
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED
SEPTEMBER 30, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO

Commission File Number 001-15811

MARKEL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

54-1959284
(I.R.S. employer
identification number)

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

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

NONE
(Former name, former address and former fiscal year,
if changed since last report)

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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of the registrant's common stock outstanding at October 31, 2003: 9,846,284

Markel Corporation
Form 10-Q
Index

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

| | September 30, 2003 | December 31, 2002 |
|---|-----------------------|----------------------|
| <i>(dollars in thousands)</i> | | |
| ASSETS | | |
| Investments, available-for-sale, at estimated fair value | | |
| Fixed maturities (cost of \$3,594,616 in 2003 and \$3,119,814 in 2002) | \$ 3,714,150 | \$3,251,186 |
| Equity securities (cost of \$557,561 in 2003 and \$406,635 in 2002) | 805,068 | 550,909 |
| Short-term investments (estimated fair value approximates cost) | 104,033 | 67,821 |
| | <u>4,623,251</u> | <u>3,869,916</u> |
| Cash and cash equivalents | 370,434 | 444,236 |
| Receivables | 442,168 | 408,542 |
| Reinsurance recoverable on unpaid losses | 1,503,014 | 1,586,128 |
| Reinsurance recoverable on paid losses | 148,479 | 144,751 |
| Deferred policy acquisition costs | 190,573 | 150,547 |
| Prepaid reinsurance premiums | 228,523 | 219,665 |
| Intangible assets | 357,317 | 361,444 |
| Other assets | 197,653 | 223,331 |
| | <u>8,061,412</u> | <u>\$7,408,560</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Unpaid losses and loss adjustment expenses | \$ 4,647,026 | \$4,366,803 |
| Unearned premiums | 1,079,790 | 937,364 |
| Payables to insurance companies | 138,033 | 122,191 |
| Convertible notes payable (estimated fair value of \$98,000 in 2003 and \$89,000 in 2002) | 89,466 | 86,109 |
| Long-term debt (estimated fair value of \$517,000 in 2003 and \$415,000 in 2002) | 478,049 | 404,384 |
| Other liabilities | 177,003 | 182,598 |
| Company-Obligated Mandatorily Redeemable Preferred Capital Securities of Subsidiary Trust Holding Solely Junior Subordinated Deferrable Interest Debentures of Markel Corporation (estimated fair value of \$152,000 in 2003 and \$118,000 in 2002) | 150,000 | 150,000 |
| | <u>6,759,367</u> | <u>6,249,449</u> |
| Shareholders' equity | | |
| Common stock | 737,044 | 736,246 |
| Retained earnings | 330,322 | 251,568 |
| Accumulated other comprehensive income | | |
| Net unrealized holding gains on fixed maturities and equity securities, net of tax expense of \$128,464 in 2003 and \$96,476 in 2002 | 238,577 | 179,170 |
| Cumulative translation adjustments, net of tax benefit of \$2,099 in 2003 and \$4,239 in 2002 | (3,898) | (7,873) |
| | <u>1,302,045</u> | <u>1,159,111</u> |
| Commitments and contingencies | | |
| | <u>\$ 8,061,412</u> | <u>\$7,408,560</u> |

See accompanying notes to consolidated financial statements.

MARKEL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Income (Loss)

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|-----------------|------------------------------------|------------------|
| | 2003 | 2002 | 2003 | 2002 |
| <i>(dollars in thousands, except per share data)</i> | | | | |
| OPERATING REVENUES | | | | |
| Earned premiums | \$475,995 | \$417,253 | \$1,347,221 | \$1,091,068 |
| Net investment income | 46,379 | 42,853 | 137,079 | 126,893 |
| Net realized gains (losses) from investment sales | (7,360) | 25,982 | 35,843 | 43,077 |
| Total Operating Revenues | 515,014 | 486,088 | 1,520,143 | 1,261,038 |
| OPERATING EXPENSES | | | | |
| Losses and loss adjustment expenses | 378,868 | 324,438 | 938,820 | 798,162 |
| Underwriting, acquisition and insurance expenses | 147,102 | 135,343 | 420,895 | 348,261 |
| Amortization of intangible assets | — | 2,629 | 4,127 | 8,055 |
| Total Operating Expenses | 525,970 | 462,410 | 1,363,842 | 1,154,478 |
| Operating Income (Loss) | (10,956) | 23,678 | 156,301 | 106,560 |
| Interest expense | 13,720 | 10,078 | 38,756 | 30,031 |
| Income (Loss) Before Income Taxes | (24,676) | 13,600 | 117,545 | 76,529 |
| Income tax expense (benefit) | (8,143) | 4,896 | 38,790 | 27,551 |
| Net Income (Loss) | \$ (16,533) | \$ 8,704 | \$ 78,755 | \$ 48,978 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Unrealized gains (losses) on securities, net of taxes | | | | |
| Net holding gains (losses) arising during the period | \$ (13,224) | \$ 27,627 | \$ 82,705 | \$ 37,138 |
| Less reclassification adjustments for gains (losses) included in net income (loss) | 4,784 | (16,888) | (23,298) | (28,000) |
| Net unrealized gains (losses) | (8,440) | 10,739 | 59,407 | 9,138 |
| Currency translation adjustments, net of taxes | (2,750) | (12,066) | 3,975 | (8,781) |
| Total Other Comprehensive Income (Loss) | (11,190) | (1,327) | 63,382 | 357 |
| Comprehensive Income (Loss) | \$ (27,723) | \$ 7,377 | \$ 142,137 | \$ 49,335 |
| NET INCOME (LOSS) PER SHARE | | | | |
| Basic | \$ (1.68) | \$ 0.89 | \$ 8.00 | \$ 4.99 |
| Diluted | \$ (1.68) | \$ 0.88 | \$ 7.99 | \$ 4.97 |

See accompanying notes to consolidated financial statements.

MARKEL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Shareholders' Equity

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------------------|
| | 2003 | 2002 |
| | <i>(dollars in thousands)</i> | |
| Common Stock | | |
| Balance at beginning of period | \$ 736,246 | \$ 735,569 |
| Issuance of common stock and other equity transactions | 798 | 669 |
| Balance at end of period | <u>\$ 737,044</u> | <u>\$ 736,238</u> |
| Retained Earnings | | |
| Balance at beginning of period | \$ 251,568 | \$ 176,252 |
| Net income | 78,755 | 48,978 |
| Repurchase of common stock | (1) | (6) |
| Balance at end of period | <u>\$ 330,322</u> | <u>\$ 225,224</u> |
| Accumulated Other Comprehensive Income | | |
| Unrealized gains | | |
| Balance at beginning of period | \$ 179,170 | \$ 173,928 |
| Net unrealized holding gains arising during the period, net of taxes | 59,407 | 9,138 |
| Balance at end of period | <u>238,577</u> | <u>183,066</u> |
| Cumulative translation adjustments | | |
| Balance at beginning of period | (7,873) | (641) |
| Translation adjustments, net of taxes | 3,975 | (8,781) |
| Balance at end of period | <u>(3,898)</u> | <u>(9,422)</u> |
| Balance at end of period | <u>\$ 234,679</u> | <u>\$ 173,644</u> |
| Shareholders' Equity at End of Period | <u>\$1,302,045</u> | <u>\$1,135,106</u> |

See accompanying notes to consolidated financial statements.

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Nine Months Ended September 30, | |
|--|------------------------------------|-------------------|
| | 2003 | 2002 |
| | <i>(dollars in thousands)</i> | |
| OPERATING ACTIVITIES | | |
| Net Income | \$ 78,755 | \$ 48,978 |
| Adjustments to reconcile net income to net cash provided by operating activities | 371,997 | 314,053 |
| Net Cash Provided By Operating Activities | 450,752 | 363,031 |
| INVESTING ACTIVITIES | | |
| Proceeds from sales of fixed maturities and equity securities | 3,398,346 | 1,510,373 |
| Proceeds from maturities, calls and prepayments of fixed maturities | 185,442 | 68,252 |
| Cost of fixed maturities and equity securities purchased | (4,141,915) | (1,683,467) |
| Net change in short-term investments | (36,212) | (127,280) |
| Other | (3,294) | (9,409) |
| Net Cash Used By Investing Activities | (597,633) | (241,531) |
| FINANCING ACTIVITIES | | |
| Additions to long-term debt | 247,282 | 165,000 |
| Repayments and repurchases of long-term debt and convertible notes payable | (175,000) | (167,833) |
| Other | 797 | 157 |
| Net Cash Provided (Used) By Financing Activities | 73,079 | (2,676) |
| Increase (decrease) in cash and cash equivalents | (73,802) | 118,824 |
| Cash and cash equivalents at beginning of period | 444,236 | 296,781 |
| Cash and Cash Equivalents at End of Period | \$ 370,434 | \$ 415,605 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – September 30, 2003

1. Principles of Consolidation

The consolidated balance sheet as of September 30, 2003, the related consolidated statements of operations and comprehensive income (loss) for the quarters and nine months ended September 30, 2003 and 2002, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the nine months ended September 30, 2003 and 2002, are unaudited. In the opinion of management, all adjustments necessary for fair presentation of such consolidated financial statements have been included. Such adjustments consist only of normal recurring items. Interim results are not necessarily indicative of results of operations for the full year. The consolidated balance sheet as of December 31, 2002, was derived from the Company's audited annual consolidated financial statements.

The consolidated financial statements and notes are presented as permitted by Form 10-Q, and do not contain certain information included in the Company's annual consolidated financial statements and notes. Readers are urged to review the Company's 2002 annual report on Form 10-K for a more complete description of the Company's business and accounting policies.

Certain reclassifications of prior year's amounts have been made to conform with 2003 presentations.

2. Net Income (Loss) per share

Net income (loss) per share was determined by dividing net income (loss) by the applicable shares outstanding (in thousands):

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|---------|------------------------------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| Net income (loss), as reported (basic and diluted) | \$(16,533) | \$8,704 | \$78,755 | \$48,978 |
| Average common shares outstanding | 9,845 | 9,828 | 9,841 | 9,822 |
| Dilutive potential common shares | — | 28 | 18 | 30 |
| Average diluted shares outstanding | 9,845 | 9,856 | 9,859 | 9,852 |

The average diluted shares outstanding excluded 15,287 dilutive potential shares for the quarter ended September 30, 2003. These shares were excluded due to their antidilutive effect as a result of the Company's net loss for the quarter ended September 30, 2003.

3. Stock Compensation Plans

The Company applies the intrinsic value recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, in accounting for stock based compensation plans. The Company has adopted the disclosure-only provisions of Statement No. 123, *Accounting for Stock Based Compensation*, as amended.

Stock based compensation cost, net of taxes, included in net income (loss) under APB Opinion No. 25 was \$0.1 million and \$0.5 million, respectively, for the quarter and nine months ended September 30, 2003 and \$0.1

3. Stock Compensation Plans (continued)

million and \$0.4 million, respectively, for the same periods in 2002. Under the fair value method principles of Statement No. 123, pro forma stock based compensation cost, net of taxes, and pro forma net income (loss) would not have differed from reported amounts for the quarter and nine month period ended September 30, 2003. Pro forma stock based compensation cost, net of taxes, and pro forma net income would have differed from reported amounts by less than \$0.1 million for the quarter and nine month period ended September 30, 2002. The pro forma impact of stock options issued after 1994 had no effect on basic or diluted net income (loss) per share in the periods presented.

4. Reinsurance

The table below summarizes the effect of reinsurance on premiums written and earned (dollars in thousands):

| | Quarter Ended September 30, | | | |
|---------------------|-----------------------------|-------------------|-------------------|-------------------|
| | 2003 | | 2002 | |
| | Written | Earned | Written | Earned |
| Direct | \$ 645,600 | \$ 595,705 | \$ 566,432 | \$ 494,009 |
| Assumed | 25,834 | 29,578 | 36,976 | 35,599 |
| Ceded | (147,650) | (149,288) | (198,640) | (112,355) |
| Net premiums | \$ 523,784 | \$ 475,995 | \$ 404,768 | \$ 417,253 |

| | Nine Months Ended September 30, | | | |
|---------------------|---------------------------------|--------------------|--------------------|--------------------|
| | 2003 | | 2002 | |
| | Written | Earned | Written | Earned |
| Direct | \$1,814,409 | \$1,707,705 | \$1,523,563 | \$1,344,546 |
| Assumed | 120,616 | 92,379 | 122,206 | 72,377 |
| Ceded | (460,407) | (452,863) | (463,713) | (325,855) |
| Net premiums | \$1,474,618 | \$1,347,221 | \$1,182,056 | \$1,091,068 |

Incurred losses and loss adjustment expenses are net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of \$56.3 million and \$149.0 million, respectively, for the quarters ended September 30, 2003 and 2002 and \$156.4 million and \$307.9 million, respectively, for the nine months ended September 30, 2003 and 2002.

5. Company Obligated Mandatorily Redeemable Preferred Securities (8.71% Capital Securities)

On January 8, 1997, the Company arranged the sale of \$150 million of 8.71% Capital Securities issued under an Amended and Restated Declaration of Trust dated January 13, 1997 (the Declaration) by Markel Capital Trust I (the Trust), a statutory business trust sponsored and wholly-owned by the Company. Proceeds from the sale of the 8.71% Capital Securities were used to purchase \$154,640,000 aggregate principal amount of the Company's 8.71% Junior Subordinated Deferrable Interest Debentures (the Debentures) due January 1, 2046, issued to the Trust under an indenture dated January 13, 1997 (the Indenture). The Debentures are the sole assets of the Trust. The Company has the right to defer interest payments on the Debentures for up to five years. The 8.71% Capital Securities and related Debentures are redeemable by the Company on or after January 1, 2007. Taken together, the Company's obligations under the Debentures, the Indenture, the Declaration and a guarantee made by the Company provide, in the aggregate, a full, irrevocable and unconditional guarantee of payments of distributions and other amounts due on the 8.71% Capital Securities.

6. Convertible Notes Payable

During 2001 the Company issued \$408.0 million principal amount at maturity, \$112.9 million net proceeds, of Liquid Yield Option Notes™ (LYONs). The LYONs are zero coupon senior notes convertible into the Company's common shares under certain conditions, with an initial conversion price of \$243.53 per common share. The issue price of \$283.19 per LYON represented a yield to maturity of 4.25%. The LYONs mature on June 5, 2031. The Company uses the effective yield method to recognize the accretion of discount from the issue price to the face amount of the LYONs at maturity. The accretion of discount is included in interest expense.

On June 5, 2004, if the price of the Company's common stock is at or below specified thresholds based on a measurement period prior to that date, contingent additional principal will accrue on the LYONs at a rate of either 0.50% or 1.00% per year for a period of two years, depending on the price of the Company's common shares. No contingent additional principal will accrue after June 5, 2006.

The Company will pay contingent cash interest to the holders of the LYONs during the six-month period commencing June 5, 2006 and during any six-month period thereafter if the average market price of a LYON for a specified period equals or exceeds 120% of the sum of the issue price, accrued original issue discount and contingent additional principal, if any, for the LYON.

Each LYON will be convertible into 1.1629 shares of common stock upon the occurrence of any of the following events: if the closing price of the Company's common shares on the New York Stock Exchange exceeds specified levels, if the credit rating of the LYONs is reduced below specified levels, if the Company calls the LYONs for redemption, or if the Company is party to certain mergers or consolidations.

LYONs holders have the right to require the Company to repurchase the LYONs on June 5th of 2004, 2006, 2011, 2016, 2021 and 2026 at their accreted value on these dates as follows:

| | |
|--------------|-----------|
| June 5, 2004 | \$ 321.27 |
| June 5, 2006 | \$ 349.46 |
| June 5, 2011 | \$ 431.24 |
| June 5, 2016 | \$ 532.16 |
| June 5, 2021 | \$ 656.69 |
| June 5, 2026 | \$ 810.36 |

The Company may choose to pay the purchase price for such repurchases in cash or common shares of the Company. The Company may redeem the LYONs for cash on or after June 5, 2006 at their accreted value.

7. Unsecured Senior Notes

On February 25, 2003, the Company issued \$200 million of 6.8% unsecured senior notes due February 15, 2013. The unsecured senior notes were issued under an existing shelf registration statement. Net proceeds to the Company were \$198.0 million and were primarily used to repay \$175.0 million outstanding under the Company's revolving credit facility. On April 10, 2003, the Company issued an additional \$50 million of 6.8% unsecured senior notes, due February 15, 2013, with net proceeds of \$49.3 million.

8. Revolving Credit Facility

On September 30, 2003 the Company arranged a revolving credit facility which provides \$220 million of capacity for working capital and other general corporate purposes. The Company may select from two interest rate options for balances outstanding under the facility. The Company pays a commitment fee (.20% at September 30, 2003) on the unused portion of the facility based on the Company's debt to equity leverage ratio as calculated under the agreement. The facility replaced the Company's previous \$300 million revolving credit facility and expires December 2006.

9. Derivative Financial Instruments

The Company held \$5.2 million and \$100.8 million, respectively, of corporate bonds with embedded put options as of September 30, 2003 and December 31, 2002. These embedded derivatives are clearly and closely related to the host contracts and therefore are not accounted for separately.

10. Segment Reporting Disclosures

The Company operates in three segments of the specialty insurance market: the Excess and Surplus Lines, Specialty Admitted and London Insurance Market.

All investing activities are included in the Investing segment. Discontinued programs and non-strategic insurance subsidiaries are included in Other for purposes of segment reporting.

The Company considers many factors, including the nature of the underwriting units' insurance products, production sources, distribution strategies and regulatory environment in determining how to aggregate operating segments.

Segment profit or (loss) for each of the Company's underwriting segments is measured by underwriting profit or (loss). The property and casualty insurance industry commonly defines underwriting profit or (loss) as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. Underwriting profit or (loss) does not replace operating income (loss) or net income (loss) computed in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as a measure of profitability. Underwriting profit (loss) provides a basis for management to evaluate the Company's underwriting performance. Segment profit for the Investing segment is measured by net investment income, net of expenses, and net realized gains or losses.

The Company does not allocate assets to the Excess and Surplus Lines, Specialty Admitted and London Insurance Market segments for management reporting purposes. The total investment portfolio, cash and cash equivalents are allocated to the Investing segment. The Company does not allocate capital expenditures for long-lived assets to any of its segments for management reporting purposes.

10. Segment Reporting Disclosures (continued)

Following is a summary of segment disclosures (dollars in thousands):

| Quarter Ended September 30, 2003 | | | | | | |
|--|-----------------------------|-----------------------|-------------------------------|-----------|------------|--------------|
| | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Investing | Other | Consolidated |
| Gross premium volume | \$ 398,581 | \$81,095 | \$183,184 | \$ — | \$ 8,574 | \$ 671,434 |
| Net premiums written | 291,435 | 76,991 | 150,257 | — | 5,101 | 523,784 |
| Earned premiums | \$ 266,800 | \$60,467 | \$140,538 | \$ — | \$ 8,190 | \$ 475,995 |
| Losses and loss adjustment expenses | 185,107 | 37,892 | 93,137 | — | 62,732 | 378,868 |
| Underwriting, acquisition and insurance expenses | 80,191 | 16,494 | 49,046 | — | 1,371 | 147,102 |
| Underwriting profit (loss) | 1,502 | 6,081 | (1,645) | — | (55,913) | (49,975) |
| Net investment income | — | — | — | 46,379 | — | 46,379 |
| Net realized losses from investment sales | — | — | — | (7,360) | — | (7,360) |
| Segment profit (loss) | \$ 1,502 | \$ 6,081 | \$ (1,645) | \$39,019 | \$(55,913) | \$ (10,956) |
| Amortization of intangible assets | | | | | | — |
| Interest expense | | | | | | 13,720 |
| Loss before income taxes | | | | | | \$ (24,676) |
| U.S. GAAP combined ratio* | 99% | 90% | 101% | — | 783% | 110% |

| Quarter Ended September 30, 2002 | | | | | | |
|--|-----------------------------|-----------------------|-------------------------------|-----------|------------|--------------|
| | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Investing | Other | Consolidated |
| Gross premium volume | \$ 371,138 | \$73,762 | \$140,219 | \$ — | \$ 18,289 | \$ 603,408 |
| Net premiums written | 251,600 | 68,846 | 72,923 | — | 11,399 | 404,768 |
| Earned premiums | \$ 206,376 | \$49,393 | \$151,147 | \$ — | \$ 10,337 | \$ 417,253 |
| Losses and loss adjustment expenses | 131,473 | 34,296 | 103,287 | — | 55,382 | 324,438 |
| Underwriting, acquisition and insurance expenses | 59,307 | 14,743 | 56,663 | — | 4,630 | 135,343 |
| Underwriting profit (loss) | 15,596 | 354 | (8,803) | — | (49,675) | (42,528) |
| Net investment income | — | — | — | 42,853 | — | 42,853 |
| Net realized gains from investment sales | — | — | — | 25,982 | — | 25,982 |
| Segment profit (loss) | \$ 15,596 | \$ 354 | \$ (8,803) | \$68,835 | \$(49,675) | \$ 26,307 |
| Amortization of intangible assets | | | | | | 2,629 |
| Interest expense | | | | | | 10,078 |
| Income before income taxes | | | | | | \$ 13,600 |
| U.S. GAAP combined ratio* | 92% | 99% | 106% | — | 581% | 110% |

10. Segment Reporting Disclosures (continued)

| Nine Months Ended September 30, 2003 | | | | | | |
|--|-----------------------------|-----------------------|-------------------------------|-----------|------------|--------------|
| | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Investing | Other | Consolidated |
| Gross premium volume | \$1,135,992 | \$212,533 | \$548,762 | \$ — | \$ 37,738 | \$1,935,025 |
| Net premiums written | 812,910 | 199,778 | 435,846 | — | 26,084 | 1,474,618 |
| Earned premiums | \$ 750,716 | \$172,541 | \$404,753 | \$ — | \$ 19,211 | \$1,347,221 |
| Losses and loss adjustment expenses | 480,667 | 105,824 | 268,742 | — | 83,587 | 938,820 |
| Underwriting, acquisition and insurance expenses | 211,878 | 54,908 | 143,977 | — | 10,132 | 420,895 |
| Underwriting profit (loss) | 58,171 | 11,809 | (7,966) | — | (74,508) | (12,494) |
| Net investment income | — | — | — | 137,079 | — | 137,079 |
| Net realized gains from investment sales | — | — | — | 35,843 | — | 35,843 |
| Segment profit (loss) | \$ 58,171 | \$ 11,809 | \$ (7,966) | \$172,922 | \$(74,508) | \$ 160,428 |
| Amortization of intangible assets | | | | | | 4,127 |
| Interest expense | | | | | | 38,756 |
| Income before income taxes | | | | | | \$ 117,545 |
| U.S. GAAP combined ratio* | 92% | 93% | 102% | — | 488% | 101% |

| Nine Months Ended September 30, 2002 | | | | | | |
|--|-----------------------------|-----------------------|-------------------------------|-----------|------------|--------------|
| | Excess and Surplus Lines | Specialty Admitted | London Insurance Market | Investing | Other | Consolidated |
| Gross premium volume | \$ 956,383 | \$182,370 | \$467,204 | \$ — | \$ 39,812 | \$1,645,769 |
| Net premiums written | 649,373 | 170,051 | 328,185 | — | 34,447 | 1,182,056 |
| Earned premiums | \$ 540,163 | \$132,160 | \$393,308 | \$ — | \$ 25,437 | \$1,091,068 |
| Losses and loss adjustment expenses | 353,539 | 89,946 | 278,804 | — | 75,873 | 798,162 |
| Underwriting, acquisition and insurance expenses | 151,808 | 43,651 | 144,199 | — | 8,603 | 348,261 |
| Underwriting profit (loss) | 34,816 | (1,437) | (29,695) | — | (59,039) | (55,355) |
| Net investment income | — | — | — | 126,893 | — | 126,893 |
| Net realized gains from investment sales | — | — | — | 43,077 | — | 43,077 |
| Segment profit (loss) | \$ 34,816 | \$ (1,437) | \$ (29,695) | \$169,970 | \$(59,039) | \$ 114,615 |
| Amortization of intangible assets | | | | | | 8,055 |
| Interest expense | | | | | | 30,031 |
| Income before income taxes | | | | | | \$ 76,529 |
| U.S. GAAP combined ratio* | 94% | 101% | 108% | — | 332% | 105% |

* The U.S. GAAP combined ratio measures the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

10. Segment Reporting Disclosures (continued)

| | As of | |
|-----------------------|-----------------------|----------------------|
| | September 30, 2003 | December 31, 2002 |
| Segment Assets | | |
| Investing | \$4,993,685 | \$4,314,152 |
| Other | 3,067,727 | 3,094,408 |
| Total Assets | \$8,061,412 | \$7,408,560 |

11. Other Comprehensive Income (Loss)

Other comprehensive income (loss) is composed of net holding gains (losses) on securities arising during the period less reclassification adjustments for gains (losses) included in net income (loss). Other comprehensive income (loss) also includes currency translation adjustments. The related tax expense (benefit) on net holding gains (losses) on securities arising during the period was \$(7.1) million and \$44.5 million, respectively, for the quarter and nine months ended September 30, 2003 and \$14.9 million and \$20.0 million, respectively, for the same periods in 2002. The related tax expense (benefit) on the reclassification adjustments for gains (losses) included in net income (loss) was \$(2.6) million and \$12.5 million, respectively, for the quarter and nine months ended September 30, 2003 and \$9.1 million and \$15.1 million, respectively, for the same periods in 2002. The related tax expense (benefit) on the currency translation adjustments was \$(1.5) million and \$2.1 million, respectively, for the quarter and nine months ended September 30, 2003 and \$(6.5) million and \$(4.7) million, respectively, for the same periods in 2002.

12. Goodwill and Other Intangible Assets

The Company completed the transitional goodwill impairment test early in 2002 as required by Financial Accounting Standards Board Statement (Statement) No. 142, *Goodwill and Other Intangible Assets*. Goodwill is also required to be tested annually for impairment under Statement No. 142 and the Company completes its annual test during the fourth quarter of each year based upon the results of operations through September 30th. The Company determined that there was no indication of goodwill impairment at either testing date in 2002.

Acquired Intangible Assets (dollars in thousands):

| | As of September 30, 2003 | | |
|--------------------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized Intangible Assets | | | |
| Lloyd's capacity costs | \$ 31,548 | \$ (31,548) | \$ — |
| Unamortized Intangible Assets | | | |
| Goodwill | \$405,548 | \$ (48,231) | \$357,317 |
| Intangible Assets | \$437,096 | \$ (79,779) | \$357,317 |

12. Goodwill and Other Intangible Assets (continued)

| | As of December 31, 2002 | | |
|--------------------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized Intangible Assets | | | |
| Lloyd's capacity costs | \$ 31,548 | \$ (27,421) | \$ 4,127 |
| Unamortized Intangible Assets | | | |
| Goodwill | \$405,548 | \$ (48,231) | \$357,317 |
| Intangible Assets | \$437,096 | \$ (75,652) | \$361,444 |

Amortizable intangible assets were fully amortized as of June 30, 2003. The amortization expense for intangible assets was \$2.6 million for the quarter ended September 30, 2002. For the nine months ended September 30, 2003, amortization of intangible assets was \$4.1 million compared to \$8.1 million for the same period of 2002.

There were no changes in the carrying amounts of goodwill for the quarter and nine month period ended September 30, 2003. The following table shows the carrying amounts of goodwill by reporting unit at September 30, 2003 (dollars in thousands):

| | Excess and Surplus Lines | London Insurance Market | Total |
|----------------------------------|-----------------------------|-------------------------------|-----------|
| Balance as of September 30, 2003 | \$ 81,770 | \$275,547 | \$357,317 |

13. Contingencies

On January 31, 2001, the Company received notice of a lawsuit filed in the United States District Court of the Southern District of New York against Terra Nova Insurance Company Limited by Palladium Insurance Limited and Bank of America, N.A. seeking approximately \$27 million plus exemplary damages in connection with alleged reinsurance agreements. This matter is still in the discovery phase and is not expected to be ready for trial before 2004. The Company believes it has numerous defenses to these claims, including the defense that the alleged reinsurance agreements and insurance policies were not valid. The Company intends to vigorously defend this matter; however, the outcome cannot be predicted at this time.

The Company has other contingencies that arise in the normal conduct of its operations. In the opinion of management, the resolutions of these contingencies are not expected to have a material impact on the Company's financial condition or results of operations. However, adverse outcomes are possible and could materially impact the Company's financial condition or results of operations.

14. Subsequent Event

On November 1, 2003, the Company's \$67 million of outstanding 7.25% unsecured senior notes matured. The Company drew against its revolving credit facility to fund the obligation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The accompanying Consolidated Financial Statements and related notes have been prepared in accordance with U.S. GAAP and include the accounts of Markel Corporation and all subsidiaries (the Company).

Critical accounting policies are defined as those that are both important to the portrayal of the Company's financial condition and results of operations and require management to exercise significant judgment. 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 material contingent assets and liabilities, including litigation contingencies, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are necessarily based on assumptions about numerous factors.

Management reviews its estimates and assumptions quarterly, including the adequacy of reserves for unpaid losses and loss adjustment expenses, reinsurance allowance for doubtful accounts, as well as, the recoverability of deferred tax assets and intangible assets and the evaluation of the investment portfolio for other than temporary declines in value. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

Unpaid Losses and Loss Adjustment Expenses

The Company accrues liabilities for unpaid losses and loss adjustment expenses based upon estimates of the ultimate amounts payable. As of any balance sheet date, all claims have not yet been reported and some claims may not be reported for many years. As a result, the liability for unpaid losses and loss adjustment expenses includes significant estimates for incurred but not reported claims. Additionally, reported claims are in various stages of the settlement process. Each claim is settled individually based upon its merits and certain claims may take years to settle, especially if legal action is involved.

The Company uses a variety of techniques to establish the liabilities for unpaid losses and loss adjustment expenses, all of which involve significant judgments and assumptions. These techniques include detailed statistical analysis of past claim reporting, settlement activity, claim frequency and severity data, internal loss experience, the experience of clients and industry experience. More judgmental techniques are used in lines when statistical data is insufficient or unavailable. Estimates reflect implicit or explicit assumptions regarding the potential effects of external factors that include economic and social inflation, judicial decisions, law changes and recent trends in these factors. In some of the Company's markets, and where the Company acts as a reinsurer, the timing and amount of information reported about underlying claims is in the control of third parties. This can also affect estimates and cause re-estimation as new information becomes available.

Reinsurance recoverables recorded with respect to insurance losses ceded to reinsurers under reinsurance contracts are also subject to estimation error. In addition to the factors cited above, estimates of reinsurance recoverables may prove uncollectible if the reinsurer is unable or unwilling to perform under the contract. The ceding of insurance does not legally discharge the ceding company from its primary liability for the full amount of the policies, and the ceding company is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligation under the reinsurance agreement.

The Company's consolidated balance sheet at September 30, 2003 includes estimated unpaid losses and loss adjustment expenses of \$4.6 billion and reinsurance recoverable on unpaid losses of \$1.5 billion. Due to inherent uncertainties in estimating these amounts, the actual ultimate amounts may differ from the recorded amounts. Future effects from changes in these estimates will be recorded as a component of loss and loss adjustment expenses in the period of the change.

Deferred Income Taxes

The Company records deferred income taxes as assets or liabilities on its consolidated balance sheet to reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and their respective tax bases. At September 30, 2003, a net deferred tax asset of \$60.4 million, net of a valuation allowance of \$45.8 million, was recorded. The valuation allowance was established upon the acquisition of Markel International and is considered necessary due to the uncertainty of realizing a future tax benefit on pre-acquisition net operating losses. The Company's net operating losses (including pre-acquisition losses) are principally attributable to Markel Capital Limited and can be carried forward indefinitely to offset Markel Capital Limited's future taxable income. In recording this deferred tax asset, management has made estimates and judgments that future taxable income will be sufficient to realize the value of the deferred tax asset.

Intangible Assets

The Company's consolidated balance sheet as of September 30, 2003 includes goodwill of acquired businesses of approximately \$357.3 million. This amount has been recorded as a result of prior business acquisitions accounted for under the purchase method of accounting. Under Financial Accounting Standards Board Statement (Statement) No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually in lieu of amortization. The Company completes its annual test for impairment during the fourth quarter of the year based upon results of operations through September 30th.

A significant amount of judgment is required in performing goodwill impairment tests. Such tests include estimating the fair value of the Company's reporting units. As required by Statement No. 142, the Company compares the estimated fair value of its reporting units with their respective carrying amounts including goodwill. Under Statement No. 142, fair value refers to the amount for which the entire reporting unit may be bought or sold. The Company's methods for estimating reporting unit values include market quotations, asset and liability fair values and other valuation techniques, such as discounted cash flows and multiples of earnings or revenues. With the exception of market quotations, all of these methods involve significant estimates and assumptions.

Investments

The Company completes a detailed analysis each quarter to assess whether the decline in the fair value of any investment below cost is deemed other than temporary. All securities with an unrealized loss are reviewed. Unless other factors cause the Company to reach a contrary conclusion, investments with a fair value of less than 80% of cost for more than 180 days are deemed to have a decline in value that is other than temporary. A decline in value that is considered to be other than temporary is charged to earnings based on the fair value of the security at the time of assessment, resulting in a new cost basis for the security.

Risks and uncertainties are inherent in the Company's other than temporary decline in value assessment methodology. Risks and uncertainties could include but are not limited to: incorrect or overly optimistic assumptions about financial condition or liquidity, incorrect or overly optimistic assumptions about future prospects, inadequacy of any underlying collateral, unfavorable changes in economic or social conditions and unfavorable changes in interest rates or credit ratings.

Results of Operations

Quarter and Nine Months ended September 30, 2003 compared to Quarter and Nine Months ended September 30, 2002

The Company markets and underwrites specialty insurance products and programs to a variety of niche markets. In each of these markets, the Company seeks to be a market leader. The financial goals of the Company are to earn consistent underwriting profits and superior investment returns to build shareholder value.

The Company competes in three segments of the specialty insurance marketplace: Excess & Surplus Lines, Specialty Admitted and the London Insurance Market. The Excess and Surplus Lines segment is comprised of five underwriting units, the Specialty Admitted segment consists of two underwriting units and the London Insurance Market segment is comprised of the ongoing operations of Markel International.

The Excess and Surplus Lines segment writes property and casualty insurance for non-standard and hard-to-place risks including catastrophe-exposed property, professional liability, products liability, general liability, commercial umbrella and other coverages tailored for unique exposures.

The Specialty Admitted segment writes risks that are unique and hard-to-place in the standard market but must remain with an admitted insurance company for marketing and regulatory reasons. The underwriting units in this segment write specialty program insurance for well-defined niche markets and personal and commercial property and liability coverages.

The Company participates in the London Insurance Market through Markel Capital Limited and Markel International Insurance Company Limited (MIICL), two wholly-owned subsidiaries. Markel Capital Limited is the corporate capital provider for Markel Syndicate 3000 at Lloyd's. Markel Syndicate Management Limited, a wholly-owned subsidiary, manages the Company's Lloyd's operations. The London Insurance Market segment writes specialty property, casualty, marine and aviation insurance and reinsurance.

Discontinued lines of business and non-strategic insurance subsidiaries are included in Other for segment reporting purposes. Other consisted primarily of discontinued Markel International programs and Corifrance, a wholly-owned subsidiary, for the quarters and nine month periods ended September 30, 2003 and 2002.

The Company anticipates that all segments of the specialty insurance marketplace in which it competes will continue to provide a favorable environment for its operations. Gross premium growth remains on target to meet the Company's expectations for the full year. While all of the Company's insurance operations continue to achieve rate increases compared to the prior year, rate increases have begun to slow or decline in certain lines of business. These include large direct and reinsurance property accounts, aviation and marine war accounts. The Company believes that the rates being obtained on these books of business are at levels that support its underwriting profit targets. Premium volume may vary significantly if the Company alters its product concentration to maintain or improve underwriting profitability.

Following is a comparison of gross premium volume by underwriting segment:

| Gross Premium Volume | | | Nine Months Ended September 30, | |
|------------------------------------|-------------------|-------------------------------|--|---------------------|
| Quarter Ended September 30, | | | | |
| 2003 | 2002 | <i>(dollars in thousands)</i> | 2003 | 2002 |
| \$398,581 | \$ 371,138 | Excess and Surplus Lines | \$ 1,135,992 | \$ 956,383 |
| 81,095 | 73,762 | Specialty Admitted | 212,533 | 182,370 |
| 183,184 | 140,219 | London Insurance Market | 548,762 | 467,204 |
| 8,574 | 18,289 | Other | 37,738 | 39,812 |
| \$671,434 | \$ 603,408 | Total | \$ 1,935,025 | \$ 1,645,769 |

Third quarter gross premium volume rose 11% to \$671.4 million from \$603.4 million for the same period in 2002. For the nine month period of 2003, gross premium volume grew 18% to \$1.9 billion from \$1.6 billion in the prior year.

Excess and Surplus Lines gross premium volume increased 7% to \$398.6 million in the third quarter of 2003 from \$371.1 million a year ago. For the nine month period, gross premium volume increased 19% to \$1.1 billion in 2003 from \$956.4 million in 2002. The growth in both periods of 2003 was due to price increases in most programs. The most significant areas of growth in both periods of 2003 were in the Investors Brokered Excess and Surplus Lines and the Shand Professional/Products Liability units. Gross premium volume for the Investors Brokered Excess and Surplus Lines unit increased 15% to \$110.4 million in the third quarter of 2003 from \$95.8 million last year. For the nine month period, premium volume for the Investors Brokered Excess and Surplus Lines unit increased 28% to \$310.1 million in 2003 from \$241.5 million in the prior year. The increase in both periods was primarily due to growth in the casualty programs. Shand Professional/Products Liability gross premium volume grew 10% to \$115.1 million in the third quarter of 2003 from \$104.3 million for 2002. For the nine month period, premium volume for Shand Professional/Products Liability unit increased 17% to \$326.8 million in 2003 from \$280.2 million in the prior year. The increase in gross premium volume in both periods was primarily due to growth in the special risk and specified medical programs.

During the third quarter of 2003, submission activity began to slow or decline in certain lines of business within the Excess and Surplus Lines segment, most notably the property programs. The decline in submission activity is the result of the Company's unwillingness to relax underwriting standards by accepting risks at price levels not believed to be adequate to support its underwriting profit targets. The Company does not intend to relax underwriting standards in order to obtain premium volume.

Specialty Admitted Lines gross premium volume in the third quarter of 2003 increased 10% to \$81.1 million compared to \$73.8 million in 2002. For the nine month period, gross premium volume increased 17% to \$212.5 million in 2003 from \$182.4 million in the prior year. The increase in both periods was primarily due to higher submissions and price increases in most programs.

In the third quarter of 2003, gross premium volume for the London Insurance Market segment increased 31% to \$183.2 million from \$140.2 million in 2002. Gross premium volume for the nine months ended September 30, 2003 increased 17% to \$548.8 million compared to \$467.2 million for the same period of 2002. The growth in both periods of 2003 was primarily due to price increases across most programs. The most significant areas of growth were within the professional indemnity and marine and energy underwriting divisions. The increase in both periods of 2003 continued to meet the Company's expectations both in terms of volume and price increases achieved.

During the second quarter of 2003, A.M. Best upgraded the financial strength rating of MIICL to “A-” (excellent) from “B++” (very good). On November 3, 2003, Fitch Ratings upgraded the financial strength rating of MIICL to “A-” (strong) from “BBB+” (good). While the rating upgrades are not anticipated to have a significant impact on total gross premium volume for the London Insurance Market segment, the Company has begun to rebalance its international business by increasing premium writings at MIICL where the underwriting, acquisition and insurance expenses are generally a lower percentage of earned premium than in Market Syndicate 3000.

Other gross written premiums consisted primarily of Corifrance’s writings in both periods of 2003. Gross premium volume in both periods of 2002 for Other consisted of Corifrance’s writings and prior years’ premium increases primarily due to higher actual premium writings than previously estimated.

The Company purchases reinsurance in order to reduce its retention on individual risks and enable it to write policies with sufficient limits to meet policyholder needs. The Company’s underwriting philosophy seeks to offer products with limits that do not require significant amounts of reinsurance. The Company’s net retention of gross premium volume for the third quarter was 78% in 2003 and 67% in 2002. Net retention of gross premium volume for the nine month period was 76% in 2003 and 72% in 2002. The increase in retention rate for both periods of 2003 was primarily due to purchasing lower amounts of reinsurance in 2003 in the Excess and Surplus Lines segment and a shift in product mix from the prior year. In both periods of 2002, the Company’s net retention of gross premium volume was impacted by increased reinsurance costs recognized in the London Insurance Market’s Marine and Energy programs and higher reinsurance costs than originally estimated on prior years’ premium writings.

Total operating revenues for the third quarter of 2003 increased to \$515.0 million from \$486.1 million in the prior year. For the nine month period, operating revenues rose to \$1.5 billion from \$1.3 billion in 2002. The increase in operating revenues for both the third quarter and nine month period of 2003 was primarily the result of higher earned premiums resulting from increasing gross premium volume.

Following is a comparison of earned premiums by underwriting segment:

| Quarter Ended September 30, | | Earned Premiums | Nine Months Ended September 30, | |
|-----------------------------|------------|--------------------------|---------------------------------|--------------|
| 2003 | 2002 | (dollars in thousands) | 2003 | 2002 |
| \$266,800 | \$ 206,376 | Excess and Surplus Lines | \$ 750,716 | \$ 540,163 |
| 60,467 | 49,393 | Specialty Admitted | 172,541 | 132,160 |
| 140,538 | 151,147 | London Insurance Market | 404,753 | 393,308 |
| 8,190 | 10,337 | Other | 19,211 | 25,437 |
| \$475,995 | \$ 417,253 | Total | \$ 1,347,221 | \$ 1,091,068 |

Earned premiums for the third quarter of 2003 increased 14% to \$476.0 million from \$417.3 million for the same period in 2002. For the nine month period, earned premiums grew 23% to \$1.3 billion in 2003 from \$1.1 billion in the prior year.

Excess and Surplus Lines earned premiums for the third quarter of 2003 increased 29% to \$266.8 million from \$206.4 million for the same period in 2002. For the nine month period, Excess and Surplus Lines earned premiums grew 39% to \$750.7 million in 2003 from \$540.2 million in the prior year. The growth in both periods of 2003 was primarily due to higher gross premium volume and higher retentions over the past year in all Excess and Surplus Lines units.

Earned premiums for the Specialty Admitted segment increased 22% to \$60.5 million in the third quarter of 2003 from \$49.4 million for the same period in 2002. For the nine month period, Specialty Admitted earned premiums grew 31% to \$172.5 million in 2003 from \$132.2 million in the prior year. The increase in 2003 for both periods was primarily due to higher gross premium volume in existing lines of business and growth in new programs over the past year.

Earned premiums for London Insurance Market were \$140.5 million for the third quarter of 2003 down 7% from \$151.1 million for the same period in 2002. London Insurance Market earned premiums for the third quarter of 2002 included higher prior years' premium writings than previously estimated. For the nine month period, London Insurance Market earned premiums grew 3% to \$404.8 million in 2003 from \$393.3 million in the prior year. The growth for the nine months ended September 30, 2003 was primarily the result of increased gross premium volume over the past several quarters and higher retentions across most of the underwriting divisions in the London Insurance Market segment.

Other earned premiums decreased in both periods of 2003 primarily due to the run off of discontinued programs. Other earned premiums consists primarily of business written by Corifrance in all periods presented.

Third quarter 2003 net investment income was \$46.4 million compared to \$42.9 million in the prior year. Net investment income for the nine month period ended September 30, 2003 was \$137.1 million compared to \$126.9 million in 2002. In both periods, a larger investment portfolio offset lower investment yields.

In the third quarter of 2003, the Company recognized \$7.4 million of net realized losses compared to \$26.0 million of net realized gains in 2002. For the nine month period of 2003, net realized gains were \$35.8 million compared to net realized gains of \$43.1 million for the same period last year. The Company's investment strategy seeks to maximize total investment returns over a long-term period. The Company's 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.

For the quarter ended September 30, 2003, management determined there were no securities with a decline in value that was other than temporary. For the nine months ended September 30, 2003, net realized gains were partially offset by \$15.0 million of realized losses resulting from the write down of one fixed income security and five equity securities to their estimated fair value. These securities were deemed by management to have a decline in value that was other than temporary. For the quarter and nine months ended September 30, 2002, net realized gains were partially offset by \$2.4 million of realized losses resulting from the write down of one fixed income security. At September 30, 2003, the Company held securities with gross unrealized losses of approximately \$15 million, or significantly less than 1% of the Company's total investments, cash and cash equivalents. At September 30, 2003, all of these securities were reviewed and the Company believes there were no indications of impairment.

Total operating expenses for the third quarter of 2003 were \$526.0 million compared to \$462.4 million in 2002. The increase in total operating expenses in the third quarter of 2003 was primarily the result of loss reserve increases within the Excess and Surplus Lines segment and higher reserve increases for asbestos and environmental exposures than 2002. Total operating expenses for the nine month period of 2003 were \$1.4 billion compared to \$1.2 billion a year ago. The increase for the nine months ended September 30, 2003 was primarily the result of higher premium volume compared to the same period of 2002.

Following is a comparison of selected data from the Company's operations (dollars in thousands):

| | Quarter Ended September 30, | | Nine Months Ended September 30, | |
|--|--------------------------------|-----------|------------------------------------|-------------|
| | 2003 | 2002 | 2003 | 2002 |
| Gross premium volume | \$671,434 | \$603,408 | \$1,935,025 | \$1,645,769 |
| Net premiums written | 523,784 | 404,768 | 1,474,618 | 1,182,056 |
| Net retention | 78% | 67% | 76% | 72% |
| Earned premiums | 475,995 | 417,253 | 1,347,221 | 1,091,068 |
| Losses and loss adjustment expenses | 378,868 | 324,438 | 938,820 | 798,162 |
| Underwriting, acquisition and insurance expenses | 147,102 | 135,343 | 420,895 | 348,261 |
| U.S. GAAP Combined Ratios | | | | |
| Excess and Surplus Lines | 99% | 92% | 92% | 94% |
| Specialty Admitted | 90% | 99% | 93% | 101% |
| London Insurance Market | 101% | 106% | 102% | 108% |
| Other | 783% | 581% | 488% | 332% |
| Markel Corporation (Consolidated) | 110% | 110% | 101% | 105% |

The U.S. GAAP combined ratio measures the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums. A combined ratio of less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. See note 10 of the notes to consolidated financial statements for further discussion of segment underwriting profit (loss).

The Company reported a combined ratio of 110% in the third quarter of 2003 and 2002. For the nine month period of 2003, the Company reported a combined ratio of 101% compared to 105% for the same period of 2002.

The combined ratio for Excess and Surplus Lines was 99% and 92%, respectively, for the third quarter and nine month period of 2003 compared to 92% and 94%, respectively, for the same periods of 2002. The increase in combined ratio for the third quarter of 2003 was primarily the result of loss reserve increases at the Company's Investors Brokered Excess and Surplus Lines unit. The improvement for the nine months ended September 30, 2003 resulted from favorable development on prior years' loss reserves and strong underwriting profits from other underwriting units in the Excess and Surplus Lines segment, partially offset by the prior years' loss reserve increases in the Investors Brokered and Excess Surplus Lines unit.

The Company regularly reviews the claims processes at its business units. During the third quarter of 2003, a review at the Investors Brokered Excess and Surplus Lines unit was initiated and is ongoing. The review highlighted case reserve estimates which did not meet the Company's standards. As a result, the Company has updated its actuarial assumptions and increased loss and loss adjustment expenses, primarily for the 1997-2001 accident years, by \$50 million during the quarter ended September 30, 2003.

The combined ratio for Specialty Admitted was 90% and 93%, respectively, for the third quarter and nine month period of 2003 compared to combined ratios of 99% and 101%, respectively, for the same periods of 2002. The improvement in both periods of 2003 was primarily due to lower current year losses and favorable development of prior years' loss reserves compared to both periods of 2002.

The combined ratio for the London Insurance Market segment improved to 101% and 102%, respectively, for the quarter and nine months ended September 30, 2003 compared to 106% and 108%, respectively, for the same periods of 2002. The improvement in both periods of 2003 has resulted from a combination of lower loss ratios due to improved risk selection, pricing and the appropriate use of reinsurance and lower expense ratios due to lower commissions and expense control. The London Insurance Market segment combined ratio has steadily improved and the London underwriting units continue to work towards their goal of underwriting profitability.

The underwriting loss from Other, which includes discontinued lines of business, was \$55.9 million for the third quarter ended September 30, 2003 compared to an underwriting loss of \$49.7 million in 2002. The Other underwriting loss for the nine month period ended September 30, 2003 was \$74.5 million compared to \$59.0 million for the same period of 2002. Both periods of 2003 included \$55.0 million of reserve increases for asbestos and environmental exposures. Both periods of 2002 included \$35.0 million of reserve increases due to asbestos and environmental exposures and related allowances for reinsurance bad debt and \$9.0 million of reserve increases for reinsurance costs and collections issues for discontinued programs at Markel International.

The increase in prior years' loss reserves in the third quarter of 2003 for asbestos and environmental exposures is being made in response to the Company's annual review of these exposures in both U.S. and international operations. The increase reflects a higher than expected incidence of new claims and recent adverse appellate and bankruptcy court decisions. The need to increase reserves for asbestos and environmental exposures in both 2002 and 2003 demonstrates that these reserves are subject to significant uncertainty due to potential loss severity and frequency resulting from the uncertain and unfavorable legal climate. The Company seeks to establish appropriate reserve levels for asbestos and environmental exposures; however, these reserves could be subject to increases in the future. The Company has established asbestos and environmental reserves without regard to the potential passage of asbestos reform legislation. These reserves are not discounted to present value and are forecasted to pay out over the next 50 years.

Intangible assets, other than goodwill, were fully amortized as of June 30, 2003. For the nine months ended September 30, 2003, amortization of intangible assets was \$4.1 million compared to \$8.1 million for the same period of 2002.

Interest expense was \$13.7 million for the third quarter of 2003 compared to \$10.1 million for the same period of 2002. For the nine month period ended September 30, 2003, interest expense was \$38.8 million compared to \$30.0 million for the same period last year. The increase in both periods is primarily due to the Company's 2003 issuance of \$250 million of 6.80% unsecured senior notes, due February 15, 2013. A portion of the net proceeds was used to repay \$175 million outstanding under the Company's \$300 million revolving credit facility. During the third quarter of 2003, the Company replaced the existing facility with a new revolving credit facility providing \$220 million of capacity. This facility expires December 2006.

For the third quarter and nine months ended September 30, 2003, the Company's effective tax rate was 33% compared to 36% for the third quarter and nine month period of 2002. The decrease was primarily due to the elimination during 2002 of non-deductible interest expense as a result of the exchange of previously issued 7.0% and 7.2% senior notes of Markel International Limited, a wholly-owned subsidiary, for newly issued 7.0% and 7.2% senior notes of the Company. During 2003, the Company also increased investment allocations to tax exempt securities.

Comprehensive loss was \$27.7 million for the third quarter of 2003 compared to comprehensive income of \$7.4 million for the same period of 2002. The comprehensive loss for the third quarter of 2003 was primarily due to lower net income as a result of reserve increases and a decrease in the market value of the Company's investment portfolio partially offset by more favorable currency translation adjustments compared to 2002. For the nine months ended September 30, 2003, comprehensive income was \$142.1 million compared to \$49.3 million in 2002. The improvement was primarily due to a significant increase in the market value of the Company's investment portfolio and higher net income for the nine months ended September 30, 2003 compared to 2002. Comprehensive loss for the third quarter of 2003 included \$2.8 million of losses from currency translation adjustments, net of taxes, compared to losses of \$12.1 million for the same period of 2002. For the nine months ended September 30, 2003, gains from currency translation adjustments, net of taxes, were \$4.0 million compared to losses of \$8.8 million for the same period of 2002. The Company attempts to match assets and liabilities in original currencies to mitigate the impact of currency volatility.

Financial Condition as of September 30, 2003

At September 30, 2003, the Company's investment portfolio increased 16% to \$5.0 billion from \$4.3 billion at December 31, 2002. The Company reported net unrealized gains, net of taxes, on its fixed maturity and equity investments of \$238.6 million at September 30, 2003 compared to \$179.2 million at December 31, 2002. Equity securities were \$805.1 million, or 16% of the total investment portfolio, at September 30, 2003 compared to \$550.9 million, or 13%, at December 31, 2002.

For the nine month period ended September 30, 2003, the Company reported net cash provided by operating activities of \$450.8 million, compared to \$363.0 million for the same period in 2002. The increase in cash provided by operations was primarily due to increased cash flows due to growth in gross premium volume and continued underwriting profitability in the Company's U.S. operations and positive operating cash flows in the Company's international operations during 2003.

For the nine month period ended September 30, 2003, the Company reported net cash used by investing activities of \$597.6 million compared to \$241.5 million in 2002. The increased use of cash for investing activities during 2003 was primarily due to the allocation of increased operating cash flows to the Company's investment portfolio.

For the nine month period ended September 30, 2003, the Company reported net cash provided by financing activities of \$73.1 million compared to net cash used by financing activities of \$2.7 million in 2002. The net cash provided by financing activities during the nine month period ended September 30, 2003 was primarily the result of the debt issuances during the first and second quarters of 2003 partially offset by the repayment of the outstanding balance under the Company's revolving credit facility.

On November 1, 2003, the Company's \$67 million of outstanding 7.25% unsecured senior notes matured. The Company drew against its revolving credit facility to fund the obligation.

During the fourth quarter of 2003, the Company anticipates contributing approximately \$35 million of additional capital to the London Insurance Market segment to support operations. Additionally, holders may require the Company to repurchase up to \$89 million of its convertible notes payable on June 5, 2004. See note 6 to the consolidated financial statements for further discussion of the Company's convertible notes payable. The Company has access to various capital sources including holding company investments and cash, undrawn

capacity under its revolving credit facility and access to the debt and equity capital markets. Management believes the Company has sufficient liquidity to meet its capital needs.

Shareholders' equity at September 30, 2003 was \$1.3 billion compared to \$1.2 billion at December 31, 2002. Book value per common share was \$132.24 at September 30, 2003, compared to \$117.89 at December 31, 2002. The 2003 increase was primarily the result of \$78.8 million of net income and a \$59.4 million increase in net unrealized investment gains, net of taxes, during the nine months ended September 30, 2003.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign exchange rates and commodity prices. The Company's consolidated balance sheets include assets and liabilities whose estimated fair values are subject to market risk. The primary market risks to the Company are equity price risk associated with investments in equity securities, interest rate risk associated with investments in fixed maturities and foreign exchange risk at Markel International. The Company has no material commodity risk.

The Company primarily manages foreign exchange risk by matching assets and liabilities in each foreign currency as closely as possible. Significant estimations and assumptions are required when establishing insurance balances such as reinsurance recoverables and reserves for unpaid losses and loss adjustment expenses. As a result, matching of assets and liabilities by currency is subject to change as actual results emerge.

The Company's market risks at September 30, 2003 have not materially changed from those identified at December 31, 2002.

Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chairman and Chief Executive Officer (CEO) and the Executive Vice President and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15 (Disclosure Controls).

The Company's management, including the CEO and CFO, does not expect that its Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon the Company's controls evaluation, the CEO and CFO have concluded that the Company's Disclosure Controls provide reasonable assurance that the information required to be disclosed by the Company

in its periodic reports is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

During the third quarter of 2003, the Company implemented a new general ledger accounting software package for its U.S. operations. While the Company does not believe that its previous system had any significant deficiencies or material weaknesses the new software provides opportunities for greater efficiency in the Company's business unit, segment and consolidated reporting process. There have been no other changes in the Company's process or system of internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Safe Harbor and Cautionary Statement

This is a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. It also contains general cautionary statements regarding the Company's business, estimates and management assumptions. Future actual results may materially differ from those described in this report because of many factors. Among other things,

- The impact of the events of September 11, 2001 will depend on the number of insureds and reinsureds affected by the events, the amount and timing of losses incurred and reported and questions of how coverage applies;
- The occurrence of additional terrorist activities could have a material impact on the Company and the insurance industry;
- The Company's anticipated premium growth and anticipated improvements in underwriting profitability are based on current knowledge and assume no significant man-made or natural catastrophes, no significant changes in products or personnel and no adverse changes in market conditions;
- The Company is legally required to offer terrorism insurance and has attempted to manage its exposure.

However, in the event of a covered terrorist attack, the Company could sustain material losses;

- Changing legal and social trends and inherent uncertainties in the loss estimation process can adversely impact the adequacy of loss reserves and the allowance for reinsurance recoverables;
- Industry and economic conditions can affect the ability and/or willingness of reinsurers to pay balances due;
- The Company's review of claims processes at the Investors Brokered Excess and Surplus Line unit is ongoing;
- The Company continues to closely monitor discontinued lines and reinsurance programs and exposures. Adverse experience in these areas could lead to additional charges;
- Regulatory actions can impede the Company's ability to charge adequate rates and efficiently allocate capital; and
- Economic conditions, interest rates and foreign exchange rate volatility can have a significant impact on the market value of fixed maturity and equity investments as well as the carrying value of other assets and liabilities.

The Company's premium growth, underwriting and investment results have been and will continue to be potentially materially affected by these factors. Additional factors, which could affect the Company, are discussed in the Company's reports on Forms 8-K, 10-Q and 10-K. By making these forward looking statements, the Company is not intending to become obligated to publicly update or revise any forward looking

statements whether as a result of new information, future events or other changes. Readers are cautioned not to place undue reliance on any forward looking statements, which speak only as at their dates.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

The Exhibits to this Report are listed in the Exhibit Index.

- (b) On July 30, 2003, the Company filed a report on Form 8-K furnishing under Item 7 and Item 12 a copy of the Company's press release announcing second quarter 2003 financial results.

Signatures

Pursuant to the requirements 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, this 5th day of November, 2003.

The Company

By /s/ ALAN I. KIRSHNER

Alan I. Kirshner
Chairman and Chief Executive Officer
(Principal Executive Officer)

By /s/ ANTHONY F. MARKEL

Anthony F. Markel
President
(Principal Operating Officer)

By /s/ STEVEN A. MARKEL

Steven A. Markel
Vice Chairman

By /s/ DARRELL D. MARTIN

Darrell D. Martin
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

Exhibit Index

| <u>Number</u> | <u>Description</u> |
|---------------|---|
| 3(i) | Amended and Restated Articles of Incorporation, as amended (3.1)a |
| 3(ii) | Bylaws, as amended (4.2)b |
| 4 | Credit Agreement dated September 30, 2003, among Markel Corporation, the lenders named therein and SunTrust Bank, as Administrative Agent The registrant hereby agrees to furnish to the Securities and Exchange Commission a copy of all instruments defining the rights of holders of convertible notes payable and long-term debt of the registrant and subsidiaries shown on the Consolidated Balance Sheet of the registrant at September 30, 2003 and the respective Notes thereto, included in the Quarterly Report on Form 10-Q. |
| 10.1 | Description of Amendment to Executive Bonus Plan |
| 31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 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-8 Registration Statement No. 333-107661, dated August 5, 2003. |