

2017

To Our Business Partners

At Markel, we aspire to build one of “The World’s Great Companies.”

Here is our annual report to you for 2017. In it, we review the year that just ended, as well as our plans and dreams for the future. We try to write everything that we would want to know about Markel if our roles were reversed.

We define a great company as one that serves its customers, associates, and shareholders, consistently and dependably over time. As we do so we grow in every dimension.

We’re proud of our record over multiple decades, and we are incredibly optimistic about our ability to continue on this path in the future. The design and components of Markel are unique. Our strategy remains the same as what we stated in our initial

annual report as a public company in 1986. Namely, as we said then, “our corporate strategy is one of diversification and specialization.”

We serve customers anywhere and everywhere around the globe. We do so by providing them with insurance and financial backstops to protect them when unforeseen events create havoc. We help them put Humpty Dumpty back together when things fall apart. We also provide customers with an array of necessary industrial equipment, vital information services, housing, personal products, and healthcare services to help them operate their businesses and live life to its fullest.

We serve our associates by operating a “values” based company. The Markel Style describes our unchanging cultural values that we offer to associates of Markel. We provide a home that rewards and celebrates

FINANCIAL HIGHLIGHTS

(in millions, except per share data)

	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total operating revenues	\$ 6,062	5,612	5,370	5,134	4,323	3,000	2,630	2,225	2,069
Gross written premiums	\$ 5,507	4,797	4,633	4,806	3,920	2,514	2,291	1,982	1,906
Combined ratio	105%	92%	89%	95%	97%	97%	102%	97%	95%
Investment portfolio	\$ 20,570	19,059	18,181	18,638	17,612	9,333	8,728	8,224	7,849
Portfolio per share	\$1,479.45	1,365.72	1,302.48	1,334.89	1,259.26	969.23	907.20	846.24	799.34
Net income (loss) to shareholders	\$ 395	456	583	321	281	253	142	267	202
Comprehensive income (loss)									
to shareholders	\$ 1,175	667	233	936	459	504	252	431	591
Shareholders’ equity	\$ 9,504	8,461	7,834	7,595	6,674	3,889	3,388	3,172	2,774
Book value per share	\$ 683.55	606.30	561.23	543.96	477.16	403.85	352.10	326.36	282.55
5-Year CAGR in book value per share ⁽¹⁾	11%	11%	11%	14%	17%	9%	9%	13%	11%

⁽¹⁾ CAGR—compound annual growth rate

creative, hardworking, talented people motivated by the idea of service to our customers. We are explicit about our commitment to integrity and continuous improvement. Our culture is not for everyone, but it is attractive to those who seek what we offer. We've also found that it applies and works all around the world.

We serve our shareholders by producing financial results which reflect our skills at serving our customers and associates. Excellent financial results create the opportunity to grow, to do more, and offer more, over time. Without financial progress, our ability to serve customers and associates disappears.

The 2017 financial statements accompanying this letter provide you with numbers that reflect this year's economic progress towards the goal of "building one of the world's great companies." As is the case with any single year, those numbers tell only part of our story. Over the course of time though, the numbers become more robust and meaningful. They continuously reveal more chapters of the book. The numbers themselves become inseparable threads in a

beautiful tapestry. That tapestry depicts the narrative of "building one of the world's great companies."

We're pleased to report to you that we continued to weave that multi decade tapestry in 2017.

Progress did not take place in a straight line in 2017. It almost never does. This report will appropriately discuss the financial impact of the record setting catastrophes that took place last year. Those financial losses should not obscure or diminish the progress we made in the rest of our insurance operations, our Market Ventures activities, in our investment portfolio, and in the development and continuity of our management team.

At the bottom of the page in this letter we show a table that depicts 21 years of our key financial highlights. The constant and annually recurring review of decades of financial results helps us to remain focused on the long term.

We've made great progress over decades not just in narrow financial terms. Our story demonstrates personal progress and accomplishment for many

2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	20-Year CAGR ⁽¹⁾
\$ 1,977	2,551	2,576	2,200	2,262	2,092	1,770	1,397	1,094	524	426	419	14%
\$ 2,213	2,359	2,536	2,401	2,518	2,572	2,218	1,774	1,132	595	437	423	14%
99%	88%	87%	101%	96%	99%	103%	124%	114%	101%	98%	99%	—
\$ 6,893	7,775	7,524	6,588	6,317	5,350	4,314	3,591	3,136	1,625	1,483	1,410	14%
\$702.34	780.84	752.80	672.34	641.49	543.31	438.79	365.70	427.79	290.69	268.49	257.51	9%
\$ (59)	406	393	148	165	123	75	(126)	(28)	41	57	50	11%
\$ (403)	337	551	64	273	222	73	(77)	82	(40)	68	92	14%
\$ 2,181	2,641	2,296	1,705	1,657	1,382	1,159	1,085	752	383	425	357	18%
\$222.20	265.26	229.78	174.04	168.22	140.38	117.89	110.50	102.63	68.59	77.02	65.18	12%
10%	18%	16%	11%	20%	13%	13%	18%	21%	22%	23%	26%	—

people. It is a composite story of resilience, adaptability, creativity, dependability, and conservatism. And it is a story which carries the implication of continuity and replicability into the future. The story of Markel is one of excellent initial design, and thousands of subsequent actions, ideas, and iterations, which keep our story moving forward every single day.

In 1997 at the beginning of this 21 year chart we reported that we had 830 associates.

As we write this letter, there are over 15,000.

Over the last two decades, 14,000 additional people have joined the ranks of your company. We've built an organization in which our people can grow, learn new skills, take on new challenges, and fully utilize their abilities. We've also created opportunities for more and more people to join us in our quest. A virtuous cycle of serving our customers effectively and efficiently and producing sound financial results while doing so creates this dynamic. "Rinse and repeat", as it says on the shampoo bottle.

It is a joy to report this record of growth over time and we appreciate the associates, the customers, and the providers of capital, who made it possible.

2017 Review

In 2017 we produced total revenues of \$6.1 billion vs \$5.6 billion in 2016, up 8%. Our insurance premiums totaled \$4.2 billion vs \$3.9 billion, an increase of 10%. Our Markel Ventures operations produced revenues of \$1.3 billion vs \$1.2 billion, an increase of 10%. We earned 10% on our publicly traded

investment portfolio with returns of 26% on our equity holdings and 3% on our fixed income holdings.

We produced an overall underwriting loss of \$205 million in 2017 vs underwriting profits of \$317 million in 2016 and Markel Ventures EBITDA was \$178 million in 2017 vs \$165 million last year. In total our comprehensive income was \$1.2 billion in 2017 vs \$667 million in 2016 and we repurchased \$111 million of our own common stock during the course of the year.

When we write this letter, we look back at previous letters to give us a sense of how we've talked in years past. It is easy to see words and phrases such as "transformational", or "watershed events" in previous annual reports. If we knew then, what we know now, we might have saved those words for years like 2017. We hope by the time you finish reading this report that you'll understand why we are using those words again.

Here are the headlines from 2017:

- 1- 2017 broke the financial record for the highest ever total level of insured catastrophes. Hurricanes Harvey, Irma, Maria and Nate, along with wildfires in California, earthquakes in Mexico, cyclones in Asia, weather and crop damage in Europe, and other events caused record financial losses
- 2- We acquired SureTec and State National in our insurance operations
- 3- We acquired Costa Farms in our Markel Venture operations
- 4- We made these substantial acquisitions on our base of internal equity capital and each share of your Markel stock owns a bigger business than it did a year ago

5- We worked diligently to improve the efficiency and effectiveness of our existing and new operations

6- We earned record returns in our investment operations

In total, your company grew by roughly one quarter in total size and scale during 2017 with major acquisitions in our insurance and Markel Ventures businesses. We responded to, and served our insurance customers effectively as they experienced record natural catastrophes, and we earned record investment returns.

2017 stands as a transformational and watershed year for Markel (yet again).

Taking each one of these items in order, here is a review of the headlines.

1- CATS, CATS, CATS

We wish that we were talking about internet videos with this headline but unfortunately that is not the case. In the insurance business, catastrophic events get described with the shorthand term of CATs. 2017 set a new high water mark for the record books. Financially, the insured loss toll exceeded every other single year in human history.

Total industry losses from hurricanes Harvey, Irma and Maria along with the wildfires in California, earthquakes in Mexico, cyclones in Asia, and European weather events, currently are expected to exceed \$135 billion. As such, it is not surprising that our losses from these events also set a new record. We paid out claims of \$159 million in response to the catastrophic losses suffered by our customers, with

total expected losses of \$565 million. Across all our lines of insurance coverages we paid out \$2.2 billion in 2017 to help our customers recover from difficult events.

The good news is that these payments demonstrate that our customers can count on us in their time of need. This is why people buy insurance in the first place. It also speaks to why we manage Markel in a conservative and prudent way. We do so in order to have the ability to respond quickly, and appropriately, to help our customers get back on their feet. We keep our promises.

In each and every period of heavy catastrophes, we've learned something about how to improve our operations. We've learned how to better select and accept risks, and how to price those risks more appropriately. It is important to note that despite the large dollar amount of our losses in 2017, those amounts were in line with our estimates of what we expected in the event of major catastrophes.

As we continue to offer insurance to our customers to protect them in the event of catastrophic events, we continue to iterate and adjust our prices and exposures. If events become more common and more costly, we adjust our prices accordingly, to maintain the financial resources needed to pay claims when they occur.

We also provide coverage and protect our clients more efficiently and cost effectively than they could on their own. We do so by maintaining a spread of geographically dispersed exposures. Events in one area tend not to affect other geographic areas. By collecting and managing a pool of insurance risks

and premiums from all around the world, we can effectively offer protection and insurance to individual policyholders at an efficient cost to our policyholders. The geographic spread, in and of itself, creates an efficiency that allows us to offer protection to our clients at a lower cost.

Great companies do things "for their customers" rather than "to their customers" and our ability to efficiently operate a diverse pool of catastrophic risk creates the ability to serve our customers better and more efficiently than they could do themselves.

2- SureTec and State National Acquisitions

During the course of 2017 we acquired SureTec and State National. These two additions represent new and substantial venues to continue our longstanding strategy of specialization and diversification. SureTec brings specialized knowledge of the surety market, a unique and critical insurance function, which we previously had not been able to offer to our clients in a meaningful way. State National also brings new skills and specialized insurance services with their historical knowledge of certain insurance management and program services, as well as collateral protection products.

Both companies are experts and leaders in their respective fields. By joining Markel, both companies will be able to increase the amount of business they write, add specialized knowledge to better serve our clients, and help us continue on our path of diversification. The diversification adds margins of safety to our financial strength and performance, which stands behind our promises to our clients.

Both companies contacted Markel when they considered their own futures. Our longstanding reputation and performance in helping companies flourish and grow, and our culture of integrity and continuous improvement, created the opportunity for us to engage in discussions with both firms.

In the case of SureTec, the founder John Knox, contacted us directly, as he believed that Markel would offer the best option for SureTec and its associates to grow and continue to build the value of the firm.

John and his team did a wonderful job of launching SureTec in 1998 and growing a successful surety operation. SureTec's largest markets are in their home state of Texas, along with California. While they do business in many other states as well, as part of Markel, they will immediately be able to expand the distribution and awareness of their surety products to Markel's existing nationwide client base.

We already do business with many of the agents, contractors, and current and potential customers of SureTec, and our ability to help them grow through access to our distribution channels and customer base creates a win-win situation for SureTec and Markel. John and his SureTec team win by knowing that their firm will be part of the permanent capital structure of Markel. They can grow and provide long term potential for their current and future associates with the larger and long term base of Markel capital.

We at Markel win by adding surety to our array of insurance products and services. Surety requires specialized expertise and we can serve our customers

more fulsomely by adding the surety skills that are now part of Markel.

State National also stands as a strategically valuable and important addition to Markel. The Ledbetter family built State National over two generations. They provided two primary lines of business. In one line, State National served as a “fronting” company for other property and casualty insurance companies. In the other line, they offered collateral protection insurance that works to protect credit unions and their customers.

In the fronting business, State National often works with insurers experiencing some vulnerability, or risks, to their ratings and marketplace acceptance. State National would stand in the shoes of their insurance company clients, and provide services and assurance to regulators and rating agencies, that the client insurance companies could, and would, maintain appropriate levels of service and financial stability.

In developing the skills to provide these important services, State National also developed the skills to assist the growing “Fintech” and venture capital funded entrants in the insurance industry. These new participants often have unique marketing skills, risk pricing abilities, and product packaging and design approaches. At the same time, they often do not have the array of licenses required to offer insurance products or financial strength ratings to provide comfort to potential buyers.

State National can work with those firms to solve their challenges of regulatory and financial rating agency requirements. By partnering, State National and the newer entrants into the insurance business can

combine to offer new and unique insurance products that are fully and appropriately regulated, and reviewed by government and rating agency personnel.

As part of the larger Markel organization, State National can continue to expand the size and scale of their offerings and we can learn about the ways in which technology continues to change the fundamental nature of insurance pricing, marketing, and distribution. This acquisition adds additional sets of specialized skills to Markel and further diversifies the set of products we can offer our customers.

3- Costa Farms

Costa Farms is the largest grower of houseplants in the world. You can find their plants on the shelves of the leading home improvement and general merchandise retailers as well as online. The company is in its third generation of Costa family leadership and generation four is in the building.

The Costa family demonstrates everything that can be wonderful about a family business. In their words they talk about the foundation of “customers, culture, and growth.” With that focus, starting from scratch, three generations built a wonderful business. They work each day to make themselves indispensable to their customers, and they keep a long term focus. All of these activities stem from, and go hand in hand with, building a business that you expect to continue into future generations. Short cuts, and short term time horizons, have no place when this mentality pervades your business.

Just as is the case at Markel, this mindset goes beyond people with the same last name or blood lines. Family becomes a matter of choice as associates join a firm and choose to live with the same long term values.

To be an associate of Markel is to be a member of the “Markel Family” in a figurative sense. We all share the same basic values and commitment to long term success. We were pleased that the Costa family saw this culture at Markel and sought us out as partners to help them to continue to build their business in the future.

Costa stands as the largest acquisition to date for Markel Ventures. They have the specialized knowledge and skills to grow more than 100 million plants per year in varied locations, and get those living, breathing products onto store shelves, or delivered to your home and office, all around the country. They are the leading firm in their industry, and we expect that they will continue to grow organically (please pardon the pun) and inorganically. We provide capital, and a time horizon, that matches the generational views of the Costa family.

The Costa acquisition represents a new level of size and scope for Markel Ventures. We are excited to continue to add specialized knowledge and skills to Markel and to provide additional margin of safety to our customers, associates, and shareholders.

4- Acquisition Financing

I’m pleased to report to you that we paid for the acquisitions of SureTec, Costa, and State National with cash. We issued no dilutive equity to fund these purchases. These deals increase the size and revenue footprint of Markel by about a quarter. This is a

substantial increase in our size and scale, and we were able to pay for these purchases without additional equity financing.

At the same time as we funded these acquisitions, we began making record levels of claims payments to our policyholders from the CAT losses and normal insurance operations. We believe this combination of activities and events stands as strong evidence of our financial strength, investment excellence, and conservative financial practices. We were in a financial position to pay record claim losses and execute *three* substantial acquisitions all in the space of the same year. Additionally, our financial position enables us to fully seek and accept property insurance risks in the post CAT environment of higher pricing and prospectively better financial returns.

We work every day to build and protect our financial strength. Those daily activities over many years paid off in 2017 as demonstrated by our ability to take advantage of these opportunities to grow.

Separately, we raised \$300 million of 30 year fixed rate financing at 4.30% in the fourth quarter. We believe that the ability to lock in such a long term, fixed rate debt makes prudent financial sense and is consistent with the conservative way in which we manage our financial affairs.

5- Operational Developments

Amidst the headlines about the new things that happened at Markel this year it can be easy to forget about the thousands of operational details and improvements that took place in all of our global operations.

In each and every aspect of our insurance and industrial businesses we worked diligently to improve the efficiency by which we serve our clients. We have and continue to focus on using all of the tools in the toolbox labeled “technology”, to build and maintain our competitive position in the world.

In 2017 our expense ratio stood at 37% compared to 39% in the prior year. This progress shows results from our ongoing efforts to increase our internal efficiency and offer our customers the best possible value for their insurance needs.

Our overall combined ratio of 105% reflects the record amount of CAT losses. CATs in total added 13 points to our combined ratio and the change in UK government mandated discount rate applied to our run-off UK auto business added two points to the total.

We remain fully committed to the discipline of underwriting profits. Our long term record of consistency with this goal stands as evidence that we mean it and we fully expect to produce underwriting profits in 2018.

Throughout the organization we continued to increase the tools created by technological developments. We changed the way we offered renewals to existing policyholders, we streamlined internal accounting and financial processes, we adapted our claims process to reflect more granular understanding of policyholder losses, we increased the efficiency and effectiveness of our marketing efforts, and so on and so on and so on.

There are no activities within the Markel organization that are not being actively worked on to be made better. As it says in the Markel Style we look for “a better way to do things.” The most important aspect of that statement is the mindset of continuous improvement that infuses the people of Markel. The tools and technology we use to make that journey change over time but the path is one we’ve been on for decades. We commit to remaining on that path to improvement in every facet of your company.

There are no businesses on planet earth that do not face the same challenge. Any degree of complacency or satisfaction with current processes or ways of doing business has no place in today’s world. There are no elements of any aspect of Markel, in any business, in any country, that are not constantly being refined, reviewed, analyzed, changed and adapted to remain relevant in 2018 and beyond.

6- Investment Results

We earned excellent returns in 2017. We earned 26% on our publicly traded equity portfolio and 3% on our fixed income holdings. The total portfolio earned 10%. In dollar terms, we earned more than \$1 billion of unrealized gains, realized gains and dividends from our public equity holdings and this represents a new record.

The double barreled win is that we also achieved this performance at a cost lower than passive index funds. We manage the vast majority of our investments internally. The total cost of our in house management stands at a single number of basis points.

We believe that we manage our investment operations with a triple play advantage of, ultra-low costs, tax efficiency, and rigorous and continuous intellectual engagement and management of our portfolio holdings. Two of those three aspects are currently popular in the investment world. Specifically, indexing and passive investing are relatively low cost and tax efficient. With our internal management, we keep our costs lower than passive indexers, we operate with tax efficiency, AND, we obsess about what we own and why we own it. We do so in order to attempt to adapt and change as the world changes.

Our multi-decade record of outperformance in our investment results speaks to the effectiveness of our approach.

As we've written every year since 1999 we maintain a four step approach to selecting and managing our equity investments.

1- We look for profitable businesses with excellent long term returns on capital and modest leverage

2- We look for management teams with equal measures of talent and integrity

3- We look for companies that can reinvest their earnings at high rates of return and/or demonstrate skill in acquisitions or other capital management activities

4- We look for these investments at reasonable prices which should produce acceptable returns over time

That approach and formula has not changed since our initial public offering in 1986 and despite the swirling pace of change in so many aspects of life, we believe the philosophy remains completely relevant and durable. We continue to find productive ways to invest our capital. In the short run, anything can and will happen and results will be volatile. In the long run, we've earned spectacular returns with this time-tested approach and we're confident in our ability to continue to do so.

In our fixed income operations we maintain the highest possible credit quality holdings we can find. We match the duration and currencies of our holdings to our expectations of our insurance liabilities. This has been our longstanding and consistent practice and it has served us well. We also believe the approach is low cost and durable in the future.

In total, our net unrealized gains from this longstanding approach stood at \$3.7 billion at year end. With the change in the tax law that occurred during the fourth quarter of 2017, we reduced the deferred taxes associated with these gains and increased shareholders equity by \$402 million due to the reduction in the U.S. corporate tax rate from 35% to 21%.

Next

The spectacular news about Markel is that there is always a chapter that starts with the headline NEXT.

From the very beginning of our firm, with Sam Markel's creative solution to a customer need, the entire history of this company has been figuring out what to do next.

We've done so by following the precepts of the Markel Style. As the Style says, we've worked hard. We've pursued excellence, we've kept our sense of humor, and we've adhered to a creed of honesty and fairness in all our dealings. We've done so on a daily basis for years and we will do it the next day as well.

We tested our design and fundamental strategy of specialization and diversification in 2017. While a record amount of catastrophic losses took place worldwide, our insurance operations were able to absorb those losses. At the same time, our investment and industrial operations produced excellent financial results, and we maintained overall comprehensive profitability for the company. We look forward to the next results from our varied operations as we expect them to reveal the same story of long term progress.

We followed our process of using our financial resources to support organic growth in our existing businesses, acquiring new companies, adding to our investment portfolio of publicly traded securities and repurchasing our own stock. We will follow those same four steps next year and the year after that.

2017 indeed stands as a transformational year in our longstanding goal to build one of "The World's Great Companies." There have been transformational and watershed years in our past and we aspire to more in the years to come.

Next.

Respectfully submitted,



Alan I. Kirshner, *Executive Chairman*



Anthony F. Markel, *Vice Chairman*



Steven A. Markel, *Vice Chairman*



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



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