

FAIRFAX FINANCIAL HOLDINGS

News Releases

Stock Symbol: FFH

TORONTO, October 02, 1998

Fairfax Financial Holdings Limited advises that it has today prepared a letter which is being sent to its shareholders, reporting on the investment action which it has taken in response to its concerns expressed in its 1996 and 1997 annual reports over the levels of U.S. and Canadian stock markets. In that letter, Fairfax reports that its common stock positions have currently been reduced to approximately 5% of its total investment portfolios; the other 95% (in excess of \$10.5 billion) is largely invested in cash and high quality bonds.

The letter further reports that in the past twelve months, Fairfax has purchased US\$700 million of at-the-money S&P 500 Index puts, at an average index level of 1012 with maturities from August 1999 to June 2001, for a cost of US\$72.8 million. Consequently, if the S&P 500 Index declines below 1012, the value of Fairfax's investment increases by almost US\$70 million for every 100 point drop in the index. If the S&P 500 Index stays above the 1012 level for the next two to three years and Fairfax continues to hold the S&P 500 Index puts, those puts will be worthless and Fairfax will have lost US\$72.8 million which, on an after-tax basis spread over two to three years, constitutes a reasonably small portion of Fairfax's recent earnings.

Fairfax Financial Holdings Limited is a financial services holding company which, through its subsidiaries, is engaged in property, casualty and life insurance and reinsurance, investment management and insurance claims management.

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