2004

TO OUR BUSINESS PARTNERS

Markel will celebrate its 75th anniversary in 2005. Sam Markel founded the company in 1930 with many of the business values we embrace today; values that are timeless and will continue to guide us for the next 75 years. We went public in 1986 and built one of the strongest specialty property and casualty businesses in the United States. In 2000, we expanded our base internationally more than doubling the size of our business. Long-term business success is the result of many factors including good luck. In our case, we attribute much of our success to having great people who focus on the Markel Style, which defines our common values, and our Commitment to Success. While much transpired during our first 56 years, here's what we have accomplished as a public company:

Year	Shareholders' Equity	Book Value Per Share
	($ in 000's)	($)
1986	14,790	3.42
1987	20,129	4.66
1988	45,414	9.22
1989	60,447	11.69
1990	54,659	10.27
1991	83,137	15.59
1992	109,342	20.24
1993	150,678	27.83
1994	138,501	25.71
1995	213,442	39.37
1996	268,335	49.16
1997	356,804	65.18
1998	425,301	77.02
1999	383,419	68.59
2000	752,372	102.63
2001	1,085,108	110.50
2002	1,159,111	117.89
2003	1,382,279	140.38
2004	1,656,503	168.22

This represents a 24% compound annual growth in book value per share since 1986.

Results for 2004 set many records. Earned premiums exceeded $2 billion with a combined ratio of 96%. Net income for the year was $165 million; comprehensive income was $273 million and shareholders' equity grew to $1.7 billion or $168.22 per share. Growth in book value per share over the long term is our overriding financial goal. We enjoyed compound annual growth of 20% over the past one-year and five-year periods and 21% compound annual growth over the past 10 years.

We achieved these results in spite of approximately $80 million of losses from the Florida hurricanes. The 2004 hurricanes were worse than we've seen in many years, but certainly less severe than if they had hit major metropolitan areas. We should also point out that our results were favorably impacted because we had no major earthquakes, hail storms, typhoons or other exceptional losses. The disastrous tsunami in Southeast Asia, which resulted in minimal financial losses to us, reminds us of the magnitude of potential exposures that do exist.

The very nature of our business is that in most years our results will be adversely impacted by one event or another. We learn to expect the unexpected. We hope that not too many bad things will happen at the same time. And we manage our exposure by having a large and diverse book of business across many products and locations. While many would like to see smooth and steadily improving results year after year, the reality is that our business is lumpy. Fortunately, over time, we have managed these risks well and earned solid returns on capital. The result can be seen in our long-term growth in book value per share. We continue to be dedicated to increasing book value per share at a high rate over the long term and remain optimistic that we will be able to do so.

2004 FINANCIAL REVIEW

Revenues increased 8% to $2.3 billion as insurance industry pricing stabilized from the extremely rapid rate increases of 2001 to 2003. Earned premiums increased 10% to $2.1 billion. Gross written premiums declined 2% while net written premiums increased 4% as we continued to decrease our reliance on reinsurance. The higher rate of growth for earned premiums represents the lag effect of earning premiums over the policy term. Most significantly, underwriting profit improved as the combined ratio declined from 99% in 2003 to 96% in 2004.

Taxable equivalent total investment return for the year was 7.9% with equity returns of 15.2% and fixed income returns of 4.8%. Investment income increased by 12% to $204 million as the portfolio increased from $5.3 billion to $6.3 billion. During the year we increased the allocation to equity securities to $1.3 billion or 21% of the total portfolio. The fixed income portfolio remains short in duration and very high in quality due to our concerns about the possibility of higher interest rates in the future.

Our record results are a reflection, in part, of the underwriting discipline possessed by each of our eight business units. While we aggregate our business units into three reporting segments for financial reporting purposes, each business unit contributes to our success.

EXCESS AND SURPLUS OPERATIONS

Our Excess and Surplus Lines segment produced record underwriting profits of approximately $148 million during 2004. A summary of significant highlights for each operating unit in this segment follows.

Essex Excess and Surplus Lines. Our flagship operation, the Essex Excess and Surplus Lines unit, will celebrate its 25th anniversary during 2005. Essex has historically been one of the most profitable excess and surplus lines companies in the industry and 2004 was certainly no different. Our contract property and contract casualty divisions have produced excellent profits and, in spite of the four Florida hurricanes, our conservative underwriting approach to catastrophe exposed business also produced an underwriting profit this past year. Our other specialty products including inland marine, ocean marine, transportation and railroad were all solidly in the black. This was an exceptional year for this team of professionals.

Shand Professional/Products Liability. Our professional liability underwriting arm, the Shand/Evanston group, had equally exceptional results. Over the past decade, Shand has become a market leader in employment practices liability coverages for the small to mid-size buyer. Our disciplined approach, loss control and safety engineering services and educational seminars set us apart from the vast majority of the competition. Our claims-made products liability business produced significant underwriting profits in every year but one since 1990. Our medical malpractice portfolio consisting of physicians with special needs and new and emerging medical technologies, which we call specified medical covers, have combined to become a major portion of the Shand product mix. With the retrenchment of other medical malpractice insurers over the last few years, Shand has become known as a problem solver and leader in this arena.

Investors Brokered Excess and Surplus Lines. In spite of the adverse development recognized at Investors, we believe our prospects for the future have never been brighter given the new leadership in place at this operating unit. Both our excess and umbrella and our primary casualty books of business have been re-underwritten over the last couple of years and we have confidence in the future profitability of these products. Our property business has been a consistent money maker in every year since our 1996 acquisition. Our newer products including various environmental coverages and our taxi business have established excellent track records during their short tenure and should produce underwriting profits for us well into the future.

Markel Southwest Underwriters. This operating unit became part of Markel in early 2000. The first two years under Markel ownership, we retooled this business unit, completely overhauling the underwriting and claims approaches from the business that we acquired. In each of the three subsequent years, margins have improved. We are extremely proud of the progress that our Scottsdale team has made. They have been able to duplicate the success of our excess and surplus lines businesses by providing superior products and services to the wholesale brokerage community.

Markel Re. Our casualty facultative reinsurance operations, started in the fall of 2002, have established a name and presence for themselves in today's marketplace. Their individual account underwriting approach and focus on bottom line profitability have assisted us in maximizing market opportunities. SMART (Specialized Markel Alternative Risk Transfer) was added to Markel Re in the summer of 2003. Our seasoned team has national recognition and we are confident that their disciplined underwriting approach will benefit Markel over the long term.

SPECIALTY ADMITTED OPERATIONS

Our Specialty Admitted segment also had record results, producing underwriting profits of $38 million in 2004.

Markel Specialty Program Insurance. This underwriting unit has produced profits in 9 of the last 10 years. We are clearly a market leader in many of our core property and casualty products including camps and daycare. Our devotion to safety and loss control engineering services as well as our exceptional attention to customer service requirements has served us well for many years. Our agriculture/equine portfolio also performed well above our profit expectations. This group of commercial lines specialty coverages is, in many ways, unique to the industry. We aim to expand our product mix in 2005 while maintaining our underwriting integrity.

Markel American Specialty Personal and Commercial Lines. Our personal lines specialty unit, located in Pewaukee, Wisconsin is one of Markel's technology success stories. More than two-thirds of the motorcycle accounts written this past year were sold over the Internet. Our bike-line.com site has been operational for 5+ years with many enhancements added along the way. Customers can easily access the site at their convenience receiving quotes, binding coverage and paying for their policies all online.

LONDON INSURANCE MARKET OPERATIONS

While not yet reporting underwriting profits, our London Insurance Market segment produced approximately 28% of our 2004 gross premium volume. We believe our London operations provide an excellent opportunity for international expansion and we are increasingly confident that they will produce the same strong underwriting performance we achieve with our U.S. operations.

Markel International. When we purchased what was then known as the Terra Nova Group in March 2000, we anticipated that we would be dealing with the legacy issues and the run off liabilities associated with any 30+ year old organization for the first few years of our ownership. While that is exactly what transpired, the effort was certainly more expensive than expected. Now, with most of the legacy issues resolved, we are focusing on the future. Later this year, we will be opening a new service office in Madrid, Spain and are exploring expansion into Canada. Our retail UK business has produced extraordinary returns and we will be opening new service offices during 2005 in addition to the four established retail centers that now underwrite and market specialty products. Our core professional indemnity product remains extremely strong and our market leadership position and visibility continues to grow in the London marketplace. While under some pricing pressure, the remainder of our core products, which include specialty property, casualty and marine insurance, are positioned extremely well to achieve our underwriting objectives in the upcoming year.

INVESTMENTS

Our business model emphasizes the importance of superior investing and our investing results have added a great deal to our long-term growth in book value. Having a disciplined approach to investing and managing investments to achieve sound returns adds significant value for Markel shareholders. In 2004 we earned a 7.9% taxable equivalent total investment return where equities returned 15.2% and fixed maturities including our cash and short-term investments returned 4.8%.

The following chart shows our performance over the past year, as well as 5- and 10-year periods and compares our returns to those achieved by standard market indexes. We do not manage against an index nor do we think in relative terms, however, the comparison does demonstrate the value added by our approach to investing over long timeframes.

	One Year	Five Years	Ten Years
Markel Total Return			
Fixed maturities	4.8%	6.9%	6.8%
Equity securities	15.2%	16.1%	15.6%
Market Indices			
Lehman Aggregate Index	4.3%	7.7%	7.7%
S&P 500	10.7%	(2.4)%	11.6%

Over the past year we continued to maintain the short duration of our fixed income portfolio. We believe interest rates are more likely to move up than down and we are unwilling to stretch for yield by either extending the duration or giving up credit quality (as you may note we used the same words last year and we believe they are equally true today). Given our desire to maintain a high quality and relatively short duration portfolio, we are delighted with our results.

During the past three years we have significantly increased our allocation to equities. Three years ago equities were $551 million or 13% of the portfolio and 48% of shareholders' equity. Today we have $1.3 billion in equity investments which is 21% of the portfolio and 81% of shareholders' equity.

Our increasing allocation to equities stems from the combination of our increasing financial strength and improving underwriting results, as well as attractive equity investment opportunities. Equity securities are nothing more than fractional ownership interests in a business. Over time prices of shares reflect the underlying value of those businesses. We expect that those values will increase at a faster rate than the rate of interest offered by high quality fixed income alternatives. Therefore, we look to allocate capital to equities as circumstances and opportunities permit.

In any given year, positive and negative events occur. During 2004 positive events included our investment in Fairfax Financial Holdings which appreciated in excess of $30 million. Negative events included the decline in value of our investment in Marsh & McLennan Companies by approximately $17 million following the Spitzer allegations and investigation. However, in aggregate, our results for 2004 and over the past 5- and 10-year periods have proved quite satisfactory.

We believe there are two fundamentally distinct approaches to making money in investment markets. "Traders" attempt to benefit from price volatility and successfully trade positions to earn profits. "Investors", by contrast, seek to own profitable businesses at reasonable prices and benefit from the underlying growth in the business they own. In the short run, being a skillful trader is important. As the noted investor John Templeton said, "Share prices fluctuate more than share values." In the long run, however, investing ability becomes more important. The financial skill to identify profitable businesses at reasonable prices and, having the temperament to stick with them through ups and downs, generate favorable long-term returns.

We are investors, not traders. We are pleased with the businesses we've bought over the last several years as we've increased our allocation to equities and we are optimistic about their future prospects. While year-to-year returns will fluctuate with the moods of the stock market and company specific events, we expect our returns as investors over time to be similar to the underlying returns of the businesses themselves. Given the businesses we own, we are happy with that prospect.

BALANCE SHEET AND CAPITAL STRENGTH

Our primary goal regarding our balance sheet is unquestioned financial security. Our second goal is appropriate financial returns for our shareholders. At year end our business is capitalized with $1.7 billion of shareholders' equity, $610 million in senior long-term debt, $150 million in junior subordinated debentures and $95 million in convertible notes payable.

During the year we raised approximately $200 million through the issuance of 7.35% senior notes which mature in 2034. The proceeds of this transaction were used to pay off our revolving credit facility and for general corporate purposes. We remain concerned about the possibility of rising interest rates and wanted to lock in a fixed interest rate for the long term. We also liked the idea of adding 30-year capital to our balance sheet. Of the remaining senior long-term debt, $166 million matures in 2007 and 2008 and $248 million in 2013.

The junior subordinated debentures have equity-like features in that we have the right to defer interest payments for up to five years and the final maturity is not until 2046. Given the subordination features and the long-term maturity, we include this as equity in our debt-to-equity calculations. These securities are also redeemable by us beginning in 2007.

The convertible notes payable also have some unique features. While these are zero coupon notes, each year they increase in value by 4.25%. The notes have a final maturity of 2031; however, the holders have certain rights to redeem the notes or convert them into Markel shares. If the notes are redeemed, we may choose to settle in either cash or Markel shares. While we do not pay current interest on the notes, the accrued interest is a tax deductible expense. If these securities were converted into common shares, we would issue approximately 335,000 new shares. As a result of a new accounting standard, this dilution is now included in our earnings per share calculations. With this dilution net income per share has been reduced by approximately 2%. Coincidently, if these notes were converted into common shares, book value per share would increase by approximately 2%.

Since our initial public offering, we have believed that the appropriate financial structure for our business was roughly one-third debt and two-thirds equity. We continue to think this is a good balance that provides a secure position to our policyholders and high returns for our shareholders.

When we completed the acquisition of Terra Nova in 2000 and assumed the operating issues of that company, the rating agencies reduced the ratings on our bonds. While we believe we have now resolved the vast majority of those operating issues, the agencies have been very slow to restore the ratings to levels we think appropriate. Clearly we're biased in this view. The agencies are independent, don't care much about our opinion and will come to their own conclusions.

Undoubtedly, as we continue to demonstrate superior financial performance, higher ratings will follow.

Our unwavering goal is to manage our business and financial structure to maintain a strong financial position. With profitable underwriting performance, a conservative loss reserving philosophy and an appropriate amount of well-structured, long-term debt, we believe we can achieve and maintain strong debt ratings.

CORPORATE GOVERNANCE

The Sarbanes-Oxley Act of 2002 brought many changes to the way public companies operate. Many, maybe even most, seem like bureaucratic overkill in an environment where a few were simply dishonest. Section 404 of the Act required complex, time-consuming and very expensive processes to test internal control procedures and assure their effectiveness. Many have questioned its value. Over the past year, almost everyone at Markel has been involved in one way or another to document compliance with Section 404. The process was every bit as complex, time-consuming and expensive as we expected and we are pleased we have successfully completed the task. While the task seemed daunting at its inception, we are pleased that much of the process will improve our systems and operations. The expanded understanding across the entire organization that everyone is responsible for the quality of our business and our internal controls is also a good thing.

The insurance industry also came under direct attack as the New York Attorney General investigated illegal bid rigging in the industry. We are confident that we do not have problems with these issues and we will continue to emphasize to all of our associates the importance of our values which require "honesty and fairness in all our dealings." These long-standing values coupled with appropriate policies, procedures and compliance efforts serve us well. We are trying as best we can to follow the example of the Quakers who came to America to "do good, and did well."

Good corporate governance starts at the top. We are fortunate to have a great Board of Directors (particularly the outside, independent directors) to help oversee our operations and to provide a strategic direction for the Company. They embrace the Markel Style and make sure we live up to those high standards. The diverse talent of the Board continues to expand and we are especially pleased that Al Broaddus joined us as a director in August. Al, a native of Virginia, received his undergraduate degree from Washington & Lee University and M.A. and Ph.D. degrees from Indiana University. He served an illustrious career with the Federal Reserve Bank of Richmond starting as an Economist in 1970 and rising to President in 1993. He retired as President from the Fed this past summer. Our meetings will not compare to the Federal Open Market Committee meetings and the press is unlikely to wait eagerly for our pronouncements, but Al's broad knowledge, experience and sound judgment will be very valuable to Markel.

EXECUTIVE MANAGEMENT CHANGES

Darrell Martin, Executive Vice President and Chief Financial Officer, announced in early January 2005 that at the next shareholders' meeting he will pass on his responsibilities as CFO to Richie Whitt and move into a reduced time role. Darrell first became associated with Markel while he was a member of our independent auditors, KPMG, and worked on our account. He became the partner on our account in 1985 the year before our initial public offering. Darrell joined Markel as our Chief Financial Officer in 1988 and has been an instrumental part of the executive management team since that time. Darrell will continue as Executive Vice President and give us approximately 25% of his time while he tests the waters of retirement. Richie joined Markel in 1991 as Manager of Accounting and has made Darrell look good ever since. After continually advancing in the accounting and finance areas, Richie moved to London in 2003 to work as Chief Administrative Officer at Markel International. There he has obtained some very valuable operating unit and international insurance market experience. Our financial affairs will remain in very good hands with Richie and we are very fortunate that Darrell will continue to be available to guide us and offer his wise counsel.

OUR FUTURE IN A COMPETITIVE MARKET

After many years of an increasingly competitive environment, the insurance market showed dramatic improvement in the few years following the tragic events of September 11, 2001. After a too short recovery, pricing in the industry is now showing weakness. While much of our business is holding up with adequate pricing and underwriting conditions, there are an increasing number of examples where companies are chasing business without due regard for underwriting and pricing considerations necessary to earn decent returns on capital. As shareholders and business partners you can be sure Markel will not go down this path. Our premium growth may slow in this environment, but we remain committed to our business principles and corporate values.

In fact, one of Markel's greatest strengths is our consistent focus on a business model…our Model for Profit…where the combination of underwriting profits and investment returns build shareholder value over the long term. Growth in premium volume is not critical to this model. Yes, growth is nice. Yes, growth is important to our long-term success and development. Yes, we are always looking for new opportunities and we will compete for every piece of profitable business we can. But for Markel, underwriting profits come first.

We have a lot of experience in growing our business profitably in a very competitive environment. In fact, that is where we really shine. There are many factors, strategies, and issues that enable us to be competitive without sacrificing our underwriting standards.

Whether the market is "hard" or "soft," one of the first and most important business strategies is to renew our existing business. We do this by providing great service which can only be done with focused and committed associates. Markel is a great place to work. Our incentive plans reward underwriting profitability by sharing underwriting profits with those associates who earn them. True insurance underwriters find the environment at Markel to be one they want to be a part of. We reward success and focus everyone on profit, not volume.

Another option for growth is to increase the proportion of the business we retain by using less reinsurance. This is already taking place. In 2004 we retained 81% of our gross written premium as compared to 77% in 2003. The 4% increase amounted to over $100 million in premium volume. We expect that this process will continue in 2005 as our growing capital and good experience with the business allows us to assume additional exposure. We will, of course, always purchase sufficient quality reinsurance to conservatively protect our financial position.

As the insurance market softens, we continue to look for opportunities to add people and acquire business or companies which can enhance value for our customers and shareholders. New opportunities for expansion are always available and we expect to take advantage of those opportunities when they arise.

As we continue to grow, we remain mindful of the importance of our human capital and internal training programs. To further expand our ability to hire and develop the next generation of Markel associates, we formed Markel University. Since its first class began in the fall of 2002, we have hired 13 recent college graduates who have or will very shortly complete this program and become valued, productive Markel associates.

Our investing philosophy also continues to be a critical element of our business model. We typically allocate roughly 80% of our investment portfolio to fixed income securities with the remaining 20% to equity investments. This allocation matches insurance liabilities with fixed income securities and shareholders capital with equity investments. Our foremost goal is to make sure we have capital available to our underwriters to write profitable insurance business. If, however, there are fewer opportunities to do so or if our capital were to grow faster than insurance opportunities, then we can increase the portfolio allocation to equities. Over time, this will increase the total return we can expect to earn from our investing activities so that we can continue to deliver a high growth rate in book value per share.

A final alternative is to return capital to our shareholders. If we cannot earn high returns on our capital, we clearly recognize our obligation to our shareholders to return that capital. This could take the form of either cash dividends or share repurchases. We currently believe, and our track record would suggest, that we have great opportunities to invest your money in the business, so we do not expect that either of these alternatives will occur in the near term, however, we will remain cognizant of these alternatives as stewards of your capital.

CLOSING COMMENTS

The great thing about recognizing milestones is they present an opportunity to reflect on the past while focusing on the future. The excitement of celebrating our first 75 years is matched with equal optimism about the next 75. The fact that this business has succeeded by embracing a culture with specific values gives us confidence and direction for the future. Our underlying values and the relationships and integrity they produce remain durable and valuable for 2005 and beyond.

When new people join Markel, they are often recruited by existing associates. They want to join a winning team and one that wins by doing things the right way and in accord with important values. This becomes a flywheel with momentum that helps perpetuate the ability to grow and manage a profitable business in the future. We need good people to grow this business and good people want to join us in order to work in an environment of which they are proud.

Similarly, the shareholders of Markel also are committed to our long-term success. A large percentage of our shares are held by associates who view ownership of Markel as a critical piece of their financial future. Our external shareholders also tend to be long-term owners of the business and have provided us with financial capital, ideas and support that help us achieve our goals.

Over time, the daily execution of these ideas and the daily walk in accord with our values builds credibility for Markel with our associates, our shareholders and our customers. Every day that we do this creates increased evidence and credibility that we will do it again tomorrow. This is a wonderful consequence of being in business for many years. Credibility is a fragile asset to be guarded. We know the value of our heritage as well as the stakes for the future, and we look forward to continuing to earn your trust in the years to come.

We thank our associates for living and executing the Markel Style and making our success possible. 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

Paul W. Springman
Executive Vice President

Thomas S. Gayner
Executive Vice President and Chief Investment Officer

From left to right: Paul W. Springman, Anthony F. Markel, Darrell D. Martin, Steven A. Markel, Alan I. Kirshner, and Thomas S. Gayner.