FAIRFAX
FINANCIAL HOLDINGS LIMITED

November 3, 2001

To our shareholders:

It is now exactly two years from the day I wrote to you in 1999 after our stock price dropped dramatically when the 1999 second quarter results were reported. Fairfax was trading at $210 then and it is trading at $207 today. In spite of a tremendous improvement in our two large U.S. insurance companies, our results have not been good during this time period and our stock price reflects this.

Recently, we have had two negative surprises that are reflected in our third quarter loss — the largest loss we have had since we began in 1985.

1. World Trade Centre losses

   The tragic events of September 11 resulted in a gross loss of US$625 million ($964 million) and a net, after reinsurance, pretax loss of US$152 million ($234 million). Excluding the minority interest of 26% of OdysseyRe that is public, Fairfax had a net pretax loss of US$131 million ($202 million), not too different from the range which we announced on September 17, 2001. We have solid reinsurers backing our recoveries with more than 90% rated A– and above.

2. Reserve deficiencies

   During the first nine months of 2001, we had significant development in the prior years' reserves of Crum & Forster (CFI) and TIG. For CFI, we booked a gross reserve increase of US$400 million, which includes the US$190 million remaining protection on 1998 and prior reserves which we obtained on the acquisition of CFI and US$210 million gross for the 1999 and 2000 accident years. After reinsurance, the net cost to CFI of this reserve increase was US$74 million ($115 million). For TIG, we booked a gross reserve increase of US$200 million, primarily for the 1999 and 2000 accident years which, after reinsurance, cost TIG US$113 million ($174 million).

   While this was a surprise for us, and clearly very embarrassing, given our policy of always being well reserved, you should note that:

   (a) This is an industry phenomenon as company after company in the U.S. has recently reported similar developments reflecting the soft insurance markets of the late 1990s.

   (b) Our management teams, led by Bruce Esselborn at CFI and Courtney Smith at TIG, have been running our companies for only two years. Against the backdrop of the worst insurance market in thirty years, it has taken longer for them to fix the problems of the past.

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(c) These reserve increases, large as they have been, clearly put the past behind us and position both companies firmly for the future.

So, with hindsight, would we have bought these companies? You be the judge. The table below shows purchase price vs book value for both companies.

Purchase Price vs Book Value
(US$ millions)

	Purchase Price	**Book at Purchase**	**Book at Sept 30/01**
CFI	680	857[1]	957
TIG	845	804[2]	852

[1] After pre-acquisition reserve strengthening of $227

[2] After pre-acquisition reserve strengthening and other balance sheet cleanup of $211

In spite of the reserve strengthening, CFI's purchase price is well below its book value at September 30, 2001 and TIG's is about the same. And, now we have a major presence in commercial insurance in the world's largest insurance market just as these markets are tightening significantly. Please remember also that with TIG, we acquired TIG Re, which helped make OdysseyRe one of the largest broker reinsurers in the world.

These companies could not be purchased today at the prices we paid for them and, unlike other companies in our industry, we have no goodwill to speak of on our balance sheet.

Combined Ratios for CFI/TIG

Because of the significant transition that both companies have undergone in the past two years, we think it is important to focus on the policy year combined ratio, that is the combined ratio of the business written, new and renewed, in 2001. For CFI, this is running at 104% and for TIG at 108%. Given the very significant price increases being achieved currently, our 100% target combined ratios for 2002 are in sight.

Investment Portfolios

While the right hand side of our balance sheet has disappointed us in 2001, the left hand side has been very strong. Primarily because of our S&P put position (US$1.1 billion at an average exercise price of 1206), we had an unrealized gain in our investment portfolio in excess of $300 million at September 30, 2001. As of October 31, the drop in long U.S. treasury interest rates has resulted in our bond portfolios having an unrealized gain of approximately $250 million (a far cry from an unrealized loss of $463 million as of December 31, 2000 and $1,241 million as of December 31, 1999). We think the U.S. is in a recession and the only question is how long and how deep. With 93% of the portfolio in high quality bonds (and an option feature that extends the average maturity to 18 years) and US$1.1 billion in S&P puts, we think we are very well positioned for this environment. As discussed in the 2000 Annual Report, if U.S. long treasuries drop to 4%, the unrealized gain in our bond portfolios would be about $800 million.

Property and Casualty Industry Conditions

When we began in September 1985, industry conditions in Canada and the U.S. were just turning. Our largest competitor went bankrupt in late 1985 and our premiums quadrupled in 1986 as the pricing environment turned dramatically. In the P&C industry, this is called a hard market. Beginning in 1988, pricing began to soften again and only began turning upwards in 2000. In our 2000 Annual Report, we listed some of the reasons why we felt the cycle had turned. With the World Trade Centre industry loss, estimated to be in the US$30 to US$50 billion range, we are in a hard market again — the best since we began in 1985.

Insurance capacity is being severely limited, prices are going up dramatically and policy terms and conditions have tightened significantly.

For the past 15 years, we have carefully expanded through acquisition, as the opportunity to grow internally was very limited. This has now changed. We expect to grow each of our insurance/reinsurance businesses significantly during this hard market. In the last hard market, we had one company, Markel Insurance. In the current one, we have four Canadian companies, three U.S. companies and one large worldwide reinsurer — all with excellent management and operating on a decentralized basis unburdened with bureaucracy — to grow their businesses significantly in this market.

Given the opportunity that we see in the P&C industry and given the two negative surprises that we have had in 2001, we have decided to do an issue of subordinate voting shares to strengthen our balance sheet and to take full advantage of the growth opportunities ahead of us. While this issue is very mildly dilutive to you, we think that, longer term, the internal growth opportunities will more than compensate. Note, we are not doing this issue to buy another company, something I said we would not do below $500 per share. This equity issue will help increase cash in the holding company to a level in excess of $800 million at year end 2001! In addition, we continue to have over $1 billion in bank lines.

While we have one of the best long-term track records in our industry, we have not performed for you, our shareholders, in the past three years. We believe our time has come and that your patience will be rewarded.

V.P. Watsa

V. Prem Watsa