
**MARKEL FINANCIAL HOLDINGS LIMITED
and Subsidiaries**

To our Shareholders

1985 was a very significant year for your company. As your new Chairman, I would like to review the major developments and also indicate to you our plans and objectives for the future.

In September 1985, Steven Markel and I concluded a private placement that resulted in \$9.1 Million in additional capital being raised for the company. The capital was raised through the issue of 11¼% voting, convertible, preferred stock, and warrants. The capital was raised as follows:

The Sixty-Two Investment Company Limited	\$5.0 MM
Markel Corp U.S.	2.6 MM
Private Investors	1.5 MM
	<u>\$9.1 MM</u>

This transaction resulted in The Sixty-Two Investment Company Limited acquiring voting control of Markel Financial Holdings Limited.

The Sixty-Two Investment Company Limited is an investment holding company consisting of prominent Canadian businessmen, Confederation Life Insurance Company and myself. With the closing of the private placement in September 1985, Markel Financial Holdings Limited became a Canadian controlled company. Your Board of Directors reflected this change as Robbert Hartog, Jack Herbert, Jim Martin and myself were added on the Board. Milton Markel graciously accepted to continue serving on the Board as Honourary Chairman. Steven Markel, Tony Markel, Fred Kaneb, George Christoff and Robert McDowell also agreed to continue. We are very fortunate to have an active, participating Board.

Why did we invest in Markel? The major reason we did was because of Steven Markel and the Markel family. Even though the company recently went through hard times, we were very impressed with the way the company had been run through the years. During the six months it took to put the deal together. I have personally experienced the high integrity displayed by Steve and the Markel family. You should be proud to have had them manage your company. In fact, if not for Steven and Tony Markel's untiring efforts during the past two years, your company may not have survived. We look on our association with Markel Financial Holdings Limited as a partnership with the Markel family which combines their insurance experience with our investment background.

We are very pleased to report that Keith Ingoe, after spending more than 20 years at Halifax Insurance Company, has joined us as President of Markel Insurance Company of Canada and Markel Service Canada Limited. Additionally, he serves as Executive Vice-President of Markel Financial Holdings Limited. Keith will be running the day-to-day operations of the company. The longer term strategic decisions are made by Keith and Steve.

A word on our investment philosophy:

Our investment philosophy is based on the value approach as laid out by Ben Graham and practiced by his famous disciple, Warren Buffett. This means we buy stocks of financially sound companies at prices below their underlying long term values. We expect to make money over time, not in the next month or two. In fact, in the short term, stock prices could go well below our cost. In our purchases, we are always trying to first protect your capital from long term losses (as opposed to short term price fluctuations) before attempting to make money. We do not speculate with your money and thus, do not buy options, commodities, futures, gold and other short term trading instruments. Over time, our investment philosophy has served us well and we plan to stick with it. In future annual reports we plan on discussing individual purchases in greater detail.

What can you expect from Markel in the future? Our major objective will be to run the company for the long term benefit of all shareholders. As shareholders ourselves, we plan on providing you with the type of information that we ourselves would find useful. This annual report is our first stab at more complete disclosure.

How should you judge our performance? We think all companies should be measured on their after tax return on common shareholders equity. In Canada, the average company has earned about 13% on shareholders equity over many decades. Our objective is to earn a long term return averaging 20%, while maintaining the financial strength of the Company. In the next few years because of tax loss carryforwards, this is unlikely to be onerous. Over the years though, 20% after tax is a very challenging objective.

We are pleased to have you as shareholders and look forward to hearing from you if you have any questions.



V. Prem Watsa,
Chairman of the Board
