MARKEL CORP
Form 10-Q
April 26, 2017
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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 March 31, 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 April 19, 2017: 13,943,520

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(dollars in thousands)

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of $9,702,096 in 2017 and $9,591,734 in 2016)	$10,006,519	$9,891,510
Equity securities (cost of $2,555,488 in 2017 and $2,481,448 in 2016)	5,038,933	4,745,841
Short-term investments (estimated fair value approximates cost)	2,178,035	2,336,151
Total Investments	17,223,487	16,973,502
Cash and cash equivalents	1,852,735	1,738,747
Restricted cash and cash equivalents	261,956	346,417
Receivables	1,429,602	1,241,649
Reinsurance recoverable on unpaid losses	1,949,278	2,006,945
Reinsurance recoverable on paid losses	60,479	64,892
Deferred policy acquisition costs	470,788	392,410
Prepaid reinsurance premiums	332,385	299,923
Goodwill	1,142,535	1,142,248
Intangible assets	711,999	722,542
Other assets	965,435	946,024
Total Assets	$26,400,679	$25,875,299
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	$10,139,678	$10,115,662
Life and annuity benefits	1,038,325	1,049,654
Unearned premiums	2,576,636	2,263,838
Payables to insurance and reinsurance companies	242,333	231,327
Senior long-term debt and other debt (estimated fair value of $2,755,000 in 2017 and $2,721,000 in 2016)	2,581,605	2,574,529
Other liabilities	1,082,917	1,099,200
Total Liabilities	17,661,494	17,334,210
Redeemable noncontrolling interests	87,935	73,678
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,376,037	3,368,666
Retained earnings	3,557,927	3,526,395
Accumulated other comprehensive income	1,719,236	1,565,866
Total Shareholders' Equity	8,653,200	8,460,927
Noncontrolling interests	(1,950)	6,484
Total Equity	8,651,250	8,467,411
Total Liabilities and Equity	$26,400,679	$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)

	Three Months Ended March 31,	
	2017	2016
	(dollars in thousands, except per share data)	
OPERATING REVENUES		
Earned premiums	$982,602	$957,686
Net investment income	100,368	91,294
Net realized investment gains:		
Other-than-temporary impairment losses	(3,213)	(8,405)
Net realized investment gains, excluding other-than-temporary impairment losses	24,078	29,584
Net realized investment gains	20,865	21,179
Other revenues	307,916	306,023
Total Operating Revenues	1,411,751	1,376,182
OPERATING EXPENSES		
Losses and loss adjustment expenses	611,719	473,964
Underwriting, acquisition and insurance expenses	373,231	364,688
Amortization of intangible assets	16,770	17,260
Other expenses	282,585	275,093
Total Operating Expenses	1,284,305	1,131,005
Operating Income	127,446	245,177
Interest expense	33,402	30,841
Income Before Income Taxes	94,044	214,336
Income tax expense	23,004	50,690
Net Income	71,040	163,646
Net income attributable to noncontrolling interests	1,171	3,276
Net Income to Shareholders	$69,869	$160,370
OTHER COMPREHENSIVE INCOME		
Change in net unrealized gains on investments, net of taxes:		
Net holding gains arising during the period	$160,280	$238,890
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	—	(67)
Reclassification adjustments for net gains included in net income	(9,169)	(12,983)
Change in net unrealized gains on investments, net of taxes	151,111	225,840
Change in foreign currency translation adjustments, net of taxes	1,545	10,329
Change in net actuarial pension loss, net of taxes	716	463
Total Other Comprehensive Income	153,372	236,632
Comprehensive Income	224,412	400,278
Comprehensive income attributable to noncontrolling interests	1,173	3,284
Comprehensive Income to Shareholders	$223,239	$396,994
NET INCOME PER SHARE		
Basic	$3.91	$11.21
Diluted	$3.90	$11.15

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			160,370	—	160,370	1,033	161,403	2,243
Other comprehensive income			—	236,624	236,624	—	236,624	8
Comprehensive Income					396,994	1,033	398,027	2,251
Issuance of common stock	10	3,033	—	—	3,033	—	3,033	—
Repurchase of common stock	(1)	—	(720)	—	(720)	—	(720)	—
Restricted stock units expensed	—	7,956	—	—	7,956	—	7,956	—
Adjustment of redeemable noncontrolling interests	—	—	(3,452)	—	(3,452)	—	(3,452)	3,452
Other	—	1,271	(116)	—	1,155	(45)	1,110	(993)
March 31, 2016	13,968	$3,354,617	$3,293,367	$1,591,132	$8,239,116	$7,447	$8,246,563	$67,668
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)			69,869	—	69,869	(284)	69,585	1,455
Other comprehensive income			—	153,370	153,370	—	153,370	2
Comprehensive Income (Loss)					223,239	(284)	222,955	1,457
Issuance of common stock	19	359	—	—	359	—	359	—
Repurchase of common stock	(24)	—	(23,512)	—	(23,512)	—	(23,512)	—
Restricted stock units expensed	—	7,890	—	—	7,890	—	7,890	—
Adjustment of redeemable noncontrolling interests	—	—	(15,143)	—	(15,143)	—	(15,143)	15,143
	—	(861)	—	—	(861)	(8,109)	(8,970)	—

Purchase of noncontrolling interest								
Other	—	(17)	318	—	301	(41)	260	(2,343)
March 31, 2017	13,950	$3,376,037	$3,557,927	$1,719,236	$8,653,200	$(1,950)	$8,651,250	$87,935

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2017	2016
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$71,040	$163,646
Adjustments to reconcile net income to net cash provided (used) by operating activities	(59,094)	(268,215)
Net Cash Provided (Used) By Operating Activities	11,946	(104,569)
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	89,287	100,668
Proceeds from maturities, calls and prepayments of fixed maturities	401,875	216,455
Cost of fixed maturities and equity securities purchased	(592,707)	(862,646)
Net change in short-term investments	162,324	322,887
Proceeds from sales of equity method investments	2,407	5,480
Additions to property and equipment	(15,864)	(14,900)
Acquisitions, net of cash acquired	(3,810)	(4,600)
Other	(5,855)	(193)
Net Cash Provided (Used) By Investing Activities	37,657	(236,849)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	19,302	16,323
Repayment of senior long-term debt and other debt	(9,917)	(16,305)
Repurchases of common stock	(23,512)	(720)
Issuance of common stock	359	3,033
Purchase of noncontrolling interests	(8,970)	—
Distributions to noncontrolling interests	(2,341)	(1,038)
Other	(1,463)	(10,095)
Net Cash Used By Financing Activities	(26,542)	(8,802)
Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	6,466	18,711
Increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	29,527	(331,509)
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	$2,114,691	$2,738,632

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 March 31, 2017 and the related consolidated statements of income and comprehensive income, changes in equity and cash flows for the three months ended March 31, 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 are required beginning in the first quarter of 2017 and have been included in note 7.

Effective January 1, 2017, the Company adopted ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. The ASU changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value and eliminates the requirement to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The provisions of ASU No.

2015-11 were adopted on a prospective basis and adoption of this ASU did not have an impact on the Company's financial position, results of operations or cash flows.

Effective January 1, 2017, the Company adopted ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The ASU eliminates the requirement for an investor to retrospectively apply the equity method when its increase in ownership interest or degree of influence in an investee triggers equity method accounting. The provisions of ASU No. 2016-07 were adopted on a prospective basis and did not have an impact on 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. 2016-15, 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.

Effective January 1, 2017, the Company adopted ASU No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control, which requires a single decision maker evaluating whether it is the primary beneficiary of a VIE to consider its indirect interests held by related parties that are under common control on a proportionate basis. Under the guidance the FASB issued in ASU No. 2015-02, the decision maker was required to consider those interests in their entirety. ASU No. 2016-17 was required to be applied retrospectively to 2016, the fiscal year in which the amendments in ASU No. 2015-02 initially were applied. Adoption of this guidance did not result in any changes to our previous consolidation conclusions.

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. Upon adoption of this ASU, investing cash outflows of $7.1 million attributed to the change in restricted cash for the three months ended March 31, 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 and 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.

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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. The Company expects to adopt ASU No. 2014-09 as of January 1, 2018 using the modified retrospective method, whereby the cumulative effect of adoption will be recognized 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 will impact the Company's other revenues, which are primarily attributable to its non-insurance operations. The Company has completed an inventory of revenue streams from its non-insurance operations, which are comprised of a diverse portfolio of contracts across various industries, and is currently evaluating changes, if any, that will be necessary. The Company has not determined the full impact that adopting the new accounting guidance will have on its consolidated financial statements.

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 March 31, 2017, accumulated other comprehensive income included $1.7 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 three months ended March 31, 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. The guidance also eliminates real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. 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. The Company is currently evaluating ASU No. 2016-02 to determine the potential impact that adopting this standard will have on its consolidated financial statements.

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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.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory, which will require companies to account for the income tax effects of intercompany transfers of assets other than inventory when the transfer occurs. Intercompany transfers of assets across tax jurisdictions may have cash tax consequences and may be taxable events as prescribed by the applicable tax jurisdiction. Currently, companies are prohibited from recognizing those tax effects until the asset has been sold to an outside party. The income tax effects of intercompany inventory transactions will continue to be deferred. ASU No. 2016-16 becomes effective for the Company during the first quarter of 2018 and will be applied using a modified retrospective transition approach. Early adoption is permitted. Adoption of this ASU will not impact the Company's cash flows and is not expected to have a material impact on the Company's financial position or results of operations.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which changes how employers that sponsor defined benefit pension and postretirement benefit plans present the net periodic benefit cost in the income statement. Employers will be required to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period and the other components of the net periodic benefit cost will be presented separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. ASU No. 2017-07 becomes effective for the Company during the first quarter of 2018 and will be applied retrospectively. Early adoption is permitted. The Company maintains one defined benefit pension plan that has been closed to new participants since 2001 and for which employees are no longer accruing benefits for future service. Net periodic benefit income was $1.1 million, $2.2 million and $3.2 million for the years ended December 31, 2016, 2015 and 2014, respectively, which is not material to the Company. As a result, adoption of this standard is not expected to impact the Company's financial position, results of operations or cash flows.

In March 2017, the FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities, which will shorten the amortization period for the premium on callable debt securities from the contractual life to the earliest call date. ASU No. 2017-08 becomes effective for the Company during the first quarter of 2019 and is required to 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. Early adoption is permitted. Existing guidance in Accounting Standards Codification (ASC) 310 allows entities that have a large group of similar loans to consider estimates of future prepayments when determining the amortization period for purposes of calculating interest and amortization expense. The Company currently follows this existing guidance, which is not impacted by ASU No. 2017-08. Therefore, adoption of this ASU will not impact the Company's financial position, results of operation or cash flows.

3. Acquisitions

On February 1, 2017, the Company entered into a definitive merger agreement to acquire SureTec Financial Corp. (SureTec) for approximately $250 million, a portion of which is contingent on post-acquisition earnings of SureTec. SureTec is a Texas-based privately held surety company primarily offering contract, commercial and court bonds. The transaction is subject to customary closing conditions. Required insurance regulatory approvals have been obtained and the transaction is expected to close early in the second quarter of 2017. Upon completion of the acquisition, SureTec's operating results will be included in the Company's U.S. Insurance segment.

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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.

	March 31, 2017				
(dollars in thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Unrealized Other-Than-Temporary Impairment Losses	Estimated Fair Value
Fixed maturity securities:					
U.S. Treasury	$242,552	$90	$(867)	$ —	$241,775
U.S. government-sponsored enterprises	395,726	9,477	(3,203)	—	402,000
Obligations of states, municipalities and political subdivisions	4,496,459	159,684	(40,078)	—	4,616,065
Foreign governments	1,264,563	145,540	(2,046)	—	1,408,057
Commercial mortgage-backed	1,145,469	3,803	(19,624)	—	1,129,648
Residential mortgage-backed	797,442	16,602	(4,618)	—	809,426
Asset-backed	26,731	1	(101)	—	26,631
Corporate	1,333,154	47,713	(7,950)	—	1,372,917
Total fixed maturity securities	9,702,096	382,910	(78,487)	—	10,006,519
Equity securities:					
Insurance, banks and other financial institutions	848,977	906,464	(831)	—	1,754,610
Industrial, consumer and all other	1,706,511	1,581,603	(3,791)	—	3,284,323
Total equity securities	2,555,488	2,488,067	(4,622)	—	5,038,933
Short-term investments	2,178,111	47	(123)	—	2,178,035
Investments, available-for-sale	$14,435,695	$2,871,024	$(83,232)	$ —	$17,223,487

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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 maturity securities:					
U.S. Treasury	$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	1,055,947	3,953	(19,544)	—	1,040,356
Residential mortgage-backed	779,503	18,749	(5,048)	(2,258)	790,946
Asset-backed	27,494	2	(158)	—	27,338
Corporate	1,420,298	49,146	(9,364)	(673)	1,459,407
Total fixed maturity securities	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.

	March 31, 2017					
	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturity securities:						
U.S. Treasury	$225,832	$ (867)	$—	$ —	$225,832	$ (867)
U.S. government-sponsored enterprises	213,631	(3,200)	7,538	(3)	221,169	(3,203)
Obligations of states, municipalities and political subdivisions	1,034,288	(36,072)	31,808	(4,006)	1,066,096	(40,078)
Foreign governments	111,137	(2,043)	5,002	(3)	116,139	(2,046)
Commercial mortgage-backed	769,805	(19,302)	24,327	(322)	794,132	(19,624)
Residential mortgage-backed	181,127	(2,497)	77,314	(2,121)	258,441	(4,618)
Asset-backed	21,163	(62)	5,402	(39)	26,565	(101)
Corporate	459,805	(6,752)	86,784	(1,198)	546,589	(7,950)
Total fixed maturity securities	3,016,788	(70,795)	238,175	(7,692)	3,254,963	(78,487)
Equity securities:						
Insurance, banks and other financial institutions	8,670	(110)	13,367	(721)	22,037	(831)
Industrial, consumer and all other	20,997	(1,583)	6,598	(2,208)	27,595	(3,791)
Total equity securities	29,667	(1,693)	19,965	(2,929)	49,632	(4,622)
Short-term investments	1,041,378	(123)	—	—	1,041,378	(123)
Total	$4,087,833	$ (72,611)	$258,140	$ (10,621)	$4,345,973	$ (83,232)

At March 31, 2017, the Company held 618 securities with a total estimated fair value of $4.3 billion and gross unrealized losses of $83.2 million. Of these 618 securities, 96 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of $258.1 million and gross unrealized losses of $10.6 million. Of these securities, 82 securities were fixed maturity securities and 14 were equity securities. The Company does not intend to sell or believe it will be required to sell these fixed maturity securities 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 maturity securities:						
U.S. Treasury	$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	749,889	(19,091)	29,988	(453)	779,877	(19,544)
Residential mortgage-backed	181,557	(4,987)	79,936	(2,319)	261,493	(7,306)
Asset-backed	14,501	(106)	5,869	(52)	20,370	(158)
Corporate	494,573	(8,357)	93,790	(1,680)	588,363	(10,037)
Total fixed maturity securities	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 maturity securities 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 maturity securities, 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 maturity securities 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 maturity securities at March 31, 2017 are shown below by contractual maturity.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$589,338	$591,779
Due after one year through five years	1,151,016	1,191,368
Due after five years through ten years	1,589,079	1,667,691
Due after ten years	4,403,021	4,589,976
	7,732,454	8,040,814
Commercial mortgage-backed	1,145,469	1,129,648
Residential mortgage-backed	797,442	809,426
Asset-backed	26,731	26,631
Total fixed maturity securities	$9,702,096	$10,006,519

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

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
Interest:		
Municipal bonds (tax-exempt)	$22,372	$21,922
Municipal bonds (taxable)	17,505	15,888
Other taxable bonds	34,888	35,319
Short-term investments, including overnight deposits	4,949	2,291
Dividends on equity securities	20,606	17,652
Income (loss) from equity method investments	4,593	(253)
Other	(229)	2,484
	104,684	95,303
Investment expenses	(4,316)	(4,009)
Net investment income	$100,368	$91,294

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

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
Realized gains:		
Sales of fixed maturity securities	$244	$268
Sales of equity securities	15,239	27,728
Other	570	438
Total realized gains	16,053	28,434
Realized losses:		
Sales of fixed maturity securities	(231)	(413)
Sales of equity securities	(431)	(718)
Other-than-temporary impairments	(3,213)	(8,405)
Other	(208)	(2,296)
Total realized losses	(4,083)	(11,832)
Gains on securities measured at fair value through net income	8,895	4,577
Net realized investment gains	$20,865	$21,179
Change in net unrealized gains on investments included in other comprehensive income:		
Fixed maturity securities	$4,647	$239,956
Equity securities	219,052	96,958
Short-term investments	(127)	(67)
Net increase	$223,572	$336,847

For the three months ended March 31, 2017, other-than-temporary impairment losses recognized in net income and included in net realized investment gains totaled $3.2 million related to one equity security included in industrial, consumer, or other types of businesses. For the three months ended March 31, 2016, other-than-temporary impairment losses recognized in net income and included in net realized investment gains totaled $8.4 million and were attributable to 14 equity securities. The write downs in 2016 included $7.7 million related to equities in industrial, consumer, or other types of businesses.

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.

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

Investments available-for-sale. Investments available-for-sale are recorded at fair value on a recurring basis and include fixed maturity securities, 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 maturity securities 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 10, 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.

	March 31, 2017			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturity securities:				
U.S. Treasury	$—	$241,775	$—	$241,775
U.S. government-sponsored enterprises	—	402,000	—	402,000
Obligations of states, municipalities and political subdivisions	—	4,616,065	—	4,616,065
Foreign governments	—	1,408,057	—	1,408,057
Commercial mortgage-backed	—	1,129,648	—	1,129,648
Residential mortgage-backed	—	809,426	—	809,426
Asset-backed	—	26,631	—	26,631
Corporate	—	1,372,917	—	1,372,917
Total fixed maturity securities	—	10,006,519	—	10,006,519
Equity securities:				
Insurance, banks and other financial institutions	1,576,567	—	178,043	1,754,610
Industrial, consumer and all other	3,284,323	—	—	3,284,323
Total equity securities	4,860,890	—	178,043	5,038,933
Short-term investments	2,094,369	83,666	—	2,178,035
Total investments available-for-sale	$6,955,259	$10,090,185	$178,043	$17,223,487

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(dollars in thousands)	December 31, 2016 Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturity securities:				
U.S. Treasury	$—	$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	—	1,040,356	—	1,040,356
Residential mortgage-backed	—	790,946	—	790,946
Asset-backed	—	27,338	—	27,338
Corporate	—	1,459,407	—	1,459,407
Total fixed maturity securities	—	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.

(dollars in thousands)	Three Months Ended March 31, 2017	2016
Equity securities, beginning of period	$191,203	$—
Purchases	6,000	170,250
Sales	(25,371)	—
Total gains included in:		
Net income	6,211	6,692
Other comprehensive income	—	—
Transfers into Level 3	—	—
Transfers out of Level 3	—	—
Equity securities, end of period	$178,043	$176,942
Net unrealized gains included in net income relating to assets held at March 31, 2017 and 2016 [1]	$6,211	$6,692

[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 three months ended March 31, 2017 and 2016.

The Company did not have any assets or liabilities measured at fair value on a non-recurring basis during the three months ended March 31, 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.

	Three Months Ended March 31, 2017					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$639,829	$273,168	$547,737	$ 17	$—	$1,460,751
Net written premiums	545,105	225,412	489,596	116	—	1,260,229
Earned premiums	549,336	207,513	225,637	116	—	982,602
Losses and loss adjustment expenses:						
Current accident year	(346,306)	(146,430)	(145,610)	—	—	(638,346)
Prior accident years	42,620	50,266	(71,563)	5,304	—	26,627
Amortization of policy acquisition costs	(112,966)	(34,723)	(56,859)	—	—	(204,548)
Other operating expenses	(93,375)	(52,275)	(22,869)	(164)	—	(168,683)
Underwriting profit (loss)	39,309	24,351	(71,264)	5,256	—	(2,348)
Net investment income	—	—	—	—	100,368	100,368
Net realized investment gains	—	—	—	—	20,865	20,865
Other revenues (insurance)	663	3,995	416	436	—	5,510
Other expenses (insurance)	(758)	(2,346)	—	(7,064)	—	(10,168)
Segment profit (loss)	$39,214	$26,000	$(70,848)	$ (1,372)	$121,233	$114,227
Other revenues (non-insurance)						302,406
Other expenses (non-insurance)						(272,417)
Amortization of intangible assets						(16,770)
Interest expense						(33,402)
Income before income taxes						$94,044
U.S. GAAP combined ratio [1]	93 %	88 %	132 %	NM [2]		100 %

	Three Months Ended March 31, 2016					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$647,790	$291,404	$453,486	$ (17)	$—	$1,392,663
Net written premiums	552,745	226,399	402,726	90	—	1,181,960
Earned premiums	532,468	215,345	209,619	254	—	957,686
Losses and loss adjustment expenses:						
Current accident year	(316,333)	(145,476)	(130,476)	—	—	(592,285)
Prior accident years	38,654	29,652	36,361	13,654	—	118,321
Amortization of policy acquisition costs	(108,004)	(34,272)	(47,693)	—	—	(189,969)
Other operating expenses	(89,459)	(54,334)	(30,812)	(114)	—	(174,719)
Underwriting profit	57,326	10,915	36,999	13,794	—	119,034
Net investment income	—	—	—	—	91,294	91,294

Net realized investment gains	—	—	—	—	21,179	21,179
Other revenues (insurance)	1,419	4,121	—	495	—	6,035
Other expenses (insurance)	(724)	(1,554)	—	(8,001)	—	(10,279)
Segment profit	$58,021	$13,482	$36,999	$ 6,288	$112,473	$227,263
Other revenues (non-insurance)						299,988
Other expenses (non-insurance)						(264,814)
Amortization of intangible assets						(17,260)
Interest expense						(30,841)
Income before income taxes						$214,336
U.S. GAAP combined ratio [1]	89 %	95 %	82 %	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)	March 31, 2017	December 31, 2016
Segment assets:		
Investing	$19,299,203	$19,029,584
Underwriting	5,641,242	5,397,696
Total segment assets	24,940,445	24,427,280
Non-insurance operations	1,460,234	1,448,019
Total assets	$26,400,679	$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.

	Three Months Ended March 31,	
(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	10,364	19,814
Adjusted net reserves for losses and loss adjustment expenses, beginning of year	8,119,081	8,255,102
Incurred losses and loss adjustment expenses:		
Current year	638,346	592,285
Prior years	(22,739)	(106,595)
Total incurred losses and loss adjustment expenses	615,607	485,690
Payments:		
Current year	57,514	36,990
Prior years	486,163	493,554
Total payments	543,677	530,544
Effect of foreign currency rate changes	(611)	957
Net reserves for losses and loss adjustment expenses, end of period	8,190,400	8,211,205
Reinsurance recoverable on unpaid losses	1,949,278	2,046,301
Gross reserves for losses and loss adjustment expenses, end of period	$10,139,678	$10,257,506

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 three months ended March 31, 2017. This amount is excluded from the prior years' incurred losses and loss adjustment expenses for the three months ended March 31, 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 three months ended March 31, 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 three months ended March 31, 2017, incurred losses and loss adjustment expenses included $22.7 million of favorable development on prior years' loss reserves. Redundancies of $107.7 million were due in part to $73.0 million of loss reserve redundancies on the Company's general liability and worker's compensation product lines within the U.S. Insurance segment, general liability and marine and energy product lines within the International Insurance segment, and property product lines within the Reinsurance segment. Redundancies for the three months ended March 31, 2017 were largely 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 three months ended March 31, 2016, incurred losses and loss adjustment expenses included $106.6 million of favorable development on prior years' loss reserves, which was due in part to $74.9 million of loss reserve redundancies on the Company's general liability product lines within the U.S. Insurance segment, professional liability and marine and energy product lines within the International Insurance segment, and property, marine and energy and professional liability product lines within the Reinsurance segment. Redundancies for the three months ended March 31, 2016 were partially offset by $21.8 million of adverse development on our specified medical and medical malpractice product lines within the U.S. Insurance segment.

8. Other Revenues and Other Expenses

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

	Three Months Ended March 31,			
	2017		2016	
(dollars in thousands)	Other Revenues	Other Expenses	Other Revenues	Other Expenses
Insurance:				
Managing general agent operations	$4,658	$1,853	$5,540	$2,278
Life and annuity	436	7,064	495	8,001
Other	416	1,251	—	—
	5,510	10,168	6,035	10,279
Non-Insurance:				
Markel Ventures: Manufacturing	177,135	153,653	192,691	160,366
Markel Ventures: Non-Manufacturing	109,800	97,611	93,828	88,433
Investment management	9,359	14,935	7,173	9,930
Other	6,112	6,218	6,296	6,085
	302,406	272,417	299,988	264,814
Total	$307,916	$282,585	$306,023	$275,093

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.

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9. Reinsurance

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

	Three Months Ended March 31,			
	2017		2016	
(dollars in thousands)	Written	Earned	Written	Earned
Direct	$849,484	$862,986	$879,088	$867,444
Assumed	611,267	307,569	513,575	290,063
Ceded	(200,522)	(187,953)	(210,703)	(199,821)
Net premiums	$1,260,229	$982,602	$1,181,960	$957,686

The percentage of ceded earned premiums to gross earned premiums was 16% and 17% for the three months ended March 31, 2017 and 2016. The percentage of assumed earned premiums to net earned premiums was 31% and 30%, respectively, for the three months ended March 31, 2017 and 2016.

Incurred losses and loss adjustment expenses were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of $99.6 million and $130.6 million, respectively, for the three months ended March 31, 2017 and 2016.

10. 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 for the three months ended March 31, 2017 and 2016 were $9.4 million and $7.2 million, 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 March 31, 2017, total assets of the Markel Diversified Fund were $181.2 million and total liabilities were $63.7 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 $177.4 million as of March 31, 2017 and $165.1 million as of December 31, 2016, which represents 6% of the outstanding preference shares of that fund in both periods. 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 March 31, 2017, total investment and insurance assets under management of MCIM for unconsolidated VIEs were $4.1 billion.

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11. 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.

	Three Months Ended March 31,	
(in thousands, except per share amounts)	2017	2016
Net income to shareholders	$69,869	$160,370
Adjustment of redeemable noncontrolling interests	(15,143)	(3,452)
Adjusted net income to shareholders	$54,726	$156,918
Basic common shares outstanding	13,998	13,994
Dilutive potential common shares from conversion of options	2	5
Dilutive potential common shares from conversion of restricted stock	46	75
Diluted shares outstanding	14,046	14,074
Basic net income per share	$3.91	$11.21
Diluted net income per share	$3.90	$11.15

12. 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 three months ended March 31, 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	238,823	10,321	—	249,144
Amounts reclassified from accumulated other comprehensive income	(12,983)	—	463	(12,520)
Total other comprehensive income	225,840	10,321	463	236,624
March 31, 2016	$ 1,698,602	$(62,375)	$(45,095)	$1,591,132
December 31, 2016	$ 1,714,930	$(84,406)	$(64,658)	$1,565,866
Other comprehensive income before reclassifications	160,280	1,543	—	161,823
Amounts reclassified from accumulated other comprehensive income	(9,169)	—	716	(8,453)
Total other comprehensive income	151,111	1,543	716	153,370
March 31, 2017	$ 1,866,041	$(82,863)	$(63,942)	$1,719,236

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

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
Change in net unrealized gains on investments:		
Net holding gains arising during the period	$74,993	$116,499
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	—	(15)
Reclassification adjustments for net gains included in net income	(2,532)	(5,477)
Change in net unrealized gains on investments	72,461	111,007
Change in foreign currency translation adjustments	(37)	(77)
Change in net actuarial pension loss	179	102
Total	$72,603	$111,032

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

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
Unrealized holding gains on available-for-sale securities:		
Other-than-temporary impairment losses	$(3,213)	$(8,405)
Net realized investment gains, excluding other-than-temporary impairment losses	14,914	26,865
Total before taxes	11,701	18,460
Income taxes	(2,532)	(5,477)
Reclassification of unrealized holding gains, net of taxes	$9,169	$12,983
Net actuarial pension loss:		
Underwriting, acquisition and insurance expenses	$(895)	$(565)
Income taxes	179	102
Reclassification of net actuarial pension loss, net of taxes	$(716)	$(463)

13. 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 $10.1 million through March 31, 2017) and default interest (up to an additional $8.9 million through March 31, 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.

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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.

14. Subsequent Events

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

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 (VIEs) 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.

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.

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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 February 2017, we entered into a definitive merger agreement to acquire SureTec Financial Corp. (SureTec) for approximately $250 million, a portion of which is contingent on post-acquisition earnings of SureTec. SureTec is a Texas-based privately held surety company primarily offering contract, commercial and court bonds. The transaction is subject to customary closing conditions. Required insurance regulatory approvals have been obtained and the transaction is expected to close early in the second quarter of 2017. Upon completion of the acquisition, SureTec's operating results will be included in the Company's 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.

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.

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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."

Results of Operations

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

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
U.S. Insurance segment underwriting profit	$39,309	$57,326
International Insurance segment underwriting profit	24,351	10,915
Reinsurance segment underwriting profit (loss)	(71,264)	36,999
Other Insurance (Discontinued Lines) segment underwriting profit	5,256	13,794
Net investment income	100,368	91,294
Net realized investment gains	20,865	21,179
Other revenues	307,916	306,023
Other expenses	(282,585)	(275,093)
Amortization of intangible assets	(16,770)	(17,260)
Interest expense	(33,402)	(30,841)
Income tax expense	(23,004)	(50,690)

Net income attributable to noncontrolling interests	(1,171)	(3,276)
Net income to shareholders	$69,869	$160,370

The components of net income to shareholders are discussed in detail under "Underwriting Results," "Investing Results," "Other Revenues and Other Expenses" and "Interest Expense and Income Taxes."

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Underwriting Results

Underwriting profits are a key component of our strategy to grow book value per share. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk. The property and casualty insurance industry commonly defines underwriting profit or loss as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. We use underwriting profit or loss as a basis for evaluating our underwriting performance. The combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. The loss ratio represents the relationship of incurred losses and loss adjustment expenses to earned premiums. The expense ratio represents the relationship of underwriting, acquisition and insurance expenses to earned premiums.

Consolidated

The following table presents selected data from our underwriting operations.

	Three Months Ended March 31,			
(dollars in thousands)	2017		2016	
Gross premium volume	$1,460,751		$1,392,663	
Net written premiums	1,260,229		1,181,960	
Net retention	86	%	85	%
Earned premiums	982,602		957,686	
Losses and loss adjustment expenses	611,719		473,964	
Underwriting, acquisition and insurance expenses	373,231		364,688	
Underwriting profit (loss)	(2,348	)	119,034	
U.S. GAAP Combined Ratios				
U.S. Insurance	93	%	89	%
International Insurance	88	%	95	%
Reinsurance	132	%	82	%
Other Insurance (Discontinued Lines)	NM	[1]	NM	[1]
Markel Corporation (Consolidated)	100	%	88	%

[1] NM – Ratio is not meaningful.

Our combined ratio was 100% for the quarter ended March 31, 2017 compared to 88% for the same period of 2016.

The increase in the consolidated combined ratio for the quarter ended March 31, 2017 was driven by less favorable development on prior years' loss reserves and a higher current accident year loss ratio compared to the same period of 2016. The consolidated combined ratio for the quarter ended March 31, 2017 included $85.0 million, or nine points on the consolidated combined ratio, of adverse development on prior years' loss reserves 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 our U.K. auto casualty exposures through reinsurance contracts written in our Reinsurance segment. We ceased writing new U.K. auto business in late 2014. The reduction in the Ogden Rate increased the expected claims payments on these exposures, and management increased loss reserves accordingly. Our 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.

The current accident year loss ratio for the quarter ended March 31, 2017 increased compared to the same period of 2016 due to higher loss ratios across all of our segments.

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U.S. Insurance Segment

The combined ratio for the U.S. Insurance segment was 93% for the quarter ended March 31, 2017 compared to 89% for the same period of 2016.

For the quarter ended March 31, 2017, the increase in the combined ratio was driven primarily by a higher current accident year loss ratio.

- The increase in the current accident year loss ratio for the quarter ended March 31, 2017 was driven primarily by higher attritional losses in 2017 compared to 2016 across most of our product lines.
- The U.S. Insurance segment's combined ratio for the quarter ended March 31, 2017 included $42.6 million of favorable development on prior years' loss reserves compared to $38.7 million for the same period in 2016. In 2017, the favorable development on prior years' loss reserves was most significant on our general liability product lines, primarily on the 2013 through 2015 accident years, and our workers compensation product lines, primarily on the 2014 through 2016 accident years. The favorable development in 2016 was most significant on our general liability product lines.

International Insurance Segment

The combined ratio for the International Insurance segment was 88% for the quarter ended March 31, 2017 compared to 95% for the same period of 2016.

For the quarter ended March 31, 2017, the decrease in the combined ratio was driven by more favorable development of prior accident years' loss reserves, partially offset by a higher current accident year loss ratio.

- The increase in the current accident year loss ratio for the quarter ended March 31, 2017 was driven by lower premiums in our property and marine and energy product lines, due to declining premium rates in recent periods, and higher attritional losses, primarily in our marine and energy product lines, in 2017 compared to 2016.
- The International Insurance segment's combined ratio for the quarter ended March 31, 2017 included $50.3 million of favorable development on prior years' loss reserves compared to $29.7 million in 2016. The increase in reserve redundancies on prior years' loss reserves was driven by favorable development on our general liability product lines in the first quarter of 2017 compared to unfavorable development in the same period of 2016. For the quarter ended March 31, 2017, the favorable development on our general liability product line was primarily on the 2010 accident year related to a large loss that had adverse development in the first quarter of 2016. We also experienced favorable development on our marine and energy product lines, primarily on the 2013 through 2015 accident years. For the quarter ended March 31, 2016, the favorable development was most significant on our professional liability and marine and energy product lines.
- The expense ratio for the International Insurance segment increased slightly, primarily due to expenses in 2017 related to changes in our branch office locations and changes in the mix of business, which was due in part to higher retentions on products with higher commission rates in 2017 compared to 2016. These increases were offset by lower profit sharing expenses in the first quarter of 2017 compared to 2016.

Reinsurance Segment

The combined ratio for the Reinsurance segment was 132% for the quarter ended March 31, 2017 compared to 82% for the same period of 2016.

For the quarter ended March 31, 2017 the increase in the combined ratio was driven by adverse development on prior years' loss reserves in 2017 compared to favorable development in 2016. A higher current accident year loss ratio was offset by a lower expense ratio in 2017 compared to the same period of 2016.

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The increase in the current accident year loss ratio for the quarter ended March 31, 2017 was driven by a larger impact from unfavorable premium adjustments related to prior accident years in 2017 compared to 2016.

The Reinsurance segment's combined ratio for the quarter ended March 31, 2017 included $71.6 million of adverse development on prior years' loss reserves compared to $36.4 million of favorable development in 2016. The adverse development on prior years' loss reserves in 2017 is primarily due to the decrease in the Ogden Rate, as described above, which resulted in $85.0 million of adverse development, or 38 points on the Reinsurance segment combined ratio. Also contributing to the unfavorable variance to prior year was slightly adverse development on our professional liability and marine and energy product lines, compared to favorable development on these lines in 2016. For the quarter ended March 31, 2017, we experienced favorable development on prior years' loss reserves on our property product lines across several accident years. For the quarter ended March 31, 2016, the favorable development was most significant on our property, marine and energy and professional liability product lines.

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- The decrease in the expense ratio was primarily due to lower profit sharing expenses in 2017 compared to 2016, partially offset by higher commissions as a result of higher earned premiums on our quota share business in 2017 compared to 2016, which carries a higher commission rate than other business in the Reinsurance segment.

Other Insurance (Discontinued Lines)

The Other Insurance (Discontinued Lines) segment produced an underwriting profit of $5.3 million for the quarter ended March 31, 2017 compared to an underwriting profit of $13.8 million for the same period of 2016. The underwriting profit in the first quarter of 2017 was driven by the Part VII transaction completed during the quarter. See note 7 of the notes to the consolidated financial statements. The underwriting profit for the quarter ended March 31, 2016 was driven by favorable development related to a commutation that was triggered during the first quarter of 2016.

Premiums and Net Retentions

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

Gross Premium Volume

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
U.S. Insurance	$639,829	$647,790
International Insurance	273,168	291,404
Reinsurance	547,737	453,486
Other Insurance (Discontinued Lines)	17	(17)
Total	$1,460,751	$1,392,663

Gross premium volume increased 5% for the three months ended March 31, 2017 compared to the same period of 2016. The increase was attributable to our Reinsurance segment, partially offset by lower gross premium volume in our International Insurance and U.S. Insurance segments.

Gross premium volume in our Reinsurance segment increased 21% for the three months ended March 31, 2017. The increase was driven by $136.5 million of premium related to two large specialty quota share treaties entered into in the first quarter of 2017, as well as higher gross premium volume in our credit and surety product line due to a favorable impact from new multi-year contracts entered into in 2017. These increases were partially offset by lower gross premium volume in our general liability, property and auto product lines. Significant variability in gross premium volume can be expected in our Reinsurance segment due to individually significant deals and multi-year contracts.

Gross premium volume in our International Insurance segment decreased 6% for the three months ended March 31, 2017, due to lower gross premium volume, primarily in our professional liability and property product lines, as well as an unfavorable impact from foreign currency exchange rate movements.

Gross premium volume in our U.S. Insurance segment decreased 1% for the three months ended March 31, 2017. The decrease was primarily driven by an additional week of gross premium volume during the first quarter of 2016 compared to the same period of 2017 based on differences in the timing of our underwriting systems closings. The timing of our underwriting systems closings has a negligible impact on our premium earnings. Excluding the impact of the additional week of premium in the first quarter of 2016, gross premium volume in the U.S. Insurance segment increased due to continued growth within our personal lines and workers compensation product lines.

We have continued to see small price decreases across many of our product lines during the first quarter of 2017, especially in our international business across most of our property product lines, as well as on our marine and energy lines. Our large account business is also subject to more pricing pressure. When we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume may vary when we alter our product offerings to maintain or improve underwriting profitability.

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Net Written Premiums

(dollars in thousands)	Three Months Ended March 31, 2017	2016
U.S. Insurance	$545,105	$552,745
International Insurance	225,412	226,399
Reinsurance	489,596	402,726
Other Insurance (Discontinued Lines)	116	90
Total	$1,260,229	$1,181,960

Net retention of gross premium volume for the three months ended March 31, 2017 was 86% compared to 85% for the same period of 2016. The increase in net retention for the three months ended March 31, 2017 compared to the same period of 2016 was driven by higher retention within the International Insurance segment. This increase was largely due to higher retention on our professional liability and marine and energy product lines. Net retention in the U.S. Insurance segment was flat for the three months ended March 31, 2017 compared to the same period of 2016. This was due to higher retention on our casualty product lines, offset by lower retention on our personal lines business.

Earned Premiums

(dollars in thousands)	Three Months Ended March 31, 2017	2016
U.S. Insurance	$549,336	$532,468
International Insurance	207,513	215,345
Reinsurance	225,637	209,619
Other Insurance (Discontinued Lines)	116	254
Total	$982,602	$957,686

Earned premiums for the three months ended March 31, 2017 increased 3% compared to the same period of 2016. For the three months ended March 31, 2017, higher earned premiums in our U.S. Insurance and Reinsurance segments more than offset by lower earned premiums in our International Insurance segment. The increase in earned premiums in our U.S. Insurance segment was primarily due to an increase in earned premiums on our general liability and personal lines business. The increase in earned premiums in our Reinsurance segment was primarily due to the increase in gross premium volume related to the two large specialty quota share treaties entered into in the first quarter of 2017, as described above. The decrease in earned premiums in our International Insurance segment was primarily due to an unfavorable impact from movements in foreign currency exchange rates.

Investing Results

The following table summarizes our investment performance.

(dollars in thousands)	Three Months Ended March 31, 2017	2016
Net investment income	$100,368	$91,294
Net realized investment gains	$20,865	$21,179
Change in net unrealized gains on investments	$223,572	$336,847
Investment yield [1]	0.6 %	0.6 %
Taxable equivalent total investment return, before foreign currency effect	2.0 %	2.6 %
Taxable equivalent total investment return	2.1 %	3.1 %

(1)

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

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The increase in net investment income for the quarter ended March 31, 2017 was driven by an increase in short-term investment income, primarily due to higher short-term interest rates, higher dividend income, due in part to increased equity holdings, and higher interest income on our fixed maturity portfolio, due to increased holdings of fixed maturity securities, compared to the same period of 2016. See note 4(d) of the notes to consolidated financial statements for details regarding the components of net investment income. Net realized investment gains for the quarter ended March 31, 2017 were net of $3.2 million of write downs for other-than-temporary declines in the estimated fair value of investments, which were attributable to one equity security. Net realized investment gains for the quarter ended March 31, 2016 included write downs for other-than-temporary declines in the estimated fair value of investments of $8.4 million, all of which were attributable to equity securities.

We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. At March 31, 2017, we held securities with gross unrealized losses of $83.2 million, or less than 1% of invested assets. All securities with unrealized losses were reviewed, and we believe that there were no other securities with indications of declines in estimated fair value that were other-than-temporary at March 31, 2017. However, given the volatility in the debt and equity markets, we caution readers that further declines in fair value could be significant and may result in additional other-than-temporary impairment charges in future periods. Variability in the timing of realized and unrealized gains and losses is to be expected.

We also evaluate our investment performance by analyzing taxable equivalent total investment return, which is a non-GAAP financial measure. Taxable equivalent total investment return includes items that impact net income, such as coupon interest on fixed maturities, dividends on equity securities and realized investment gains or losses, as well as changes in unrealized gains or losses, which do not impact net income. Certain items that are included in net investment income have been excluded from the calculation of taxable equivalent total investment return, such as amortization and accretion of premiums and discounts on our fixed maturity portfolio, to provide a comparable basis for measuring our investment return against industry investment returns. The calculation of taxable equivalent total investment return also includes the current tax benefit associated with income on certain investments that is either taxed at a lower rate than the statutory income tax rate or is not fully included in federal taxable income. We believe the taxable equivalent total investment return is a better reflection of the economics of our decision to invest in certain asset classes. We focus on our long-term investment return, understanding that the level of realized and unrealized investment gains or losses may vary from one period to the next.

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

	Three Months Ended March 31,	
	2017	2016
Investment yield [1]	0.6 %	0.6 %
Adjustment of investment yield from amortized cost to fair value	(0.1)%	(0.1)%
Net amortization of net premium on fixed maturity securities	0.1 %	0.1 %
Net realized investment gains and change in net unrealized gains on investments	1.3 %	2.0 %
Taxable equivalent effect for interest and dividends [2]	0.1 %	0.1 %
Other [3]	0.1 %	0.4 %
Taxable equivalent total investment return	2.1 %	3.1 %

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

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

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

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Other Revenues and Other Expenses

Markel Ventures Operations

Operating revenues and expenses associated with our Markel Ventures operations are included in other revenues and other expenses in the consolidated statements of income and comprehensive income. We consolidate our Markel Ventures operations on a one-month lag. The following table summarizes the operating revenues, net income to shareholders and EBITDA from our Markel Ventures operations.

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
Operating revenues	$286,935	$286,519
Net income to shareholders	$13,999	$14,073
EBITDA	$41,692	$41,144

Revenues, net income to shareholders and EBITDA from our Markel Ventures operations for the three months ended March 31, 2017 were flat compared to the same period of 2016, due to higher revenues in our non-manufacturing operations, offset by lower revenues in certain of our manufacturing operations due to lower sales volumes.

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

	Three Months Ended March 31,	
(dollars in thousands)	2017	2016
Net income to shareholders	$69,869	$160,370
Income before income taxes from other Markel operations	(69,015)	(188,353)
Income tax expense from other Markel operations	13,145	42,056
Markel Ventures net income to shareholders	13,999	14,073
Interest expense [(1)]	3,478	3,652
Income tax expense	9,149	8,878
Depreciation expense	8,695	7,779
Amortization of intangible assets	6,371	