SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[ X ] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 1999

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 1-13051

MARKEL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Virginia | 54-0292420 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. employer identification number) |

4551 Cox Road, Glen Allen, Virginia 23060-3382
(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 [ X ] No [ ]

Number of shares of the registrant's common stock outstanding at July 28, 1999: 5,593,091

Markel Corporation
Form 10-Q

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

| | June 30, 1999 | December 31, 1998 |
|---|---|---|
| | *(dollars in thousands)* | |
| **ASSETS** | | |
| Investments, available-for-sale, at estimated fair value | | |
| Fixed maturities (cost of $1,362,218 in 1999 and $1,041,155 in 1998) | $ 1,343,159 | $ 1,070,978 |
| Equity securities (cost of $200,928 in 1999 and $200,004 in 1998) | 309,066 | 317,887 |
| Short-term investments (estimated fair value approximates cost) | 81,442 | 92,228 |
| Total Investments, Available-For-Sale | 1,733,667 | 1,481,093 |
| Cash and cash equivalents | 1,248 | 1,527 |
| Receivables | 105,884 | 68,138 |
| Reinsurance recoverable on unpaid losses | 401,010 | 198,288 |
| Reinsurance recoverable on paid losses | 40,113 | 21,205 |
| Deferred policy acquisition costs | 50,742 | 40,471 |
| Prepaid reinsurance premiums | 75,850 | 42,241 |
| Property and equipment | 10,058 | 7,981 |
| Intangible assets | 98,992 | 35,298 |
| Other assets | 67,457 | 25,022 |
| **Total Assets** | $ 2,585,021 | $ 1,921,264 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Unpaid losses and loss adjustment expenses | $ 1,388,010 | $ 933,830 |
| Unearned premiums | 290,205 | 205,908 |
| Payables to insurance companies | 63,270 | 22,715 |
| Long-term debt (estimated fair value of $197,416 in 1999 and $96,931 in 1998) | 198,245 | 93,219 |
| Other liabilities | 81,373 | 90,291 |
| Company-Obligated Mandatorily Redeemable Preferred Capital Securities of Subsidiary Trust Holding Solely Junior Subordinated Deferrable Interest Debentures of Markel Corporation (estimated fair value of $135,570 in 1999 and $144,453 in 1998) | 150,000 | 150,000 |
| Total Liabilities | 2,171,103 | 1,495,963 |
| Shareholders' equity | | |
| Common stock | 25,572 | 25,415 |
| Retained earnings | 330,445 | 303,878 |
| Accumulated other comprehensive income | | |
| Net unrealized holding gains on fixed maturities and equity securities, net of taxes | 57,901 | 96,008 |
| Total Shareholders' Equity | 413,918 | 425,301 |
| **Total Liabilities and Shareholders' Equity** | $ 2,585,021 | $ 1,921,264 |

See accompanying notes to consolidated financial statements.

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income and Comprehensive Income

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | *(dollars in thousands, except per share data)* | | | |
| **OPERATING REVENUES** | | | | |
| Earned premiums | $ 108,329 | $ 84,526 | $ 216,736 | $ 163,424 |
| Net investment income | 21,659 | 17,158 | 44,310 | 34,728 |
| Net realized gains from investment sales | 1,980 | 6,207 | 9,043 | 9,620 |
| Other | 557 | 257 | 935 | 459 |
| Total Operating Revenues | 132,525 | 108,148 | 271,024 | 208,231 |
| **OPERATING EXPENSES** | | | | |
| Losses and loss adjustment expenses | 68,153 | 53,559 | 138,303 | 103,086 |
| Underwriting, acquisition and insurance expenses | 40,816 | 29,331 | 82,311 | 57,398 |
| Amortization of intangible assets | 1,364 | 508 | 2,620 | 1,017 |
| Total Operating Expenses | 110,333 | 83,398 | 223,234 | 161,501 |
| Operating Income | 22,192 | 24,750 | 47,790 | 46,730 |
| Interest expense | 6,528 | 5,097 | 12,818 | 10,181 |
| Income Before Income Taxes | 15,664 | 19,653 | 34,972 | 36,549 |
| Income tax expense | 3,759 | 4,717 | 8,393 | 8,772 |
| **Net Income** | $ 11,905 | $ 14,936 | $ 26,579 | $ 27,777 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Unrealized gains (losses) on securities, net of taxes | | | | |
| Net unrealized holding gains (losses) arising during the period | $ (14,359) | $ 863 | $ (32,229) | $ 22,114 |
| Less reclassification adjustments for gains included in net income | (1,287) | (4,035) | (5,878) | (6,253) |
| Total Other Comprehensive Income (Loss) | (15,646) | (3,172) | (38,107) | 15,861 |
| **Comprehensive Income (Loss)** | $ (3,741) | $ 11,764 | $ (11,528) | $ 43,638 |
| **NET INCOME PER SHARE** | | | | |
| Basic | $ 2.13 | $ 2.71 | $ 4.77 | $ 5.05 |
| Diluted | $ 2.10 | $ 2.64 | $ 4.72 | $ 4.92 |

See accompanying notes to consolidated financial statements.

MARKEL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

| | Six Months Ended June 30, | |
|---|---|---|
| | 1999 | 1998 |
| | *(dollars in thousands)* | |
| **OPERATING ACTIVITIES** | | |
| Net Income | $ 26,579 | $ 27,777 |
| Adjustments to reconcile net income to net cash used by operating activities | (29,027) | (16,807) |
| Net Cash Provided By (Used By) Operating Activities | (2,448) | 10,970 |
| **INVESTING ACTIVITIES** | | |
| Proceeds from sales of fixed maturities and equity securities | 671,107 | 190,464 |
| Proceeds from maturities of fixed maturities | 33,021 | 56,822 |
| Cost of fixed maturities and equity securities purchased | (616,462) | (292,032) |
| Net change in short-term investments | 10,786 | 29,874 |
| Acquisition of insurance company, net of cash acquired | (143,557) | — |
| Other | (2,871) | 3,298 |
| Net Cash Used By Investing Activities | (47,976) | (11,574) |
| **FINANCING ACTIVITIES** | | |
| Additions to long-term debt | 105,000 | — |
| Repayments of long-term debt | (55,000) | — |
| Other | 145 | 466 |
| Net Cash Provided By Financing Activities | 50,145 | 466 |
| Decrease in cash and cash equivalents | (279) | (138) |
| Cash and cash equivalents at beginning of period | 1,527 | 1,309 |
| **Cash And Cash Equivalents At End Of Period** | $ 1,248 | $ 1,171 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - June 30, 1999

1. Principles of Consolidation

The consolidated balance sheet as of June 30, 1999, the related consolidated statements of income and comprehensive income for the quarters and six months ended June 30, 1999 and 1998, and the consolidated statements of cash flows for the six months ended June 30, 1999 and 1998, are unaudited. In the opinion of management, all adjustments necessary for a 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 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.

2. Net Income per share

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Net income, as reported (Basic and diluted income) | $ 11,905 | $ 14,936 | $ 26,579 | $ 27,777 |
| Average basic common shares outstanding | 5,592 | 5,502 | 5,573 | 5,499 |
| Dilutive potential common shares | 64 | 152 | 64 | 152 |
| Average diluted shares outstanding | 5,656 | 5,654 | 5,637 | 5,651 |

3. Reinsurance

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

| | Quarter Ended June 30, | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | Written | Earned | Written | Earned |
| Direct | $ 149,906 | $ 143,549 | $ 119,147 | $ 104,261 |
| Assumed | 16,456 | 6,832 | 1,760 | 1,712 |
| Ceded | (50,790) | (42,052) | (26,940) | (21,447) |
| Net premiums | $ 115,572 | $ 108,329 | $ 93,967 | $ 84,526 |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | Written | Earned | Written | Earned |
| Direct | $ 281,175 | $ 286,977 | $ 214,671 | $ 203,200 |
| Assumed | 19,119 | 10,187 | 2,956 | 3,299 |
| Ceded | (85,714) | (80,428) | (47,213) | (43,075) |
| Net premiums | $ 214,580 | $ 216,736 | $ 170,414 | $ 163,424 |

Incurred losses and loss adjustment expenses are net of reinsurance recoveries of $26.1 million and $17.1 million for the quarters ended June 30, 1999 and 1998, respectively and $53.4 million and $29.9 million for the six months ended June

30, 1999 and 1998, respectively.

4. 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 Markel Corporation. 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.

5. Comprehensive Income

Other comprehensive income (loss) is composed of net unrealized holding gains (losses) on securities arising during the period less reclassification adjustments for gains included in net income. The related tax expense (benefit) on net unrealized gains (losses) on securities was $(7.7) million and $(17.4) million for the quarter and six months ended June 30, 1999 and $0.5 million and $11.9 million for the same periods in 1998. The related tax expense on the reclassification adjustments for gains included in net income was $0.7 million and $3.2 million for the quarter and six months ended June 30, 1999, respectively and $2.2 million and $3.4 million for the same periods in 1998.

6. Acquisition

On January 15, 1999, the Company acquired Gryphon Holdings, Inc. and its subsidiaries (Gryphon) as the result of the completion of a public tender offer. The Company's second quarter and six month results for the period ending June 30, 1999 include Gryphon's results of operations since the date of acquisition. The acquisition was accounted for using the purchase method of accounting. Total consideration paid for Gryphon was approximately $145.7 million. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill and is being amortized using the straight-line method over 20 years. The Company funded the transaction with available cash of approximately $95.7 million and borrowings of approximately $50 million. In addition the Company refinanced $55.0 million of Gryphon's long-term debt.

7. Segment Reporting Disclosures

The Company has five underwriting units focused on specific niches within the Excess and Surplus Lines and Specialty Admitted markets. Excess and Surplus Lines, Professional/Products Liability and Brokered Excess and Surplus Lines write business in the Excess and Surplus Lines market and for purposes of segment reporting are aggregated as one operating segment. Specialty Program Insurance and Specialty Personal and Commercial Lines write business in the Specialty Admitted market and for purposes of segment reporting are aggregated as one operating segment. All investing activities are included in the Investing operating segment.

The Company intends to significantly restructure Gryphon's operations and expects that Gryphon's premium volume will decrease by 50% or more from preacquisition levels. The Gryphon programs that the Company

7. Segment Reporting Disclosures (continued)

intends to continue will be administered primarily by underwriting units in the Excess and Surplus Lines operating segment. Gryphon's discontinued programs 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 the Excess and Surplus Lines and the Specialty Admitted operating segments is measured by underwriting profit or loss. Segment profit for the Investing operating segment is measured by net investment income and realized gains or losses.

The Company does not allocate assets to the Excess and Surplus Lines or the Specialty Admitted operating segments for management reporting purposes. The total investment portfolio is allocated to the Investing operating segment. The Gryphon acquisition increased the total investment portfolio by approximately $300 million in the first quarter of 1999. The Company does not allocate capital expenditures for long-lived assets to any of its operating segments for management reporting purposes.

a) Following is a summary of segment disclosures:

Segment Revenues

| Quarter Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|
| 1999 | 1998 | *(dollars in thousands)* | 1999 | 1998 |
| $ 70,550 | $ 59,480 | Excess & Surplus Lines | $ 140,113 | $ 113,168 |
| 28,845 | 25,046 | Specialty Admitted | 54,342 | 50,256 |
| 23,639 | 23,365 | Investing | 53,353 | 44,348 |
| 8,934 | — | Other | 22,281 | — |
| $ 131,968 | $ 107,891 | Total | $ 270,089 | $ 207,772 |

Segment Profit (Loss)

| Quarter Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|
| 1999 | 1998 | *(dollars in thousands)* | 1999 | 1998 |
| $ 4,442 | $ 3,650 | Excess & Surplus Lines | $ 8,526 | $ 6,216 |
| (1,253) | (2,014) | Specialty Admitted | (2,688) | (3,276) |
| 23,639 | 23,365 | Investing | 53,353 | 44,348 |
| (3,829) | — | Other | (9,716) | — |
| $ 22,999 | $ 25,001 | Total | $ 49,475 | $ 47,288 |

Combined Ratio

| Quarter Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|
| 1999 | 1998 | | 1999 | 1998 |
| 94% | 94% | Excess & Surplus Lines | 94% | 95% |
| 104% | 108% | Specialty Admitted | 105% | 107% |
| — | — | Investing | — | — |
| 143% | — | Other | 144% | — |
| 101% | 98% | Total | 102% | 98% |

7. Segment Reporting Disclosures (continued)

Segment Assets *(dollars in thousands)*

| | June 30, 1999 | June 30, 1998 |
|---|---|---|
| Excess & Surplus Lines | $ — | $ — |
| Specialty Admitted | — | — |
| Investing | 1,733,667 | 1,450,961 |
| Other | 851,354 | 450,089 |
| Total | $ 2,585,021 | $ 1,901,050 |

b) The following summary reconciles segment profit (loss) to income before income taxes (dollars in thousands):

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Income before income taxes | | | | |
| Segment profit | $ 22,999 | $ 25,001 | $ 49,475 | $ 47,288 |
| Unallocated amounts | | | | |
| Amortization expense | (1,364) | (508) | (2,620) | (1,017) |
| Interest expense | (6,528) | (5,097) | (12,818) | (10,181) |
| Other | 557 | 257 | 935 | 459 |
| Income Before Income Taxes | $ 15,664 | $ 19,653 | $ 34,972 | $ 36,549 |

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

**Results of Operations**

Quarter and Six Months ended June 30, 1999 compared to Quarter and Six Months ended June 30, 1998

The Company underwrites specialty insurance products and programs for niche markets. Significant areas of underwriting include Excess and Surplus Lines, Professional/Products Liability, Brokered Excess and Surplus Lines, Specialty Programs and Specialty Personal and Commercial Lines. Property and casualty insurance for nonstandard and hard-to-place risks is underwritten by the Excess and Surplus Lines unit. Professional liability coverage is offered to physicians and health professionals, insurance companies, attorneys and architects and engineers. Special risk programs provide products liability insurance for manufacturers and distributors and tailored coverages for other unique exposures. In addition, employment practices liability coverage is offered. The Brokered Excess and Surplus Lines unit writes hard-to-place, large general liability, commercial umbrella, products liability and property accounts. Gryphon's continuing lines of business consist of an earthquake exposed California property program, professional liability programs and several specialty casualty programs. Specialty Program Insurance includes coverage for camps, youth and recreation, child care, health and fitness and agribusiness organizations, as well as accident and medical insurance for colleges. The Company also underwrites personal and commercial property and liability coverages for watercraft, motorcycles and automobile lenders.

Following is a comparison of gross premium volume by significant underwriting area:

Gross Premium Volume

| Quarter Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|
| 1999 | 1998 | *(dollars in thousands)* | 1999 | 1998 |
| $ 37,049 | $ 34,607 | Excess and Surplus Lines | $ 63,942 | $ 59,560 |
| 35,557 | 32,459 | Professional/Products Liability | 69,095 | 63,215 |
| 19,904 | 17,227 | Brokered Excess and Surplus Lines | 35,196 | 31,865 |
| 19,016 | — | Gryphon Continuing Programs | 35,997 | — |
| 17,464 | 20,974 | Specialty Program Insurance | 34,449 | 39,285 |
| 24,692 | 13,987 | Specialty Personal and Commercial Lines | 31,020 | 21,794 |
| 12,438 | — | Gryphon Discontinued Programs | 29,886 | — |
| 241 | 903 | Other | 809 | 1,798 |
| $ 166,361 | $ 120,157 | Total | $ 300,394 | $ 217,517 |

Gross premium volume was $166.4 million for the second quarter and $300.4 million for the six month period in 1999 compared to $120.2 million and $217.5 million, respectively, for the same periods last year. The growth was primarily the result of the Gryphon acquisition which added $31.5 million and $65.9 million to the Company's gross premium volume in the second quarter and six month period of 1999. As the Company re-underwrites the Gryphon programs, the Gryphon business is expected to decline significantly. The Company's core books of business, excluding the effect of Gryphon, increased 12% in the second quarter and 8% in the first six months of 1999. The Company has maintained its underwriting standards at the expense of premium growth.

Excess and Surplus Lines second quarter gross premium volume was $37.0 million compared to $34.6 million in 1998. For the six month period, gross premium volume was $63.9 million compared to $59.6 million last year. The growth in both periods was due to increased production in the casualty and inland marine programs.

Second quarter gross premium volume from Professional/Products Liability was $35.6 million compared to $32.5 million a year ago. For the six month period, gross premium volume advanced to $69.1 million from $63.2 million in 1998. For both the quarter and six month periods, growth in the employment practices liability and specified professions programs was partially offset by lower production from other lines, including the medical malpractice program.

Premiums from Brokered Excess and Surplus Lines totaled $19.9 million in the second quarter of 1999 compared to $17.2 million in 1998. For the six month period, gross premium volume grew to $35.2 million from $31.9 million last year. The increase in both periods was primarily due to higher gross premium volume in the unit's property and excess and umbrella programs.

Gross premium volume for the Gryphon programs that the Company expects to continue was $19.0 million in the second quarter of 1999 and $36.0 million for the six month period. For the six month period of 1999, continuing program gross premium volume consisted of $23.4 million of earthquake exposed California property business which will become part of the Excess and Surplus Lines unit's special property program, $6.5 million of professional liability business which will become part of the Professional/Products Liability unit and $6.1 million of casualty programs, most of which will be administered by the Brokered Excess and Surplus Lines underwriting unit.

Specialty Program Insurance premiums declined to $17.5 million for the second quarter and $34.4 million for the six month period in 1999 from $21.0 million and $39.3 million, respectively, in 1998. Increased competition in the youth and recreation program was partially offset by continued growth in the surety program.

Specialty Personal and Commercial Lines premiums rose to $24.7 million in the second quarter and $31.0 million in the six month period of 1999 from $14.0 million and $21.8 million, respectively, in 1998. The 1999 increase was primarily due to the acquisition of a yacht program, including $7.3 million of unearned premium at the date of acquisition, which added $13.5 million in gross premium to the second quarter. The yacht program is expected to generate approximately $15 million of gross premium volume in 1999.

Gross premium volume for the discontinued Gryphon programs was $12.4 million in the second quarter and $29.9 million for the six month period in 1999. The Company reviewed all of Gryphon's programs at the time of acquisition and determined that certain programs were unprofitable and presented little opportunity to generate future underwriting profits. The Company has discontinued these programs and is working with the affected agents and brokers to locate new markets for these risks.

Other gross premiums totaled $0.2 million in the second quarter of 1999 compared to $0.9 million in the prior year. For the six month period in 1999, other gross premiums totaled $0.8 million compared to $1.8 million a year ago. Other gross premium volume primarily consisted of facultative reinsurance placed by the Professional/Products Liability unit.

Currently many of the Company's products are being adversely affected by increased competition and lower rates in the property and casualty market. The Company does not intend to relax underwriting standards in order to sustain premium volume. Further, the volume of premiums written may vary significantly with the Company's decision to alter its product concentration to maintain or improve underwriting profitability.

The Company enters into reinsurance agreements in order to reduce its liability on individual risks and enable it to underwrite policies with higher limits. The Company's net retention of gross premium volume decreased to 70% in the second quarter of 1999 and 71% in the six month period compared to 78% for both periods in the prior year. The decrease was due to low retentions on Gryphon's California property program.

Total operating revenues for the second quarter of 1999 rose to $132.5 million from $108.1 million in the prior year. For the six month period, operating revenues rose to $271.0 million from $208.2 million in 1998.

Earned Premiums

| Quarter Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|
| 1999 | 1998 | *(dollars in thousands)* | 1999 | 1998 |
| $ 21,785 | $ 22,974 | Excess and Surplus Lines | $ 42,584 | $ 43,632 |
| 28,938 | 26,171 | Professional/Products Liability | 56,346 | 50,573 |
| 11,139 | 10,334 | Brokered Excess and Surplus Lines | 21,289 | 18,955 |
| 8,685 | — | Gryphon Continuing Programs | 19,893 | — |
| 16,269 | 15,785 | Specialty Program Insurance | 32,335 | 30,577 |
| 12,578 | 9,261 | Specialty Personal and Commercial Lines | 22,007 | 19,679 |
| 8,935 | — | Gryphon Discontinued Programs | 22,282 | — |
| — | 1 | Other | — | 8 |
| $ 108,329 | $ 84,526 | Total | $ 216,736 | $ 163,424 |

Second quarter earned premiums were $108.3 million compared to $84.5 million in 1998. Six month earned premiums were $216.7 million compared to $163.4 million a year ago. The growth in the second quarter was the result of $17.6 million of earned premiums for Gryphon and $6.2 million of growth from existing operations. For the six month period, the growth resulted from $42.2 million of Gryphon earned premiums and $11.1 million of growth from existing operations.

Second quarter net investment income increased 26% to $21.7 million from $17.2 million in 1998. For the six month period, net investment income rose 28% to $44.3 million from $34.7 million last year. The increases were the result of the Gryphon acquisition which added $5.4 million and $10.2 million to net investment income for the second quarter and six month period in 1999, respectively.

In the second quarter, the Company realized $2.0 million of investment gains compared to $6.2 million of gains in 1998. For the six month period, realized investment gains were $9.0 million compared to gains of $9.6 million for the same period last year. Variability in the timing of realized and unrealized investment gains and losses is to be expected.

Total operating expenses for the second quarter were $110.3 million compared to $83.4 million in 1998. Total operating expenses for the six month period were $223.2 million compared to $161.5 million a year ago. The increases resulted primarily from the Gryphon acquisition.

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

| | Quarter Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Gross premium volume | $ 166,361 | $ 120,157 | $ 300,394 | $ 217,517 |
| Net premiums written | $ 115,572 | $ 93,967 | $ 214,580 | $ 170,414 |
| Net retention | 70% | 78% | 71% | 78% |
| Earned premiums | $ 108,329 | $ 84,526 | $ 216,736 | $ 163,424 |
| Losses and loss adjustment expenses | $ 68,153 | $ 53,559 | $ 138,303 | $ 103,086 |
| Underwriting, acquisition and insurance expenses | $ 40,816 | $ 29,331 | $ 82,311 | $ 57,398 |
| Underwriting profit (loss) | $ (640) | $ 1,636 | $ (3,878) | $ 2,940 |
| GAAP ratios | | | | |
| Loss ratio | 63% | 63% | 64% | 63% |
| Expense ratio | 38% | 35% | 38% | 35% |
| Combined ratio | 101% | 98% | 102% | 98% |

Underwriting performance is measured by the combined ratio of losses and expenses to earned premiums. For the second quarter and six month period, the Company reported a combined ratio of 101% and 102% compared to a combined ratio of 98% in both periods in 1998. The underwriting losses in 1999 were the result of Gryphon's combined ratio of 128% and 124% for the second quarter and six month period, respectively. Excluding Gryphon, the Company's 1999 combined ratio was 95% and 96% for the quarter and six month period, respectively.

The second quarter and six month period loss ratio was 63% and 64%, respectively, compared to 63% for both periods of 1998. For the six month period, favorable loss development in the Excess & Surplus Lines operating segment was more than offset by the higher loss ratio on Gryphon's discontinued lines of business. The second quarter and six month period expense ratio was 38% compared to 35% for both periods in 1998. The increase was due to Gryphon's higher expense ratio. The Company is working agressively to reduce Gryphon's expense ratio by leveraging corporate services and reducing costs to those necessary to run Gryphon's operations on a smaller scale.

The Company's five underwriting units focus on specific niches within the Excess and Surplus Lines and Specialty Admitted markets. Excess and Surplus Lines, Professional/Products Liability and Brokered Excess and Surplus Lines write business in the Excess and Surplus Lines market and for purposes of segment reporting are aggregated as one operating segment. The Gryphon programs that the Company intends to continue will be administered by underwriting units in the Excess and Surplus Lines operating segment. Specialty Program Insurance and Specialty Personal and Commercial Lines write business in the Specialty Admitted market and for purposes of segment reporting are aggregated as one operating segment.

The combined ratio for the Excess and Surplus Lines segment was 94% in the second quarter of 1999 and 1998. For the six month period, the Excess and Surplus Lines combined ratio decreased to 94% from 95% in 1998. The decrease in the 1999 six month combined ratio was due to continued favorable loss development, partially offset by higher acquisition costs. The combined ratio for the Specialty Admitted segment decreased to 104% in the second quarter of 1999 from 108% in 1998. For the six month period, the Specialty Admitted combined ratio decreased to 105% from 107% in 1998. The decrease in both periods was the result of lower acquisition costs.

Amortization of intangible assets was $1.4 million in the second quarter of 1999 compared to $0.5 million last year. For the six month period, amortization of intangible assets was $2.6 million compared to $1.0 million in 1998. The increase in both periods was primarily the result of goodwill from the Gryphon acquisition which is being amortized over 20 years.

Interest expense was $6.5 million in the second quarter of 1999 compared to $5.1 million in 1998. Interest expense was $12.8 million for the six month period in 1999 compared to $10.2 million last year. In January 1999, the Company borrowed $105 million under its $250 million revolving credit facility to complete the acquisition of Gryphon. During July 1999, the Company repaid $20 million of the $105 million of borrowings used to fund the purchase of Gryphon.

The Company's effective tax rate for the both periods of 1999 and 1998 was 24% of income before income taxes.

In evaluating its operating performance, the Company focuses on core underwriting and investing results before consideration of realized gains or losses from the sales of investments and expenses related to the amortization of intangible assets. Management believes this is a better indicator of the Company's operating performance because it reduces the variability in results associated with realized investment gains or losses and eliminates the impact of accounting conventions which do not reflect current operating costs. For the second quarter of 1999, income from core underwriting and investing operations increased to $11.9 million, or $2.10 per diluted share, from $11.3 million, or $2.01 per diluted share, in 1998. For the six month period, income from core underwriting and investing operations increased to $23.2 million, or $4.11 per diluted share, from $22.4 million, or $3.96 per diluted share, in 1998. The increase was due to higher net investment income, partially offset by underwriting losses.

Second quarter 1999 net income decreased to $11.9 million from $14.9 million in 1998. For the six month period of 1999, net income was $26.6 million compared to $27.8 million last year. The decrease was due to underwriting losses and lower realized gains in 1999, partially offset by higher net investment income. Comprehensive income for the second quarter of 1999 was a loss of $3.7 million, or $0.66 per diluted share, compared to comprehensive income of $11.8 million, or $2.08 per diluted share, in 1998. The decrease was the result of the net decrease in unrealized gains of $2.76 per diluted share in 1999 compared to the net decrease in unrealized gains of $0.56 per diluted share in 1998. For the six month period, comprehensive income was a loss of $11.5 million, or $2.05 per diluted share, compared to comprehensive income of $43.6 million, or $7.72 per diluted share, last year. The decrease was the result of the net decrease in unrealized gains of $6.77 per diluted share in 1999 compared to the net increase in unrealized gains of $2.80 per diluted share in 1998.

**Financial Condition as of June 30, 1999**

The Company's insurance operations collect premiums and pay current claims, reinsurance commissions and operating expenses. Premiums collected and positive cash flows from the insurance operations are invested primarily in short-term investments and long-term bonds. Short-term investments held by the Company's insurance subsidiaries provide liquidity for projected claims, reinsurance costs and operating expenses. To the extent that operating cash flows are negative during any period of time, a portion of the Company's investment portfolio may be liquidated to meet operating needs.

On January 15, 1999, the Company acquired Gryphon Holdings, Inc. and its subsidiaries as the result of the completion of a public tender offer. The Company's results for the second quarter and six month period ended June 30, 1999 include Gryphon's results of operations since the date of acquisition. The acquisition was accounted for using the purchase method of accounting. Total consideration paid for Gryphon was approximately $145.7 million. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill and is being amortized using the straight-line method over 20 years. The Company funded the transaction with available cash of approximately $95.7 million and borrowings of approximately $50.0 million. In addition the Company refinanced $55.0 million of Gryphon's long-term debt.

The Company's invested assets increased to $1.7 billion at June 30, 1999 from $1.5 billion at December 31, 1998. The increase was primarily the result of the Gryphon acquisition. The Company's unpaid losses and loss adjustment expenses reserves and paid and unpaid reinsurance recoverables increased to $1.4 billion and $441.1 million at June 30, 1999 from $933.8 million and $219.5 million, respectively, at December 31, 1998. The increases were the result of the purchase of Gryphon and Gryphon's historically higher dependence on reinsurance.

For the six month period ended June 30, 1999, the Company reported net cash used by operating activities of $2.4 million, compared to net cash provided by operating activities of $11.0 million for the same period in 1998. The decrease in 1999 was the result of Gryphon's use of $20.2 million of operating cash for the first six months of 1999. The Company continues to reunderwrite and discontinue various Gryphon programs. As a result, Gryphon's operations are expected to generate negative operating cash flows throughout 1999 which will partially offset the operating cash flow generated by the Company's core underwriting units.

For the six month period ended June 30, 1999, the Company reported net cash used by investing activities of $48.0 million compared to $11.6 million in 1998. The difference was primarily the result of the Gryphon acquisition.

As of June 30, 1999 and December 31, 1998, the unused balances available under the Company's $250 million revolving credit facility totaled $145 million and $250 million, respectively. Funds are available under the facility for general corporate purposes. During July 1999, the Company repaid $20 million of the $105 million of borrowings used to fund the purchase of Gryphon. In addition the Company has entered into an agreement to sell an unneeded Gryphon insurance subsidiary as a shell for approximately $20 million. The transaction is expected to close during the third quarter of 1999.

Shareholders' equity at June 30, 1999 was $413.9 million compared to $425.3 million at December 31, 1998. Book value per share was $74.02 at June 30, 1999 compared to $77.02 at December 31, 1998. The decrease in the six month period of 1999 was the result of the net decrease in unrealized gains of $38.1 million partially offset by net income of $26.6 million.

**Other Matters**

Year 2000

The Year 2000 issue affects virtually all companies and organizations. Many companies have existing computer applications which use only two digits to identify a year in the date field. These applications were designed and developed without considering the impact of the century change. If not corrected these computer applications may fail or create erroneous results in the year 2000.

The Company's Year 2000 Strategy

The Company has created a Year 2000 team involving associates from all areas of the organization and has charged them with implementing the Company's Year 2000 project. The team has been in place since September of 1997. The project's scope includes all information technology (IT), both internally developed and purchased from third parties, material vendors, producer and customer relationships, and an assessment of the Company's underwriting exposure as a result of the insurance products written by the Company's underwriting units. In addition, the Company is evaluating the Year 2000 exposure to issuers included as part of its investment portfolio.

The Company has completed all phases of its Year 2000 compliance project for its material IT systems. The Company has also completed the assessment and remediation phases for its ancillary IT systems and is currently in the testing phase. The Company anticipates completion of all testing of its ancillary IT systems by October 31, 1999.

The Company has been in contact with its material business partners to determine their state of readiness with regard to the Year 2000 issue and the potential impact on the Company. The Company has identified the following general categories of business partners as material to the Company's ability to conduct its operations: software, hardware and telecommunication providers, banks and investment brokers, material holdings in the Company's investment portfolio, insurance producers, reinsurers and reinsurance intermediaries, major insurance clients and utilities. Where the Company has determined that the relationship with a business partner is material to its ability to conduct normal operations, the Company has sent letters to the business partner requesting an update on the status of the business partner's Year 2000 initiative. Where deemed necessary, the Company is following up with the business partner to obtain further information. Based on the assurances of these business partners and the Company's internal reviews of information provided, the Company has not currently identified a material business partner that will be non-compliant. However, there can be no assurances that all material business partners will be compliant, and such noncompliance could have a material effect on the Company's financial position and results of operations. The Company expects to complete its review of material business partners by October 31, 1999.

The Company has conducted a comprehensive review of its underwriting guidelines and has made the decision to exclude Year 2000 exposures from most insurance policies. The Company began adding exclusions to policies in early 1998. Additionally it is the Company's position that Year 2000 exposures are not fortuitous losses and thus are not covered under insurance policies even without specific exclusions. For these reasons, the Company believes that its exposure to Year 2000 claims will not be material. However, as was the case with environmental exposures, changing social and legal trends may create unintended coverage for exposures by reinterpreting insurance contracts and exclusions. It is impossible to predict what, if any, exposure insurance companies may ultimately have for Year 2000 claims whether coverage for the issue is specifically excluded or included.

The cost of the Company's Year 2000 project is estimated to be $1.0 million. Approximately $0.5 million of this amount was incurred as of December 31, 1998. The remainder of the estimated cost of the project is expected to be incurred throughout 1999. All costs of the Year 2000 project have been expensed as incurred.

As all of its material IT systems were deemed Year 2000 compliant at December 31, 1998, the Company has not established a contingency plan for noncompliance of its IT systems. At this time, the Company is not aware of any material business partners that will not be Year 2000 compliant. If the Company becomes aware of non-compliant business partners, one option will be to evaluate using other vendors. In many instances the establishment of a contingency plan is not possible or is cost prohibitive. In these situations, noncompliance by the Company or its material business partners could have a material adverse impact on the Company's financial position and results of operations.

Subsequent to the Company's acquisition of Gryphon in January 1999, the Company began an assessment of Gryphon's material IT systems for Year 2000 compliance. The Company has converted Gryphon's continuing business to the Company's Year 2000 compliant systems.

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 and interest rate risk associated with investments in fixed maturities. From time to time, equity prices and interest rates fluctuate causing an effect on the Company's investment portfolio. The Company has no direct commodity risk, and its exposure to foreign exchange risk is immaterial.

The Company's market risk disclosures at June 30, 1999 have not materially changed from those identified at December 31, 1998.

**"Safe Harbor" Statement**

This is a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995. Certain statements contained herein are forward-looking statements that involve risks and uncertainties. Future actual results may materially differ from those in these statements because of many factors. For example, the Company continues to significantly reorganize Gryphon's operations, and the scope and impact of these changes cannot be fully determined at this time. Insurance industry price competition has made it more difficult to attract and retain adequately priced business. Changing legal and social trends can adversely impact the adequacy of loss reserves. State regulatory actions can impede the Company's ability to charge adequate rates and efficiently allocate capital. The frequency and severity of natural catastrophes are highly variable. Economic conditions and interest rate volatility can have significant impacts on the market value of fixed maturity and equity investments. The business community's state of readiness for the Year 2000, the readiness of the Company's vendors and business partners and the Company's potential underwriting exposure to Year 2000 claims are difficult to predict with any certainty. Accordingly, the Company's premium growth, underwriting and investing results have been and will continue to be potentially materially affected by these factors.

PART II. OTHER INFORMATION

Item 4. Submissions of Matters to a Vote of Security Holders

The Corporation's Annual Meeting was held on May 13, 1999, in Richmond, Virginia. At the Annual Meeting, shareholders elected directors for the ensuing year and ratified the selection by the Board of Directors of KPMG LLP as the Company's independent auditors for the year ending December 31, 1999. The results of the meeting were as follows:

| Election of Directors | For | Withheld |
|---|---|---|
| Alan I. Kirshner | 4,736,103 | 22,836 |
| Anthony F. Markel | 4,736,485 | 22,454 |
| Steven A. Markel | 4,736,910 | 22,029 |
| Darrell D. Martin | 4,734,803 | 24,136 |
| Thomas S. Gayner | 4,735,074 | 23,865 |
| Leslie A. Grandis | 4,736,485 | 22,454 |
| Stewart M. Kasen | 4,738,457 | 20,482 |
| Gary L. Markel | 4,735,145 | 23,794 |

Ratification of Selection of Auditors:

| For | Against | Abstentions and Brokers Non-Votes |
|---|---|---|
| 4,744,955 | 9,869 | 4,115 |

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits.

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

(b) No reports on Form 8-K were filed during the quarter ended June 30, 1999

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 29th day of July, 1999.

Markel Corporation

By Alan I. Kirshner

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

By Anthony F. Markel

Anthony F. Markel
President
(Principal Operating Officer)

By Steven A. Markel

Steven A. Markel
Vice Chairman

By Darrell D. Martin

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

Exhibit Index

| Number | Description |
|---|---|
| 27 | Financial Data Schedule for period ended June 30, 1999 * |

* Filed electronically with the Commission