# 2016

## To Our Business Partners

Greetings, here is our annual report for 2016. Our long term goal at Markel is to build one of the world's great companies. As the comedian Steven Wright once proclaimed, "My goal is to live forever, and, so far so good." We're delighted to report to you that, "so far so good" describes our progress towards our goal in 2016.

Each year in the course of this report, we share with you some details about the year that was, as well as some of our hopes and dreams for the future. While we necessarily break down our results in the normal pattern of yearly increments, we don't think about Markel in annual terms. We think about your company in two distinct yet completely connected time horizons, namely, *forever* and *right now*.

Those two time frames guide our actions. We believe that Markel remains unique among most publicly traded companies in emphasizing the *forever* time horizon as much as we do. That is an immense competitive advantage for us as we continue to navigate into an always uncertain future that continues to change at faster and faster rates.

We won't sugar coat it. Business, (and life) these days, resembles an all-out, full sprint, winner take all race, to adapt to the changes wrought by technology. We must continuously learn, and adapt to new conditions, adopt new technological tools, abandon obsolete business practices and systems, find new markets, develop new products, acquire new businesses, and succeed at every other challenge you can think of to continue to build Markel.

We mean to do so.

Ironically, we are served immensely well in this task by our dual time horizon culture. The emphasis on *right now* means we need to make appropriate changes and adapt to this way of doing business **right now**! There is no time for cherishing old ways and reminiscing about an idyllic past. (In point of fact, the past was never idyllic; it is just falsely remembered that way

### Financial Highlights

| *(in millions, except per share data)* | **2016** | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|
| Total operating revenues | **$ 5,612** | 5,370 | 5,134 | 4,323 | 3,000 | 2,630 | 2,225 | 2,069 | 1,977 |
| Gross written premiums | **$ 4,797** | 4,633 | 4,806 | 3,920 | 2,514 | 2,291 | 1,982 | 1,906 | 2,213 |
| Combined ratio | **92%** | 89% | 95% | 97% | 97% | 102% | 97% | 95% | 99% |
| Investment portfolio | **$ 19,059** | 18,181 | 18,638 | 17,612 | 9,333 | 8,728 | 8,224 | 7,849 | 6,893 |
| Portfolio per share | **$1,365.72** | 1,302.48 | 1,334.89 | 1,259.26 | 969.23 | 907.20 | 846.24 | 799.34 | 702.34 |
| Net income (loss) to shareholders | **$ 456** | 583 | 321 | 281 | 253 | 142 | 267 | 202 | (59) |
| Comprehensive income (loss) to shareholders | **$ 667** | 233 | 936 | 459 | 504 | 252 | 431 | 591 | (403) |
| Shareholders' equity | **$ 8,461** | 7,834 | 7,595 | 6,674 | 3,889 | 3,388 | 3,172 | 2,774 | 2,181 |
| Book value per share | **$ 606.30** | 561.23 | 543.96 | 477.16 | 403.85 | 352.10 | 326.36 | 282.55 | 222.20 |
| 5-Year CAGR in book value per share [1] | **11%** | 11% | 14% | 17% | 9% | 9% | 13% | 11% | 10% |

[1] CAGR — compound annual growth rate

because we survived it.) In prior eras the joke was that between faster, better, and cheaper, you could pick any two. Now, that is no longer the case. We need to be able to provide all three.

In the midst of this urgency, we have a profound competitive advantage. Namely, we think about each of the *right now* decisions in the context of *forever*. We're not making decisions for the expediency of getting through one day. We are thinking about them in the context of what is the best decision we can make *today* in order to build the long term durability and profitability of the Markel Corporation *forever*.

We think that very few organizations enjoy this profoundly clear mission and degrees of operational freedom to pursue this goal.

The only reason we remain free to do so is that you, our shareholders, have placed an immense amount of trust in us. We've acted in your best interests over decades, and our record of financial success helps to demonstrate your wisdom in allowing us to do so.

Thank you.

We will continue to do our best to earn this unique level of trust and support.

Turning to the results of 2016, you can think about three distinct yet interconnected economic engines of activity within Markel as you review these financial statements. Those engines are the three I's, Insurance, Investments, and Industrials (Markel Ventures).

As is always the case, the language of U.S. GAAP accounting strives to communicate the economic results of the underlying activities. In the course of this letter, we'll talk about those results as U.S. GAAP would have us present them. We'll also talk about qualitative factors which we hope provide an even greater understanding of where our conditions may be better than what the raw numbers would show, and some areas where we might not be doing as well as it would seem at first glance.

As managers of this business, this is how we think. Numbers provide just the beginning steps on the path to understanding. We want to go further and more fully comprehend the conditions and circumstances our businesses face. We believe that the more we understand, the better our decisions are likely to be.

| 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | **20-Year CAGR[1]** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $ 2,551 | 2,576 | 2,200 | 2,262 | 2,092 | 1,770 | 1,397 | 1,094 | 524 | 426 | 419 | 367 | **15%** |
| $ 2,359 | 2,536 | 2,401 | 2,518 | 2,572 | 2,218 | 1,774 | 1,132 | 595 | 437 | 423 | 414 | **13%** |
| 88% | 87% | 101% | 96% | 99% | 103% | 124% | 114% | 101% | 98% | 99% | 100% | **—** |
| $ 7,775 | 7,524 | 6,588 | 6,317 | 5,350 | 4,314 | 3,591 | 3,136 | 1,625 | 1,483 | 1,410 | 1,142 | **15%** |
| $780.84 | 752.80 | 672.34 | 641.49 | 543.31 | 438.79 | 365.70 | 427.79 | 290.69 | 268.49 | 257.51 | 209.20 | **10%** |
| $ 406 | 393 | 148 | 165 | 123 | 75 | (126) | (28) | 41 | 57 | 50 | 47 | **12%** |
| | | | | | | | | | | | | |
| $ 337 | 551 | 64 | 273 | 222 | 73 | (77) | 82 | (40) | 68 | 92 | 56 | **13%** |
| $ 2,641 | 2,296 | 1,705 | 1,657 | 1,382 | 1,159 | 1,085 | 752 | 383 | 425 | 357 | 268 | **19%** |
| $265.26 | 229.78 | 174.04 | 168.22 | 140.38 | 117.89 | 110.50 | 102.63 | 68.59 | 77.02 | 65.18 | 49.16 | **13%** |
| | | | | | | | | | | | | |
| 18% | 16% | 11% | 20% | 13% | 13% | 18% | 21% | 22% | 23% | 26% | 26% | **—** |

This sort of commentary about the numbers is what we would ask from you if our roles were reversed. We think that you as the shareholders and associates of this organization are entitled to the fullest possible communication we can provide in order to understand your ongoing decision to partner with us at Markel.

## 2016 in Review

In aggregate total revenues grew to $5.6 billion in 2016 compared to $5.4 billion in 2015. We earned underwriting profits of $316.5 million versus $429.7 million with a combined ratio of 92% versus 89% the prior year. Net investment income for 2016 was $373.2 million versus $353.2 million, realized gains were $65.1 million versus $106.5 million, unrealized gains were $342.1 million compared to $(457.6 million), and the EBITDA of Markel Ventures grew to $165.1 million versus $91.3 million.

These sum up to comprehensive income of $667.0 million versus $232.7 million and growth in book value per share of 8% for 2016 to $606.30 from $561.23. We are pleased but not satisfied with this aggregate result and economic progress amidst the low overall returns available in current financial markets.

More importantly, our raw 5 year growth rate in book value per share stands at 11%. We measure ourselves on this rolling 5 year metric in order to assist us in thinking about longer term measures of performance. The 5 year time frame is our attempt to create a period of accountability that allows us to absorb normal, short term volatility, yet remain accountable to producing appropriate returns on your capital over reasonable periods of time.

For compensation purposes we adjust the 5 year growth number to account for share repurchases and issuances and back them out of the calculation. We do this to assure that we only pay ourselves for changes in the underlying economic value of Markel, and not for capital market activities.

As always, we present in the first part of this letter a table which shows our key financial statistics, year by year, over the last 21 years. We do this every year, and we think it demonstrates our commitment to long term thinking and accomplishment. Year by year you see the revenues, earnings, investment results and overall returns from your company. Over time, you can see the excellent long term pattern of financial results which validate our approach and provide the foundation for the future of our customers and clients, associates, and shareholders.

## Engine #1- Insurance

In 2016 we wrote total insurance premiums of $4.8 billion versus $4.6 billion, an increase of 4% over the prior year. We produced an underwriting profit of $316.5 million versus $429.7 million and our combined ratio ended the year at 92% versus 89% in 2015.

Conditions across the insurance market worldwide remained brutally competitive. That is true in every product across the board. Despite the ongoing competitive nature of insurance markets we produced an underwriting profit as demonstrated by the combined ratio of 92%. We've been profitable on an underwriting basis in 15 of the 21 years shown on this chart and we hope that provides you with a tangible sense of how much we mean it when we say that we are dedicated to making an underwriting profit. We will continue to exercise discipline, and walk away from insurance risks that in our opinion carry a likelihood of underwriting losses.

We reinforce this focus with consistent incentive compensation practices which provide extra compensation if and only if our insurance operations produce an underwriting profit. No one at Markel gets paid to produce business that we expect to be unprofitable.

As you know, the combined ratio gets its name because it combines two distinct items, the loss ratio, and the expense ratio. In order to produce an acceptable total combined ratio we continue to focus on both aspects in order to produce an acceptable total. Much of what is changing at Markel can be thought of as our attempts to address each of these components.

For instance, part of our growing activities in big data, data analytics, predictive modeling, and other rapidly changing dimensions of technology, relate to improving our loss ratio. At its most basic level, getting better at "data analytics" means that we know more about our customers, and the risks associated with insuring them.

The tools of technology increasingly allow us to analyze and better understand more factors that cause losses. With this increased knowledge and understanding, we can serve policyholders by helping them to reduce risks and we can more accurately price and select the risks we assume on their behalf.

As one small example, our data analytics team partnered with the Wholesale division to create an express renewal process that enabled us to offer automatic renewals to existing policyholders. The underwriting decision can be made at a portfolio level rather than policy by policy with this approach. This improves the customer experience by simplifying the process, and lowers expenses for everyone.

All of this "big data" enabled knowledge allows us to lower the overall cost of risks for our customers and for ourselves. This is a win-win scenario that is consistent with the goal of building one of the world's great businesses by lowering the overall cost of risk in a systemic fashion. We believe a great company does things *for* its customers rather than *to* its customers and this stands as a good example of this belief in action.

Similarly, we continue to focus on reducing the expense ratio. Our aggregate expense levels remain stubbornly high, and we need to lower the expense ratio to remain competitive. Just as is the case with using technology to improve our decision making regarding underwriting decisions, marketing activities, and ultimate claims outcomes, we need to continue to accelerate the use of technology to improve our operational efficiency.

We confess that we wrote these sorts of words repeatedly over the last several years. We write them again because we've not gained sufficient traction against this goal and we need to do better. Increased costs of regulatory compliance, information technology, accounting and finance, human resource activities and general administrative activities along with the associated costs of personnel in all of these areas keep raising the costs of doing business.

We as leaders of the overall business, and each of the heads of these areas, are keenly aware of the need to increase efficiency and lower expenses right now. Despite all of the pressures and difficulties in achieving this goal, we hope to report better news to you in 2017 and beyond. Please rest assured that we are not resting assured.

One of the ways to ultimately increase efficiency and lower expenses will be to use the tools of "Fintech." This is a relatively new word that came into being over the last few years. While it is impossible to contain the full meaning of that word in different contexts, it is not impossible to define it as it relates to Markel. For us, it means that we need to use the tools of technology to improve our underwriting and marketing decisions as well as our operational efficiency.

By the way, this is nothing new. When Sam Markel started this company in the 1930's, there were no computers, fax machines, jet engines, web portals, smart phones, or the internet, among other things. We adapted to those new tools as they came along and we will continue to behave in just the same way as new tools become available.

The goals then, as they are now, were to serve our customers by being better underwriters, and more efficient administrators of the process.

Same stuff, different day.

Throughout 2016, we increased our efforts to improve our knowledge of our business and efficiency in our operations. The language in this letter is that of a layman. Discussions of Information Technology can drift immediately into jargon and unfathomable acronyms, but suffice it to say that we are full at the task of being a digital, and scalable, organization. We are doing so through our ongoing development of in-house resources as well as using external, proven, world class vendors to assist us in this effort.

This crucial task continues to increase in cost and complexity. That said, failure is not an option, and we will continue to iterate to a continuously better outcome. As Michael Jordan remarked, "I've failed over and over again in my life, and that is why I succeed," We continue to strap on our Air Jordans to relentlessly adapt and improve our IT decisions.

### Engine #2- Investments

In 2016 we reported a total return of 4.4% from our publicly traded securities portfolio. For the year we reported a total return of 13.5% on our equity investments and 2.4% on our fixed income securities. For the last 5 years we earned a return of 15.9% on our equity portfolio and 3.1% on our fixed income securities.

We specifically use the term "reported" for the one year number and "earned" for the 5 year term. Those words describe two different, yet related things, and we think it is important to conceptually discuss the nuance meant by using those two different words.

First, the "reported" returns from 2016 are exactly that. These are publicly traded securities, with robust markets, that provide easily measurable marks for how to tote up the market values of these portfolios.

The "reported" amounts represent the absolutely straightforward arithmetic of starting with the market values from the beginning of 2016, accounting for the cash flows in and out of the portfolio throughout the year, and dividing the ending balances by the starting market value. That easily soluble equation yields the answer for the "reported" investment return.

Here's where it starts to get complicated. It's also where it is important to keep going from that reported number, to a more important understanding, of what really happened in investments during the year.

In our opinion, while the equity portfolio enjoyed a reported return of 13.5% for the year, we believe that the underlying economic performance of the businesses we own in that portfolio was probably slightly less than that reported return. Some individual companies performed meaningfully better than what the change in stock prices would suggest, and some performed less well than you might think at first glance. Additionally, the dispersion of economic performance between individual companies, and one industry as compared to another, seems to be getting wider in our opinion. In aggregate, the overall equity portfolio return of 13.5% remains directionally correct in describing the underlying business performance of our investees, but that number is not precise in describing their aggregate economic progress, and we believe it might be just a touch high.

For five years though, the story starts to change, and change for the better. For five years we "reported" a return of 15.9% per year on our equity investment portfolio. We think that number closely describes what we "earned" as well. The point that we are driving home is that this "reported" number is now *more* qualitatively robust, and *more* directionally correct, in gaining an accurate understanding of how we are doing in our equity investment operations.

With the passage of time, the difference between what we "earn" and what we "report" fades away. The year to year volatility in the "reported" amounts dissolve into the reality of what we actually "earn". Five years is not a perfect measurement period to reconcile that difference between the words of "report" and "earn", but it is better than one year. The good news for you is that we as managers think about this over even longer time frames than five years, and act accordingly.

We make the best decisions we can *right now* to create the best *forever* results. (There's that dual time horizon concept at work.)

Please pardon our usual accounting digressions but we believe it is fundamentally important to understand these issues in order to understand how we think, and how we make decisions around Markel. **We care about economic reality more than accounting entries.** We'll go so far as to say that we think that emphasis is somewhat unique, and part of what drives our ongoing competitive advantage.

In our fixed income portfolio the "reported" versus "earned" distinction was particularly wide in 2016. In short, interest rates went up during the fourth quarter of 2016 and the mark to market mechanism caused the price of our fixed income portfolio to fall meaningfully in the fourth quarter. For the full year we reported 2.4%.

We keep a relatively constant duration of between 4 and 5 years in our fixed income portfolio. We also maintain the highest credit quality that we can. We do this in order to collateralize and match our insurance liabilities which have a similar time frame between the time we issue a policy and pay out a final claim.

By doing this, over any given 5 year period, the bond portfolio will roughly mature and get repriced almost completely. Over 5 years, we will "earn" and "report" the interest income from our holdings of high quality bonds and those two numbers will be nearly identical. Our insurance liabilities will have been economically hedged against rising or falling interest rates at each and every point along the way.

The rise in interest rates in 2016 means that our "reported" returns from the fixed income portfolio were lower than our economic returns from owning those securities. U.S. GAAP accounting recognizes that mark to market change of the fixed income portfolio but it doesn't recognize that the net present value of our insurance liabilities decreased economically by a similar amount.

Over five years, these sorts of timing and reporting differences resolve nearly completely, which is why we pay attention to the 5 year number much more than the annual amounts.

By the way… to foreshadow a bit about upcoming U.S. GAAP highlights, over the next several years, accounting rules will change the way in which some of these items are presented. For example, beginning in 2018, market value changes for equity securities, whether realized or unrealized, will flow through directly to the income statement. This will increase the volatility of our reported income, and require some effort to distinguish between what is happening in the recurring aspects of our business, versus normal market volatility in publicly-traded securities. As a result of these new and somewhat confusing financial reports, we expect we will spend more time, as managers, trying to explain what they mean.

The FASB (Financial Accounting Standards Board), and the SEC (Securities and Exchange Commission), along with the IASB (International Accounting Standards Board) have made or are making numerous changes in accounting standards impacting short duration contract disclosures, investment reporting conventions, revenue recognition, lease accounting and various other matters which have the potential to change financial statement presentation and disclosure for us and for most all publicly traded companies. For some of these changes, when they asked us if we thought it was a good idea, or if it would be helpful in communicating our results to our shareholders, or in understanding and managing our business, we opined in our comment letters that it wouldn't.

However, the powers that be said they will change the accounting rules. Bottom line is, we'll be spending more money on the accounting process in the next several years.

As George Bernard Shaw wrote in 1906, "All professions are conspiracies against the laity."

Same stuff, different day.

Rest assured that we as managers will continue to make the best economic decisions we know *right now* for the best *forever* economic outcomes.

As we've written in previous years and repeat today, we continue to follow our time tested four-point approach to selecting and managing equity investments. One, we look for profitable businesses with good returns on capital and low amounts of leverage, two, run by talented and honest people, three, with reinvestment opportunities and/or capital discipline, four, at fair prices.

This approach has served us well for decades. It guides our actions *today* and remains a resilient model that should endure *forever.*

Same stuff, different day.

## Engine #3- Industrials (slang for Markel Ventures...)

Markel Ventures enjoyed a spectacular year.

In 2016, revenues grew to $1.2 billion from $1.0 billion, an increase of 16%, and EBITDA increased to $165.1 million compared to $91.3 million, an increase of 81%.

To provide a similar longer term context for these results consider that 5 short years ago the revenues totaled $317.5 million and EBITDA that year stood at $37.3 million.

Markel Ventures continues to grow as a positive factor within your company. This collection of businesses provides a diversified stream of cash flow for Markel that is not tied completely to the economic fates or regulatory forces affecting our insurance operations.

As such, these cash flows provide resiliency for the company as a whole and allow us more options to consider when we make capital allocation decisions.

Resiliency is a much more important concept than diversification. Diversification is a necessary condition to obtain resiliency, but it is not in and of itself sufficient to achieve that goal.

Resiliency means so much more. Our goal is to continue to build resiliency at Markel. Resiliency means that whatever the markets, and technology, and change, throws at us, we'll be able to rise to those new challenges and circumstances.

Markel Ventures adds to the resiliency of Markel. In 2016, the results from Markel Ventures are both better and worse than what the raw numbers present. They are better in that despite the fact that we earned EBITDA of $165.1 million from the aggregate collection of the Markel Ventures businesses, that number includes a goodwill write off of $18.7 million at one of the companies.

That write-off only occurred because we review each business as separate units that stand on their own for financial reporting purposes rather than in aggregate. As is always the case, accounting treatments and decisions require judgment and different companies often report the same economic realities with different accounting assumptions.

In our opinion, this is a conservative and perhaps unusual degree of self-flagellation in communicating these results to you. Our heritage as an insurance company, and our conservative nature, causes us to emphasize the balance sheet as the most important part of the financial statements. We emphasize redundancy throughout all of our reserving and financial reporting processes in order to make sure we've got a conservative understanding of our balance sheet. This is a good thing, and it serves us well, as we continue to build the resilience of this company.

The Markel Ventures operations tend to be more accurately described by their income statements as opposed to their balance sheets. They also are not particularly capital intensive, and as such, we believe that EBITDA provides a valuable measuring rod to gauge the economic progress of those businesses.

All of that said, after reviewing the current income statements and balance sheets of each individual Markel Ventures company one by one, the decision was made to write down the balance sheet carrying value of goodwill at one subsidiary that is subject to wide economic cyclicality (and we're not at the fun part of that cycle).

As managers, we do not believe that the business is fundamentally impaired. Cycles are merely that, and long cycle businesses can produce volatile results as they progress through the years. This goodwill charge reflects weaker performance for the last few years than before. That performance is highly correlated to energy prices and markets which have been in a fundamental bear market for the last few years.

Neither we nor anyone else knows when or if energy prices will rise or to what degree. That said, the carrying value of this cyclical business has been reduced substantially through this particular goodwill charge. This creates an asymmetric financial reporting outcome. The process creates a one way street where only negative events get highlighted and charged off in lumps. Future good news of better earnings, and the implication of a business that is worth more economically, will never show up in the balance sheet. You'll just see those earnings anonymously comingled with all of the other earnings streams in the income statement. In short, in this one dimension, we think Markel Ventures performed better than the raw EBITDA number would suggest.

"On the other hand," as Harry Truman's economist would say, certain cyclical businesses within the group performed at the high end of what we would expect over the course of a full economic cycle. We do not expect a repeat of that happy event this year, and it would be fair to haircut your sense of the current economic value of Markel Ventures a bit for that factor.

"On the other hand" (and I think we are on hand three at this point), if we owned the economic engines of Markel Ventures through traditional private equity structures of limited partnership form, I am confident that we would be reporting positive "mark to market" valuation changes which would flow through to this year's financial statements. With our structure of direct controlling ownership interests in these businesses, we do not report or rely on any "mark to market" valuation gains in what we think the businesses are worth. In fact the only "mark" we make on the carrying values is when we take a goodwill charge and "mark" things down and never up (see the previous discussion).

By the way, in order to show higher market values on our financial statements, we would have to pay third party management fees to outside managers to do so. Those expenses would be high, and certain. The accompanying reported gains would be uncertain, and the money we would spend to get that accounting treatment would be gone forever.

In our structure, we avoid those high, and certain, external expenses and allow the full economics to flow through to you our shareholders. They show up in the cash flows that you can track on our statement of cash flows.

In this dimension, Markel Ventures is doing better than what it looks like using this year's EBITDA as the measuring rod.

"On the other (and last) hand," the Markel Ventures overall results reflect necessary but "through the looking glass" type purchase accounting entries, internal cost accounting allocations of Markel Corporation overhead, intercompany financing arrangements, and complicated tax allocations. These items all net out to the good for Markel Corporation, but they subtract from the presentation of Markel Ventures' overall economic performance. They further complicate a clear understanding of how these businesses are performing.

The long term good news though is crystal clear and unambiguous. Ten years ago, Markel Ventures reported revenues of $58.9 million and EBITDA of $4.7 million. Five years ago, those numbers were $317.5 million and $37.3 million, respectively. In 2016, they were $1.2 billion and $165.1 million. In the fullness of time, accounting accurately provides an economic report on how businesses are performing. These businesses continue to contribute positively to Markel.

We continue to look for additional opportunities to build the economic value and substance of Markel Ventures. In the current market environment, it remains quite difficult to find attractively priced acquisition opportunities, but we are diligently looking. Stay tuned.

## The Future

Markel remains a unique beast in the corporate world. We think our culture as described by the Markel Style remains a powerful tool to drive the value and the fun of being part of this company.

We will continue to use our capital with the same priorities. As we wrote in the 2013 annual report, "Our first and favorite option is to fund organic growth opportunities within our proven, existing line up of insurance and non-insurance businesses. Our next choice is to buy new businesses. Our third choice is to allocate capital to publicly traded equity and fixed income securities, and our final choice is to repurchase shares of our own stock when it is attractively priced and increases the value of each remaining outstanding share."

Same stuff, different day.

As Bruce Springsteen wrote in his recent autobiography, "Rock and roll bands that *last* have to come to one basic human realization. It is: the guy standing next to you is more important than you think he is. And that man or woman must come to the same realization about the man or woman standing next to him or her, about *you*. Or everyone must be broke, living far beyond their means and in need of hard currency. Or: both."

Vince Lombardi, pointed to the same sort of thing when he said, "Individual commitment to a group effort-that is what makes a team work, a company work, a society work, a civilization work."

We mean to continue to build Markel (read Green Bay Packers or E Street band, whatever you prefer) into one of the world's great companies and we mean it to last. We've successfully sustained and grown this business through 3 generations of family leadership and now our first generation of non-family management.

We've done that by following the Springsteen principle of understanding that the people next to us in this organization are more important than we think they are and in Lombardi fashion, we as individuals pour ourselves out completely in order to be worthy of mutual respect from others. This "band" of Markel includes all of our associates as well as our customers, channel partners, communities, and shareholders.

The challenges of the future (and there are always challenges) involve technology, speed, and hyper competition. Those factors will never go away. In fact they will probably accelerate and intensify as time goes by. That said, our secret weapon will continue to be the humane trust and interconnectedness that allows each of us to operate as a group that will accomplish far more than what we could as individuals.

Our long term financial performance reflects the underlying reality of personal relationships and business excellence that motivate us to continue to dedicate ourselves to each other.

Thank you for your longstanding support and partnership of this unique organization. We look forward to the years to come.

Respectfully submitted,

The Band

Alan I. Kirshner, *Executive Chairman*

Anthony F. Markel, *Vice Chairman*

Steven A. Markel, *Vice Chairman*

Thomas S. Gayner, *Co-Chief Executive Officer*

Richard R. Whitt, III, *Co-Chief Executive Officer*

F. Michael Crowley, *Vice Chairman*