J P MORGAN CHASE & CO
Form 10-Q
August 11, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2008 **Commission file number 1-5805**

JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)

Delaware	**13-2624428**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
270 Park Avenue, New York, New York	**10017**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (212) 270-6000

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.

þ **Yes** o **No**

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

Large accelerated filer þ	**Accelerated filer o**
Non-accelerated filer (Do not check if a smaller reporting company) o	**Smaller reporting company o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o **Yes** þ **No**

Number of shares of common stock outstanding as of July 31, 2008: 3,437,039,645

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

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s, except per share, headcount and ratio data)						Six mo
r the period ended,	**2Q08**	1Q08	4Q07	3Q07	2Q07	**2008**
ncome statement data						
st revenue	**$ 10,105**	$ 9,231	$ 10,161	$ 9,199	$ 12,740	**$ 19,336**
st income	**8,294**	7,659	7,223	6,913	6,168	**15,953**
revenue	**18,399**	16,890	17,384	16,112	18,908	**35,289**
for credit losses	**3,455**	4,424	2,542	1,785	1,529	**7,879**
st expense	**12,177**	8,931	10,720	9,327	11,028	**21,108**
efore income tax expense	**2,767**	3,535	4,122	5,000	6,351	**6,302**
expense	**764**	1,162	1,151	1,627	2,117	**1,926**
e	**$ 2,003**	$ 2,373	$ 2,971	$ 3,373	$ 4,234	**$ 4,376**
on share						
e per share: Basic	**$ 0.56**	$ 0.70	$ 0.88	$ 1.00	$ 1.24	**$ 1.26**
	0.54	0.68	0.86	0.97	1.20	**1.22**
ends declared per share	**0.38**	0.38	0.38	0.38	0.38	**0.76**
e per share	**37.02**	36.94	36.59	35.72	35.08	
shares outstanding						
Basic	**3,426**	3,396	3,367	3,376	3,415	**3,411**
	3,531	3,495	3,472	3,478	3,522	**3,513**
shares at period end	**3,436**	3,401	3,367	3,359	3,399	
ce[(a)]						
	$ 49.95	$ 49.29	$ 48.02	$ 50.48	$ 53.25	**$ 49.95**
	33.96	36.01	40.15	42.16	47.70	**33.96**
	34.31	42.95	43.65	45.82	48.45	
pitalization	**117,881**	146,066	146,986	153,901	164,659	
ratios						
common equity (ROE)	**6%**	8%	10%	11%	14%	**7%**
assets (ROA)	**0.48**	0.61	0.77	0.91	1.19	**0.54**
ratio	**66**	53	62	58	58	**60**
tal ratio	**9.2**	8.3	8.4	8.4	8.4	
tal ratio	**13.4**	12.5	12.6	12.5	12.0	
erage ratio	**6.4**	5.9	6.0	6.0	6.2	
alance sheet data (period-end)						
sets	**$ 531,997**	$ 485,280	$ 491,409	$ 453,711	$ 450,546	
	119,173	101,647	85,450	97,706	95,984	
	538,029	537,056	519,374	486,320	465,037	
s	**1,775,670**	1,642,862	1,562,147	1,479,575	1,458,042	
	722,905	761,626	740,728	678,091	651,370	
debt	**260,192**	189,995	183,862	173,696	159,493	

stockholders equity	**127,176**	125,627	123,221	119,978	119,211		
kholders equity	**133,176**	125,627	123,221	119,978	119,211		
t	**195,594**	182,166	180,667	179,847	179,664		
ality metrics							
e for credit losses	**$ 13,932**	$ 12,601	$ 10,084	$ 8,971	$ 8,399		
ming assets[(b)]	**6,233**	5,143	3,933	3,009	2,423		
e for loan losses to total loans[(c)]	**2.57%**	2.29%	1.88%	1.76%	1.71%		
e-offs	**$ 2,130**	$ 1,906	$ 1,429	$ 1,221	$ 985	**$ 4,036**	$
-off rate[(c)]	**1.67%**	1.53%	1.19%	1.07%	0.90%	**1.60%**	
net charge-off (recovery) rate[(c)]	**0.08**	0.18	0.05	0.19	(0.07)	**0.13**	
Card net charge-off rate	**4.98**	4.37	3.89	3.64	3.62	**4.68**	

(a) JPMorgan Chase s common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase s common stock are from The New York Stock Exchange Composite Transaction Tape.

(b) Excludes purchased held-for-sale wholesale loans.

(c) End-of-period and average loans accounted for at fair value and loans held-for-sale were excluded when calculating the allowance coverage ratios

and net charge-off rates, respectively.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of the Form 10-Q provides management s discussion and analysis (MD&A) of the financial condition and results of operations for JPMorgan Chase. See the Glossary of Terms on pages 130 133 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking Statements on page 135 and Item 1A: Risk Factors on page 139 of this Form 10-Q), as well as in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Annual Report or 2007 Form 10-K), including Part I, Item 1A: Risk factors, and the JPMorgan Chase quarterly report on Form 10-Q for the quarter ended March 31, 2008, including Part II, Item 1A thereof, to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (U.S.), with $1.8 trillion in assets, $133.2 billion in total stockholders equity and operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world s most prominent corporate, institutional and government clients.

JPMorgan Chase s principal bank subsidiaries are JPMorgan Chase Bank, National Association (JPMorgan Chase Bank, N.A.), a national banking association with branches in 17 states; and Chase Bank USA, National Association (Chase Bank USA, N.A.), a national bank that is the Firm s credit card issuing bank. JPMorgan Chase s principal nonbank subsidiaries are J.P. Morgan Securities Inc. and Bear, Stearns & Co., Inc. (Bear Stearns & Co.), the Firm s U.S. investment banking firms, and Bear, Stearns International Limited, a full service broker-dealer based in London, England. The Firm plans to merge J.P. Morgan Securities Inc. and Bear Stearns & Co. on or about October 1, 2008.

JPMorgan Chase s activities are organized, for management reporting purposes, into six business segments, as well as Corporate/Private Equity. The Firm s wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm s consumer businesses comprise the Retail Financial Services and Card Services segments. A description of the Firm s business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

JPMorgan is one of the world s leading investment banks, with deep client relationships and broad product capabilities. The Investment Bank s clients are corporations, financial institutions, governments and institutional investors. The Firm offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital raising in equity and debt markets, sophisticated risk management, market-making in cash securities and derivative instruments, prime brokerage and research. The Investment Bank (IB) also commits the Firm s own capital to proprietary investing and trading activities.

Retail Financial Services

Retail Financial Services (RFS), which includes the Regional Banking, Mortgage Banking and Auto Finance reporting segments, serves consumers and businesses through bank branches, ATMs, online banking and telephone banking. Customers can use more than 3,100 bank branches (fourth-largest nationally), 9,300 ATMs (third-largest nationally) and 300 mortgage offices. More than 14,100 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans and investments across the 17-state footprint from New York to Arizona. Consumers also can obtain loans through more than 14,100 auto dealerships and 5,200 schools and universities nationwide.

Card Services

With more than 157 million cards in circulation and more than $155 billion in managed loans, Card Services (CS) is one of the nation s largest credit card issuers. Customers used Chase cards to meet $179 billion worth of their spending needs in the six months ended June 30, 2008.

With hundreds of partnerships, Chase has a market leadership position in building loyalty programs with many of the world s most respected brands.

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Chase Paymentech Solutions, LLC, a joint venture between JPMorgan Chase and First Data Corporation, is a processor of MasterCard and Visa payments, which handled more than 10 billion transactions in the six months ended June 30, 2008. On May 27, 2008, the termination of Chase Paymentech Solutions was announced. The dissolution is expected to be completed by year-end 2008 and JPMorgan Chase will retain approximately 51% of the business under the Chase Paymentech name.

Commercial Banking

Commercial Banking (CB) serves more than 30,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion. Commercial Banking delivers extensive industry knowledge, local expertise and a dedicated service model. In partnership with the Firm s other businesses, it provides comprehensive solutions including lending, treasury services, investment banking and asset management to meet its clients domestic and international financial needs.

Treasury & Securities Services

Treasury & Securities Services (TSS) is a global leader in transaction, investment and information services. TSS is one of the world s largest cash management providers and a leading global custodian. Treasury Services (TS) provides cash management, trade, wholesale card and liquidity products and services to small and mid-sized companies, multinational corporations, financial institutions and government entities. TS partners with the Commercial Banking, Retail Financial Services and Asset Management businesses to serve clients firmwide. As a result, certain TS revenue is included in other segments results. Worldwide Securities Services (WSS) holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

Asset Management

With assets under supervision of $1.6 trillion, Asset Management (AM) is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM s client assets are in actively managed portfolios.

OTHER BUSINESS EVENTS

Merger with The Bear Stearns Companies Inc.

Effective May 30, 2008, BSC Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. (Bear Stearns) pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase (the Merger). The Merger provides the Firm with a leading global prime brokerage platform; strengthens the Firm s equities and asset management businesses; enhances capabilities in mortgage origination, securitization and servicing; and expands the platform of the Firm s energy business. The Merger is being accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The total purchase price to complete the Merger was $1.5 billion.

The Merger was accomplished through a series of transactions that were reflected as step acquisitions in accordance with SFAS 141. On April 8, 2008, pursuant to the share exchange agreement, JPMorgan Chase acquired 95 million newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance) for 21 million shares of JPMorgan Chase common stock. Further, between March 24, 2008, and May 12, 2008, JPMorgan Chase acquired approximately 24 million shares of Bear Stearns common stock in the open market at an average purchase price of $12.37 per share. The share exchange and cash purchase transactions resulted in JPMorgan Chase owning approximately 49.4% of Bear Stearns common stock immediately prior to consummation of the Merger. Finally, on May 30, 2008, JPMorgan Chase completed the Merger, and as a result of the Merger, each outstanding share of Bear Stearns common stock (other than shares then held by JPMorgan Chase) was converted into the right to receive 0.21753 shares of common stock of JPMorgan Chase. Also, on May 30, 2008, the shares of common stock that JPMorgan Chase and Bear Stearns acquired from each other in the share exchange transaction were cancelled. From April 8, 2008, through May 30, 2008, JPMorgan Chase accounted for the investment in Bear

Stearns under the equity method of accounting in accordance with APB 18. During this period, JPMorgan Chase recorded reductions to its investment in Bear Stearns representing its share of Bear Stearns net losses, which was recorded in other income and accumulated other comprehensive income.

In conjunction with the Merger, in June 2008, the Federal Reserve Bank of New York (the FRBNY) took control, through a limited liability company (LLC) formed for this purpose, of a portfolio of $30 billion in assets acquired from Bear Stearns, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a $28.85 billion, term loan from the FRBNY, and a $1.15 billion, subordinated note from JPMorgan Chase. The JPMorgan Chase note is subordinated to the FRBNY loan and will bear the first $1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, the JPMorgan Chase note and the expenses of the LLC, will be for the account of the FRBNY.

For further discussion of the Merger, see Note 2 on pages 80 83 of this Form 10-Q.

Purchase of additional interest in Highbridge Capital Management

In January 2008, JPMorgan Chase purchased an additional equity interest in Highbridge Capital Management, LLC (Highbridge). As a result, the Firm owns 77.5% of Highbridge as of June 30, 2008. Highbridge is a manager of hedge funds with $28 billion of assets under management at June 30, 2008. The Firm acquired a majority interest in Highbridge in 2004.

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EXECUTIVE OVERVIEW

This overview of management s discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Form 10-Q. For a complete description of events, trends and uncertainties, as well as the capital, liquidity, credit and market risks, and the critical accounting estimates affecting the Firm and its various lines of business, this Form 10-Q should be read in its entirety.

Financial performance of JPMorgan Chase

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share and ratio data)	**2008**	2007	Change	**2008**	2007	Change
Selected income statement data						
Total net revenue	**$ 18,399**	$ 18,908	(3)%	**$ 35,289**	$ 37,876	(7)%
Provision for credit losses	**3,455**	1,529	126	**7,879**	2,537	211
Total noninterest expense	**12,177**	11,028	10	**21,108**	21,656	(3)
Net income	**2,003**	4,234	(53)	**4,376**	9,021	(51)
Earnings per share diluted	**$ 0.54**	$ 1.20	(55)%	**$ 1.22**	$ 2.55	(52)%
Return on common equity	**6%**	14%		**7%**	16%	

Business overview

As previously noted, on May 30, 2008, the Firm completed the merger with Bear Stearns. The Merger created an expanded platform to better serve institutional clients, with new capabilities in prime brokerage and clearing and improved strength in equities, mortgage trading, commodities and asset management. The Firm has made substantial progress towards full integration of Bear Stearns with the Firm s operations and in significantly reducing risk positions.

The Firm reported 2008 second-quarter net income of $2.0 billion, or $0.54 per share, compared with net income of $4.2 billion, or $1.20 per share, for the second quarter of 2007. Return on common equity for the quarter was 6%, compared with 14% in the prior year. Results in the second quarter of 2008 included a net loss of $540 million (after-tax) related to the merger with Bear Stearns. Excluding these merger-related items, net income would have been $2.5 billion. Additional factors contributing to the decline in net income from the second quarter of 2007 were an increase in the provision for credit losses reflecting higher estimated losses and an increase in the allowance for credit losses, higher total noninterest expense and lower total net revenue. Total net revenue for the second quarter of 2008 reflected markdowns on legacy leveraged loans and certain mortgage-related positions in the Investment Bank, lower levels of private equity gains and lower investment banking fees offset partially by an increase in net interest income. The provision for credit losses in the second quarter of 2008 reflected increases in the allowance for credit losses predominantly related to subprime and prime mortgage, wholesale and credit card loans, as well as for higher estimated losses across all home-lending products. The increase in total noninterest expense for the quarter was driven by higher compensation expense and the effect of the merger with Bear Stearns (including merger-related costs).

Net income for the first six months of 2008 was $4.4 billion, or $1.22 per share, compared with net income of $9.0 billion, or $2.55 per share, for the first six months of 2007. Return on common equity for the first six months of 2008 was 7%, compared with 16% for the same period in 2007. The lower results in the first half of 2008 were due to the same drivers highlighted for the second quarter: significantly higher credit provisions, markdowns on legacy leveraged loans and certain mortgage-related positions, lower private equity gains and the effect of the Bear Stearns merger, partially offset by lower total noninterest expense and higher net interest income. The increase in the provision for credit losses in the first six months of 2008 was the result of the same drivers as those highlighted for the second quarter of 2008, plus a significant increase in the allowance for home equity credit losses. Total noninterest expense for the first six months of 2008 declined compared to the prior year due to lower compensation expense.

Although the U.S. economy strengthened modestly in the second quarter of 2008, partly in response to fiscal stimulus actions, the negative effects of the credit market turmoil, declining housing prices and rising energy prices remained severe. Labor markets remained weak as unemployment climbed to 5.5% by the end of the quarter up from 4.6% in the prior-year quarter and 5.1% in the first quarter of 2008. Financial markets remained under considerable stress and funding markets continued to be affected by credit concerns. The S&P 500 stock index was down from both the end of the first quarter of 2008 and from the second quarter of 2007. Capital markets activity was generally consistent with the levels in the first quarter of 2008, but was down significantly compared with the levels in the first half of 2007. The Federal Reserve reduced the federal funds rate by 25 basis points in the quarter to 2.0%, a total reduction of 225 basis points year-to-date in 2008, while also providing increased term liquidity through the Primary Dealer Credit Facility. The global economy in the second quarter evolved along two different paths: the industrial economies

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continued to show signs of slowing growth, with some countries actually contracting in the quarter; conversely, developing economies continued to grow rapidly, although in many instances at slower rates than in 2007.

During the second quarter of 2008, the Firm s performance was negatively affected by the overall global economic environment, as four of the Firm s six principal lines of business posted lower net income than in the second quarter of 2007. The decline in net income in the Investment Bank reflected additional markdowns related to legacy leveraged loans and mortgage-related exposures. Lower results in Retail Financial Services and Card Services were driven by a higher provision for credit losses in each business reflecting the weakening consumer credit environment and declining housing prices, resulting in higher estimated losses. Asset Management s net income decreased due to lower performance fees and the effects of lower markets. The lines of business did, however, continue to generate solid underlying business momentum, producing growth in balances, accounts and volumes. Commercial Banking and Treasury & Securities Services delivered record earnings and revenue, benefiting from continued double-digit growth in loans and deposits as well as increased client volumes, and RFS saw organic revenue growth as well. Notably the IB was ranked #1 for Global Investment Banking Fees and #1 for Global Debt, Equity and Equity-related volumes for the first half of 2008.

The discussion that follows highlights the current-quarter performance of each business segment, compared with the prior-year quarter, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15-18 of this Form 10-Q .

Investment Bank net income was lower compared with the second quarter of 2007, reflecting increased noninterest expense, lower total net revenue and a higher provision for credit losses. Total net revenue declined, driven largely by markdowns on legacy leveraged lending funded and unfunded commitments and certain mortgage-related positions. In addition, weak equities trading results and lower investment banking advisory fees contributed to the revenue decline. The decline was partially offset by strong performance in rates, currencies, emerging markets and credit trading, and strong client revenue in equities. The provision for credit losses reflected an increase in the allowance for credit losses due to the effect of a weakening credit environment. The increase in total noninterest expense was largely driven by higher compensation expense and the effect of the Merger.

Retail Financial Services net income declined due to a significant increase in the provision for credit losses, largely offset by revenue growth in all businesses within RFS. Higher total net revenue benefited from higher loan balances, higher net mortgage servicing revenue, higher mortgage production revenue, wider deposit spreads, increased deposit-related fees and higher deposit balances. The provision for credit losses increased substantially as housing price declines continued to result in significant increases in estimated losses, particularly for high loan-to-value home equity and mortgage loans. Total noninterest expense rose from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

Card Services net income decreased, driven by a higher provision for credit losses. Total managed net revenue increased slightly, as higher average managed loan balances, an increased level of fees and wider loan spreads were largely offset by the effect of higher revenue reversals associated with higher charge-offs. The managed provision for credit losses increased from the prior year due to a higher level of charge-offs and an increase in the allowance for loan losses reflecting higher estimated losses. Total noninterest expense was flat compared with the prior-year quarter.

Commercial Banking net income was a record, driven by record total net revenue and lower total noninterest expense. The increase in revenue resulted from double-digit growth in liability and loan balances and higher deposit-related fees, largely offset by spread compression in the liability and loan portfolios and a continued shift to narrower-spread liability products. The provision for credit losses largely reflected growth in loan balances. Total noninterest expense declined modestly compared with the prior year.

Treasury & Securities Services net income was a record, driven by record total net revenue, partially offset by higher total noninterest expense. Both Worldwide Securities Services and Treasury Services posted record revenue. Worldwide Securities Services revenue growth was driven by increased product usage by new and existing clients, wider spreads in securities lending and higher levels of market volatility in foreign exchange driven by recent market conditions. Partially offsetting these benefits was spread compression on liability products. Treasury Services revenue growth reflected higher liability balances and wider market-driven spreads as well as growth in electronic and trade loan volumes. Total noninterest expense was up, reflecting higher expense related to business and volume growth, as well as continued investment in new product platforms.

Asset Management net income decreased from the prior year reflecting lower revenue and higher noninterest expense. The decrease in revenue was driven by lower performance fees and the effect of lower markets. The lower revenue was predominantly offset by higher net asset flows, higher deposit and loan balances and the benefit of the Merger. The provision for credit losses increased from a benefit in the prior year, reflecting an increase in loan balances and a lower level of recoveries. The increase in total noninterest expense was largely driven by the effect of the Merger and increased headcount offset partially by lower performance-based compensation.

Corporate/Private Equity reported a net loss for the quarter compared with net income in the prior year. The net loss was driven by the after-tax effect of Bear Stearns merger-related items. These items included losses representing JPMorgan Chase s equity ownership in Bear Stearns from April 8 to May 30, 2008, and other merger-related expense and revenue items. Also contributing to the decline in net income from the prior year were lower results in Private Equity, reflecting a lower level of gains. Providing a partial offset to these lower results was improved performance in Corporate (excluding the Bear Stearns merger-related items), which benefited from a higher level of securities gains (including a gain from the sale of MasterCard shares), a wider net interest spread and a decline in total noninterest expense (largely reflecting a lower level of litigation expense). These benefits were partially offset by an increase in the provision for credit losses for prime mortgage.

The Firm s managed provision for credit losses was $4.3 billion, up $2.2 billion, or 102%, from the prior year, predominantly reflecting the effect of a weakening credit environment as well as loan growth. The total consumer-managed provision for credit losses was $3.8 billion, compared with $1.9 billion in the prior year. The current-quarter consumer provision reflected an increase in estimated losses across both the home-lending and credit card portfolios, including an increase to the allowance for credit losses predominantly related to subprime mortgage, prime mortgage and credit card loans. Consumer managed net charge-offs were $2.9 billion, compared with $1.6 billion in the second quarter of 2007, resulting in managed net charge-off rates of 3.08% and 1.90%, respectively. The wholesale provision for credit losses was $505 million, compared with $198 million in the prior year, reflecting an increase in the allowance for credit losses. Wholesale net charge-offs were $41 million, compared with net recoveries of $29 million, resulting in a net charge-off rate of 0.08% and a net recovery rate of 0.07%, respectively. The Firm had total nonperforming assets of $6.2 billion at June 30, 2008, up from the prior-year level of $2.4 billion. Total stockholders equity at June 30, 2008, was $133.2 billion, and the Tier 1 capital ratio was 9.2%, compared with 8.4% at June 30, 2007.

Business outlook

The following forward-looking statements are based upon the current beliefs and expectations of JPMorgan Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s results to differ materially from those set forth in such forward-looking statements.

JPMorgan Chase s outlook for the third quarter of 2008 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment and client activity levels. Each of these linked factors will affect the performance of the Firm and its lines of business. The Firm s current expectations are for the global and U.S. economic environments to continue to be weak, for capital markets to remain under stress and for a continued decline in U.S. housing prices. These factors have affected, and are likely to continue to adversely impact, the Firm s credit losses, overall business volumes and earnings.

The consumer provision for credit losses could increase substantially as a result of a higher level of losses in Retail Financial Services $95.1 billion home equity loan portfolio, $14.8 billion subprime mortgage loan portfolio, $47.2 billion prime mortgage loan portfolio (mostly held in the Corporate/Private Equity segment), and in Card Services $155.4 billion managed credit card portfolio. Given the potential stress on the consumer from the continued downward pressure on housing prices and the elevated national inventory of unsold homes, management remains extremely cautious with respect to the home equity, mortgage and credit card portfolios. As described below, management expects continued deterioration in credit trends for the consumer portfolios which will likely require additions to the consumer loan loss allowance during the remainder of 2008. Housing price declines in specific geographic regions and slowing economic growth continue to drive higher estimated losses and nonperforming assets for the home equity and subprime mortgage segments and have increasingly affected the prime mortgage segment, due in part to the high concentration of more recent (2006 and later) originations in this portfolio. Based on management s current economic outlook, quarterly net charge-offs in the home equity portfolio could continue to increase during the remainder of 2008; prime and subprime mortgage net charge-offs are expected to continue to rise significantly during the second half of 2008, with deterioration expected to continue into 2009. Continued housing price declines could also lead to increases in non-credit losses, including losses on repurchases of previously securitized loans and higher mortgage reinsurance losses. Management expects the managed net charge-off rate for Card Services to increase and potentially average 6% during 2009. These charge-off rates could increase if the economic environment continues to deteriorate. The wholesale provision for credit losses may also increase over time as a result of loan growth, portfolio activity and deterioration in underlying credit conditions.

The Investment Bank continues to be negatively affected by the disruption in the credit and mortgage markets, as well as by overall lower levels of liquidity and wider credit spreads. The continuation of these factors could potentially lead to reduced levels of client activity, lower investment banking fees and lower trading revenue. In addition, if the Firm s own credit spreads tighten, the change in the fair value of certain trading liabilities would also negatively affect trading results. The Firm held $16.3 billion (gross notional) of legacy leveraged loans and unfunded commitments as held-for-sale as of June 30, 2008. Markdowns averaging 20% of the gross notional value have been taken on these legacy positions as of June 30, 2008. Leveraged loans and unfunded commitments are difficult to hedge effectively, and if market conditions further deteriorate, additional markdowns may be necessary on this asset class. The Investment Bank also held, at June 30, 2008, an aggregate $19.5 billion of prime and Alt-A mortgage exposure and $1.9 billion of subprime mortgage exposure. In addition, the Investment Bank had $11.6 billion of Commercial Mortgage-Backed Securities (CMBS) exposure, which is substantially credit hedged. These mortgage exposures could be adversely affected by worsening market conditions, further deterioration in the housing market and market activity reflecting distressed sellers. For the third quarter to date, trading conditions have substantially deteriorated versus the second quarter. In particular, spreads on mortgage-backed securities and loans have sharply widened causing the company to incur losses (net of hedges) of approximately $1.5 billion for the quarter to date.

Earnings in Treasury & Securities Services and Asset Management could deteriorate if business volumes or assets under management or supervision decline. Such declines could occur if the economy weakens, as a result of lower equity markets, lower volatility in certain products or the narrowing of spreads (which had recently been driven wider by market conditions). In addition, Treasury & Securities Services third-quarter 2008 results will not include the benefit of the seasonally-strong second quarter securities lending and depositary receipts activity. Management believes remaining Bear Stearns merger-related costs will be approximately $500 million (after-tax); these costs are expected to be largely incurred during the second half of 2008 (approximately $150 million per quarter). Management continues to believe the net quarterly loss in Corporate could average over time approximately $50 million to $100 million, excluding trading results related to the Firm s investment portfolio and credit costs related to prime mortgage exposures which are expected to increase from second quarter levels (as discussed within the consumer outlook section above). Private Equity results, which are dependent upon the capital markets, could remain volatile and may be significantly lower in 2008 than 2007.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase s Consolidated Results of Operations on a reported basis. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 72 74 of this Form 10-Q and pages 96 98 of JPMorgan Chase s 2007 Annual Report.

Total net revenue

The following table presents the components of total net revenue.

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2008**	2007	Change	**2008**	2007	Change
Investment banking fees	**$ 1,612**	$ 1,898	(15)%	**$ 2,828**	$ 3,637	(22)%
Principal transactions	**752**	3,713	(80)	**(51)**	8,200	NM
Lending & deposit-related fees	**1,105**	951	16	**2,144**	1,846	16
Asset management, administration and commissions	**3,628**	3,611		**7,224**	6,797	6
Securities gains (losses)	**647**	(223)	NM	**680**	(221)	NM
Mortgage fees and related income	**696**	523	33	**1,221**	999	22
Credit card income	**1,803**	1,714	5	**3,599**	3,277	10
Other income	**(138)**	553	NM	**1,691**	1,071	58
Noninterest revenue	**10,105**	12,740	(21)	**19,336**	25,606	(24)
Net interest income	**8,294**	6,168	34	**15,953**	12,270	30
Total net revenue	**$ 18,399**	$ 18,908	(3)	**$ 35,289**	$ 37,876	(7)

Total net revenue for the second quarter of 2008 was $18.4 billion, down $509 million, or 3%, from the prior year. The decline was due to lower principal transactions revenue, which reflected net markdowns on leveraged lending funded and unfunded commitments and mortgage-related net markdowns, and lower levels of private equity gains. In addition, the Firm s share of Bear Stearns losses from April 8 to May 30, 2008, and lower investment banking fees contributed to the decline in revenue. Higher net interest income and a gain on the sale of MasterCard shares predominantly offset the decline. For the first six months of 2008, total net revenue was $35.3 billion, down $2.6 billion, or 7%, from the prior year, largely reflecting the same drivers as the quarter, as well as increases due to the proceeds from the sale of Visa shares in its initial public offering and higher asset management, administration and commissions revenue, which reflected higher brokerage commissions and growth in assets under custody and management.

Investment banking fees in the second quarter and first six months of 2008 declined from the record levels of the comparable periods last year. These results were predominantly driven by lower debt underwriting fees as well as lower advisory fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see the IB segment results on pages 19 22 of this Form 10-Q.

Principal transactions revenue consists of trading revenue and private equity gains. The Firm s trading activities in the second quarter and first six months of 2008 decreased significantly from the comparable periods in 2007, which reflected strong performance in most of the fixed income and equities products. The decrease for the quarter was largely due to net markdowns of $696 million on leveraged lending funded and unfunded commitments, as well as mortgage-related net markdowns of $405 million. Also contributing to the decrease was weaker Equity Markets trading results. Partially offsetting these declines was strong performance in rates, currencies, emerging markets, credit trading and equities client revenue, as well as a combined benefit of $314 million from the widening of the Firm s credit spread on certain structured liabilities. The significant decrease in trading revenue for the first six months of 2008 was largely due to markdowns taken in the IB, including $1.8 billion on leveraged lending funded and unfunded commitments and $1.6 billion on mortgage-related positions. These markdowns were offset partially by strong performances in rates, currencies, emerging markets, credit trading and equities client revenue, as well as a combined benefit of $1.3 billion from thefont>

OPERATING EXPENSES

Losses and loss adjustment expenses
522,978

511,556

1,134,697

985,520

Underwriting, acquisition and insurance expenses
400,035

375,580

773,266

740,268

Amortization of intangible assets
18,026

17,204

34,796

34,464

Other expenses

299,112

277,909

581,697

553,002

Total Operating Expenses
1,240,151

1,182,249

2,524,456

2,313,254

Operating Income
241,342

193,688

368,788

438,865

Interest expense
31,797

33,697

65,199

64,538

Loss on early extinguishment of debt
—

44,100

—

44,100

Income Before Income Taxes
209,545

115,891

303,589

330,227

Income tax expense
58,118

35,218

81,122

85,908

Net Income
151,427

80,673

222,467

244,319

Net income attributable to noncontrolling interests
1,767

1,876

2,938

5,152

Net Income to Shareholders
$
149,660

$
78,797

$
219,529

$
239,167

OTHER COMPREHENSIVE INCOME

Change in net unrealized gains on investments, net of taxes:

Net holding gains arising during the period
$
190,069

$

149,406

$
350,349

$
388,296

Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period
—

44

—

(23
)
Reclassification adjustments for net gains included in net income
(222
)

(10,567
)

(9,391
)

(23,550
)
Change in net unrealized gains on investments, net of taxes
189,847

138,883

340,958

364,723

Change in foreign currency translation adjustments, net of taxes
1,962

(8,121

)

3,507

2,208

Change in net actuarial pension loss, net of taxes
902

394

1,618

857

Total Other Comprehensive Income
192,711

131,156

346,083

367,788

Comprehensive Income
344,138

211,829

568,550

612,107

Comprehensive income attributable to noncontrolling interests
1,781

1,887

2,954

5,171

Comprehensive Income to Shareholders
$
342,357

$
209,942

$
565,596

$
606,936

NET INCOME PER SHARE

Basic
$
10.34

$
5.44

$
14.25

$
16.65

Diluted
$
10.31

$
5.41

$
14.20

$
16.55

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Changes in Equity
(Unaudited)

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

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

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

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

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

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

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

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and its consolidated subsidiaries, as well as any variable interest entities (VIEs) that meet the requirements for consolidation (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. The Company consolidates the results of its Markel Ventures subsidiaries on a one-month lag. Certain prior year amounts have been reclassified to conform to the current presentation.

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

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

2. Recent Accounting Pronouncements

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

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

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

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

Effective January 1, 2017, the Company early adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The ASU eliminates Step 2 of the goodwill impairment test, which is performed by estimating the fair value of individual assets and liabilities of the reporting unit to calculate the implied fair value of goodwill. Instead, an entity will record a goodwill impairment charge based on the excess of a reporting unit's carrying value over its estimated fair value, not to exceed the carrying amount of goodwill. The provisions of ASU No. 2017-04 were adopted on a prospective basis and did not have an impact on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which creates a new comprehensive revenue recognition standard that will serve as a single source of revenue guidance for all companies in all industries. The guidance applies to all companies that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards, such as insurance contracts. ASU No. 2014-09's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Consideration (Reporting Revenue Gross versus Net), ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers were all issued in 2016 as amendments to ASU No. 2014-09. These amendments will be evaluated and adopted in conjunction with ASU No. 2014-09. ASU No. 2014-09 becomes effective for the Company during the first quarter of 2018 and will be applied using the modified retrospective method, whereby the cumulative effect of adoption will be recognized as an adjustment to retained earnings at the date of initial application. The adoption of this ASU will not impact the Company's insurance premium revenues or revenues from its investment portfolio, which totaled 77% of consolidated revenues for the year ended December 31, 2016, but may have an impact the Company's other revenues, which are primarily attributable to its non-insurance operations. The Company has completed an inventory of these revenue streams, which are comprised of a diverse portfolio of contracts across various industries, and has preliminarily concluded that over 80% of the Company's other revenues for the year ended December 31, 2016 will not be impacted by adoption of this ASU. The Company is still evaluating the impact, if any, on the remaining 20% of its other revenues for the year ended December 31, 2016. The Company also expects to provide additional disclosures in the notes to financial statements as required under the new guidance and is still assessing the full impact that adopting the new accounting guidance will have on its consolidated financial statements.

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

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

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

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

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

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

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

3. Acquisitions

SureTec Acquisition

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

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

Subsequent Events

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

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

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4. Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Fair Value Measurements

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

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

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

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

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

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

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

The Company has evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. Level 1 investments include those traded on an active exchange, such as the New York Stock Exchange. Level 2 investments include U.S. Treasury securities, U.S. government-sponsored enterprises, municipal bonds, foreign government bonds, commercial mortgage-backed securities, residential mortgage-backed securities, asset-backed securities and corporate debt securities. Level 3 investments include the Company's investments in insurance-linked securities funds (the ILS Funds), as further described in note 12, which are not traded on an active exchange and are valued using unobservable inputs.

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

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

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

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

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

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

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

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

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

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

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

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

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6. Segment Reporting Disclosures

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

The Company's non-insurance operations include the Company's Markel Ventures operations, which primarily consist of controlling interests in various industrial and service businesses. The Company's non-insurance operations also include the results of the Company's legal and professional consulting services and the results of the Company's investment management services attributable to Markel CATCo Investment Management Ltd. For purposes of segment reporting, the Company's non-insurance operations are not considered to be a reportable segment.

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

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

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

Quarter Ended June 30, 2017

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

Quarter Ended June 30, 2016

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

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

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

(2) NM – Ratio is not meaningful.

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(dollars in thousands)	Six Months Ended June 30, 2017 U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$1,393,158	$629,117	$795,639	$ 1	$—	$2,817,915
Net written premiums	1,175,558	512,245	710,062	21	—	2,397,886
Earned premiums	1,127,577	433,461	455,117	21	—	2,016,176
Losses and loss adjustment expenses:						
Current accident year	(726,115)	(305,020)	(291,796)	—	—	(1,322,931)
Prior accident years	119,886	105,528	(43,412)	6,232	—	188,234
Amortization of policy acquisition costs	(236,998)	(71,079)	(109,945)	—	—	(418,022)
Other operating expenses	(202,059)	(106,478)	(46,408)	(299)	—	(355,244)
Underwriting profit (loss)	82,291	56,412	(36,444)	5,954	—	108,213
Net investment income	—	—	—	—	199,667	199,667
Net realized investment gains	—	—	—	—	38,492	38,492
Other revenues (insurance)	1,706	4,569	416	1,207	—	7,898
Other expenses (insurance)	(843)	(5,074)	—	(14,233)	—	(20,150)
Segment profit (loss)	$83,154	$55,907	$(36,028)	$ (7,072)	$238,159	$334,120
Other revenues (non-insurance)						631,011
Other expenses (non-insurance)						(561,547)
Amortization of intangible assets						(34,796)
Interest expense						(65,199)
Income before income taxes						$303,589
U.S. GAAP combined ratio [1]	93 %	87 %	108 %	NM [2]		95 %

(dollars in thousands)	Six Months Ended June 30, 2016 U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$1,337,258	$609,985	$723,090	$ (21)	$—	$2,670,312
Net written premiums	1,131,978	471,035	629,407	86	—	2,232,506
Earned premiums	1,065,796	418,397	424,133	219	—	1,908,545
Losses and loss adjustment expenses:						
Current accident year	(668,425)	(291,929)	(283,169)	—	—	(1,243,523)
Prior accident years	104,986	68,654	71,005	13,358	—	258,003
Amortization of policy acquisition costs	(220,589)	(67,145)	(90,601)	—	—	(378,335)
Other operating expenses	(189,789)	(118,023)	(54,047)	(74)	—	(361,933)
Underwriting profit	91,979	9,954	67,321	13,503	—	182,757
Net investment income	—	—	—	—	186,290	186,290
Net realized investment gains	—	—	—	—	38,420	38,420
Other revenues (insurance)	2,377	4,730	—	941	—	8,048
Other expenses (insurance)	(1,408)	(3,691)	—	(15,200)	—	(20,299)

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

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

(2) NM – Ratio is not meaningful.

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

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

7. Unpaid Losses and Loss Adjustment Expenses

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

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

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

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

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

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

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

8. Senior Long-Term Debt

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

9. Other Revenues and Other Expenses

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

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

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

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

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

10. Reinsurance

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

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

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

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

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

11. Life and Annuity Benefits

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

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

12. Variable Interest Entities

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

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

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

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

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

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

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13. Net Income per Share

Net income per share was determined by dividing adjusted net income to shareholders by the applicable weighted average shares outstanding. Diluted net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period.

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

14. Other Comprehensive Income

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

The following table presents the change in accumulated other comprehensive income by component, net of taxes and noncontrolling interests, for the six months ended June 30, 2017 and 2016.

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

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

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

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

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

15. Contingencies

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

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

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

Our Business

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

We monitor and report our ongoing underwriting operations in the following three segments: U.S. Insurance, International Insurance and Reinsurance. In determining how to aggregate and monitor our underwriting results, management considers many factors, including the geographic location and regulatory environment of the insurance entity underwriting the risk, the nature of the insurance product sold, the type of account written and the type of customer served. The U.S. Insurance segment includes all direct business and facultative placements written by our insurance subsidiaries domiciled in the United States. The International Insurance segment includes all direct business and facultative reinsurance placements written by our insurance subsidiaries domiciled outside of the United States, including our syndicate at Lloyd's of London (Lloyd's). The Reinsurance segment includes all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions are reported in the Other Insurance (Discontinued Lines) segment. All investing activities related to our insurance operations are included in the Investing segment.

Our U.S. Insurance segment includes both hard-to-place risks written outside of the standard market on an excess and surplus lines basis and unique and hard-to-place risks that must be written on an admitted basis due to marketing and regulatory reasons. The following products are included in this segment: general liability, professional liability, catastrophe-exposed property, personal property, workers' compensation, specialty program insurance for well-defined niche markets, and liability coverages and other coverages tailored for unique exposures. Business in this segment is written through our Wholesale, Specialty and Global Insurance divisions. The Wholesale division writes commercial risks, primarily on an excess and surplus lines basis, using a network of wholesale brokers managed on a regional basis. The Specialty division writes program insurance and other specialty coverages for well-defined niche markets, primarily on an admitted basis. The Global Insurance division writes risks outside of the standard market on both an admitted and non-admitted basis. Global Insurance division business written by our U.S. insurance subsidiaries is included in this segment.

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

Our Reinsurance segment includes property, casualty and specialty treaty reinsurance products offered to other insurance and reinsurance companies globally through the broker market. Our treaty reinsurance offerings include both quota share and excess of loss reinsurance and are typically written on a participation basis, which means each reinsurer shares proportionally in the business ceded under the reinsurance treaty written. Principal lines of business include: property (including catastrophe-exposed property), professional liability, general casualty, credit, surety, auto, and workers' compensation. Our reinsurance product offerings are underwritten by our Global Reinsurance division and our Markel International division.

For purposes of segment reporting, the Other Insurance (Discontinued Lines) segment includes lines of business that have been discontinued prior to, or in conjunction with, acquisitions. The lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits. The Other Insurance (Discontinued Lines) segment also includes development on asbestos and environmental loss reserves and the results attributable to the run-off of our life and annuity reinsurance business.

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

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

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

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Critical Accounting Estimates

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

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

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

Recent Accounting Pronouncements

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

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

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

Key Performance Indicators

We measure financial success by our ability to compound growth in book value per share at a high rate of return over a long period of time. To mitigate the effects of short-term volatility, we measure ourselves over a five-year period. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting, investing and operating results. We measure underwriting results by our underwriting profit or loss and combined ratio. We measure investing results by our net investment income and net realized gains (losses) as well as our taxable equivalent total investment return. We measure our other operating results, which primarily consist of our Markel Ventures operations, by our revenues and net income (loss), as well as earnings before interest, income taxes, depreciation and amortization (EBITDA). Our quarterly performance measures are discussed below in greater detail under "Results of Operations."

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Results of Operations

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
U.S. Insurance segment underwriting profit	$42,982	$34,653	$82,291	$91,979
International Insurance segment underwriting profit (loss)	32,061	(961)	56,412	9,954
Reinsurance segment underwriting profit (loss)	34,820	30,322	(36,444)	67,321
Other Insurance (Discontinued Lines) segment underwriting profit (loss)	698	(291)	5,954	13,503
Net investment income	99,299	94,996	199,667	186,290
Net realized investment gains	17,627	17,241	38,492	38,420
Other revenues	330,993	312,841	638,909	618,864
Other expenses	(299,112)	(277,909)	(581,697)	(553,002)
Amortization of intangible assets	(18,026)	(17,204)	(34,796)	(34,464)
Interest expense	(31,797)	(33,697)	(65,199)	(64,538)
Loss on early extinguishment of debt	—	(44,100)	—	(44,100)
Income tax expense	(58,118)	(35,218)	(81,122)	(85,908)
Net income attributable to noncontrolling interests	(1,767)	(1,876)	(2,938)	(5,152)
Net income to shareholders	$149,660	$78,797	$219,529	$239,167

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

Underwriting Results

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

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Consolidated

The following table presents selected data from our underwriting operations.

(dollars in thousands)	Quarter Ended June 30, 2017		Quarter Ended June 30, 2016		Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
Gross premium volume	$1,357,164		$1,277,649		$2,817,915		$2,670,312	
Net written premiums	1,137,657		1,050,546		2,397,886		2,232,506	
Net retention	84	%	82	%	85	%	84	%
Earned premiums	1,033,574		950,859		2,016,176		1,908,545	
Losses and loss adjustment expenses	522,978		511,556		1,134,697		985,520	
Underwriting, acquisition and insurance expenses	400,035		375,580		773,266		740,268	
Underwriting profit	110,561		63,723		108,213		182,757	
U.S. GAAP Combined Ratios								
U.S. Insurance	93	%	94	%	93	%	91	%
International Insurance	86	%	100	%	87	%	98	%
Reinsurance	85	%	86	%	108	%	84	%
Other Insurance (Discontinued Lines)	NM	(1)	NM	(1)	NM	(1)	NM	(1)
Markel Corporation (Consolidated)	89	%	93	%	95	%	90	%

(1) NM – Ratio is not meaningful.

Our combined ratio was 89% and 95% for the quarter and six months ended June 30, 2017, respectively, compared to 93% and 90% for the same periods of 2016.

The decrease in the consolidated combined ratio for the quarter ended June 30, 2017 was driven by the impact of the Canadian wildfires that occurred in the second quarter of 2016 and more favorable development on prior years' loss reserves compared to the same period of 2016. The consolidated combined ratio for the quarter ended June 30, 2016 included $25.3 million, or three points on the consolidated combined ratio, of underwriting loss related to the Canadian wildfires. The increase in prior year redundancies for the quarter ended June 30, 2017 was attributable to our International Insurance and U.S. Insurance segments. Higher earned premiums across all of our segments had a favorable impact on the consolidated expense ratio. This favorable impact was partially offset by higher general expenses in our U.S. Insurance segment and higher commissions in our Reinsurance segment.

The increase in the consolidated combined ratio for the six months ended June 30, 2017 was driven by less favorable development on prior years' loss reserves. The consolidated combined ratio for the six months ended June 30, 2017 included $85.0 million, or four points, 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. Higher earned premiums across all of our segments had a favorable impact on the consolidated expense ratio. This favorable impact was partially offset by higher commissions in our Reinsurance segment.

U.S. Insurance Segment

The combined ratio for the U.S. Insurance segment was 93% for both the quarter and six months ended June 30, 2017 compared to 94% and 91% for the same periods of 2016.

For the quarter ended June 30, 2017, the decrease in the combined ratio was driven by more favorable development on prior years' loss reserves.

- The current accident year loss ratio for the quarter ended June 30, 2017 was flat compared to the quarter ended June 30, 2016. Higher attritional losses on our property product lines in 2017 were offset by a favorable impact from our new surety business, which was acquired during the second quarter of 2017 and carries a lower loss ratio than other products in the segment.
- The U.S. Insurance segment's combined ratio for the quarter ended June 30, 2017 included $77.3 million of favorable development on prior years' loss reserves compared to $66.3 million for the same period in 2016. The increase in redundancies was primarily due to adverse development on our medical malpractice and specified medical product lines in the second quarter of 2016. There was no development on these product lines in the second quarter of 2017. In 2017, the favorable development on prior years' loss reserves was most significant on our general liability product lines across several accident years, workers compensation product lines, primarily on the 2013 through 2016 accident years, and professional liability product lines across several accident years. The favorable development in 2016 was most significant on our general liability, property and workers compensation product lines.
- The expense ratio was flat for the quarter ended June 30, 2017. A favorable impact from higher earned premiums was offset by higher general expenses, largely due to non-recurring acquisition-related expenses.

For the six months ended June 30, 2017, the increase in the combined ratio was driven by a higher current accident year loss ratio, partially offset by more favorable development on prior years' loss reserves.

- The increase in the current accident year loss ratio for the six months ended June 30, 2017 was due to higher attritional losses compared to 2016, across various product lines.
- The U.S. Insurance Segment's combined ratio for the six months ended June 30, 2017 included $119.9 million of favorable development on prior years' loss reserves compared to $105.0 million for the same period in 2016. The increase in favorable development was due to adverse development on our medical malpractice and specified medical product lines in the first six months of 2016. There was no development on these product lines in the first six months of 2017. The favorable development on prior years' loss reserves in 2017 was most significant on our general liability product lines across several accident years, workers compensation product lines, on the 2012 through 2016 accident years, and personal lines business, on the 2014 through 2016 accident years. During 2016, favorable development on prior years' loss reserves was most significant on our general liability and workers compensation product lines.

International Insurance Segment

The combined ratio for the International Insurance segment was 86% and 87% for the quarter and six months ended June 30, 2017, respectively, compared to 100% and 98% for the same periods of 2016.

For the quarter ended June 30, 2017, the decrease in the combined ratio was driven by a lower expense ratio, more favorable development on prior years' loss reserves and a lower current accident year loss ratio.

- The decrease in the current accident year loss ratio for the quarter ended June 30, 2017 compared to 2016 was driven by the impact of the Canadian wildfires that occurred in the second quarter of 2016. The current accident year loss ratio for the quarter ended June 30, 2016 included $4.6 million, or two points on the segment combined ratio, of underwriting loss related to the Canadian wildfires.
- The International Insurance segment's combined ratio for the quarter ended June 30, 2017 included $55.3 million of favorable development on prior years' loss reserves compared to $39.0 million in 2016. The increase in reserve

redundancies on prior years' loss reserves was driven by more favorable development on our professional liability product lines in the second quarter of 2017 compared the same period of 2016. For both the quarter ended June 30, 2017 and 2016, favorable development was most significant on our professional liability product lines across several accident years.

- The expense ratio for the International Insurance segment decreased primarily due to the write off of previously capitalized software development costs in the second quarter of 2016 and a favorable impact from higher earned premium and lower profit sharing in the second quarter of 2017 compared to 2016.

For the six months ended June 30, 2017, the decrease in the combined ratio was driven by more favorable development on prior years' loss reserves and a lower expense ratio compared to the same period of 2016.

- The current accident year loss ratio for the six months ended June 30, 2017 increased slightly compared to the prior year period. In 2017, we experienced higher attritional loss ratios across several product lines compared to the prior year period. The current accident year loss ratio for the six months ended June 30, 2016 included $4.6 million, or one point on the segment combined ratio, of underwriting loss related to the Canadian wildfires.
- The International Insurance segment's combined ratio for the six months ended June 30, 2017 included $105.5 million of favorable development on prior years' loss reserves compared to $68.7 million in 2016. The increase in loss reserve redundancies on prior years' loss reserves in 2017 compared to 2016 was driven by more favorable development on our general liability product lines in 2017. For the six months ended June 30, 2017, the favorable development on prior years' loss reserves was most significant on our professional liability and general liability product lines across several accident years and our marine and energy product lines, primarily on the 2013 through 2015 accident years. For the six months ended June 30, 2016, the favorable development on prior years' loss reserves was most significant on our professional liability and marine and energy product lines.
- The decrease in the expense ratio was primarily due to the write off of previously capitalized software development costs during the second quarter of 2016, lower profit sharing, and the favorable impact from higher earned premium in the first six months of 2017 compared to 2016. These decreases were partially offset by the impact of changes in the mix of business in this segment, most notably as the result of higher retentions on products with higher net commission rates in 2017 compared to 2016.

Reinsurance Segment

The combined ratio for the Reinsurance segment was 85% and 108% for the quarter and six months ended June 30, 2017, respectively, compared to 86% and 84% for the same periods of 2016.

For the quarter ended June 30, 2017 the decrease in the combined ratio was driven by a lower current accident year loss ratio, partially offset by less favorable development on prior years' loss reserves and a higher expense ratio in 2017 compared to the same period of 2016.

- The decrease in the current accident year loss ratio for the quarter ended June 30, 2017 compared to 2016 was driven by the impact of the Canadian wildfires that occurred in the second quarter of 2016. The current accident year loss ratio for the quarter ended June 30, 2016 included $20.7 million, or ten points on the segment combined ratio, of underwriting loss related to the Canadian wildfires. In the second quarter of 2017, we experienced higher attritional losses compared to the same period of 2016, primarily on our property product lines.
- The Reinsurance segment's combined ratio for the quarter ended June 30, 2017 included $28.2 million of favorable development on prior years' loss reserves compared to $34.6 million of favorable development in 2016. The decrease in favorable development on prior years' loss reserves was driven primarily by less favorable development on our property product lines, partially offset by more favorable development on our whole account business. For the quarter ended June 30, 2017, favorable development on prior years' loss reserves was most significant on our whole account product line on the 2010 through 2014 accident years. For the quarter ended June 30, 2016, the favorable development was most significant on our property product lines.
- The increase in the expense ratio was primarily due to 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, partially offset by lower profit sharing expenses in 2017 compared to 2016.

For the six months ended June 30, 2017 the increase in the combined ratio was driven by adverse development on prior year loss reserves, partially offset by a lower current accident year ratio.

- The current accident year loss ratio for the quarter ended June 30, 2016 included $20.7 million, or five points on the segment combined ratio, of underwriting loss related to the Canadian wildfires that occurred in the second quarter of

2016. In 2017, we had more unfavorable premium adjustments related to prior accident years compared to 2016.

- The Reinsurance segment's combined ratio for the six months ended June 30, 2017 included $43.4 million of adverse development on prior years' loss reserves compared to $71.0 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 previously discussed, which resulted in $85.0 million of adverse development, or 19 points on the Reinsurance segment combined ratio. Also contributing to the unfavorable variance to the prior year period was less favorable development on our property product line in 2017 compared to 2016. For the six months ended June 30, 2017, favorable development was most significant on our whole account product line on the 2010 through 2014 accident years and on our property product line on the 2012 through 2015 accident years. The favorable development on prior years' loss reserves in 2016 was most significant on our property and workers compensation product lines.

The expense ratio was flat for the six months ended June 30, 2017 compared to the same period of 2016. In 2017, higher commissions as a result of higher earned premiums on our quota share business were offset by lower profit sharing compared to the same period of 2016.

Other Insurance (Discontinued Lines)

The Other Insurance (Discontinued Lines) segment produced an underwriting profit of $0.7 million and $6.0 million for the quarter and six months ended June 30, 2017, respectively, compared to an underwriting loss of $0.3 million and an underwriting profit of $13.5 million for the same periods of 2016. The underwriting profit in the first six months of 2017 was driven by the Part VII transaction completed during the first quarter. See note 7 of the notes to the consolidated financial statements. The underwriting profit for the six months ended June 30, 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

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
U.S. Insurance	$753,329	$689,468	$1,393,158	$1,337,258
International Insurance	355,949	318,581	629,117	609,985
Reinsurance	247,902	269,604	795,639	723,090
Other Insurance (Discontinued Lines)	(16)	(4)	1	(21)
Total	$1,357,164	$1,277,649	$2,817,915	$2,670,312

Gross premium volume for both the quarter and six months ended June 30, 2017 increased 6%, compared to the same periods of 2016. The increase in gross premium volume for the quarter ended June 30, 2017 was attributable to the U.S. Insurance and International Insurance segments, partially offset by lower gross premium volume in our Reinsurance segment. The increase in gross premium volume for the six months ended June 30, 2017 was attributable to an increase in gross premium volume across all three of our ongoing underwriting segments.

Gross premium volume in our U.S. Insurance segment increased 9% and 4% for the quarter and six months ended June 30, 2017, respectively. The increase in gross premium volume for both the quarter and six months ended June 30, 2017 was driven by growth within our general liability and personal lines product lines as well as increased premiums from our new surety business which was acquired in the second quarter of 2017.

Gross premium volume in our International Insurance segment increased 12% and 3% for the quarter and six months ended June 30, 2017, respectively. The increase in gross premium volume for both the quarter and six months ended June 30, 2017 was primarily due to higher premium volume within our marine and energy and excess liability product lines, partially offset by an unfavorable impact from foreign currency exchange rate movements.

Gross premium volume in our Reinsurance segment decreased 8% for the quarter ended June 30, 2017 and increased 10% for the six months ended June 30, 2017. The decrease in gross premium volume for the quarter ended June 30, 2017 was driven by lower gross premium volume in our credit and surety product line due to a multi-year contract that was entered into in 2016, as well as lower gross premium volume in our auto, agriculture and property product lines. These decreases were partially offset by higher gross premium volume in our general liability product line. The increase in gross premium volume for the six months ended June 30, 2017 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 professional liability product lines. These increases were partially offset by lower gross premium volume in our property, auto and general liability product lines. Significant variability in gross premium volume can be expected in our Reinsurance segment due to individually significant deals and multi-year contracts.

We have continued to see small price decreases across many of our product lines during 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.

Net Written Premiums

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
U.S. Insurance	$630,453	$579,233	$1,175,558	$1,131,978
International Insurance	286,833	244,636	512,245	471,035
Reinsurance	220,466	226,681	710,062	629,407
Other Insurance (Discontinued Lines)	(95)	(4)	21	86
Total	$1,137,657	$1,050,546	$2,397,886	$2,232,506

Net retention of gross premium volume for the quarter and six months ended June 30, 2017 was 84% and 85%, respectively, compared to 82% and 84%, respectively, for the same periods of 2016. The increase in net retention for the both the quarter and six months ended June 30, 2017 compared to the same periods of 2016 was driven by higher retention within the International Insurance and Reinsurance segments. The increase in net retention within the International Insurance segment for both periods of 2017 was largely due to higher retention on our professional liability and marine and energy product lines. The increase in net retention within the Reinsurance segment for the quarter ended June 30, 2017 was primarily driven by higher retentions on our property product lines. The increase in net retention within the Reinsurance segment for the six months ended June 30, 2017 was primarily due to changes in the mix of business. Net retention in the U.S. Insurance segment was flat for both the quarter and six months ended June 30, 2017 compared to the same periods of 2016. This was due to higher retention on our casualty product lines, offset by lower retention on our personal lines business.

Earned Premiums

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
U.S. Insurance	$578,241	$533,328	$1,127,577	$1,065,796
International Insurance	225,948	203,052	433,461	418,397
Reinsurance	229,480	214,514	455,117	424,133
Other Insurance (Discontinued Lines)	(95)	(35)	21	219
Total	$1,033,574	$950,859	$2,016,176	$1,908,545

Earned premiums for the quarter and six months ended June 30, 2017 increased 9% and 6%, respectively, compared to the same periods of 2016. The increase in earned premiums for both the quarter and six months ended June 30, 2017 was attributable to an increase in earned premiums across all three of our ongoing underwriting segments. The increase in earned premiums in our U.S. Insurance segment for both periods of 2017 was primarily due to the increase in gross premium volume as described above. The increase in earned premiums in our International Insurance segment for both the quarter and six months ended June 30, 2017 was attributable to an increase in earned premiums across multiple product lines, partially offset by an unfavorable impact from movements in foreign currency exchange rates. The increase in earned premiums in our Reinsurance segment for the quarter ended June 30, 2017 was primarily due to higher earned premiums in our whole account, professional liability and general liability product lines, partially offset by lower earned premiums in our auto product line. The increase in earned premiums in our Reinsurance segment for the six months ended June 30, 2017 was primarily due to gross premium volume related to the two large specialty quota share treaties entered into in the first quarter of 2017, as described above, as well as an increase in gross premium volume related to our professional liability product lines. These increases were partially offset by lower gross premium volume within our auto product line.

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Investing Results

The following table summarizes our investment performance.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Net investment income	$99,299	$94,996	$199,667	$186,290
Net realized investment gains	$17,627	$17,241	$38,492	$38,420
Change in net unrealized gains on investments	$283,918	$255,844	$507,490	$592,691
Investment yield [(1)]	0.6 %	0.6 %	1.3 %	1.2 %
Taxable equivalent total investment return, before foreign currency effect			4.3 %	4.9 %
Taxable equivalent total investment return			4.8 %	4.9 %

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

The increase in net investment income for both the quarter and six months ended June 30, 2017 was driven by an increase in short-term investment income, primarily due to higher short-term interest rates, higher dividend income due to increased equity holdings, and higher interest income on our fixed maturity portfolio, due to increased holdings of fixed maturities compared to the same periods 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 and six months ended June 30, 2017 included write downs for other-than-temporary declines in the estimated fair value of investments of $0.6 million and $3.8 million, respectively, all of which were attributable to equity securities. Net realized investment gains for the quarter and six months ended June 30, 2016 included write downs for other-than-temporary declines in the estimated fair value of investments of $3.7 million and $12.1 million, respectively, 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 June 30, 2017, we held securities with gross unrealized losses of $54.7 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 June 30, 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.

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

	Six Months Ended June 30,	
	2017	2016
Investment yield (1)	1.3 %	1.2 %
Adjustment of investment yield from amortized cost to fair value	(0.2)%	(0.2)%
Net amortization of net premium on fixed maturities	0.2 %	0.2 %
Net realized investment gains and change in net unrealized gains on investments	2.9 %	3.5 %
Taxable equivalent effect for interest and dividends (2)	0.2 %	0.2 %
Other (3)	0.4 %	— %
Taxable equivalent total investment return	4.8 %	4.9 %

(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.

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.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2017	2016	2017	2016
Operating revenues	$313,597	$297,754	$600,532	$584,273
Net income to shareholders	$20,548	$21,957	$34,547	$36,030
EBITDA	$49,241	$50,898	$90,933	$92,042

Revenues from our Markel Ventures operations increased $15.8 million and $16.3 million for the quarter and six months ended June 30, 2017, respectively, compared to the same periods of 2016. In both periods, the increase in revenues was primarily attributable to higher revenues in our non-manufacturing operations, partially offset by lower revenues in certain of our manufacturing operations due to lower sales volumes in 2017 compared to 2016.

Net income to shareholders and EBITDA from our Markel Ventures operations decreased for the quarter and six months ended June 30, 2017 due to lower sales volumes in certain of our manufacturing operations, partially offset by more favorable results in most of our non-manufacturing operations compared to the same periods of 2016.

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.

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(dollars in thousands)	Quarter Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Net income to shareholders	$149,660	$78,797	$219,529	$239,167
Income before income taxes from other Markel operations	(175,952)	(80,745)	(244,967)	(269,098)
Income tax expense from other Markel operations	46,840	23,905	59,985	65,961
Markel Ventures net income to shareholders	20,548	21,957	34,547	36,030
Interest expense [(1)]	2,945	3,953	6,423	7,605
Income tax expense	10,324	10,185	19,473	19,063
Depreciation expense	8,973	8,049	17,668	15,828
Amortization of intangible assets	6,451	6,754	12,822	13,516
Markel Ventures EBITDA - Total	$49,241	$50,898	$90,933	$92,042
Markel Ventures EBITDA - Manufacturing	$29,944	$35,879	$56,675	$70,518
Markel Ventures EBITDA - Non-Manufacturing	19,297	15,019	34,258	21,524
Markel Ventures EBITDA - Total	$49,241	$50,898	$90,933	$92,042

(1) Interest expense for the quarters ended June 30, 2017 and 2016 includes intercompany interest expense of $2.0 million and $2.4 million, respectively. Interest expense for the six months ended June 30, 2017 and 2016 includes intercompany interest expense of $4.0 million and $4.7 million, respectively.

Interest Expense, Loss on Early Extinguishment of Debt and Income Taxes

Interest Expense and Loss on Early Extinguishment of Debt

Interest expense was $31.8 million and $65.2 million for the quarter and six months ended June 30, 2017, respectively, compared to $33.7 million and $64.5 million for the same periods of 2016. The decrease in interest expense for the quarter ended June 30, 2017 was primarily due to the repayment of our 7.20% unsecured senior notes in April of 2017. The increase in interest expense for the six months ended June 30, 2017 was due to interest expense associated with our 5.0% unsecured senior notes, which were issued in the second quarter of 2016, partially offset by the partial purchase of our 7.125% unsecured senior notes and our 7.35% unsecured senior notes in the second quarter of 2016 and the repayment of our 7.20% unsecured senior notes in the second quarter of 2017.

In connection with the purchase of a portion of our 7.125% unsecured senior notes due 2034 and 7.125% unsecured senior notes due 2019 in the second quarter of 2016, we recognized a loss on early extinguishment of debt of $44.1 million during the quarter and six months ended June 30, 2016.

Income Taxes

The effective tax rate was 27% and 26% for the six months ended June 30, 2017 and 2016, respectively. The effective tax rate differs from the U.S. statutory tax rate of 35%, for both periods, primarily as a result of tax-exempt investment income.

Our effective tax rate, which is based upon the estimated annual effective tax rate, may fluctuate from period to period based on the relative mix of income or loss reported by jurisdiction and the varying tax rates in each jurisdiction.

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Comprehensive Income to Shareholders

Comprehensive income to shareholders was $342.4 million for the second quarter of 2017 compared to $209.9 million for the same period of 2016. Comprehensive income to shareholders for the second quarter of 2017 included an increase in net unrealized gains on investments, net of taxes, of $189.8 million and net income to shareholders of $149.7 million. Comprehensive income to shareholders for the second quarter of 2016 included an increase in net unrealized gains on investments, net of taxes, of $138.9 million and net income to shareholders of $78.8 million.

Comprehensive income to shareholders was $565.6 million for the six months ended June 30, 2017 compared to $606.9 million for the same period of 2016. Comprehensive income to shareholders for the six months ended June 30, 2017 included an increase in net unrealized gains on investments, net of taxes, of $341.0 million and net income to shareholders of $219.5 million. Comprehensive income to shareholders for the six months ended June 30, 2016 included an increase in net unrealized gains on investments, net of taxes, of $364.7 million and net income to shareholders of $239.2 million.

The increase in net unrealized gains on investments, net of taxes, for both the quarter and six months ended June 30, 2017 was attributable to an increase in the fair value of both our fixed maturity and equity portfolios compared to March 31, 2017 and December 31, 2016, respectively.

The increase in net unrealized gains on investments, net of taxes, for both the quarter and six months ended June 30, 2016 was attributable to an increase in the fair value of both our fixed maturity and equity portfolios compared to March 31, 2016 and December 31, 2015, respectively. The increase in net unrealized gains on investments for both the quarter and six months ended June 30, 2016 was net of a $47.9 million adjustment to reclassify unrealized gains on the investments supporting future policy benefits to life and annuity benefit reserves. No adjustment was required for the quarter or six months ended June 30, 2017. See note 11 of the notes to consolidated financial statements for further discussion of this adjustment.

Financial Condition

Investments, cash and cash equivalents and restricted cash and cash equivalents (invested assets) were $19.7 billion at June 30, 2017 compared to $19.1 billion at December 31, 2016. Net unrealized gains on investments, net of taxes, were $2.1 billion at June 30, 2017 compared to $1.7 billion at December 31, 2016. Equity securities were $5.3 billion, or 27% of invested assets, at June 30, 2017, compared to $4.7 billion, or 25% of invested assets, at December 31, 2016.

Net cash provided by operating activities was $237.9 million for the six months ended June 30, 2017 compared to $70.2 million for the same period of 2016. Net cash provided by operating activities for the six months ended June 30, 2017 and 2016 was net of cash payments of $45.8 million and $51.9 million, respectively, made in connection with commutations that were completed during the respective periods. Net cash flows from operating activities for the six months ended June 30, 2017 reflected higher premium collections in the U.S. Insurance segment, lower claims settlement activity, primarily in our International Insurance segment, and lower payments for employee profit sharing compared to the same period of 2016.

Net cash provided by investing activities was $436.8 million for the six months ended June 30, 2017 compared to net cash used by investing activities of $1.0 billion for the same period of 2016. The increase in cash provided by investing activities was primarily a result of a decrease in our holdings in short-term investments during the six months ended June 30, 2017 compared to an increase in the same period of 2016. During the first six months of 2017, the proceeds from the sales, maturities and calls of fixed maturities and sales of equity securities were reinvested in fixed maturities and equity securities. Net cash provided by investing activities during the six months ended June 30, 2017 was net of $202.0 million of cash, net of cash acquired, used to complete acquisitions. Cash flows from investing activities are affected by various factors such as anticipated payment of claims, financing activity, acquisition opportunities and individual buy and sell decisions made in the normal course of our investment portfolio management.

Net cash used by financing activities was $198.6 million for the six months ended June 30, 2017 compared to net cash provided by financing activities of $229.9 million for the same period of 2016. During the second quarter of 2017, we used cash of $90.6 million to repay the remaining outstanding balance of our 7.20% unsecured senior notes due April 14, 2017. During the second quarter of 2016, we issued $500 million of 5.0% unsecured senior notes due April 5, 2046. Net proceeds were $493.1 million. We used a portion of these proceeds to purchase $70.2 million of principal on our 7.35% unsecured senior notes due 2034 and $108.8 million of principal on our 7.125% unsecured senior notes due 2019 through a tender offer at a total purchase price $95.0 million and $126.4 million, respectively. Cash of $59.2 million and $15.2 million was used to repurchase shares of our common stock during the first six months of 2017 and 2016, respectively.

We seek to maintain prudent levels of liquidity and financial leverage for the protection of our policyholders, creditors and shareholders. Our debt to capital ratio was 22% at June 30, 2017 and 23% at December 31, 2016.

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

Our holding company had $2.0 billion and $2.5 billion of invested assets at June 30, 2017 and December 31, 2016, respectively. The decrease in invested assets is primarily due to the acquisition of SureTec and the repayment of our 7.20% unsecured senior notes during the second quarter of 2017.

Shareholders' equity was $9.0 billion at June 30, 2017 and $8.5 billion at December 31, 2016. Book value per share increased to $643.37 at June 30, 2017 from $606.30 at December 31, 2016, primarily due to $565.6 million of comprehensive income to shareholders for the six months ended June 30, 2017.

On July 19, 2017, we entered into a definitive agreement to acquire 81% of Costa Farms, a Florida-based privately held grower of house and garden plants. Cash consideration for the purchase is currently estimated to be approximately $255 million; however, total consideration will include contingent consideration and additional cash consideration, which are expected to fluctuate based on actual conditions to be determined upon closing. The transaction is subject to customary closing conditions, and is expected to close in the third quarter of 2017.

On July 26, 2017, we entered into a definitive merger agreement to acquire State National Companies, Inc. See Part II, Item 5 for further discussion.

Brexit Developments

On June 23, 2016, the U.K. voted to exit the European Union (E.U.) (Brexit), and on March 29, 2017, the U.K. government delivered formal notice to the other E.U. member countries that it is leaving the E.U. A two-year period has now commenced during which the U.K. and the E.U. will negotiate the future terms of the U.K.'s relationship with the E.U., including the terms of trade between the U.K. and the E.U. Unless this period is extended, the U.K. will automatically exit the E.U., with or without an agreement in place, after two years. During this period the U.K. will remain a part of the E.U. After Brexit terms are agreed, Brexit could be implemented in stages over a multi-year period.

No member country has left the E.U., and the rules for exit (contained in Article 50 of the Treaty on European Union) are brief. Accordingly, there are significant uncertainties related to the political, monetary and economic impacts of Brexit, including related tax, accounting and financial reporting implications. Brexit could also lead to legal uncertainty and potentially a large number of new and divergent national laws and regulations, including new tax rules, as the U.K. determines which E.U. laws to replace or replicate.

The effects of Brexit will depend in part on any agreements the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Brexit could impair or end the ability of both Markel International Insurance Company Limited (MIICL) and our Lloyd's syndicate to transact business in E.U. countries from our U.K. offices and MIICL's ability to maintain its current branches in E.U. member countries. We have taken preliminary steps to obtain regulatory approval to establish an insurance company in Germany in order to continue transacting E.U. business if U.K. access to E.U. markets ceases or is materially impaired. The Society of Lloyd's has announced that it will be setting up a new European insurance company in Brussels in order to maintain access to E.U. business for Lloyd's syndicates. Access to E.U. markets through a solution devised by the Society of Lloyd's may supplement, or serve as an alternative to, a new E.U.-based insurance carrier for business we transact in the E.U.

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Disclosure of Certain Activities Relating to Iran

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, non-U.S. entities owned or controlled by U.S. persons have been prohibited from engaging in activities, transactions or dealings with Iran to the same extent as U.S. persons. Effective January 16, 2016, the Office of Foreign Assets Control of the U.S. Department of the Treasury adopted General License H, which authorizes non-U.S. entities that are owned or controlled by a U.S. person to engage in most activities with Iran permitted for other non-U.S. entities so long as they meet certain requirements.

Section 13(r) of the Securities Exchange Act of 1934 requires reporting of certain Iran-related activities that are now permitted under General License H, including underwriting, insuring and reinsuring certain activities related to the importation of refined petroleum products by Iran and vessels involved in the transportation of crude oil from Iran.

Certain of our non-U.S. insurance operations underwrite global marine hull policies and global marine hull war policies that provide coverage for vessels or fleets navigating into and out of ports worldwide, potentially including Iran. Under a global marine hull war policy, the insured is required to give notice before entering designated areas, including Iran. During the quarter ended June 30, 2017 we have received notice that one or more vessels covered by a global marine hull war policy were entering Iranian waters. However, no additional premium is required under global marine hull policies or global marine hull war policies for calling into Iran. During the quarter ended June 30, 2017, we have not been asked to cover a specific voyage into or out of Iran that would result in a separate, allocable premium for that voyage.

Certain of our non-U.S. reinsurance operations underwrite marine, energy, aviation and trade credit liability treaties on a worldwide basis and, as a result, it is possible that the underlying insurance portfolios may have exposure to the Iranian petroleum industry and its related products and service providers.

We provide two energy construction reinsurance contracts in Iran, two Iran-related marine liability contracts, two Iran-related marine cargo contracts and one Iran-related hull war contract. These contracts have been underwritten through our syndicate at Lloyd's and one of our non-U.S. insurance companies. We expect our portion of the premium for these contracts to be approximately $2 million in the aggregate. Except for these contracts, we are not aware of any premium apportionment with respect to underwriting, insurance or reinsurance activities of our non-U.S. insurance subsidiaries reportable under Section 13(r). Should any such risks have entered into the stream of commerce covered by the insurance portfolios underlying our reinsurance treaties, we believe that the premiums associated with such business would be immaterial.

Our non-U.S. insurance subsidiaries intend to continue to provide insurance and reinsurance for coverage of Iran-related risks, if at all, only to the extent permitted under, and in accordance with, General License H or other applicable economic or trade sanctions requirements or licenses.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Our primary market risks have been equity price risk associated with investments in equity securities, interest rate risk associated with investments in fixed maturities and foreign currency exchange rate risk associated with our international operations. Various companies within our Markel Ventures operations are subject to commodity price risk; however, this risk is not material to the Company. During the six months ended June 30, 2017, there were no material changes to the market risk components described in our Annual Report on Form 10-K for the year ended December 31, 2016.

The estimated fair value of our investment portfolio at June 30, 2017 was $19.7 billion, 73% of which was invested in fixed maturities, short-term investments, cash and cash equivalents and restricted cash and cash equivalents and 27% of which was invested in equity securities. At December 31, 2016, the estimated fair value of our investment portfolio was $19.1 billion, 75% of which was invested in fixed maturities, short-term investments, cash and cash equivalents and restricted cash and cash equivalents and 25% of which was invested in equity securities.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit quality, investment grade securities. Our fixed maturity portfolio has an average rating of "AA," with approximately 98% rated "A" or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At June 30, 2017, approximately 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

Our fixed maturity portfolio includes securities issued by foreign governments and non-sovereign foreign institutions. General concern exists about the financial difficulties facing certain foreign countries in light of the adverse economic conditions experienced over the past several years. We monitor developments in foreign countries, currencies and issuers that could pose risks to our fixed maturity portfolio, including ratings downgrades, political and financial changes and the widening of credit spreads. We believe that our fixed maturity portfolio is highly diversified and is comprised of high quality securities. During the six months ended June 30, 2017, there were no material changes in our foreign government fixed maturity holdings.

General concern also exists about municipalities that experience financial difficulties during periods of adverse economic conditions. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically either general obligation or revenue bonds related to essential products and services.

Our fixed maturities, equity securities and short-term investments are recorded at fair value, which is measured based upon quoted prices in active markets, if available. We determine fair value for these investments after considering various sources of information, including information provided by a third-party pricing service. The pricing service provides prices for substantially all of our fixed maturities and equity securities. In determining fair value, we generally do not adjust the prices obtained from the pricing service. We obtain an understanding of the pricing service's valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. We validate prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

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Item 4. Controls and Procedures

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

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

Based upon our controls evaluation, the PEO and PFO concluded that effective Disclosure Controls were in place to ensure that the information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There were no changes in our internal control over financial reporting during the second quarter of 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Safe Harbor and Cautionary Statement

This report contains statements concerning or incorporating our expectations, assumptions, plans, objectives, future financial or operating performance and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management.

There are risks and uncertainties that may cause actual results to differ materially from predicted results in forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additional factors that could cause actual results to differ from those predicted are set forth under "Risk Factors" and "Safe Harbor and Cautionary Statement" in our 2016 Annual Report on Form 10-K or are included in the items listed below:

- our anticipated premium volume is based on current knowledge and assumes no significant man-made or natural catastrophes, no significant changes in products or personnel and no adverse changes in market conditions;
- the effect of cyclical trends, including demand and pricing in the insurance and reinsurance markets;
- actions by competitors, including the application of new or "disruptive" technologies or business models and consolidation, and the effect of competition on market trends and pricing;
- we offer insurance and reinsurance coverage against terrorist acts in connection with some of our programs, and in other instances we are legally required to offer terrorism insurance; in both circumstances, we actively manage our exposure, but if there is a covered terrorist attack, we could sustain material losses;
- the frequency and severity of man-made and natural catastrophes (including earthquakes and weather-related catastrophes) may exceed expectations, are unpredictable and, in the case of weather-related catastrophes, may be exacerbated if, as many forecast, conditions in the oceans and atmosphere result in increased hurricane, flood, drought or other adverse weather-related activity;
- emerging claim and coverage issues, changing legal and social trends, and inherent uncertainties in the loss estimation process can adversely impact the adequacy of our loss reserves and our allowance for reinsurance recoverables;
- reinsurance reserves are subject to greater uncertainty than insurance reserves, primarily because of reliance upon the original underwriting decisions made by ceding companies and the longer lapse of time from the occurrence of loss events to their reporting to the reinsurer for ultimate resolution;
- changes in the assumptions and estimates used in establishing reserves for our life and annuity reinsurance book (which is in runoff), for example, changes in assumptions and estimates of mortality, longevity, morbidity and interest rates, could result in material increases in our estimated loss reserves for such business;
- adverse developments in insurance coverage litigation or other legal or administrative proceedings could result in material increases in our estimates of loss reserves;
- the failure or inadequacy of any loss limitation methods we employ;
- changes in the availability, costs and quality of reinsurance coverage, which may impact our ability to write or continue to write certain lines of business;
- industry and economic conditions, deterioration in reinsurer credit quality and coverage disputes can affect the ability or willingness of reinsurers to pay balances due;
- after the commutation of ceded reinsurance contracts, any subsequent adverse development in the re-assumed loss reserves will result in a charge to earnings;
- regulatory actions can impede our ability to charge adequate rates and efficiently allocate capital;
- general economic and market conditions and industry specific conditions, including extended economic recessions or expansions; prolonged periods of slow economic growth; inflation or deflation; fluctuations in foreign currency exchange rates, commodity and energy prices and interest rates; volatility in the credit and capital markets; and other factors;
- economic conditions, actual or potential defaults in municipal bonds or sovereign debt obligations, volatility in interest and foreign currency exchange rates and changes in market value of concentrated investments can have a

significant impact on the fair value of our fixed maturity and equity securities, as well as the carrying value of our other assets and liabilities, and this impact may be heightened by market volatility;

- economic conditions may adversely affect our access to capital and credit markets;
- the effects of government intervention, including material changes in the monetary policies of central banks, to address financial downturns and economic and currency concerns;
- the impacts that political and civil unrest and regional conflicts may have on our businesses and the markets they serve or that any disruptions in regional or worldwide economic conditions generally arising from these situations may have on our businesses, industries or investments;
- the impacts that health epidemics and pandemics may have on our business operations and claims activity;
- the impact on our businesses of the repeal, in part or in whole, or modification of U.S. health care reform legislation and regulations;
- changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate;
- we are dependent upon operational effectiveness and security of our enterprise information technology systems and those maintained by third parties; if one or more of those systems fail or suffer a security breach, our businesses or reputation could be adversely impacted;
- our acquisition of insurance and non-insurance businesses may increase our operational and control risks for a period of time;
- we may not realize the contemplated benefits, including cost savings and synergies, of our acquisitions;
- any determination requiring the write-off of a significant portion of our goodwill and intangible assets;
- the loss of services of any executive officer or other key personnel could adversely impact one or more of our operations;
- our substantial international operations and investments expose us to increased political, operational and economic risks, including foreign currency exchange rate and credit risk;
- the vote by the United Kingdom to leave the European Union, which could have adverse consequences for our businesses, particularly our London-based international insurance operations;
- our ability to raise third party capital for existing or new investment vehicles and risks related to our management of third party capital;
- the effectiveness of our procedures for compliance with existing and ever increasing guidelines, policies and legal and regulatory standards, rules, laws and regulations;
- the impact of economic and trade sanctions and embargo programs on our businesses, including instances in which the requirements and limitations applicable to the global operations of U.S. companies and their affiliates are more restrictive than those applicable to non-U.S. companies and their affiliates;
- a number of additional factors may adversely affect our Markel Ventures operations, and the markets they serve, and negatively impact their revenues and profitability, including, among others: changes in government support for education, healthcare and infrastructure projects; changes in capital spending levels; changes in the housing market; and volatility in commodity prices and interest and foreign currency exchange rates; and
- adverse changes in our assigned financial strength or debt ratings could adversely impact us, including our ability to attract and retain business and the availability and cost of capital.

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Thomas Yeransian v. Markel Corporation (U.S. District Court for the District of Delaware)
In October 2010, we completed our acquisition of Aspen Holdings, Inc. (Aspen). As part of the consideration for that acquisition, Aspen shareholders received contingent value rights (CVRs), which we currently expect will 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 our estimation of the value of the CVRs. On September 15, 2016, Mr. Yeransian filed a suit alleging, among other things, that we are in default under the CVR agreement. The holder representative seeks: $47.3 million in damages, which represents the unadjusted value of the CVRs; plus interest (approximately $10.6 million through June 30, 2017) and default interest (up to an additional $9.3 million through June 30, 2017, depending on the date any default occurred); and an unspecified amount of punitive damages, costs, and attorneys’ fees.
At the initial hearing held February 21, 2017, the judge stayed the proceedings and ordered the parties to discuss resolving the dispute pursuant to the independent CVR valuation procedure under the CVR agreement. The parties met on April 5, 2017, but were unsuccessful in reaching agreement on a process for resolving the dispute.
We believe the holder representative’s suit to be without merit and will vigorously defend against it. We further believe that any material loss resulting from the holder representative’s suit to be remote. We do not believe the contractual contingent consideration payments related to the CVRs will have a material impact on our liquidity.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our common stock repurchases for the quarter ended June 30, 2017.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
April 1, 2017 through April 30, 2017	10,640	$970.97	10,640	$ 202,078
May 1, 2017 through May 31, 2017	12,320	$965.07	12,320	$ 190,188
June 1, 2017 through June 30, 2017	12,320	$976.84	12,320	$ 178,153
Total	35,280	$970.96	35,280	$ 178,153

(1) The Board of Directors approved the repurchase of up to $300 million of our common stock pursuant to a share repurchase program publicly announced on November 21, 2013 (the Program). Under the Program, we may repurchase outstanding shares of our common stock from time to time in privately negotiated or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934. The Program has no expiration date but may be terminated by the Board of Directors at any time.

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Item 5. Other Information

On July 26, 2017, we entered into a definitive merger agreement to acquire State National Companies, Inc. (NASDAQ: SNC) (State National). State National is a leading specialty provider of property and casualty insurance services operating in two niche markets across the United States. In its Program Services segment, State National provides access to the U.S. property and casualty insurance market in exchange for ceding fees. In its Lender Services segment, State National specializes in providing collateral protection insurance, which insures personal automobiles and other vehicles held as collateral for loans made by credit unions, banks and specialty finance companies.

Under the merger agreement, State National stockholders will receive $21.00 in cash for each outstanding share of State National common stock (other than restricted shares that do not vest in connection with the transaction) (the Merger Consideration). Each holder of outstanding options to acquire State National common stock (whether or not vested) will receive the excess of the Merger Consideration over the exercise price of the options. Outstanding unvested restricted shares of State National common stock will become (i) fully vested in the case of time-based vesting restricted stock or (ii) vested at the target level of performance in the case of performance-based vesting restricted stock, and each holder of State National restricted stock will receive the Merger Consideration for each vested share of State National restricted stock. The aggregate merger consideration, including net cash payments for State National options and restricted stock, would be approximately $919 million.

The transaction is subject to customary closing conditions, including regulatory approvals and the approval of State National’s stockholders, and is expected to close in the fourth quarter of 2017. In connection with the transaction, certain stockholders representing approximately 37% of State National’s issued and outstanding common stock have agreed to vote in favor of the merger agreement and the merger, subject to certain exceptions.

Additional information regarding the transaction, the merger agreement and certain related agreements (including the voting agreements described above) is discussed in State National’s Current Report on Form 8-K filed on July 26, 2017, and a copy of the merger agreement has been filed as an exhibit to that report.

The proposed transaction is subject to risks and uncertainties, including: (A) that State National and we may be unable to complete the proposed transaction because, among other reasons, conditions to the closing of the proposed transaction may not be satisfied or waived; (B) uncertainty as to the timing of completion of the proposed transaction; (C) the inability to complete the proposed transaction due to the failure to obtain State National stockholder approval for the proposed transaction or the failure to satisfy other conditions to completion of the proposed transaction, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction; (D) the exercise of appraisal rights by State National stockholders, which could permit us to terminate the merger agreement even if State National stockholder approval has been obtained; (E) the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; (F) risks related to disruption of management’s attention from State National’s ongoing business operations due to the proposed transaction; (G) the effect of the announcement of the proposed transaction on State National’s relationships with its clients, operating results and business generally; (H) the outcome of any legal proceedings to the extent initiated against State National, us or others following the announcement of the proposed transaction; (I) risks related to our post-closing integration of State National’s business and operations; (J) risks related to a downgrading of State National’s or our A.M. Best ratings or other similar financial strength or debt ratings as a result of the announcement or completion of the proposed transaction; and (K) the loss or impairment of State National’s material client or other relationships as a result of the announcement or completion of the proposed transaction, as well as State National’s and our management's response to any of the aforementioned factors.

Item 6. Exhibits

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

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 26th day of July 2017.

Markel Corporation

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

By: /s/ Anne G. Waleski
Anne G. Waleski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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Exhibit Index

Exhibit No.	Document Description
3(i)	Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 in the Registrant's report on Form 8-K filed with the Commission May 13, 2011)
3(ii)	Bylaws, as amended (incorporated by reference from Exhibit 3.1 in the Registrant's report on Form 8-K filed with the Commission November 20, 2015)
4.1	Indenture dated as of June 5, 2001, between Markel Corporation and The Chase Manhattan Bank, as Trustee (incorporated by reference from Exhibit 4.1 in the Registrant's report on Form 8-K filed with the Commission June 5, 2001)
4.2	Form of Third Supplemental Indenture dated as of August 13, 2004 between Markel Corporation and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission August 11, 2004)
4.3	Form of Fifth Supplemental Indenture dated as of September 22, 2009 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission September 21, 2009)
4.4	Form of Sixth Supplemental Indenture dated as of June 1, 2011 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission May 31, 2011)
4.5	Form of Seventh Supplemental Indenture dated as of July 2, 2012 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission June 29, 2012)
4.6	Form of Eighth Supplemental Indenture dated as of March 8, 2013 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission March 7, 2013)
4.7	Form of Ninth Supplemental Indenture dated as of March 8, 2013 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.3 in the Registrant's report on Form 8-K filed with the Commission March 7, 2013)
4.8	Form of Tenth Supplemental Indenture dated as of April 5, 2016 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission March 31, 2016)

4.9	Indenture dated as of September 1, 2010, among Alterra Finance LLC, Alterra Capital Holdings Limited and The Bank of New York Mellon, as Trustee (incorporated by reference from Exhibit 4.14 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2013)
4.10	First Supplemental Indenture, dated as of September 27, 2010 between Alterra Finance LLC, Alterra Capital Holdings Limited and The Bank of New York Mellon, as Trustee, including the form of the securities as Exhibit A (incorporated by reference from Exhibit 4.15 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2013)
4.11	Form of Second Supplemental Indenture dated as of June 30, 2014 among Alterra Finance LLC, Alterra Capital Holdings Limited and the Bank of New York Mellon, as Trustee (incorporated by reference from Exhibit 4.16 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2014)
4.12	Form of Guaranty Agreement by Markel Corporation dated as of June 30, 2014 in connection with the Alterra Finance LLC 6.25% Senior Notes due 2020 (incorporated by reference from Exhibit 4.17 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2014)
10.1	Form of Performance-Based Restricted Stock Unit Award Agreement for Executive Officers for the 2016 Equity Incentive Compensation Plan (revised May 15, 2017) (incorporated by reference from Exhibit 10.1 in the Registrant’s report on Form 8-K filed with the Commission May 17, 2017)*

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The registrant hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of all other instruments defining the rights of holders of long-term debt of the registrant and its subsidiaries.

31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)**
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)**
32.1	Certification of Principal Executive Officer furnished Pursuant to 18 U.S.C. Section 1350**
32.2	Certification of Principal Financial Officer furnished Pursuant to 18 U.S.C. Section 1350**
101	The following consolidated financial statements from Markel Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, filed on July 26, 2017, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Changes in Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.**

* Indicates management contract or compensatory plan or arrangement.
** Filed with this report.

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