FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

To Our Shareholders:

In the second quarter, net earnings increased 104.4% to $83.6 million from $40.9 million last year. Net earnings per share for the second quarter increased to $5.95 from $2.82 last year. Revenue in the second quarter increased 3% to $1,613.4 million from $1,569.9 million last year.

The combined ratio for the six months ended June 30, 2000 decreased to 111% from 112% last year. The decrease in the Canadian insurance combined ratio to 104% from 115% last year is primarily due to improvement in Lombard's and Commonwealth's underwriting results. In 1999, Commonwealth suffered significant losses from its U.S. Property and Oil, Gas and Petrochemicals business written in 1998. The increase in the U.S. insurance combined ratio to 114% from 113% last year reflects results from Crum & Forster which continue to reflect the effects of a more difficult pricing environment in 1999 than had been expected, partially offset by TIG Insurance's lower combined ratio. In the first half of 2000, the insurance subsidiaries obtained price increases ranging from 5% to more than 10%, particularly as the U.S. insurance companies re-underwrite their books. These actions should result in a continuing reduction in the combined ratio. The decrease in the reinsurance group's combined ratio to 108% from 110% last year is due to the inclusion of Sphere Drake's results in the reinsurance group in the first half of 1999. Sphere Drake ceased active underwriting effective May 25, 1999 as part of Odyssey Re's consolidation of its London market operations. At June 30, 2000, Fairfax had ceded losses under its corporate insurance cover with Swiss Re totalling US$257.6 million (compared to US$251.0 million at December 31, 1999), leaving unutilized coverage of US$742.4 million. Premium and interest for the Swiss Re cover for the six months ended June 30, 2000 were $6.1 million.

Interest and dividend income in the second quarter decreased to $196.5 million from $201.8 million last year, principally due to a lower investment portfolio caused by reduced premiums at certain subsidiaries and by the run-off operations. Realized gains on disposal of portfolio securities were $149.2 million for the second quarter of 2000, principally from the sale of Latin American common shares, offset by put and other amortization. In the second quarter of 1999, realized gains amounted to $56.1 million, principally from the sale of Korean common shares. The company recorded an income tax recovery of $3.0 million in the second quarter, principally due to higher income and realized gains in lower tax rate jurisdictions.

The run-off operations consist of International Insurance, Odyssey Re Stockholm and Sphere Drake. Net investment income exceeded the claims handling costs, and underwriting losses on the run-off of Sphere Drake's unearned premium, by $3.6 million for the six months ended June 30, 2000, reflecting lower investment income and reserve strengthening in the second quarter.

At June 30, 2000 the Fairfax investment portfolio had a pre-tax unrealized loss of $1,108.3 million compared to an unrealized loss of $1,226.6 million at December 31, 1999. The unrealized loss primarily relates to the impact of higher interest rates on the bond portfolio of U.S. subsidiaries with the improvement in the first half of 2000 coming from somewhat lower long term interest rates. The unrealized loss on bonds does not impact regulatory capital.

On April 27, 2000, Fairfax entered into an agreement whereby Crum & Forster will purchase Seneca Insurance Company for US$65 million. The purchase is expected to close later this month and Seneca's results will be consolidated in Fairfax's results from the date of closing.

At June 30, 2000, Fairfax had a very strong financial position with holding company cash and marketable securities of $620 million, undrawn long term unsecured bank lines of $1.3 billion and a net debt to total capital ratio of 25%. In spite of this strong financial position, on July 14, 2000, Standard & Poor's lowered its ratings on Fairfax's outstanding debt to BBB- with a stable outlook, principally due to their assessment that a significant and sustainable improvement in Fairfax's underwriting performance and earnings depends on favorable market conditions and management's ability to execute a successful turn-around, particularly at its U.S. operations.

In the second quarter, the company purchased 81,265 subordinate voting shares for $13.3 million under its outstanding normal course issuer bid and retired US$25 million of TIG preferred shares on their maturity.

Common shareholders' equity at June 30, 2000 was $3.2 billion or $241.89 per share.

August 8, 2000

V. P. Watsa

V. PREM WATSA
Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

CONSOLIDATED BALANCE SHEETS

as at June 30, 2000 and December 31, 1999

(unaudited — $ millions)

	2000	1999
ASSETS		
Cash and short term investments	**472.6**	613.2
Marketable securities	**147.2**	99.5
Accounts receivable and other	**3,689.3**	3,661.1
Recoverable from reinsurers	**8,600.6**	8,671.6
Income taxes refundable	**70.0**	83.2
	12,979.7	13,128.6
Portfolio Investments		
Cash and short term investments	**1,190.6**	1,802.9
Bonds -		
(market value - $11,811.0; 1999 - $12,065.7)	**12,800.0**	13,306.8
Preferred stocks -		
(market value - $96.0; 1999 - $132.6)	**98.2**	133.9
Common stocks -		
(market value - $1,132.1; 1999 - $1,413.6)	**1,249.2**	1,397.9
Real estate	**81.0**	80.7
Total (market value - $14,310.7;		
1999 - $15,495.6)	**15,419.0**	16,722.2
Investment in Hub and Zenith	**372.0**	363.4
Deferred premium acquisition costs	**405.2**	361.2
Deferred income taxes	**1,056.1**	893.0
Capital assets	**107.8**	122.2
Goodwill (Lindsey Morden)	**235.9**	246.1
Other assets	**77.8**	98.6
	30,653.5	31,935.3
LIABILITIES		
Accounts payable and accrued liabilities	**1,304.7**	1,385.6
Premium deposits	**1,323.6**	
	2,628.3	2,584.1
Provision for claims	**18,980.3**	20,442.2
Unearned premiums	**2,430.0**	2,276.3
Long term debt	**2,023.6**	2,102.0
Trust preferred securities of subsidiary	**386.7**	378.8

	23,820.6	25,199.3
Non-controlling interest	**608.5**	601.6
Excess of net assets acquired over purchase price	**227.1**	234.2
SHAREHOLDERS' EQUITY		
Capital stock	**2,013.0**	2,066.3
Preferred stock	**200.0**	200.0
Retained earnings	**1,156.0**	1,049.7
	3,369.0	3,316.0
	30,653.5	31,935.3

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

CONSOLIDATED STATEMENTS OF EARNINGS

for the six months ended

June 30, 2000 and 1999

(unaudited — $ millions, except per share data)

	Second quarter		First six months	
	2000	1999	**2000**	1999
Gross premiums written	**1,533.4**	1,531.9	**3,230.7**	2,641.3
Net premiums written	**1,314.8**	1,089.8	**2,431.1**	1,906.8
Net premiums earned:				
Insurance - Canada	**159.4**	172.4	**319.0**	324.3
- U.S.	**676.6**	659.5	**1,304.3**	975.0
Reinsurance	**310.3**	373.3	**613.3**	601.7
Run-off	**25.9**	—	**148.0**	—
Interest and dividends	**196.5**	201.8	**433.5**	369.4
Realized gains on investments	**149.2**	56.1	**167.5**	106.1
Claims fees	**95.5**	106.8	**183.7**	216.6
	1,613.4	1,569.9	**3,169.3**	2,593.1
Expenses				
Losses on claims	**965.5**	924.7	**1,935.8**	1,451.6
Operating expenses	**311.4**	320.7	**599.6**	579.6
Commissions, net	**209.7**	243.6	**436.8**	364.5
Interest expense	**41.4**	44.6	**86.2**	76.2
	1,528.0	1,533.6	**3,058.4**	2,471.9
Earnings before income taxes	**85.4**	36.3	**110.9**	121.2
Provision for (recovery of) income taxes	**(3.0)**	(4.8)	**(15.6)**	3.2
Earnings from operations	**88.4**	41.1	**126.5**	118.0
Non-controlling interest	**(4.8)**	(0.2)	**(7.0)**	1.0
Net earnings	**83.6**	40.9	**119.5**	119.0
Net earnings per share	**$5.95**	$2.82	**$8.53**	$9.19
Shares outstanding (000) (weighted average)			**13,245**	12,947

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

CONSOLIDATED STATEMENTS OF
RETAINED EARNINGS
for the six months ended
June 30, 2000 and 1999

(unaudited — $ millions)

	2000	1999
Retained earnings - beginning of period	**1,049.7**	1,016.5
Net earnings for the period	**119.5**	119.0
Excess over stated value of shares purchased for cancellation	**(6.3)**	(45.4)
Preferred dividends	**(6.9)**	—
Retained earnings - end of period	**1,156.0**	1,090.1

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

CONSOLIDATED STATEMENTS OF

CHANGES IN CASH RESOURCES

for the six months ended

June 30, 2000 and 1999

(unaudited — $ millions)

	2000	1999
Operating Activities		
Earnings from operations	**126.5**	118.0
Amortizations	**38.3**	8.6
Deferred income taxes	**(18.4)**	(5.7)
Gains on investments	**(167.5)**	(106.1)
	(21.1)	14.8
Increase (decrease) in:		
Provision for claims	**(1,461.9)**	(1,127.0)
Unearned premiums	**153.6**	342.7
Accounts receivable and other	**(28.2)**	(217.9)
Recoverable from reinsurers	**71.0**	862.1
Income tax refundable	**13.2**	(208.1)
Accounts payable and accrued liabilities	**44.2**	81.4
Other	**(110.8)**	350.7
Cash provided by (used in) operating activities	**(1,340.0)**	98.7
Investing Activities		
Investments - net sales	**783.2**	(468.5)
Marketable securities	**(47.7)**	(48.6)
Capital assets	**(3.3)**	(4.5)
Purchase of subsidiary, net of cash acquired	**—**	(572.1)
Cash provided by (used in) investing activities	**732.2**	(1,093.7)
Financing Activities		
Shares issued	**—**	959.7
Shares repurchased	**(59.6)**	(74.9)
Change in long term debt	**(78.4)**	271.6
Preferred dividends	**(6.9)**	—
Change in non-controlling interest	**(0.2)**	(5.9)
Cash provided by (used in) financing activities	**(145.1)**	1,150.5
Change in cash resources	**(752.9)**	155.5
Cash resources		
- beginning of period	**2,416.1**	1,142.2

Cash resources		
- end of period	**1,663.2**	1,297.7

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

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

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

SOURCES OF NET EARNINGS

(Lindsey Morden equity accounted)

for the six months ended

June 30, 2000 and 1999

(unaudited — $ millions)

	2000	1999
Underwriting:		
Insurance - Canada	**(13.2)**	(47.7)
- U.S.	**(177.8)**	(128.0)
Reinsurance	**(51.0)**	(59.7)
Interest and dividends	**307.1**	342.9
	65.1	107.5
Realized gains	**167.5**	106.1
Run-off operations	**3.6**	—
Claims adjusting (Fairfax portion)	**(6.9)**	(1.1)
Interest expense	**(79.1)**	(69.9)
Goodwill amortization	**(2.5)**	(2.5)
Swiss Re costs	**(6.1)**	—
Corporate overhead and other	**(16.3)**	(16.4)
Pre-tax income	**125.3**	123.7
Less: taxes	**6.0**	(4.7)
Less: non-controlling interest	**(11.8)**	—
Net earnings	**119.5**	119.0
Combined ratio:		
Insurance - Canada	**104%**	115%
- U.S.	**114%**	113%
Reinsurance	**108%**	110%
Consolidated	**111%**	112%

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 2000

CAPITAL STRUCTURE

(Lindsey Morden equity accounted)

as at June 30, 2000 and December 31, 1999

(unaudited — $ millions, except per share data)

	2000	1999
Cash and short term investments	**472.6**	613.2
Marketable securities	**147.2**	99.5
Long term debt	**1,888.0**	1,959.0
Net debt	**1,268.2**	1,246.3
Common shareholders' equity	**3,169.0**	3,116.0
Preferred equity	**200.0**	200.0
Trust preferred securities of subsidiary	**386.7**	378.8
Total equity	**3,755.7**	3,694.8
Net debt/equity	**34%**	34%
Net debt/total capital	**25%**	25%
Shareholders' equity per share	**$241.89**	$231.98

At August 8, 2000, there were 13,100,888 net common shares effectively outstanding, consisting of 1,548,000 multiple voting and 12,352,118 subordinate voting shares outstanding less 799,230 shares in which the company indirectly holds an interest.