

FAIRFAX
LOGO

1993 Annual Report

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FAIRFAX

FINANCIAL HOLDINGS LIMITED

1993 Annual Report

Nine Year Financial Highlights

(in thousands except per share data)

	1993	1992	1991	1990	1989	1988	1987	1986	1985
Total revenue	345,837	286,830	250,002	195,430	125,754	133,649	112,971	53,733	17,015
Net earnings	33,340	10,045	22,515	21,306	16,741	14,357	16,019	6,548	(910)
Total assets	1,200,275	590,548	516,564	535,987	248,065	246,786	185,413	129,845	41,477
Shareholders' equity	279,479	143,818	116,775	94,676	90,830	74,176	61,048	41,275	10,379
Shares outstanding □ year-end	7,955	6,055	5,455	5,477	7,316	7,322	7,337	7,007	5,000
Return on average equity	20.3%	7.7%	21.3%	23.0%	20.3%	21.2%	31.3%	25.4%	□
<i>Per share</i>									
Net earnings □ fully diluted	5.42	1.76	3.94	2.92	2.25	1.94	2.23	1.35	(1.89)
Shareholders' equity	35.13	23.76	21.41	17.29	12.41	10.13	8.32	5.89	2.08
<i>Market prices per share</i>									
High	61.25	30.00	22.50	21.63	19.00	15.13	17.50	14.13	6.00
Low	24.00	21.75	10.75	8.88	14.00	11.75	10.50	6.00	3.00
Close	61.25	25.00	21.25	11.00	18.75	15.00	12.37	12.75	6.00

Corporate Chart goes on this page

CORPORATE PROFILE

Fairfax Financial Holdings Limited is a financial services holding company whose corporate objective is to achieve a high rate of return on invested capital and build long term shareholder value. The company has been under present management since September 1985.

Commonwealth Insurance, based in Vancouver, was acquired in November 1990. It offers commercial property and oil and gas insurance in Canada, the United States and internationally, and commercial casualty insurance in Canada. In 1993 Commonwealth's gross premiums written totalled \$207.5 million. Commonwealth has been in business since 1947 and at year-end there were 123 employees.

Federated was acquired in January 1990, and is based in Winnipeg. Its two companies market a broad range of insurance products primarily for commercial customers. In 1993 Federated's gross premiums written totalled \$47.4 million, consisting of \$39.4 million of property and casualty business and \$8.0 million of life and group health and disability products. Federated has been in business since 1920 and at the end of 1993 had 254 employees.

Markel Insurance is one of the largest trucking insurance companies in Canada and has provided the Canadian trucking industry with a continuous market for this class of insurance since 1951. The company also insures small amounts of property and casualty risks and continues to run off its former reinsurance business. In 1993 gross premiums written were \$43.7 million and the company had 80 employees.

Ranger Insurance, based in Houston, Texas, was acquired effective December 31, 1993 and specializes in writing property and casualty insurance to niche markets such as propane distributors, petroleum and gas marketers, long haul trucking and agri-products. The company has been in business since 1923. In 1993 Ranger's gross premiums written were US\$187 million. At year-end there were 325 employees.

Wentworth Insurance was incorporated in 1990 as an insurance company domiciled in Barbados. The company had total assets of \$13.8 million at year-end.

Morden & Helwig Group, acquired in 1986, is engaged in providing claims adjusting, appraisal and loss management services to a wide variety of insurance companies and self-insured organizations across Canada, the U.S. and the U.K. In 1993 revenue totalled \$142.1 million. The company was established in 1923, and at year-end the group had 1,731 employees located in 327 offices.

Hamblin Watsa Investment Counsel, acquired in 1992, provides discretionary investment management, primarily to pension funds and insurance companies, including the insurance company subsidiaries of Fairfax. Hamblin Watsa was founded in 1984 and at year-end managed approximately \$1.5 billion.

To Our Shareholders

WOW! What a year! In many ways 1993 was the best year we have had since we began in September 1985. We earned 20.3% on shareholders' equity, book value per share increased by 48% to \$35.13 and our company has never been in a stronger financial position. Net income after taxes was a record \$33.3 million or \$5.42 per share, more than three times what was earned in 1992. Even the stock market obliged and our shares increased by 145% to \$61.25. I will really have to work hard to achieve our last objective □ balanced reporting to you in this annual report!

While these results by themselves would have given us an excellent year, in the last three months of 1993 we purchased Ranger Insurance Company for effectively US\$125 million and financed it with the issue of two million treasury shares at \$55 per share and a US\$100 million 7.75% ten year debenture issue. These financings also helped retire all our bank financing and the Federated contingent debt □ and so, we ended the year with \$75 million in unused, committed, long term bank lines.

We are excited about our purchase of Ranger because it is a niche-oriented company, led by Tom Friedberg who has an excellent track record, and it was available at a fair price. Fair price, of course, like beauty, lies in the eyes of the beholder. We effectively paid US\$125 million for Ranger with a book value of approximately US\$105 million, a premium we feel that Tom and his management team will justify. Unlike our past acquisitions in which we generally had the vendor provide financing whose repayment was contingent upon reserve indemnification, in the case of Ranger we financed the acquisition in the capital markets, and the vendor's US\$20 million reserve indemnification is fully secured by real estate assets.

Our equity issue was led by Dick Falconer and Jim Hinds from Wood Gundy, the very same people who led our two million share issue at \$10.00 per share in 1986. They were ably supported by RBC Dominion Securities, ScotiaMcLeod, Burns Fry and Richardson Greenshields. We thank them all for an excellent job and we welcome our new shareholders. We hope your results will not be too dissimilar to the shareholders who purchased our stock issue in 1986! We hasten to emphasize that our company is run for the long term. With some trepidation, we recommend that our new (and old!) shareholders review our old annual reports to

get some perspective on our company. I hope that won't make you change your mind.

While we have acquired companies and have done a stock issue in the past, we have never done a public debenture issue before. Our U.S. debt financing, which was led by J.P. Morgan and First Boston, was a significant milestone for our company and we thank them for their sponsorship of our first debenture issue. While we were happy with the absolute rate of 7.75%, we paid 210 basis points (or 2.10 percentage points) above comparable U.S. treasuries □ significantly higher than we expected. The rating agencies (Standard & Poor's, Duff & Phelps and Dominion Bond Rating Service) have given us a BBB. We welcome our debenture investors and want to reassure them that we run our company at much higher standards than a BBB □ and plan to convince the rating agencies of that soon.

Our common stock issue of two million shares has increased our net shares outstanding by 33%, effectively reissuing the shares that we had repurchased in the past five years. This we did not do lightly. As mentioned in our 1986 annual report, "We consider our stock as good as cash. When we issue stock we will ensure that we get as much value as we give."

Prior to the purchase of Ranger we had approximately \$65 of investments (cash, bonds, preferreds and common stocks) per share of Fairfax. After the purchase of Ranger, and the stock and debenture financing, you will have approximately \$107 of investments working for you for every share you own. By way of perspective, in September 1985 there were approximately \$7 of investments per share of Fairfax. In the long run, we think this will be of significant benefit to you, our shareholders. We think Ranger provides us with excellent diversification (almost 63% of our expected 1994 insurance business will now be written in the U.S.) and enhances our ability to achieve our long term 20% return on equity objective.

This is perhaps a good time to reiterate what we said about Fairfax's vision in our 1987 annual report. We said, "We have no long term plans other than to react to opportunities on a day by day basis." We had barely heard of Ranger prior to October 1993; we had no plans to issue any shares and would have salivated if told about a public debenture issue. When these opportunities came our way, our small, exceptionally talented and hardworking group of people, led by Rick Salsberg and John Varnell, and ably supported by Brenda Adams, Sam Chan, Paul Fink and Ronald Schokking, did the impossible. To do any one of these

three transactions in three months would have been quite an achievement. To do all three shows you why I am so excited about our long term future.

The table below shows the sources of our net earnings:

		(\$ millions)	
		1993	1992
Insurance underwriting		2.1	(16.9)
Interest and dividends		<u>23.0</u>	<u>24.8</u>
<i>Total</i>		25.1	7.9
Claims adjusting (Fairfax portion)	0.4	0.3	
Interest expense	(5.0)	(5.6)	
Goodwill amortization		(1.4)	(0.2)
Corporate overhead and other	(0.7)	0.9	
Realized gains		<u>27.8</u>	<u>9.7</u>
<i>Income before taxes and provisions</i>	46.2	13.0	
Less: provisions for investment losses	<u>□</u>	<u>6.3</u>	
Total pre-tax income		46.2	6.7
Less: taxes		<u>12.9</u>	<u>(3.3)</u>
Net earnings		<u>33.3</u>	<u>10.0</u>

Insurance earnings improved significantly in 1993 due to the small underwriting profit earned in the year compared to the large underwriting loss in 1992. Morden & Helwig continued to make a very insignificant contribution. Interest expense decreased due to lower rates and goodwill amortization increased due to the Hamblin Watsa acquisition occurring late in 1992. The corporate overhead expense includes Hamblin Watsa pre-tax income as well as the new debenture issue costs. Large realized gains, combined with no net additional provisions for investment losses, resulted in pre-tax income increasing seven times from 1992, and after-tax income, three times. The timing of our realized gains is totally unpredictable and thus we place no importance on quarterly earnings trends. We accept short term variability for long term gains. Book value

per share increased from \$23.76 to \$35.13, about equally from earnings and from the share issue at \$55 per share.

Insurance operations

1993 was a good year for our insurance operations with a combined ratio of 99% versus 114% last year. Since 1985, we have achieved our target of 100% or less in five of the last eight years.

Commonwealth, led by John Watson, had a record year with a combined ratio of 92% versus a Hurricane Andrew-impacted 122% last year. During the year, Commonwealth was upgraded to an A- by A.M. Best Company and was also rated A- (claims paying ability) by Standard & Poor's. Gross premiums written increased to \$207 million from \$161 million in 1992 and \$129 million in 1991. Net premiums written have increased to \$71 million from \$51 million in 1992 and \$33 million in 1991.

Commonwealth has experienced a firming in many of its lines and has experienced significant price increases in the oil and gas area. Commonwealth earned a record \$19.4 million after taxes □ about a 34% return on our purchase price of \$57.5 million in 1990. While we have reduced our risk to hurricanes and earthquakes and continue to monitor our exposures carefully, Commonwealth can still be significantly impacted by catastrophes such as Hurricane Andrew in 1992.

Federated also had an excellent year in 1993 with a combined ratio in its property and casualty business of 98%. Under John Paisley's leadership, Federated dominates many of its market segments including farm equipment dealerships, tire dealers, and service contractors. With the specialty focus of its direct marketing representatives, underwriters and claims staff, we continue to feel that the company will achieve consistent underwriting profitability. A.M. Best Company rated Federated an A-, its first Best rating. In 1993 Federated earned \$10.2 million after taxes □ a 36% return on our purchase price of \$28 million in 1990. During the year, we settled the Federated contingent debt of \$20.4 million to the mutual satisfaction of Federated Mutual Insurance Company and Fairfax. We have had an excellent working relationship with Federated Mutual and wish them the very best in the future.

Markel had another difficult year in 1993 with a combined ratio of 112%. In long haul trucking, our focus at

Markel, we had a 115% combined ratio. Obviously, this is not acceptable and Bill Grant and his management team continue to work hard to correct the situation. In spite of these results, or because of them, the trucking insurance industry continues to be very competitive.

Our Barbados company, Wentworth Insurance, had an excellent year in 1993. It is still very small. We have participated in two catastrophe reinsurance contracts with a reinsurer we admire and respect. In 1993 Wentworth had gross premiums written of \$5.8 million and net income of \$4.2 million.

After three years of inactivity on the acquisitions front, effective December 31, 1993 we acquired Ranger Insurance Company for a price of US\$125 million (consolidated into our balance sheet as of December 31, 1993). The company specializes in niche markets like propane distributors, petroleum and gas marketers, long haul trucking and agri-products. Since 1987, under Tom Friedberg's leadership, the company has achieved a combined ratio in the 106% area in spite of soft markets. It is our expectation that Tom and his management team will soon be able to achieve combined ratios of 100% or better. The purchase price of US\$125 million included approximately US\$90 million cash that was used by the vendor to purchase all of the real estate investments from Ranger at their underlying book values. Please review the MD&A (page ■) and Note 14 for additional details on Ranger. Under Tom's leadership the company has earned an average of approximately US\$13 million after tax each year in the past five years after adjusting for the lack of income from real estate investments. We welcome Tom Friedberg and the employees of Ranger Insurance to Fairfax and look forward to participating in the company's growth.

As an aside, our due diligence of Ranger was done almost exclusively by our insurance subsidiaries. We now feel we have the resources internally to evaluate any potential insurance acquisition.

Our insurance companies continue to have low operating leverage (net premiums written to common equity) in spite of writing more business in 1993. Operating leverage in 1993 for Markel was 1.1:1, Federated 1.1:1, Commonwealth 0.7:1 (and Ranger 1.6:1), versus a potential of at least 2:1. Thus, in an improved insurance environment, we have the capacity to increase our premiums significantly.

Since 1985 we have had our reserves certified by The Wyatt Company. In 1993, due to Wyatt's changed

business objectives, we have decided to use the casualty-actuarial practice of our auditors, Coopers & Lybrand, to also certify our reserves. Ron Miller, who was Wyatt's actuary, will continue to certify Markel and Federated's reserves, and Joe Cheng will certify Commonwealth's reserves, as he has done for the past five years. All of these reserves will then be reviewed by Coopers & Lybrand and certified by them. Sam Chan will continue to monitor our reserves internally at Fairfax. As always, in spite of these precautions, there is no guarantee that we will be adequately reserved. However, rest assured that, as in the past, we will react immediately if we find we are under-reserved. We continue to provide extensive disclosure on our total claims reserves, beginning on page ■, which will help you appraise our past reserving accuracy. While we continue to feel that our reserves are adequate, the recent settlement with Fibreboard Corporation, where two insurance companies have had asbestosis claims in excess of US\$3.25 billion for premiums of approximately US\$100,000 in the 1950s, always keeps us on our guard.

Claims adjusting

1993 was another poor year for Morden & Helwig and very frustrating for Ken Polley, its President. While operations have significantly improved because of tight expense control, improved branch management and more efficient computer systems, we have yet to earn an adequate profit on our investment in the past few years. Ken has appointed Frank Semancik (over 30 year's experience in the industry) in charge of U.S. operations and Don Cain (Regional Vice President for the Atlantic Provinces) in charge of Canadian operations. With Ken, Frank, Don and Duncan Smith, Vice President, Finance, we continue to expect Morden & Helwig to earn adequate returns for its patient shareholders (many public shareholders are not as patient!).

Because of almost no profitability in the last few years, Morden & Helwig's balance sheet has deteriorated. Total debt to equity is now at 0.59 □ not great but still adequate.

Investment management

1993 was the first year for Hamblin Watsa Investment Counsel under the Fairfax banner. HWIC's investment results were its highest ever for Canadian equities and bonds. Long term results continue to be excellent as shown below:

Annualized rates of return (%)

Cumulative periods ended December 31, 1993

	5 year	10 year	15 year
Canadian Equities	10.014.1	16.1	
	TSE 3008.6	8.9	12.2
U.S. Equities	23.119.6	20.0	
	S&P 50016.9	15.6	16.6
Canadian Bonds	15.413.9	* □	
	SM Index14.0	13.2 *	□
<i>Total Fund</i>	13.816.3	* □	

** nine years only*

Source: Representative balanced fund managed by HWIC for nine years. Equity results for an additional six years are from the organization for which the principals previously worked.

We congratulate Tony Hamblin, Roger Lace, Brian Bradstreet, Frances Burke and Vito Maida on the excellent results □ short and long term. Also, it should be noted that Roger Lace and Brian Bradstreet have had excellent long term results managing U.S. stocks and U.S. bonds respectively. Thus, HWIC has the capacity to manage Ranger's portfolios.

Despite the loss of a few pension accounts, HWIC had a record year due to approximately \$3.3 million in performance-based incentive fees which were earned for the first time in 1993 (a pooled fund for individuals had earned incentive fees before). In spite of great investment results in 1993, Fairfax's insurance subsidiaries did not pay an incentive fee as cumulative results from inception were not higher than the hurdle rate. Because of these incentive fees, Fairfax earned approximately a 22% pre-tax return or 16% after-tax return on its \$14 million investment in HWIC. While returns after goodwill amortization (of \$1.4 million annually) will be less than those mentioned above, we think the returns we have shown are the best measure of HWIC's performance.

HWIC partners, with participation in the incentive fees and as large shareholders of Fairfax (at \$28 per share), have much to smile about! As suggested in our 1992 annual report, we think HWIC will be an excellent investment for Fairfax.

Financial position

As mentioned in previous annual reports, the best way to understand our financial position is to look at our unaudited balance sheet with Morden & Helwig equity accounted as shown on page ■. Here is what it looks like compared to 1992:

(\$ millions)

	1993	1992
Short and long term bank debt	□	47.7
U.S. debenture issue	132.4	□
Contingent debt □ Federated	□	20.4
Common shareholders' equity	<u>279.5</u>	<u>143.8</u>
<i>Total capital</i>	<u>411.9</u>	<u>211.9</u>

As shown, common shareholders' equity increased by \$135.7 million □ \$104.8 million net from the share issue and \$33.3 million from net income, less the cost of 100,000 shares repurchased at \$24.80 per share. Together with the US\$100 million 7.75% ten year debenture issue (C\$132.4 million), we purchased Ranger and also paid back our bank debt and the Federated contingent debt. Currently we have unused, unsecured, committed, long term bank lines of \$75 million from four major Canadian and U.S. banks. These are unused bank lines and provide us with flexibility □ we certainly do not plan to use them other than on an emergency basis.

Our debt to equity ratio of approximately 0.47:1 or debt to total capital of 0.32:1 is close to the maximum with which we would feel comfortable. Even though this ratio is comparable to the one in 1992, I think we are in the strongest financial position we have ever been in for the following reasons:

- 1) The interest rate on our debt is fixed at 7.75% and the debt has a long (ten year) term. The covenant package provides us with great flexibility.
- 2) We have unused, unsecured, committed, long term bank lines of \$75 million with excellent covenants.
- 3) Our long term debt is less than three times our expected earnings base with Ranger

included. Note the word *expected!* We have been wrong before!

- 4) Due to consolidated tax accounting in the U.S., our interest costs will now be currently tax deductible (in Canada they would just have added to our large tax loss carry forward balances of \$18 million). Our after-tax interest cost will be approximately US\$5 million. Ranger itself has paid dividends of approximately US\$10 million each year for the last three years, and our Canadian insurance companies can pay dividends of approximately \$15 million in 1994. As cash flow from HWIC pays for most of the overhead at Fairfax (it is small!), our only net expense at Fairfax is our annual interest cost of US\$5 million after tax.
- 5) There is very little foreign exchange risk as we have almost matched the purchase price of Ranger with the U.S. debt issue. We have also hedged our remaining net U.S. dollar exposure (US\$17.4 million) and future Ranger earnings (in U.S. dollars) by purchasing a US\$50 million, five year foreign exchange contract at C\$1.37 to US\$1.00.

Investments

Last year I wrote to you that "1992 was among the worst years we have experienced over the past 18 years managing Canadian stocks using a value-oriented philosophy." Well, 1993 was the best year we have ever had □ both absolute and relative to the TSE 300. Our U.S. results continued to be excellent and our bond results were outstanding. All in all, a year very unlikely to be repeated!

1992's year-end unrealized losses disappeared and, in fact, we had an unrealized gain of \$11.4 million as of December 31, 1993 as shown below:

	(\$ millions)	
	1993	1992
Bonds	3.1	2.4
Preferred stocks	8.8	1.4
Common stocks	<u>(0.5)</u>	<u>(21.2)</u>
	<u>11.4</u>	<u>(17.4)</u>

The change in the unrealized position was even more dramatic as it was after \$27.8 million of realized gains in 1993. The total change in our market values in the past year amounted to approximately \$56.6 million.

You can understand why we said it was an outstanding year!!

Our aggregate provision for losses of \$16.3 million as of December 31, 1992 dropped to \$11.5 million at the end of 1993, mainly because we had realized losses of \$4.3 million in two investments for which we had made provisions. We feel that our provisions continue to be conservative.

We have said for some time that "unrealized losses or gains are fluctuations and do not have any predictive value. Realized gains or losses are what count over the long term." 1993 was a dramatic illustration of the fluctuations that markets undergo from time to time. The key is to treat them as fluctuations and focus on the underlying long term intrinsic values. Thus, do not get particularly excited about the unrealized gains of \$11.4 million as of December 31, 1993 or about their increase to \$█ (RSc) as of March 15, 1994.

The table on page █ shows the returns on our investment portfolios. While realized gains for the three years prior to 1993 have been below par, 1993 certainly went a long way to making up. Total pre-tax realized gains since we assumed management in 1985 have amounted to \$62.8 million or \$10 per share. Realized gains in 1993 amounted to 9% of the average portfolio, excluding cash.

Gross realized gains in 1993 totalled \$35 million. After realized losses of \$7.2 million, net realized gains were \$27.8 million. The major contributors to realized gains were Lone Star Technologies convertible bonds (\$4.4 million), Mackenzie Financial (\$4 million), Newsco Well Service (\$3.7 million), Midland Walwyn (\$3.6 million), Bank of Montreal (\$3.2 million), Rio Algom (\$2.6 million), Bank of Nova Scotia (\$2.2 million), Conwest Exploration (\$1.7 million) and Toronto-Dominion Bank (\$1.6 million). The major realized loss was in Gentra (formerly Royal Trust). Approximately 60% of the common stock portfolio was sold to take advantage of the significant increase in stock prices. While we are pleased with the large gains in 1993, we should mention that had we been really smart and not sold Magna in 1991 but sold it at \$65 in 1993, our realized gains in 1993 would have been \$32 million higher!!

At the end of 1993 we had \$45.3 million invested in the common shares of banks and insurance and financial services companies, \$28.1 million in natural resource companies, and \$16.2 million in industrial products companies.

In last year's annual report, I commented on the discrepancy between the TSE 300 and the S&P 400 market/book value ratios and the fact that over time they have sold at comparable ratios. The discrepancy narrowed in 1993 and the TSE 300 currently sells at 1.9 times book value versus the S&P 400 at 3.9 times book value. It seems to us that this narrowing will continue in 1994. We should note that book values have recently been distorted by significant accounting write-offs, and perhaps are no longer as useful as they were in the past. Having said that, there is no question that the stock markets in Canada and the U.S. are at much higher levels than in the past 20 years, reflecting the fact that inflation and interest rates are at levels that were common in the 1960s. Mutual fund mania prevails. The number of mutual funds in the U.S. (about 4,500) is greater than the number of stocks that are listed on the NYSE (2,391). Speculation is quite rampant on Wall Street and Bay Street as shown by the number of IPOs that are being completed.

We recognize the environment we are in but continue to own stocks that meet our long term value-oriented standards. We have never tried to forecast the economy or the stock markets but only try to buy common shares that protect us on the downside and earn acceptable long term returns.

You will remember that we test our portfolios monthly to check the effects of simultaneous declines of 50% in our common stock holdings, 30% in our preferreds and 20% in our bonds. We check to see if, after applying this test, the regulatory capital of our insurance companies would have been sufficiently impacted to require additional capital. You will be pleased to know that as of December 31, 1993, after this test our insurance companies would still have met the statutory capital requirements. We continue to focus on the downside!

We are working at disposing of our real estate investments (\$4.2 million) by the end of 1994. We will be pleased to get our money back □ I was too optimistic in the past!

In 1993 Fairfax and its subsidiaries donated approximately \$400,000 or 1% of pre-tax income to a variety of charities across the country.

Please refer to our 1992 annual report for our dividend policy. Nothing has changed!

Since we began in 1985, book value has compounded at 42.4% annually, a rate we have emphasized cannot be repeated in the future. Our average annual return on equity over the past eight years is 21.3%, slightly in excess of our target of 20% (the TSE 300 averaged 7% over the same period). In the July 1993 issue of Report on Business Magazine, Fairfax's five year return on equity was ranked 39th out of the top 1,000 companies listed on Canadian stock exchanges, i.e. in the top 4% of all companies in Canada. Our stock price has compounded at 43% annually since we began in September 1985, a rate slightly higher than the growth in book value and impossible to repeat. Currently our shares are selling at twice book value of \$35 per share □ close to the highest multiple they have sold at in the past. Obviously, we are gratified by this record.

However, it is a good time to emphasize, perhaps over-emphasize, the short term risks that your company faces. Above all is the insurance cycle and the fact that it is still a very competitive market, and Market particularly has yet to achieve a combined ratio of 100%. We face catastrophe risks at Commonwealth, particularly a California earthquake (like the one that occurred in January 1994). The "big one" will impact our earnings significantly although our balance sheet should continue to be strong. In insurance there is always the possibility that something from the past (like asbestosis for many companies) can come to haunt you. In the case of Fairfax, we think not, but only time will tell. Morden & Helwig has yet to earn acceptable returns and, although I think it will, you can't be certain. The stock markets have been very good to us in 1993. If the markets decline significantly, this would, of course, have an impact on our 1994 earnings. I can go on and on but you can see that business is always uncertain and unpredictable. While we think we are in the best position we have ever been in and are excited about our *long term* prospects, the short term is as unpredictable and uncertain as it ever was. Our focus continues to be to earn in excess of 20% over the long term by running Fairfax and its subsidiaries for the long term benefit of its customers, employees and shareholders.

Tony Arrell retired in September 1993 as a director of Fairfax. Tony has been a good friend and a strong supporter of our company. We wish him all the very best in the future.

On your behalf, I would like to thank the Board and the management and employees of all our companies for their major contributions in 1993.

Consolidated Financial Statements
for the years ended December 31, 1993 and 1992

Consolidated Balance Sheets
as at December 31, 1993 and 1992

	1993 (\$000)	1992 (\$000)
Assets		
Accounts receivable	184,976	99,369
Claims in process	14,719	12,391
Income taxes refundable	□	4,536
Prepaid expenses	<u>4,116</u>	<u>3,643</u>
	<u>203,811</u>	<u>119,939</u>
<i>Portfolio investments</i>		
Cash and short term investments	287,880	83,495
Bonds		
(market value □ \$308,498; 1992 □ \$105,637)		305,375 103,224
Preferred stocks		
(market value □ \$142,201; 1992 □ \$108,597)		133,343 107,160
Common stocks		
(market value □ \$117,435; 1992 □ \$76,701)		117,976 97,902
Other investments (note 2).....	<u>4,200</u>	<u>4,459</u>
Total (market value □ \$860,214; 1992 □ \$378,889)		<u>848,774 396,240</u>
Deferred premium acquisition costs	25,404	6,307
Deferred income taxes	24,780	□
Capital assets (note 3)	24,919	17,423
Goodwill (note 14)	50,465	42,701
Other assets	<u>22,122</u>	<u>7,938</u>
	<u>1,200,275</u>	<u>590,548</u>

Signed on behalf of the Board

Director

Director

.....	1993	1992
.....	(\$000)	(\$000)
Liabilities		
Bank indebtedness (note 4)	10,463	4,792
Accounts payable and accrued liabilities	84,299	45,611
Future pension commitments	6,804	6,384
Premium deposits	5,664	5,844
Income taxes payable	<u>20,247</u>	<u>□</u>
.....	<u>127,477</u>	<u>62,631</u>
.....		
Provision for claims	444,846	208,816
Unearned premiums	184,277	66,135
Contingent long term debt (note 5)	□	20,445
Long term debt (note 6)	146,750	61,492
Deferred income taxes	<u>□</u>	<u>9,810</u>
.....	<u>775,873</u>	<u>366,698</u>
.....		
Non-controlling interest	<u>17,446</u>	<u>17,401</u>
Shareholders' Equity		
Capital stock (note 7)	153,438	49,841
Retained earnings	<u>126,041</u>	<u>93,977</u>
.....	<u>279,479</u>	<u>143,818</u>
.....	<u>1,200,275</u>	<u>590,548</u>

Consolidated Statements of Earnings*for the years ended December 31, 1993 and 1992*

	1993	1992
	(\$000)	(\$000)
Revenue		
Premiums earned	150,844	118,854
Claims fees	142,105	139,782
Interest and dividends	23,251	23,988
Realized gains on investments	27,822	3,400
Other income	<u>1,815</u>	<u>806</u>
	<u>345,837</u>	<u>286,830</u>
Expenses		
Losses on claims	109,419	90,868
Operating expenses	176,721	177,430
Interest expense	6,409	7,650
Commissions, net	<u>6,625</u>	<u>3,907</u>
	<u>299,174</u>	<u>279,855</u>
Earnings before income taxes	46,663	6,975
Provision for income taxes (note 9)	<u>12,936</u>	<u>(3,352)</u>
Earnings from operations	33,727	10,327
Non-controlling interest	<u>(387)</u>	<u>(282)</u>
Net earnings	<u>33,340</u>	<u>10,045</u>
Net earnings per share (note 13).....	\$5.42	\$1.76

Consolidated Statements of Retained Earnings*for the years ended December 31, 1993 and 1992*

	1993	1992
	(\$000)	(\$000)
Retained earnings beginning of year	93,977	85,821
Net earnings for the year	33,340	10,045
Excess over stated value of shares purchased for cancellation (note 7)	<u>(1,276)</u>	<u>(1,889)</u>
Retained earnings end of year	<u>126,041</u>	<u>93,977</u>

Consolidated Statements of Changes in Cash Resources*for the years ended December 31, 1993 and 1992*

.....	1993	1992
.....	(\$000)	(\$000)
Operating activities		
Earnings from operations	33,727	10,327
Amortization	7,537	5,301
Deferred income taxes	(16,551)	944
Gains on investments	<u>(27,822)</u>	<u>(3,400)</u>
.....	(3,109)	13,172
Increase in provision for claims	507	6,696
Increase in unearned premiums	24,740	11,091
Increase (decrease) in cash funds resulting from changes in other operating working capital items	<u>37,698</u>	<u>(4)</u>
Cash resources provided by operating activities		<u>59,836</u> <u>30,955</u>
Investing activities		
Investments <input type="checkbox"/> net purchases	(29,307)	(37,793)
Purchase of capital assets	(9,858)	(6,760)
Purchase of subsidiaries, net of cash acquired (note 14)	<u>9,975</u>	<u>□</u>
.....	<u>(29,190)</u>	<u>(44,553)</u>
Financing activities		
Net capital stock transactions	103,597	4,852
Increase in long term debt, net	64,813	25,229
Change in non-controlling interest	<u>(342)</u>	<u>145</u>
.....	<u>168,068</u>	<u>30,226</u>
Increase in cash resources	198,714	16,628
Cash resources beginning of year	<u>78,703</u>	<u>62,075</u>
Cash resources end of year	<u>277,417</u>	<u>78,703</u>

Cash resources consist of cash and short term investments less bank indebtedness and short term borrowings.

Notes To Consolidated Financial Statements

for the years ended December 31, 1993 and 1992

(in \$000s except per share amounts and as otherwise indicated)

1. Summary of Significant Accounting Policies

Business operations

The company is a financial services holding company which through its subsidiaries and affiliates is engaged in the insurance of commercial property, oil and gas, casualty and life risks, investment management and the provision of claims adjusting, appraisal and loss management services in Canada and the United States.

Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries: Markel Insurance Company of Canada, Federated Insurance Holdings of Canada Ltd., Commonwealth Insurance Company, Wentworth Insurance Company Ltd., Ranger Insurance Company and Hamblin Watsa Investment Counsel Ltd., all 100% owned; and Morden & Helwig Group Inc., 50% equity and 90% voting interest. Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition. Divestitures are included up to the date of disposal.

Premiums

Insurance premiums are taken into income evenly throughout the terms of the related policies. As premium deposits secure the payment of premiums and are refundable, they are not taken into income unless default in payment of premiums occurs.

Claims in process

The company records its inventory of claims in process at its estimated value at year-end, based on a determination of the claims in process at year-end through a complete physical count of related files. Claims adjustment fees arising therefrom are accounted for on an estimated percentage-of-completion basis.

Deferred premium acquisition costs

The costs incurred in acquiring insurance premiums are deferred, to the extent that they are considered recoverable, and amortized over the same period as the related premiums are taken into income.

Investments

Bonds are carried at amortized cost providing for the amortization of the discount or premium on a straight line basis to maturity. Preferred and common stocks are carried at cost. When there has been a loss in value of an investment that is other than temporary, the investment is written down to its estimated net realizable value. Such writedowns are reflected in realized gains (losses) on investments. At December 31, 1993 the aggregate provision for losses on investments was \$11.5 million (1992 □ \$16.3 million).

Investment income

Investment income is recorded as it accrues. Dividends are recorded as income on the record date. Gains and losses realized on the disposal of investments are taken into income on the date of disposal.

Provision for claims

Claim provisions are established by the case method as claims are reported. The provisions are subsequently adjusted as additional information on the estimated amount of a claim becomes known during the course of its settlement. A provision is also made for management's calculation of factors affecting the future development of claims including claims incurred but not reported based on the volume of business currently in force and the historical experience on claims.

Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates.

Income and expenses are translated at the exchange rates in effect at the date incurred. Realized gains and losses on foreign exchange are recognized in the statements of earnings.

Goodwill

The difference between purchase cost and the fair value of the net assets of acquired businesses is amortized on a straight line basis over their estimated useful life which ranges from ten years for Hamblin Watsa Investment Counsel Ltd. and Ranger Insurance Company to 40 years for Morden & Helwig Group Inc.

2. Other Investments

	1993	1992
	(\$000)	(\$000)
Real estate	4,200	4,459

The company has invested in three small real estate projects in Alberta, Texas and Ontario, the major one being a 100% interest in a shopping mall in Calgary, Alberta. This investment is shown net of a 12.04% mortgage of \$4.8 million (1992□\$4.9 million), due June 1994, which is non-recourse to Fairfax Financial Holdings Limited and for which the shopping mall has been pledged as security.

3. Capital Assets

	1993	1992
	(\$000)	(\$000)
Land and buildings	4,735	4,104
Furniture and equipment	34,135	25,630
Leasehold improvements	2,761	1,467
Automobiles under capital lease	<u>1,274</u>	<u>527</u>
	42,905	31,728
Accumulated amortization	<u>17,986</u>	<u>14,305</u>
	<u>24,919</u>	<u>17,423</u>

4. Bank Indebtedness

Bank indebtedness is \$10,463 (1992□\$4,792) for which a general assignment of accounts receivable and claims in process of a subsidiary of Morden & Helwig Group Inc. have been pledged as security. Interest expense on bank indebtedness amounted to \$1,168 (1992□\$2,098).

5. Contingent Long Term Debt

The contingent long term debt was repaid on December 8, 1993. Interest expense on the contingent long term debt amounted to \$1,968 (1992□\$1,968).

6. Long Term Debt

The long term debt at December 31, 1993 primarily consists of Fairfax unsecured senior notes of \$132,400 (US\$100 million) at 7.75% due December 15, 2003 and various U.S. dollar bank loans of Morden & Helwig Group Inc. at an average annual rate of 6.08% during 1993 (1992□7.66%). Interest expense on long term debt amounted to \$3,273 (1992□\$3,584).

Principal repayments on these loans are due as follows:

	(\$000)
1994	1,269
1995	878
1996	1,330
1997	11,776
thereafter	<u>132,766</u>
	148,019
Less: current portion	<u>1,269</u>
	<u>146,750</u>

7. Capital Stock

Authorized capital

The authorized share capital of the company consists of an unlimited number of preferred shares issuable in series, an unlimited number of multiple voting shares carrying ten votes per share and an unlimited number of subordinate voting shares carrying one vote per share.

Issued capital

	1993		1992	
	<i>number</i>	<i>(\$000)</i>	<i>number</i>	<i>(\$000)</i>
Subordinate voting shares	7,205,758	167,460	5,305,758	63,863
Multiple voting shares	<u>1,548,000</u>	<u>5,000</u>	<u>1,548,000</u>	<u>5,000</u>
	<u>8,753,758</u>	<u>172,460</u>	<u>6,853,758</u>	<u>68,863</u>
Interest in shares held through ownership interest in shareholder	<u>(799,230)</u>	<u>(19,022)</u>	<u>(799,230)</u>	<u>(19,022)</u>
Net effectively outstanding	<u>7,954,528</u>	<u>153,438</u>	<u>6,054,528</u>	<u>49,841</u>

Under the terms of a normal course issuer bid approved by The Toronto Stock Exchange, the company purchased and cancelled 100,000 (1992□109,400) subordinate voting shares for an aggregate cost of \$2,479 (1992□\$2,644), of which \$1,276 (1992□\$1,889), was charged to retained earnings.

On November 26, 1993 the company issued 2,000,000 subordinate voting shares at \$55 per share, for net proceeds of \$104,800.

8. Reinsurance

The company follows the policy of underwriting and reinsuring contracts of insurance which generally limits the liability of the individual insurance companies to a maximum amount on any one loss of \$500 to \$2.5 million, varying by line of business. Reinsurance is generally placed on an excess of loss basis in several layers. This reinsurance does not relieve the company of its primary obligation to the policyholders. As at December 31, 1993 provision for claims reflects recoveries from reinsurers of \$257,320 (1992□\$176,698). During the year, the company ceded \$137,484 (1992□\$114,544) of premium income and \$144,521 (1992□\$83,817) of claims incurred.

9. Income Taxes

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

A reconciliation of income tax calculated at the statutory marginal tax rate with the income tax provision at the effective tax rate in the financial statements is summarized below:

	1993	1992
	(\$000)	(\$000)
Provision for taxes at statutory marginal income tax rate	20,438	3,093
Non-taxable investment income	(4,740)	(3,414)
Income earned outside Canada	(1,835)	□
Utilization of prior years' losses and other	<u>(927)</u>	<u>(3,031)</u>
Provision for (recovery of) income taxes	<u>12,936</u>	<u>(3,352)</u>

As at December 31, 1993 tax losses amounting to approximately \$18 million, expiring in 1998 and 1999, are available to reduce future years' taxable income. The benefit of these losses is not recorded in the financial statements.

10. Statutory Requirements Insurance Subsidiaries

Payments of dividends by the company's insurance subsidiaries are governed by insurance statutes and regulations.

11. Contingencies and Commitments

Subsidiaries of the company are defendants in several damage suits and have been named as third party in other suits. The uninsured exposure to the company is not considered to be material.

The company may under certain circumstances be obligated to purchase loans to officers and directors of the company and its subsidiaries from a Canadian chartered bank totalling \$4,923 (1992□\$3,878) for which 339,400 (1992□266,000) subordinate voting shares of the company with a year-end market value of \$20,788 (1992□\$6,650) have been pledged as security.

12. Operating Leases

Aggregate future commitments at December 31, 1993 under operating leases relating to premises, automobiles and equipment for various terms up to ten years are as follows:

(\$000)

1994	11,000
1995	8,800
1996	7,100
1997	5,600
1998	2,900
Thereafter	<u>10,600</u>
	<u>46,000</u>

13. Earnings per Share

Earnings per share on the consolidated statements of earnings have been presented on a fully diluted basis.

Basic earnings per share are \$5.42 for 1993 and \$1.76 for 1992. The weighted average number of shares for 1993 was 6,154,254 (1992□5,752,551).

14. Acquisitions

Effective December 31, 1993 the company purchased Ranger Insurance Company of Houston, Texas. The purchase price of US\$125 million was paid US\$117.4 million cash and a five year insurance consulting contract valued at US\$7.6 million. At December 31, 1993 Ranger Insurance Company had US\$378 million in total assets and US\$273 million in total liabilities. The excess of the purchase price paid over the fair value of net assets acquired of US\$20 million was allocated US\$10 million to a five year non-competition agreement (recorded in other assets), US\$7.6 million to the consulting contract and the balance of US\$2.4 million to goodwill (which will be amortized to income over ten years). The vendor has agreed to indemnify Fairfax, to a maximum of US\$20 million, for any inadequacy in Ranger's provision for claims as at December 31, 1993, any of Ranger's reinsurance relating to the period up to December 31, 1993 which subsequently becomes unrecoverable, and any defaults under the purchase agreement. Certain of the vendor's assets have been pledged as security for this indemnity.

Ranger is engaged in the property and casualty insurance business in the United States. Net premiums earned for the year ended December 31, 1993 amounted to US\$132 million.

15. Segmented Information

The company is a financial services holding company which through its subsidiaries is engaged in the insurance of commercial property, oil and gas, casualty and life risks, investment management (included in "Corporate") and the provision of claims adjusting and appraisal and loss management services in Canada and the United States.

(a) Industry segments

	Insurance		Claims Adjusting, Appraisal and Loss Management		Corporate and Consolidation Adjustments		Consolidated	
	1993	1992	1993	1992	1993	1992	1993	1992
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Revenue	201,941	143,915	142,105	139,782	1,791	3,133	345,837	286,830
Earnings before income taxes	52,623	7,880	2,253	1,376	(8,213)	(2,281)	46,663	6,975
Identifiable assets	1,070,538	480,067	92,795	86,441	36,942	24,040	1,200,275	590,548
Amortization	2,877	1,561	3,168	3,153	1,492	587	7,537	5,301
Interest expense	□	□	2,181	2,375	4,228	5,275	6,409	7,650

(b) Geographic segments

	Canada		United States		Total	
	1993	1992	1993	1992	1993	1992
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Revenue	222,544	177,466	123,293	109,364	345,837	286,830
Earnings before income taxes	22,751	6,654	23,912	321	46,663	6,975
Identifiable assets	485,701	424,122	714,574	166,426	1,200,275	590,548
Amortization	5,782	3,473	1,755	1,828	7,537	5,301
Interest expense	4,909	7,048	1,500	602	6,409	7,650

February 9, 1994

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Fairfax Financial Holdings Limited as at December 31, 1993 and 1992 and the consolidated statements of earnings, retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1993 and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand
Chartered Accountants
Toronto, Ontario

February 9, 1994

Valuation Actuary's Report

Coopers & Lybrand has valued the policy liabilities of the subsidiary general insurance companies of Fairfax Financial Holdings Limited (except for the Commonwealth Insurance Company for which we have relied upon the valuation made by J. S. Cheng & Partners Inc.) in its consolidated balance sheet at December 31, 1993 and their changes as reflected in its consolidated statement of earnings for the year then ended, in accordance with accepted actuarial practice, except policy liabilities were valued without reflecting the time value of money as required by the regulatory authorities.

In our opinion the valuations are appropriate and the consolidated financial statements fairly present their results.

Coopers & Lybrand
Richard Gauthier, FCIA, FCAS
Toronto, Ontario

Management's Discussion and Analysis of Financial Condition and Results of Operations

Sources of Revenue

Revenue reflected in the consolidated financial statements includes premiums earned and investment income of the insurance companies, claims adjusting fees of Morden & Helwig and gains on sale of associated companies and other miscellaneous income. The following table summarizes the total revenue derived from these categories from the date of acquisition of each company for the past nine years:

	1993	1992	1991	1990	1989	1988	1987	1986	1985
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
<i>Revenue by</i>									
<i>Line of Business</i>									
Insurance	201,941	143,915	116,038	101,639	74,975	88,512	73,241	46,515	16,963
Claims adjusting	142,105	139,782	122,982	122,982	58,449	49,414	44,157	39,316	6,850
Other income	<u>1,791</u>	<u>3,133</u>	<u>10,982</u>	<u>35,342</u>	<u>1,365</u>	<u>980</u>	<u>414</u>	<u>368</u>	<u>52</u>
	<u>345,837</u>	<u>286,830</u>	<u>250,002</u>	<u>195,430</u>	<u>125,754</u>	<u>133,649</u>	<u>112,971</u>	<u>53,733</u>	<u>17,015</u>

The insurance revenue increases in 1993 over 1992 were the result of increased realized gains, increased pricing and volume increases of \$10 million in commercial auto and \$15.5 million in commercial property and casualty.

Claims adjusting revenue increased in 1993 over 1992 by \$2.3 million.

On a geographic basis, Canadian operations accounted for approximately 64% of group revenue and 49% of group operating profits in 1993, compared with 62% of revenue and 95% of operating profits in 1992.

Canadian insurance operations accounted for approximately 78% of group insurance revenue in 1993. For 1994, with the inclusion of Ranger, Canadian insurance revenue is expected to be approximately 37% of group insurance revenue.

Net Earnings

Sources of net earnings on a pre-tax basis, with the total tax effect to the company and its consolidated subsidiaries shown as a separate item, were as follows for the past nine years:

	1993 (\$000)	1992 (\$000)	1991 (\$000)	1990 (\$000)	1989 (\$000)	1988 (\$000)	1987 (\$000)	1986 (\$000)	1985 (\$000)
<i>Sources of Net Earnings by Line of Business</i>									
Insurance	25,071	7,880	30,680	6,786	(3,370)	6,468	8,539	9,594	(1,122)
Equity accounted									
F-M Acquisition	□	□	<u>13,636</u>	<u>31,530</u>	<u>7,240</u>	<u>6,729</u>	<u>18</u>	□	□
Total	25,071	7,880	44,316	38,316	3,870	13,197	8,557	9,594	(1,122)
Claims adjusting (50% equity)	395	282	117	1,688	1,543	1,454	5,849	539	□
Investment banking and adjustments		□	29	(1,058)	(6,370)	(1,439)	□	□	□
Interest and corporate expenses	(7,012)	(4,898)	(6,516)	(9,061)	(1,499)	(2,799)	(1,668)	(353)	(277)
Realized investment gains	27,822	9,720	2,488	5,178	15,458	7,802	9,159	952	459
Provisions for investment and other losses	□	<u>(6,320)</u>	<u>(7,000)</u>	<u>(7,900)</u>	□	□	□	□	□
Net earnings before taxes	46,276	6,693	32,347	21,851	17,933	19,654	21,897	10,732	(940)
Provision for income taxes	<u>12,936</u>	<u>(3,352)</u>	<u>9,832</u>	<u>545</u>	<u>1,192</u>	<u>5,297</u>	<u>5,878</u>	<u>4,184</u>	<u>(30)</u>
Net earnings	<u>33,340</u>	<u>10,045</u>	<u>22,515</u>	<u>21,306</u>	<u>16,741</u>	<u>14,357</u>	<u>16,019</u>	<u>6,548</u>	<u>(910)</u>

Net earnings in 1993 were \$33.3 million, an increase of \$23.3 million or 232% from 1992 net earnings of \$10 million.

The major changes which affected net earnings before taxes were:

- Insurance underwriting results improved by \$19 million from 1992
- Net realized gains increased by \$24.4 million from \$3.4 million (after provisions) in 1992
- In 1993 the provision for income taxes increased to \$12.9 million (effective rate 28.0%) based on much higher earnings compared to a 1992 recovery of \$3.4 million due to the application of previous years' loss carry forwards.

Insurance Underwriting

Fairfax's insurance companies employ disciplined underwriting practices with the objective of rejecting underpriced risks. The combined loss and expense ratio is the traditional measure of underwriting results of property and casualty companies. In any year when the ratio exceeds 100%, it generally indicates that unprofitable business has been underwritten.

A summary follows of the net premiums written and earned, and the loss, expense and combined ratios, for the past nine years:

	NET PREMIUMS		RATIOS		
	Written (\$000)	Earned (\$000)	Loss (%)	Expense (%)	Combined (%)
1985	23,415	14,049	96	30	126
1986	55,992	40,885	72	23	95
1987	71,378	62,012	73	25	98
1988	68,224	66,265	73	19	92
1989	35,477	40,444	100	40	140
1990	74,487	78,427	82	31	113
1991	93,450	90,507	60	34	94
1992	128,664	118,854	79	35	114
1993	163,508	150,844	73	26	99

In 1993 the loss ratio decreased due to improved results in commercial property and casualty, and in the direct commercial lines.

Net premiums written and earned by line for the past five years are shown in the following table:

		1993 (\$000)	1992 (\$000)	1991 (\$000)	1990 (\$000)	1989 (\$000)
Commercial auto, general liability *	Written	44,896	38,422	23,159	26,047	35,477
	Earned	43,749	33,760	20,594	30,225	40,444
Direct commercial lines	Written	47,431	38,923	37,249	40,012	□
	Earned	45,240	38,776	38,838	40,858	□
Commercial property and casualty	Written	71,181	51,319	33,042	8,428	□
	Earned	61,855	46,318	31,075	7,344	□
Totals	Written	163,508	128,664	93,450	74,487	35,477
	Earned	150,844	118,854	90,507	78,427	40,444

* Including farm insurance and reinsurance run off

Commercial auto and direct commercial premiums increased in 1993 due to price increases and additional accounts written.

Commercial property and casualty premiums increased in 1991 as a result of the acquisition of Commonwealth near the end of 1990. 1993 increases are mainly the result of increased prices and higher retentions.

The total underwriting profit (loss) by line for the insurance companies for the past five years is shown in the following table:

	1993	1992	1991	1990	1989
	<i>(\$000)</i>	<i>(\$000)</i>	<i>(\$000)</i>	<i>(\$000)</i>	<i>(\$000)</i>
Commercial auto, general liability *	(5,088)	(5,000)	4,940	(9,035)	(11,915)
Direct commercial lines	2,027	(1,924)	184	(2,472)	□
Commercial property and casualty	<u>5,126</u>	<u>(9,959)</u>	<u>196</u>	<u>(997)</u>	<u>□</u>
	<u>2,065</u>	<u>(16,883)</u>	<u>5,320</u>	<u>(12,504)</u>	<u>(11,915)</u>

* Including farm insurance and reinsurance run off

The losses in commercial auto and general liability in 1989 and 1990 were the result of surety losses; this book of business was discontinued in 1990. The underwriting profit in these lines in 1991 was primarily a result of recoveries related to surety business. The underwriting loss in these lines in 1993 related to inadequate pricing and poor claims experience.

Direct commercial lines had an underwriting profit in 1993. Commercial and casualty lines were unfavourably affected by Hurricane Andrew losses of approximately \$11 million in 1992, but rebounded to an underwriting profit in 1993.

Provision for Claims

Claim provisions are established by the case method as claims are reported. The provisions are subsequently adjusted as additional information on the estimated amount of a claim becomes known during

the course of its settlement. A provision is also made for management's calculation of factors affecting the future development of claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims.

As time passes, more information about the claims becomes known and provision estimates are appropriately adjusted upward or downward. Because of the estimation elements encompassed in this process, and the time it takes to settle many of the more substantial claims, several years are required before a meaningful comparison of actual losses to the original provisions can be developed.

The development of the provision for claims is shown by the difference between estimates of reserves as of the initial year-end and the re-estimated liability at each subsequent year-end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the reserves required for claims still open or claims still unreported. Favourable development means that the original reserve estimates were higher than subsequently indicated. Unfavourable development means that the original reserve estimates were lower than subsequently indicated.

The table below shows the original provision for claims reserves including loss adjustment expense (LAE) at each calendar year-end with the subsequent cumulative payments made from these years and the subsequent re-estimated amount of these reserves. The following insurance subsidiaries' reserves are included from the respective years in which they were originally acquired:

Subsidiary	Year Acquired
Markel Insurance Company of Canada	1985
Federated Insurance Company of Canada	1990
Commonwealth Insurance Company	1990
Ranger Insurance Company	1993

*Provision for Claims Reserve Development
of Commonwealth, Federated and Market **

	1985	1986	1987	1988	1989	1990	1991	1992	1993
As of December 31 and prior	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Provision for claims including LAE	17,517	39,522	59,400	71,964	79,357	192,372	168,394	179,588	185,010
Cumulative payments as of:									
One year later	8,069	13,940	18,752	21,015	25,194	44,055	48,050	56,824	
Two years later	11,822	22,613	27,154	33,196	35,440	76,947	75,402		
Three years later	15,514	27,295	32,919	42,043	44,169	98,149			
Four years later	16,313	30,156	37,784	47,901	50,119				
Five years later	16,989	33,256	41,128	52,103					
Six years later	16,989	34,928	43,991						
Seven years later	16,989	36,598							
Eight years later	17,185								
Reserves re-estimated as of:									
One year later	18,596	42,907	56,920	71,673	80,602	175,138	168,001	179,948	
Two years later	18,352	43,397	54,920	69,930	73,904	173,992	157,848		
Three years later	19,210	43,148	53,004	67,676	71,810	165,752			
Four years later	19,079	41,448	52,295	64,478	67,165				
Five years later	18,613	41,730	50,235	64,394					
Six years later	16,989	40,280	50,822						
Seven years later	16,989	41,094							
Eight years later	17,424								
Favourable (unfavourable) development	<u>93</u>	<u>(1,572)</u>	<u>8,578</u>	<u>7,570</u>	<u>12,192</u>	<u>26,620</u>	<u>10,546</u>	<u>(360)</u>	

* Does not include Federated Life, Ranger or Wentworth

While management is pleased with the generally favourable development over the past six years (in 1992 there was a small unfavourable development), future development can be significantly different from the past due to many unknown factors.

The following table shows the provision for claims liability for unpaid losses and LAE as originally estimated for the years 1991 through 1993, the amounts paid with respect to the reserves for each subsequent year, the re-estimated liability at the end of each year, and the resulting development from prior years. The favourable or unfavourable development from prior years is credited or charged to each year's earnings.

Reconciliation of Provision for Claims

	1993 (\$000)	1992 (\$000)	1991 (\$000)
Provision for claims and LAE at January 1179,588 for Commonwealth, Federated and Market	168,394	192,372	
Incurring losses on claims and LAE			
Provision for current accident year claims	102,582	94,177	63,163
Increase (decrease) in provision for prior accident years' claims	<u>360</u>	<u>(393)</u>	<u>(17,234)</u>
Total incurred losses on claims and LAE <u>102,942</u>	<u>93,784</u>	<u>45,929</u>	
Payments for losses and LAE			
Payments on current accident year claims	(40,696)	(34,540)	(25,852)
Payments on prior accident years' claims	<u>(56,824)</u>	<u>(48,050)</u>	<u>(44,055)</u>
Total payments for losses and LAE <u>(97,520)</u>	<u>(82,590)</u>	<u>(69,907)</u>	
Provision for claims and LAE at December 31 <u>185,010</u> for Commonwealth, Federated and Market	<u>179,588</u>	<u>168,394</u>	
Provision for claims and LAE at December 31 of:			
Ranger Insurance Company	235,525	□ □	
Federated Life Insurance Company	22,825	22,794	21,337
Wentworth Insurance Company	1,486	6,381	5,196
Other	<u>0</u>	<u>53</u>	<u>7,193</u>
Total provision for claims and LAE at <u>444,846</u> December 31	<u>208,816</u>	<u>202,120</u>	

As shown in the table, there has been unfavourable development from prior years of \$0.4 million in 1993 and favourable development from prior years of about \$0.4 million in 1992 and \$17.2 million in 1991. In 1993 Wentworth paid the majority of one contract (approximately \$5 million). In 1992 the "Other" reflects the final adjustment of the purchase price discrepancy on the acquisition of Commonwealth (about \$7 million) which was originally allocated to the provision for claims at the Fairfax level.

The company strives to establish adequate provisions at the original valuation date. While the generally favourable development from prior years in the past three years is comforting (slightly unfavourable in 1993), the company will always be subject to upward or downward development in the future.

Insurance Environment

The property and casualty insurance market in general experienced another year of poor underwriting results with combined ratios in Canada and the U.S. expected to be approximately 109% in 1993. Many insurance companies continue to write insurance at inadequate prices. Following the various very large underwriting losses incurred in 1992 in the U.S. and Europe, we felt price adjustments were inevitable. We continue to believe price increases must take place as a result of large underwriting losses combined with low interest rates. However, the industry continues to be very competitive.

Ranger Acquisition

Effective December 31, 1993 the company acquired Ranger Insurance for US\$125 million. The balance sheet of Ranger upon acquisition was as follows:

	\$ Canadian	\$ U.S.
	<i>(\$000)</i>	<i>(\$000)</i>
Investments, including cash	400,104	302,193
Deferred premium acquisition costs	18,308	13,828
Accounts receivable	55,036	41,568
Other assets	<u>26,398</u>	<u>19,938</u>
	<u>499,846</u>	<u>377,527</u>
Provision for claims	235,525	177,889
Unearned premiums	93,402	70,545
Other liabilities	31,899	24,093
Shareholders' equity	<u>139,020</u>	<u>105,000</u>
	<u>499,846</u>	<u>377,527</u>

The purchase price of US\$125 million was paid US\$117.4 million cash and a five year insurance consulting contract valued at US\$7.6 million. The excess of the purchase price paid over the fair value of net assets acquired of US\$20 million was allocated US\$10 million to a five year non-competition agreement, US\$7.6 million to the consulting contract and the balance of US\$2.4 million to goodwill.

Ranger underwrites commercial property and casualty insurance for various specialty programs. Ranger's 1993 gross premiums written were US\$187 million, generating net premiums written for 1993 of US\$132.3 million.

Interest and Dividend Income

The majority of interest and dividend income is earned by the insurance companies. The Commonwealth and Federated acquisitions added \$129.8 million and \$100.8 million respectively to the investment portfolio at the end of 1990, and interest and dividend income for Commonwealth was included for only two months in 1990. Ranger Insurance's investment portfolio, acquired effective December 31, 1993, is included in the following tables only where indicated.

Dividend Income Per Share	Average	Interest and				
	Investments	Pre-Tax		After Tax		
	at Book Value	Amount	Yield	Amount	Yield	
	(\$000)	(\$000)	(%)	(\$000)	(%)	(\$)
1985	29,060	2,455	8.45	1,271	4.37	0.45
1986	64,181	4,678	7.29	2,522	3.93	0.52
1987	109,825	8,042	7.32	5,499	5.01	0.77
1988	130,782	8,922	6.82	6,618	5.06	0.90
1989	135,703	11,628	8.57	8,537	6.29	1.11
1990	237,868	20,704	8.70	14,017	5.89	1.86
1991	338,461	26,051	7.70	17,731	5.24	3.02
1992	366,481	23,988	6.55	17,749	4.84	3.09
1993 *	418,207	23,251	5.56	17,994	4.30	2.92

* Ranger Insurance is not included in this table.

As shown, after-tax interest and dividend income per share has compounded at 26% per year since 1985. The after-tax income yield declined in 1993 to 4.3% as a result of the decline in interest rates.

Investments for the past nine years are shown in the following table, the first five columns of which show them at the average of their carrying values at the beginning and end of each year, and the final two columns of which show them at year-end.

Investments	Cash and Short Term				Total		
	Investments	Bonds	Preferreds	Common	Average	Year-End	Per Share
	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)	(\$)
1985	10,526	15,388	732	2,414	29,060	32,728	6.55
1986	16,605	24,523	7,979	15,074	64,181	95,633	13.65
1987	28,025	26,242	16,516	39,042	109,825	124,016	16.90
1988	29,843	23,575	25,191	52,173	130,782	137,548	18.79
1989	20,623	28,528	32,212	54,340	135,703	133,858	18.30
1990	33,596	99,220	45,652	59,400	237,868	335,740	61.30
1991	60,099	140,177	75,685	62,500	338,461	341,180	62.54
1992	77,929	108,818	99,821	79,913	366,481	396,240	65.44
1993 *	102,968	90,682	118,604	105,953	418,207	848,774	106.70

* Ranger Insurance is included in the 1993 year-end balances.

Total investments per share at year-end have increased significantly in 1993 due to the Ranger acquisition.

As shown, since 1985 investments per share have compounded at 42% per year.

Return on Investment Portfolio

The following table shows the performance of the investment portfolio for the past nine years. The total return includes all interest and dividend income, gains (losses) on the disposal of securities and the change in the unrealized gains (losses) during the year.

on	Average Investments at Book	Dividends and Interest Earned	Realized Gains (Losses) after Provisions	Change in Unrealized Gains (Losses)	Total Return Average	
Investments	(\$000)	(\$000)	(\$000)	(\$000)	(%)	
1985	29,060	2,455	459	878	3,792	13
1986	64,181	4,678	952	(352)	5,278	8
1987	109,825	8,042	9,159	(7,976)	9,225	8
1988	130,782	8,922	7,802	12,131	28,855	22
1989	135,703	11,628	15,458	(6,272)	20,814	15
1990	237,868	20,704	2,278	(32,943)	(9,961)	(4)
1991	338,461	26,051	(4,512)	27,866	49,405	15
1992	366,481	23,988	3,400	(11,197)	16,191	4
1993 *	418,207	23,251	27,822	28,792	79,865	19

* *Ranger Insurance is not included in this table.*

Investment gains (losses) have been an important component of Fairfax's net earnings since 1985. The amount has fluctuated significantly from period to period, but the amount of investment gains (losses) for any period has no predictive value and variations in amount from period to period have no practical analytical value. At December 31, 1993 the aggregate provision for losses on investments was \$11.5 million (1992—\$16.3 million). At December 31, 1993 the Fairfax investment portfolio had an unrealized gain of \$11.4 million compared to an unrealized loss at December 31, 1992 of \$17.4 million.

The company has a long term value-oriented investment philosophy. It continues to expect fluctuations in the stock market.

Capital Resources

At December 31, 1993 total capital, comprising shareholders' equity and non-controlling (minority) interest,

was \$296.9 million, compared to \$161.2 million at December 31, 1992.

The following table shows the level of capital as at December 31 for the last five years:

	1993 (\$000)	1992 (\$000)	1991 (\$000)	1990 (\$000)	1989 (\$000)
Non-controlling interest	17.4	17.4	17.0	16.7	10.7
Subordinated convertible debenture	□	□	7.5	7.5	7.5
Shareholders' equity	<u>279.5</u>	<u>143.8</u>	<u>116.8</u>	<u>94.7</u>	<u>90.8</u>
	296.9	161.2	141.3	118.9	109.0

Fairfax's consolidated balance sheet as at December 31, 1993 reflects a significant improvement in financial strength from 1992. Fairfax shareholders' equity has increased from \$143.8 million at December 31, 1992 to \$279.5 million at December 31, 1993.

In 1993 the company purchased and cancelled 100,000 subordinate voting shares at an average price of \$24.79 per share.

On November 26, 1993 the company issued 2,000,000 subordinate voting shares at \$55 per share, raising net proceeds of \$104.8 million. Average net outstanding shares increased as a result of this issue from 5,752,551 in 1992 to 6,154,254 in 1993. Fairfax's indirect ownership of its own shares through The Sixty Two Investment Company Limited results in an effective reduction of shares outstanding by 799,230, and this reduction has been reflected in the earnings per share and book value per share figures.

A common measure of capital adequacy in the property and casualty industry is the premiums to surplus (or common shareholders' equity) ratio. This is shown below for the insurance subsidiaries of Fairfax for the last five years:

	Net Premiums Written to Surplus (Common Shareholders' Equity)				
	1993	1992	1991	1990	1989
Markel	1.1:1	1.0:1	0.4:1	0.6:1	1.0:1
Federated	1.1:1	1.1:1	1.1:1	1.3:1	1.9:1
Commonwealth	0.7:1	0.6:1	0.4:1	0.4:1	□
Ranger 1.6:1	□	□	□	□	
Canadian industry	1.4:1	1.4:1	1.3:1	1.3:1	1.4:1
U.S. industry	1.3:1	1.4:1	1.4:1	1.6:1	1.6:1

In Canada, property and casualty companies are regulated by the Office of the Superintendent of Financial Institutions on the basis of their Section 516 surplus. Fairfax's Canadian property and casualty insurance subsidiaries had a consolidated Section 516 surplus of \$125 million, significantly in excess of minimum requirements.

Risk based capital will likely be implemented this year in the U.S. The company does not anticipate any adverse effects of such requirements because of the strong capitalization of its property and casualty companies.

In 1993 A. M. Best upgraded Commonwealth to an A- (Excellent), and provided Federated Insurance an initial rating of A- (Excellent). Ranger is also rated A- (Excellent) by A. M. Best. Standard & Poor's has provided an A- claims paying rating to Commonwealth and a BBB senior unsecured debt rating to Fairfax.

Liquidity

The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due.

Fairfax has the financial flexibility to obtain from internal or external sources the funds needed to fulfil its cash requirements during the current financial year. In 1994 cash requirements for Fairfax at the holding company level will include gross debt servicing of \$10 million and net administration expense of approximately \$3 million. Dividends available from its U.S. insurance company in 1994 will be approximately US\$10 million, while dividends available from its Canadian insurance companies will be about \$15 million.

Consolidated interest expense decreased in 1993 to \$6.4 million from \$7.7 million in 1992 due to lower interest rates.

During 1993 Fairfax raised US\$100 million in unsecured senior notes and \$104.8 million through the share issue referred to above under "Capital Resources". These funds were applied towards the Ranger acquisition (US\$117.4 million), paying off our existing bank indebtedness (\$51 million) and repayment of the long term debt owed to Federated Mutual Insurance Company (\$20.4 million). In addition, Morden & Helwig

increased debt levels in 1993 to fund capital expenditures and working capital needs.

As a result, the debt to equity ratio with Morden & Helwig equity accounted remained at 0.47:1 at December 31, 1993, unchanged from December 31, 1992. Fairfax expects to accumulate cash in 1994 unless it makes any acquisitions.

The company has not paid and does not intend to pay dividends as long as it can reinvest its funds and earn a 20% return on equity over time.

At December 31, 1993 Fairfax had \$75 million of unused, unsecured, committed, long term bank lines.

Fairfax Insurance Companies**Combined Statements of Earnings**

for the years ended December 31, 1993 and 1992
(unaudited)

		1993 (\$000)	1992 (\$000)
Revenue			
..... Premiums earned		150,844	118,854
..... Interest and dividends		23,006	22,786
..... Realized gains on investments		27,552	1,977
..... Other income		<u>539</u>	<u>298</u>
.....			<u>201,941</u>
.....	<u>143,915</u>		
Expenses			
..... Losses on claims		109,419	94,457
..... Operating expenses		33,274	37,671
..... Commissions, net		<u>6,625</u>	<u>3,907</u>
.....			<u>149,318</u>
.....	<u>136,035</u>		
Earnings before income taxes	52,623	7,880	
..... Provision for (recovery of) income taxes		<u>17,150</u>	<u>(4,171)</u>
Net earnings	<u>35,473</u>	<u>12,051</u>	

Fairfax Insurance Companies

Fairfax's insurance business is conducted by five subsidiaries. The companies underwrite a wide range of commercial property, oil and gas, commercial casualty and commercial truck insurance and smaller amounts of other property, other casualty, life, health and disability insurance, in Canada, the United States and internationally.

Fairfax Insurance Companies**Combined Balance Sheets**

as at December 31, 1993 and 1992
(unaudited)

.....	1993	1992
.....	(\$000)	(\$000)
Assets		
..... Accounts receivable	154,401	71,116
..... Income taxes refundable	□	5,448
..... Prepaid expenses	<u>2,420</u>	<u>2,274</u>
.....		<u>156,821</u>
..... <u>78,838</u>		
..... Cash and short term investments	283,839	83,109
..... Bonds □ at book value	305,375	103,318
..... Preferred stocks □ at book value	132,862	109,483
..... Common stocks □ at book value	<u>112,690</u>	<u>92,246</u>
.....		<u>834,766</u>
..... <u>388,156</u>		
.....		
..... Deferred premium acquisition costs	29,422	6,307
..... Deferred income taxes	27,720	□
..... Capital assets	12,558	6,684
..... Other assets	<u>19,249</u>	<u>82</u>
.....		<u>1,080,536</u>
..... <u>480,067</u>		
Liabilities		
..... Accounts payable and accrued liabilities	79,775	31,596
..... Premium deposits	5,664	5,844
..... Income taxes payable	<u>19,320</u>	<u>□</u>
.....		<u>104,759</u>
..... <u>37,440</u>		
..... Provision for claims	444,846	208,816
..... Unearned premiums	184,277	66,135
..... Deferred income taxes	<u>□</u>	<u>6,936</u>
.....		<u>629,123</u>
..... <u>281,887</u>		
Shareholders' Equity		
..... Capital stock	225,795	67,204
..... Contributed surplus	6,062	5,913
..... Retained earnings	<u>114,797</u>	<u>87,623</u>
.....		<u>346,654</u>

..... 160.740
.....
..... 480.067

1.080.536

Fairfax with Equity Accounting of Morden & Helwig**Consolidated Balance Sheets**

as at December 31, 1993 and 1992
(unaudited)

	1993	1992
	(\$000)	(\$000)
Assets		
Accounts receivable	160,056	73,098
Income taxes refundable	□	4,964
Prepaid expenses	<u>2,452</u>	<u>2,416</u>
		<u>162,508</u>
<u>80,478</u>		
<i>Portfolio investments</i>		
Cash and short term investments	286,247	83,011
Bonds		
(market value □ \$308,498; 1992□\$105,637)		
305,375	103,224	
Preferred stocks		
(market value □ \$141,676; 1992□\$108,412)		
132,862	106,779	
Common stocks		
(market value □ \$117,435; 1992□\$76,701)		117,976
97,902		
Other investments	<u>4,200</u>	<u>4,459</u>
Total (market value □ \$858,056; 1992□\$378,220)	<u>846,660</u>	<u>395,375</u>
Investment in Morden & Helwig	25,689	25,186
Deferred premium acquisition costs	25,404	6,307
Deferred income taxes	27,715	□
Capital assets	12,558	6,801
Goodwill	17,167	13,640
Other assets	<u>18,162</u>	<u>4,279</u>
		<u>1,135,863</u>
<u>532,066</u>		
Liabilities		
Accounts payable and accrued liabilities	69,196	32,336
Premium deposits	5,664	5,844
Income taxes payable	<u>20,001</u>	□
		<u>94,861</u>
<u>38,180</u>		
Provision for claims	444,846	208,816
Unearned premiums	184,277	66,135
Long term debt	132,400	68,181
Deferred income taxes	□	<u>6,936</u>
		<u>761,523</u>
<u>350,068</u>		
Shareholders' Equity		
Capital stock	153,438	49,841
Retained earnings	<u>126,041</u>	<u>93,977</u>
		<u>279,479</u>
<u>143,818</u>		

1.135.863

.....
.....532.066
.....

Morden & Helwig Group Inc.**Consolidated Balance Sheets***as at December 31, 1993 and 1992*

.....	1993	1992
.....	(\$000)	(\$000)
Assets		
.....Cash	1,634	484
.....Accounts receivable	23,661	25,128
.....Claims in process	14,719	12,391
.....Prepaid expenses	1,664	1,227
.....		
.....	<u>41,678</u>	<u>39,230</u>
.....		
.....Notes receivable	1,258	1,143
.....Capital assets	12,361	10,623
.....Other assets	37,498	36,000
.....		
.....	<u>92,795</u>	<u>86,996</u>
.....		
.....	<u>86,996</u>	
Liabilities		
.....Bank indebtedness	10,463	4,792
.....Accounts payable and accrued liabilities	13,593	14,908
.....Income taxes payable	246	278
.....Long term debt <input type="checkbox"/> current portion	1,269	1,532
.....Deferred income taxes	2,934	3,024
.....		
.....	<u>28,505</u>	<u>24,534</u>
.....		
.....Long term debt	14,076	13,064
.....Future retirement payments	6,804	6,384
.....		
.....	<u>20,880</u>	<u>19,448</u>
.....		
.....Subordinated convertible debenture	8,174	8,320
.....		
Shareholders' Equity		
.....Capital stock	22,871	22,625
.....Retained earnings	12,365	12,069
.....		
.....	<u>35,236</u>	<u>34,694</u>
.....		
.....	<u>92,795</u>	<u>86,996</u>
.....		
<u>86,996</u>		

Consolidated Financial Summary (in thousands except per share data)

	<i>For the years ended December 31</i>									
	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984
Operating Results										
Premiums earned	150,844	118,854	90,507	78,427	40,444	66,265	62,012	40,885	14,049	16,616
Claims fees	142,105	139,782	122,982	58,281	49,092	43,349	33,529	6,850	□	□
Interest and dividends	23,251	23,988	26,051	20,704	11,628	8,922	8,042	4,678	2,455	2,337
Realized gains (losses) on investments	27,822	3,400	(4,512)	2,278	15,458	7,802	9,159	952	459	25
Other income	1,815	806	14,974	35,740	9,132	7,311	229	368	52	□
Total revenue	345,837	286,830	250,002	195,430	125,754	133,649	112,971	53,733	17,015	18,978
Earnings before income taxes	46,663	6,975	32,465	23,238	19,204	21,324	18,203	9,085	(880)	(4,854)
Extraordinary items	□	□	□	□	□	□	1,700	1,711	□	□
Net earnings	33,340	10,045	22,515	21,306	16,741	14,357	16,019	6,548	(910)	(4,775)
<hr/>										
Per Common Share										
Net earnings □ fully diluted	5.42	1.76	3.94	2.92	2.25	1.94	2.23	1.35	(1.89)	(7.75)
Shareholders' equity	35.13	23.76	21.41	17.29	12.41	10.13	8.32	5.89	2.08	3.71
Number of shares outstanding □ year-end	7,955	6,055	5,455	5,477	7,316	7,322	7,337	7,007	5,000	616
<hr/>										
Financial Condition										
Total Assets	1,200,275	590,548	516,564	535,987	248,065	246,786	185,413	129,845	41,477	31,401
Cash and investments	848,774	396,240	341,180	335,740	133,858	137,548	124,016	95,633	32,728	25,391
Total debt *	132,400	68,181	51,264	65,918	21,988	28,235	2,773	2,800	□	1,000
Shareholders' equity	279,479	143,818	116,775	94,676	90,830	74,176	61,048	41,275	10,379	2,287

Return on Average Shareholders' Equity	20.3%	7.7%	21.3%	23.0%	20.3%	21.2%	31.3%	25.4%
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* Total debt with Morden & Helwig equity accounted

Readers of the Management's Discussion and Analysis should review the entire annual report for additional commentary and information.

Directors of the Company

Winslow W. Bennett
President, Winwood Holdings Ltd.

□ Robbert Hartog
President, Robhar Investments Ltd.

□ Steven A. Markel
Vice Chairman
Markel Corporation

Kenneth R. Polley
President and Chief Executive Officer
Morden & Helwig Group Inc.

John C. Puddington
President, Trilwood Investments Limited

□ V. Prem Watsa
Chairman and
Chief Executive Officer

□ *Audit Committee Member*

Operating Management

John B. O. Watson
President
Commonwealth Insurance Company

John M. Paisley
President
Federated Insurance Company of Canada and
Federated Life Insurance Company of Canada

Anthony F. Hamblin
President
Hamblin Watsa Investment Counsel Ltd.

William S. Grant
President
Markel Insurance Company of Canada

Kenneth R. Polley
President
Morden & Helwig Group Inc.

Thomas H. Friedberg
President
Ranger Insurance Company

Officers of the Company

Brenda Adams
Corporate Secretary

Sam Chan
Vice President

J. Paul T. Fink
Vice President

Eric P. Salsberg
Vice President, Corporate Affairs

Ronald Schokking
Vice President, Finance

John C. Varnell
Vice President and
Chief Financial Officer

V. Prem Watsa
Chairman and Chief Executive Officer

Head Office

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Suite 800
Toronto, Ontario M5J 2N7
Telephone (416) 367-4941

Transfer Agent and Registrar
The R-M Trust Company

Share Listing
The Toronto Stock Exchange
Exchange Symbol FFH

General Counsel
Tory Tory DesLauriers & Binnington

Auditors
Coopers & Lybrand

Annual Meeting
The annual meeting of shareholders of Fairfax Financial Holdings Limited will be held on Wednesday, May 4, 1994 at 4.30 p.m. at The Toronto Stock Exchange.