2012

To Our Business Partners

Each year we write this letter to you to discuss the results of the past year and our plans and aspirations for the future. We think of you as business partners who have trusted us with your firm. Through this letter, we try our best to tell you how we think about your company, what happened over the course of the last year, and what you should expect of us in the year(s) to come. We also write this letter to our colleagues throughout Markel to provide a sense of perspective on how things have gone for the organization as a whole, and to provide a sense of where we are going.

Well, partners, this has been one heck of a year. 2012 was busy. More things went on this year than any in recent memory. There is a long list of things we accomplished. We've also got a full slate of ongoing goals in place, and actions taken to build the future of your company.

Financially, we enjoyed record revenues of $3.0 billion, an increase of 14% from $2.6 billion in 2011. Book value per share increased 15% to $403.85 versus $352.10 a year ago, and comprehensive income totaled $509 million versus $258 million. We also returned to underwriting profitability, with a combined ratio of 97% compared to 102% in 2011.

Given the events of 2012, this letter sets a new record for length. If you have attention deficit disorder and just want to know the highlights, you can read through the bullet points listed below and leave it at that. If you want more details, keep reading. We'll describe each of them in more substance through the rest of the letter.

The 2012 Headlines

1. We produced an underwriting profit despite Hurricane Sandy
2. We earned excellent returns on our investment portfolio
3. We acquired Thompson Insurance Enterprises
4. We announced the formation of our partnership with Hagerty and the associated acquisition of Essentia Insurance Company
5. We continued the successful integration of FirstComp
6. We successfully implemented our data warehouse
7. We enjoyed organic growth in insurance premiums
8. We continued to report favorable loss reserve development
9. We acquired Havco, Reading, Tromp, and Idreco within our Markel Ventures organization
10. We improved our operational performance in our insurance units as well as in our claims and shared services operations

(in millions, except per share data)	**2012**	2011	2010	2009	2008	2007	2006	2005	2004
Total operating revenues	**$ 3,000**	2,630	2,225	2,069	1,977	2,551	2,576	2,200	2,262
Gross written premiums	**$ 2,514**	2,291	1,982	1,906	2,213	2,359	2,536	2,401	2,518
Combined ratio	**97%**	102%	97%	95%	99%	88%	87%	101%	96%
Investment portfolio	**$ 9,333**	8,728	8,224	7,849	6,893	7,775	7,524	6,588	6,317
Portfolio per share	**$969.23**	907.20	846.24	799.34	702.34	780.84	752.80	672.34	641.49
Net income (loss) to shareholders	**$ 253**	142	267	202	(59)	406	393	148	165
Shareholders' equity	**$ 3,889**	3,388	3,172	2,774	2,181	2,641	2,296	1,705	1,657
Book value per share	**$403.85**	352.10	326.36	282.55	222.20	265.26	229.78	174.04	168.22
5-Year CAGR in book value per share[1]	**9%**	9%	13%	11%	10%	18%	16%	11%	20%

[1] CAGR—compound annual growth rate

…and…as the year was winding down…, we announced the acquisition of Alterra. This is a major transaction which adds substantial heft and market presence to Markel Corporation and is accretive to the book value, premium, and investment balances behind each share.

This is a *full* list. The people of this organization ran at a full sprint throughout 2012 to accomplish these items, and they are all hard at work to assure progress on these and other initiatives for 2013. The signers of this letter would like to personally thank all of those involved in the events of 2012. None of them were easy, and all of them will act in concert to make Markel Corporation a stronger, more vibrant, and more profitable company in the years to come. We thank all of you for your efforts.

Now, here are some details behind each of the bullet points.

1. We produced an underwriting profit despite Hurricane Sandy

We've produced outstanding results for our shareholders over time and the core, fundamental, building block in doing so begins with earning an underwriting profit. 2012 was a year in which we started with this building block in place, as we achieved a profitable combined ratio of 97%, which includes five points of underwriting loss from Hurricane Sandy, compared to the unprofitable 102% in 2011.

It is *always* the goal at Markel to produce an underwriting profit. We did so in 2012, and we've done so in eight out of the last 10 years, and 14 of the last 20. Producing an underwriting profit is one of those things that is easy to say and hard to do. It requires an immense effort with many moving parts to accomplish this, and we're proud of this record. The years without underwriting profits occurred during major headline catastrophes such as the World Trade Center attack, Hurricane Katrina and sometimes, as anticipated, in the wake of major acquisitions which required changing the underwriting culture at acquired firms.

The good news is that each of those events, while painful, taught us something, and we learned to be better at managing risks and running your company. Each of these "learnings" caused us to reexamine our processes and assumptions and to improve them going forward. Each challenge caused us as individuals, and as teams, to figure out how to improve and find new ways to succeed.

The fact that we earned an underwriting profit this year despite Hurricane Sandy speaks to how we've learned and improved our underwriting process. The losses from Sandy were within our risk tolerances. We served our policyholders by providing insurance coverage, and we earned a profit while doing so. That is a "win-win" situation for all involved.

The cumulative effect of this learning process continues to produce wonderful results for Markel shareholders. Over the last 10 years, book value per share increased at a rate of 13%, and for the last 20 years that rate has been 16%. By contrast, the S&P 500 rose 7% and 8% respectively over those time periods.

Recently, a head coach made a seemingly counterintuitive statement before a game when he said, "I think that the team that makes the most mistakes will win." That sounded like an unusual statement, but he went on to say that his team needed to be aggressive, and be willing to make mistakes, to produce a victory. An unhealthy fear of mistakes can lead to being too passive or fearful. That leads to stiffness and subpar

2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	20-Year CAGR[1]
2,092	1,770	1,397	1,094	524	426	419	367	344	280	235	206	14%
2,572	2,218	1,774	1,132	595	437	423	414	402	349	313	304	11%
99%	103%	124%	114%	101%	98%	99%	100%	99%	97%	97%	97%	—
5,350	4,314	3,591	3,136	1,625	1,483	1,410	1,142	927	622	609	457	16%
543.31	438.79	365.70	427.79	290.69	268.49	257.51	209.20	170.95	115.45	112.55	84.64	13%
123	75	(126)	(28)	41	57	50	47	34	19	24	26	12%
1,382	1,159	1,085	752	383	425	357	268	213	139	151	109	20%
140.38	117.89	110.50	102.63	68.59	77.02	65.18	49.16	39.37	25.71	27.83	20.24	16%
13%	13%	18%	21%	22%	23%	26%	26%	31%	17%	25%	34%	—

results. It is important to be willing to act positively, and accept reasonable mistakes, so that the organization can learn, and grow, and deal with a rapidly changing world.

We do that at Markel, and we think that this willingness to take personal responsibility, admit errors, learn, and move forward is a unique competitive advantage for the company.

The first key to our consistency in earning underwriting profits is our discipline and our unwavering commitment to this standard. We are all long-term partners in Markel, and we don't willingly accept any underwriting proposition which we think carries the likelihood of an underwriting loss. While we may not get this right all of the time, we start out with the advantage of a clear sense of purpose. No underwriter in Markel receives incentive compensation unless his or her book of business produces an underwriting profit. Furthermore, that is not just a one year assessment, but a multi-year view. Long-term risks require long-term measurement, and we reward our talented underwriters only when we have reasonable certainty that their books of business are indeed profitable over time. We are confident that our new Alterra colleagues, as well as the existing Markel underwriting team, will enjoy professional and personal achievement by being part of a long-term winning organization. We find that the best underwriters welcome and enjoy this approach since it yields the best professional outcomes possible for them. Underwriters at Markel are not asked to subsidize weaker performers. A great underwriter will do better at Markel than at other organizations that do not have such a firm commitment to underwriting profitability.

We welcome our new colleagues from Alterra, and we are confident that they will find that the long-term focus, and rational nature, of Markel will be the best possible environment for them to realize their professional potential.

2. We earned excellent returns on our investment portfolio

During 2012, we earned a total return of 9% on our investment portfolio. Our equity returns were 20% and our fixed income returns were 5%. We are very happy with these results, and we hope that you are as well.

The 2012 equity returns of 20% added to a long string of excellent results. Over the last 10 years, we've earned a total equity return of 9% versus the S&P 500 index returns of 7% and for the last 20 years we earned 10% versus the index return of 8%.

Over the years, we've never made decisions based on our forecasts of what was ahead for the economy, governmental policies, tax rates, currency values, interest rates, technological changes or other incredibly important but fundamentally unknowable future developments.

Instead, we've simply looked at individual companies, one at a time, and asked ourselves a few questions. By considering four basic types of questions about individual companies and securities we try to develop enough confidence to make a decision.

Our first question is, "Is this a profitable business with good returns on capital without using too much debt?" Second, we ask ourselves, "Is the management team equally and sufficiently talented and honest?" Third, we ask, "What are the reinvestment dynamics of the business and how do they manage capital?" and finally we ask, "What is the valuation and what do we have to pay to acquire ownership in the business?"

While these are four simple questions, the process of thinking deeply about them tends to produce robust results over time as demonstrated by our long-term record. Those questions also tend to encompass consideration of some of the macroeconomic factors that tend to cause so much worry and anxiety for so many investors.

Consider the first question of profitability and returns on capital. The best and most durable businesses in the world are ones that serve their customers well. Profitability is a marker that says a business is serving its customers with products that they need and want and that they are efficient and skilled enough in doing so that there is a measure of profit left over after all is said and done.

If a business is not making an appropriate profit it means that either they are doing something that the customers don't particularly care about, or that they are not good enough at the task to accomplish it in a cost effective manner. Neither one of those outcomes is good. As such, just thinking about the long-term profitability and return on capital record of a business gives us a wonderful insight into whether the company is indeed serving its customers in a fruitful way.

The best marker to describe a successful long-term company is a long-term record of profitability and good returns on capital, and that is the first thing we look for in seeking equity investments in either our public or private equity investments.

Second, we think about the talent and integrity of the managers running the business. If a manager has integrity but is short of talent, that manager may be a very nice person and a pleasant friend or neighbor. However, in the context of business, they can't get the job done and that will not produce a good economic outcome. Similarly, if someone is talented but has an integrity problem, they might do something profitable in the short run but it will fall apart in the fullness of time.

We look for these same attributes in all of our colleagues inside Markel, in the managers of the companies in our public security portfolios, and the managers of the companies we've acquired in our Markel Ventures operations.

Third, we think about the reinvestment dynamics of a business. A wonderful business can take the profits it earns and reinvest them at similar or better returns over time and compound value. Organic growth companies like this are rare and hard to find and none of them last forever. In this world, perfection is not attainable, but we try to snuggle up as close to it as we can whenever we can find it.

The second best business in the world is one that makes very good returns on capital but cannot fully reinvest the profits at similar rates. Those businesses are fine as long as the management team accepts the reality and allocates capital to other uses. In our public equity holdings we own several fine businesses which meet this definition and pay meaningful dividends, repurchase shares, or make good acquisitions. Also, within our Markel Ventures operations, several of our companies match this profile.

When we own a controlling interest in a company like this we can make the capital allocation decisions and do so in a very tax-efficient manner. While we pay full taxes at any entity when they make money, we can subsequently re-allocate the earnings from any area of Markel to any other, all around the world. By contrast, when we earn passive income through the receipt of dividends on our public equity portfolio, the paying companies paid taxes on their earnings and we pay a tax on the dividends received. By building the controlled interests of Markel Ventures operations, we are able to eliminate this tax drag and increase the value of Markel with less friction than would otherwise be the case.

Fourth, we think about the valuation we must pay to buy a company with the three lovely attributes we described earlier. We've learned over the years, as Charlie Munger from Berkshire Hathaway noted, that, "it is better to pay a fair price for a great business than a great price for a fair business." Great businesses compound their value over time while fair businesses wallow in mediocrity. As long as we find great businesses at reasonable prices, we'll allocate your capital to owning them to the fullest extent possible. When great businesses sell for irrationally high prices, and sometimes they do, we'll build cash, continue to look elsewhere, and continue our search for long-term compounding machines that are otherwise known as common stocks of great businesses.

Finally, we are pursuing unusual tactics in our investment strategy in the current environment. We believe that interest rates are fundamentally *too low*. We expect that will change within the next few years and we want to be prepared for the time when it does.

As such, we are letting our fixed income holdings mature and come closer and closer to turning into cash and cash equivalents. The investment yield from this is literally almost nothing so it is painful to be building cash. However, the investment yield of investing longer-term in fixed income is not much more. Just as an insurance underwriter needs to make a good risk/reward decision about whether to accept a risk or not, we must do the same thing in our investment decisions. We've concluded that we are not being paid adequately to assume the risk of owning longer-term fixed income securities so we are letting our cash balances build up.

We look forward to deploying this cash into longer-term and higher yielding investments when the opportunities inevitably present themselves. Meanwhile, we will wait.

At the same time, we continue to own a portfolio of equity interests, both passively through our public equity holdings and actively through our build out of the Markel Ventures operation. We believe that our companies represented by these holdings meet the four question test we discussed earlier and will prove to be durable and profitable businesses into the future. With the Alterra acquisition the size of our portfolio will increase dramatically. The addition of this portfolio and the growing cash balances create a "coiled spring" that we are looking to deploy and uncoil when opportunities present themselves.

The fantastic news is that the opportunity costs from taking this approach are as low right now as they have ever been given the low level of interest rates. As we see the "whites of their eyes" in investment markets we have more ammo to expend than ever before. This is a tough concept to quantify but it represents one of the most dramatic capital allocation and value opportunities that has ever existed at Markel.

Over time, we've compiled a record that should give you some confidence we will act rationally and produce good results for you as shareholders. Stay tuned for further developments…

3. We acquired Thompson Insurance Enterprises

In January of 2012 we completed the previously announced acquisition of Thomco. Thomco administered approximately 20 insurance programs in fields such as medical transportation, senior living, childcare, fitness clubs, pest control, inflatable rentals, and other specialty insurance lines. We're bouncing up and down with joy with the progress and benefits from this acquisition so far.

Greg Thompson and Bob Heaphey of Thomco have already broadened their roles during 2012. Greg assumed the role of President of Markel Specialty, and Bob became the Managing Executive of Thomco.

Thomco is a classic example of how we've added value to Markel shareholders over the years and created wonderful opportunities for the Thomco associates in the process. Thomco controlled approximately $170 million in insurance premiums and collected commission income in return.

As part of Markel, we've begun to underwrite this insurance through various Markel insurance company entities. We will benefit from Thomco's intellectual capital as we earn the associated underwriting profits from the business. We will also build investment assets from the associated insurance reserves.

Additionally, just as has been the case in our other acquisitions, the people of Thomco now have a permanent home with permanent capital to run their business. They also now enjoy broader cross selling and career opportunities than before.

4. We announced the formation of our partnership with Hagerty and the associated acquisition of Essentia Insurance Company

Hagerty is the premier insurance agency serving the classic collector car and boat market. Essentia Insurance Company underwrites insurance exclusively for the Hagerty customer base. We finalized the terms of our partnership with Hagerty during 2012 and we closed on the acquisition of Essentia in January 2013. We are now accepting the underwriting risks produced by the Hagerty organization.

McKeel Hagerty leads the second generation of the Hagerty firm. This partnership between Hagerty and Markel is yet another example of the value of the long-term nature of Markel and our well known consistent focus on building durable businesses that produce excellent results over long periods of time.

The Hagerty family chose Markel after extensive due diligence on their part to assure themselves that we would be quality partners in their business which they built over decades. The cognoscenti of the collecting world know and trust the Hagerty organization to meet their specialized needs in the world of collectible autos and boats. Hagerty believed that Markel would be the best possible partner to help them ensure that heritage continues into the future.

We are excited about the formation of this partnership and we look forward to reporting on its progress in the years to come.

5. We continued the successful integration of FirstComp

We acquired FirstComp in October of 2010. It is our operating unit which provides workers compensation insurance with a focus on smaller businesses. From the beginning, we were impressed with their customer service orientation, risk selection methodology, marketing skills, and use of technology.

Our initial plan at FirstComp was to provide their sales force with access to other Markel products which they could then sell through their extensive agency network.

Additionally, we hoped to benefit from their technological sophistication and improve our speed and efficiency throughout the rest of Markel. We expected an initial period of underwriting losses at FirstComp as we strengthened their reserves towards the levels we traditionally prefer at Markel and as we bore the expenses of integration.

We're happy to report that process has gone well. FirstComp is a key contributor to increased gross written premiums in 2012 and we believe that the business being written today is being priced to ultimately earn an underwriting profit. The marketing and technology expertise embedded in that organization is now working on behalf of the entire Markel organization and we are just beginning to leverage the cross sell potential of over 14,000 retail producers among FirstComp, Thomco and Markel.

6. We successfully implemented our data warehouse

This is a major development.

The combination of the pace of technological change, the complexity of our business, and our history of acquisitions with multiple legacy systems made the task of building a data warehouse challenging and this accomplishment marks a significant success.

During the second quarter of 2012, we went 'live' with our Wholesale data warehouse. This was the culmination of a multi-year effort to consolidate all of our Wholesale data into one reporting environment.

The warehouse has improved our ability to leverage our data in a number of ways. First, it has improved our reserving and pricing analyses, allowing us to more quickly assess the profitability of our books of business. It has also dramatically improved our reporting capabilities, making it easier to provide decision-makers with the information they need to manage their business. The warehouse also provides a platform for improved analytics, allowing us to drill down into our data and more easily determine the profit/loss drivers.

Finally, the warehouse provides a platform from which we can expand these capabilities into other areas of the business.

7. We enjoyed organic growth in insurance premiums

We enjoyed, and we do mean enjoyed, growth in insurance premiums in 2012. In 2012, gross written premiums totaled $2.5 billion, up 10% from $2.3 billion in 2011. Excluding premiums attributable to acquisitions, gross written premiums increased 6% in 2012.

We believe the growth in our premium volume largely stems from our efforts to improve our internal operations and our ability to serve our clients more efficiently. We've also enhanced and refreshed our products to provide greater value to our customers.

We've substantially increased our marketing efforts to reflect the breadth and depth of what we can offer to the marketplace and we've worked to increase the awareness of the Markel brand worldwide.

Organic growth was also driven by modest price increases during the year. While we still believe that the general level of insurance prices should be higher given the low level of interest rates and recurring investment income, we are pleased to see prices moving up rather than down. The underwriters throughout Markel have done a great job of exercising underwriting discipline and achieving pricing improvements.

8. We continued to report favorable loss reserve development

In 2012 we reported favorable reserve development of $399 million. In every report you'll ever see from Markel, which dates from the initial public offering in 1986, you'll see the statement that our policy is to establish insurance reserves at a level which is "more likely to be redundant than deficient." This is a key underlying value of Markel which goes much deeper than just the surface fact of positive reserve development.

The policy creates a virtuous cycle that is a relatively unique and a significant advantage for Markel compared to the insurance industry in general. First, it fosters a culture of conservatism and discipline which acknowledges reality rather than denying it. When you are making decisions it is always helpful (but often not fun or pleasant) to be dealing with real facts, and accurate data, as compared to what you wish things were like. In insurance, setting loss reserves involves making predictions about the uncertain future. We know that we will not be precisely right about the exact level of reserves needed. In the face of that reality what we do is to make every effort to err on the side of caution.

Second, conservative reserving practices help our front line underwriters make good decisions when it comes to quoting and pricing current business opportunities. Conservative loss picks help prevent underwriters from making inadvertent mistakes and underpricing new business.

Third, conservative reserving practices help our claims professionals as they seek to fairly and quickly settle losses when unfortunate events occur to our policyholders. No one enjoys having a loss. In the event of a loss, we want to assist our policyholders as quickly and as fairly as possible. By having conservative loss reserves set aside and ready for losses, our claims professionals know that they can do their job for our policyholders to the best of their ability and that senior managers will not wince at the payment of appropriate claims.

Our history indicates that we've accomplished the goal of consistent conservatism in the setting of loss reserves over the years, and 2012 was yet another year of this policy in action.

We've designed our incentive systems and we've spent years getting to know, and test, and trust, the senior leaders of this organization to make sure that your company is in the hands of people with a long-term orientation. If you want to test our resolve and fidelity in keeping this pledge to you, keep checking on our annual reserve development. It is a hallmark of a consistent, conservative, and prudently managed insurance organization.

9. We acquired Havco, Reading, Tromp and Idreco within our Markel Ventures organization

2012 was an exciting year in the ongoing growth and development of our Markel Ventures operations.

Total revenues for the group grew to $489 million versus $318 million in 2011 and EBITDA grew to $60 million versus $37 million a year ago. For a reconciliation of Markel Ventures EBITDA to net income to shareholders, see the table on page 108. While many of the Markel Ventures operations are cyclical and dependent on the overall economy, we are optimistic that we will achieve additional growth in bottom line profitability in 2013 and beyond.

Also, just as is the case in our insurance and other investment operations, we will be opportunistic in responding to and walking away from extreme prices. As we enter 2013, we do not expect to add substantial new acquisitions at Markel Ventures. Transaction prices are now moving up rapidly, and we will wait for better opportunities to show up before committing your capital.

Fortunately, we were able to add several businesses at attractive prices during 2012. We added Havco in April 2012, and they are off to a great start. Havco is the leading supplier of wood flooring for the trailer part of a tractor trailer, and we are delighted with their contribution to Markel. At Ellicott Dredge we added Idreco, a Dutch based dredge manufacturer. At ParkLand Ventures we increased the size of our footprint by over 30%. At Diamond Healthcare we opened a major new treatment facility in Williamsburg, Virginia, and at Partner MD we opened new offices and increased the number of physicians practicing with us by over 40%.

We also added Reading and Tromp to our existing AMF Bakery systems operation. These acquisitions continue AMF's process of becoming the preferred supplier of bakery equipment to food companies around the globe. AMF was the first company acquired by Markel Ventures, and we now begin our eighth year of operations together.

While baking is not a rapidly growing industry, in 2013, AMF should produce revenues and earnings that are up more than four fold since we bought the company in 2005. While this multiple expansion includes acquisitions, it also, and more importantly, reflects the advantages we offer to our Markel Venture companies.

Specifically, when we showed up at AMF, we empowered management to take a long-term view, and we reduced debt levels from those previously employed. Our goal was simple - we wanted management to focus on satisfying their customers with the best possible equipment and service levels, and we didn't want to have artificial pressures of near-term debt repayments and an unhealthy focus on short-term results to get in the way of this clear and simple goal.

Ken Newsome and his team responded magnificently to this charge, and they've been gaining market share and building the company ever since. We think we're just getting started there.

Throughout Markel Ventures, our management teams are working to build the recurring revenue and profitability of their firms and we are delighted with their overall progress.

We also want to express our thanks and our pleasure with the managers who joined us when they sold us their businesses. We have had NO turnover among the senior leaders who've joined Markel Ventures since inception in 2005. We think this speaks volumes about the clarity with which we've communicated our long-term goals and expectations for the businesses we bought, and for the desire of these managers to be able to build great companies unfettered by artificial constraints.

In many cases, these managers don't "need to" work but "want to" work and they do so because they are excited and dedicated to our values, and to the mission of building one of the world's great companies.

This is nothing different than what is true in our insurance operations, The Markel Style, and our multi-generational history of a focus on durable long-term values, pervades the operations at Markel Ventures, and attracts leaders who want to be part of this company to accomplish great things.

We are not for everyone. Being part of Markel requires a commitment to long-term values and a level of teamwork that doesn't suit some personalities. That said, if you want to be in an environment where you can excel, and be recognized and rewarded for doing so, Markel offers a unique opportunity.

With the scale created by the Alterra acquisition, our ability to continue to build Markel Ventures increases. We will be able to pursue larger opportunities, and we will be an attractive buyer to a wider set of potential sellers.

If you, or anyone you know, owns a business where the answers to our four investment questions would be good, and they want to be part of this organization, please give us a call. We are always looking for good partners.

10. We improved our operational performance in our insurance units as well as in our claims and shared services operations

Organic growth of 6% in 2012 gross written premiums is an encouraging sign that demonstrates the value of our operational and marketing improvement efforts that have been underway in recent years.

Markel International, under the leadership of William Stovin and his team produced outstanding underwriting results with a combined ratio of 89% and at the same time increased gross written premiums from $825 million in 2011 to $888 million in 2012. A lower combined ratio on greater volume is as good as it gets, and we thank and applaud the Markel International team for their results in 2012.

Our Wholesale unit, under the leadership of John Latham and his team, produced a combined ratio for the year of 94% compared to 86% in 2011 with gross written premiums of $956 million versus $893 million a year ago. This continues a long-term history of superb performance.

Our Specialty operation, now under the leadership of Greg Thompson and his team, produced a combined ratio for the year of 108% versus 109% in 2011 with gross written premiums of $670 million versus $572 million a year ago.

In all of our operations, we've focused on becoming easier to deal with. We've developed web based applications, broadened our product array, and proactively marketed our growing product breadth and depth to the global insurance marketplace.

Additionally, our increasingly effective analytical efforts are enabling us to refine our risk appetite on new business opportunities. We're increasingly able to understand where, and why, we should be raising prices to accept risks, and we're able to also better understand where, and why, we can lower prices, attract additional business, and still earn appropriate returns.

In general, industry prices remain too low and the returns on capital for the insurance industry are mediocre. We're proud of the fact that we've been able to increase the book value per share at good rates despite this headwind through continuing disciplined efforts in insurance, as well as better than average returns from our investing activities, and our growing Markel Ventures group.

We fully expect to be able to continue to earn good returns on your capital from the comprehensive activities of Markel Corporation. Economic activity and demand is increasing and industry capital is not growing at high rates. The lines of supply and demand are heading towards one another in a way that suggests insurance pricing may improve rather than decline.

We'll manage our operations to earn appropriate returns even if the industry doesn't cooperate, but we'll enjoy a season of higher overall insurance prices should that come to pass.

Alterra

As we noted at the beginning of this report, 2012 was as full and busy a year as any that we can remember. Just before year end, we added to our 2013 and beyond "to do" list by announcing the acquisition of Alterra. Part of what we hope to do in this letter is to welcome the talented professionals of Alterra to the Markel family. We are excited about the new Markel Corporation that comes about as a result of this transaction and we look forward to building on our legacy of excellent financial performance with our existing and new colleagues.

This is a major transaction in the history of Markel and we'd like to discuss our reasons for engaging in this acquisition.

To state something obvious but important, Alterra is a quality insurance operation with a demonstrated track record of excellent underwriting performance. Underwriting profitability and reserve integrity are hallmarks of their organization as demonstrated by their years of consistent underwriting excellence.

Unlike many other insurance entity deals that Markel did in the past, this is not a troubled company with problems to be fixed and a new culture to be installed. Alterra has already demonstrated the ability to produce a consistent record of underwriting profits.

We believe that by joining forces, both the existing Markel organization and that of Alterra will be able to improve performance. We believe that we will both be better off as one company, as opposed to what either one of us could achieve as stand alone entities.

Among the reasons for our optimism about the long-term future of the combined entity is the fact that the new entity is a larger and more important firm in the global insurance world. Immediately, this moves us up the ladder in terms of opportunities that we will see to write business. Agents and producers look for the most efficient way to find coverage for their clients. The size and breadth of the combined entity will make it easier and more efficient for agents and allow us to meet more of our potential clients' needs. We'll see more business, and we'll be able to write more of the business we see.

Further, we'll have a larger balance sheet which will be more attractive to buyers of reinsurance and large global insurance programs. The combined entity will enjoy a higher profile and be a more attractive market for big limit insurance needs. We also will be able to optimize the returns that Markel shareholders should earn by offering our reinsurance and large account underwriters a culture of long-term underwriting profitability. This means that they will be able to write more business when marketplace conditions are favorable and just as importantly, if not more so, reduce writings and walk away from business when the rewards don't justify taking the risks.

We will be a large enough and diverse enough and, more importantly, mentally prepared to walk away from business when it is the right thing to do. This is what we've always done at Markel and this transaction is a force multiplier for the underwriting team at Alterra to improve upon their already solid results.

This mindset of focusing on the long-term discipline of only writing business that carries with it the expectation of an underwriting profit, as well as the reality of a larger and more secure balance sheet, will create a new and expanded set of opportunities for Alterra associates and Markel as a whole. Our new format should make the most of the circumstances.

While we are pleased with the early days of a trend towards improving our expense ratio, this transaction should increase the rate at which we enjoy increased operating efficiency. We will be writing more business with our existing infrastructure, and this should serve to lower our expense ratio in the years to come.

The transaction is immediately accretive to important metrics at Markel such as premiums, investments, and book value per share of Markel. We will recast the Alterra investment portfolio towards that of Markel's historical approach to investments, with our focus on prudent allocations to equities, ownership of controlled businesses, and a hawk like focus on extremely low investment management costs.

The new Markel offers all of our associates from our existing operations, as well as those of Alterra, new opportunities and challenges. While this is difficult to quantify, it is a huge factor in the long-term success of your company. We've taken on challenges before and we've stepped up to tackle bigger and bigger opportunities as time has gone by. In each of these circumstances a wonderful virtuous circle took hold.

Specifically, many of our associates rose to meet new challenges and gained skills and abilities that one can gain only by actually doing the work. Also, many associates from the acquired companies showed their skills and abilities and rose to new and broader roles within Markel over time.

The effect of this process is that the talent level, and bench strength, and skills of the organization continue to improve both from the development and growth of existing colleagues, and the addition of new talented colleagues. This statement applies to our senior leadership team in the same way as every associate of the company and vice versa.

This organic and eco-system like environment at Markel reflects a dynamic firm and not a stale or bureaucratic like system. The world changes at an ever increasing pace and we've got an organization that is designed to adapt and change along the way.

This is a huge reason why we've been successful in the past and will continue to adapt and grow in the future. Things don't stay the same. Fortunately, we know that, and we're willing to keep ourselves a bit agitated and never complacent about recognizing the need for ongoing change and growth.

Markel is an organization well suited for dynamic people who want to be challenged and grow. We are not a good place for people comfortable in a stable bureaucracy.

The Beginning

There is no sense of conclusion at Markel. We are at a point of new and ongoing beginning. We understand that this letter is starting to feel like a book. However, 2012 was a phenomenal year for your company and it takes some time and space to describe the reality of what is going on around here. We were hard at work during the entire year building, rebuilding, tearing down, and rebuilding again, the very foundations of your company.

We acquired a wonderful operation in the case of Thomco, we added organic growth through the internal development of new insurance products and increased marketing efforts. We made breakthroughs in our multi-year challenge of developing an appropriate information technology environment to manage and conduct our business, and we earned wonderful investment returns. We raised the average IQ of our team by increasing the IQ points of the existing players through new challenges, and adding new associates who we hope are even smarter and more talented than we are.

Then after we did all these things, we announced the acquisition of Alterra, which will create a whole new level of opportunity for Markel and its shareholders.

Markel is an exciting place to be and we are proud of our long-term record of creating great value for our partners. Our partners are our associates, almost all of whom are shareholders, as well as the external shareholders who provide us with the capital, and the trust, and the time horizon, we need to continue our task of building one of the world's great companies.

Thank you for your support and confidence. We look forward to meeting the challenges of 2013 and beyond and we look forward to reporting our progress to you next year.

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

Anthony F. Markel, *Vice Chairman*

Steven A. Markel, *Vice Chairman*

F. Michael Crowley, *President and Co-Chief Operating Officer*

Thomas S. Gayner, *President and Chief Investment Officer*

Richard R. Whitt, III, *President and Co-Chief Operating Officer*