FAIRFAX FINANCIAL HOLDINGS LIMITED

Interim Report for the nine months ended September 30, 1999

LETTER FROM THE CHAIRMAN

November 3, 1999.

To Our Shareholders:

August is usually the month when the U.S. hurricane season begins. While we were spared a physical hurricane in August, our stock price faced gale force winds when we reported our second quarter results, dropping 30% on August 5, 1999. At $210, Fairfax's stock price is down 61% from year end 1998 and 66% from its high of $610 recorded on February 3, 1999. While I have refrained from discussing fluctuations in our stock price - up or down - this recent significant decline prompted me to write this letter to you.

Fairfax is run for the long term

Since we began in September 1985, we have emphasized to you our shareholders that our company is run for the long term. We have never been concerned about short term results and have stated many times that "we will accept short term volatility in our earnings for better long term results." Please re-read the previous line as it is the single most important statement about understanding the Fairfax philosophy. While we have achieved an average ROE of 20.4% in the past 13 years, there have been two years, 1992 and 1994, when we have earned only 7.7% and 12.1% respectively. While 1999 may be another one of these years, I believe the long term prospects for Fairfax have never been brighter. Here are some of the reasons for my optimism.

1. **Size and scope of our operations**

   With $5+ billion in premiums, $32+ billion in assets and extremely capable management running our subsidiaries, we have scale in our insurance operations in Canada and the U.S. and our worldwide reinsurance operations. This means we have the ability to attract the very best management to join our company. This was demonstrated again recently with our announcement that Bruce Esselborn has joined us to run the Crum & Forster (CFI) group of companies. As we look at our companies today, we think it is fair to say that we have the strongest group of Presidents running our decentralized operations that we have ever had. Each of our Presidents is focused on underwriting profit and not on market share. While our Canadian companies have historically achieved our 100% combined ratio target, we expect to see our U.S. operations, CFI, Ranger, and TIG, and our worldwide reinsurance operation, Odyssey Re Group, continue to demonstrate a clear trend to underwriting profitability beginning in 2000. Our consolidated target combined ratio for the Fairfax group in 2000 is 105% and all our companies are striving for 100% in 2001.

2. **Strong financial position**

We have always maintained a very strong balance sheet. Our accounting policies are very conservative and our balance sheet is very sound. The major risks on our balance sheet, reserve development and bad debt on reinsurance recoverables, are well protected by approximately $1 billion of vendor indemnifications followed by our US$1 billion reinsurance cover from Swiss Re* followed by negative goodwill ($285 million) and additional provisions in excess of $200 million. While there are no guarantees in life, it is highly unlikely that all of these protections would be required. For some of you who are confused, our negative goodwill is shown as a liability on our balance sheet while the only positive goodwill on our consolidated balance sheet is from Lindsey Morden (very justified for a service company with 3,750 employees and a worldwide network of 450 offices). With these protections, we believe our shareholders' equity of $3.2 billion is rock solid. Finally, our cash flows from our insurance companies, combined with the very significant cash we maintain at our holding company, together with long term unused bank lines well in excess of $1 billion, give us a very strong financial position.

* The Swiss Re reinsurance also covers the losses that may arise from the Odyssey Re London contracts that are in dispute.

3. **<u>Investment portfolios and unrealized losses</u>**

As discussed in our 1998 Annual Report, we continue to be very concerned about the level of the U.S. stock market. Our portfolios are largely in high quality bonds (90%+) and the rest mainly in stocks outside North America. While our results in the past two years have been penalized by our asset mix and by our purchase of S&P puts, we feel very comfortable that we have protected our company from the turmoil in the U.S. stock markets that has <u>yet to come</u>. Please remember our first rule is to protect our capital from permanent loss and only then to make a return. With tremendous speculation all around us, protection of capital is paramount today.

The unrealized loss of $940 million in our bond portfolio is a result of rising interest rates during 1999. This unrealized loss does not impact our regulatory capital (as bonds are recorded at cost in the U.S.) and will not be realized as we will hold these bonds to maturity or until interest rates drop. As a significant amount of our bonds have dual maturities, if interest rates drop, our bonds will trade to the long maturity. For example, if long U.S. Treasury bond yields, which began the year at about 5% and currently exceed 6%, go back down to 5%, our unrealized loss of $940 million in our bond portfolio becomes a $500+ million unrealized gain assuming corporate bond spreads don't widen from current levels. Conversely, if rates were to rise further, we would hold the bonds to maturity and would not realize a loss, assuming that the credits are not impaired. We feel very comfortable with our investment portfolios, again, particularly in light of the speculative activity that is all around us.

Long term, a very significant positive for our company is our marketable investment portfolio of $18 billion ($1,300 per share) which generates interest and dividends of $900 million pretax annually ($65 per share) - excluding capital gains!

4. Stock fluctuations and intrinsic value

At our annual meeting on April 13, 1999, I presented a slide that showed that stock fluctuations had nothing to do with the intrinsic value of a company in the short term but very much reflected it in the long term. I have reproduced that slide for you in this letter.

SHAREHOLDER VALUE VS STOCK PRICE FLUCTUATIONS

	SHAREHOLDER VALUE		STOCK PRICE
	ROE %	% Change in Book Value* Per Share	% Change in Stock Price
1986	25.4	+183	+292
1987	31.3	+ 41	- 3
1988	21.2	+ 22	+ 21
1989	20.3	+ 23	+ 25
1990	23.0	+ 39	- 41
1991	21.3	+ 24	+ 93
1992	7.7	+ 11	+ 18
1993	20.3	+ 48	+145
1994	12.1	+ 25	+ 9
1995	20.1	+ 22	+ 46
1996	21.4	+ 63	+196
1997	20.4	+ 44	+ 10
1998	20.1	+ 47	+ 69
1985-98	20.4%	+41%	+48%

* First measure of intrinsic value as discussed in our 1997 Annual Report.

As shown in the table, in 1986, Fairfax's stock price increased 292% even though the book value increased only 183%. In 1990, our stock price dropped 41% even though the book value of our company increased 39%. Over the long term though (i.e. 13 years), book value and our stock price have compounded at roughly the same rates. As of November 3, our stock is down 61% during 1999 even though the book value of our company has increased 26% and investments per share have increased by 30% to $1,300 per share. As in 1990, the stock market is not reflecting the build-up of long term intrinsic value at Fairfax but the short term volatility in its earnings.

Currently, Fairfax is selling below its book value for the first time since 1990/91. In 1990, we repurchased 25% of our shares outstanding at an average cost of $9 per share. In 1999, we have repurchased 522,000 shares at an average cost of $309 per share - approximately 4% of the shares outstanding prior to these purchases.

You can rest assured that at current prices, the best opportunity for our company will be to retire as many shares as possible while maintaining a very strong financial position. We continue to be very confident of the **long term** prospects for our company.

V. P. Watsa

V. PREM WATSA
Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS LIMITED

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To Our Shareholders:

In the third quarter net earnings decreased 67% to $35.3 million from $108.7 million last year. Net earnings per share for the third quarter decreased to $2.45 per share from $9.08 per share last year. The weighted average outstanding shares for the nine months ended September 30, 1999 were 13.3 million versus 11.8 million last year.

Revenue in the third quarter increased to $1,501.9 million from $1,157.8 million as a result of increased premium and investment income, in large part related to the August 13, 1998 acquisition of Crum & Forster and the April 13, 1999 acquisition of TIG Holdings, Inc.

The combined ratio for the nine months ended September 30, 1999 increased to 112% from 110% last year. The increase in the Canadian insurance combined ratio to 110% from 104% last year is primarily due to Commonwealth. The decrease in the U.S. insurance combined ratio to 111% from 122% last year is primarily due to Ranger. The increase in the reinsurance group combined ratio to 115% from 110% last year is primarily due to international catastrophe-related losses of $50 million.

Interest and dividend income in the third quarter increased to $194.2 million from $129.1 million last year. Realized gains on disposal of portfolio securities were $33.2 million for the third quarter compared to $150.6 million last year. At September 30, 1999 the Fairfax investment portfolio had a pre-tax unrealized loss of $918.0 million compared to an unrealized gain of $5.5 million at December 31, 1998. The unrealized loss primarily relates to the impact of higher interest rates on the bond portfolios of U.S. subsidiaries. The unrealized loss on bonds does not impact their regulatory capital.

The previously announced acquisition of the class I voting shares of TRG Holding Corporation closed during the third quarter. The earnings from this company were included in the 1999 third quarter earnings of Fairfax from August 11, 1999. Under its March 30, 1999 normal course issuer bid which was terminated on September 17, 1999, the company repurchased 358,739 subordinate voting shares for $125.0 million. On September 17, 1999, the company announced its intention to make a normal course issuer bid for up to 865,000 subordinate voting shares, representing less than 10% of the public float of its outstanding subordinate voting shares. The company has since repurchased 163,264 subordinate voting shares for $36.2 million. Shareholders may obtain a copy of the company’s notice of intention to make this bid, without charge, by contacting the company.

At September 30, 1999, the remediation and testing of critical systems Year 2000 compliance was substantially complete with ongoing testing and remediation at several locations. Critical vendors and suppliers have been identified and the company continues to assess and monitor their Year 2000 readiness. Policyholders and/or their brokers have been notified of Year 2000 limitations or exclusions in their policies. The company's subsidiaries have prepared contingency plans in the event of a Year 2000 related disruption. While the company believes that its efforts are appropriate to manage and mitigate its Year 2000 risks, due to the general uncertainty of the Year 2000 issue and the dependency upon the readiness of third parties, the company is unable to definitively determine at this time whether the Year 2000 issue will materially and adversely affect its operations.

Shareholders' equity at September 30, 1999 was $3.2 billion or about $232 per share.

November 3, 1999

V. P. Watsa

V. PREM WATSA
Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS LIMITED

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CONSOLIDATED BALANCE SHEET
as at September 30, 1999 and December 31, 1998
(unaudited - $ millions)

	1999	1998
ASSETS		
Cash and short term investments	**105.1**	246.0
Marketable securities	**100.0**	59.4
Subscription receipts cash in trust	**–**	959.7
Accounts receivable and other	**3,568.4**	2,777.8
Recoverable from reinsurers	**8,965.3**	3,820.4
Income taxes refundable	**75.7**	7.1
	12,814.5	7,870.4
Portfolio Investments		
Cash and short term investments	**2,150.1**	896.2
Bonds - (market value - $12,910.3; 1998 - $9,888.0)	**13,851.0**	9,859.9
Preferred stocks - (market value - $149.5; 1998 - $159.3)	**150.8**	155.0
Common stocks - (market value - $1,392.7; 1998 - $770.5)	**1,368.7**	797.4
Real estate	**86.4**	94.5
Total (market value - $16,689.0; 1998 - $11,808.5)	**17,607.0**	11,803.0
Deferred premium acquisition costs	**421.2**	277.3
Deferred income taxes	**969.9**	524.0
Capital assets	**132.2**	94.6
Investment in Hub Group	**79.6**	-
Goodwill (Lindsey Morden)	**255.4**	276.4
Other assets	**89.6**	41.0
	32,369.4	20,886.7
LIABILITIES		
Share subscription receipts	**-**	959.7
Accounts payable and accrued liabilities	**1,673.6**	880.2
Premium deposits	**945.3**	97.4
	2,618.9	1,937.3
Provision for claims	**20,764.5**	13,161.2

Unearned premiums	**2,601.0**	1,651.5
Long term debt	**2,313.9**	1,582.1
	25,679.4	16,394.8
Non-controlling interest	**585.6**	87.9
Excess of net assets over purchase price	**284.6**	227.8
SHAREHOLDERS' EQUITY		
Capital stock	**2,103.4**	1,222.4
Retained earnings	**1,097.5**	1,016.5
	3,200.9	2,238.9
	32,369.4	20,886.7

FAIRFAX FINANCIAL HOLDINGS LIMITED

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CONSOLIDATED STATEMENTS OF EARNINGS
for the nine months ended September 30, 1999 and 1998
(unaudited - $ millions, except per share data)

	Third quarter		First nine months	
	1999	1998	**1999**	1998
Revenue				
Gross premiums written	**1,488.7**	930.8	**4,130.0**	2,215.8
Net premiums written	**1,103.5**	787.3	**3,010.3**	1,691.1
Net premiums earned	**1,171.6**	783.1	**3,072.6**	1,710.3
Interest and dividends	**194.2**	129.1	**563.6**	293.0
Realized gains on investments	**33.2**	150.6	**139.3**	257.5
Claims fees	**102.9**	95.0	**319.5**	182.4
	1,501.9	1,157.8	**4,095.0**	2,443.2
Expenses				
Losses on claims	**882.0**	675.4	**2,333.6**	1,355.5
Operating expenses	**333.6**	187.2	**913.2**	436.6
Commissions, net	**214.9**	108.7	**579.4**	286.5
Interest expense	**47.5**	29.5	**123.7**	63.6
	1,478.0	1,000.8	**3,949.9**	2,142.2
Earnings before income taxes	**23.9**	157.0	**145.1**	301.0
Provision for income taxes	**(10.8)**	47.4	**(7.6)**	80.0
Earnings from operations	**34.7**	109.6	**152.7**	221.0
Non-controlling interest	**0.6**	(0.9)	**1.6**	(1.4)
Net earnings	**35.3**	108.7	**154.3**	219.6
Net earnings per share	**$2.45**	$9.08	**$11.64**	$18.62
Shares outstanding (000) (weighted average)			**13,252**	11,792

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CONSOLIDATED STATEMENTS OF RETAINED EARNINGS for the nine months ended September 30, 1999 and 1998
(unaudited - $ millions)

	1999	1998
Retained earnings – beginning of period	**1,016.5**	629.0
Net earnings for the period	**154.3**	219.6
Excess over stated value of shares repurchased for cancellation	**(73.3)**	-
Retained earnings – end of period	**1,097.5**	848.6

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CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES

for the nine months ended September 30, 1999 and 1998

(unaudited - $ millions)

	1999	1998
Operating Activities		
Earnings from operations	**152.7**	221.0
Amortization	**12.9**	7.2
Deferred income taxes	**(20.1)**	14.3
Gains on investments	**(139.3)**	(257.5)
	(6.2)	(15.0)
Change in provision for claims	**(982.5)**	(39.1)
Change in unearned premiums	**43.9**	174.0
Change in cash funds resulting from changes in other operating working capital items	**334.6**	13.0
	(597.8)	132.9
Investing Activities		
Investments - net purchase	**528.5**	(415.1)
Capital assets	**(41.6)**	(38.7)
Purchase of subsidiaries, net of cash acquired	**(418.4)**	(1,081.7)
	68.5	(1,535.5)
Financing Activities		
Net capital stock transactions	**807.8**	455.6
Increase in long term debt, net	**335.3**	901.3
Change in non-controlling interest	**499.2**	27.8
	1,642.3	1,384.7
Change in cash resources	**1,113.0**	(17.9)
Cash resources - beginning of period	**1,142.2**	1,030.3
Cash resources – end of period	**2,255.2**	1,012.4

Cash resources consist of cash and short term investments, including subsidiary cash and short term investment.

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SOURCES OF NET EARNINGS
(Lindsey Morden equity accounted)
for the nine months ended September 30, 1999 and 1998
(unaudited - $ millions)

	1999	1998
Underwriting		
Insurance - Canada	**(45.7)**	(22.7)
- U.S.	**(194.7)**	(67.0)
Reinsurance	**(132.3)**	(87.2)
Interest and dividends	**545.9**	269.5
	173.2	92.6
Realized gains	**139.3**	257.5
Run-off operations	**(3.5)**	-
Claims adjusting (Fairfax portion)	**(2.3)**	1.9
Interest expense	**(113.9)**	(61.1)
Goodwill amortization	**(3.8)**	(3.7)
Corporate overhead and other	**(39.5)**	9.8
Pre-tax income	**149.5**	297.0
Less: taxes	**(4.8)**	77.4
Net earnings	**154.3**	219.6
Combined ratio		
Insurance - Canada	**110%**	104%
- U.S.	**111%**	122%
Reinsurance	**115%**	110%
Consolidated	**112%**	110%

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CAPITAL STRUCTURE
(Lindsey Morden equity accounted)
as at September 30, 1999 and December 31, 1998

(unaudited - $ millions, except per share data)

	1999	1998
Cash and short term investments	**105.1**	246.0
Marketable securities	**100.0**	59.4
Long term debt	**1,984.2**	1,444.4
Net debt	**1,779.1**	1,139.0
Common shareholders' equity	**3,200.9**	2,238.9
Trust preferred securities of subsidiary	**183.7**	-
Total equity	**3,384.6**	2,238.9
Net debt/equity	**53%**	51%
Net debt/capital	**34%**	34%
Shareholders' equity per share	**232.40**	184.54