ASSOCIATION EXAMINATION
OF
MARKEL AMERICAN INSURANCE COMPANY
Glen Allen, Virginia
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Markel American Insurance Company as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 6th day of March, 2009

Alfred W. Gross

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 20, 2008

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (E) Committee
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Honorable Scott Richardson
Secretary-Southeastern Zone, NAIC
Commissioner of Insurance
South Carolina Department of Insurance
Columbia, South Carolina

Dear Sirs:

Pursuant to your instructions and in conformity with § 38.2-1317 of the Code of Virginia, an examination of the records and affairs of the

MARKEL AMERICAN INSURANCE COMPANY

Glen Allen, Virginia,

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia. The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2004. This examination, covering the period from January 1, 2005 through December 31, 2007, was conducted by the Bureau, representing the Southeastern Zone of the National Association of Insurance Commissioners (NAIC).

HISTORY

The Company was issued a certificate of incorporation by the State Corporation Commission (Commission) on October 15, 1986. The Company commenced business on February 23, 1987. According to the Company's Articles of Incorporation, amended as of September 15, 1993, its purpose is as follows:

> The Corporation is organized to conduct business as an insurance company, and shall have the authority, if licensed, to write one or more of the following classes of insurance: credit accident and sickness, accident and sickness, fire, miscellaneous property, water damage, burglary and theft, glass, boiler and machinery, animal, personal injury liability, property damage liability, workers' compensation and employers' liability, fidelity, surety, credit, motor vehicle, aircraft, marine, homeowners insurance, farmowners insurance, commercial multi-peril insurance, contingent and consequential losses (as such classes of insurance are defined in the Virginia Stock Corporation Act (the "Act"), which term shall be deemed to include the Act or any successor statute or section thereof, as now written and as hereafter amended), and to engage in any other business as may be related to or incidental to the insurance business.

The Company's initial capitalization was $4,000,000, including $1,500,000 in common capital stock (15,000 shares issued and outstanding with a par value of $100) and $2,500,000 in gross paid in and contributed surplus.

On January 10, 1992, Markel Corporation (Markel) contributed the outstanding common stock of the Company to an affiliate, Markel Service, Inc. (MSI). On January 13, 1992, MSI contributed the assets of the Governmental Programs Brokerage Division (GPBD) to the Company. The Company then sold GPBD on January 17, 1992 to a non-affiliate. The GPBD sale resulted in an additional capital contribution of $1,443,668.

Evanston Insurance Company (Evanston), an Illinois domestic, purchased the Company from MSI on March 27, 1992. The Company declared and paid a one-for-one stock dividend to Evanston as of February 28, 1993. This resulted in a transfer of $1,500,000 from surplus to common capital stock, with the issued and outstanding common stock increasing from 15,000 shares to 30,000 shares. The par value remained at $100 per share. On October 24, 1994, the Company received a capital contribution of $3,500,000 from Evanston. This contribution was made in order for the Company to meet the new minimum policyholder surplus level required by Illinois to place surplus lines business in that state.

As a result of a transfer of the Company's issued and outstanding shares between affiliated companies, the Company became a direct, wholly-owned subsidiary of Markel effective January 30, 1998. This transaction consisted of two events: Evanston paid a dividend of all issued and outstanding shares of the Company's common stock to Evanston's sole shareholder, Shand/Evanston Group (S/E Group) and simultaneously, S/E Group paid the same dividend to Markel, its sole shareholder.

On March 24, 2000, Markel acquired Terra Nova (Bermuda) Holdings Ltd. As a result of this transaction, all of the outstanding shares of the Company were owned by Markel North America, Inc., a Virginia holding company. Effective March 31, 2001, Markel North America, Inc. was merged into Markel, resulting in Markel becoming the sole shareholder of the Company.

Effective April 13, 2001, the Company amended its Articles of Incorporation to change the par value of its common shares from $100 to $166.67 per share. This resulted in a transfer of $2,000,100 from gross paid in and contributed surplus to common capital stock. On December 13, 2001, Markel made a capital contribution of $5,000,000 in cash to the Company.

On November 1, 2002, Markel made a capital contribution of $10,000,000 in bonds to the Company. On December 30, 2002, Markel made a capital contribution of $7,000,000 in cash to the Company.

The Company's authorized capital is 50,000 shares of common stock with a current par value of $166.67 per share. As of December 31, 2007, there were 30,000 shares of common stock issued and outstanding.

MANAGEMENT AND CONTROL

The bylaws provide that the business and affairs of the Company will be managed under the direction of the board of directors subject to any limitation set forth in the articles of incorporation. It further provides that the number of directors shall be a number that is equal to or greater than three but less than or equal to eleven, the exact number of directors to be fixed, from time to time, by a resolution of the board of directors. Each director shall hold office until the next succeeding annual meeting of shareholders at which directors are elected.

Directors shall be elected at each annual meeting of shareholders. A majority of directors then in office shall constitute a quorum for the transaction of business unless a greater number is required by law or by the articles of incorporation. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

The bylaws provide that the officers of the Company shall be a chairman of the board of directors, a president, a secretary, a treasurer, and at the discretion of the board of directors, one or more vice presidents and other officers and assistant officers as may be deemed necessary or advisable to carry on the business of the Company. Any two or more offices may be held by the same person, except that the same person cannot hold simultaneously the offices of president and secretary.

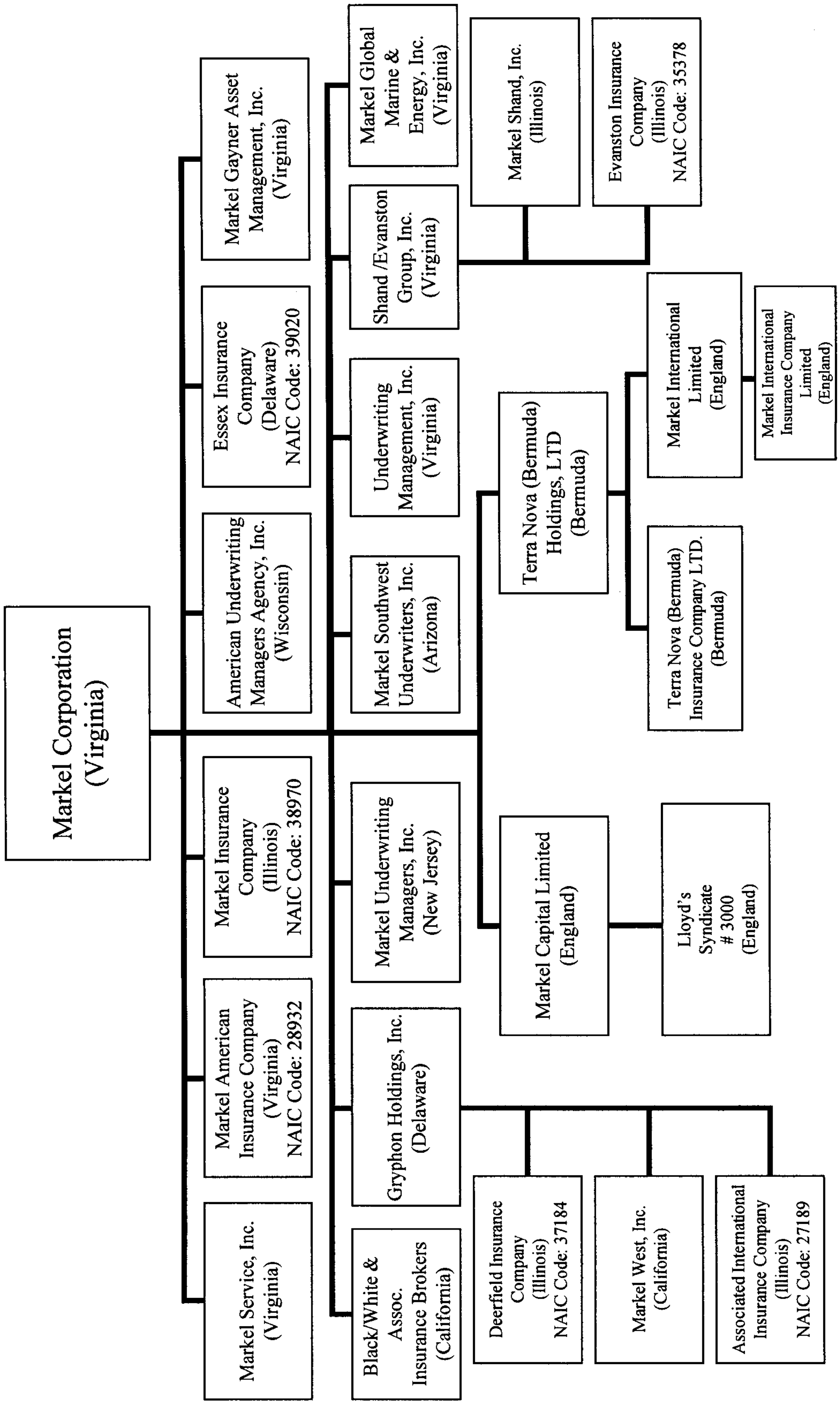
At December 31, 2007, the board of directors and officers were as follows:

Directors	Principal Occupation
Anthony F. Markel	President and Chief Operating Officer Markel Corporation
Steven A. Markel	Vice Chairman Markel Corporation
Alan I. Kirshner	Chairman of the Board and Chief Executive Officer Markel Corporation
Timberlee T. Grove	President Markel American Insurance Company President and Chief Operating Officer American Underwriting Managers Agency, Inc.
Bradley J. Kiscaden	Chief Corporate Actuary Markel Corporation
Paul W. Springman	Executive Vice President Markel Corporation
Richard R. Whitt, III	Senior Vice President and Chief Financial Officer Markel Corporation

Officers

Paul W. Springman	Chairman of the Board
Timberlee T. Grove	President
John W. Dwyer	Senior Vice President
Audrey J. Hanken	Senior Vice President
Deidra D. Balbuena	Vice President
Britton L. Glisson	Vice President
Robert A. Horner	Vice President
Diane R. Lunde	Vice President and Controller
Robin Russo	Vice President
Mary A. Waller	Vice President
Rosemary DeCamp	Assistant Vice President
Linda S. Rotz	Secretary
Anne G. Waleski	Treasurer
Thomas J. Childress, III	Assistant Secretary/Tax Director
Myra I. Hey	Assistant Secretary
Paul B. Chuchel	Assistant Secretary
Gina G. A. Cabay	Assistant Secretary

The Company is a wholly-owned subsidiary of Markel. The following chart illustrates this insurance holding company system at December 31, 2007:


Markel Corporation (Virginia)
Markel Gayner Asset Management, Inc. (Virginia)
Essex Insurance Company (Delaware) NAIC Code: 39020
American Underwriting Managers Agency, Inc. (Wisconsin)
Markel Insurance Company (Illinois) NAIC Code: 38970
Markel American Insurance Company (Virginia) NAIC Code: 28932
Markel Service, Inc. (Virginia)
Markel Global Marine & Energy, Inc. (Virginia)
Shand /Evanston Group, Inc. (Virginia)
Markel Shand, Inc. (Illinois)
Evanston Insurance Company (Illinois) NAIC Code: 35378
Underwriting Management, Inc. (Virginia)
Markel Southwest Underwriters, Inc. (Arizona)
Markel Underwriting Managers, Inc. (New Jersey)
Gryphon Holdings, Inc. (Delaware)
Deerfield Insurance Company (Illinois) NAIC Code: 37184
Markel West, Inc. (California)
Associated International Insurance Company (Illinois) NAIC Code: 27189
Black/White & Assoc. Insurance Brokers (California)
Terra Nova (Bermuda) Holdings, LTD (Bermuda)
Markel International Limited (England)
Markel International Insurance Company Limited (England)
Terra Nova (Bermuda) Insurance Company LTD. (Bermuda)
Markel Capital Limited (England)
Lloyd's Syndicate # 3000 (England)

RELATED PARTY TRANSACTIONS

The Company entered into a management agreement with American Underwriting Managers Agency, Inc. (AUM), effective January 1, 1995, whereby AUM acts as the exclusive underwriting and business manager for the Company. AUM provides all management, administrative, financial, underwriting, claims, reinsurance and other underwriting services for those classes of business that the Company writes. However, the Company makes the final decision on the classes of business in which it wishes to engage, the volume of premium it chooses to write in each class, and whether to change classes of business or withdraw from any class of business at any time.

The Company has entered into a number of binding authority agreements with affiliated companies. Effective January 1, 1995, the Company entered into an agreement with AUM and Shand Morahan & Company, Inc., now Markel Shand, Inc. (MSI). Under this agreement, the Company and AUM granted MSI underwriting and claims authority with respect to certain programs. Effective August 14, 1995, the Company entered into an agreement with AUM and Underwriting Management, Inc. This agreement was approved by the Bureau on February 27, 1996. Effective January 1, 2000, the Company entered into an agreement with AUM and Markel Service, Inc., doing business as Markel Underwriters & Brokers. This agreement was approved by the Bureau on February 3, 2000. Effective March 1, 2000, the Company entered into an agreement with AUM and Investors Underwriting Managers, Inc., now Markel Underwriting Managers, Inc. This agreement was approved by the Bureau on March 8, 2000. Effective April 1, 2001, the Company entered into an agreement with AUM and Markel Southwest Underwriters, Inc. This agreement was approved by the Bureau on February 28, 2001. Effective January 1, 2006, the Company entered into an agreement with AUM and Markel Global Marine & Energy, Inc. This agreement was approved by the Bureau on February 7, 2006. Effective April 1, 2007, the Company entered into an agreement with AUM and Black/White & Associates Insurance Brokers. This agreement was approved by the Bureau on September 11, 2007.

The amount of business written under these binding authority agreements is as follows:

American Underwriting Managers Agency, Inc.	48.6%
Markel Underwriters & Brokers	23.2%
Underwriting Management, Inc.	11.3%
Markel Shand, Inc.	9.6%
Markel Underwriting Managers, Inc.	4.2%
Markel Southwest Underwriters, Inc.	3.1%

For the period under review, the Company made payments with respect to the above agreements of $26,897,389 in 2005, $29,588,341 in 2006 and $31,563,405 in 2007.

On July 2, 1998, the Company entered into an Investment Advisory Agreement with Markel Gayner Asset Management, Inc. (Markel Gayner). Under this agreement, Markel Gayner provides investment advisory services to the Company with respect to assets in its investment portfolio. The Company pays an annual fee to Markel Gayner equal to one percent of the portfolio's market value.

Effective August 12, 2003, the Company and its affiliated underwriting managers entered into a service agreement with Markel, granting Markel authority to issue checks on behalf of the Company and its affiliates in order to pay the expenses of the Company and its affiliated underwriting managers. This agreement was approved by the Bureau on August 12, 2003.

Tax Sharing Agreement

The Company is included in the consolidated federal income tax return filed by Markel. There is a written tax allocation agreement which was effective December 30, 1994, and covers tax allocations for the taxable year 1991 and thereafter. The method of allocation is based upon a separate federal income tax return calculation for each party subject to this agreement, except for deferred intercompany transactions.

Dividends

The Company paid the following dividends to Markel during the period under review:

2007	$26,137,439
2006	$16,950,901
2005	$8,131,469

None of the above dividends was determined to be an extraordinary dividend. The dividends were paid by transfer of securities and cash.

Revolving Credit Arrangement

On February 25, 1999, the Bureau approved a revolving credit arrangement between the Company and Markel. This agreement enables the Company to borrow up to 25% of its policyholders surplus level as of the immediately preceding December 31, if necessary, from Markel. The arrangement's purpose is to provide efficient cash flow to the Company in the event it is necessary to settle large claims, particularly prior to reinsurance recoveries. The repayment of borrowed funds (unsecured) will occur pursuant to the terms of a short-term demand note bearing interest from the date of advance until repayment at the prime rate periodically announced by a certain financial institution. Payment of principal is on demand. Reinsurance recoveries when received will be used to repay the loans. This arrangement anticipates that such loans will not remain outstanding for more than 90 days. Either party may terminate the arrangement upon 30 days written notice to the other.

On December 19, 2005, the Company borrowed $5,000,000 from Markel pursuant to the terms of this agreement. On March 22, 2006, the loan amount plus interest was repaid. At December 31, 2007, there were no balances outstanding under this agreement.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

At December 31, 2007, the Company was named as an insured on a financial institution bond providing coverage for Markel and its subsidiaries. Coverage under this bond includes fidelity, forgery, counterfeit currency, property loss and computer systems. The coverage limit for each is $15,000,000.

Other coverage in effect at December 31, 2007 included directors and officers liability, insurance company errors and omissions insurance, excess insurance company's professional liability, workers compensation and employers liability, excess umbrella and other liability insurance.

TERRITORY AND PLAN OF OPERATION

At December 31, 2007, the Company was licensed to operate in all states, the District of Columbia and Puerto Rico. In Virginia, the Company was licensed to transact the following lines of business:

Accident and sickness
Credit accident and sickness
Fire
Miscellaneous property
Farm multiple peril
Homeowners multiple peril
Commercial multiple peril
Ocean marine
Inland marine
Workers compensation – employer liability
Liability other than auto
Automobile liability
Automobile physical damage
Aircraft liability
Air physical damage
Fidelity
Surety
Glass
Burglary and theft
Boiler and machinery
Credit
Animal
Water damage

Currently, the majority of the Company's direct premium is written in California, Florida, Louisiana, New York, Pennsylvania, Texas, and Michigan. According to the Company's 2007 Annual Statement, the Company wrote the following lines of business:

Direct:

Fire
Allied lines
Homeowners multiple peril
Commercial multiple peril
Ocean marine
Inland marine
Medical malpractice – claims-made
Other liability – occurrence
Other liability – claims-made
Products liability – occurrence
Private passenger auto liability
Commercial auto liability
Auto physical damage

Assumed:

Fire
Allied lines
Commercial multiple peril
Ocean marine
Inland marine
Medical malpractice – claims-made
Other liability – occurrence
Other liability – claims-made
Products liability – occurrence
Products liability – claims made
Private passenger auto liability
Commercial auto liability
Auto physical damage
Burglary and theft
Reinsurance – nonproportional assumed property
Aggregate write-ins for other lines of business

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the Company's growth from inception to December 31, 2007:

Year	Admitted Assets	Liabilities	Capital Paid-Up	Gross Paid In and Contributed Surplus	Unassigned Funds
1998	$58,378,252	$36,416,966	$3,000,000	$7,443,668	$11,517,618
1999	66,035,252	46,842,213	3,000,000	7,443,668	8,749,371
2000	91,766,653	68,547,331	3,000,000	7,443,668	12,775,654
2001	149,025,763	117,373,129	5,000,100	10,443,568	16,208,966
2002	221,211,124	170,989,382	5,000,100	27,443,568	17,778,074
2003	291,597,774	220,546,072	5,000,100	27,443,568	38,608,034
2004	352,626,077	271,311,383	5,000,100	27,443,568	48,871,026
2005	394,729,273	303,831,265	5,000,100	27,443,568	58,454,340
2006	403,368,773	294,657,697	5,000,100	27,443,568	76,267,408
2007	399,853,359	298,319,304	5,000,100	27,443,568	69,090,387

Year	Earned Premiums	Incurred Loss And Loss Adjustment Expenses	Other Underwriting Expenses	Net Underwriting Gains or (Loss)
1998	$22,557,907	$15,306,109	$11,435,812	($4,184,014)
1999	24,587,965	16,437,141	10,188,029	(2,037,205)
2000	35,650,844	23,165,097	15,377,193	(2,891,446)
2001	56,440,540	40,499,850	19,697,063	(3,756,373)
2002	84,338,552	57,788,410	25,638,314	911,828
2003	114,673,194	70,647,618	33,547,512	10,478,064
2004	124,208,671	77,724,185	36,216,357	10,268,129
2005	117,135,877	64,401,589	37,428,489	15,305,799
2006	114,444,340	46,988,282	41,735,769	25,720,289
2007	108,313,656	45,636,076	39,679,834	22,997,746

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2007:

Ceded Non-Affiliate

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Excess of Loss	Professional Liability, Errors and Omissions Liability, Directors and Officers Liability, Medical Malpractice Liability, Blanket Bonds, Fiduciary (including ERISA), Fidelity, General Liability, Products Liability, Umbrella Liability, Excess Automobile Liability, Excess Workers Compensation, Personal Injury, Employers Liability, Excess Liability, and Other Liability Coverages	$1,000,000 each and every loss as respects each coverage part of each policy, per policy	40% of $4,000,000 each and every loss as respects each coverage part of each policy, per policy in excess of $1,000,000 each and every loss as respects each coverage part of each policy, per policy
First Excess and Umbrella Facility Cessions	All policies underwritten on behalf of Markel Underwriting Managers, Inc. for business classified as Lead Umbrella Liability, Following Form Excess General Liability (including Following Form Excess Employers Liability), Following Form Excess Automobile Liability, or Excess Umbrella Liability	Quota Share 25% of 70% of each loss, each occurrence	7.5% (25% of 30%) of the amount in excess of $2,000,000 each occurrence as respects policies attaching at less than $5,000,000 (ground up)

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
First Excess and Umbrella Facility Cessions (continued)		Excess of Loss $2,000,000	9% (10% of 90%) of the amount in excess of $2,000,000; subject to a limit of $270,000 (10% of 90% of $3,000,000) in the aggregate as respects policies attaching at less than $5,000,000 (ground up)
		Excess of Loss $5,000,000	54% (60% of 90%) of the amount in excess of $5,000,000; subject to a limit of $2,700,000 (60% of 90% of $5,000,000) in the aggregate as respects policies attaching at less than $5,000,000 (ground up)
		Quota Share 25% of policies attaching at or above $5,000,000 (ground up)	26.25(35% of 75%) up to $10,000,000 each occurrence in the aggregate as respects policies attaching at or above $5,000,000 (ground up)

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Quota Share	All policies underwritten by Burns and Wilcox Ltd. on behalf of Markel Underwriting Managers, Inc. for business classified as Commercial Umbrella Liability	$2,000,000 of loss, each occurrence, each policy	100% of $2,000,000 of loss, each occurrence, each policy, not to exceed $3,000,000 each occurrence each policy
Various	All policies underwritten on behalf of Markel Underwriting Managers, Inc. for business classified as Lead Umbrella Liability, Following Form Excess General Liability (including Following Form Excess Employers Liability), Following Form Excess Automobile Liability, or Excess Umbrella Liability	Quota Share 70% of each loss, each occurrence	30% up to $2,000,000 each occurrence as respects policies attaching at less than $5,000,000 (ground up)
		Excess of Loss $2,000,000	90% of the amount in excess of $2,000,000; subject to a limit of $2,700,000 (90% of $3,000,000) in the aggregate as respects policies attaching at less than $5,000,000 (ground up)
		Excess of Loss $5,000,000	90% of the amount in excess of $5,000,000; subject to a limit of $4,500,000 (90% of $5,000,000) in the aggregate as respects policies attaching at less than $5,000,000 (ground up)

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Various (continued)		Quota Share 25% of policies attaching at or above $5,000,000 (ground up)	75% up to $10,000,000 each occurrence in the aggregate as respects policies attaching at or above $5,000,000 (ground up)
Per Risk Excess of Loss	Marine Hull and Machinery including War and S.R.C.C., Marine Liabilities, Protection and Indemnity, Excess Protection and Indemnity, Marine Cargo and Marine Cargo War Risks, Builders Risk, Boat Dealers, Yachts, Watercraft, Marine-Related General Liability and Property Coverage	$1,000,000 ultimate net loss each and every risk	100% in excess of $1,000,000 subject to a limit of $4,000,000 in any one occurrence
Occurrence Excess of Loss	Marine Hull and Machinery including War and S.R.C.C., Marine Liabilities, Protection and Indemnity, Excess Protection and Indemnity, Marine Cargo and Marine Cargo War Risks, Builders Risk, Boat Dealers, Yachts, Watercraft, Marine-Related General Liability and Property Coverage	First Excess of Loss Sub-Section A $1,000,000 ultimate net loss per occurrence	100% in excess of $1,000,000 subject to a limit of $4,000,000 in any one occurrence
		Sub-Section B $2,000,000 ultimate net loss per occurrence	100% in excess of $1,000,000 subject to a limit of $3,000,000 in any one occurrence

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Occurrence Excess of Loss (continued)		Second Excess of Loss $5,000,000	100% in excess of $5,000,000 subject to a limit of $5,000,000 in any one occurrence
		Third Excess of Loss $10,000,000	100% in excess of $10,000,000 subject to a limit of $5,000,000 in any one occurrence
		Fourth Excess of Loss $15,000,000	100% in excess of $15,000,000 subject to a limit of $10,000,000 in any one occurrence
Property Per Risk	All policies underwritten by Markel Underwriting Managers, Inc., Red Bank, New Jersey or Brittany Insurance Services, Inc., Glendale, California classified as property	$1,500,000, each loss, each risk	100% of the amount in excess of $1,500,000 not to exceed either $3,500,000 each loss, each risk, plus the proportionate share of any applicable loss expense, or $10,500,000 in respect of any one loss occurrence

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Property Catastrophe Excess of Loss	Property, including but not limited to Commercial Property, Personal Lines Property, Ocean Marine, Watercraft, Motorcycle, Railroad, Inland Marine, Automobile Physical Damage, Commercial Marine, and Glass	$200,000,000 ultimate net loss any one loss occurrence	$100,000,000 ultimate net loss each loss occurrence, subject to a $200,000,000 during the term of the agreement

Ceded - Affiliate

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Quota Share (Evanston Insurance Company)	All business underwritten by SMCO and AUM	15% of net retained liability within the first $1,000,000 layer	85% of net retained liability within the first $1,000,000 layer
Quota Share (Essex Insurance Company)	All business underwritten or managed by Underwriting Management, Inc.	0%	100% of net retained liability
Quota Share (Essex Insurance Company)	All business written by the Company under the Jackline policy	67% of each line	Hull Limit: 33% of up to $3,000,000 of any one hull including tenders Personal Property: 33% of up to $100,000 of personal property as defined by the Jackline Policy

Ceded – Affiliate (continued)

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Quota Share (Essex Insurance Company) (continued)			Protection and Indemnity Limit: 33% of up to $2,000,000 per occurrence Personal Liability: 33% of up to $300,000 per occurrence Medical Payments: 33% of up to $25,000 per person per occurrence
Quota Share (Markel Insurance Company)	All business underwritten or managed by Markel Service, Inc., d/b/a Markel Underwriters and Brokers	0%	100% of gross written premium

Assumed - Non-Affiliate

Type of Agreement	Business Covered	Ceding Company Retention	Liability Assumed
Quota Share	Business written by Carlisle Insurance Company	0%	100% of all business written prior to February 20, 1998
Quota Share	All business written by State and County Mutual Fire Insurance Company	0%	100% of the gross retained liability

Assumed - Affiliate

Type of Agreement	Business Covered	Company Reinsured	Liability Assumed
Quota Share	All business underwritten by SMCO	Evanston Insurance Company	15% of net retained liability within the first $1,000,000 layer
Quota Share	All business underwritten or managed by AUM	Essex Insurance Company	100% of net retained liability

Each of the ceded reinsurance contracts contains an insolvency clause and, where applicable, an intermediary clause.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet for which Specific Risk Analyses (SRAs) were required had medium or low risk assessments as determined from the NAIC *Financial Condition Examiners Handbook.* Analytical review procedures were applied for non-SRA items.

The services of Oliver Wyman Actuarial Consulting, Inc., were engaged pursuant to the provisions of Code of Virginia § 38.2-1318 E. This engagement was made to provide an actuarial report as to the reasonableness of the Company's total loss and loss adjustment expense reserves as of December 31, 2007.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Corporate Records
Conflict of Interest
Related Party Transactions
Welfare and Pension Plans
Fidelity Bond and Other Insurance
Territory and Plan of Operation
Growth of the Company
Reinsurance
Accounts and Records
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of December 31, 2007, a statement of income for the period ending December 31, 2007, a reconciliation of surplus for the period under review, a statement of cash flow for the period ending December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$225,152,169		$225,152,169
Common stocks	103,241,747		103,241,747
Cash and short-term investments	4,839,010		4,839,010
Investment income due and accrued	2,891,139		2,891,139
Uncollected premiums and agents' balances in course of collection	29,170,666	195,054	28,975,612
Amounts recoverable from reinsurers	13,276,653		13,276,653
Current federal income tax recoverable and interest thereon	1,387,614		1,387,614
Net deferred tax asset	6,120,869	837,655	5,283,214
Guaranty funds receivable or on deposit	222,881		222,881
Receivables from parent, subsidiaries and affiliates	17,500,437	2,917,117	14,583,320
Totals	$403,803,185	$3,949,826	$399,853,359

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$148,274,340
Reinsurance payable on paid losses and loss adjustment expenses		10,675,546
Loss adjustment expenses		53,683,388
Commissions payable, contingent commissions and other similar charges		750,111
Other expenses		1,018,430
Taxes, licenses and fees		2,914,795
Unearned premiums		43,268,892
Ceded reinsurance premiums payable		23,096,479
Provision for reinsurance		369,370
Payable to parent, subsidiaries and affiliates		14,267,953
Total liabilities		$298,319,304
Common capital stock	$5,000,100	
Gross paid in and contributed surplus	27,443,568	
Unassigned funds (surplus)	69,090,387	
Surplus as regards policyholders		101,534,055
Totals		$399,853,359

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	$108,313,656
Deductions:	
Losses incurred	$35,732,407
Loss expenses incurred	9,903,669
Other underwriting expenses incurred	39,679,834
Total underwriting deductions	$85,315,910
Net underwriting gain	$22,997,746

INVESTMENT INCOME

Net investment income earned	$12,631,868
Net realized capital gains	1,116,934
Net investment gain	$13,748,802

OTHER INCOME

Aggregate write-ins for miscellaneous income	($687)
Total other income	($687)
Net income before federal income taxes	$36,745,861
Federal income tax incurred	10,340,371
Net income	$26,405,490

RECONCILIATION OF CAPITAL AND SURPLUS FOR PERIOD UNDER REVIEW

	2005	2006	2007
Surplus as regards policyholders, December 31, previous year	$81,314,694	$90,898,008	$108,711,076
Net income	$16,950,901	$30,281,028	$26,405,490
Change in net unrealized capital gains or (losses)	789,839	3,652,736	(3,363,218)
Change in net deferred income tax	767,586	(186,582)	(250,762)
Change in nonadmitted assets	(731,444)	1,223,995	(3,668,930)
Change in provision for reinsurance		(207,208)	(162,162)
Dividends to stockholders	(8,131,469)	(16,950,901)	(26,137,439)
Aggregate write-ins for gains and losses in surplus	(62,099)		
Change in surplus as regards policyholders for the year	$9,583,314	$17,813,068	($7,177,021)
Surplus as regards policyholders, December 31, current year	$90,898,008	$108,711,076	$101,534,055

CASH FLOW

Cash From Operations

Premiums collected net of reinsurance	$110,467,218
Net investment income	13,955,067
Miscellaneous income	(687)
Total	$124,421,598
Benefits and loss related payments	$32,182,581
Commissions, expenses paid and aggregate write-ins for for deductions	48,685,562
Federal income taxes paid	12,602,423
Total	$93,470,566
Net cash from operations	$30,951,032

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	$92,157,988
Stocks	28,922,558
Total investment proceeds	$121,080,546
Cost of investments acquired (long-term only):	
Bonds	$63,609,053
Stocks	62,567,596
Total investments acquired	$126,176,649
Net cash from investments	($5,096,103)

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Dividends to stockholders	($13,659,977)
Other cash applied	(13,174,359)
Net cash from financing and miscellaneous sources	($26,834,336)
Net change in cash and short-term investments	($979,407)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	$5,818,417
End of year	4,839,010
Net change in cash and short-term investments	($979,407)

EXAMINERS' CHANGES IN SURPLUS

	Amount per Company	Amount per Examiners	Increase (Decrease) in Surplus
Assets			
Receivable from parent, subsidiaries and affiliates	$17,500,437	$14,583,320	($2,917,117)
Examiners' net increase (decrease) in surplus			($2,917,117)
Surplus as regards policyholders per Examiners			$101,534,055
Surplus as regards policyholders per Company			104,451,172
Examiners' net increase (decrease) in surplus			($2,917,117)

RECOMMENDATIONS FOR CORRECTIVE ACTION

Accounts and Records

Receivable from Parent, Subsidiaries and Affiliates	**$14,583,320**

The above asset is $2,917,117 less than that reported by the Company in its 2007 Annual Statement. This adjustment is for that part of the intercompany receivable representing premium taxes paid by the Company for which it is to be reimbursed. SSAP No. 25 – Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties, of the NAIC *Accounting Practices and Procedures Manual*, states the following: "Amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principles (SSAPs)." The receivable amount was outstanding more than ninety days past the due date pursuant to the terms of the Company's agreement with its affiliate.

SUBSEQUENT EVENT

Effective January 1, 2008, the Quota Share Reinsurance Agreement between the Company and EIC was amended to change the amount ceded to EIC from 85% to 75%.

CONCLUSION

The courteous cooperation extended by the Company's officers and employees during the course of the examination is hereby gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE, Mario A. Cuellar, CFE, and Theresa C. Lewis, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

T. Bradford Earley, Jr., AIAF, CFE, CPCU
Insurance Principal Financial Analyst
Commonwealth of Virginia
Representing the Southeastern Zone, NAIC

MARKEL

MARKEL AMERICAN INSURANCE COMPANY

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09 FEB 27 AM 10:29

VIA CERTIFIED MAIL

February 10, 2009

Mr. David H. Smith, CFE, CPA, CPCU
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Markel American Insurance Company
Examination Report as of December 31, 2007

Dear Mr. Smith:

We have reviewed the Virginia Bureau of Insurance ("Bureau") Examination Report ("Exam Report") of Markel American Insurance Company ("MAIC") as of December 31, 2007.

This letter addresses the one item contained in the "Recommendations for Corrective Action" at page 27 of the Exam Report as requested by the Bureau. We understand that our comments will be attached to and incorporated into the Exam Report.

The following are our comments:

Accounts and Records

Receivable from Parent, Subsidiaries and Affiliates

The intercompany receivable balance of $2,917,117 was settled during 2008. The Company has implemented appropriate procedures and controls (i.e.: quarterly checklist, etc.) to avoid outstanding balances more than ninety days past the due date.

Please send us twenty-five copies (25) of the Exam Report. We understand that you will mail a copy of the Exam Report to each of the states in which MAIC is licensed. If this procedure has changed, please let me know.

We thank the Virginia examiners and staff for their time, patience and guidance throughout the exam process.

Sincerely,

Gina G. A. Cabay

Gina G. A. Cabay
Assistant General Counsel

cc:

AUM
Timberlee Grove
Robert Lucht

SHAND
Laurie Ford
Kathleen Sturgeon

CORP
Mike Jones