were both decreased by $37.5 million.

At the time we adopted FIN 48, we had unrecognized tax benefits of $45.8 million. If recognized, $6.8 million of these tax benefits would decrease the annual effective tax rate, $37.5 million would decrease goodwill and $1.5 million would decrease deferred tax assets in the year those benefits are realized. There were no significant changes in unrecognized tax benefits during the nine months ended September 30, 2007, and we do not currently anticipate any significant changes in unrecognized tax benefits during 2007.

Comprehensive Income

Comprehensive income was $111.5 million for the third quarter of 2007 compared to $237.0 million for the same period of 2006. For the nine months ended September 30, 2007, comprehensive income was $258.4 million compared to $313.9 million for the same period in 2006. Comprehensive income for the third quarter of 2007 included net income of $92.4 million and net unrealized gains on investments, net of taxes, of $16.2 million. Comprehensive income for the nine months ended September 30, 2007 included net income of $312.2 million, which was partially offset by net unrealized losses on investments, net of taxes, of $59.1 million.

Financial Condition

Invested assets were $7.7 billion at September 30, 2007 compared to $7.5 billion at December 31, 2006. Net unrealized holding gains on investments, net of taxes, were $403.4 million at September 30, 2007 compared to $462.5 million at December 31, 2006. Equity securities and investments in affiliates were $1.9 billion, or 25% of invested assets, at September 30, 2007 compared to $1.8 billion, or 24% of invested assets, at December 31, 2006.

Net cash provided by operating activities was $383.3 million for the nine months ended September 30, 2007 compared to $362.5 million for the same period in 2006. The increase was primarily the result of higher operating cash flows at Markel International, due in part to lower claim payments related to the 2005 Hurricanes, for the nine months ended September 30, 2007 compared to the same period of 2006.

For the nine months ended September 30, 2007, net cash used by financing activities was $208.3 million compared to net cash provided by financing activities of $58.6 million for the same period of 2006. On January 2, 2007, we redeemed the remaining outstanding Junior Subordinated Deferrable Interest Debentures for $111.0 million. Additionally, during the third quarter of 2007, we repaid $73.0 million on our 7.20% unsecured senior notes, which matured August 15, 2007. Net cash provided by financing activities during the nine months ended September 30, 2006 resulted from a debt issuance during the third quarter, partially offset by cash used to repurchase shares of our common stock and retire a portion of both our senior long-term debt and our Junior Subordinated Deferrable Interest Debentures.

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

Shareholders equity was $2.6 billion at September 30, 2007 compared to $2.3 billion at December 31, 2006. Book value per share increased to $257.31 at September 30, 2007 from $229.78 at December 31, 2006 primarily due to $258.4 million of comprehensive income.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Our market risks at September 30, 2007 have not materially changed from those identified at December 31, 2006.

Item 4. Controls and Procedures

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

Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative

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to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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

There were no changes in our internal control over financial reporting during the third quarter of 2007 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Safe Harbor and Cautionary Statement

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

There are risks and uncertainties that may cause actual results to differ materially from predicted results in forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additional factors that could cause actual results to differ from those predicted are set forth under Risk Factors and Safe Harbor and Cautionary Statement in our 2006 Annual Report on Form 10-K or are included in the items listed below:

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

- loss estimates related to the 2005 Hurricanes are based on currently available information related to covered exposures and assumptions about how coverage applies. As actual losses are reported, claims are adjusted and coverage issues are resolved, losses for the 2005 Hurricanes may change significantly;

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

- the impact of the events of September 11, 2001 will depend on the number of insureds and reinsureds affected by the events, the amount and timing of losses incurred and reported and questions of how coverage applies, all of which are still being resolved;

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

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

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

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

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

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

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

economic conditions, volatility in interest and foreign exchange rates and concentration of investments can have a significant impact on the market value of fixed maturity and equity investments as well as the carrying value of other assets and liabilities.

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

PART II. OTHER INFORMATION

Item 6. Exhibits

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

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, this 31st day of October, 2007.

Markel Corporation

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

By /s/ Anthony F. Markel
Anthony F. Markel
President and Chief Operating Officer
(Principal Operating Officer)

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

By /s/ Paul W. Springman
Paul W. Springman
Executive Vice President

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

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

Exhibit Index

Number	Description
3(i)	Amended and Restated Articles of Incorporation, as amended (3(i))a
3(ii)	Bylaws, as amended (3.1)b
4(i)	Form of Credit Agreement dated August 25, 2005, among Markel Corporation, the lenders from time to time party thereto, SunTrust Bank, as Administrative Agent and Swingline Lender, Wachovia Bank, N.A., as Syndication Agent, and Barclays Bank PLC and HSBC Bank USA, N.A., as Co-Documentation Agents (4)c
4(ii)	First Amendment dated March 17, 2006, to Credit Agreement dated August 25, 2005, among Markel Corporation, the banks and financial institutions from time to time party thereto, and SunTrust Bank, as Administrative Agent and Swingline Lender (4(ii))d
	The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instruments defining the rights of holders of long-term debt of the registrant and subsidiaries shown on the Consolidated Balance Sheet of the registrant at September 30, 2007 and the respective Notes thereto, included in the Quarterly Report on Form 10-Q.
10.1	Employee Stock Purchase and Bonus Plan (10.1)e
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a)*
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a)*
32.1	Certification of Principal Executive Officer furnished pursuant to 18 U.S.C. Section 1350*
32.2	Certification of Principal Financial Officer furnished pursuant to 18 U.S.C. Section 1350*

a. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 10-Q for the quarter ended March 31, 2000.

b. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 8-K filed on August 20, 2007.

c. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 10-Q for the quarter ended September 30, 2005.

d. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 10-Q for the quarter ended March 31, 2006.

e. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant s report on Form 10-Q for the quarter ended June 30, 2007.

* Filed with this report.