

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1998

To Our Shareholders:

In the first quarter net earnings increased 66% to \$52.8 million from \$31.9 million last year. Net earnings per share for the first quarter increased to \$4.75 per share from \$3.05 per share last year. The weighted average outstanding shares were 11.1 million versus 10.5 million last year.

Revenue in the first quarter increased to \$637.1 million from \$484.9 million as a result of increased premium and investment income, mainly related to the December 3, 1997 acquisition of Sphere Drake Holdings Limited.

The combined ratio in the first quarter increased to 110% from 108% last year due to the inclusion of Sphere Drake Holdings Limited and the Quebec ice storm.

Interest and dividend income in the first quarter increased to \$76.4 million from \$60.6 million last year. Realized gains on disposal of portfolio securities were \$55.9 million for the first quarter compared to \$17.4 million last year. At March 31, 1998 the Fairfax investment portfolio had a pre-tax unrealized gain of \$210.4 million compared to an unrealized gain of \$122.7 million at December 31, 1997.

On February 20, 1998 the company announced that it had agreed to acquire two Skandia reinsurance companies, subject to regulatory approval and other closing conditions. This acquisition is expected to be completed by the third quarter of 1998 and will be financed internally.

On March 11, 1998 the company announced that it had agreed to acquire Crum & Forster Holdings, Inc., subject to regulatory approval and other closing conditions. This transaction, which is expected to close by the third quarter of 1998, is discussed more fully in the letter to shareholders included with this mailing.

To fund this acquisition, the company completed an issue of 1 million subordinate voting shares at \$475 per share on April 3, 1998 and, on April 15, 1998, completed a debt offering in the United States of US\$175 million of 6% unsecured notes due April 15, 2008 and US\$225 million of 7% unsecured notes due April 15, 2018.

Shareholders' equity at March 31, 1998 was \$1.45 billion or about \$130 per share.

May 19, 1998



V. PREM WATSA
Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1998

CONSOLIDATED BALANCE SHEETS

as at March 31, 1998 and December 31, 1997

(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
ASSETS		
Cash and short term investments	215.5	207.1
Accounts receivable	1,741.2	1,669.8
Recoverable from reinsurers	2,053.0	2,164.5
Claims in process	17.0	14.9
Income taxes refundable	27.1	31.5
Prepaid expenses	<u>24.6</u>	<u>21.8</u>
	4,078.4	4,109.6
Portfolio Investments		
Cash and short term investments	846.8	823.8
Bonds - (market value - \$3,978.6; 1997 - \$3,970.2)	3,818.4	3,853.5
Preferred stocks - (market value - \$268.9; 1997 - \$297.1)	250.0	271.6
Common stocks - (market value - \$663.9; 1997 - \$565.6)	632.6	585.1
Real estate	<u>57.5</u>	<u>54.6</u>
Total (market value - \$5,815.7; 1997 - \$5,711.3)	5,605.3	5,588.6
Deferred premium acquisition costs	209.0	220.1
Deferred income taxes	163.0	169.5
Capital assets	53.7	54.4
Goodwill	40.4	41.3

Other assets	<u>27.6</u>	<u>23.8</u>
	10,177.4	10,207.3

LIABILITIES

Bank indebtedness	8.7	0.6
Accounts payable and accrued liabilities	262.1	282.5
Premium deposits	107.9	<u>105.7</u>
	378.7	<u>388.8</u>

Provision for claims	6,322.0	6,322.7
Unearned premiums	1,063.0	1,113.9
Contingent value rights	35.5	46.0
Long term debt	727.8	<u>735.6</u>
	8,148.3	<u>8,218.2</u>

Non-controlling interest	20.3	20.5
Excess of net assets over purchase price	181.6	184.1

**SHAREHOLDERS'
EQUITY**

Capital stock	766.7	766.7
Retained earnings	681.8	<u>629.0</u>
	1,448.5	<u>1,395.7</u>

10,177.4 10,207.3

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1998

CONSOLIDATED STATEMENTS OF EARNINGS

for the three months ended March 31, 1998 and 1997

(unaudited - \$ millions, except per share data)

	<u>1998</u>	<u>1997</u>
Revenue		
Gross premiums written	<u>700.7</u>	<u>438.0</u>
Net premiums written	<u>428.7</u>	<u>343.6</u>
Net premiums earned	<u>462.2</u>	368.6
Claims fees	<u>42.6</u>	38.3
Interest and dividends	<u>76.4</u>	60.6
Realized gains on investments	<u>55.9</u>	<u>17.4</u>
	<u>637.1</u>	<u>484.9</u>
Expenses		
Losses on claims	<u>344.2</u>	277.5
Operating expenses	<u>119.1</u>	115.0
Interest expense	<u>13.8</u>	9.5
Commissions, net	<u>92.4</u>	<u>46.3</u>
	<u>569.5</u>	<u>448.3</u>
Earnings before income taxes	<u>67.6</u>	36.6
Provision for income taxes	<u>14.5</u>	<u>4.6</u>
Earnings from operations	<u>53.1</u>	32.0
Non-controlling interest	<u>(0.3)</u>	<u>(0.1)</u>
Net earnings	<u>52.8</u>	31.9
Net earnings per share	<u>\$4.75</u>	\$3.05
Shares outstanding (000)	11,132.00	10,466.00
(weighted average)		

FAIRFAX FINANCIAL HOLDINGS LIMITED

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the three months ended March 31, 1998 and 1997

(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
Retained earnings		
- beginning of period	629.0	397.7
Net earnings for the period	<u>52.8</u>	<u>31.9</u>
Retained earnings		
- end of period	681.8	429.6

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1998

**CONSOLIDATED STATEMENTS OF CHANGES IN CASH
RESOURCES**

for the three months ended March 31, 1998 and 1997
(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
Operating Activities		
Earnings from operations	53.1	32.0
Amortization	0.5	2.5
Deferred income taxes	3.8	(2.8)
Gains on investments	<u>(55.9)</u>	<u>(17.4)</u>
	1.5	14.3
Change in provision for claims	(0.7)	32.6
Change in unearned premiums	(50.9)	(22.2)
Change in cash funds resulting from changes in other operating working capital items	<u>23.0</u>	<u>34.2</u>
Cash resources provided by (used in) operating activities	<u>(27.1)</u>	<u>58.9</u>
Investing Activities		
Investments - purchases	69.9	(206.3)
Purchase of capital assets	(0.7)	(2.3)
Purchase of subsidiary, net of cash required	=	63.6
	<u>69.2</u>	<u>(145.0)</u>
Financing Activities		
Increase (decrease) in long term debt	(18.3)	54.1
Change in non-controlling interest	<u>(0.5)</u>	<u>(0.6)</u>
	<u>(18.8)</u>	53.5
Change in cash resources	23.3	(32.6)
Cash resources		
- beginning of period	<u>1,030.3</u>	<u>611.9</u>
Cash resources		

- end of period

1,053.6

579.3

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

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1998

SOURCES OF NET EARNINGS

(Lindsey Morden equity accounted)

for the three months ended March 31, 1998 and 1997

(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
Insurance underwriting	(44.2)	(29.1)
Interest and dividends	<u>73.8</u>	<u>59.5</u>
	29.6	30.4
Claims adjusting (Fairfax portion)	0.4	0.1
Interest expense	(13.5)	(9.2)
Goodwill amortization	(1.2)	(1.2)
Corporate overhead and other	(4.1)	(1.1)
Realized gains on investments	<u>55.9</u>	<u>17.4</u>
Pre-tax income	67.1	36.4
Less: taxes	<u>14.3</u>	<u>4.5</u>
Net earnings	52.8	31.9
Combined ratio	<u>110%</u>	<u>108%</u>

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CAPITAL STRUCTURE

(Lindsey Morden equity accounted)
as at March 31, 1998 and December 31, 1997
(unaudited - \$ millions, except per share data)

	<u>1998</u>	<u>1997</u>
Cash and short term investments	215.5	207.1
Long term debt	712.6	718.4
Net debt	497.1	511.3
Common shareholders' equity	1,448.5	1,395.7
Net debt/equity	34%	37%
Net debt/capital	26%	27%
Shareholders' equity per share	\$130.12	\$125.38