MARKEL CORP
Form 10-Q
October 25, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares of the registrant's common stock outstanding at October 18, 2017: 13,891,901

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets
(dollars in thousands)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Investments, available-for-sale, at estimated fair value:		
Fixed maturities (amortized cost of $9,515,082 in 2017 and $9,591,734 in 2016)	$9,919,346	$9,891,510
Equity securities (cost of $2,713,805 in 2017 and $2,481,448 in 2016)	5,709,946	4,745,841
Short-term investments (estimated fair value approximates cost)	1,995,562	2,336,151
Total Investments	17,624,854	16,973,502
Cash and cash equivalents	2,076,266	1,738,747
Restricted cash and cash equivalents	279,399	346,417
Receivables	1,588,636	1,241,649
Reinsurance recoverable on unpaid losses	2,466,554	2,006,945
Reinsurance recoverable on paid losses	72,487	64,892
Deferred policy acquisition costs	506,294	392,410
Prepaid reinsurance premiums	352,676	299,923
Goodwill	1,425,789	1,142,248
Intangible assets	990,008	722,542
Other assets	1,136,448	946,024
Total Assets	$28,519,411	$25,875,299
LIABILITIES AND EQUITY		
Unpaid losses and loss adjustment expenses	$11,443,148	$10,115,662
Life and annuity benefits	1,108,947	1,049,654
Unearned premiums	2,750,243	2,263,838
Payables to insurance and reinsurance companies	230,041	231,327
Senior long-term debt and other debt (estimated fair value of $2,686,000 in 2017 and $2,721,000 in 2016)	2,471,419	2,574,529
Other liabilities	1,455,459	1,099,200
Total Liabilities	19,459,257	17,334,210
Redeemable noncontrolling interests	153,310	73,678
Commitments and contingencies		
Shareholders' equity:		
Common stock	3,379,156	3,368,666
Retained earnings	3,378,524	3,526,395
Accumulated other comprehensive income	2,151,205	1,565,866
Total Shareholders' Equity	8,908,885	8,460,927
Noncontrolling interests	(2,041)	6,484
Total Equity	8,906,844	8,467,411
Total Liabilities and Equity	$28,519,411	$25,875,299

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(dollars in thousands, except per share data)			
OPERATING REVENUES				
Earned premiums	$1,099,862	$974,244	$3,116,038	$2,882,789
Net investment income	104,489	93,147	304,156	279,437
Net realized investment gains (losses):				
Other-than-temporary impairment losses	(3,444)	—	(7,261)	(12,080)
Net realized investment gains (losses), excluding other-than-temporary impairment losses	(36,563)	27,416	5,746	77,916
Net realized investment gains (losses)	(40,007)	27,416	(1,515)	65,836
Other revenues	341,804	336,475	980,713	955,339
Total Operating Revenues	1,506,148	1,431,282	4,399,392	4,183,401
OPERATING EXPENSES				
Losses and loss adjustment expenses	1,075,432	579,405	2,210,129	1,564,925
Underwriting, acquisition and insurance expenses	395,909	372,521	1,169,175	1,112,789
Amortization of intangible assets	18,654	17,010	53,450	51,474
Other expenses	344,287	309,713	925,984	862,715
Total Operating Expenses	1,834,282	1,278,649	4,358,738	3,591,903
Operating Income (Loss)	(328,134)	152,633	40,654	591,498
Interest expense	31,814	33,152	97,013	97,690
Loss on early extinguishment of debt	—	—	—	44,100
Income (Loss) Before Income Taxes	(359,948)	119,481	(56,359)	449,708
Income tax expense (benefit)	(98,913)	36,060	(17,791)	121,968
Net Income (Loss)	(261,035)	83,421	(38,568)	327,740
Net income (loss) attributable to noncontrolling interests	(1,894)	(375)	1,044	4,777
Net Income (Loss) to Shareholders	$(259,141)	$83,796	$(39,612)	$322,963
OTHER COMPREHENSIVE INCOME				
Change in net unrealized gains on investments, net of taxes:				
Net holding gains arising during the period	$227,447	$23,098	$577,796	$411,394
Change in unrealized other-than-temporary impairment losses on fixed maturities arising during the period	—	(17)	—	(40)
Reclassification adjustments for net gains included in net income (loss)	(5,207)	(9,758)	(14,598)	(33,308)
Change in net unrealized gains on investments, net of taxes	222,240	13,323	563,198	378,046
Change in foreign currency translation adjustments, net of taxes	16,263	(8,349)	19,770	(6,141)
Change in net actuarial pension loss, net of taxes	773	390	2,391	1,247
Total Other Comprehensive Income	239,276	5,364	585,359	373,152
Comprehensive Income (Loss)	(21,759)	88,785	546,791	700,892
Comprehensive income (loss) attributable to noncontrolling interests	(1,890)	(376)	1,064	4,795
Comprehensive Income (Loss) to Shareholders	$(19,869)	$89,161	$545,727	$696,097

NET INCOME (LOSS) PER SHARE				
Basic	$(18.82)	$5.62	$(4.52)	$22.27
Diluted	$(18.82)	$5.60	$(4.52)	$22.16

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			322,963	—	322,963	605	323,568	4,172
Other comprehensive income			—	373,134	373,134	—	373,134	18
Comprehensive Income					696,097	605	696,702	4,190
Issuance of common stock	48	4,531	—	—	4,531	—	4,531	—
Repurchase of common stock	(16)	—	(15,503)	—	(15,503)	—	(15,503)	—
Restricted stock units expensed	—	18,512	—	—	18,512	—	18,512	—
Adjustment of redeemable noncontrolling interests	—	—	(10,909)	—	(10,909)	—	(10,909)	10,909
Purchase of noncontrolling interest	—	350	—	—	350	—	350	(3,517)
Other	—	—	55	—	55	(72)	(17)	(3,880)
September 30, 2016	13,991	$3,365,750	$3,433,891	$1,727,642	$8,527,283	$6,992	$8,534,275	$70,660
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)			(39,612)	—	(39,612)	(493)	(40,105)	1,537
Other comprehensive income			—	585,339	585,339	—	585,339	20
Comprehensive Income (Loss)					545,727	(493)	545,234	1,557
Issuance of common stock	24	359	—	—	359	—	359	—
Repurchase of common stock	(85)	—	(84,436)	—	(84,436)	—	(84,436)	—
Restricted stock units expensed	—	13,389	—	—	13,389	—	13,389	—

Acquisition of Costa Farms	—	—	—	—	—	—	—	66,600
Adjustment of redeemable noncontrolling interests	—	—	(23,582)	—	(23,582)	—	(23,582)	23,582
Purchase of noncontrolling interest	—	(2,910)	—	—	(2,910)	(8,109)	(11,019)	(6,179)
Other	—	(348)	(241)	—	(589)	77	(512)	(5,928)
September 30, 2017	13,894	$3,379,156	$3,378,524	$2,151,205	$8,908,885	$(2,041)	$8,906,844	$153,310

See accompanying notes to consolidated financial statements.

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MARKEL CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2017	2016
	(dollars in thousands)	
OPERATING ACTIVITIES		
Net income (loss)	$(38,568)	$327,740
Adjustments to reconcile net income (loss) to net cash provided by operating activities	637,271	(3,383)
Net Cash Provided By Operating Activities	598,703	324,357
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	360,327	330,110
Proceeds from maturities, calls and prepayments of fixed maturities	948,756	734,010
Cost of fixed maturities and equity securities purchased	(1,162,438)	(1,728,396)
Net change in short-term investments	406,138	(340,742)
Proceeds from sales of equity method investments	2,938	9,325
Additions to property and equipment	(50,099)	(49,565)
Acquisitions, net of cash acquired	(592,045)	(5,762)
Other	(7,802)	(4,618)
Net Cash Used By Investing Activities	(94,225)	(1,055,638)
FINANCING ACTIVITIES		
Additions to senior long-term debt and other debt	42,638	553,537
Repayment of senior long-term debt and other debt	(224,516)	(260,086)
Premiums and fees related to early extinguishment of debt	—	(43,691)
Repurchases of common stock	(84,436)	(15,503)
Issuance of common stock	359	4,531
Payment of contingent consideration	(5,018)	(14,219)
Purchase of noncontrolling interests	(18,068)	(3,167)
Distributions to noncontrolling interests	(5,929)	(3,931)
Other	(4,345)	(14,478)
Net Cash Provided (Used) By Financing Activities	(299,315)	202,993
Effect of foreign currency rate changes on cash, cash equivalents, restricted cash and restricted cash equivalents	65,338	(1,484)
Increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	270,501	(529,772)
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	$2,355,665	$2,540,369

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 businesses that operate outside of the specialty insurance marketplace.

The consolidated balance sheet as of September 30, 2017, the related consolidated statements of income (loss) and comprehensive income (loss) for the quarters and nine months ended September 30, 2017 and 2016, and the consolidated statements of changes in equity and cash flows for the nine months ended September 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, with the exception of significant transactions or events that occur during the intervening period. Certain prior year amounts have been reclassified to conform to the current presentation.

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

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

2. Recent Accounting Pronouncements

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

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

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Effective January 1, 2017, the Company early adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The ASU requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company previously presented changes in restricted cash and restricted cash equivalents on the statements of cash flows as an investing activity. The Company generally describes amounts held in trust or on deposit to support underwriting activities as well as amounts pledged as security for letters of credit as restricted cash or restricted cash equivalents. The provisions of ASU No. 2016-18 were adopted on a retrospective basis and did not impact the Company's financial position, results of operations or total comprehensive income. As a result of adoption of this ASU, investing cash inflows of $61.1 million attributed to the change in restricted cash for the nine months ended September 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. Several ASUs have also been issued as amendments to ASU No. 2014-09 and 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 will impact certain of the Company's other revenues, which are comprised of a diverse portfolio of contracts across various industries. Based on the Company’s evaluation of the impacted revenue streams, which was completed in the third quarter of 2017, the timing of the recognition of revenue and related costs may change with respect to certain contracts with customers, none of which are expected to have a material effect on the consolidated financial statements. For instance, revenues and costs for certain contracts may be recognized over time rather than when the product or service is delivered, as is the current practice. Additionally, the cumulative effect adjustment to retained earnings at the date of initial application is not expected to be material. The Company also expects to provide additional disclosures in the notes to the consolidated financial statements as required under the new guidance.

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In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU significantly changes the income statement impact of equity investments and the recognition of changes in fair value of financial liabilities attributable to an entity's own credit risk when the fair value option is elected. The ASU requires equity instruments that do not result in consolidation and are not accounted for under the equity method to be measured at fair value and to recognize any changes in fair value in net income rather than other comprehensive income. ASU No. 2016-01 becomes effective for the Company during the first quarter of 2018 and will be applied using a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. The provisions related to equity investments without a readily determinable fair value will be applied prospectively to equity investments as of the adoption date. The Company is currently evaluating ASU No. 2016-01 to determine the impact that adopting this standard will have on the consolidated financial statements. Adoption of this ASU is not expected to have a material impact on the Company's financial position, cash flows, or total comprehensive income, but will have a material impact on the Company's results of operations as changes in fair value of equity instruments will be presented in net income rather than other comprehensive income. As of September 30, 2017, accumulated other comprehensive income included $2.0 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 for the quarters and nine months ended September 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

In April 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 also includes the estimated fair value of contingent consideration the Company expects 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 the acquisition date. 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.

Costa Farms Acquisition

In August 2017, the Company acquired 81% of Costa Farms, a Florida-based privately held grower of house and garden plants. Total consideration for the purchase was $424.5 million, which included cash consideration of $395.2 million. Total consideration also includes the estimated fair value of contingent consideration the Company expects to pay based on Costa Farms' earnings, as defined in the purchase agreement, annually through 2021. The purchase price was preliminarily allocated to the acquired assets and liabilities of Costa Farms based on estimated fair values at the acquisition date. The Company preliminarily recognized goodwill of $201.0 million, which is primarily attributable to expected future earnings and cash flow potential of Costa Farms. The majority of the goodwill recognized is expected to be deductible for income tax purposes. The Company also recognized other intangible assets of $192.0 million, which includes $161.0 million of customer relationships and $31.0 million of trade names, which are expected to be amortized over a weighted average period of 17 years and nine years, respectively. The Company also preliminarily recognized redeemable non-controlling interests of $66.6 million. Results attributable to this acquisition are included with the Company's non-insurance operations, which are not included in a reportable segment.

The Company has not completed the process of determining the fair value of the assets and liabilities acquired with Costa Farms. These valuations will be completed within the measurement period, which cannot exceed 12 months from the acquisition date. As a result, the fair value amounts recorded for these items are provisional estimates subject to adjustment. Once completed, any adjustments resulting from the valuations may impact the individual amounts recorded for assets acquired and liabilities assumed, the residual goodwill, and the fair value attributable to the noncontrolling equity interest holders.

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State National Acquisition

In July 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 $21.00 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 estimated to be $919 million. The merger was approved by State National's stockholders on October 24, 2017. The transaction remains subject to customary closing conditions, including regulatory approvals, and is expected to close in the fourth quarter of 2017.

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.

	September 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	$129,631	$64	$(859)	$ —	$128,836
U.S. government-sponsored enterprises	359,492	11,389	(1,240)	—	369,641
Obligations of states, municipalities and political subdivisions	4,366,775	199,013	(12,789)	—	4,552,999
Foreign governments	1,395,157	153,766	(3,601)	—	1,545,322
Commercial mortgage-backed securities	1,195,384	8,353	(12,327)	—	1,191,410
Residential mortgage-backed securities	799,872	19,269	(3,079)	—	816,062
Asset-backed securities	20,221	7	(72)	—	20,156
Corporate bonds	1,248,550	49,349	(2,979)	—	1,294,920
Total fixed maturities	9,515,082	441,210	(36,946)	—	9,919,346
Equity securities:					
Insurance, banks and other financial institutions	910,682	1,103,007	(3,418)	—	2,010,271
Industrial, consumer and all other	1,803,123	1,908,012	(11,460)	—	3,699,675
Total equity securities	2,713,805	3,011,019	(14,878)	—	5,709,946
Short-term investments	1,995,489	87	(14)	—	1,995,562
Investments, available-for-sale	$14,224,376	$3,452,316	$(51,838)	$ —	$17,624,854

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

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

(dollars in thousands)	September 30, 2017 Less than 12 months Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	12 months or longer Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses	Total Estimated Fair Value	Gross Unrealized Holding and Other-Than-Temporary Impairment Losses
Fixed maturities:						
U.S. Treasury securities	$102,240	$(585)	$23,609	$(274)	$125,849	$(859)
U.S. government-sponsored enterprises	102,957	(1,237)	1,744	(3)	104,701	(1,240)
Obligations of states, municipalities and political subdivisions	525,844	(6,801)	143,119	(5,988)	668,963	(12,789)
Foreign governments	135,018	(3,594)	7,158	(7)	142,176	(3,601)
Commercial mortgage-backed securities	569,763	(12,071)	13,486	(256)	583,249	(12,327)
Residential mortgage-backed securities	106,673	(1,501)	70,723	(1,578)	177,396	(3,079)
Asset-backed securities	9,676	(38)	6,561	(34)	16,237	(72)
Corporate bonds	266,040	(2,275)	69,916	(704)	335,956	(2,979)
Total fixed maturities	1,818,211	(28,102)	336,316	(8,844)	2,154,527	(36,946)
Equity securities:						
Insurance, banks and other financial institutions	23,636	(2,616)	1,099	(802)	24,735	(3,418)
Industrial, consumer and all other	60,596	(8,333)	11,112	(3,127)	71,708	(11,460)
Total equity securities	84,232	(10,949)	12,211	(3,929)	96,443	(14,878)
Short-term investments	75,829	(14)	—	—	75,829	(14)
Total	$1,978,272	$(39,065)	$348,527	$(12,773)	$2,326,799	$(51,838)

At September 30, 2017, the Company held 465 securities with a total estimated fair value of $2.3 billion and gross unrealized losses of $51.8 million. Of these 465 securities, 105 securities had been in a continuous unrealized loss position for one year or longer and had a total estimated fair value of $348.5 million and gross unrealized losses of $12.8 million. Of these securities, 90 securities were fixed maturities and 15 were equity securities. The Company does not intend to sell or believe it will be required to sell these fixed maturities before recovery of their amortized cost. The Company has the ability and intent to hold these equity securities for a period of time sufficient to allow for the anticipated recovery of their fair value.

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

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

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

For equity securities, a decline in fair value that is considered to be other-than-temporary is recognized in net income (loss) 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 (loss) 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 (loss), 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 September 30, 2017 are shown below by contractual maturity.

(dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$375,471	$377,672
Due after one year through five years	1,232,430	1,276,160
Due after five years through ten years	1,567,938	1,646,296
Due after ten years	4,323,766	4,591,590
	7,499,605	7,891,718
Commercial mortgage-backed securities	1,195,384	1,191,410
Residential mortgage-backed securities	799,872	816,062
Asset-backed securities	20,221	20,156
Total fixed maturities	$9,515,082	$9,919,346

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2017	2016	2017	2016
Interest:				
Municipal bonds (tax-exempt)	$21,486	$22,136	$66,616	$66,621
Municipal bonds (taxable)	17,732	16,710	53,030	48,820
Other taxable bonds	36,337	36,697	107,521	108,975
Short-term investments, including overnight deposits	7,779	2,878	18,562	7,823
Dividends on equity securities	21,467	17,308	61,090	51,718
Income from equity method investments	4,239	1,232	10,634	4,900
Other	(315)	(60)	(520)	2,614
	108,725	96,901	316,933	291,471
Investment expenses	(4,236)	(3,754)	(12,777)	(12,034)
Net investment income	$104,489	$93,147	$304,156	$279,437

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2017	2016	2017	2016
Realized gains:				
Sales of fixed maturities	$3,426	$3,698	$4,189	$4,658
Sales of equity securities	9,276	18,418	25,806	63,931
Other	1,129	423	5,979	1,117
Total realized gains	13,831	22,539	35,974	69,706
Realized losses:				
Sales of fixed maturities	(663)	(60)	(1,271)	(608)
Sales of equity securities	(578)	(4,187)	(1,791)	(6,672)
Other-than-temporary impairments	(3,444)	—	(7,261)	(12,080)
Other	(776)	(55)	(1,086)	(2,972)
Total realized losses	(5,461)	(4,302)	(11,409)	(22,332)
Gains (losses) on securities measured at fair value through net income (loss)	(48,377)	9,179	(26,080)	18,462
Net realized investment gains (losses)	$(40,007)	$27,416	$(1,515)	$65,836
Change in net unrealized gains on investments included in other comprehensive income:				
Fixed maturities	$20,428	$(53,962)	$104,488	$399,020
Equity securities	308,324	80,285	731,748	220,029
Short-term investments	16	58	22	23
Net increase	$328,768	$26,381	$836,258	$619,072

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 (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 (losses) in net income (loss). 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.

	September 30, 2017			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Investments available-for-sale:				
Fixed maturities:				
U.S. Treasury securities	$—	$128,836	$—	$128,836
U.S. government-sponsored enterprises	—	369,641	—	369,641
Obligations of states, municipalities and political subdivisions	—	4,552,999	—	4,552,999
Foreign governments	—	1,545,322	—	1,545,322
Commercial mortgage-backed securities	—	1,191,410	—	1,191,410
Residential mortgage-backed securities	—	816,062	—	816,062
Asset-backed securities	—	20,156	—	20,156
Corporate bonds	—	1,294,920	—	1,294,920
Total fixed maturities	—	9,919,346	—	9,919,346
Equity securities:				
Insurance, banks and other financial institutions	1,828,997	—	181,274	2,010,271
Industrial, consumer and all other	3,699,675	—	—	3,699,675
Total equity securities	5,528,672	—	181,274	5,709,946
Short-term investments	1,895,262	100,300	—	1,995,562
Total investments available-for-sale	$7,423,934	$10,019,646	$181,274	$17,624,854

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(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 September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Equity securities, beginning of period	$183,913	$183,523	$191,203	$—
Purchases	49,000	—	56,250	195,250
Sales	—	—	(26,674)	(25,000)
Total gains (losses) included in:				
Net income (loss)	(51,639)	6,881	(39,505)	20,154
Other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Equity securities, end of period	$181,274	$190,404	$181,274	$190,404
Net unrealized gains (losses) included in net income (loss) relating to assets held at September 30, 2017 and 2016 (1)	$(51,639)	$6,881	$(39,505)	$20,154

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

Net realized investment losses for the quarter and nine months ended September 30, 2017 included losses of $51.6 million and $39.5 million, respectively, on the Company's investment in the ILS Funds as a result of a decrease in the NAV of the ILS Funds during the third quarter.

There were no transfers into or out of Level 1 and Level 2 during the quarter and nine months ended September 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 nine months ended September 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 businesses that operate outside of the specialty insurance marketplace. 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 September 30, 2017					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$778,323	$319,914	$230,077	$ (186)	$—	$1,328,128
Net written premiums	653,970	254,326	189,636	(178)	—	1,097,754
Earned premiums	600,294	240,145	259,601	(178)	—	1,099,862
Losses and loss adjustment expenses:						
Current accident year	(533,662)	(274,581)	(418,297)	—	—	(1,226,540)
Prior accident years	87,613	40,740	21,164	1,591	—	151,108
Amortization of policy acquisition costs	(134,243)	(43,140)	(53,440)	—	—	(230,823)
Other operating expenses	(90,350)	(50,771)	(23,885)	(80)	—	(165,086)
Underwriting profit (loss)	(70,348)	(87,607)	(214,857)	1,333	—	(371,479)
Net investment income	—	—	—	—	104,489	104,489
Net realized investment losses	—	—	—	—	(40,007)	(40,007)
Other revenues (insurance)	979	658	—	428	—	2,065
Other expenses (insurance)	(162)	(1,035)	—	(6,776)	—	(7,973)
Segment profit (loss)	$(69,531)	$(87,984)	$(214,857)	$ (5,015)	$64,482	$(312,905)
Other revenues (non-insurance)						339,739
Other expenses (non-insurance)						(336,314)
Amortization of intangible assets						(18,654)
Interest expense						(31,814)
Loss before income taxes						$(359,948)
U.S. GAAP combined ratio (1)	112 %	136 %	183 %	NM (2)		134 %

	Quarter Ended September 30, 2016					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$663,196	$269,093	$196,948	$ 536	$—	$1,129,773
Net written premiums	562,215	209,656	157,043	469	—	929,383
Earned premiums	548,792	218,968	206,018	466	—	974,244
Losses and loss adjustment expenses:						
Current accident year	(370,435)	(159,812)	(129,875)	—	—	(660,122)
Prior accident years	21,471	42,705	19,135	(2,594)	—	80,717
Amortization of policy acquisition costs	(115,504)	(38,075)	(48,294)	—	—	(201,873)
Other operating expenses	(91,124)	(44,716)	(34,196)	(612)	—	(170,648)
Underwriting profit (loss)	(6,800)	19,070	12,788	(2,740)	—	22,318
Net investment income	—	—	—	—	93,147	93,147
Net realized investment gains	—	—	—	—	27,416	27,416
Other revenues (insurance)	1,285	419	—	466	—	2,170

Other expenses (insurance)	(670)	(677)	—	(4,232)	—	(5,579)
Segment profit (loss)	$(6,185)	$18,812	$12,788	$ (6,506)	$120,563	$139,472
Other revenues (non-insurance)						334,305
Other expenses (non-insurance)						(304,134)
Amortization of intangible assets						(17,010)
Interest expense						(33,152)
Income before income taxes						$119,481
U.S. GAAP combined ratio [(1)]	101%	91%	94%	NM [(2)]		98%

(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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	Nine Months Ended September 30, 2017					
(dollars in thousands)	U.S. Insurance	International Insurance	Reinsurance	Other Insurance (Discontinued Lines)	Investing	Consolidated
Gross premium volume	$2,171,481	$ 949,031	$ 1,025,716	$ (185)	$ —	$ 4,146,043
Net written premiums	1,829,528					