TO OUR SHAREHOLDERS

We completed our first full year as a public company with very successful results. Once again, our diversification strategy proved valid. Our claims, underwriting, and equity investments exceeded their goals, more than offsetting the results of the brokerage division which fell short.

Net income for 1987 was $6.6 million, a 33% increase over 1986. On a per share basis, this was $1.82 as compared to $1.61, an increase of only 13% due to the larger number of shares outstanding. More importantly, our return on average shareholders' equity was 35%, well in excess of our long-term goal of 20%.

Total operating revenues increased 17.2% in 1987, reaching $39 million. Operating income was $6.9 million, a 31.3% increase over 1986. After tax, but before realized investment gains, income was $6 million, or $1.65 per share as compared to $4.7 million, or $1.52 per share in 1986.

The results of our brokerage operation were somewhat less than we had hoped, as revenues were flat and several products were down due to increased rate competition. We earned significant contingent commissions in 1987, as the result of placing profitable business in prior years. Unfortunately, contingent commissions are difficult to predict and we cannot plan for them in the future.

Our claims operations completed an excellent year with revenues increasing 13%, to $11.3 million. More importantly, most of this increase was reflected in the bottom line as we reversed the loss shown in 1986.

The insurance underwriting operations experienced continued success in 1987, as earned premiums grew 41% to $13.4 million and underwriting results remained quite good. The Essex Insurance Company expanded its base of operations and is now authorized to do business in 44 states and the District of Columbia and is represented by 70 producers. Markel American Insurance Company was licensed in Virginia and is now in business.

Markel owns a 21.6% equity interest in Fairfax Financial Holdings Limited, a Canadian holding company based in Toronto. Fairfax owns Markel Insurance Company of Canada, the oldest and largest specialty insurer for the Canadian trucking industry; Sphere Reinsurance Company, a specialty company in the reinsurance of Canadian property risks; and a 53% interest in Morden & Helwig, the largest independent claims administration firm in Canada. Our equity in the earnings of Fairfax was $1.6 million in 1987, as compared to $1.2 million in 1986.

On December 14, 1987, Markel and Morden & Helwig acquired Lindsey & Newsom Insurance Adjusters, Inc., headquartered in Tyler, Texas. Our objective is to develop a full service international claims adjusting and claims management operation. Bob Irwin, President, built Lindsey & Newsom into the leading claims operation in Texas and will be instrumental in leading the project to merge our various claims operations. Our growth potential in this business is significant and we look forward to an exciting future.

On December 29, 1987, after months of negotiation, Markel and Fairfax each purchased 35% of Shand Morahan and Evanston Services. The Shand/Evanston Group is a leading insurance organization providing professional and product liability insurance. In 1987, earned premiums were $105.4 million and assets were $542.7 million. The group has an exceptionally strong reputation for its professionalism and we are impressed with Joe Prochaska, Chairman and Chief Executive Officer of the companies. The terms of this acquisition were very favorable, and we are excited about the potential returns from this investment.

When you review our balance sheet, you will note some very significant changes from last year. Our investment in the Shand/ Evanston Group ($4.9 million) is shown as an increase in "Investments in unconsolidated subsidiaries." This investment will be accounted for on an equity basis which means we will only report our equity in the earnings of this investment. We, of course, expect this to be quite healthy.

Our investment in Lindsey & Newsom is accounted for by consolidating its results with ours. This is due to the fact that we own or control more than 50% of this operation. Therefore, our December 31, 1987 balance sheet includes the accounts of Lindsey & Newsom. One particular item to note is goodwill in the amount of $5.9 million. This represents the first time we have ever shown goodwill, reflected on our balance sheet as "Excess of cost over fair value of net assets acquired." Because the claims business is a service business, with relatively low capital needs, good cash flow, and low book values, the acquisition of strong companies in the claims business must be made at prices in excess of book value.

One additional comment about the balance sheet is in order. To finance the two acquisitions, we have borrowed $12 million, at what we believe to be very favorable terms. We are generally adverse to carrying a significant amount of debt and our goal is to repay it as soon as possible.

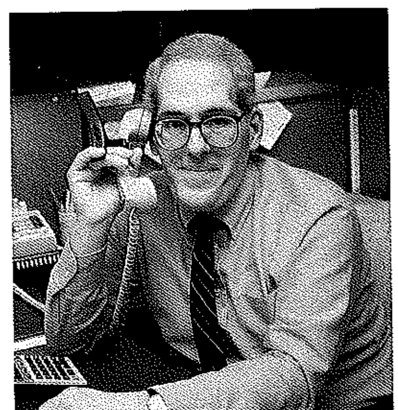
In managing our business, we focus on Marketing, Human Resources and Financial goals. This past year we restated these goals in the form of our Corporate values, "The Markel Style." While our organization enjoys the talents of a diverse group of individuals, we share the same goals and corporate values—our commitment to success. We have included "The Markel Style" in this annual report because we believe these ideals and standards set us apart from the crowd.

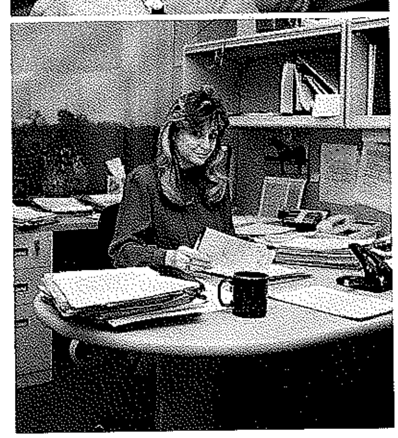
During the past year we have met with numerous investors. One of the most frequently asked questions is, "What can go wrong?" In managing our business we always try to minimize the downside risk, but, unfortunately, it is impossible to eliminate all risk.

The three most significant risks on which we are constantly focused are the insurance cycle, estimating loss reserves, and that associated with expansion to help achieve our growth objectives.

The insurance industry has historically been very cyclical, with insurance rates rising and falling to levels unrelated to actual costs. Rates increased dramatically in 1985 and 1986, and coverage was often difficult to obtain. The cycle is now moving in the other direction with insurance rates falling and competition increasing. To deal with these cycles, our continuing strategy is to specialize in diverse areas of the insurance market. By specializing, we seek to become the market leader in unique niches of the business. We believe, by participating in claims, brokerage and underwriting, and by focusing on diverse products, an adverse cycle will not affect all of our business at the same time.

The second major risk is in estimating loss reserves. During the early 1980s, the cost of settling claims escalated to unexpected levels. Many companies learned that they had significantly underestimated actual costs and that their price levels were inadequate. In extreme cases, companies found themselves bankrupt. More often, future earnings were penalized as companies increased loss reserves. To deal with this problem, we try to be as conservative as possible in reserving for our claims. We take advantage of both internal and external actuarial advice. As a result, our historic performance in estimating losses has been good and we believe our reserves are more than adequate.





The third area of risk is that the company is planning to grow, and is always looking at new opportunities. Unfortunately, there is always risk associated with expansion. We believe the greater risk is to stand still. We will work to minimize the risk of growth and expansion and plan to absorb the recent transactions before stepping out again.

Our board of directors was expanded in 1987 with the addition of Edmund G. (Ned) Langhorne, President of National Claims Service, Inc., and Leslie A. (Les) Grandis, a partner in McGuire Woods Battle & Boothe, our corporate counsel. Ned joined the Company in October 1986, and has successfully turned our claims operations around. Les was an important advisor when we went public in late 1986, and led us through a series of legal mazes in completing the two acquisitions in 1987. We welcome both Ned and Les to the Board and thank them for their contributions to the Company.

We are pleased and proud of our 1987 results. Our financial goals will continue to be increasing revenues by 20% and earning a 20% return on equity over an extended period. Our return, and yours, comes from enhancing the value of the Company—because we, like you, are shareholders.

We recognize that our achievements are made possible by the support of our customers, agents, suppliers, shareholders, and most importantly, our people—the nearly 700 men and women of Markel who share our commitment to success and whose dedicated efforts will continue to make a difference in future accomplishments.

Sincerely,

Alan I. Kirshner	Anthony F. Markel	Steven A. Markel
PRESIDENT AND CHAIRMAN OF THE BOARD	EXECUTIVE VICE PRESIDENT	EXECUTIVE VICE PRESIDENT