TO OUR BUSINESS PARTNERS

As our long-term shareholders know, Markel builds shareholder value through superior underwriting and investing results. Our success is measured by our compound annual growth in book value per share over the long term. For the past ten years, we compounded book value per share at a 23% rate; for the past five at 16%; and in 2000 book value per share grew 19%, excluding the effects of the Terra Nova acquisition. But read on to get the full story. 2000 was an event-filled year. We continued to demonstrate our superior underwriting ability in our North American operations; we completed the acquisition of Terra Nova and made significant progress in reorganizing this business into our Markel International operation; and we delivered truly exceptional investment results in a very difficult market. Both underwriting losses of discontinued lines and the newly acquired Markel International business negatively impacted operating results. In total, we reported a net loss of $28 million. Comprehensive income was a positive $81 million, which included unrealized investment gains. Shareholders' equity advanced from $383 million to $752 million or $68.59 per share to $102.63 per share.

Throughout the year we enjoyed improved market conditions in virtually all of our domestic business units. The property and casualty insurance industry suffered from intense competition for many years, leading to poor results and several company failures. The market has now changed and most competitors are exhibiting underwriting discipline or are out of business. We are getting many more opportunities to sell our products, prices are on the rise, and our results are beginning to reflect these improved conditions.

2000 Financial Review

Revenues for the year more than doubled and now exceed $1 billion. The acquisition of Markel International accounted for most of this growth; however, our North American business also enjoyed solid, profitable growth.

In total, earned premiums increased from $437 million to $939 million and we reported a combined ratio of 114%. This was the result of excellent performance of 97% from our North American operations, a disappointing 116% from continuing International business, and discontinued lines of 174%. In dollar terms our underwriting loss was $132 million, with North America contributing $16 million in profits, International a loss of $55 million and discontinued a loss of $93 million. We are working diligently to improve these results as quickly as possible to return to our historic standard of underwriting profitability. And we are optimistic that we will be able to do so.

Net investment income increased from $88 million to $154 million primarily due to the growth in the investment portfolio associated with the acquisition of Markel International. Approximately $1.5 million was earned from realized investment gains during the year, also a very significant $109 million was added in unrealized gains, net of tax.

As a result of the acquisition of Markel International, interest expense increased to $52 million and the amortization of intangible assets increased to $23 million. We reported a net loss of $28 million as compared to net income last year of $41 million. With the increased value of our investment portfolio, comprehensive income was $81 million compared to a comprehensive loss in 1999 of $40 million. Shareholders' equity increased to $752 million or $102.63 per share.

North American Operations

Our core North American underwriting business units enjoyed a very successful year. Gross written premiums increased 27% to $711 million as the domestic insurance market continued to tighten throughout the year. The momentum grew exponentially, as fourth quarter gross written premiums grew 35% from substantial increases in submission activity, more new business and increased prices. Earned premiums increased by 18% with a combined ratio of 97%.

Every division in the North American group participated in the improved market, with our Excess and Surplus Lines companies seeing the greatest upswing. In early 2000 we opened new facilities in Scottsdale, Arizona named Markel Southwest Underwriters. This business came from acquiring the renewal rights of approximately $100 million in premiums from Acceptance Insurance Companies, Inc. We were up and running at the end of March, and we wrote $28 million in premiums for the year and expect to write approximately $50 million in 2001. Our Brokered E&S unit experienced underwriting problems during the year, primarily as the result of providing insurance for New York contractors. This class of business became very difficult to insure profitably and consequently we withdrew from the class. The experience was expensive but is now behind us. This division is now achieving significant price increases and we expect a profitable year in 2001.

The other North American operations performed extraordinarily well. Having a 97% combined ratio, coupled with an increase in gross written premium of 27% after a fifteen-year soft insurance market, is a real tribute to our associates. Our underwriting units are filled with skilled and dedicated associates focused on our mission of underwriting profitability, and we are thrilled with these outstanding results.

International Operations

In March 2000 we completed the acquisition of Terra Nova (Bermuda) Holdings Ltd. We acquired this company to gain access to specialty, international insurance markets. We saw an opportunity to acquire a large specialty business, in many cases similar to our North American operations, which has the potential to earn underwriting profits. Additionally, Terra Nova enjoyed significant investment leverage. In acquiring this business, we recognized that a significant amount of work was necessary to reorganize the company, discontinue several unprofitable programs, and to reunderwrite its book of business. We were aware that during this process the business would not be profitable.

While more work needs to be done and our financial results do not yet show the magnitude of our efforts, we have made significant progress. We consolidated Markel International's operations into five business units from 11, and we reduced expenses accordingly. The Markel Style is being implemented with our focus on underwriting profits and incentive plans tied to performance. We centralized all accounting, investment, treasury and actuarial functions. We also consolidated all of our London operations from six unconnected offices to one well-located facility (two blocks from Lloyd's).

The underwriting results of our International operation were disappointing, as we had a combined ratio of 116% from continuing operations. This is approximately 6% worse than our original expectation. These poor results were due to business that was on the books prior to our acquisition. Throughout the year we repriced and reunderwrote the ongoing business, and eliminated many underperforming programs. As a result, we expect to report improved results in 2001, and we continue to believe that we will be able to achieve underwriting profitability in the not too distant future.

Over the years, Markel grew from both internal growth and acquisitions. While acquisitions always bring with them some surprises and integration difficulties, we are pleased with our track record. In fact, the longer our acquisitions have been part of the Markel family, the better they perform. We think that this speaks volumes about our culture and the underlying values of underwriting profitability, balance sheet conservatism, and long-term ownership that create a wonderful business.

Discontinued Lines

Earned premiums from discontinued lines acquired with Markel International amounted to $120 million. The combined ratio on this business was 143%. These lines included unprofitable products where we did not believe we had a good opportunity to build a going-forward, profitable, specialty franchise. The business was commodity oriented, poorly priced, or underwritten without appropriate controls, knowledge and expertise. Additionally, during the third quarter we took a $32 million charge related to discontinued Gryphon programs.

At December 31, 2000, the remaining unearned premium on discontinued lines amounted to $65 million and while not expected to be profitable, should not cause material losses.

We have always prided ourselves on maintaining loss reserves which prove to be more likely redundant than deficient. This is certainly true with our North American businesses, where we have applied consistent underwriting and claims handling processes and have closely monitored loss development. In the context of an acquisition, where the underwriting and claims handling processes may have been inconsistent and several lines have been discontinued, it is almost impossible to establish the same margin of safety with loss reserves. While we believe the reserves of our recently acquired International operations are adequate, future adverse development is possible. As we reunderwrite and apply strong and consistent standards to our International business, we expect to develop the same confidence with its loss reserves.

Investments

Achieving superior investment returns has long been an integral component of our philosophy, and a strong contributor to our long-term growth in book value. The purchase of Markel International added over $1.4 billion to our investment portfolio and the investment environment in 2000 was one in which we excelled.

During 2000, the white-hot and psychologically-driven NASDAQ market imploded with a loss of almost 39%. The Dow and S&P indices also declined 6% and 10% respectively. We were never able to understand the valuations of many of the most popular stocks of 1998 and 1999, and as a consequence avoided investment commitments to that area. We were rewarded this past year as our focus on intrinsic business values provided us with an equity return of 26% during a time of difficult results in the broader markets. In our equity investing, we remain focused on reasonably priced profitable companies, with honest and talented management and capital discipline. Over the years this focus served us well and it will remain the litmus test for how we consider equity investments in the future.

In the fixed income markets, we remain committed to a high quality portfolio with maturities similar to those of our insurance liabilities. We wish to earn a positive spread on our policyholder funds without taking unwise credit or interest rate risks. This foundation, along with profitable underwriting activities and a conservative balance sheet, allows us to allocate the bulk of our shareholders' equity to the equity markets and earn a higher, though usually more volatile, return over time.

Stock Offering

In February 2001, we completed the sale of additional shares of common stock and raised almost $200 million in new capital. While we were reluctant to issue new shares and dilute the interest of our existing shareholders, we believe that the additional capital will generate excellent returns both for our existing shareholders and for our new business partners.

With the acquisition of Markel International, we increased our financial leverage such that our debt to capital ratio increased to 39%. Our long-term target is one-third debt, two-thirds equity. With the new equity, our debt to capital ratio will be below our long-term leverage target. We believe that putting our balance sheet in a strong, conservative posture will enable us to take full advantage of our tremendous opportunities.

We are particularly pleased that a number of our existing shareholders added to their holdings, and that a number of old friends joined us as new shareholders. One of our strengths is that our long-term shareholders understand our business philosophy and support it. We think the same is true of our new shareholders.

Market Trends

In early 2000, we saw a cyclical change in the property and casualty insurance market, with prices going up and more opportunities for us to write profitable business. As the large, standard, commodity oriented companies seek to improve their results, they become more selective in their underwriting, and increase prices. As a result, more and more business moves into the specialty insurance market. As a leader in the specialty market, Markel is well positioned and prepared to take advantage of this change. As the year progressed the market continued to harden. Our North American premium volume increased progressively throughout the year with a 33% increase in the third quarter, and a 35% increase in the fourth. These increases were the result of both new business opportunities and higher prices. This trend continues in early 2001.

It has been almost fifteen years since we experienced a truly "hard" insurance market. During that period, financial results throughout the industry were poor, many companies failed, and the industry consolidated. At long last underwriting discipline is returning and prices are going up. The question on everyone's mind is "how long will this last?" Unfortunately we don't know. What we do know, however, is that the problems created over many years will not be solved quickly. It is certainly time for the cycle to move in our direction and we will take full advantage of this opportunity.

Directors

Jack Byrne advised us that he would not be standing for re-election at our next shareholders' meeting. His personal commitment to White Mountains Insurance Group and its planned acquisition of the CGU Insurance Group prohibit him from continuing on our Board. We appreciate Jack's contribution to Markel and know his advice will still be available.

At our last Board meeting, Doug Eby joined the Board. Doug is President of Robert E. Torray & Co., an independent investment firm with over $6 billion under management. Doug has been an investment manager for over 15 years and is very active as a volunteer in his community. The Torray organization is also our largest outside shareholder. We know Doug will make a valuable contribution to our Company.

Markel Associates

With the addition of Markel International and our continued growth in North America, we have over 1,500 associates in the Company. Our success has always been our ability to build a team of people with the shared values of The Markel Style. Markel enjoys a strong culture and underlying value system that defines our Commitment to Success. Everyone here knows the importance of, and is committed to, producing an underwriting profit, maintaining a strong, conservatively-stated balance sheet and honest and fair accounting. Each associate has the opportunity to achieve his or her goals, yet work as part of our team. We have a respect for authority, but disdain of bureaucracy. We repeat this message endlessly inside our organization to reinforce the beliefs with our long-term associates as well as to pass the message on to our newer associates. These soft and intangible assets are what ultimately produce the hard and tangible results that we have delivered in the past, and expect in the future.

We welcome our newest associates and look forward to our mutual success. We thank all of our associates for their hard work throughout the past year and for their Commitment to Success.

And we thank you, our shareholders, for your support.

Alan I. Kirshner
Chairman of the Board 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

From left to right: Alan I. Kirshner, Anthony F. Markel, Darrell D. Martin, Steven A. Markel