2002 TO OUR BUSINESS PARTNERS

Your company is building a premier, specialty, property and casualty insurance organization focused on consistent underwriting profits, superior investment returns and building shareholder value. We're building an organization with a strong corporate culture and sound values, The Markel Style. And it's being built to last.

During the past few years the property and casualty insurance industry experienced the perfect storm. Your company endured these troubled waters and in the same period reorganized and restructured our international acquisition. In this period, we faced challenges larger than expected and our results were less than we would like. In spite of these events, we continued to build the value of your company. And, more importantly, we are positioned to continue to deliver results and achieve our goals.

Net income for the year was $75 million. That's a record. We never thought we'd be disappointed in earning $75 million. But given our capital base our return on equity is below our target and net income per share of $7.65 is below our results in 1996 to 1998. We can and will do better.

Yet in 2002 the good news far outweighs the bad. The North American operations are solid and capitalizing on an ideal insurance environment, our International business is showing solid and continuous progress and our investment activities are performing exceptionally well in a difficult environment. We are positioned to achieve our financial goal of compounding book value per share at a high rate over the long term.

THE PERFECT STORM

The insurance industry sailed through the decade of the nineties on a wave of strong investment returns. Declining interest rates resulted in increasing bond values. At the same

time rising stock prices encouraged equity investing. The result was a soft and very competitive insurance environment typified by lower prices and a loss of underwriting discipline. Insurance companies chased unwise growth but sloppy underwriting and poor pricing were offset with good investment returns. When that was not enough, insurance companies structured transactions that traded future investment income for current benefit to mask the real results, or simply took too optimistic a view when establishing loss reserves.

This environment obviously could not last. During the past three years, the industry experienced a series of events causing substantial losses and shaking its very foundations.

Just as environmental losses associated with toxic waste sites were being resolved, another problem exploded—asbestos. Total costs are estimated to approximate $200 billion and the industry is thought to be $20 billion to $40 billion under-reserved. In the past two years, 22 companies declared bankruptcy and over 600,000 individuals (many people who are not currently sick) are seeking benefits.

Additionally, in many states lawyers and juries turned medical malpractice claims into the newest lottery. Companies specializing in this business left the market, went broke, or sought triple digit price increases. Doctors in West Virginia, New Jersey and Pennsylvania threatened to strike.

Of course, the claims issues were just part of the problem. Investments also turned sour. Just as equity investing looked like easy money, insurance companies increased their allocations only to catch the bubble at its peak. Since its high in early 2000, insurance companies have lost billions in stock market investments.

And today, investment yields are too low to cover bad underwriting results, much less provide a meaningful return on capital for most companies.

The terrorist attack on September 11th not only shocked the world but also proved that unimaginable events could actually happen. While not comparable to the human loss, the insurance industry suffered economic damages estimated to be $40 billion to $50 billion.

Finally, the industry also participated in losses from the Enron/Tyco/Worldcom corporate governance crisis. Property and casualty companies owned the securities; they wrote the Directors and Officers insurance coverage; and those most creative, joined with banks to provide surety bonds and poorly conceived financial guarantees. Each and every misstep caused billions in losses.

All of this created the perfect storm.

While Markel did not avoid all of these problems, we missed most of them.

Throughout the nineties we avoided the extremes of the competitive insurance market, and instead grew through acquisition. Of course, many of the companies we acquired had problems as a result of their participating in this difficult market. Buying troubled companies and fixing them has been our growth strategy. And it's been effective. Virtually all of the acquisitions we completed continue to get better with age.

On the underwriting side, we've continued our focus on specialty products where we can earn consistent underwriting profits.

On the investing side, we've maintained our equity focus by buying into sound businesses, run by honest and talented managers with capital discipline, all at reasonable prices. Our fixed income investments concentrate on high quality securities, selected thoughtfully, one by one from the bottom up. Sticking to this philosophy prevented us from experiencing the investment mistakes made by so many others.

We now look forward to greater success in the aftermath of this perfect storm. Demand for insurance coverage is up, supply is down, and prices are very favorable. We are financially strong and able to take advantage of our current opportunities. More importantly, we have a strong and talented group of professional insurance underwriters who understand how to price and manage risk. Our team of disciplined and experienced people represents our intellectual capital. This intellectual capital, infused with our corporate culture over many years, is our real strength.

2002 FINANCIAL REVIEW

Revenues increased 27% from $1.4 billion to $1.8 billion primarily as the result of the accelerating growth of business in our North American markets where our specialty insurance business enjoyed both price and volume increases. Earned premiums were up 28% to $1.5 billion and our combined ratio was reduced to 103%. While still not at the desired level of underwriting profit, we did achieve this goal in the fourth quarter with a combined ratio of 99%. For the year our North American operations had a combined ratio of 94% and International reported a combined ratio of 107%. International results improved each quarter as earned premiums from business properly priced and underwritten flowed through our financial statements. This trend is encouraging. Discontinued business and developments from our exposure to asbestos claims added $69 million in underwriting losses. This is obviously disappointing and we are doing everything we can to avoid the repetition of these events.

Total investment return for the year was a quite acceptable 8.3%. Equities were down 8.8% and fixed income securities were up 9.8%. While it's tough to be happy with negative stock and we remain confident in our investing philosophy. Investment income was flat with last year at $170 million as lower yields offset the growth in the size of our portfolio. We realized $51 million in gains from the sale of securities as we repositioned segments of our investment portfolio. Unrealized gains increased by $5 million as the impact of lower interest rates increased the value of our fixed income securities more than declining stock values hurt our equity portfolio. Foreign currency adjustments had an adverse effect of $7 million.

Net income in 2002 was $75 million and comprehensive income was $73 million as compared to large losses last year.

During 2002 total investments and cash increased to $4.3 billion from $3.6 billion a year ago. This is a $723 million increase or 20%. On a per share basis, cash and investments at year-end amounted to $439 as compared to $366 last year. (In accordance with new SEC rules, this data is no longer included on pages 30 and 31 of our annual report. However we feel that this information is useful in the evaluation of our company.)

After a busy year in the capital markets in 2001, we were very quiet in 2002. We borrowed $140 million under our bank facility to repurchase $35 million of our short term convertible notes and to provide adequate capital to our businesses for their 2003 plans.

Shareholders' equity increased to $1.2 billion. Year-end book value was $118 per share, up only 6.7% from last year. In the past 5 years we have compounded book value per share annually by 13% and in the past 10 years by 19% (including the effect of stock issuances).

NORTH AMERICAN OPERATIONS

In 2001 gross written premiums reached the $1 billion mark, an increase of 41%, and a milestone for our North

period of cutthroat competition. While we knew the outlook for 2002 was bright, we did not expect to see the 55% growth to $1.6 billion that we achieved. We are convinced that growth will continue at a very good rate for the foreseeable future, but not at the extraordinary rates seen in the recent past.

Earned premiums for the year were $1 billion up 49% from last year. Most importantly, the combined ratio declined from 102% in 2001 to 94% in 2002, as the increased volume helped reduce the expense ratio and improved prices reduced the loss ratio. In the current environment, we expect our underwriting profit to grow.

Our North American operations were not perfect, however. We experienced some further adverse loss development in our casualty business at our Brokered Excess and Surplus Lines division and some underwriting problems with our property business in Markel Southwest. Our Specialty Admitted business achieved an underwriting breakeven. While this may have been acceptable in a higher interest rate environment that is no longer the case. To achieve our financial objectives in today's interest rate environment, we require a few points of underwriting profit.

The combination of growth and improved pricing led to exceptional results at our Essex Excess and Surplus Lines and Professional/ Products Liability divisions. Throughout our North American operations, our talented and experienced underwriters responded to the needs of our clients by providing quality, specialty insurance solutions to their problems as standard insurance markets cancel and non-renew business that they find difficult to manage. We expect this environment to continue.

In the fourth quarter we announced that John Latham joined us to develop Markel Re. John possesses wonderful experience in the business, including a prior stint with us. As Surplus Lines Offices (NAPSLO), bringing John back to Markel means that we now have four past presidents of this leading industry association among our associates. Markel Re will focus on the excess casualty market both on a direct and a facultative reinsurance basis. We expect it to be up and running in the second quarter of 2003.

At year-end the Terrorism Risk Insurance Act became law. This law voided previously issued exclusions for terrorism and required companies to offer coverage for this exposure. The federal government became a reinsurer of the industry for 90% of claims in excess of $10 billion. While this act raises many problems and concerns, the insurance industry needs to learn to live with it. In compliance with this act, we have offered our clients terrorism coverage for a price and the option to accept a terrorism exclusion. We do not expect that many of our clients will choose to buy the coverage. However, as long as we can manage this risk and charge an appropriate premium, we are happy to provide the coverage.

INTERNATIONAL OPERATIONS

Markel International completed the year with $622 million in gross written premiums, $559 million in net earned premiums and a combined ratio of 107%. These results represent significant progress from last year when we reported a combined ratio of 134%. Throughout the year we showed progressively improved results as business put on the books over the past two years has been more soundly underwritten and better priced. Starting in the first quarter the combined ratio was 110% and it improved to 107%, 106% and 104% in each successive quarter. While we are behind our original schedule, underwriting profits are on the horizon.

We originally entered the International market in March

focused our business in several specialty product areas and offer our clients security in either Markel Syndicate 3000, our syndicate at Lloyd's of London, or Markel International Insurance Company Limited, which formerly operated as Terra Nova Insurance Company Limited. By putting the Markel brand on our London businesses, we are demonstrating our long-term commitment to this market as well as recognizing that this business has truly become an integral part of the Markel organization.

The market environment for our International business is very similar to the opportunities we face in North America. Underwriting discipline and improved pricing have returned to the market. We reduced our gross premiums as we restructured our business in 2002, but are now looking at opportunities to grow, develop and take advantage of more favorable market conditions in 2003.

DISCONTINUED LINES

While significantly smaller than last year, we still had to absorb $69 million in underwriting losses from discontinued lines. Several items contributed to this loss; however, most significant was an increase in our reserves for losses associated with asbestos claims. For many years we built our claims models by looking at and trying to understand our total exposure by reviewing individual policies and claims from the bottom up. In the fourth quarter of 2001 we completed an in depth study of exposures from our International business and increased reserves as we thought appropriate. At the time we believed our North American reserves were adequate. During the past year, events worsened as more claims have been brought, particularly by non injured claimants. Also, more companies declared bankruptcy, negatively impacting our ability to defend asbestos claims. As a result, we increased reserves (mostly in North America) in the third quarter of 2002. While our asbestos exposure is both material and significant, our companies were not major insurers during the period when most exposure existed and as a result we are a minor player in the asbestos quagmire.

Corifrance is our French reinsurance company and its results are included in discontinued operations. The company has not been discontinued. Corifrance net earned premiums were $26 million in 2002 with very satisfactory results as the reinsurance market enjoyed improved pricing and fewer claims. The company's results are included in this category, as we hold the business as available for sale. We had and have no intention of giving the business away, and have obviously not yet sold it. Corifrance is a solid company and its management team is well disciplined in its focus on underwriting profitability.

INVESTMENTS

We believe that sound investing is a critical part of our long-term success and our performance in this area clearly distinguishes us from most insurance companies. In 2002 we earned a total return of 8.3% on our investment portfolio. This is a very good result in a very difficult market. We lost 8.8% in our equity investments, which, while disappointing, is much better than the 22% loss in the S&P 500 Index. We do not manage against this index nor do we think in relative terms. Likewise, we do not expect equity returns to be smooth and always up. We do expect equities to provide good, long-term total return to our portfolio. Our fixed income securities provided a total return of 9.8%, which was in line with the comparable indexes. We avoided all of the credit problems of the technology, telecommunications and energy trading businesses of the past year as we have consistently focused on high quality credits assessed individual one at a time.

Our investment returns over the past 10 years can be seen in the following chart.

	One Year	Five Years	Ten Years
Markel Total Return			
Fixed maturities	9.80%	8.00%	8.00%
Equity securities	(8.80%)	6.80%	11.20%
Market Indices			
Lehman Aggregate Index	10.26%	7.55%	7.51%
S&P 500 Index	(21.96%)	(0.15%)	9.08%

We have added significant value by following a sound investment discipline. We don't think of our investments as paper to trade, but rather as equity ownership of real businesses. Our success in investing is a direct result of the success of the businesses we own.

For the past few years we have had a lower than normal allocation to equities. This was due to several factors. Our portfolio doubled in size with the Markel International acquisition in 2000, we needed to focus on building the balance sheet as we absorbed losses related to this acquisition, and we had trouble finding great opportunities in equities as stock prices soared. At year-end our equity portfolio is $551 million and represents 13% of our total portfolio and 48% of total shareholders' equity. This remains lower than we would normally prefer as we think as much as 20% to 25% of the portfolio or 75% to 80% of shareholders' equity can reasonably be allocated to equity investments. While we have no need to rebalance immediately, we are increasing our allocation at a time when we believe we can find quality opportunities at favorable prices. We have no idea whether or not 2003 will prove to be the fourth consecutive year of substandard equity returns. We do believe that for those with a long-term time horizon, it's a great time to invest in American businesses. We will always need to have a large part of our investment portfolio in fixed income securities in order to meet future claims liabilities as they come due. We are very mindful that with current interest rates being relatively low, we face the risk of declining value in fixed income securities should interest rates increase. This is a difficult risk to completely avoid, however, we will be cautious in the duration of our bonds thereby minimizing this exposure.

BALANCE SHEET / CAPITAL ISSUES

Along with the strong growth in written premiums in 2002, we enjoyed a 20% increase in our total investments and cash to $4.3 billion. This increase totals $723 million and is the result of operating cash flow of $507 million, increased debt of $102 million that was used to provide capital to our insurance companies to support their future growth and foreign currency increases. At year-end investments and cash are 3.7 times as large as shareholders' equity as compared to 3.3 times a year before. This increase in investment leverage is important to our financial model.

Sound loss reserving is critical to our success. Our goal is to set reserves at a level believed to be more likely redundant than deficient. In 2002 there were several areas where we failed to achieve this goal. We increased reserves for asbestos, other discontinued business, as well as for casualty losses in our Brokered E&S division. In setting loss reserves we attempt to add a margin of safety on current year business reserves by discounting the impact of current price increases and looking cautiously at new business. Reserving is more art than science and no matter how diligent we are, is subject to unknowable future events. We believe our year-end reserve levels meet our goal.

We do not normally comment on unearned premium reserves, however, given the embedded equity included in these

reserves we think it is appropriate to do so. At year-end gross unearned premiums were $937 million. Net unearned premiums were $718 million. These amounts will be earned over the next year. Given the recent price increases as well as our recent underwriting performance, we expect that barring any major earthquakes, hurricanes or other unusual events, future profits will be earned from this unearned premium.

At year-end shareholders' equity advanced to $1.2 billion or $118 per share. Growth for the year was only 6.7%. We need to do better and we will. As we demonstrate our operating strength with consistent underwriting profitability, we will grow our capital base at a faster pace.

In February 2003, we issued $200 million of ten year notes. Proceeds will be used to repay our bank debt and partially pre fund debt maturing later in the year. This issuance extended our debt maturities and enhanced our liquidity. We enjoy a strong financial position and we have enough capital to support our current business plans.

CORPORATE GOVERNANCE

Corporate governance issues have become an important topic and one worthy of a few comments. Early in our days as a public company (and even before) we gave a great deal of thought to building, developing and maintaining good relationships with our shareholders. After all, our shareholders were family, friends, and neighbors as well as institutional investors.

For many years, Berkshire Hathaway has published in its annual report a list of "owner-related business principles." The first, and one that we have tried hard to duplicate, states, "Although our form is corporate, our attitude is partnership. [We] think of our shareholders as owner-partners... We do not view the company itself as the ultimate owner of our business assets but instead view the company as a conduit through which our shareholders own the assets." In a further discussion of this principle the report says, "[We] hope that you do not think of yourself as merely owning a piece of paper whose price wiggles around daily... We hope you instead visualize yourself as a part owner of a business that you expect to stay with indefinitely... For our part, we do not view Berkshire shareholders as faceless members of an ever-shifting crowd, but rather as co-venturers who have entrusted their funds to us..."

This principle, if followed, would eliminate any concern about corporate governance. Treat your shareholders like you would want to be treated if the roles were reversed. Of course, that's a lot easier for us because we are fortunate to have "share-owners" who are with us for the long term as opposed to "share-renters" who are just trying to catch a wave.

As a result of the recent abuses we now will be forced to live with new laws and regulations intended to improve corporate governance. Unfortunately, some will follow the letter of these new rules and do nothing to live up to the spirit behind them. Likewise, many of these requirements will add cost without any benefit and in some cases will undoubtedly make governance worse.

Fortunately, we have always met the spirit of sound corporate governance and we do not need to change our philosophy. We have always believed our shareholders should get their fair share of the business returns and not be exposed to any management "haircut." We decided not to issue dilutive stock options many years ago. Our bonus plans are logical and rational and correctly align our associates' performance with shareholder value. They are fair for both associates and shareholders. Our stock loan plan has enabled associates to acquire reasonable amounts of stock and pay for it over an appropriate term at attractive interest rates. We have not forgiven share loans. The plan is far more shareholder friendly

than option plans. Unfortunately, your executive officers and directors will no longer be able to participate in these plans. It seems inconsistent that under the new rules option plans are allowed, yet loan plans are not. An option plan is the equivalent of an interest-free loan where the beneficiary can walk away from repaying the principal.

In our efforts to begin complying with both the spirit and the letter of new requirements, we are pleased to have added Jay Weinberg as an independent director to our board. Jay is Chairman of the Hirschler Fleischer law firm in Richmond, Virginia. For those of you from the Richmond area, you may already be aware of Jay's well deserved reputation for excellence and integrity. We believe he will add real value to our board and we are gratified he has agreed to join us.

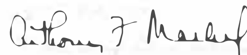
We will continue to respect our shareholders and their capital. We recognize that it is our obligation to earn a fair return on that capital.

THE FUTURE

Our company is truly in a unique position to benefit from the changes in the insurance world, as well as to capitalize on our investments over the past several years. Insurance prices are strong and look to stay that way for some time. Standard insurance markets continue to tighten their belts and send more business to specialty carriers. Our reserving and accounting practices reduce (not eliminate) the potential for unfortunate surprises. Our growing investment portfolio and strategy bode well for future prospects. We've built one of the best teams in the industry and have the intellectual capital necessary to compete successfully. And our shareholders know that they will get fair treatment.

We owe a huge thank you to all of the Markel associates who have helped make our dream a reality and who we count on to continue our commitment to success. As always, we thank you, our shareholders, for 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