

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 1998

To Our Shareholders:

In the third quarter net earnings increased 53% to \$108.7 million from \$71.0 million last year. Net earnings per share for the third quarter increased to \$9.08 per share from \$6.51 per share last year. The weighted average outstanding shares in the third quarter were 12.0 million versus 10.9 million last year.

Revenue in the third quarter increased to \$1,157.8 million from \$547.4 million as a result of increased premium and investment income, in large part related to the acquisition of Sphere Drake (now renamed Odyssey Re, London and Bermuda) in December 1997 and of Crum & Forster in the third quarter.

The combined ratio in the third quarter increased to 113.7% from 101.4% last year due to recent acquisitions and weather-related losses.

Interest and dividend income in the third quarter increased to \$129.1 million from \$71.0 million last year. Realized gains on disposal of portfolio securities were \$150.6 million for the third quarter compared to \$74.1 million last year. At September 30, 1998 the Fairfax investment portfolio had a pre-tax unrealized gain of \$302.4 million compared to an unrealized gain of \$122.7 million at December 31, 1997.

The previously announced acquisitions of Crum & Forster Holdings, Inc. and two Skandia reinsurance companies closed during the third quarter. The earnings from these companies were included in the 1998 third quarter earnings of Fairfax from August 13, 1998 and September 4, 1998 respectively. The Crum & Forster purchase included a provision for commutation of reinsurance recoverables of \$126 million, an increase in negative goodwill (excess of net assets over purchase price) of \$55 million and an unallocated purchase price difference exceeding \$80 million, pending finalization of the purchase equation.

As indicated in the second quarter interim report, the increase in goodwill is attributable to an acquisition by Lindsey Morden earlier this year.

On October 30, 1998, Lindsey Morden completed the acquisition of Ellis & Buckle of London, England, for consideration of 1.9 million subordinate voting shares of Lindsey Morden and £45.75 million of unsecured notes.

Shareholders' equity at September 30, 1998 was \$2.07 billion or about \$171 per share.

November 6, 1998



V. PREM WATSA
Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 1998

CONSOLIDATED BALANCE SHEET
as at September 30, 1998 and December 31, 1997
(unaudited - \$ millions)

	1998	1997
ASSETS		
Cash and short term investments	61.8	207.1
Marketable securities	92.8	-
Accounts receivable	2,997.5	1,669.8
Recoverable from reinsurers	4,189.9	2,164.5
Claims in process	33.0	14.9
Income taxes refundable	-	31.5
Prepaid expenses	26.7	21.8
	7,401.7	4,109.6
 <i>Portfolio Investments</i>		
Cash and short term investments	958.6	823.8
Bonds - (market value - \$9,979.3; 1997 - \$3,970.2)	9,559.7	3,853.5
Preferred stocks - (market value - \$315.8; 1997 - \$297.1)	304.6	271.6
Common stocks - (market value - \$746.0; 1997 - \$588.1)	874.3	585.1
Real estate	90.3	54.6
Total (market value - \$12,089.9; 1997 - \$5,711.3)	11,787.5	5,588.6
 Deferred premium acquisition costs	 316.1	 220.1
Deferred income taxes	478.8	169.5
Capital assets	93.5	54.4
Goodwill	176.1	41.3
Other assets	55.9	23.8
	20,309.6	10,207.3
 LIABILITIES		
Bank indebtedness	8.1	0.6
Accounts payable and accrued liabilities	890.9	282.5
Premium deposits	122.6	105.7
Income taxes payable	16.4	-
	1,038.0	388.8
 Provision for claims	 13,438.1	 6,322.7
Unearned premiums	1,836.6	1,113.9
Contingent value rights	-	46.0
Long term debt	1,636.9	735.6
	16,911.6	8,218.2

Non-controlling interest	49.6	20.5
Excess of net assets over purchase price	239.5	184.1
SHAREHOLDERS' EQUITY		
Capital stock	1,222.3	766.7
Retained earnings	848.6	<u>629.0</u>
	<u>2,070.9</u>	<u>1,395.7</u>
	<u>20,309.6</u>	<u>10,207.3</u>

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1998

CONSOLIDATED STATEMENTS OF EARNINGS
for the nine months ended September 30, 1998 and 1997
(unaudited - \$ millions, except per share data)

	<u>Third quarter</u>		<u>First nine months</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Revenue				
Gross premiums written	<u>930.8</u>	438.1	<u>2,215.8</u>	1,392.5
Net premiums written	<u>787.3</u>	<u>327.9</u>	<u>1,691.1</u>	<u>1,068.3</u>
Premiums earned	783.1	359.5	1,710.3	1,115.0
Claims fees	95.0	42.8	182.4	122.3
Interest and dividends	129.1	71.0	293.0	184.0
Realized gains on investments	<u>150.6</u>	74.1	<u>257.5</u>	156.2
	<u>1,157.8</u>	<u>547.4</u>	<u>2,443.2</u>	<u>1,577.5</u>
 Expenses				
Losses on claims	675.4	237.9	1,355.5	799.3
Operating expenses	187.2	84.3	436.6	297.4
Interest expense	29.5	13.7	63.6	34.1
Commissions, net	<u>108.7</u>	<u>96.2</u>	<u>286.5</u>	<u>206.1</u>
	<u>1,000.8</u>	<u>432.1</u>	<u>2,142.2</u>	<u>1,336.9</u>
 Earnings before income taxes				
Provision for income taxes	<u>157.0</u>	115.3	<u>301.0</u>	240.6
	<u>47.4</u>	<u>43.8</u>	<u>80.0</u>	<u>74.1</u>
 Earnings from operations				
Non-controlling interest	<u>109.6</u>	71.5	<u>221.0</u>	166.5
	<u>(0.9)</u>	<u>(0.5)</u>	<u>(1.4)</u>	<u>(0.7)</u>
Net earnings	<u>108.7</u>	<u>71.0</u>	<u>219.6</u>	<u>165.8</u>
 Net earnings per share				
	\$9.08	\$6.51	\$18.62	\$15.57
 Shares outstanding (000)				
(weighted average)	11,973.00	10,906.00	11,792.00	10,652.00

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 1998
CONSOLIDATED STATEMENTS OF
RETAINED EARNINGS
for the nine months ended September 30, 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>219.6</u>	<u>165.8</u>
Retained earnings – end of period	<u>848.6</u>	<u>563.5</u>

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 1998

CHANGES IN CASH RESOURCES
for the nine months ended September 30, 1998 and 1997
(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
Operating Activities		
Earnings from operations	221.0	166.5
Amortization	7.2	10.8
Deferred income taxes	14.3	11.2
Gains on investments	<u>(257.5)</u>	<u>(156.2)</u>
	<u>(15.0)</u>	<u>32.3</u>
Change in provision for claims	<u>(39.1)</u>	(7.0)
Change in unearned premiums	<u>174.0</u>	<u>(48.9)</u>
Change in cash funds resulting from changes in		
other operating working capital items	<u>13.0</u>	<u>67.4</u>
Cash resources provided by operating activities	<u>132.9</u>	<u>43.8</u>
Investing Activities		
Investments – purchases	<u>(415.1)</u>	(77.8)
Purchase of capital assets	<u>(38.7)</u>	(8.6)
Purchase of subsidiaries, net of cash acquired	<u>(1,081.7)</u>	<u>63.6</u>
	<u>(1,535.5)</u>	<u>(22.8)</u>
Financing Activities		
Net capital stock transactions	455.6	246.5
Increase in long term debt, net	901.3	224.8
Change in non-controlling interest	<u>27.8</u>	<u>(2.2)</u>
	<u>1,384.7</u>	<u>469.1</u>
Increase (decrease) in cash resources	(17.9)	490.1
Cash resources - beginning of period	<u>1,030.3</u>	<u>611.9</u>
Cash resources – end of period	<u>1,012.4</u>	<u>1,102.0</u>

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

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 1998

SOURCES OF NET EARNINGS
(Lindsey Morden equity accounted)
for the nine months ended September 30, 1998 and 1997
(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
Insurance underwriting	(176.9)	(50.3)
Interest and dividends	<u>269.5</u>	<u>175.7</u>
	92.6	125.4
Claims adjusting (Fairfax portion)	1.9	1.1
Interest expense	(61.1)	(32.8)
Goodwill amortization	(3.7)	(3.6)
Corporate overhead and other	9.8	(8.4)
Realized gains on investments	<u>257.5</u>	<u>156.2</u>
Pre-tax income	<u>297.0</u>	237.9
Less: taxes	<u>77.4</u>	<u>72.1</u>
Net earnings	<u>219.6</u>	<u>165.8</u>
Combined ratio	<u>110%</u>	<u>105%</u>

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Interim Report for the nine months ended September 30, 1998

CAPITAL STRUCTURE

(Lindsey Morden equity accounted)

as at September 30, 1998 and December 31, 1997

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

	<u>1998</u>	<u>1997</u>
Cash and short term investments	61.8	207.1
Marketable securities	92.8	-
Long term debt	1,490.9	718.4
Net debt	1,336.3	511.3
Common shareholders' equity	2,070.9	1,395.7
Net debt/equity	65%	37%
Net debt/capital	39%	27%
Shareholders' equity per share	170.69	125.38