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Markel Group

Fourth Quarter 2025 Earnings

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CORPORATE SPEAKERS:

Thomas Gayner
Markel Group; Chief Executive Officer

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Brian Costanzo

Markel Group; Chief Financial Officer

Simon Wilson

Markel Insurance; Chief Financial Officer

PARTICIPANTS:

Andrew Kligerman

TD Cowen; Analyst

Andrew Andersen

Jefferies; Analyst

Mark Hughes

Truist; Analyst

PRESENTATION:

Operator^ Good morning. And welcome to the Markel Group fourth quarter and Year End 2025 Conference Call. (Operator Instructions)

During the call today we may make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

They are based on current assumptions and opinions concerning a variety of known and unknown risks.

Actual results may differ materially from those contained in are suggested by such forward-looking statements.

Additional information about factors that could cause actual results to differ materially from those projected in the forward-looking statements is included in the press release from our 2025 results as well as our most recent annual report on Form 10-K and quarterly report on Form 10-Q including under the captions safe harbor and cautionary statement and risk factors.

We may also discuss certain non-GAAP financial measures during the call today.

You may find the most directly comparable GAAP measures and reconciliation to GAAP for these measures in the press release for our 2025 results, the press release for our 2025 results as well as our Form 10-K and Form 10-Q can be found on our website at www.mklgroup.com in the Investor Relations section.

Please note, this event is being recorded.

I would now like to turn the conference over to Tom Gayner, Chief Executive Officer.

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Please go ahead.

Thomas Gayner^ Thank you, [Rebecca]. And good morning. And welcome. Thank you for joining us all on today's call.

I'm delighted to be here with my colleagues, Brian Costanzo, our CFO; Simon Wilson, CFO of Markel Insurance as well as Mike Heaton, our COO, who will be available for the Q&A session.

In Markel Group, our purpose is to be a long-term home for exceptional leaders in businesses and to relentlessly compound your capital at attractive rates of return over decades, all while staying true to our culture as we described it in the Markel style. 2025 was a year that reinforced the power of that model.

Every reportable segment made a positive contribution and the company advanced both quantitatively and qualitatively.

Let me begin with Markel Insurance where we took a series of decisive long-term actions this year. These were not easy, but they were necessary and I want to thank the entire team for a year marked by tough decisions and genuine progress.

In 2025, we exited underperforming businesses, most notably reinsurance, made key leadership changes including appointing Simon Wilson as the new CEO of Markel Insurance and we made structural improvements to simplify the business and reinforce accountability. The full impact of these changes will play out over years as is the case with all long-term compounding.

Last quarter, I described the results as a green shoot. This quarter, I'll adjust it to the plural: we are now seeing green shoots.

In the fourth quarter, Markel Insurance generated a 92.9% combined ratio and contributed \$399 million of adjusted operating income.

For the full year, the segment delivered \$1.4 billion in adjusted operating income, up from \$1.2 billion in the prior year and 2025 marked the 21st consecutive year of favorable reserve development, a testament to our conservative posture and financial integrity.

Within Markel Insurance, the headline is simple.

We're doing more of what works and less of what doesn't with a focus on simplification, better execution and improved returns on equity.

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As Simon will discuss later, we believe the foundation is now set in it's early days.

Importantly, Markel Insurance is only one part of a broader, more diverse ecosystem of high-quality cash flows which are central to the Markel Group story.

Our financial, industrial and consumer and other segments also delivered positive results in 2025, each benefiting from the autonomy and accountability we give leaders to make the best long-term decisions for their businesses. The financial segment which includes State National and Nephila had a tremendous year, generating \$327 million in adjusted operating income, up 25% in 2024.

The Industrial segment earned \$343 million, slightly below last year's level. This was a strong result given the softening in certain end markets, and it reflects the skills of the amazing leaders of those businesses and the room and space we give them to serve their customers with a long-term mindset. Consumer and Other delivered \$175 million of adjusted operating income, up from \$145 million last year with our acquisition of EPI having most of the increase.

Our public equity portfolio returned 10.5%, generating \$156 million in dividend income and ending the year with a market value of \$13 billion with an unrealized gain of \$8.9 billion. These equity holdings, diversified, high-quality and held with a long-term mindset, remain an important driver of compounding.

All of our streams of adjusted operating income convert well into cash, producing durable, resilient and diverse inflows that give us the flexibility to allocate capital to its highest and best use wherever that may be across the group. To that end, cash flow from our operations grew to \$2.8 billion in 2025. And we put that cash to work with discipline. To give you a sense of that, we deployed some of that cash to \$1.4 billion in fixed maturity net purchases, \$207 million in new property and equipment, we bought \$143 million in net public equity securities and invested \$170 million in bolt-on acquisitions and increases in our ownership stakes in our existing majority-owned businesses.

We also redeemed \$600 million in preferred shares and repurchased \$430 million of our own common shares, all while weighing every dollar invested against its next best alternative.

Even with all that investment and return of cash to shareholders, our cash balance increased by \$411 million and paid down a little bit of our long-term debt. That combination, high-quality cash inflows with a 360-degree set of opportunities to deploy it continues to fuel what we often describe as a perpetual motion machine of shareholder value creation.

In any given year, results can and will be volatile.

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But over 5-year periods and beyond, the trend has been up and to the right. That's the power of long-term compounding.

It is a joy to serve you alongside such a great team.

We are energized for the year to come, and we thank you for your ongoing engagement and support.

With that, I'll turn it over to Brian.

Brian Costanzo^ Thank you, Tom. Good morning, everyone.

As a reminder, last quarter, we released significant enhancements to our financial disclosures, along with the reporting changes guide available on our IR site.

We made these changes to help investors better understand the company and its performance. To review, the major changes we made were changing the presentation of investment gains and losses to be included outside of revenues; establishing new reportable segments of Markel Insurance, industrial, financial and consumer and other, while collapsing our former Investment segment results into these new segments; and reporting of new metrics including adjusted operating income for all segments that excludes investment gains and amortization expense; and segment level KPIs such as organic growth and return on equity for insurance.

With that, let's cover the results for the period, starting with our consolidated results. Markel Group's consolidated operating revenues which exclude net investment gains were up 8% for the quarter and 5% for the year.

Operating income for the quarter was \$795 million, up from \$595 million in the comparable period last year and \$3.2 billion for the year versus \$3.7 billion in 2024.

As a reminder, operating income includes net investment gains which can be volatile from period to period. Net investment gains were \$212 million in the quarter compared with \$117 million in the fourth quarter last year and \$1.1 billion for the year versus \$1.8 billion in 2024.

Adjusted operating income which excludes net investment gains and amortization expense, totaled \$626 million for the quarter, up 19% versus the same period last year. Adjusted operating income was \$2.3 billion in 2025 compared to \$2.1 billion in 2024 or up 10%. The increase in adjusted operating income was primarily driven by improvements in our insurance business and strong performance within our Financial segment.

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Operating cash flow was \$2.8 billion in 2025 versus \$2.6 billion in 2024 and comprehensive income to shareholders totaled \$606 million in the quarter and \$2.6 billion for the year. Turning now to our operating segments, starting with Markel Insurance.

The return on equity for Markel Insurance for 2025 was 14%, and the trailing 5-year period return on equity was 13%.

We view the 5-year average return on equity as our primary KPI within insurance, measuring our commitment to generating consistent profitability within both our underwriting and investment operations and remaining efficient with our use of capital. Markel Insurance underwriting gross written premiums increased 3% for the quarter and 4% for the full year driven by personal lines in the U.S. and growth across several product classes in our international division.

At a divisional level within Markel Insurance -- within our International division, gross written premium grew by 14% for the year, with the division growing in every market.

Our International division continued its recent track record of fantastic results, posting an 83% combined ratio for the year. Programs and Solutions gross written premium grew by 8% for the year, driven by our personal lines and delegated programs units.

For our Wholesale and Specialty division, gross written premium declined 4% for the year. Excluding the impact from exiting our U.S. risk-managed professional liability book earlier this year, premium growth was flat across the division.

In Global Reinsurance which we exited in 2025, gross written premium declined 10% for the year.

Overall, underwriting gross written premium volume, excluding the impact of exiting our global reinsurance and U.S. risk managed professional lines grew by 7% for the year.

One additional note on the premium volume relative to our 2026 reporting.

Our underwriting premium volume next year will be impacted by two significant items.

First, the exit of our \$1 billion gross written premium global reinsurance business; and second, the transition effective January 1, 2026, of our partnership with Hagerty to a pure fronting model. Hagerty premium will be included in our results going forward as fronted gross written premium versus underwriting gross written premium. This change was a natural next step in our long-term evolution of our partnership with Hagerty continuing to retain greater amount of underwriting risk.

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In 2025, Markel only retained 20% of the Hagerty gross written premium volume so the impact on our net earned premium volume will be significantly less. Together, these two changes will decrease underwriting gross written premiums for 2026 by approximately \$2 billion.

But we expect these changes over the long term to benefit our combined ratio, adjusted operating income and return on equity. Turning back to insurance profitability. Adjusted operating income for Markel Insurance was \$399 million for the quarter, up 31% from last year. The combined ratio for the quarter was 92.9%, compared to 95.9% in the same quarter last year. This 3-point improvement was driven by lower losses from our CPI product and within our U.S. casualty lines, partially offset by higher attritional losses in our U.S. personal umbrella product and large losses incurred in the fourth quarter within our U.S. Surety line.

Our Surety portfolio has been highly profitable for us since our acquisition of SureTec in 2017.

For the year, Markel Insurance finished with \$1.4 billion in adjusted operating income and a combined ratio of 94.6%, a one point improvement from last year.

We had six points of favorable prior year loss development for both the quarter and year-to-date periods, and our balance sheet position for reserves remains strong. Turning next to our investment portfolio.

Our net investment income was \$258 million in the quarter and \$970 million for the year, up 6% for the quarter and 5% year-to-date due to higher interest rates and increased holdings in fixed income securities.

Our fixed income portfolio yield was 3.6% for the fourth quarter.

We reinvested new money into securities at an average yield of 4% in the quarter versus 3.1% on average across our net maturities.

Within our public equity portfolio, during 2025, we made \$143 million of net purchases of securities.

Our public equity portfolio returned 10.5% for the year bringing the value of our public equity portfolio at the end of the year to \$13 billion with a total unrealized gain of \$8.9 billion.

Over the trailing 5-year period, the equity portfolio's annual return was 12% compared with 15% for the S&P 500.

Our net equity purchases declined year-over-year, reflecting rising and less attractive valuations and better opportunities elsewhere for incremental investments. Moving to our Industrial

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segment, revenues were \$1 billion for the quarter and \$3.9 billion for the full year, up 4% for both the quarter and for the year.

Organic revenue growth was 2% for the year. Revenue growth for the year was impacted by our acquisition of Valor and organic growth was driven by our equipment leasing business and our businesses that serve commercial and residential construction markets partially offset by lower revenues in our transportation products businesses. Adjusted operating income was \$80 million for the quarter, down 26% from \$108 million in the same period last year.

Adjusted operating income was \$343 million for the year or down 6% versus 2024. The decline in adjusted operating income was driven by lower revenues in our Transportation Products businesses and tightening margins due to higher materials and labor costs within our other products businesses.

For our Consumer and Other segment, revenues were \$274 million in the quarter, and \$1.4 billion for the full year or up 4% for both the quarter and year-to-date periods.

Organic revenue growth was 1% for the year. Adjusted operating income was \$23 million in the quarter, up 35% versus \$17 million in the same quarter one year ago. Adjusted operating income was \$175 million for 2025 or up 20% versus 2024, driven primarily by our acquisition of EPI and higher sales volume of ornamental plans. Next, within our Financial segment, revenues were \$224 million or up 41% for the quarter versus the same period one year ago and \$737 million for 2025, up 24% versus 2024.

Organic revenue growth was 17% for the year. The increase in revenues for the year was due primarily to increased performance fees at a higher management fee rate within ILS along with higher premium volumes within our program services product. Year-to-date revenues were impacted by a \$41 million gain on the sale of our remaining minority interest in Velocity earlier this year.

The increases in revenue drove adjusted operating income up 58% to \$107 million for the quarter versus the comparable period one year ago and up 25% for 2025 to \$327 million. The year-to-date adjusted operating income change was also impacted by \$58 million of favorable loss development related to Markel [Capco] recognized in 2024.

Finally, regarding capital allocation.

For the year, we repurchased shares totaling \$430 million, reducing our share count to 12.6 million shares from 12.8 million shares at the end of last year.

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We also redeemed our \$600 million preferred stock issue earlier this year, making total capital returned to shareholders over \$1 billion.

With that, I will pass it over to Simon to discuss Markel Insurance.

Simon Wilson^ Thank you, Brian. And good morning, everyone.

I'm pleased to be with you and share some further insight on the progress at Markel Insurance.

First up some numbers. The quarter produced a combined ratio of 92.9%, 3percentage points better than the same quarter in 2024. The prior year reserve release of six points in the quarter was broad-based and reflected it with the stable position of our reserves.

We achieved 3% growth in GWP and 7% growth in net earned premium despite our withdrawal from the global reinsurance business.

Improving underwriting results were an important factor in achieving a 14% return on equity for Markel Insurance in 2025.

Our underwriting and reorganization actions over recent years are beginning to pay dividends.

We are now far better able to focus on the key areas where we have a right to win. The combined ratio of our three ongoing business divisions for Q4 2025 which excludes the impact from Global Reinsurance and CPI was 91%.

This figure would have been even stronger but was impacted by heavier than expected losses in a large personal umbrella program and our surety business, where we were hit by three discrete losses in the period. Every decision that we made during 2025 was designed to simplify our business and create clarity around P&L ownership. Ultimately, these decisions will drive more consistency and better execution around the key financial metrics combined ratio and return on equity over the long term.

The 2026 business planning process completed in the quarter was a key test of a new structure and gives me confidence that the overall organization will benefit from the changes we made in 2025. five key indicators that underpin this confidence are: number one, a revamped portfolio mix with a refreshed focus on bottom line results and a wide range of profitable growth opportunities.

Number two, ambitious and measured investment plans for our high-performing businesses with clear growth opportunities such as environmental energy, healthcare, financial institutions, personal lines and workers' comp in the U.S. and our key regional businesses in the London

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market, European Union, Asia Pacific, Canada and the U.K. Number three, P&L owners are challenging expenses harder than I've seen in a long time.

It's been interesting to watch the way behavior changes when costs are clearly attributable to a business unit.

I fully expect and encourage this behavior to continue.

The planned doubling of investment of our technology stack this year versus last is the fourth area. These decisions are now driven by the business rather than the corporate center.

For example, [we risk] a complete system overhaul in the high-performing personal lines business, the continued transformation of our data in core operating systems across the International division and a commitment to increasing decision-making speed and response times in our core U.S. wholesale and specialty division. AI will be a central component of all these investments.

We are fully aware that speed is a critical success factor in our business, and we are focused on improving it. And finally, number five, a renewed sense of ownership across our leadership group, a founder's mentality is returning to the fray.

Our business model is designed to be driven by many, not few.

We have set clear expectations for every area of our business for 2026.

Our job is now to execute.

Further, the overall improvement in operations is built upon the continued strength of our balance sheet. The overall reserve release for 2025 was six points or \$484 million.

We're able to make these releases while increasing our margin of safety and overall strength of the balance sheet.

We have a continued commitment to setting reserves that are more likely redundant than deficient.

Our strong margin of safety will be important in the coming years.

There is no doubt that market conditions in many areas of the specialty insurance industry have softened. Profitability has been high. Competition has increased and prices are under pressure in several key lines of business.

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However competition drives progress and our customers and brokers continue to value clear appetite, market-leading expertise, high-quality service and speed of decision-making.

Our job is to continue building a business that meets these needs all while staying true to the Markel style.

Businesses and teams that focus on their customers remain well organized and have a strong sense of purpose are those best positioned to exceed in any market conditions.

As the comedian Billy Connolly once quipped, "There is no such thing as bad weather, only the wrong clothes." I'm pleased with our new wardrobe and look forward to sharing the results with you on the 2026 catwalk.

With that, I'll pass it back to Tom.

Thomas Gayner^ Thank you, Simon. [Rebecca], we'd love to open the floor for questions. Thank you.

QUESTION & ANSWER:

Operator^ (Operator Instructions) The first question comes from Andrew Kligerman with TD Cowen.

Andrew Kligerman^ I'd like to start off in the Property Casualty segment.

I think that in early January when you hosted an investor meeting, Simon, you touched on wanting to kind of level out at a 93 combined ratio. And I guess the fortunate part is that you're more focused on casualty.

So I want to get a sense, do you feel like the way pricing is in casualty coupled with some intense loss cost trends.

Can you -- and you did come in at 92.9, so right on the number in the quarter.

Do you feel like you can sustain the trends, the 93? And then underlying that, looking at Program & Solutions, you came in at 101.9.

I'd like to know what drove that and what you might do to kind of get that lower? And then on the flip side, international was fabulous at 80.5 and I'm wondering what's driving such a terrific combined ratio and whether trends are going to push that up.

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One question.

Simon Wilson^ Yes Well that's pretty much everything there? That's fine. And thank you for the interest in the -- in those numbers as well.

I have said and we said for a long time now that to hit our return on equity kind of like aspirations, a low 90s combined ratio is important to us.

So that's absolutely my ambition and the focus of our organization to get down to that kind of a number consistently, that's the plan.

Part of your question is saying, "Look, you guys, a pretty casualty centric organization, how do you get to a 93 with that backdrop?" I'd probably challenge that actually.

I don't think we are that heavily casualty oriented.

We've got a very diverse book of specialty products. Yes. We've got U.S. casualty.

But our London market business, for example, lots of marine, energy, a lot of professional lines all around the world.

So I don't know the exact percentages of our casualty contribution to our book, but it will be less than 50% for sure. And so again very well balanced across the portfolio. Therefore I think it's the power of that diversification and us kicking the tires in lots of these specialty business areas that gives us the confidence that we can get towards achieving that ambitious combined ratio target over time.

So if you're asking me, do I think we can approach those targets?

Well everything that we're doing and putting in place is designed to achieve those, but we'll see how that pans out.

But it's a diversification of the portfolio and those different drivers, a couple of those that you just called out that will end up with the result overall.

So we're focused on it, feel good about it at the moment.

Specifically on Programs and Solutions, you raised that in the quarter.

It took a [pot].

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I did mention in my comments, I think Brian did in here, there are two factors that influence that and a quarter is a pretty short period of time.

So you get the occasional blip. The two areas were in our -- what we call our programs business, that's delegated underwriting where we do a personal umbrella account. And we saw the claims trends beginning to spike in that area. And what we tend to do at Markel, and certainly, my philosophy is to get ahead of those loss trends and put our reserves up early.

So the combined ratio, and the loss ratio within that for the personal umbrella program, is really driven by us putting up a big solid reserve against that program so that we've got the money in the bank effectively to pay the claims that may or may not come through, but that's our best guess at the moment and very much focused on that redundant rather than deficient position on our balance sheet.

So that's the first area in Programs and Solutions that they've created that result that came overall. The second area was actually in our Surety business which I'll be honest, I think we were a little bit surprised, not least because the Surety business has been an absolute mainstay of profitability for a decade now since we bought a company called SureTec back in the mid-2000 teens.

This type, often in business like the ones that we do, we get the occasional large loss. And in surety, we actually suffered three large losses in the quarter, and we've obviously reserved paid claims against those.

That happens.

I will take the trade on surety every day of the week though.

We were -- we had three large losses this year, but it's on the back of 10 years of very significant profitability. And as we look forward into 2026, having reviewed that entire buck of business, we feel really good about that. The standard result that comes out of that business absolutely meeting our combined ratio and return on equity target.

So I would consider, and I genuinely think as the Programs and Solutions business suffered from two very specific areas. The rest of that area, Personal Lines business, our Bermuda business and our workers comp business both perform really well.

So on average, I think they did really nicely.

International, I do have a fairly good insight into that. They've been producing extremely good results for a number of years now.

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And what happened there was in the late of probably 2017, '18, we took a big hard look at the portfolio and took out areas of business which we didn't think were going to be profitable over the long term, areas where we didn't feel we had the right to win.

So when we cut back and this is 5, six years ago, those areas, we then started to grow in areas where we did have the right to win and our regional businesses as well.

So what we're seeing now is the result of decisions that were made in five and six years ago and then investment on that new business model over quite a long period of time.

So key growth areas last year were in Asia Pacific which was up over 30%.

Our European Union business which is up 20%, London market business is up 13%.

They are all areas that we've been strategically investing in for a long period of time. And the result is one of quite good market conditions over the past few years, but absolutely focused investment in areas where we think we can win. And that's what we're trying to do in all the other areas of the business now that we've got this really focused business model across the whole of Markel Insurance.

So I can't say that we're going to achieve low 80s combined across the whole thing for the next decade. That's not what I'm going to say here, but we'll take the international results now.

And I think what we see now and the techniques that were driven to achieve those results is exactly what we're deploying across the rest of the business. And that's what gives me confidence in the thing as a whole. And I look forward genuinely to what we can do in 2026.

Thomas Gayner^ If I may Andrew, just to finish up to translate Simon's english accent to the American idiom, we will do the best we can, and that's not so bad.

Andrew Kligerman^ No. It's not. Thank you for that super helpful response. Maybe shifting over to industrial and consumer and by the way thank you for the new reporting structure.

It's very helpful. The Industrial organic revenue was up 2.5, I think you just mentioned equipment leasing was good, and it was offset by transportation.

Wondering if you could share a little color on how that's likely to trend going forward? And then in the consumer, you had organic growth of about 1%.

I think you mentioned ornamental plants was a positive.

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But how do you think that's going to trend going forward as well?

Thomas Gayner^ Yes, Andrew, it's Tom.

We are delighted with the collection of businesses that we own.

We've got first-class people running them. They're producing good returns on capital.

We run those with a focus on good returns on capital over long periods of time.

Each and any one of those businesses in any quarter has volatility and normal cyclical and seasonality.

So frankly, the answer to your question is, we don't think about it that much.

As long as those businesses are being well run and doing what they should do, well then the outside forces are what they are.

But we've coded up the numbers of them for a long period of time as you can more clearly see and the way we're presenting the financial disclosures and data these days, we were happy.

We were happy six months ago.

We're happy right now.

We would anticipate continuing to be happy with the way those businesses are performing.

Operator^ Your next question comes from the line of Andrew Andersen with Jefferies.

Andrew Andersen^ Maybe just on the Insurance segment. How are you kind of viewing the insurance pricing environment into '26? Are you still seeing rate increases in certain areas? And maybe how does that differ between U.S. wholesale and the International segment?

Simon Wilson^ Thanks, Andrew. Thanks for the question.

In -- there's a general trend, I think I mentioned that sort of -- there's a number of lines that you are seeing softening [rating] conditions at the moment.

In particular, I would say U.S. property would be top of the list on that.

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We've seen very significant profitability definitely in our book, but that's across the industry. And with that profitability offered in that insurance market cycle, you see heavy competition.

So we are seeing very significant competition in the U.S. property market. And it depends what the account is but you're looking at probably at least 10% reductions in many of that property book and probably up nearer towards 20, I think in general terms.

And we've seen that reported by several other players as well. There is a bit more nuance in that.

It's not just to say like every property risk is down double-digit percentages.

What we're really seeing in property is the structured and layered risks that come in. There's a change in the structure that's going about.

So the primary layer is actually writing larger lines sort of the initial insurer. And some of the layers on top of that, the excess layers are being challenged either by being removed completely or you're seeing an awful lot of competition going around them.

So if you're playing in the second or third excess layer, you're probably seeing more intense price reductions there than maybe you are on the primary side.

So the property is generally soft, but you're also seeing that nuance it depending on where you play in the program. A lot of people though in property are talking maybe not just about rate reductions, but rate adequacy.

And I think that's really important because there are a lot of sharp rises in the property market when we saw catastrophes kind of three and four years ago impacting the cat market and then the non-cat market in property as well.

So I think the general sentiment in the industry is that prices are just about remaining adequate at the moment.

But you really have to be thoughtful about what your risk appetite is and where your -- sort of your walkaway price might be.

So we're keeping a close eye in that area. Conversely, the casualty market continues to get rate increases specifically in auto risks, habitational risks, construction risks, we're seeing that significant rate increases ongoing.

And that's important because the claims trends that we're seeing in those areas continue to be fairly strong as well.

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So the skill in casualty is not just writing everything just because rates are going up, but really being thoughtful about the areas of the casualty market in which we're going to play because the litigation environment in the United States is all very significant as well. Moving to international briefly.

I would suggest that there is softness there.

So there's a wholesale market in London, you see quite a lot of business that have been going to London becoming sort of structured in certain brokers of bringing that in and [looking] for price reductions when they go into London.

So certainly, in marine lines, energy lines, property areas, we're seeing that price competition in London as well.

I think the professional lines area actually has begun to stabilize after a couple of years of softening.

I think that's stabilizing. And again being really focused on rate adequacy in that area is what we're focused on. And sticking to the bits of the professional lines where we really think we add value to the broker and to the ultimate customer and where we've got expertise that serves us well and that's one of the reasons why our combined ratios have been so good in London is because we've chosen our risk pretty well outside of London in our regional offices, and this is a really important point for people to know.

We tend to focus on the small end of the risk market. And a very small end of the risk market. And this is maybe \$2,000, \$3,000 policy is quite often, certainly in the European Union, the U.K. regions and some of our Asia book.

In that area, the price competition is less aggressive.

So yes, you might see a bit of softening, but it's very much single digit in there and often we're charging minimum premium.

So the rate adequacy can be really positive in that area.

So less affected outside of our London lines than in London just because of the intensity of competition for that small risk segment is just lower.

It's harder to get at, and it's stickier.

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So our strategy within international is to grow our non-London portion relative to London so that we've got more of this kind of smaller, stickier business which is less exposed to intense price competition going forward. And I think that balance will help us with our overall diversified portfolio over time.

So it's a mixed bag in terms of what's happening in the rating environment. And to very quickly summarize, property is competitive. Casualty actually, we're seeing firming and hardening, but it's not an easy market to underwrite your way through.

London is competitive, non-London international actually is stacking up -- continues to stack up pretty well.

So hopefully, that gives you a bit of a flavor of what's going on in our world. It's an interesting time. And I like our odds with the underwriters that we've got in the ground to navigate it.

Andrew Andersen^ Very comprehensive. And maybe we could just kind of shift to AI and the expense ratio.

What kind of -- where is it being deployed within insurance? Maybe what are some returns or examples you've seen so far? And some focus areas into '26 and '27 for deployment?

Thomas Gayner^ I'll ask Brian to take the first half of that.

Brian Costanzo^ Sure. Yes.

I mean I think with the new model that we have and the operating model and the org structure, I mean now it's really in the hands of the individual business leaders.

We're trying to put tools in their toolbox, make them aware of what's out there.

We've had some really nice wins in lines where you have large documents and needs to digest big amounts of data.

So think of things like transaction liability, financial institutions where you can get data rooms filled with all kinds of things that humans have to pour through. The AI can synthesize that down very quickly, pull together the data and allow you to lower the investment of the human side, and that allows you to look at accounts that from a size and premium standpoint, you wouldn't have been able to access just because of the human element and the expense ratio going after those.

Now you broaden what you can go after from an appetite standpoint.

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So that's certainly one example.

I think the other place we've seen a lot of AI use is in data ingestion.

So when we have delegated underwriting arrangements, when we have [data or] business coming in when we need to get data into our systems, and use that to make decisions using the AI to transport, bring it in, and that avoids a lot of the human element of what I call data wrangling and data compiling that's expensive, it's non-value add.

It shifts those resources now to where the data is there. You can now spend the time doing the analysis, finding the trends, finding where you win and enhancing the book overall.

Simon Wilson^ And I'll just add to Brian, and you picked up some really important spots.

I will say this, I am -- Andrew, I'm utterly obsessed with operations.

I'm sort of -- I'm pretty cheeky around this stuff.

I'll admit that much. And efficient and high-quality operations that lead to speed of response are absolutely at the center of my mind now.

I'm really excited about where we are on this AI position.

We have some really exciting projects ongoing at the moment. Brian alluded to a couple of them there.

But what 2025 did to clear the organizational structures that can really focus on specific programs -- specific areas of the business allows us to deploy AI in a much, much more effective way than a simple broad brush effect that we did previously.

So I don't think we're doing some really exciting things, I think will begin to impact our productivity and efficiency at the moment.

But I'm going to start turning the handle on AI and just operations, in particular, during this quarter and next to get our focus in and around that. And I think that will begin to have a much more material impact as we go through the next sort of six to 12 months.

So we've made a nice start, but the strategic level of what we need to do here is just beginning.

Brian Costanzo^ And maybe I'll add, more talk more generally on expense ratio.

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If you look at the portfolio, the areas in which we're growing and have been very profitable in some of the segments in international, our European business, our Asian business, in the U.S., our personal lines business. Those are all great businesses. Low combined ratios, they have higher expense ratios to operate. They have all this inverted expense ratio, loss ratio profile to other areas of the business.

Areas where we've been very challenged, our global reinsurance business, our risk-managed professional liability product that we've exited. Those are some of the lowest expense ratio businesses that we had in our portfolio.

So we are ultra focused on combined ratio, return on equity.

We certainly want to take advantage of efficiencies, AI or whatever they might be from an operations standpoint.

But number one is that combined ratio focus that we have.

Operator^ Your next question comes from the line of Mark Hughes with Truist.

Mark Hughes^ Yes. Thank you very much. Good morning.

In the Financial segment, earnings very strong this quarter. You talked about better fees, I think assets under management.

How much of that was product of just the light cat season this year? And how much of that should we think ought to carry forward into 2026?

Thomas Gayner^ Yes. I'll start, and I'll turn it to Brian. Yes, clearly, the light cat environment helps.

Brian Costanzo^ Yes.

I mean -- so what I'll say is like cat environment, at Nephila. They did earn some performance fees in the fourth quarter based on that, that's kind of [big].

We've talked about this before. Those kind of all meticulous in the fourth quarter.

So you wait the full year, you see how the ultimate kind of cat season plays out. And then in the fourth quarter, those crystallized. And with a very low cat season, we saw the benefit coming from that. The other thing going on there is the State National business has just been on a

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consistent track record year-over-year growth in the premium base, growth in the fee income that they're generating. That's high-margin business when it comes in.

So a lot of that growth drops right to the bottom line.

Mark Hughes^ On State National, have you seen any push in your book for more risk retention on your part or -- Yes.

I'll just leave it at that.

Thomas Gayner^ Yes. It's Tom again. Yes. That's a feature of the market.

State National has been a leader, they do well and leaders attract competition.

Mark Hughes^ Very good. And then Tom, the AI trade, when you allude to your equity portfolio, a lot of discussion of software companies or tech companies that may be at risk from AI and obviously opportunity, but then it's quite a volatile area.

So how are you looking at that from your equity portfolio standpoint?

Thomas Gayner^ Well I appreciate the question.

One of my great friends and mentors and teachers and long-time Markel shareholder asked recently, a guy named (inaudible) down at Texas, and I learned so much from him over the years. And one of the things he used to say was that in the investment business, at any given point in time you look either smarter or dumber than you really are. And 2025 was a year, I would say we look dumber and we probably really are.

If you look at our long-term record, very proud of it, very pleased with the discipline and the way we do things.

But clearly, the AI headlines that you read had a lot to do with investment returns and probably a bit less with what happened at Markel.

As we turn the quarter into 2026, the swirl that's out there, let's hold our fire and see how that works out.

But clearly, the disciplines and the tools and the principles we've used to manage and select equity investments over the years on any given day will look better or worse than they truly are.

I'm going to stand by what we do.

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Mark Hughes^ Very good. And if I could squeeze in one more on the personal umbrella. You put up strong reserves.

What underwriting actions have you taken? Price increases, stricter terms and conditions.

Just curious.

Simon Wilson^ Yes, good question.

So we've done two major things I would suggest just for this call. The first is to increase rate quite significantly.

Now it's an admitted product.

So you have to do that state by state, you have to apply for it.

So I think we're up to, I mean a dozen states now that have signed off on that.

So we have a material increase in the pricing that we're able to charge in those states now.

But we've also taken another key underwriting action which is to stop underwriting people with second homes in Florida. That was a cause of a lot of these losses and increased the attachment point from -- it used to be \$250,000 where we attached in these states where we've been able to get the rate increase, we've also increased the attachment point to \$0.5 million. And we think that will take away a significant chunk of the losses that we're being hit with mainly from auto losses actually in those various states.

So we've acted decisively quickly, and we are keeping a very, very close eye on how those claims trends go from here on in.

But we do have -- as we put the reserve up this quarter to give ourselves breathing space and cushion to watch that play out. And ultimately, if these underwriting actions don't work, then we'll have to think about maybe withdrawing from that particular area of business.

We're not there yet, but we'll see, but a very, very big focus in the last couple of months from Alex Martin, Jeff Lam and their teams.

Operator^ This concludes our question and answer session.

I would like to turn the call back over to Tom Gayner for any closing remarks.

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Thomas Gayner^ Thank you very much for joining us.

We appreciate your support and your interest, and we're delighted to be able to report the results of the rational focus and the rational actions that we are deeply committed to and starting to see the green shoots from those activities.

We look forward to connecting back with you next quarter.

Be well.

Operator^ The conference call has now concluded. Thank you all for attending today's presentation.

You may now disconnect.