MARKEL CORP
Form 10-K405
March 27, 2002

UNITED STATES SECURITIES AND
EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2001

Commission File Number 001-15811

MARKEL CORPORATION
(Exact name of registrant as specified in its charter)

A Virginia Corporation
IRS Employer Identification No. 54-1959284

4521 Highwoods Parkway, Glen Allen,
Virginia 23060-6148 (Address of principal
executive offices) (Zip code)

Telephone (804) 747-0136
(Registrant's telephone number including area code)

Securities Registered Pursuant to Section 12(b) of the Act:
Common Stock, no par value
New York Stock Exchange
(title and class and name of the exchange on which registered)

Securities Registered Pursuant to
Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the shares of the registrant's Common Stock held by non-affiliates as of March 1, 2002 was approximately $1,641,777,819.

The number of shares of the registrant's Common Stock outstanding at March 1, 2002: 9,820,918.

DOCUMENTS INCORPORATED BY REFERENCE

The portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders scheduled to be held on May 21, 2002, referred to in Part III.

INDEX AND CROSS REFERENCES-FORM 10-K ANNUAL REPORT

* Items Number 10, 11, 12, and 13 will be incorporated by reference from the Registrant's 2002 Proxy Statement pursuant to instructions G(1) and G(3) of the General Instructions to Form 10-K.

(2) Schedules have been omitted since they either are not required or are not applicable, or the information called for is shown in the Consolidated Financial Statements.

(3) See Index to Exhibits for a list of Exhibits filed as part of this report

b. Reports on Form 8-K. The Registrant filed reports on Form 8-K on October 19, 2001, October 31, 2001 and November 21, 2001 reporting under Item 5, Other Events.

c. See Index to Exhibits and Item 14a(3)

d. See Index to Financial Statements and Item 14a(2)

INDEX TO EXHIBITS

3(i) Amended and Restated Articles of Incorporation, as amended (3.1)a

3(ii) Bylaws, as amended (3.2)b

4 The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instruments defining the rights of holders of long-term debt of the registrant and subsidiaries shown on the Consolidated Balance Sheet of registrant at December 31, 2001, and the respective Notes thereto, included in this Annual Report on Form 10-K.

Management Contracts or Compensatory Plans required to be filed
(Item 10.1-10.9)

10.1 Markel Corporation 1986 and 1989 Stock Option Plans as amended (4(d))c

10.2 Trust and Amendment Under Markel Corporation 1989 Non-Employee Directors Stock Option Plan (10.2)d

10.3 Executive Employment Agreement between Markel Corporation and Alan I. Kirshner dated as of December 22, 2000 (10.3)e

10.4 Executive Employment Agreement between Markel Corporation and Anthony F. Markel dated as of December 22, 2000 (10.4)e

10.5 Executive Employment Agreement between Markel Corporation and Steven A. Markel dated as of December 22, 2000 (10.5)e

10.6 Executive Employment Agreement between Markel Corporation and Darrell D. Martin dated as of December 22, 2000 (10.6)e

10.7 Memorandum of understanding with Jeremy D. Cooke dated August 16, 2000**

10.8 Bonus Agreement with Paul W. Springman effective January 1, 2002**

10.9 Bonus Agreement with Jeremy D. Cooke effective January 1, 2002**

21 Certain subsidiaries of Markel Corporation**

23 Consents of independent auditors to incorporation by reference of certain reports into the Registrant's Registration Statements on Forms S-8 and S-3**

**filed with this report

a. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-Q for the quarter ended March 31, 2000

b. Incorporated by reference from Exhibit 4.2 to S-4 Registration Statement No. 333-88609, dated October 7, 1999.

c. Incorporated by reference from exhibit shown in parentheses filed with the Commission on May 25, 1989 in the Registrant's Registration Statement on Form S-8 (Registration No. 33-28921)

d. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-K for the year ended December 31, 1999.

e. Incorporated by reference from the exhibit shown in parentheses filed with the Commission in the Registrant's report on Form 10-K for the year ended December 31, 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARKEL CORPORATION

By: Steven A. Markel

Vice Chairman
March 27, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title
Alan I. Kirshner,*	Chief Executive Officer and Chairman of the Board of Directors
Anthony F. Markel,*	President, Chief Operating Officer and Director
Steven A. Markel,*	Vice Chairman and Director
Darrell D. Martin,*	Executive Vice President, Chief Financial Officer and Director (Principal Financial and Accounting Officer)
Mark J. Byrne,*	Director
Douglas C. Eby,*	Director
Thomas S.Gayner,*	Director
Leslie A. Grandis,*	Director

Stewart M. Kasen,* Director

Gary L. Markel,* Director

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*Signed as of March 27, 2002

90|

THE CORPORATE PROFILE

Markel Corporation markets and underwrites specialty insurance products and programs to a variety of niche markets. In each of these markets, we seek to provide quality products and excellent customer service so that we can be a market leader. Our financial goals are to earn consistent underwriting profits and superior investment returns to build shareholder value.

THE MARKEL STYLE

Markel has a Commitment to Success. We believe in hard work and a zealous pursuit of excellence while keeping a sense of humor. Our creed is honesty and fairness in all of our dealings.

The Markel way is to seek to be a market leader in each of our pursuits. We seek to know our customers' needs and to provide our customers with quality products and service.

Our pledge to our shareholders is that we will build the financial value of our Company. We respect our relationship with our suppliers and have a commitment to our communities.

We are encouraged to look for a better way to do things...to challenge management. We have the ability to make decisions or alter a course quickly. The Markel approach is one of spontaneity and flexibility. This requires a respect for authority but a disdain of bureaucracy.

At Markel, we hold the individual's right to self-determination in the highest light, providing an atmosphere in which people can reach their personal potential. Being results oriented, we are willing to put aside individual concerns in the spirit of teamwork to achieve success.

Above all, we enjoy what we are doing. There is excitement at Markel, one that comes from innovating, creating, striving for a better way, sharing success with others...winning.

HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(in millions, except per share data)	2001	2000*	1999

Gross premium volume	$ 1,774	$ 1,132	$ 595
Net written premiums	1,286	835	428
Earned premiums	1,207	939	437
Net income (loss)	(126)	(28)	41
Comprehensive income (loss)	(77)	81	(40)
U.S. GAAP combined ratio	124%	114%	101%
Total investments and cash	$ 3,591	$ 3,136	$ 1,625
Total assets	6,441	5,473	2,455
Convertible notes payable	116	-	-
Long-term debt	265	573	168
8.71% Capital Securities	150	150	150
Shareholders' equity	1,085	752	383
Debt to total capital (Capital Securities as debt)	33%	49%	45%
Debt to total capital (Capital Securities as equity)	24%	39%	24%
PER SHARE DATA			
Common shares outstanding (in thousands)	9,820	7,331	5,590
Net income (loss) (diluted)	$ (14.73)	$ (3.99)	$ 7.20
Total investments and cash	$ 365.70	$ 427.79	$290.69
Book value	$ 110.50	$ 102.63	$ 68.59
Growth (decline) in book value	8%	50%	(11%)

*Includes Markel International since its acquisition on March 24, 2000

OPERATING HIGHLIGHTS

- Combined ratio of 124% in 2001 primarily due to reserve strengthening and expense charges at Markel International and losses related to the terrorist attacks of September 11, 2001

- Markel North America gross premium volume exceeded $1 billion for the first time

- Significant rate increases and stricter coverage terms in the majority of the Company's programs

- Excellent 2001 investment results; total return of 8% with equities producing a 17% return

- Issued 2.5 million common shares in two public offerings with proceeds of $408 million being used to repay debt and support future growth of the Company's operations

[CHART]

Earned Premiums
$ in millions

1991	1996	2001
152	307	1,207

[CHART]

Total Investments and Cash
$ in millions

1991	1996	2001
436	1,142	3,591

[CHART]

Book Value Per Share
$ per share

1991	1996	2001
15.59	49.16	110.50

TO OUR BUSINESS PARTNERS

The events of September 11th overshadow everything else that occurred during the year. The terrorist attacks on the World Trade Center and the Pentagon changed the world and impacted all of us. While the losses in human life and economic terms are substantial, we are thankful that so many people were able to escape safely. We also believe our society will work towards building a stronger and safer world. Financially, we will recover from these losses.

Unfortunately, the losses associated with the terrorist attacks were not the only surprises we faced in 2001. In addition to $75 million in losses from the World Trade Center events, we recognized an additional $29 million in adverse loss development from one of our North American programs and took charges of $109 million in our international business. Without question, 2001 was a difficult and disappointing year.

Throughout our 72-year history we built an organization with a record of conservative accounting and reserving methodologies as well as enviable underwriting profits. Our goals and philosophy have not changed, but we clearly failed to deliver in 2001.

Fortunately amid the disappointments, 2001 did include many positive developments. We are now well prepared to deliver the quality results that you and we have come to expect. It feels like we have been in the London market for an eternity, but in truth it has been less than two years. Throughout the year we continually worked to integrate the operations of the international business we acquired in March of 2000. While we recognized significant losses, we believe we made substantial progress. Additionally, the current market environment is without question, the best we've seen in many years. We are currently enjoying significant, well-priced growth in our business across almost all lines. We are exceptionally proud of our investment operations, which generated fantastic returns. While we will always emphasize the importance of great underwriting, our investment operations are also a critical element in our objective to compound book value per share at high rates of return over time.

We measure our financial success by compound growth in book value per share over the long term. For the past ten years we compounded book value per share at a 22% rate and for the past five at 18%. Excluding the effects of the issuance of new common stock, 2001 book value per share declined 10%. As a result of the additional capital raised during the year, book value per share increased from $102.63 to $110.50 and total shareholders' equity advanced from

$752 million to $1.1 billion.

2|

2001 Financial Review

Revenues increased 28% from $1.1 billion to $1.4 billion with a full year of international operations along with accelerating growth in North America. Earned premiums were $1.2 billion and our combined ratio was 124%. North American operations reported a combined ratio of 102%, which includes the $29 million charge for the discontinued New York contractors program. Adjusted for this, the North American combined ratio would have been 97%. Markel International reported a combined ratio of 134%. Excluding the unusual events, and the reserve strengthening of Terra Nova's pre-Markel reserves, it would have been 113%. Finally, discontinued lines reported a whopping combined ratio of 229% bringing total underwriting losses to $294 million.

Clearly these are disappointing and unacceptable results. We are upset not only at the magnitude of the losses we incurred, but also at the need to increase reserves. For years we built a record based on conservative reserving methodologies and we are justifiably proud of our history. Going forward you can rest assured of several things. One, as we have demonstrated, we will not hesitate to take the painful but necessary steps to recognize reserve deficiencies if they arise. Two, we have worked, and will continue to work diligently to improve the ongoing operations at our international business. And three, we remain committed to conservative accounting and reserving practices. All of these actions should act to rebuild our record of achievement over the next several years.

Finally, we think it worth mentioning that Markel has a demonstrated record of improving on our acquisitions as time goes by. All of our purchases have been of companies from the "scratch and dent sale" with less than wonderful financial performance. Those were the only sorts of companies that were reasonably priced during our process of building a small insurance broker into an industry leading specialty underwriting organization. While Terra Nova is a bigger challenge than our previous purchases, we are optimistic that our culture and our discipline will ultimately work as well in London as it has in every other circumstance.

Our equity investment portfolio earned a total return of 16.9% during 2001. This was a fabulous result in what was a difficult environment for most investors. Our focus on disciplined, common sense investing has served us well for many years now. Reported net investment income increased from $154 million to $171 million despite lower interest rates with the addition of the Markel International portfolio for the full year. Realized gains amounted to $20 million and unrealized gains increased by $76 million for the year. The total return on our investing activities was 8.4%, an excellent result in a tough year.

After interest expense, amortization of goodwill, and tax benefits, we reported a net loss of $125.7 million as compared to a net loss last year of $27.6 million. After the increase in the value of our investment portfolio, we reported a comprehensive loss of $77 million or $9.01 per share.

During 2001, total investments and cash increased from $3.1 billion to $3.6 billion and long-term debt and convertible notes payable decreased from $573 million to $381 million. During the year we also issued 2.5 million common shares raising $408 million in new equity to strengthen our financial position.

At year-end total shareholders' equity was $1.1 billion or $110.50 per share as compared to $752 million or $102.63 per share the prior year.

North American Operations

Our North American operations enjoyed a strong year as the longstanding skills of our talented underwriters began to be aided by a tailwind of specialty insurance-marketplace improvement. Gross written premiums reached the $1 billion milestone, which represented a 41% increase over last year. This improvement accelerated throughout the year and in the fourth quarter, premium volume increased 54%.

Earned premiums for the year were $642 million, an increase of 36%. The combined ratio was 102% as a result of the $29 million adverse loss development from the New York contractors program that

was discontinued in January 2000. We thought we had adequately dealt with this problem last year when we wrote, "the experience was expensive but is now behind us." Despite the fact that we always seek to identify problems quickly and establish conservative loss reserves, we are not always able to succeed. This charge added 5% to Markel North America's 2001 combined ratio.

Our other Excess and Surplus Lines operations enjoyed very good underwriting results with both the Essex E&S unit and the Professional/ Products Liability unit delivering great performance. The Markel Southwest operation completed its second year of operation very close to its budget and is expected to be contributing underwriting profits in the near future.

Our Specialty Admitted operations finished the year with a combined ratio of 101%. The Specialty Program business at Markel Insurance Company generated underwriting profits while the Specialty Personal business at Markel American Insurance Company reported modest underwriting losses in its property and high performance watercraft products.

Over the years, we have become a leader in the specialty property and casualty business in North America. We have the people, products, relationships and financial strength to take advantage of the current market opportunities. Throughout the past year we enjoyed both price and volume increases which have continued into 2002. The market has turned after many years of cutthroat competition and significant underwriting losses. We expect to apply our knowledge, skill, and underwriting discipline to achieve profitable growth in this marketplace. Our underwriters produced wonderful results for 15 years during progressively softer and softer insurance markets. We think that you can understand why we are optimistic about our future now that the marketplace is firming.

International Operations

Markel International finished the year with gross written premiums of $716 million, earned premiums of $468 million and a combined ratio of 134%. The World Trade Center loss was the single biggest factor. We continue to monitor claims from this event and currently believe that our original loss estimates are sound. In addition, the International operation took a fourth quarter charge in the amount of $20 million to provide for the significantly higher costs to renew marine and energy reinsurance treaties into 2002. Excluding these charges the combined ratio was 113%, which remains unacceptable.

4|

We have accomplished a great deal toward improving our international business. Most importantly, we focused the business on six products where we believe we have, and can further develop, the specialty focus needed to earn consistent underwriting profits. This process unfortunately required the departure of an unexpectedly high number of employees. Some left because they did not like our culture or think they could achieve our admittedly challenging objectives. Others, because we did not think they could adapt. Although this is a difficult and arduous process, we have been through this before with previous acquisitions. We think we made good progress in building the Markel Style in London. We believe that we have a team in place to achieve success. We are committed to earning underwriting profits and are taking the necessary actions to achieve this goal.

Our ongoing international underwriting units are Aviation, Marine and Energy, Non-Marine Property, Professional Liability, Retail Professional Liability and Reinsurance and Accident. In addition, we have service companies in the United Kingdom and Australia that sell several of our product offerings. We are seeing significant improvement in the market conditions and as a result we are now enjoying price increases which will help drive future underwriting profit.

Operationally, we have two underwriting entities, Terra Nova Insurance Company (a London Market insurance company), and Markel Syndicate 3000 (a Lloyd's of London syndicate). We write about 75% of our international business through our wholly-owned Lloyd's syndicates. While we are excited to be part of Lloyd's and believe it has the opportunity to continue, and enhance, its pre-eminence in the world's insurance marketplace, we also believe that the market must make changes. Some of the changes we recommend include: the end of the annual venture and three-year "reinsurance to close" process; ending inappropriate use of reinsurance leverage and structure; not writing multi-year policies without concurrent reinsurance protection; correcting poorly managed delegated authorities; improving slow policy services and reducing costs; and improved governance, regulation and accounting. Over the past 300 years Lloyd's has built a valuable franchise. Unless it improves its business practices its value could be seriously diminished. We have dealt with these issues within our business and we support Lloyd's reform efforts because a stronger Lloyd's will enhance Markel's opportunities.

Discontinued Lines

Discontinued lines include the run off business from Gryphon Insurance, from discontinued programs at Markel International, and from the reinsurance business at Corifrance, an ongoing operation being held for sale. Gross written premiums from discontinued lines were $54 million with earned premiums of $97 million. Underwriting losses were $125 million or a 229% combined ratio. The major reasons for this loss were the charges for the discontinued motor business ($39 million), increased reserves for asbestos losses ($20 million) and additional reserves for reinsurance collection issues ($25 million). We never expected that the cost of these programs would be as high as they have been. We are continuing to work diligently to manage these exposures as efficiently and effectively as possible and to adequately reserve for all future costs.

Investments

Our approach to investing is an important element of our goal of compounding book value per share over the long term. We believe that sound investing is a critical part of our long-term success and our results in this area clearly distinguish us from most insurance companies. In 2001 we achieved exceptional results in a very difficult investment environment. Our equity returns were 16.9% for the year as compared to a loss of 11.78% for the S&P 500 Index. Our fixed income returns were also favorable as we maintained a high quality portfolio and avoided losses suffered by more adventuresome fixed income investors. Total investment returns for the year were 8.4%.

Our investment results over the past 10 years are shown in the following chart.

	One Year	Five Years	Ten Years
Markel Total Return			
Fixed maturities	7.70%	7.50%	7.50%
Equity securities	16.90%	15.40%	16.40%
Market Indices			
Lehman Aggregate Index	8.44%	7.43%	7.23%
S&P 500 Index	(11.78)%	10.70%	12.10%
Value Added by Outperformance			
Fixed maturities	(0.74)%	0.07%	0.27%
Equity securities	28.68%	4.70%	4.30%

Our first objective in managing our investment portfolio is to be certain that we can meet our obligations to our policyholders. As a result, policyholder funds are invested in high quality fixed income securities with a similar duration profile as that of our insurance liabilities. Shareholder funds are predominately invested in common stocks where, with sound management, we can earn significantly greater total returns over the long term. We have added value both by outperforming relative benchmarks and by increasing our long term allocation to equity securities. Our total equity returns over the past 10 years averaged 16.40% as compared to the fixed income returns of 7.50%. This additional return on the assets we've allocated to equities has added substantial value to Markel. At year-end we have allocated $544 million to our equity investments and expect this to increase in the future.

We believe we have achieved these results because we have adopted a sound, common sense investment approach. We buy what we believe to be reasonably priced, profitable companies, run by honest and talented management with capital discipline. We want to find companies that we can own for the long term, both to minimize transaction costs and taxes. As a result, our turnover is very low and we've accumulated large unrealized gains in the portfolio.

We are optimistic that equity markets will continue to provide us with opportunities to build shareholder value over time. The volatility that occurs on a regular basis has and should continue to be more of an opportunity than a hindrance in our quest to earn solid investment returns.

Capital Raising

It was a busy year for us in the capital markets. We issued 2.5 million new shares raising $408 million in additional capital. Approximately $245 million of the proceeds were used to reduce our debt. Additionally, we issued a zero coupon convertible note with a 4.25% yield to maturity to repay an additional $100 million. As a result of these transactions, we enjoy a strong financial position. Our ratio of debt to total capital improved to 24% as compared to 39% last year. Despite this balance sheet strength, our ratings with various credit rating agencies are not as strong as our balance sheet alone would support. This is due to our losses, the majority of which were charges reported as the recognition of reserve deficiencies at Markel International from prior to our acquisition. We expect meaningful operating improvements in the future, and as this occurs, our ratings should be stronger.

Director

Mark Byrne has advised us that he will not be standing for reelection at our next shareholders' meeting. Mark feels his personal and business commitments prevent him from continuing on our Board. We will miss Mark's advice but thank him for his contributions and support.

Closing Comments

Clearly 2001 was a difficult and disappointing year at Markel. We do not like reporting reserve deficiencies and unusual charges as many other insurance companies did in 2001. While the vast majority of these charges relate to the integration of the Terra Nova acquisition, and should be behind us, we remain embarrassed by these results. In the past we've prided ourselves on our proven track record of being different, and better, than other insurance companies.

We remain optimistic because the things we did differently than the insurance industry at large to build our record of accomplishment remain unchanged. Markel is built upon the consistent values of integrity, long term focus, and conservative accounting. These will never change. Fortunately, the people who make up this organization seem to get better at their jobs the longer they are part of this culture. We are confident that this will be true for our London based colleagues as well and we look forward to earning your continued support.

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

/s/ Anthony F. Markel
Anthony F. Markel
President and Chief Operating Officer

/s/ Steven A. Markel
Steven A. Markel
Vice Chairman

/s/ Darrell D. Martin
Darrell D. Martin
Executive Vice President and Chief Financial Officer

[PHOTO]

From left to right: Alan I. Kirshner, Anthony F. Markel,
Darrell D. Martin, Steven A. Markel

Markel Corporation & Subsidiaries

BUSINESS OVERVIEW

We sell specialty insurance products and programs to a variety of niche markets and believe that our specialty product focus and niche market strategy enable us to develop expertise and specialized market knowledge. We seek to provide quality products and customer service so that we can be a market leader. Our financial goals are to earn consistent underwriting profits and superior investment returns to build shareholder value.

Specialty Insurance

The specialty insurance market differs significantly from the standard market. In the standard market, insurance rates and forms are highly regulated, products and coverages are largely uniform with relatively predictable exposures, and companies tend to compete for customers on the basis of price. In contrast, the specialty market provides coverage for risks that do not fit the underwriting criteria of the standard carriers. Competition tends to focus less on price and more on availability, service and other value-based considerations. While specialty market exposures may have higher insurance risks than their standard market counterparts, we manage these risks to achieve higher financial returns. To reach our financial and operational goals, we must have extensive knowledge and expertise in our chosen markets. Most of our risks are considered on an individual basis, and manuscript forms and tailored solutions are employed in order to respond to distinctive risk characteristics.

Acquisition

On March 24, 2000, we acquired the operations of Terra Nova (Bermuda) Holdings Ltd. As a result of the acquisition, we realigned our operations with Terra Nova (Bermuda) Holdings Ltd. becoming our international division, Markel International, and our existing domestic operations becoming Markel North America. The acquisition of Markel International provides us with additional opportunities to grow profitably in specialty insurance markets on a worldwide basis. Markel International writes specialty property, casualty, marine and aviation insurance on a direct and reinsurance basis. Business is written worldwide with the majority coming from the United Kingdom and the United States. Markel International has a strong presence in the London Insurance Market through its wholly-owned subsidiaries, Terra Nova Insurance Company Limited (Terra Nova), and its participation through Markel Capital Limited (Markel Capital) in four Lloyd's syndicates managed by Markel Syndicate Management Limited (Markel Syndicate Management). For 2002 we have formed a new syndicate named Markel Syndicate 3000 where we will consolidate business previously written in our four Lloyd's syndicates. Consolidating our Lloyd's operations into one syndicate should provide cost reductions and allow for more efficient capital allocation.

Changes at Markel International for 2002

On January 1, 2002, Markel International aligned its underwriting operations along product lines and customers into six underwriting centers as follows:

- Aviation

. Marine and Energy
. Non-Marine Property
. Professional Liability
. Retail Professional Liability
. Reinsurance and Accident

8|

Our goal is to align the operations so that specialized underwriting talent is more focused on our customers' needs. In addition our new structure and focus eliminates duplication that previously existed between underwriting areas. To best serve our customers' needs, the six underwriting centers will have the ability to write business on Terra Nova or on Markel Syndicate 3000.

Markets
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During 2001 we competed in four areas of the specialty insurance market. Markel North America competed in the Excess and Surplus Lines Market (E&S Market) and the Specialty Admitted Market. Markel International competed in the London Company Market and the Lloyd's Market. With the realignment of Markel International's underwriting units and the formation of Syndicate 3000 in 2002, we will have the ability to compete in the London Insurance Market without distinction between the London Company Market and the Lloyd's Market. See note 18 in the notes to consolidated financial statements for additional segment reporting disclosures.

The E&S Market focuses on hard-to-place risks and risks that admitted insurers specifically refuse to write. E&S eligibility allows our insurance subsidiaries to underwrite non-standard market risks with more flexible policy forms and unregulated premium rates. This typically results in coverages that are more restrictive and more expensive than the standard admitted market. In 2000 the E&S Market represented approximately $12 billion, or 4% of the $322 billion United States property and casualty (P&C) industry.(1)

We are the fourth largest domestic E&S writer in the United States as measured by direct premium writings.(1) Four of our underwriting units, Essex Excess and Surplus Lines, Professional/Products Liability, Brokered Excess and Surplus Lines, and Markel Southwest Underwriters, write in the E&S Market. In 2001 we wrote $842 million of E&S business.

We also write business in the Specialty Admitted Market. Most of these risks are unique and hard-to-place in the standard market, but for marketing and regulatory reasons, must remain with an admitted insurance company. We estimate that the Specialty Admitted Market is comparable in size to the E&S Market. The Specialty Admitted Market is subject to more state regulation than the E&S Market, particularly with regard to rate and form filing requirements, restrictions on the ability to exit lines of business, premium tax payments and membership in various state associations, such as state guaranty funds and assigned risk plans.

Two of our underwriting units, Specialty Program Insurance and Specialty Personal and Commercial Lines, write in the Specialty Admitted Market. In 2001 we wrote $163 million of specialty admitted business.

Markel International competes in the London Insurance Market, which represented approximately $21 billion of the international insurance market in 1999.(2) The London Insurance Market is the largest insurance market in Europe and third largest in the world.(3) The London Insurance Market is known for its ability to provide innovative, tailored coverage and capacity for unique and hard-to-place risks. It is primarily a broker market, which means that insurance brokers bring most of the business to the market.

(1) Annual Review of the Excess and Surplus Lines Industry, A.M. Best Company Special Report (Sept. 2001).
(2) The London Insurance Market, Association of British Insurers (Sept. 2000).
(3) UK Insurance Key Facts , Association of British Insurers.

BUSINESS OVERVIEW (continued)

The London Insurance Market is also largely a subscription market, which means that risks brought into the market are typically insured by more than one insurance company or Lloyd's syndicate, often due to the large amount of insurance coverage required. We write business on both a direct and subscription basis in the London Insurance Market. When we write business in the subscription market, we participate primarily as lead underwriter in order to control underwriting terms and conditions.

The London Insurance Market is almost evenly divided between the London Company Market and the Lloyd's Market. Insurance companies based in London are included in the London Company Market. During 2001 we participated in the London Company Market through Terra Nova. We wrote $176 million of London Company Market business in 2001.

The Lloyd's Market has been in existence for more than 300 years but has recently undergone significant changes. For most of its existence, capital at Lloyd's has been provided by individual investors or names who subscribed annually to provide capacity or capital to one or more syndicates, which are not legal entities but only an amalgamation of the individuals participating in that syndicate. The syndicates were managed by managing agents who controlled all business decisions for the syndicates.

Following several years of poor results and faced with a need for new capital, Lloyd's began to allow corporate capital providers beginning in 1993. This source of capital has grown steadily and represented approximately 82% of total underwriting capacity in 2001.(4) Corporate capital providers often provide a majority or all of a syndicate's capacity and also often own or control the syndicate's managing agent. This structure permits the capital provider to exert greater influence on, and demand greater accountability for, underwriting results.

The Lloyd's Market ranks as the world's third largest(5) insurer of commercial risks and third largest global reinsurer.(6) In 2001 we participated in the Lloyd's Market through our corporate capital provider, Markel Capital, in four Lloyd's syndicates. For the 2001 year of account, Markel Capital was the fifteenth largest capital provider at Lloyd's.(4)We wrote $540 million of Lloyd's Market business in 2001.

Approximately 32% of our 2001 premium writings were foreign risks, of which approximately 40% related to the United Kingdom. For 2000 approximately 29% of our premium writings were foreign risks, of which approximately 43% related to the United Kingdom. Prior to our acquisition of Markel International, substantially all of our premium writings were United States risks.

(4) Best's Rating of Lloyd's, A.M. Best (Sept. 2001).

(5) Top 200 Global Business Insurers 2001, Standard & Poor's.
(6) Global Reinsurance Highlights 2001, Standard & Poor's.

Competition

We compete with numerous domestic and international insurance companies and reinsurers, Lloyd's syndicates, risk retention groups, insurance buying groups, risk securitization programs and alternative self-insurance mechanisms. Competition may take the form of lower prices, broader coverages, greater product flexibility, higher quality services or higher ratings by independent rating agencies. In all of our markets, we compete by developing specialty products to satisfy well-defined market needs and by maintaining relationships with brokers and insureds who rely on our expertise. This expertise in offering and underwriting products that are not readily available is our principal means of competition. Our domestic operations offer over 40 major product lines. Markel International offers a diverse portfolio of over 40 insurance products. Each of these products has its own distinct competitive environment. In all of our products, we seek to compete with innovative ideas, appropriate pricing, expense control and quality service to policyholders, agents and brokers.

Few barriers exist to prevent insurers from entering our segments of the P&C industry, but many of the larger P&C insurance companies have historically been unwilling to write specialty coverages. For many years the P&C industry experienced a soft market due to what was perceived by many as excessive amounts of capital in the industry. In an attempt to utilize their capital, many insurance companies often sought to write additional premiums without regard for its ultimate profitability.

In 1999 signs of a market hardening, that is stricter coverage terms and higher prices, began to emerge in the United States. Markel North America's submissions and premium writings increased substantially in 2000 and 2001. During 2001 premium rates also began to increase in the London Insurance Market. The terrorist attacks of September 11, 2001 had a profound impact on the insurance market. Demand for insurance products to manage risks has increased while insurance financial and underwriting capacity has decreased. We are committed to maintaining our underwriting standards in both hard and soft insurance markets.

Underwriting Philosophy

By focusing on market niches where we have underwriting expertise, we seek to earn consistent underwriting profits. Underwriting profits are a key component of our strategy. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk.

In 2001 our combined ratio was 124%. This represents the fourth time in the past 16 years that our combined ratio exceeded 100%. All four underwriting losses were primarily the result of newly acquired insurance operations. The 2001 underwriting loss was primarily due to $213 million of reserve strengthening and expense charges including a $75 million provision for losses from the terrorist attacks of September 11, 2001. See Management's Discussion & Analysis of Financial Condition and Results of Operations for a further discussion of underwriting results. When Markel International was acquired, we expected underwriting losses from programs we planned to discontinue and from the continuing programs that we planned to reprice and reunderwrite. While we have made significant progress in these areas and have instilled our underwriting philosophy at Markel International, the challenges presented by the Markel International acquisition have been larger and have taken longer to identify and resolve than we originally anticipated.

BUSINESS OVERVIEW (continued)

The following graph shows our U.S. GAAP combined ratio as compared to the P&C industry for the past five years:

[CHART]

COMBINED RATIOS

Markel Corporation

1997	1998	1999	2000	2001
99%	98%	101%	114%	124%

Industry Average*

1997	1998	1999	2000	2001
102%	106%	108%	110%	117%

*Source A.M. Best Company
Industry Average is estimated for 2001.

The Underwriting Units

We define our four underwriting segments based on the areas of the specialty insurance market in which we compete. Markel North America includes two operating segments, the E&S Market and the Specialty Admitted Market. Markel International's operating segments are the London Company Market and the Lloyd's Market.

Discontinued lines of business and non-strategic insurance subsidiaries are included in Other (Discontinued Lines) for segment reporting purposes. These lines were discontinued because we believed some aspect of the product, such as risk profile or competitive environment, would not allow us to earn consistent underwriting profits.

[CHART]

MARKEL CORPORATION
2001 TOTAL GROSS PREMIUM VOLUME ($1.8 billion)

Other (Discontinued Lines)	3%
Specialty Admitted	9%
London Company	10%
Lloyd's	30%
Excess and Surplus Lines	48%

Markel North America

Domestically we operate through six underwriting units focused on specific niches within the E&S and Specialty Admitted Markets. In the E&S Market, we write business through the following units: Essex Excess and Surplus Lines; Professional/Products Liability; Brokered Excess and Surplus Lines and Markel Southwest Underwriters. In the Specialty Admitted Market, we write business through the Specialty Program Insurance and the Specialty Personal and Commercial Lines units.

12|

[CHART]

MARKEL NORTH AMERICA
2001 GROSS PREMIUM VOLUME ($1 billion)

Specialty Personal and Commercial Lines	5%
Markel Southwest Underwriters	6%
Specialty Program Insurance	11%
Brokered Excess and Surplus Lines	22%
Professional/Products Liability	25%
Essex Excess and Surplus Lines	31%

Excess and Surplus Lines Market

Essex Excess and Surplus Lines. The Essex Excess and Surplus Lines unit (Essex E&S unit) writes a variety of coverages focusing on light-to-medium casualty exposures for businesses such as artisan contractors, habitational risks, restaurants and bars, child and adult care facilities, vacant properties, office buildings and light manufacturing operations. The Essex E&S unit also writes property insurance on classes of business ranging from small, single-location risks to large, multi-state, multilocation risks. Property coverages consist principally of fire and allied lines, such as windstorm, hail and water damage and more specialized property coverages. In addition the Essex E&S unit offers coverages for heavier property risks on both an excess and primary basis, including earthquake, through its Essex Special Property (ESP) division. These risks are typically larger and are of a low frequency/high severity nature.

The Essex E&S unit's inland marine facility provides coverages for risks that include motor truck cargo, logging equipment, warehouseman's legal liability, builder's risk and contractor's equipment. The ocean marine facility writes risks that include marinas, hull coverage, cargo and builder's risk for yacht manufacturers. The special transportation division focuses on physical damage coverage for all types of commercial vehicles such as trucks, buses and high value automobiles. In addition the special transportation division offers liability coverages for both individual cabs and fleets and a dealer contingent liability program. The railroad division writes all risk property coverages on railroad cars including shortline and regional railroads, tourist and scenic railroads, modern commuter rail and light rail, leased railroad equipment and railroad equipment owned by non-railroad companies.

Most of the Essex E&S unit's business is generated by approximately 180 professional surplus lines general agents who have limited quoting and binding authority. ESP, brokerage inland marine and ocean marine produce business on a brokerage basis through approximately 290 wholesale brokers. The Essex E&S unit seeks to be a substantial underwriter for its producers in order to enhance the likelihood of receiving the most desirable underwriting opportunities. The Essex E&S unit writes the majority of its business in Essex Insurance Company (Essex). Essex is admitted in Delaware and is eligible to write E&S insurance in 49 states and the District of Columbia.

BUSINESS OVERVIEW (continued)

[CHART]

ESSEX EXCESS AND SURPLUS LINES
2001 GROSS PREMIUM VOLUME ($313 million)

Other Programs	8%
Inland Marine	9%
Property	13%
Casualty	27%
Essex Special Property	43%

Professional/Products Liability. The primary focus of the Professional/Products Liability unit is tailored coverages that offer unique solutions for highly specialized professions. These include medical malpractice for physicians and allied healthcare risks, professional liability for lawyers, architects and engineers, agents and brokers and management consultants. Specified professions errors and omissions coverage is targeted to start-up companies, small businesses and emerging technologies. Special risks include products liability coverage focused on new business products and technology. In addition for-profit and not-for-profit directors and officers liability coverage and employment practices liability coverages are offered.

The Professional/Products Liability unit was one of the first to enter the emerging employment practices liability insurance (EPLI) market. EPLI provides coverage for the defense of alleged inappropriate employment practices not typically covered under traditional business coverages. This unit also provides a full menu of loss prevention programs offering consultation services to all customers which can be accessed through telephone inquiry, the Internet and live seminars across the United States.

Business is written nationwide and is developed through approximately 350 wholesale brokers. The Professional/Products Liability unit writes the majority of its business in Evanston Insurance Company (EIC). EIC is admitted in Illinois and is eligible to write E&S insurance in 48 states and the District of Columbia. Admitted programs for these coverages are written primarily in Deerfield Insurance Company.

[CHART]

PROFESSIONAL/PRODUCTS LIABILITY
2001 GROSS PREMIUM VOLUME ($249 million)

Architects and Engineers	6%
Other Programs	9%
Employment Practices Liability	16%
Specified Professions	17%

Special Risks	19%
Medical Malpractice and Specified Medical	33%

Brokered Excess and Surplus Lines. The Brokered E&S unit is comprised of the following divisions: primary casualty, property, excess and umbrella and environmental. The primary casualty division's areas of expertise are hard-to-place, large general liability and products liability accounts. The majority of the general liability book of business is comprised of coverages for commercial and residential contractors. The division also specializes in writing manufacturing accounts with heavy products liability exposures. Examples include sporting goods manufacturers, toy manufacturers and truck trailer manufacturers. The property division focuses on monoline property and package coverages for mercantile, industrial, habitational and builder's risk exposures. The excess and umbrella division provides coverage primarily for small commercial insureds. The environmental division offers a complete array of environmental coverages including environmental professional liability, contractors pollution liability and site-specific environmental impairment liability. The unit operates through approximately 100 wholesale brokers and writes the majority of its business in EIC.

[CHART]

BROKERED EXCESS AND SURPLUS LINES
2001 GROSS PREMIUM VOLUME ($220 million)

Other Programs	3%
Environmental	5%
Excess and Umbrella	19%
Property	31%
Casualty	42%

Markel Southwest Underwriters. Markel Southwest Underwriters (MSU) writes a variety of commercial casualty and property coverages using underwriting guidelines that are modeled after those used by the Essex E&S unit. MSU's business is concentrated in the west, southwestern and southeastern United States. Casualty coverages consist of light-to-medium casualty exposures including artisan contractors, habitational risks, office buildings, light manufacturing operations and vacant properties. MSU also writes property insurance on classes of business ranging from small, single location risks to large, multi-state, multi-location risks. Property coverages consist principally of fire and allied lines, such as windstorm, hail and water damage and more specialized property coverages.

Most of MSU's business is generated by approximately 80 professional surplus lines general agents who have limited quoting and binding authority. MSU seeks to be a substantial underwriter for its producers in order to enhance the likelihood of receiving the most desirable underwriting opportunities. The majority of its business is written in EIC.

BUSINESS OVERVIEW (continued)

[CHART]

MARKEL SOUTHWEST UNDERWRITERS
2001 GROSS PREMIUM VOLUME ($60 million)

Other Programs	5%
Property	44%
Casualty	51%

Specialty Admitted Market

Specialty Program Insurance. Specialty Program Insurance focuses on providing total insurance programs for businesses engaged in similar but highly specialized activities. These activities typically do not fit the risk profiles of standard insurers which makes complete coverage difficult to obtain from a single insurer.

The Specialty Program Insurance unit is organized into four product areas which concentrate on particular markets and customer groups. The property and casualty program division writes commercial coverages for youth and recreation oriented organizations, such as children's summer camps, conference centers and youth organizations such as YM/YWCAs, Boys' and Girls' Clubs, child care centers, nursery and Montessori schools, gymnastic schools and martial arts and dance schools. This division also writes commercial coverages for social service organizations, garages, gas stations, campgrounds, used car dealers and moving and storage operations. The agriculture division specializes in insurance coverages for horse-related risks, such as horse mortality coverage and property and liability coverages for horse farms and boarding, breeding and training facilities. Liability insurance for sports organizations and accident and medical insurance for colleges, universities and private schools are sold through the sports liability, accident and medical division. The Markel Risk Solutions facility develops customized insurance products for a variety of commercial insureds.

The majority of Specialty Program Insurance business is produced by approximately 3,500 retail insurance agents. Management grants very limited underwriting authority to a few carefully selected agents and controls agency business through regular audits and pre-approvals. Certain products and programs are also marketed directly to consumers or through wholesale producers. Specialty Program Insurance is underwritten by Markel Insurance Company (MIC). MIC is licensed to write P&C insurance in 50 states, including its domicile state of Illinois and the District of Columbia.

16|

[CHART]

SPECIALTY PROGRAM INSURANCE
2001 GROSS PREMIUM VOLUME ($106 million)

Other Programs	5%
Health and Fitness	8%
Child Care	9%
Markel Risk Solutions	11%
Agriculture	18%
Camp and Youth Recreation	21%

Sports Liability, Accident and Medical	28%

Specialty Personal and Commercial Lines. Specialty Personal and Commercial Lines markets and underwrites its insurance products in niche markets that are overlooked by large admitted carriers. The recreational products division concentrates on watercraft, yacht, motorcycle and property coverages. The watercraft program markets personal lines insurance coverage for personal watercraft, older boats and high performance boats; while small fishing ventures and small boat rentals are the focus of the commercial marine program. The yacht program is designed for experienced owners of moderately priced yachts. The motorcycle program's target market is mature riders of high-valued bikes. The property program provides coverage for dwellings which do not qualify for standard homeowners coverage.

Specialty Personal and Commercial Lines products are characterized by high numbers of transactions, low average premiums and creative solutions for under-served and emerging markets. The unit distributes the watercraft, yacht and property products through wholesale and retail producers. The motorcycle program is marketed directly to the consumer, using direct mail, Internet and telephone promotions as well as relationships with various motorcycle manufacturers, dealers and associations. The Specialty Personal and Commercial Lines unit writes the majority of its business in Markel American Insurance Company (MAIC). MAIC is licensed to write P&C business in 47 states, including its state of domicile, Virginia, and the District of Columbia.

[CHART]

SPECIALTY PERSONAL AND COMMERCIAL LINES
2001 GROSS PREMIUM VOLUME ($56 million)

Property	18%
Motorcycle	21%
Yacht	28%
Watercraft	33%

BUSINESS OVERVIEW (continued)

Markel International

Our international division operates in two segments of the London Insurance Market. Markel International participates in the London Company Market through its London based insurance company, Terra Nova, and in the Lloyd's Market through Markel Capital's participation in four Lloyd's syndicates managed by Markel Syndicate Management.

[CHART]

MARKEL INTERNATIONAL
2001 GROSS PREMIUM VOLUME ($716 million)

Motor Syndicate 1228	4%
Non-Marine Syndicate 1239	14%
Terra Nova	25%
Marine Syndicate 1009	27%

Markel Syndicate 702	30%

The London Company Market

Terra Nova. Terra Nova's business is written internationally with approximately 57% of its writings coming from the United States. Terra Nova underwrites business on both a direct and reinsurance basis covering property, casualty, accident and health and marine risks. In addition Terra Nova writes excess and surplus lines property and automobile physical damage coverages in the United States. Coverage is also provided for crop, boiler and machinery, credit, surety, political risk exposure, theft, fidelity and crime as well as other miscellaneous lines such as contingency.

Property treaty reinsurance includes excess of loss, stop loss, aggregate excess and proportional coverage. A significant portion of Terra Nova's excess of loss catastrophe and per risk treaty business comes from the United States and is balanced by international property treaties.

Terra Nova's casualty account includes treaty reinsurance for errors and omissions, directors and officers, medical malpractice and general liability risks as well as excess and surplus lines liability coverages often written in conjunction with property risks. Professional groups covered include architects, engineers, accountants, lawyers and insurance intermediaries.

Terra Nova's marine book includes specie, cargo and protection and indemnity coverages. Terra Nova is an insurer of diamonds and precious stones, cash and securities, art galleries, private art collections, auction houses and fine art through its specie account.

18|

[CHART]

TERRA NOVA
2001 GROSS PREMIUM VOLUME ($176 million)

Marine	23%
Casualty	28%
Property	49%

The Lloyd's Market

Markel International participates in the Lloyd's Market through its corporate capital provider, Markel Capital. For the 2001 year of account, Markel Syndicate Management managed four syndicates. For the 2002 year of account, Markel Syndicate Management has combined its operations into one syndicate, Markel Syndicate 3000.

Our Lloyd's operations offer a wide range of insurance products and take a service-oriented approach to underwriting complex and unique risks. Markel International's 2001 operating syndicates are as follows:

Markel Syndicate 702. Syndicate 702 focuses on professional and financial risk coverages, including professional indemnity, directors and officers liability, legal expenses and crime. It also underwrites kidnap and ransom, commercial property and general liability coverages.

The professional indemnity account offers unique solutions for four classes of professions. Covered risks include construction and engineering, financial service professionals, miscellaneous professionals and professional practices. The construction and engineering class includes coverages for professional surveyors, engineers, architects and estate agents. The financial services class includes coverages for insurance brokers, insurance agents, financial consultants, stockbrokers, fund managers, venture capitalists and bankers. The miscellaneous professionals class includes coverages for a wide range of professionals including management consultants, publishers, broadcasters, pension trustees, political officials and physicians. The professional practices class includes coverages for accountants and solicitors.

Syndicate 702 has four branch offices in the United Kingdom, all of which offer the Syndicate's full range of products. In addition the Syndicate has established three branch offices in Australia, which offer the Syndicate's core professional indemnity, directors and officers and crime covers. The Syndicate's branch offices provide insureds and brokers with direct access to decision-making underwriters who understand the local markets.

BUSINESS OVERVIEW (continued)

[CHART]

MARKEL SYNDICATE 702
2001 GROSS PREMIUM VOLUME ($217 million)

Legal Expenses	5%
Other Programs	10%
Property	12%
Directors and Officers	14%
Professional Indemnity	59%

Marine Syndicate 1009. Marine Syndicate 1009 underwrites a portfolio of primary coverages for energy, marine liability, hull, war, specie, cargo, aviation and property risks. In addition the Syndicate writes marine, aviation and property business on an excess of loss reinsurance basis. Syndicate 1009 is a market leader in these lines of business due to its commitment to value-added service for its insureds and brokers.

The energy account includes all aspects of oil and gas activities. Coverage includes, but is not limited to, property damage, business interruption and well control. The liability account is primarily energy-related, but also covers the traditional marine book, which includes charters, protection and indemnity and pollution liabilities. The hull account covers physical damage to ocean-going tonnage. Also offered are building and construction insurance, as well as coverage for high-valued yachts and mortgagee's interest. The war account covers marine, aviation and political risks. Political risks provide coverage for aspects of confiscation, terrorism, war on land and elements of contract frustration. The specie account includes coverage for fine art on exhibit and in private collections, securities, bullion, precious metals, cash in transit and jewelry. The cargo account is an international transit-based book covering many types of cargo.

The aviation account covers major and regional passenger airlines, cargo airlines, fixed wing and rotary wing operators, aviation products and ground liabilities. The property account consists primarily of large, risk-managed exposures.

[CHART]

MARINE SYNDICATE 1009
2001 GROSS PREMIUM VOLUME ($196 million)

Hull	6%
Liability	7%
Specie	7%
Property	11%
Energy	15%
Other Programs	15%
War	15%
Aviation	24%

Motor Syndicate 1228. Syndicate 1228 specializes in commercial auto insurance in the United Kingdom. The Syndicate focuses on carefully selected rental car fleets and taxi accounts. Coverage is provided for fleets of all sizes. The Syndicate's innovative approach to its business allows it to build strong relationships with a select number of intermediaries. Following the acquisition of Markel International, we significantly reduced writings at Syndicate 1228 and refocused the Syndicate on its profitable United Kingdom fleet business. Syndicate 1228 had gross premium volume of $27 million in 2001.

Non-Marine Syndicate 1239. Syndicate 1239 writes property, financial institutions, accident and health, contingency and casualty lines of business. Business is written on a direct, facultative, excess of loss and proportional treaty reinsurance basis.

The property account primarily consists of commercial and industrial risks. The financial institutions account includes fidelity bonds, computer crime, credit card fraud and cash-in-transit exposures. The casualty account primarily includes United Kingdom professional liability business. The accident and health account consists of medical expense, aviation, personal accident and sports personal accident coverages.

[CHART]

NON-MARINE SYNDICATE 1239
2001 GROSS PREMIUM VOLUME ($100 million)

Accident and Health	6%
Other Programs	9%
Financial Institutions	13%
Professional Liability	14%
Property	58%

BUSINESS OVERVIEW (continued)

Reinsurance

We enter into reinsurance agreements in order to reduce our liability on individual risks and to enable us to underwrite policies with higher limits.

We attempt to minimize credit exposure to reinsurers and maintain a margin of safety through adherence to internal reinsurance guidelines. To become our reinsurance partner, prospective companies generally must: (i) maintain an A.M. Best or Standard & Poor's rating of "A" (excellent); (ii) maintain minimum capital and surplus of $200 million; and (iii) provide collateral for recoverables in excess of an individually established amount. In addition Markel North America's foreign reinsurers must provide collateral equal to 100% of recoverables, with the exception of reinsurers who are Lloyd's syndicates.

The following table displays our top ten reinsurers by group at December 31, 2001. The contractual obligations under reinsurance agreements are typically with individual subsidiaries of the group and are not typically guaranteed by other group members. These ten reinsurers represent 54% of our $1.6 billion reinsurance recoverable.

Reinsurers	A.M. Best Rating	Reinsurance R
		(dollars in
Syndicates at Lloyd's	A-	$ 209,6
Munich Re Group	A++	125,9
GE Global Insurance Group	A++	80,8
Equitas	NR(1)	78,9
Gerling Group	A	69,0
XL Group	A+	63,6
Fairfax Financial Group	A	62,5
AXA Corporate Solutions Group	A+	51,7
HDI Group	A+	51,1
American International Group	A++	46,7
Other reinsurers		728,7
Total reinsurance recoverable on paid and unpaid losses		$1,569,0

(1) NR-Not Rated. Equitas is a reinsurance company that was formed by Lloyd's to reinsure the 1992 and prior losses of Lloyd's syndicates.

Reinsurance recoverable balances are shown before consideration of balances owed to reinsurers and any potential rights of offset, any collateral held by us and allowances for bad debts.

See note 14 in the notes to consolidated financial statements and Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about our reinsurance programs and exposures.

Reinsurance treaties are generally subject to cancellation on the anniversary date and are subject to annual renegotiations. In most circumstances the reinsurer remains responsible for all business produced prior to termination. Treaties also typically contain provisions concerning ceding commissions, required reports to the reinsurers, responsibility for taxes, arbitration in the event of a dispute and provisions which allow us to demand that a reinsurer post letters of credit or assets as security if a reinsurer becomes an unapproved reinsurer under applicable regulations.

Investments

Our business strategy clearly recognizes the importance of both underwriting profits and superior investment returns to build shareholder value. We rely on sound underwriting practices to produce investable funds while minimizing underwriting risk. Approximately three quarters of our investable assets come from premiums paid by policyholders. Policyholder funds are invested predominately in high-quality corporate, government and municipal bonds with relatively short durations. The balance, comprised of shareholder funds, is available to be invested in equity securities, which over the long run, have produced higher returns relative to fixed maturity investments. We seek to invest in companies with the potential for appreciation and hold these investments over the long term. Officers of the Company manage the investment portfolio.

Total investment returns include items which impact net income, such as net investment income and realized gains or losses from the sales of investments, as well as items which do not impact net income, such as changes in unrealized holding gains or losses. We do not lower the quality of our investment portfolio in order to enhance or maintain yields. Our focus on long-term total investment returns may result in variability in the level of realized and unrealized investment gains or losses from one period to the next.

The ultimate success of our investment strategy can be analyzed from the review of total investment returns over several years. The following table presents taxable equivalent total returns before and after the effects of foreign currency movements for the past five years:

ANNUAL TAXABLE EQUIVALENT TOTAL RETURNS

	Years Ended December 31,						
	1997	1998	1999	2000	2001	Weighted Average Five Year Annual Return	Wei Av Ten An Re
Equities	31.4%	13.3%	(10.3%)	26.4%	16.9%	15.4%	16
Fixed maturities	9.2%	7.6%	0.9%	10.5%	7.7%	7.5%	7
Total portfolio	12.8%	8.9%	(1.3%)	12.4%	8.8%	8.6%	8
Total portfolio, after foreign currency effect	12.8%	8.9%	(1.3%)	11.6%	8.4%	8.2%	8
Ending portfolio balance (in millions)	$ 1,410	$ 1,483	$ 1,625	$ 3,136	$ 3,591		

Our disciplined, value-oriented investment approach has generated solid investment results in 2001 and over the long term as evidenced by the above table.

BUSINESS OVERVIEW (continued)

We monitor our portfolio to ensure that credit risk does not exceed prudent levels. Standard & Poor's (S&P's) and Moody's Investors Service (Moody's) provide corporate and municipal debt ratings based on their assessment of the credit quality of an obligor with respect to a specific obligation. S&P's ratings range from "AAA" (capacity to pay interest and repay principal is extremely strong) to "D" (debt is in payment default). Securities with ratings of "BBB" or higher are referred to as investment grade securities. Debt rated "BB" and below is regarded by S&P as having predominately speculative characteristics with respect to capacity to pay interest and repay principal. Moody's ratings range from "Aaa" to "C" with ratings of "Baa" or higher considered investment grade.

Our fixed maturity portfolio has an average rating of "AA," with 92% rated "A" or better by at least one nationally recognized rating organization. Our policy is to invest in securities which are rated investment grade and to minimize investments in fixed maturity securities that are unrated or rated below investment grade.

See Market Risk Disclosures in Management's Discussion & Analysis of Financial Condition and Results of Operations for additional information about investments.

The following chart shows our fixed maturity portfolio, at estimated fair value, by rating category at December 31, 2001:

[CHART]

2001 CREDIT QUALITY OF FIXED MATURITY PORTFOLIO ($2,686 million)

Other	1%
BBB	7%
A	12%
AAA/AA	80%

Shareholder Value

Our financial goals are to earn consistent underwriting profits and superior investment returns to build shareholder value. More specifically, we assess our effectiveness in building shareholder value through the measurement of growth in book value per share. We believe that growth in book value per share is the most comprehensive measure of our success because it includes all underwriting and investing results. We recognize that it may be difficult to grow book value consistently each year, so we measure ourselves over a longer period of time. Our stated objective is to grow book value per share by an annual compound growth rate of 20%, measured over a five year period. For the year ended December 31, 2001, book value increased 8% primarily due to two common share offerings

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with net proceeds of $408 million and increased unrealized gains on our investment portfolio, partially offset by a net loss. For the year ended December 31, 2000, book value increased 50% primarily due to common stock and contingent value rights issued to acquire Markel International. Over the past five years, we have grown book value per share at a compound annual rate of 18% to $110.50 per share. Excluding the effect of common stock issued to acquire Markel International and 2001 equity offerings, book value per share grew at a compound annual rate of 9% over the past five years. The following graph presents the Company's book value per share for the past five years:

[CHART]

BOOK VALUE PER SHARE

$ per share

1997	1998	1999	2000	2001
65.18	77.02	68.59	102.63	110.50

Regulatory Environment

Our insurance subsidiaries are subject to regulation and supervision by the insurance regulatory authorities of the various jurisdictions in which they conduct business. Regulation is intended for the benefit of policyholders rather than shareholders.

United States. In the United States, state regulatory authorities have broad regulatory, supervisory and administrative powers relating to solvency standards, the licensing of insurers and their agents, the approval of forms and policies used, the nature of, and limitations on, insurers' investments, the form and content of annual statements and other reports on the financial condition of such insurers and the establishment of reserves.

As an insurance holding company, we are also subject to certain state laws. Under these laws, insurance departments may, at any time, examine us, require disclosure of material transactions, require approval of certain extraordinary transactions, such as extraordinary dividends from our insurance subsidiaries to us or require approval of changes in control of an insurer or an insurance holding company. Generally control for these purposes is defined as ownership or voting power of 10% or more of a company's shares.

BUSINESS OVERVIEW(continued)

The laws of the domicile states of our insurance subsidiaries govern the amount of dividends that may be paid to us. Generally statutes in the domicile states of our insurance subsidiaries require prior approval for payment of extraordinary as opposed to ordinary dividends. At December 31, 2001, our

United States insurance subsidiaries could pay up to $60.3 million during the following 12 months under the ordinary dividend regulations without prior regulatory approval.

United Kingdom and Lloyd's Regulation. With the enactment of the Financial Services and Markets Bill, the United Kingdom government authorized the Financial Services Authority (FSA) to supervise all securities, banking and insurance businesses, including Lloyd's. The FSA oversees compliance with established periodic auditing and reporting requirements, minimum solvency margins, dividend restrictions, restrictions governing the appointment of key officers, restrictions governing controlling ownership interests and various other requirements.

We are required to seek approval from the FSA for any dividends from Terra Nova. In addition both Markel Capital and Markel Syndicate Management are subject to regulation and supervision by the Council of Lloyd's (the Council). The Council prescribes, in respect of each business, certain minimum standards relating to management and control, solvency, risk-based capital and various other requirements.

Ratings

Financial stability and strength are important purchase considerations of policyholders and insurance agents and brokers. Because an insurance premium paid today purchases coverage for losses that might not be paid for many years, the financial viability of the insurer is of critical concern.Various independent rating agencies provide information and assign ratings to assist buyers in their search for financially sound insurers. Rating agencies periodically re-evaluate assigned ratings based upon changes in the insurer's operating results, financial condition or other significant factors influencing the insurer's business. Changes in assigned ratings could have an adverse impact on an insurer's ability to write new business.

A.M. Best Company (Best) assigns financial strength ratings (FSRs) to P&C insurance companies based on quantitative criteria such as profitability, leverage and liquidity, as well as qualitative assessments such as the spread of risk, the adequacy and soundness of reinsurance, the quality and estimated market value of assets, the adequacy of loss reserves and surplus and the competence, experience and integrity of management. Best's FSRs range from "A++" (superior) to "F" (in liquidation).

S&P also provides analytical and statistical information on the solvency and liquidity of major insurance companies. S&P's FSRs concern only the likelihood of timely payment of policyholder obligations and are not intended to refer to the ability of either the rated company or its parent or subsidiary to pay non-policy obligations such as debt or commercial paper. The S&P FSRs range from "AAA" (extremely strong financial security) to "CC" (extremely weak financial security).

Best has assigned our domestic insurance subsidiaries a group rating of "A" (excellent). In addition our domestic insurance subsidiaries are rated "A-" (strong) by S&P. Best and S&P rate the Lloyd's Market as a group and do not in all cases rate individual syndicates. Lloyd's is rated "A-" (excellent) by Best and "A" (strong) by S&P.

Best rates Markel International's insurance company subsidiaries as follows:
- Terra Nova Insurance Company Limited -- "B++" (very good)
- Terra Nova (Bermuda) Insurance Company Ltd. -- "B+" (very good)

S&P rates Markel International's insurance company subsidiaries as follows:
- Terra Nova Insurance Company Limited -- "A-" (strong)
- Terra Nova (Bermuda) Insurance Company Ltd. -- "BBB" (good)

S&P has placed a "negative outlook" on the FSRs of our insurance subsidiaries. A "negative outlook" signifies that upon completion of a ratings review, the rating agency may affirm or downgrade our ratings. The negative outlook is the result of underwriting losses at Markel International since its acquisition.

Associates

At December 31, 2001, we had 1,622 employees, seven of whom were executive officers. Of that total, our Markel North America operations had 1,066 associates and Markel International had 556 associates.

As a service organization, our continued profitability and growth are dependent upon the talent and enthusiasm our associates bring to their jobs. We have structured incentive compensation plans and stock purchase plans to encourage associates to achieve corporate objectives and think and act like owners. Associates are offered many opportunities to become shareholders. Every associate eligible to participate in Markel North America's 401(k) plan receives one-third of our contribution in Markel stock and may purchase stock with their own contributions. Stock may be acquired through a payroll deduction plan, and associates have been given the opportunity to purchase stock with loans financed by us with a partially subsidized interest rate. Under our incentive compensation plans, associates may earn a meaningful bonus based on individual and company performance. At December 31, 2001, we estimate associates' ownership, including executive officers and directors, at approximately 15% of our outstanding shares. We believe that employee stock ownership and rewarding value-added performance aligns associates' interests with the interests of non-employee shareholders.

|27

Markel Corporation & Subsidiaries

SELECTED FINANCIAL DATA (dollars in millions, except per share data) (1)

	2001	2000	1999
RESULTS OF OPERATIONS			
Earned premiums	$ 1,207	$ 939	$ 4
Net investment income	171	154	
Total operating revenues	1,397	1,094	5
Net income (loss)	(126)	(28)	
Comprehensive income (loss)	(77)	81	(

FINANCIAL POSITION (2)

Total investments and cash	$ 3,591	$ 3,136	$ 1,6
Total assets	6,441	5,473	2,4
Unpaid losses and loss adjustment expenses	3,700	3,037	1,3
Convertible notes payable	116	--	
Long-term debt	265	573	1
8.71% Capital Securities	150	150	1
Shareholders' equity	1,085	752	3

OTHER OPERATING DATA PER DILUTED SHARE (3)

Core operations	$ (13.13)	$ (2.31)	$ 8.
Net realized gains (losses)	1.52	0.14	(0.
Nonrecurring items	--	1.16	
Amortization of intangible assets	(3.12)	(2.98)	(0.
Net income (loss)	$ (14.73)	$ (3.99)	$ 7.

PER SHARE DATA

Common shares outstanding (in thousands)	9,820	7,331	5,5
Total investments and cash	$ 365.70	$427.79	$290.
Book value	$ 110.50	$102.63	$ 68.
Growth (decline) in book value	8%	50%	(
5-Year CAGR in book value (4)	18%	21%	
Closing stock price	$ 179.65	$181.00	$155.

RATIO ANALYSIS

U.S. GAAP combined ratio	124%	114%	1
Investment yield (5)	5%	6%	
Taxable equivalent total investment return (6)	8%	12%	
Debt to total capital (Capital Securities as debt)	33%	49%	
Debt to total capital (Capital Securities as equity) (7)	24%	39%	

(1) Reflects the acquisitions of Gryphon Holding Inc. (January 15, 1999) and Terra Nova (Bermuda) Holdings Ltd. (March 24, 2000) using the purchase method of accounting. Also reflects the issuance in 2001 of 2.5 million common shares with net proceeds of $408 million.

(2) The change in accounting for net unrealized gains (losses) on fixed maturities in accordance with provisions of Statement of Financial Accounting Standards No. 115 affects 1993 and subsequent years.

(3) In evaluating its operating performance, the Company focuses on core underwriting and investing results (core operations) before considering net gains or losses from the sale of investments, amortization expense and any nonrecurring items. These measures do not replace operating income (loss) or net income (loss) computed in accordance with U.S. GAAP as a measure of profitability.

1998	1997	1996	1995	1994	1993	1992	10-Year CAGR (4)
$ 333	$ 333	$ 307	$ 285	$ 243	$ 193	$ 153	23%
71	69	51	43	29	24	27	19%
426	419	367	344	280	235	206	20%
57	50	47	34	19	24	26	--
68	92	56	75	(10)	34	26	--
$ 1,483	$ 1,410	$ 1,142	$ 927	$ 622	$ 609	$ 457	23%
1,921	1,870	1,605	1,315	1,103	1,135	1,129	25%
934	971	936	734	653	688	733	--
--	--	--	--	--	--	--	--
93	93	115	107	101	78	101	--
150	150	--	--	--	--	--	--
425	357	268	213	139	151	109	29%
$ 8.10	$ 7.43	$ 6.03	$ 5.15	$ 3.77	$ 3.31	$ 3.03	--
2.37	1.82	0.58	1.39	0.45	1.83	0.89	--
--	--	2.05	--	--	--	1.90	--
(0.30)	(0.33)	(0.36)	(0.39)	(0.89)	(0.91)	(1.18)	--
$ 10.17	$ 8.92	$ 8.30	$ 6.15	$ 3.33	$ 4.23	$ 4.64	--
5,522	5,474	5,458	5,422	5,387	5,414	5,403	--
$268.49	$257.51	$209.20	$170.95	$115.45	$112.55	$84.64	16%
$ 77.02	$ 65.18	$ 49.16	$ 39.37	$ 25.71	$ 27.83	$20.24	22%
18%	33%	25%	53%	(8%)	38%	30%	--
23%	26%	26%	31%	17%	25%	34%	--
$181.00	$156.13	$ 90.00	$ 75.50	$ 41.50	$ 39.38	$31.25	--
98%	99%	100%	99%	97%	97%	97%	--
5%	5%	5%	6%	5%	5%	6%	--
9%	13%	8%	16%	(1%)	12%	8%	--
36%	41%	--	--	--	--	--	--
14%	16%	30%	33%	42%	34%	48%	--

(4) CAGR--compound annual growth rate.

(5) Investment yield reflects net investment income as a percent of average invested assets.

(6) Taxable equivalent total investment return includes net investment income,

net realized investment gains or losses and the change in market value of the investment portfolio during the period as a percentage of average invested assets. Tax-exempt interest and dividend payments are grossed up using the United States corporate tax rate to reflect an equivalent taxable yield. Taxable equivalent total investment return also includes the effect of foreign currency exchange movements.

(7) The 8.71% Capital Securities contain equity-like features including the Company's option to defer interest payments for five years and a 49-year term. Due to these unique features, the Company considers the 8.71% Capital Securities as 100% equity.

Markel Corporation & Subsidiaries

CONSOLIDATED BALANCE SHEETS

	De
	2001
	(dolla
ASSETS	
Investments, available-for-sale, at estimated fair value	
Fixed maturities (cost of $2,620,418 in 2001 and $2,322,616 in 2000)	$ 2,686,076
Equity securities (cost of $341,631 in 2001 and $291,385 in 2000)	543,554
Short-term investments (estimated fair value approximates cost)	64,791
TOTAL INVESTMENTS, AVAILABLE-FOR-SALE	3,294,421
Cash and cash equivalents	296,781
Receivables	236,402
Accrued premium income	135,674
Reinsurance recoverable on unpaid losses	1,397,202
Reinsurance recoverable on paid losses	171,810
Deferred policy acquisition costs	140,707
Prepaid reinsurance premiums	170,246
Intangible assets	372,128
Other assets	225,257
TOTAL ASSETS	$ 6,440,628
LIABILITIES AND SHAREHOLDERS' EQUITY	
Unpaid losses and loss adjustment expenses	$ 3,699,973
Unearned premiums	806,922
Payables to insurance companies	169,570
Convertible notes payable (estimated fair value of $117,000)	116,022
Long-term debt (estimated fair value of $262,000 in 2001 and $569,000 in 2000)	264,998
Other liabilities	148,035
Company-Obligated Mandatorily Redeemable Preferred Capital Securities of Subsidiary Trust Holding Solely Junior Subordinated Deferrable Interest Debentures of Markel Corporation (estimated fair value of $108,000 in 2001 and $131,000 in 2000)	150,000

TOTAL LIABILITIES	5,355,520
Shareholders' equity	
Common stock	735,569
Retained earnings	176,252
Accumulated other comprehensive income	
Net unrealized holding gains on fixed maturities and equity securities, net of taxes of $93,653 in 2001 and $66,897 in 2000	173,928
Cumulative translation adjustments, net of tax benefit of $345 in 2001 and tax expense of $120 in 2000	(641)
TOTAL SHAREHOLDERS' EQUITY	1,085,108
Commitments and contingencies	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 6,440,628

See accompanying notes to consolidated financial statements.

30|

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2001	2000	1999
	(dollars in thousands, except per share		
OPERATING REVENUES			
Earned premiums	$ 1,206,684	$ 938,543	$ 437,
Net investment income	170,722	154,186	87,
Net realized gains (losses) from investment sales	20,006	1,478	(
Other	--	276	
TOTAL OPERATING REVENUES	1,397,412	1,094,483	524,
OPERATING EXPENSES			
Losses and loss adjustment expenses	1,049,421	731,531	283,
Underwriting, acquisition and insurance expenses	450,859	339,089	156,
Amortization of intangible assets	30,683	23,321	5,
TOTAL OPERATING EXPENSES	1,530,963	1,093,941	445,
OPERATING INCOME (LOSS)	(133,551)	542	78,
Interest expense	48,647	52,348	25,
INCOME (LOSS) BEFORE INCOME TAXES	(182,198)	(51,806)	53,
Income tax expense (benefit)	(56,481)	(24,214)	12,
NET INCOME (LOSS)	$ (125,717)	$ (27,592)	$ 40,

OTHER COMPREHENSIVE INCOME (LOSS)			
Unrealized gains (losses) on securities, net of taxes			
Net holding gains (losses) arising during the period	$ 62,695	$ 109,829	$ (81,
Less reclassification adjustments for gains (losses) included in net income (loss)	(13,003)	(961)	
Net unrealized gains (losses)	49,692	108,868	(80,
Currency translation adjustments, net of taxes	(863)	222	
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	48,829	109,090	(80,
COMPREHENSIVE INCOME (LOSS)	$ (76,888)	$ 81,498	$ (40,
NET INCOME (LOSS) PER SHARE			
Basic	$ (14.73)	$ (3.99)	$ 7
Diluted	$ (14.73)	$ (3.99)	$ 7

See accompanying notes to consolidated financial statements.

|31

Markel Corporation & Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income
			(in thousands)	
Shareholders' Equity at January 1, 1999	5,522	$ 25,415	$ 303,878	$ 96,008
Net income	--	--	40,614	--
Net unrealized holding losses arising during the period, net of taxes	--	--	--	(80,640)
Comprehensive loss				
Issuance of common stock	81	210	--	--
Repurchase of common stock	(13)	--	(2,066)	--
Shareholders' Equity at December 31, 1999	5,590	25,625	342,426	15,368
Net loss	--	--	(27,592)	--
Net unrealized holding gains arising during the period, net of taxes	--	--	--	108,868
Currency translation adjustments, net of taxes	--	--	--	222
Comprehensive income				
Issuance of common stock	1,848	300,289	--	--
Repurchase of common stock	(107)	--	(12,834)	--
Shareholders' Equity at December 31, 2000	7,331	325,914	302,000	124,458
Net loss	--	--	(125,717)	--
Net unrealized holding gains				

arising during the period, net of taxes	--	--	--	49,692
Currency translation adjustments,				
net of taxes	--	--	--	(863)
Comprehensive loss				
Issuance of common stock	2,501	409,655	--	--
Repurchase of common stock	(12)	--	(31)	--
SHAREHOLDERS' EQUITY AT DECEMBER 31, 2001	9,820	$735,569	$ 176,252	$ 173,287

See accompanying notes to consolidated financial statements.

32|

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended D	
	2001	200
	(dollars in tho	
OPERATING ACTIVITIES		
Net income (loss)	$ (125,717)	$ (27
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Deferred income tax expense (benefit)	(76,201)	(18
Depreciation and amortization	41,913	32
Net realized (gains) losses from investment sales	(20,006)	(1
Decrease (increase) in receivables	(13,288)	49
Decrease in accrued premium income	24,374	127
Decrease (increase) in deferred policy acquisition costs	(10,063)	17
Increase (decrease) in unpaid losses and loss adjustment expenses, net	198,388	13
Increase (decrease) in unearned premiums, net	74,285	(116
Increase (decrease) in payables to insurance companies	31,328	(9
Increase (decrease) in accrued expenses	7,581	3
Increase (decrease) in other liabilities	10,832	(23
Increase (decrease) in current income taxes	9,106	21
Other	11,934	19
NET CASH PROVIDED BY OPERATING ACTIVITIES	164,466	89
INVESTING ACTIVITIES		
Proceeds from sales of fixed maturities and equity securities	914,082	830
Proceeds from maturities of fixed maturities	136,685	73
Cost of fixed maturities and equity securities purchased	(1,382,792)	(891
Net change in short-term investments	15,919	6
Acquisitions of insurance companies, net of cash acquired	--	(208
Sales of insurance companies, net of cash sold	--	12
Additions to property and equipment	(8,510)	(19
Other	(3,877)	(5
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(328,493)	(201

FINANCING ACTIVITIES		
Additions to long-term debt and convertible notes payable	147,943	370
Repayments and repurchases of long-term debt	(344,786)	(128
Issuance of common stock	407,532	
Other	(201)	(8
NET CASH PROVIDED BY FINANCING ACTIVITIES	210,488	233
Increase in cash and cash equivalents	46,461	121
Cash and cash equivalents at beginning of year	250,320	129
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 296,781	$ 250

See accompanying notes to consolidated financial statements.

|33

Markel Corporation & Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Markel Corporation underwrites insurance products and programs to niche markets and operates in four areas of the specialty insurance market. Markel Corporation operates domestically in the Excess and Surplus Lines Market and the Specialty Admitted Market (Markel North America). Markel Corporation also operates in the London Company Market and the Lloyd's Market through its wholly-owned subsidiary, Terra Nova (Bermuda) Holdings Ltd., which was acquired on March 24, 2000 (referred to in these notes to consolidated financial statements as Markel International or Terra Nova (Bermuda) Holdings Ltd.). See note 18 for a further discussion of changes made at Markel International as of January 1, 2002 and the impact of those changes on Markel Corporation's operations in the London Insurance Market.

a) Basis of Presentation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of Markel Corporation and all subsidiaries (the Company). All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications of prior years' amounts have been made to conform with 2001 presentations.

The Company participates in the Lloyd's Market through its corporate capital provider, Markel Capital Limited (Markel Capital), a wholly-owned subsidiary of Markel International. Markel Syndicate Management Limited (Markel Syndicate Management), a wholly-owned subsidiary of Markel International, manages the Company's syndicates at Lloyd's. Beginning January 1, 2001, Markel Capital provides 100% of the capacity to the Company's syndicates. For years of account prior to 2001, the Company has recorded its pro rata share of syndicates' assets, liabilities, revenues and expenses.

The Company makes adjustments to convert Lloyd's accounting to U.S. GAAP. Lloyd's syndicates determine underwriting results by year of account over a three-year period. The Company records adjustments to recognize the ultimate underwriting results, including the expected ultimate written and earned premiums and losses incurred.

b) Use of Estimates. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews its estimates and assumptions including the adequacy of reserves for unpaid losses and loss adjustment expenses, reinsurance allowance for doubtful accounts and litigation liabilities, as well as the recoverability of deferred tax assets, deferred policy acquisition costs and intangible assets. Actual results may differ from the estimates and assumptions used in preparing the consolidated financial statements.

c) Investments. All investments are considered available-for-sale and are recorded at estimated fair value, generally based on quoted market prices. The net unrealized gains or losses on investments, net of deferred income taxes, are included in accumulated other comprehensive income in shareholders' equity. A decline in the fair value of any investment below cost that is deemed other than temporary is charged to earnings, resulting in a new cost basis for the security.

Premiums and discounts are amortized or accreted over the lives of the related fixed maturities as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned. Realized gains or losses are included in earnings and are derived using the first in, first out method.

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1. Summary of Significant Accounting Policies (continued)

d) Cash Equivalents. The Company considers all investments with original maturities of 90 days or less to be cash equivalents.

e) Accrued Premium Income. Accrued premium income represents the difference between the estimated cumulative ultimate gross written premiums and cumulative billed premiums.

f) Deferred Policy Acquisition Costs. Costs directly related to the acquisition of insurance premiums, such as commissions to agents and brokers, are deferred and amortized over the related policy period, generally one year. To the extent that future policy revenues on existing policies are not adequate to cover related costs and expenses, deferred policy acquisition costs are charged to earnings. The Company does not consider anticipated investment income in determining whether a premium deficiency exists.

g) Property and Equipment. Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment are calculated using the straight-line method over the estimated useful lives.

h) Intangible Assets. Policy renewal rights represent the value attributable to renewal rights for lines of businesses acquired and are amortized using the straight-line method over the estimated lives of the businesses acquired, generally three years. The cost of purchasing Lloyd's capacity is amortized using the straight-line method over three years. Goodwill is amortized using the straight-line method, generally over 20 to 40 years. The Company assesses the recoverability of goodwill by determining whether the amortization of the balance over its remaining life can be recovered through the undiscounted future operating cash flows of the acquired operations. See note 23 for a discussion of adopting Financial Accounting Standards Board Statement of Financial Accounting Standards (Statement) No. 141, Business Combinations, and Statement No. 142, Goodwill and Other Intangible Assets.

i) Revenue Recognition. Insurance premiums are earned on a pro rata basis over the policy period, generally one year. The cost of reinsurance is initially recorded as prepaid reinsurance premiums and is amortized over the reinsurance contract period in proportion to the amount of insurance protection provided. Profit-sharing commissions from reinsurers are recognized when earned, based on reserve development studies, and are netted against policy acquisition costs. Premiums ceded are netted against premiums written.

j) Unpaid Losses and Loss Adjustment Expenses. Unpaid losses and loss adjustment expenses are based on evaluations of reported claims and estimates for losses and loss adjustment expenses incurred but not reported. Estimates for losses and loss adjustment expenses incurred but not reported are based on reserve development studies. The reserves recorded are estimates, and the ultimate liability may be greater than or less than the estimates; however, management believes the reserves are adequate.

k) Derivative Financial Instruments. Effective January 1, 2001, the Company adopted the provisions of Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as