2005

TO OUR
BUSINESS PARTNERS

During 2005, most of our businesses enjoyed excellent performance; however, our financial results were negatively impacted by hurricane losses. Underwriting results excluding the hurricanes were remarkably strong with profits of $234 million. Losses from hurricanes Katrina, Rita and Wilma of $246 million more than offset these results, leaving us with an underwriting loss of $12 million in 2005.

Total reported investment returns were also less than normal as our equity returns were sluggish, despite largely positive earnings in our portfolio of companies. In addition, fixed income markets fought the headwinds of rising interest rates.

We ended the year with net income of $148 million and comprehensive earnings of $64 million. These returns were below our expectations and history of normal returns at Markel.

The hurricanes dominated both the national and insurance industry headlines in 2005. Unfortunately, catastrophes are a normal part of life and the insurance business. We know they will continue to occur, but we do not know when, where, or how severe they will be.

While catastrophes and rising interest rates have made our business tough in the short run, the long-run record is very good and the future is full of opportunity. Our financial model is to earn consistent underwriting profits and superior investment returns. Though we fell short in 2005, and we'll try to fully explain why, we remain confident in our ability to achieve our goals in the future as we have in the past.

Markel will continue to write catastrophe-exposed insurance business and we expect to have losses from time to time. However, in managing this part of our business the following principles apply: first, we must earn enough profits in the good years to more than offset the bad ones; second, we must manage our aggregate exposures so that both individual product lines and the company as a whole are not unreasonably exposed.

In reviewing our catastrophe results, most of our products successfully delivered on these principles. However, there were some notable exceptions and with those products we are aggressively addressing the problems. We are increasing prices and reducing aggregate exposures where necessary. We are also reducing our reliance on industry catastrophe models and planning for higher frequency and severity of catastrophes in the future based on the experience of the past two years. Should we find the marketplace unwilling to allow us to achieve our profitability targets on this basis, we may find it necessary to withdraw.

Because the impact of these hurricanes was so significant to our financial results, in several cases throughout this report we will be referring to our results "before and after" or "with and without" the hurricane losses. Let us assure you that this is to help you better understand the business and what is happening. It is in no way an attempt to excuse or imply the events didn't really happen. We know all too well that they really did occur and, more importantly, that we can expect similar events in the future. We hold ourselves accountable for everything that happens at Markel and we clearly include these events in our compensation calculations.

In keeping with our efforts to be conservative and prudent, there is good news. While many companies have increased their estimated losses from hurricanes with each announcement, we believe that our initial estimates for Katrina and Rita now look to be too conservative. At the time of our third quarter financial release, we estimated losses from these events at $254 million. With the passage of time, the settlement of many claims, and the ability to better assess the losses, we estimated the costs of these hurricanes at year end to be $140 million for Katrina and $41 million for Rita, a total of $181 million or a reduction of $73 million from our original estimate. Hurricane Wilma, which occurred in the fourth quarter, cost us an estimated $65 million, so unfortunately this redundancy was used pretty quickly. Suffice it to say, we will continue to set loss reserves prudently.

HURRICANES

Given the magnitude of the hurricane losses, we will try to explain what happened, how it impacted us, and most importantly, what we are doing about it. First, it is important to understand that the 2005 hurricane season was far and away the biggest and most costly on record. Hurricane Katrina is estimated to have caused insured losses of over $38 billion. To put this number into some perspective, Hurricane Andrew cost $16 billion in 1992 and total equity capital in the United States property and casualty insurance industry stands at approximately $400 billion today. Hurricane Rita followed in late September and Hurricane Wilma in late October, adding an estimated $13 billion in losses. Together these three storms will cost the industry approximately $51 billion. As a comparison, 2004, which was also a pretty tough year for hurricanes, and the previous record holder, cost the industry almost $29 billion.

We provide insurance coverage for losses related to hurricanes in many of our divisions and business units. Essex Special Property and Markel International's property division provide coverage for highly exposed property risks which often include coverage for wind, flood or earthquake. These risks are typically larger and have low frequency, but high severity. Simply put, the losses don't happen very often, but are very costly when they do. Approximately 48% of our hurricane losses was generated from business in these units.

Markel International's Marine and Energy division sells coverage for all aspects of oil and gas activities which includes drilling platforms in the Gulf of Mexico. Our London operations also sell property reinsurance which includes hurricane exposure. Each of these areas was responsible for about 12% of our hurricane losses.

In our three contract property departments at Essex, Markel Southwest and Markel International, we have exposure to wind losses in the southeastern states which contributed approximately 17% to our hurricane loss. About 15% of the premiums earned in these departments have hurricane exposure.

Markel American Specialty Personal and Commercial Lines had exposure in its watercraft, yacht and property departments. We even had motorcycle losses as a result of the hurricanes.

One of Markel's great strengths is that we have many different specialty products, over 90 at last count. This diversity of products normally adds stability, but in those circumstances where a single event (like a hurricane) impacts multiple products, it creates a challenge to effectively manage this risk. To help forecast the potential loss from a catastrophic event both within a single product and across the spectrum of our different products, we have used a combination of the three most recognized independent catastrophe models. These models are intended to simulate an event and establish damage estimates for insured exposures. Unfortunately, these models significantly underestimated the magnitude of damage from the recent hurricanes. We also underestimated the unusual frequency of large events in the past two years. The models will be enhanced and made more robust as a result of knowledge from recent events. In addition, we will augment the industry models with our own models and underwriting tools along with an even greater margin for safety.

Many experts suggest that the environment is changing and hurricanes are on the increase. Clearly the recent experience of 2004 and 2005 adds credibility to these ideas. For example, this year's storms, Katrina, Rita and Wilma, all rank in the top ten most costly hurricanes in the United States. They rank first, seventh and third. Last year's storms, Charley, Ivan, Frances and Jeanne, also rank in the top ten. They are fourth, fifth, eighth and ninth. It is surprising that the storms of the past two years represent seven of the ten most costly. Filling out the top ten were Hurricane Andrew in 1992 (second) which set and held the previous record until Katrina, Hurricane Hugo in 1989 (sixth) and Hurricane Georges in 1998 (tenth).

If one were to look at hurricane statistics over the past 10, 20 or 50 years, it would be much more difficult to conclude that hurricane activity is increasing. For example, after Hurricane Andrew in 1992 until the hurricane season of 2004, on average less than 1.5 hurricanes made landfall each year in the United States and only Hurricane Georges now ranks in the top ten. Given these facts, a more logical conclusion might be to expect less frequent and severe hurricane activity in the future. Storm activity is, of course, only part of the issue. Another important issue affecting the costs of hurricanes is that building and economic development in geographic areas exposed to hurricanes continues to increase. The rising values of properties developed in coastal areas have significantly increased economic losses from hurricanes.

The good news is that Markel and the insurance industry can respond to the needs for coverage. While higher property values increase exposure, they also increase the premium base to pay for coverage and inevitable future losses. As new properties are built, they are generally constructed to better withstand hurricane winds. The number and total value of properties exposed to hurricanes is huge, but the probability that any single unit will experience a loss is still remote. Insurance is based on the law of large numbers, and with intelligent underwriting, a spread of risk and sound pricing, the insurance industry and Markel can continue to profitably respond to the need for protection from hurricane losses.

We expect each of our products to earn underwriting profits and contribute to our growth in book value. We fully expect to earn good returns on our capital, and each product must stand on its own. However, we understand volatility and recognize that not all products will earn profits every year. We strive to manage the business so that each product will earn good returns in five-year blocks of time and so that our varied product mix will produce underwriting profits every year. We have learned from the events of 2004 and 2005 and will be a better company as a result of the experience.

We have made several changes to how we write catastrophe-exposed business. We have set higher prices, reduced limits, increased deductibles and taken other steps to better control aggregate catastrophe exposures. As a result, we would expect that if the weather were the same in 2006 as 2005 our results would be much improved, should it get worse, we will remain financially secure and adjust accordingly, and with good weather, our results should be very pleasing.

2005 FINANCIAL REVIEW

Operating revenues decreased 3% to \$2.2 billion in 2005 as the insurance market became increasingly competitive. Gross written premiums decreased 5% to \$2.4 billion due to our sale of Corifrance, exiting lines of business that were not meeting our underwriting profit targets and an increase in competitive pressures in almost all of our markets. Earned premiums decreased 6% to \$1.9 billion as a result of the above items and additional reinsurance costs resulting from the 2005 hurricanes.

Our combined ratio for 2005 was 101% compared to 96% in 2004. As mentioned earlier, the 2005 hurricanes are estimated to cost Markel $246 million, or about 12 points of our 2005 combined ratio. For comparison purposes, the 2004 hurricanes cost an estimated $80 million and represented about 4 points of our 2004 combined ratio.

With continued growth in our investment portfolio and rising interest rates, investment income increased 19% to $242 million. Realized gains were $20 million in 2005. Total investment returns were not as strong due to the effects of higher interest rates on the value of our fixed income portfolio and a sideways equity market. Our taxable equivalent total return for the portfolio, after foreign exchange losses, was approximately 1.5%.

Net income for 2005 was $148 million compared to $165 million in 2004. Shareholders' equity and book value per share grew to $1.7 billion and $174 per share, respectively. Compounded annual growth in book value per share was 3% for the year and 11% for the five-year period. We are never happy to report an underwriting loss; however, we were able to withstand unprecedented catastrophic events and grew book value, even if only modestly.

BUSINESS REVIEW

Sometimes, it is easy to lose sight of the fact that the vast majority of our product lines have little or no catastrophic exposures. In 2005 many of these products produced exceptional results. One of our greatest strengths is a diverse portfolio of over 90 specialty products and, with the exception of our wind-exposed offerings in 2005, virtually every one of our other products met or exceeded our lofty profit expectations.

There is an abundant amount of good news in our operating units and we would like to share a few highlights with you from 2005.

Excess and Surplus Lines

Our Shand/Evanston unit located in the Chicago suburb of Deerfield, Illinois, had an exceptional year, producing over 30 points of underwriting profit in 2005. This stunning achievement is the result of writing profitable business and continued favorable loss development on business written over the past several years. Mike Rozenberg and his talented team of professionals have a winning combination of superior technology and excellent customer service. Our paperless environment has given us a competitive edge and our service to our broker partners is among the best in the industry. Shand is an excellent example of the safety valve that the Excess and Surplus Lines marketplace plays in the overall insurance industry. Over the last several years, we have seen our claims-made products liability and medical malpractice books of business grow rapidly as the standard market walked away from these two specialty classes.

On the other hand, our disciplined underwriters know when and where to walk away from business as market conditions become less attractive to us and more attractive to others. A great example of this disciplined approach can be seen in their management over time of the physicians product, which forms part of their medical malpractice program. At the very bottom of the soft insurance market in 2000, Shand was only able to write $13.9 million of physicians business that met our profitability goals. The market rapidly improved beginning in 2001 and Shand profitably grew the book to $96.8 million by the end of 2003. However, competition is again on the rise in the physicians market and Shand grudgingly reduced its writings to $66.7 million in 2005. During our 16 years of ownership, Shand's professionals have repeatedly demonstrated the fortitude to walk away from underpriced business. Congratulations to Shand on an extraordinary year.

Specialty Admitted

In our Specialty Admitted segment, our hats are off to Britt Glisson and his talented team at Markel Insurance Company. Over the past five years, they have grown the top line while increasing the margin of profitability on the bottom line, producing over 20 points of underwriting profit in 2005. This is no small task to accomplish in any market cycle. Markel Insurance Company's success is built on its ability to keep its customers for many years. Over time we have determined that long-term customer relationships are usually our most profitable. Markel Insurance Company's customer retention rate is approximately 81%, and in several of its core lines, we retain over 90% of our customers. In a highly-competitive market, this is an outstanding achievement. Value-added services such as loss control and crisis management assistance combined with attention to service are some of the reasons customers keep coming back.

London Insurance Market

While Markel International endured its fair share of hurricane losses in 2005, its professional liability businesses, which include its Retail and Professional Indemnity divisions, continued to perform superbly. The Retail division, using its branch strategy, has proven to be one of the most successful contributors to our results in the U.K., consistently producing underwriting combined ratios in the low 80s. The Retail division's emphasis is on professional indemnity products delivered through independent retail agents. When we began 2005, Markel International had four service offices in the U.K. They were located in the cities of Manchester, Birmingham and Reigate, all reporting into the Retail division's headquarters, located in Leeds, England. We used this anchor in 2005 and expanded with additional offices in Bristol and Cambridge as well as Edinburgh, Scotland. As Steve Carroll, manager of the Retail division says, "all of the pieces of the puzzle are in place!" These three new offices will begin producing profitable results for us in 2006 and we know that we can count on them for many years into the future. The strategy is a straightforward one — being located closer to our ultimate customer gives us the ability to provide superior customer service. This same strategy has been deployed with our new international offices in Madrid, Spain and Toronto, Canada. We are enthusiastic about the future prospects for profitability as Gerry Albanese and his talented team drive our international expansion.

Other Operating Units

Even in our operating units that incurred hurricane losses, there is ample good news to share. Essex Insurance Company's contract casualty department continues to turn in stellar results year after year. The profits that have been produced over the past 25 years are nothing short of miraculous.

At our Investors unit, we witnessed early favorable trends from the most recent years in our primary casualty product, an area that has caused us difficulty in the past. In addition, Investors' environmental products continue to grow and meet or exceed underwriting profit expectations.

At Markel Southwest Underwriters, we are starting to see the fruits of six years of operating under the Markel banner. In spite of storm losses in 2005, this unit exceeded our overall profit goals.

At Markel American, our margins increased on our core motorcycle business while premium volume continues to grow.

Markel Re continues to build profitable books of business in small commercial umbrella, casualty facultative reinsurance and our fastest growing product, Specialized Markel Alternative Risk Transfer (SMART).

Our newest unit, Markel Global Marine & Energy, will open its doors for business in the next few months. This specialty array of products will complement those already offered at Markel International and in our U.S. operations.

As you can see, we have much to be proud of in 2005. While our consolidated underwriting results did not meet our high expectations, we have the people and platform in place to produce true Markel-like numbers in 2006.

INCENTIVE COMPENSATION

Our underwriting culture and success is closely linked to our compensation philosophy and programs. We want our associates to earn reasonable base salaries and benefits, but have the opportunity to earn significant performance incentives based on underwriting profitability, or in the case of the executive team, based on growth in book value per share. To demonstrate what we mean by significant, over the past three years, our incentive compensation payments have averaged over 40% of base salaries. We estimate that incentive compensation payments to Markel associates for 2005 performance will approximate $50 million, including $1.1 million for the executive team.

Top performers receive the biggest checks. Our associates at Shand, Markel Insurance Company and Markel International's retail division, as well as many others, generated substantial underwriting profits in 2005. Unfortunately, your executive team did not do as good a job growing book value per share. As a result, over 30 associates will earn larger cash bonuses than the six members of the executive team. We are delighted for them and we expect to do a better job in 2006.

INVESTMENTS

Investment activities are an integral component of our business model and are crucial to our long-term growth in shareholders' value. In managing these assets our first task is to protect and preserve the capital we need to conduct our insurance operations. Second, we seek to build and grow capital in the most prudent and productive manner possible.

During 2005, we earned modest investment returns. Fixed income returns were 3.9%. We continue to be committed to very high credit quality fixed income investments and a shorter than normal duration to minimize the impact of higher interest rates. Long-term readers of this report might recognize this phrase. It has been consistent on the credit quality issue forever, and on the interest rate risk issue for the last few years. We are leery of the returns offered on long-dated fixed income investments as we do not think they compensate us for existing and future inflation risks. We are sticking to limited duration fixed income investments. In 2005 rates did rise, especially at the short end of the curve, and bond prices fell modestly. We offset some of these price declines with interest income to produce a positive overall return. We expect to remain short in duration, high in credit quality, and balanced between government, municipal and corporate securities in 2006. If the markets move dramatically in 2006, we will respond accordingly.

In the equity market we had flat performance in 2005 with a total return of (0.3%). This is below our normal expectation of double digit returns from equity investments. Our longer term five- and ten-year records still reflect excellent returns over very challenging investment environments.

We have invested for many years following a four-part thought process to select and manage our equity investments. Namely, we look for profitable businesses with good returns on capital, management teams with equal measures of talent and integrity, reinvestment opportunities and capital discipline, and reasonable prices. Ironically, 2005 was a year in which many of our portfolio companies which meet these tests did not move in price, hence our flat performance. While share prices fluctuate a lot more than underlying share values, the long-term course of share prices is determined by underlying per share earnings. We are confident that our time tested discipline is an excellent process for managing investments as demonstrated by our long-term results. We are optimistic that continued earnings growth in our underlying portfolio of companies will be reflected in higher stock prices and good investment performance over time.

One positive aspect of flat stock prices and better underlying economic performance is that we are getting a better "bang for our buck" as we continue to use the cash flow from our business to purchase more shares at reasonable prices. Additionally, our long-term orientation allows us to achieve tremendous tax and economic efficiency. At year end, the unrealized gains on our equity portfolio stood at $438 million. While we have provided for an ultimate tax liability of $153 million in our financial statements, these taxes will not have to be paid until we sell the investments and realize the gains. Meanwhile 100% of the investment will be growing. This tax deferral, which fits our long-term horizon, adds tremendous and growing value over time to our company. Our long-term horizon is increasingly rare in the investment world and creates a significant advantage for us. Additionally, our costs for managing, trading, and even making mistakes in our portfolio, are minimized by our ability to think about and hold investments for decades rather than for quarterly, or monthly performance.

Market Review

Our goal in managing equity investments is to earn double digit returns over the long run. This is an absolute rather than relative goal. While our focus is on absolute returns, we acknowledge that relative returns exist as a bogey for alternative choices. Over the long term we have met our absolute return goals and exceeded the S&P 500 benchmark over meaningful time periods. Unfortunately, 2005 was a year in which our returns fell below our absolute goals and underperformed on a relative basis. We tend to own a disproportionate amount of financial service companies which suffered from the previously discussed difficulties in the insurance industry and rising interest rates. We remain long-term believers in the prospective returns of these businesses.

The stars of 2005's financial markets were led by the commodity-oriented businesses of energy and gold as well as certain technology companies as most exemplified by Google. While energy markets clearly moved up dramatically in 2005 and we salute those who profited from those trends, two major factors kept our energy investments at a minimal level in the overall portfolio. First, and most importantly, energy and energy sources, like technology, change over time. For investors, this change is both exciting and dangerous. It is exciting because change creates dramatic positive outcomes for certain companies in the energy markets. It is negative, because the long-term trend in energy and technology pricing is down. This creates a headwind for businesses in those fields and we prefer to avoid investing in companies with decreasing pricing power. Although consumers worldwide benefit from progress and change in these markets, we as investors remain wary about the long-term prospects for these companies and the durability of their profits.

Second, certain aspects of energy pricing are similar to gold prices, where perception and geopolitical events swamp all other factors. We remain investors focused on long-term, durable-compounding businesses with easier to understand franchises or business dynamics. As such we sidestepped the hot energy and gold markets of 2005 and will likely continue to do so in the future. Over long periods of time this approach has proven sound.

Technology stocks, and in particular Google, also rose dramatically in 2005. While these companies continue to delight us as consumers and we enthusiastically applaud the productivity and efficiency gains these companies create for society, the businesses remain volatile and only minimally predictable over time. We focus on consumer-oriented, financial service and distribution businesses because we believe we are better able to make, and are more likely to be successful in, judgments about these kinds of businesses. We are willing to forego the excitement of markets like 2005 in order to be more certain that we're earning good returns over the long term.

Private Equity and Alternative Investment Activity

A major area of interest in the investment markets these days is "Alternative Investments." This includes hedge funds, private equity, and various other asset classes that are thought to provide investors with both attractive and non-correlated returns. As Warren Buffett of Berkshire Hathaway noted in a recent talk, investment markets regularly progress through a sequence where they are led by innovators, then imitators, then swarming incompetents. We don't know exactly where "alternative investment" markets are in that progression but we believe they are in the second, if not the third, stage of development. We also believe that the high transaction and ongoing management fees common in this area diminish the long-term returns available to the ultimate owners of the underlying businesses.

After the "swarm" phase, we believe that returns become disappointing, if not dreadful, and opportunities begin to be created as sellers get out and prices drop to more economically attractive levels. We expect this to occur over the next several years and we look forward to participating in these markets as opportunities present themselves. If and when we do participate, we expect to avoid many of the transaction and management fees which detract from long-term value.

To prepare for the opportunities we see developing in these markets over the next five to ten years, and more importantly to participate in promising opportunities, we pursued two private transactions in 2005. While the dollar amounts invested are relatively small at this time, we are optimistic they will lead to additional opportunities. Both of these opportunities meet our four criteria listed above: profitable businesses with good returns on capital, management teams with equal measures of talent and integrity, reinvestment opportunities and capital discipline, and reasonable prices.

In 2005, we made a majority investment in AMF Bakery Systems, a Richmond-based producer of equipment for the baking industry. We knew the principals of the company from long-standing community and personal relationships and we believe the business is durable and profitable with attractive returns on capital. Existing management purchased the remaining portion of the business and we will jointly enjoy the long-term economics of the business.

Additionally, in 2005 we committed to purchase a significant minority interest in First Market Bank in Richmond, in partnership with the Ukrop family. As Richmond readers probably know, the Ukrop family runs a successful and unique grocery business. Their values of integrity, absolutely first-rate customer service, an outstanding workplace environment and community involvement match up with our values perfectly. First Market Bank enjoys co-location and cross-marketing relationships with the Ukrop's grocery chain and we are excited to participate in their continued growth and development.

In both of these instances, we were able to find and negotiate these transactions principal to principal. By making these investments directly rather than through hedge fund or fund structures, we achieved significant cost and return advantages. We believe similar additional opportunities will develop over time and we look forward to expanding this part of our investment portfolio.

Future Prospects

We expect our future investment activities to continue in the manner discussed earlier. While the types and forms of investments may change over time our commitment to the principles of preservation and prudent growth of capital and a long-term investment horizon will not change. Our commitment to these principles has produced outstanding long-term results and we believe our adherence to these principles will continue to produce superior long-term investment results in the future.

Finally, we would like to thank our long-term shareholders. We believe that you are some of the premier thinkers in the investment world and are invaluable in your generous source of counsel, ideas and support. We wish to thank you for expanding our horizons with investment thoughts and insights, which help us manage our investment portfolio.

BALANCE SHEET AND CAPITAL STRENGTH

During 2005, our investment portfolio grew 4% to $6.6 billion, primarily as a result of operating cash flows. At December 31, 2005, there was approximately $671 of portfolio working for each share of common stock.

Operating cash flows declined to $551 million in 2005 from $691 million in 2004 due to the decline in our 2005 premium volume, payments of 2004 and 2005 hurricane losses during the year and commutations.

Reinsurance recoverables increased to $1.9 billion in 2005 from $1.8 billion in 2004. The increase is due to approximately $568 million of reinsurance recoverables related to the 2005 hurricanes. Without hurricane recoveries, our reinsurance recoverables would have decreased to $1.3 billion in 2005. The recoverables related to the hurricanes are almost entirely due from financially strong reinsurers, many of whom provide us with security for amounts they owe us. We expect these balances to be collected promptly as we pay hurricane losses during 2006. Our non-hurricane reinsurance recoverables continued to fall as we have consistently increased our retention of gross written premiums, aggressively collected outstanding balances and commuted with reinsurance companies that are no longer core reinsurance partners.

Loss reserves increased to $5.9 billion in 2005 from $5.5 billion in 2004. Approximately $680 million of this increase was due to the 2005 hurricanes. Our long-stated goal and consistent philosophy is to establish loss reserves that are more likely redundant than deficient. Surprises are almost always bad in the insurance industry and as a result we have long attempted to establish a margin of safety in our loss reserves. This translates into our ultimate goal of establishing loss reserves that we do not have to increase in the future. We believe we accomplished this goal in 2005.

On page 98 of the report you can see our past results in establishing loss reserves. We are pleased to report success in 2005, as prior years' loss reserves developed favorably by $51 million. To be fair, our 2005 success represents the first time we have achieved this lofty goal on a consolidated basis since 1999. Our lack of success in the intervening years was primarily the result of adverse loss reserves development on Markel International legacy business, Investors' general and product liability business and asbestos exposures. Now that we are "back in the black" so to speak, we will work to continue this trend into the future. Of course, the ability to achieve favorable reserve development all starts with our underwriters and their ability to write profitable business.

As a result of our strong capital position, our Board of Directors authorized the repurchase of up to $200 million of our common stock. Our thought at the time was that we would like to minimize dilution from the potential conversion in 2006 of our convertible notes payable. In 2005, prior to the hurricanes, we repurchased 49,400 shares for approximately $16 million. After these events, we did not repurchase any additional shares in 2005; however, in early 2006, we repurchased an additional 129,200 shares for approximately $42 million. The authorization remains in effect and we will exercise sound judgment in considering when, or if, to repurchase shares.

THE INSURANCE MARKET

During 2005, general underwriting conditions and pricing in the insurance marketplace deteriorated. We believe it is suicidal to chase business as price levels drop below those necessary to earn good returns on capital. As a result, we meet competition where we believe we have appropriate margins of safety and walk away from business that we believe is underpriced. Our flat overall revenues in 2005 reflect our disciplined focus on the bottom line, not the top line.

Increased competition is coming from many sources. The standard insurance markets are again beginning to seek more specialty business (often below standard rates) and new specialty markets are entering the fray. Overall, competition and our free markets are wonderful, but they require that we remain disciplined and focused on the bottom line, not the top line. We have lived through this before and we have produced excellent results despite what turned out to be foolish competition. We fully expect to do so again.

The recent hurricanes cost the insurance industry a significant amount of capital and many are promoting the idea that substantial rate increases are on the horizon for 2006. Clearly in those areas most exposed to future hurricane losses substantial rate increases are necessary. But it is less clear whether or not this "rate talk" will convert into action. We are not optimistic that there will be broad based rate increases. We will act with discipline and financial prudence regardless of what our competitors do and seek to obtain rates which cover the risks and provide appropriate returns to our shareholders.

Most people outside the insurance industry assume that everyone knows what prices are necessary to generate profits. Unfortunately, this is simply not the case. Predicting future losses is a tough, challenging and complicated process without much certainty. Today many in the business are enthusiastic about an expectation that they might successfully increase prices by 100% or in some cases even 200%. What that suggests is that the very same people were selling insurance last year at a 50% or 67% discount. It is unlikely that they were doing so with the expectation of losing large sums of money. In many lines of the insurance business, getting the price right is an iterative process. We learn as we go; we try, try and try again. Fortunately, at Markel, our exceptional underwriters get it right most of the time.

Throughout the history of the insurance industry, financial markets and investment bankers were quick to respond to major industry loss events and create new insurance companies to capitalize on perceived opportunities. While some of the innovators proved successful, most imitators ended up delivering marginal results. The promoters of many of these companies seek quick returns and to sell out before the next event. Most investors in these companies seem to have little interest in the companies' long-term success.

In addition to the new companies, we are surprised and befuddled to see many other companies reporting hurricane losses of 30%, 40% or even more than 50% of their capital who are unapologetically raising new capital to pay the losses. Some are even raising extra capital and promising a new market in which they will somehow perform better than before, and the financial markets are providing that capital eagerly. We are stunned that capital markets are not more skeptical of these promises, but we are getting used to it.

This creates concerns. The first is that there is an acceptance that it is okay for managers of a company to expose too much capital to a single event because the capital markets will always be there. Related to this idea, is the thought that capital in the insurance industry has a short-term orientation. Much of the current capital funding new ventures is coming from hedge funds. In 12 or 24 months they will be looking to move on. If these companies are willing to expose a large part of their capital to losses and investors are looking to make a quick trade, it will be a real challenge to build a strong, sustainable business. The long list of subpar and failed companies in the industry indicates that this model does not work in the long run.

Markel offers a clear contrast to this approach. Our business is run for our long-term owners and not short-term traders. Our strength comes from our corporate culture of discipline, accountability, and integrity. Our 75-year history demonstrates success.

CLOSING COMMENTS

We had high hopes for our 75th year and fell short of our expectations. Our success is due to our ability to face issues, recognize our problems and fix them. For the five-year period ending December 31, 2005, compound annual growth in book value per share was 11%, far short of our stated goal. Our ten-year and twenty-year results of 16% and 28%, respectively, continued to show excellent returns. We have a strong business, great associates, a wonderful market franchise and a demonstrated ability to build shareholder value.

We are very optimistic about the prospects for 2006 but are even more confident about the ability of our team to deliver results and success over the long term. We want to thank our associates for living and executing the Markel Style and we thank you, our shareholders, for your continued support. We look forward to reporting our progress to you over the coming years.

Alan I. Kirshner
Chairman of the Board and Chief Executive Officer

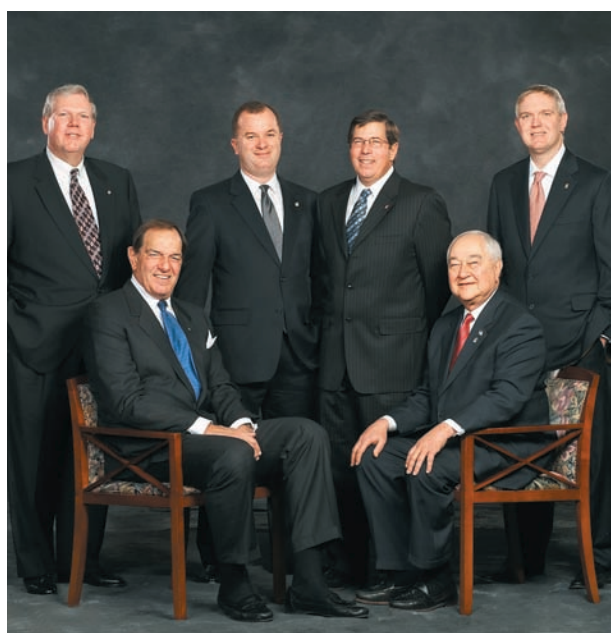
Anthony F. Markel
President and Chief Operating Officer

Steven A. Markel
Vice Chairman

Paul W. Springman
Executive Vice President

Thomas S. Gayner
Executive Vice President and Chief Investment Officer

Richard R. Whitt, III
Senior Vice President and Chief Financial Officer



From left to right: Paul W. Springman, Anthony F. Markel, Thomas S. Gayner, Steven A. Markel, Alan I. Kirshner, and Richard R. Whitt, III.