2007 TO OUR BUSINESS PARTNERS

We are pleased to share with you our 2007 report. The year was very successful on a number of fronts, as we continued to produce excellent financial returns and build the enduring strength of our organization. We benefited from another quiet year on the weather front (no pun intended), and our underwriters maintained their discipline in an increasingly competitive and undisciplined insurance market. We avoided most of the land mines in the financial markets and were pleased with our investment results. Together, our underwriting and investment efforts resulted in net income of $406 million, or $40.64 per share, and growth in book value per share of 15%, to $265.26 per share. The five-year compound annual growth rate in book value per share was 18%.

During the past year, the property and casualty insurance market continued to become more competitive. As we have enjoyed a recent lack of severe weather, some property competitors are pricing risks at what we believe are unrealistic levels. Recent profitable underwriting results in casualty lines have also led to increased pricing pressure. Strong financial returns and new capital raised over the past few years have produced excess market capacity. Based on the most recent industry data, the U.S. property and casualty insurance industry should finish 2007 with approximately $540 billion of capital and $450 billion of annual premiums. This is the lowest underwriting leverage ratio since the low point of the last soft market. In addition, these capital numbers do not include offshore capital in markets like Bermuda and London that is also competing in the U.S. marketplace. While this example only addresses the U.S. market, the same dynamics are occurring in the worldwide insurance market. As a result, the industry has too much capital and, therefore, increased competition.

For Markel, this environment calls for caution. During 2007, our gross written premiums totaled $2.4 billion, 7% lower than 2006. Clearly, we would prefer to grow; however, our focus has always been, and will continue to be, producing profitable underwriting margins. We are pleased to report that 2007 underwriting profits totaled $264 million with a combined ratio of 88%. Growth in our investment

(in millions, except per share data)	**2007**	2006	2005	2004	2003	2002	2001	2000	1999
Gross written premiums	**$ 2,359**	2,536	2,401	2,518	2,572	2,218	1,774	1,132	595
Combined ratio	**88%**	87%	101%	96%	99%	103%	124%	114%	101%
Investment portfolio	**$ 7,788**	7,535	6,588	6,317	5,350	4,314	3,591	3,136	1,625
Portfolio per share	**$782.18**	753.98	672.34	641.49	543.31	438.79	365.70	427.79	290.69
Shareholders' equity	**$ 2,641**	2,296	1,705	1,657	1,382	1,159	1,085	752	383
Book value per share	**$265.26**	229.78	174.04	168.22	140.38	117.89	110.50	102.63	68.59
5-Year CAGR in book value per share(1)	**18%**	16%	11%	20%	13%	13%	18%	21%	22%

(1) CAGR—compound annual growth rate

portfolio and higher interest rates produced net investment income of $306 million, a 13% increase over 2006. Net income was $406 million, another record. Total comprehensive income was $337 million with shareholders' equity increasing to $2.6 billion, or $265.26 per share.

TWENTY-YEAR PERSPECTIVE

We present the 20-year table to remind you, and us, of the importance of maintaining a long-term perspective. While year-to-year volatility does exist, we have enjoyed compound annual growth rates in excess of twenty percent for all categories over the 20-year period. It is interesting to note that gross written premiums over the past five years have barely increased, but, during the same period, we have successfully compounded book value per share at 18%. We are not complacent about our recent lack of premium growth, but the strength of our financial performance in its absence demonstrates the importance of consistent underwriting profits and superior investment returns as the drivers of our success. While premium volume growth over the long term is very important, the year-to-year change bears very little relationship to our bottom line results. We will therefore always seek opportunities for growth, but never at the expense of profitable underwriting.

Due to our focus on underwriting profits over premium growth, we have increased shareholders' equity at a faster rate than our investment portfolio in recent years. At the end of 2007, the investment portfolio was $7.8 billion, about 75% larger than five years ago. During the same time period, shareholders' equity more than doubled to $2.6 billion. As a result, our investment leverage (investment portfolio divided by shareholders' equity) has declined from just under 4 to 1 five years ago to just under 3 to 1 today. As our investment leverage declines, underwriting profits become even more important in driving superior total returns. At the same time, the lower financial leverage allows for a larger allocation to our equity portfolio to

1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	20-Year CAGR[1]
437	423	414	402	349	313	304	406	412	44	43	32	24%
98%	99%	100%	99%	97%	97%	97%	106%	81%	78%	84%	85%	—
1,483	1,410	1,142	927	622	609	457	436	411	79	59	46	29%
268.49	257.51	209.20	170.95	115.45	112.55	84.64	81.77	77.27	14.54	11.35	10.67	24%
425	357	268	213	139	151	109	83	55	60	45	20	28%
77.02	65.18	49.16	39.37	25.71	27.83	20.24	15.59	10.27	11.69	9.22	4.66	22%
23%	26%	26%	31%	17%	25%	34%	35%	—	—	—	—	—

earn higher long-term returns. For our investment portfolio to grow at a faster rate, we will need to find profitable opportunities to increase premium volume.

REVIEW OF 2007

Rather than review the year in a Management's Discussion and Analysis format, which you can read starting on page 79 of the report, we thought we would share some of the 2007 highlights from our perspective.

Operations

On the operations side, we made significant progress in a number of areas in 2007. Probably the most exciting news is that Markel International reported underwriting profits for the year. MINT ended the year with a 93% combined ratio and earned $46 million in underwriting profits. In addition, the quality of the balance sheet and loss reserves are as strong internationally as they are in the U.S. Our London Insurance Market business has come a long way since the Terra Nova acquisition in 2000. While it has taken longer than we would have hoped, the business is worth much more today than we paid for it, and it is now earning solid returns on our capital. To put icing on the cake, MINT paid its first cash dividend to Markel Corporation in 2007.

In the U.S., our operations produced excellent underwriting results. Markel Shand again led the way, producing $136 million of underwriting profits on its professional liability book of business. It was another great year at Markel Essex as it produced $78 million of underwriting profits. Markel Southwest Underwriters and Markel American also made significant contributions with combined ratios in the low 80's. Markel Insurance Company continued its string of strong performances, producing a combined ratio in the low 90's. Markel Underwriting Managers' results continued to improve in 2007, and we are delighted with the turnaround that has occurred there over the past few years. While still reporting underwriting losses in its start-up phase, Markel Global Marine and Energy added product capabilities during 2007 and is on track to produce underwriting profits in 2008.

However, there were some disappointments in 2007. Virtually all of our businesses gave up ground in terms of premium writings. Premium volume was down 7% as the insurance market continued to soften. In addition, while still strong, underwriting margins slipped. Our businesses produced good margins in 2007, but not at the levels of the past few years, and the market is becoming even more challenging.

At Markel Re, we failed to meet our goals and expectations. While three of the four major product areas are profitable and have bright futures, our business model in the Specialized Markel Alternative Risk Transfer (SMART) product line simply did not work. Several factors contributed to our underwriting losses and they varied by program. However, the most common problem across all the programs written by SMART was our delegation of underwriting authority to managing agents without, in hindsight, sufficient underwriting oversight. We have long known the risks of delegating underwriting authority and have re-learned an expensive lesson.

During the first quarter of 2008, we will be transferring the three profitable Markel Re products to Markel Underwriting Managers and a scaled down, better controlled and refocused alternative risk transfer capability to Markel Insurance Company. These transfers will allow us to better manage the expenses of these programs and provide the necessary resources to seek profitable growth.

Investments

On the investment side of our business, performance was solid in 2007 despite one of the most challenging investment markets in recent memory. The investment environment in 2007 was chaotic, and we steered clear of most of the problems. Our investment portfolio continues to be managed with the same long-term, disciplined focus on earning superior total returns over time.

Our total investment returns in 2007 were 4.8%, with fixed income producing a return of 5.6% and equities producing a small loss of 0.4%. We are particularly pleased with the fixed income results as they show the value of sticking to our plain vanilla approach of investing policyholder funds in high quality securities with minimal credit risks. We avoided the debacle faced by many larger and more sophisticated investors in the fixed income markets by our stubborn insistence on basic and uncomplicated credit quality. As Will Rogers once said, "I'm more concerned about the return of my money than the return on my money." When it comes to fixed income investing, we are disciples of Mr. Rogers.

On the equity side, we remain committed to our four-part philosophy by which we select our investments. We look for profitable companies with good returns on capital, run by honest and talented management, with reinvestment opportunities and capital discipline, at fair prices. While our 2007 loss of 0.4% was disappointing, our five-year and ten-year returns were 11.8% and 10.7%, respectively, and we think these are a better representation of the economic returns achievable from our equity investing activities.

During 2007, our equity performance suffered on a relative basis due to our large holdings in several financial and consumer-related businesses and minimal holdings of energy and commodity firms. As the famous investor John Templeton once said, "The five most expensive words in investing are, this time it is different." In the equity markets, participants are acting as if things are different this time in that they seem to believe that energy and commodity prices will remain high and that the consumer and financial sector will remain depressed indefinitely. We do not believe that this will prove to be the case.

Technological progress throughout time has done nothing but make basic materials and energy less expensive and more efficient. We believe this process will continue, and intellectual and financial capital will continue to outperform physically-based substances such as energy and commodities. As a result, our portfolio contains a preponderance of companies with intangible intellectual capital, brand values and financial service and intermediation skills. We think these sorts of companies ultimately provide even greater protection against inflation than physical commodity-based companies due to their abilities to re-price their goods and services regularly and to not be forced to spend ever higher amounts to replace depleting physical assets.

Additionally, we retain our long-term confidence in the world's financial system which is predicated on the vast majority of debtors paying their debts. Without that behavior the system collapses. The financial system is the central nervous system of our modern world. Without functioning banks, securities markets and insurance, modern life as we know it would cease. Consequently, we expect that normalcy will return as the current episode of irresponsible lending practices and unwise securities market behaviors gets digested by the overall system. Lenders are already more prudent and securities buyers are more chastened than during the boom times. The sober practices of today will restore profitability and normality to the system. We simply have no choice. The banking and savings and loan crisis of the early 1990's and its historical ancestors from 1974, 1929, 1907 and the 1870's give the government, individuals, corporations and the markets, plenty of time-tested approaches to heal the system.

This time it is not different. Fixing these problems is not discretionary now as it was not then. All of us will do whatever it takes. Noted economist Herbert Stein observed that, "If something cannot go on forever, it will stop." A corollary of this law is that, "things that must happen, will." This is one of those things that simply must happen.

This time is also not different in that the naysayers about America are wrong, just as they always have been in the past. For 300 years, the American economy has made forward progress and will continue to do so. With the low exchange value of the dollar, the export sector of our economy is already showing signs of strength. Additionally, anecdotal evidence of foreign buyers purchasing real estate assets shows that real estate prices will stop somewhere short of zero. New York City real estate remains particularly strong. This is probably directly attributable to foreign purchasers and their familiarity and confidence in the long-term future of New York. We have also heard stories of depressed Miami condominiums as well as apartment projects in Richmond, Virginia being purchased by foreign buyers.

Our point is that skepticism about the future of America is misplaced. The notion that you must invest internationally as the only avenue for substantial growth is wrong when considered as an either/or proposition. Enterprising and well run companies will prosper in the U.S. and internationally. Opportunity abounds in emerging markets as well as those that are more well-established. Our portfolio is stuffed with companies that benefit from economic activity wherever it occurs.

Fundamentally, we believe that this time is not different. Our time-tested approach will once again produce solid investment returns. The current environment is one of rich opportunity. The current financial crunch will heal and pass as all others have done before. The world is growing and quality businesses that benefit from this worldwide growth are on sale. Dividend yields from a well-diversified equity portfolio match or exceed current bond yields, a condition that hasn't existed since the 1950's. These are the types of companies that we own. We are optimistic about their future and our ability to share in their success as owners.

ASSOCIATE ENGAGEMENT SURVEY

Another highlight of 2007 was the completion of the first Markel associate engagement survey, where we asked all Markel associates for their opinions on a number of issues. One of our most important tasks is building and maintaining the Markel Style, and we wanted to know how we were doing. What better way than to ask those who live the Style every day?

We were delighted that over 93% of our associates took time to fill out the survey. According to the firm that administered the survey, this was a stunning response rate, confirming that our associates are engaged and care about their Company. The results were very encouraging, and it is clear that at Markel we live, breathe and love the Markel Style. The Company scored very high, at least 90% favorable responses, regarding its social responsibility, customer focus, quality of products and ethical business dealings. It was also gratifying to see that 93% of our associates felt that they had a good understanding of the Markel Style and that 95% responded that they were committed to the success of our organization.

We also learned that Markel associates are very proud of their Company and both agree with and share its goals. Another positive finding was that a similar number of associates believe that the Company has the correct plan and will be successful in the future.

However, the survey was not all good news. We found that we could do a better job providing Markel associates with career development, training and advancement opportunities. Our associates also believe there are opportunities for more and better collaboration between our business units. We are committed to addressing the areas identified for improvement and have established goals and action plans for 2008. We will repeat the survey after the action plans have been completed and will report our progress.

CORPORATE GOVERNANCE AND MANAGEMENT ACCOUNTABILITY

Corporate governance continues to receive increased public interest and attention. In this year's annual report, we want to discuss our thoughts about good governance.

The Markel Style is the best starting point in looking at this issue. The Style is Markel's value statement and defines our core principles. We are committed to success. We believe in honesty and fairness in everything we do. We understand our responsibility to every constituency: customers, suppliers, associates, the community and shareholders. We operate and seek solutions where everyone can win and enjoy success. These principles are communicated to all Markel associates and we make them part of the way we operate on a daily basis. Fundamentally, good corporate governance is about these same principles; it's all about finding the best alignment of the interest among all stakeholders.

In our early days of planning to become a public company, we clearly defined the responsibility of executive management to the Company and its shareholders, as well as the important primary rights of shareholders. We are happy to be accused of copying Berkshire Hathaway from time to time and have admittedly done so in our borrowings from Berkshire's

"Owners-Related Business Principles." It is no accident that we have always headed this letter "To our business partners" because we truly think of our shareholders as our business partners. In addition, you are our family, friends, neighbors and business associates. It just makes sense to treat you honestly and fairly.

As the years have progressed, the rules and regulations concerning corporate governance have continued to grow and become more and more complicated. Committee charters, independence rules, financial expertise requirements, attendance disclosures and many other issues are meticulously defined and regulated. While much of this is valuable and prevents abuse, it also creates bureaucracy. It exposes everyone to the risk of paying too much attention to form and not enough to substance. At Markel, we continue to recognize the importance of complying not only with the rules and regulations, but more importantly with the underlying principles of good governance.

Management Compensation

At the heart of corporate governance is the alignment of interest between executive management and the shareholders, particularly as it relates to compensation and objective performance evaluation.

Markel's compensation policies have been very consistent for many years. We want all Markel associates to receive a competitive base salary and a solid package of benefits to provide for families, health and retirement. More importantly, we want associates to have the opportunity to earn meaningful bonuses as a result of achieving challenging goals and the opportunity to build personal wealth through participation in the Markel stock ownership plans.

Every company has finite resources. To the extent they are spent for the executives, they are not available for the Company or its shareholders. We have always believed that the Company and its shareholders have first call on these resources. Executives should participate through bonuses only after the achievement of superior returns. In addition, they should participate by being shareholders as well.

In recent years, executive compensation in many companies has increased much faster than seems rational. We do not believe this has happened at Markel. While we want and expect to be paid reasonably and fairly, our board has used common sense and good judgment to establish executive management's compensation levels. We do not use compensation consultants and we do not keep track of every competitor's program. We simply want to be absolutely certain that Markel shareholders get a fair deal as regards executive compensation.

For example in 2005, primarily due to the hurricane losses from Wilma, Rita and Katrina, our results were short of our objectives and your executive management team's bonuses suffered (as they should have).

The executive team has a very simple bonus plan based on five-year compound average growth in book value per share. This has been our primary financial benchmark for judging our performance for many years. It also makes a lot of sense as growth in book value per share incorporates both underwriting and investing and a rolling five-year period focuses our attention on the long term. We believe this approach follows our goal to build financial value over the long term.

Stock ownership is also a very important component of our compensation philosophy. Many companies believe stock options achieve this ownership mentality. We disagree. We do not use options as part of our ownership programs. We believe purchasing, paying for and assuming the downside risk are all integral components of stock ownership. All senior managers at Markel are expected to invest in the Company and own a multiple of their salary in Markel stock. We have established many opportunities for this to occur. All U.S. Markel associates who participate in our retirement plan receive part of Markel's contribution in Markel stock. We have payroll deduction plans as well as low interest loans to help encourage stock purchases. And finally, a substantial portion of many of the senior executives' annual bonuses is paid in restricted stock. An important element of these plans is the education of associates so they understand the economics of the Company and stock ownership. At year end, associates owned more than 10% of our outstanding shares with a market value of just under $500 million. This is over 3 times as large as our annual base compensation expense. Markel associates are economically focused on building the value of the Company.

Objective Evaluation of Performance

It is impossible for any self-evaluation to be totally objective. While corporate financial statements are independently audited, they are management's financial statements. Accounting rules have become diabolically complicated and difficult to understand. In spite of this environment, we have tried to remember the good old fashioned principles of accounting. We work to have consistent and conservative accounting policies and apply full disclosure to all important information necessary for our shareholders to form independent judgments about the Company's performance and future prospects. We communicate both good and bad news. We try to avoid too much sizzle and just give you the facts.

At any given point in time, our financial statements include many estimates, particularly as they relate to our loss reserves. Over the years, we have provided a great deal of information about how the reserving process works at Markel. In this area, we consistently seek to establish reserves that are more likely redundant than deficient, that is we would rather reserve too much than too little. While somewhat complicated, the schedule on page 103 of Management's Discussion & Analysis discloses our actual results as compared to our initial loss reserve estimates. We encourage you to read these disclosures and draw your own conclusions.

We consistently try to fully explain our philosophy and thought process around important business issues as well as our results. It helps that our financial goals can be stated in one simple sentence: "We seek to earn consistent underwriting profits and superior investment returns to build shareholder value."

STOCK PRICE AND STOCK VALUE

We generally do not discuss the market price of our stock. However, we share another Berkshire Hathaway shareholder principle that is closely related to treating you as business partners. It involves how we think about our stock price, our business and our long-term orientation. Our goal is to build the financial value of the Company over the long term, and we would like the stock price to reflect the Company's underlying value as consistently as possible. We, and we hope you, understand that during short periods of time, the stock price may not move exactly or even in the same direction as the Company's intrinsic value. For the Company and its long-term owners, it is not in our best interest for the price of our stock to be either unrealistically too high or too low. Consequently, we try to communicate as openly and consistently as possible to help the marketplace make reasonable judgments about our intrinsic value. Over long periods of time, we think that this has indeed occurred.

Part of our effort to have the closest correlation between stock price and intrinsic value involves attracting shareholders who have a good understanding of our business and share our long term orientation. Ideally, they will also think of themselves as our business partners and will look at our long-term results and future prospects more than the daily fluctuation of the stock price. We believe that one of our great strengths is that we have just such a shareholder base.

In order to continue to enjoy this wonderful state of affairs, we have consistently communicated and will continue to consistently communicate our current and future prospects to enable you to make rational judgments about the business, evaluate our results and form reasonable expectations.

Over the past 20 years, we have increased virtually all indicators of value by over 20%. The stock price has followed suit. Of all the indicators of value, we think book value per share and our ability to grow it are the best. That's why growth in book value is the measure for our executive bonus plan. During 2007, we increased book value by 15%; however, during the same period, our stock price was basically flat. Over the past five years, book value has compounded at 18% and our stock price appreciated at a fairly similar annual rate of 19%. While we would like for the two to move exactly in parallel, we do not have control over the multitude of factors that influence the financial markets on a daily basis. Instead, we focus on what we can control, growing book value, and understand that over time the stock price will follow.

PLANNING FOR THE FUTURE

Reading this letter, you may have noticed two small name changes that have large implications. For over 75 years, the Markel name has been held in high regard throughout the insurance industry. We realized that we need to do a better job of capitalizing on the integrity and financial strength of Markel Corporation while continuing to give our customers the individual care and attention that they have come to expect and deserve from each of our units. As a result, Shand Morahan and Essex changed their names to Markel Shand and Markel Essex. These were the last units within the Company that did not use Markel in their names. The name changes will allow us to better capitalize on the strength of the Markel brand.

Over our history, Markel has grown and developed our business in a decentralized manner, establishing new business units every few years. As each has grown, we have increasing areas of overlapping businesses as well as duplication of back office functions. One of our most interesting 2008 initiatives is one we have named Atlas. At Markel, it's not a project until you give it a name, preferably developed in a contest. As you know, an atlas is a collection of maps. Our goal with Atlas is to create a map for Markel's future operations. We are closely examining what we're doing and how we're doing it and asking ourselves if there is a better way for the future. Fortunately, nothing operationally is broken. However, technology and the marketplace are constantly changing and we want to make sure we understand those changes and constantly adapt and improve. The bad news is that we'll be spending money and time on this project. The good news is that we believe it will help us develop the best strategy for Markel's future.

CLOSING COMMENTS

Our crystal ball has never been very good. Nevertheless, we expect, with some degree of confidence, the insurance and investment markets to be challenging in 2008. At Markel, we believe we have some of the very best insurance and investment professionals anywhere. In spite of difficult markets, we will find opportunities to profitably underwrite and invest to continue to build the strength and value of your Company.

We thank our associates, shareholders and customers for being part of our success.

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.