MARKEL

2001

TO OUR BUSINESS PARTNERS

The events of September 11th overshadow everything else that occurred during the year. The terrorist attacks on the World Trade Center and the Pentagon changed the world and impacted all of us. While the losses in human life and economic terms are substantial, we are thankful that so many people were able to escape safely. We also believe our society will work towards building a stronger and safer world. Financially, we will recover from these losses.

Unfortunately, the losses associated with the terrorist attacks were not the only surprises we faced in 2001. In addition to $75 million in losses from the World Trade Center events, we recognized an additional $29 million in adverse loss development from one of our North American programs and took charges of $109 million in our international business. Without question, 2001 was a difficult and disappointing year.

Throughout our 72-year history we built an organization with a record of conservative accounting and reserving methodologies as well as enviable underwriting profits. Our goals and philosophy have not changed, but we clearly failed to deliver in 2001.

Fortunately amid the disappointments, 2001 did include many positive developments. We are now well prepared to deliver the quality results that you and we have come to expect. It feels like we have been in the London market for an eternity, but in truth it has been less than two years. Throughout the year we continually worked to integrate the operations of the international business we acquired in March of 2000. While we recognized significant losses, we believe we made substantial progress. Additionally, the current market environment is without question, the best we've seen in many years. We are currently enjoying significant, well-priced growth in our business across almost all lines. We are exceptionally proud of our investment operations, which generated fantastic returns. While we will always emphasize the importance of great underwriting, our investment operations are also a critical element in our objective to compound book value per share at high rates of return over time.

We measure our financial success by compound growth in book value per share over the long term. For the past ten years we compounded book value per share at a 22% rate and for the past five at 18%. Excluding the effects of the issuance of new common stock, 2001 book value per share declined 10%. As a result of the additional capital raised during the year, book value per share increased from $102.63 to $110.50 and total shareholders' equity advanced from $752 million to $1.1 billion.

2001 Financial Review

Revenues increased 28% from $1.1 billion to $1.4 billion with a full year of international operations along with accelerating growth in North America. Earned premiums were $1.2 billion and our combined ratio was 124%. North American operations reported a combined ratio of 102%, which includes the $29 million charge for the discontinued New York contractors program. Adjusted for this, the North American combined ratio would have been 97%. Markel International reported a combined ratio of 134%. Excluding the unusual events, and the reserve strengthening of Terra Nova's pre-Markel reserves, it would have been 113%. Finally, discontinued lines reported a whopping combined ratio of 229% bringing total underwriting losses to $294 million.

Clearly these are disappointing and unacceptable results. We are upset not only at the magnitude of the losses we incurred, but also at the need to increase reserves. For years we built a record based on conservative reserving methodologies and we are justifiably proud of our history. Going forward you can rest assured of several things. One, as we have demonstrated, we will not hesitate to take the painful but necessary steps to recognize reserve deficiencies if they arise. Two, we have worked, and will continue to work diligently to improve the ongoing operations at our international business. And three, we remain committed to conservative accounting and reserving practices. All of these actions should act to rebuild our record of achievement over the next several years.

Finally, we think it worth mentioning that Markel has a demonstrated record of improving on our acquisitions as time goes by. All of our purchases have been of companies from the "scratch and dent sale" with less than wonderful financial performance. Those were the only sorts of companies that were reasonably priced during our process of building a small insurance broker into an industry leading specialty underwriting organization. While Terra Nova is a bigger challenge than our previous purchases, we are optimistic that our culture and our discipline will ultimately work as well in London as it has in every other circumstance.

Our equity investment portfolio earned a total return of 16.9% during 2001. This was a fabulous result in what was a difficult environment for most investors. Our focus on disciplined, common sense investing has served us well for many years now. Reported net investment income increased from $154 million to $171 million despite lower interest rates with the addition of the Markel International portfolio for the full year. Realized gains amounted to $20 million and unrealized gains increased by $76 million for the year. The total return on our investing activities was 8.4%, an excellent result in a tough year.

After interest expense, amortization of goodwill, and tax benefits, we reported a net loss of $125.7 million as compared to a net loss last year of $27.6 million. After the increase in the value of our investment portfolio, we reported a comprehensive loss of $77 million or $9.01 per share.

During 2001, total investments and cash increased from $3.1 billion to $3.6 billion and long-term debt and convertible notes payable decreased from $573 million to $381 million. During the year we also issued 2.5 million common shares raising $408 million in new equity to strengthen our financial position.

At year-end total shareholders' equity was $1.1 billion or $110.50 per share as compared to $752 million or $102.63 per share the prior year.

North American Operations

Our North American operations enjoyed a strong year as the longstanding skills of our talented underwriters began to be aided by a tailwind of specialty insurance-marketplace improvement. Gross written premiums reached the $1 billion milestone, which represented a 41% increase over last year. This improvement accelerated throughout the year and in the fourth quarter, premium volume increased 54%.

Earned premiums for the year were $642 million, an increase of 36%. The combined ratio was 102% as a result of the $29 million adverse loss development from the New York contractors program that was discontinued in January 2000. We thought we had adequately dealt with this problem last year when we wrote, "the experience was expensive but is now behind us." Despite the fact that we always seek to identify problems quickly and establish conservative loss reserves, we are not always able to succeed. This charge added 5% to Markel North America's 2001 combined ratio.

Our other Excess and Surplus Lines operations enjoyed very good underwriting results with both the Essex E&S unit and the Professional/Products Liability unit delivering great performance. The Markel Southwest operation completed its second year of operation very close to its budget and is expected to be contributing underwriting profits in the near future.

Our Specialty Admitted operations finished the year with a combined ratio of 101%. The Specialty Program business at Markel Insurance Company generated underwriting profits while the Specialty Personal business at Markel American Insurance Company reported modest underwriting losses in its property and high performance watercraft products.

Over the years, we have become a leader in the specialty property and casualty business in North America. We have the people, products, relationships and financial strength to take advantage of the current market opportunities. Throughout the past year we enjoyed both price and volume increases which have continued into 2002. The market has turned after many years of cutthroat competition and significant underwriting losses. We expect to apply our knowledge, skill, and underwriting discipline to achieve profitable growth in this marketplace. Our underwriters produced wonderful results for 15 years during progressively softer and softer insurance markets. We think that you can understand why we are optimistic about our future now that the marketplace is firming.

International Operations

Markel International finished the year with gross written premiums of $716 million, earned premiums of $468 million and a combined ratio of 134%. The World Trade Center loss was the single biggest factor. We continue to monitor claims from this event and currently believe that our original loss estimates are sound. In addition, the International operation took a fourth quarter charge in the amount of $20 million to provide for the significantly higher costs to renew marine and energy reinsurance treaties into 2002. Excluding these charges the combined ratio was 113%, which remains unacceptable.

We have accomplished a great deal toward improving our international business. Most importantly, we focused the business on six products where we believe we have, and can further develop, the specialty focus needed to earn consistent underwriting profits. This process unfortunately required the departure of an unexpectedly high number of employees. Some left because they did not like our culture or think they could achieve our admittedly challenging objectives. Others, because we did not think they could adapt. Although this is a difficult and arduous process, we have been through this before with previous acquisitions. We think we made good progress in building the Markel Style in London. We believe that we have a team in place to achieve success. We are committed to earning underwriting profits and are taking the necessary actions to achieve this goal.

Our ongoing international underwriting units are Aviation, Marine and Energy, Non-Marine Property, Professional Liability, Retail Professional Liability and Reinsurance and Accident. In addition, we have service companies in the United Kingdom and Australia that sell several of our product offerings. We are seeing significant improvement in the market conditions and as a result we are now enjoying price increases which will help drive future underwriting profit.

Operationally, we have two underwriting entities, Terra Nova Insurance Company (a London Market insurance company), and Markel Syndicate 3000 (a Lloyd's of London syndicate). We write about 75% of our international business through our wholly-owned Lloyd's syndicates. While we are excited to be part of Lloyd's and believe it has the opportunity to continue, and enhance, its pre-eminence in the world's insurance marketplace, we also believe that the market must make changes. Some of the changes we recommend include: the end of the annual venture and three-year "reinsurance to close" process; ending inappropriate use of reinsurance leverage and structure; not writing multi-year policies without concurrent reinsurance protection; correcting poorly managed delegated authorities; improving slow policy services and reducing costs; and improved governance, regulation and accounting. Over the past 300 years Lloyd's has built a valuable franchise. Unless it improves its business practices its value could be seriously diminished. We have dealt with these issues within our business and we support Lloyd's reform efforts because a stronger Lloyd's will enhance Markel's opportunities.

Discontinued Lines

Discontinued lines include the run off business from Gryphon Insurance, from discontinued programs at Markel International, and from the reinsurance business at Corifrance, an ongoing operation being held for sale. Gross written premiums from discontinued lines were $54 million with earned premiums of $97 million. Underwriting losses were $125 million or a 229% combined ratio. The major reasons for this loss were the charges for the discontinued motor business ($39 million), increased reserves for asbestos losses ($20 million) and additional reserves for reinsurance collection issues ($25 million). We never expected that the cost of these programs would be as high as they have been. We are continuing to work diligently to manage these exposures as efficiently and effectively as possible and to adequately reserve for all future costs.

Investments

Our approach to investing is an important element of our goal of compounding book value per share over the long term. We believe that sound investing is a critical part of our long-term success and our results in this area clearly distinguish us from most insurance companies. In 2001 we achieved exceptional results in a very difficult investment environment. Our equity returns were 16.9% for the year as compared to a loss of 11.78% for the S&P 500 Index. Our fixed income returns were also favorable as we maintained a high quality portfolio and avoided losses suffered by more adventuresome fixed income investors. Total investment returns for the year were 8.4%.

Our investment results over the past 10 years are shown in the following chart.

	One Year	Five Years	Ten Years
Markel Total Return			
Fixed maturities	7.70%	7.50%	7.50%
Equity securities	16.90%	15.40%	16.40%
Market Indices			
Lehman Aggregate Index	8.44%	7.43%	7.23%
S&P 500 Index	(11.78)%	10.70%	12.10%
Value Added by Outperformance			
Fixed maturities	(0.74)%	0.07%	0.27%
Equity securities	28.68%	4.70%	4.30%

Our first objective in managing our investment portfolio is to be certain that we can meet our obligations to our policyholders. As a result, policyholder funds are invested in high quality fixed income securities with a similar duration profile as that of our insurance liabilities. Shareholder funds are predominately invested in common stocks where, with sound management, we can earn significantly greater total returns over the long term. We have added value both by outperforming relative benchmarks and by increasing our long term allocation to equity securities. Our total equity returns over the past 10 years averaged 16.40% as compared to the fixed income returns of 7.50%. This additional return on the assets we've allocated to equities has added substantial value to Markel. At year-end we have allocated $544 million to our equity investments and expect this to increase in the future.

We believe we have achieved these results because we have adopted a sound, common sense investment approach. We buy what we believe to be reasonably priced, profitable companies, run by honest and talented management with capital discipline. We want to find companies that we can own for the long term, both to minimize transaction costs and taxes. As a result, our turnover is very low and we've accumulated large unrealized gains in the portfolio.

We are optimistic that equity markets will continue to provide us with opportunities to build shareholder value over time. The volatility that occurs on a regular basis has and should continue to be more of an opportunity than a hindrance in our quest to earn solid investment returns.

Capital Raising

It was a busy year for us in the capital markets. We issued 2.5 million new shares raising $408 million in additional capital. Approximately $245 million of the proceeds were used to reduce our debt. Additionally, we issued a zero coupon convertible note with a 4.25% yield to maturity to repay an additional $100 million. As a result of these transactions, we enjoy a strong financial position. Our ratio of debt to total capital improved to 24% as compared to 39% last year. Despite this balance sheet strength, our ratings with various credit rating agencies are not as strong as our balance sheet alone would support. This is due to our losses, the majority of which were charges reported as the recognition of reserve deficiencies at Markel International from prior to our acquisition. We expect meaningful operating improvements in the future, and as this occurs, our ratings should be stronger.

Director

Mark Byrne has advised us that he will not be standing for re-election at our next shareholders' meeting. Mark feels his personal and business commitments prevent him from continuing on our Board. We will miss Mark's advice but thank him for his contributions and support.

Closing Comments

Clearly 2001 was a difficult and disappointing year at Markel. We do not like reporting reserve deficiencies and unusual charges as many other insurance companies did in 2001. While the vast majority of these charges relate to the integration of the Terra Nova acquisition, and should be behind us, we remain embarrassed by these results. In the past we've prided ourselves on our proven track record of being different, and better, than other insurance companies.

We remain optimistic because the things we did differently than the insurance industry at large to build our record of accomplishment remain unchanged. Markel is built upon the consistent values of integrity, long term focus, and conservative accounting. These will never change. Fortunately, the people who make up this organization seem to get better at their jobs the longer they are part of this culture. We are confident that this will be true for our London based colleagues as well and we look forward to earning your continued 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