To our business partners

During 1995, we enjoyed success in almost every aspect of our business. Insurance operations continued a record of underwriting profitability; investment returns were exceptional; and net income of $34.5 million or $6.15 per share reached a record level. Shareholders' equity per share grew to $39.37—an increase of 53%.

The real success, however, is not just in our 1995 achievements, but in our long-term performance. Our 1995 accomplishments were produced by the hard work and commitment of our associates over many years. Together, we have built a foundation that has yielded outstanding results this past year, but more importantly, will prompt achievement well into the future.

An Industry with Opportunity

The property/casualty insurance industry seems to be permanently stuck in an intensely competitive cycle. Most companies in the industry sell commodity products, competing by offering the lowest price. Poor industry-wide results from this strategy and expensive environmental liabilities from the past have resulted in sub-standard shareholder returns. This has created a wave of reorganization and consolidation in the industry.

During the past few years several major property/casualty companies have fallen victim to this reorganization. Home Insurance Company's business was taken over by Zurich; Continental sold out to CNA; Aetna announced a deal with Travellers; and Talegen (formerly Crum and Forster) is being acquired by KKR. CIGNA has separated its good business from its bad business. In 1994, the Home, Continental, Aetna, Talegen and CIGNA wrote $14 billion, which represented almost 6% of the industry's total premiums.

With change—especially change of this magnitude—there will be opportunities. We hope to be smart enough to take advantage of them, although we can't necessarily predict how we will respond.

Our Strategy

Markel Corporation is focused on specialty products in unique market niches. "Specialty," "unique" and "niche markets" are words and phrases that have often been mis-used and certainly over-used in our industry. For us, however, they define our commitment to know our customers' needs and to provide them with quality products and services. In doing so, we expect to earn underwriting profits.

Underwriting profits are a key component of our strategy because they prove our knowledge and expertise, our commitment to superior customer service, and our ability to manage insurance risk.

UNDERWRITING RESULTS

In 1995, we again operated with an underwriting profit, recording a combined loss and expense ratio of 99%. For each of the three preceding years, our combined ratio has been 97%. As indicated by these ratios, in 1995 we experienced a slight narrowing of our profit margin. This decline was caused by disappointing results with a few programs and the reduction of high profit margins in some other lines of business. While we recognize the increased combined ratio, we remain pleased with our underwriting results.

Alan I. Kirshner
Chairman and Chief Executive Officer

As the owner of over 100 fine horses, Alan Kirshner leads Markel to the equine insurance marketplace. As Chairman, he guides us to a market leadership position in the niche markets we serve. We're not saying running a successful corporation is like breeding or selecting horses, but we do think passion is essential. Alan's passion for people and excellence is the key to Markel's success, and to the inspiration and leadership he brings to our team.

We maintain our long standing policy of establishing loss reserves conservatively, with the hope that ultimately, our reserves will more likely be redundant than deficient. We believe our reserves today are as strong as ever.

Anthony F. Markel
President and
Chief Operating Officer

An avid golfer, Tony Markel knows the players, the game and the courses. These are nice skills to have when you're President and Chief Operating Officer, and are considering what's doable, who should do it and how it should be done. Tony knows underwriting profitability as well as he knows golf, and he loves it just as much. As shrewd as he is hopeful, Tony refrains from playing in a tournament if we're underwriting the Hole-in-One coverage.

Premium Growth

In 1995, gross premium volume increased 15% to $402 million from $349 million in 1994. The $53 million increase in 1995 was fueled primarily by premiums from our newer products: several auto programs started in late 1994 that contributed $13 million to the growth in premiums, $13 million in production from a personal property program focused on low-value dwellings, and $13 million in additional premiums from a special property program initiated in 1993. Business acquired as a result of the acquisition of Lincoln Insurance Company also added $7 million to gross volume.

Earned premiums rose 17% to $285 million from $243 million in the preceding year. Over the past five years, the compound annual growth rate in

earned premiums averaged 54%. Increased retention of premiums and higher premium volume have pushed earned premiums from $152 million in 1991 to $285 million in 1995. While profitable growth in the current competitive environment may be difficult, it is certainly not impossible. Our best guess is that our overall growth in the future will be slower than in the past. We expect modest growth from most of our existing products, supplemented by stronger growth from our newer lines. We will also look for chances to develop or acquire new products.

INVESTMENTS

Our corporate philosophy clearly recognizes the importance of both underwriting profits and superior investment returns to build shareholder value. A strong loss reserve position and solid underwriting track record give us the financial strength and flexibility to manage our investment activity for higher returns. The growth in income and book value achieved in 1995 is largely due to exceptional investment results.

During 1995, the portfolio grew 49% to $909 million. This growth occurred because of several factors. Most important was the internal growth due to operating cash flow. Our business continues to generate cash at a rate that is faster than is required to meet our claim payments. In addition, strong financial markets in 1995 increased the market value of our investments by $62 million.

There were some one-time transactions that also contributed to the large increase in invested assets in 1995. These include $83 million generated by commutations with reinsurers, $60 million related to the acquisition of Lincoln Insurance Company and $19 million from the sale of our home office buildings, which we will continue to occupy under the terms of a long-term lease.

Income from dividends and interest in 1995 totaled $43 million compared to $29 million in 1994. The increase in the size of the portfolio was the primary reason for the rise in investment income, although the annualized yield also improved in 1995.

In 1995, we realized $12 million in capital gains, up from $4 million in 1994. Approximately 40% of our capital gains were generated from our fixed income portfolio, as we sold investments to reduce our exposure to municipal bonds. The equity portfolio produced over $7 million of realized capital gains. We are focused on long-term, total returns from our equity investments and cannot predict the timing of equity gains. Our strategy is to invest in companies with the potential for appreciation and hold these investments over the long-term. With this approach, we can enjoy the increases in unrealized gains and the (often significant) benefits of deferring the capital gains tax.

The improved security markets, and hopefully some smart selections on our part, resulted in a net unrealized gain of $34 million at December 31, 1995. This is after allowing for (but not paying) $18 million in deferred capital gains taxes.

Our overall investment results in 1995 were superior. Total returns were 29.7% in equities, 14.4% in fixed maturity securities and 15.7% for the entire portfolio. Over the past five years, total returns were 19.2% in equities, 9.5% in fixed maturity securities and 10.3% overall. These five-year total returns include almost $47 million in capital gains, much of which came from our equity investments.

Reasons for Success

As we have said, we are gratified with this year's performance, but more importantly, with our long-term achievements. We believe the primary reason for these results has been the commitment to success made by our associates. This year, we are pleased to focus our report on that group of people — the chief architects of our success.

Over the years, we have established several programs which try to ensure that our customers' interests, our associates' interests and our shareholders' interests are all aligned, and that each group is focused on the same objectives. These programs involve both cash incentives and stock ownership opportunities.

Bonus Plan

In managing our total compensation program, we want salary and benefits to be competitive with the marketplace, but not exceptional. On the other hand, we do seek to establish exceptional bonus and stock ownership opportunities, so that we can attract and reward those individuals who make extraordinary contributions to our organization.

Steven A. Markel
Vice Chairman

How can you capture the essence of a Renaissance man in a few sentences? Steve Markel is one of those people whose nimble intellect and creative spirit give him the ability to develop and weigh investment strategies, to consider the form and function of fine art, and to evaluate the risks of insuring pizza delivery drivers — often within the same half hour. He'd make a terrific underwriter for our special risks insurance programs if he weren't so busy being our Leonardo and Vice Chairman.

Our bonus plan has three levels of participation. First, all associates have the opportunity to earn a meaningful cash bonus if they meet the high performance standards and individual goals outlined in their bonus agreements. Second, those associates who have a direct impact on underwriting results can earn bonuses explicitly related to the underwriting profits generated by their product or division. Finally, senior executives are rewarded based on the five-year compound annual growth in book value per share. Our goal is to grow book value by 20% per year; no bonus is paid to senior executives unless we exceed a minimum threshold of 15% compound annual growth over a five-year period.

Stock Ownership Opportunities

While cash compensation incentives are effective in aligning our associates' interests with our shareholders', we believe that direct stock ownership can be even more powerful. One of our main objectives when we became a public company in 1986

Darrell D. Martin
Executive Vice President and Chief Financial Officer

As savvy enthusiasts (and smart insurance companies) know, the right driver can make motorcycling a safe and satisfying pastime. The ideal operator combines experience with a healthy respect for the opportunities of the machine and the risks of the sport. That profile also fits Darrell Martin, Executive Vice President and Chief Financial Officer. For eight years, he's been successfully navigating the Company through the opportunities and risks of an ever-changing business environment. And we sure do appreciate his good driving record.

was to achieve broad stock ownership among our employees. At the time, our bonus program did not exist, so we generously distributed stock options as incentive compensation as well as an inducement to stock ownership.

Stock options may encourage future stock ownership, but we believe that a "gift" of stock options is not as effective in generating a long-term commitment to the Company as an actual purchase of stock. The act of making a personal investment in our Company is a critical step in encouraging an associate to begin to think and act like an owner of the business. Therefore, we do not expect that additional stock options will be a significant part of our incentive compensation plans in the future.

We offer many opportunities for associates to become shareholders. Every employee who is eligible for participation in our retirement program (a 401(k) plan) receives Markel stock—purchased

in the open market—as part of the Company's contribution to the plan. In addition, associates can designate all or part of their contribution for investment in the Company's stock. At December 31, 1995, the 401(k) Plan owned over 113,000 shares.

Associates may also acquire our stock through a payroll deduction purchase plan. They can set the amount to be deducted from each paycheck, and accumulate as much stock as their individual financial situations will allow. The Company supports the program by covering the administrative costs and commissions, and also by awarding an additional share for every ten shares purchased through the plan.

Most recently, we offered all associates an opportunity to purchase stock with low interest financing which was partially subsidized by the Company. Over 200 associates participated in this program. At December 31, 1995, over 125,000 shares were owned by these stock purchase plans.

In the aggregate, we estimate associates' ownership at about 32.5% of the Company. This provides a powerful incentive for all of us to focus on our long-term success. As shareholders, we all share the results of our performance.

Saying Good-bye

For the second year in a row, we mark the passing of one of the members of the Markel team who guided the Company from its early days. Milton Markel was one of two sets of twin boys who were the sons of Samuel Markel, our founder. Milton was a businessman whose common sense and integrity served as an inspiration for a generation of Markel leaders. We will miss his optimism and his dedication.

Saying Thank You

As a public company, we have been fortunate to have equity partners who have believed and invested in us. You have given us a vote of confidence that we recognize and appreciate. In return for this trust, we have and will communicate openly and honestly with you, and embrace the challenge of building the value of our Company over the long term. Our past success has been achieved together. We hope that together, we can look forward to a prosperous future.

Alan I. Kirshner
Chairman and Chief Executive Officer

Anthony F. Markel
President and Chief Operating Officer

Steven A. Markel
Vice Chairman

Darrell D. Martin
Executive Vice President and Chief Financial Officer