

## TO OUR SHAREHOLDERS

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After being privately owned for 56 years, Markel Corporation completed its initial public stock offering in December 1986. In this, our first annual report as a public company, we will try to give you an overview of the Corporation, our 1986 results, and our plans and goals for the future.

Prior to our public offering, Milton and Stanley Markel resigned as Chairman and Vice-Chairman of the Board, respectively. They will, however, continue to serve in an advisory capacity. Milton and Stanley joined Markel over 50 years ago and their knowledge and expertise has contributed significantly to our success.

Soon after the public offering, we expanded our Board of Directors by electing V. Prem Watsa and Stewart M. Kasen as Directors. Mr. Watsa is the principal of a prominent Toronto based investment counseling firm and is Chairman of the Board of Markel Financial Holdings Limited, an affiliated Canadian corporation. Mr. Kasen is President and Chief Executive Officer of Thalheimer Brothers, Inc., a leading department store chain based in Richmond, Virginia. We are honored that Messrs. Watsa and Kasen have agreed to serve on our Board and look forward to their advice and counsel in the years to come.

In 1986, our financial results were the best in our history. Total operating revenues increased to \$33.3 million, an increase of 45% over 1985. Income before realized investment gains totaled \$4.7 million as compared to \$899,000 in 1985. Net income was \$5.0 million as compared to \$1.0 million in 1985. On a per share basis, income before realized investment gains was \$1.52 in 1986 as compared to \$0.27 in 1985. Net income per common share was \$1.61 in 1986 and \$0.32 in 1985. The 1986 results include a gain on the sale of real estate of \$0.17 per share.

Our 1986 results demonstrate the advantage of our corporate strategy of specialization and diversification. Three of our operating divisions experienced excellent results. The fourth, our claims administration operation, had disappointing results, reporting a net loss in 1986. We are convinced, however, that this segment of our business has a promising future and are very pleased that Edmund Langhorne has joined us as President of our claims division.

The insurance marketplace remained very tight throughout 1986, with price levels increasing and some lines of coverage difficult to obtain. This market contributed to our excellent results as we were able to obtain increased prices with less competition. While the insurance industry is now demonstrating signs of recovery, we do not expect a significantly different marketplace in 1987.

Our strategy for the future is to continue applying the principles that have proven successful for us in the past. We are a marketing oriented insurance organization. We focus on customer needs and solving customer problems. To do this effectively, we specialize in unique market niches where our expertise enables us to be the very best.

The success of this marketing strategy relies on the unique technical skills and performance of individuals. We strive to maintain an atmosphere conducive to personal growth and achievement which proves beneficial to the individual employee and to the Corporation.

We expect to continue the growth and development of each area of our operation, to supplement this growth by developing new specialty products and to look for and take advantage of acquisition opportunities.

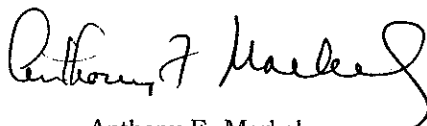
Our long range goal is to continue our growth at a rate of at least 20% per year and to earn an annual return on equity in excess of 20%. While this is an ambitious goal, and one that few companies actually achieve, it is one we will diligently work toward.

We wish to thank each of our shareholders for the vote of confidence you have expressed by your purchase of Markel Corporation stock. As shareholders ourselves, we can assure you that we will strive to make your investment profitable.

Sincerely,



Alan I. Kirshner  
PRESIDENT AND  
CHAIRMAN OF THE BOARD



Anthony F. Markel  
EXECUTIVE  
VICE PRESIDENT



Steven A. Markel  
EXECUTIVE  
VICE PRESIDENT