FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

To Our Shareholders:

In the third quarter, Fairfax reported a net loss of $22.1 million compared with net earnings of $35.3 million last year. Net loss per share for the quarter was $1.93 compared with net earnings per share of $2.45 last year. Excluding restructuring costs of $32.5 million at Crum and Forster and TIG Insurance, and losses of $15.7 million from discontinued lines of business at Ranger, the company earned net income of $9.2 million during the third quarter. Revenue in the third quarter decreased 12% to $1,385.2 million from $1,566.2 million last year, primarily due to the impact of re-underwriting the U.S. insurance portfolios.

The combined ratio for the nine months ended September 30, 2000 decreased to 111% from 112% last year. The decrease in the Canadian insurance combined ratio to 105% from 110% last year is primarily due to improvement in Lombard's and Commonwealth's underwriting results. The increase in the U.S. insurance combined ratio to 114% from 111% 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. In the nine months ended September 30, 2000, the insurance subsidiaries continued to obtain price increases ranging from 5% to more than 10%, particularly as the U.S. insurance companies re-underwrite their books, a process which is continuing. In the third quarter of 2000, price increases accelerated for Crum and Forster and for many lines at TIG. These actions should result in a meaningful reduction in the combined ratio, with most of the impact being reflected throughout 2001. The decrease in the reinsurance group's combined ratio to 108% from 115% last year is primarily due to the absence in 2000 of any significant catastrophe losses. At September 30, 2000, Fairfax had ceded losses under its corporate insurance cover with Swiss Re totalling US$256.4 million (compared to US$251.0 million at December 31, 1999), leaving unutilized coverage of US$743.6 million. Premium and interest for the Swiss Re cover for the nine months ended September 30, 2000 were $6.1 million. In the third quarter of 2000, Crum & Forster and TIG Insurance incurred restructuring costs of $32.5 million in excess of accruals recorded on acquisition as they continued their restructuring activities to achieve long term cost savings.

Interest and dividend income in the third quarter decreased to $182.2 million from $207.6 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 $14.4 million for the third quarter of 2000, net of put and other amortization. The company recorded an income tax recovery of $40.1 million in the third 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 $1.6 million for the nine months ended September 30, 2000.

At September 30, 2000 the Fairfax investment portfolio had a pre-tax unrealized loss of $910.4 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 nine months of 2000 coming from somewhat lower long term interest rates on U.S. government bonds, offset by wider spreads on corporate bonds. The unrealized loss on bonds does not impact regulatory capital.

On August 31, 2000, Crum & Forster completed its purchase of Seneca Insurance Company for US$65 million. Seneca's results have been consolidated in Fairfax's results from the date of closing. In the third quarter of 2000, Fairfax entered an agreement to sell its investment in the Kingsmead Managing Agency to Advent Capital Holdings plc, which is expected to close this month. The operations of Kingsmead have been shown as discontinued operations with a net loss, after tax, of $7.8 million for the nine months ended September 30, 2000. The comparative numbers have been restated for Kingsmead and to conform to the 2000 basis of presentation.

At September 30, 2000, Fairfax had a strong financial position with holding company cash and marketable securities of $477 million, undrawn long term unsecured bank lines of $1.3 billion and a net debt to total capital ratio of 27%. During the third quarter, Fairfax repaid a vendor note of $51.2 million incurred on the acquisition of Odyssey Re Stockholm in 1998.

Common shareholders' equity at September 30, 2000 was $3.1 billion or $239.94 per share.

November 7, 2000

V. P. Watsa

V. PREM WATSA
Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

CONSOLIDATED BALANCE SHEETS

as at September 30, 2000 and December 31, 1999

(unaudited — $ millions)

	2000	1999
ASSETS		
Cash and short term investments	**396.9**	613.2
Marketable securities	**80.0**	99.5
Accounts receivable and other	**3,551.4**	3,661.1
Recoverable from reinsurers	**7,475.4**	8,671.6
Income taxes refundable	**217.5**	83.2
	11,721.2	13,128.6
Portfolio Investments		
Cash and short term investments	**1,686.4**	1,802.9
Bonds -		
(marketvalue - $11,279.2; 1999 - $12,065.7)	**12,138.6**	13,306.8
Preferred stocks -		
(marketvalue - $91.5; 1999 - $132.6)	**93.3**	133.9
Common stocks -		
(marketvalue - $1,156.5; 1999 - $1,413.6)	**1,205.7**	1,397.9
Real estate	**75.6**	80.7
Total (market value - $14,289.2;		
1999- $15,495.5)	**15,199.6**	16,722.2
Investment in Hub and Zenith	**377.8**	363.4
Deferred premium acquisition costs	**385.5**	361.2
Deferred income taxes	**992.3**	893.0
Capital assets	**107.2**	122.2
Goodwill (Lindsey Morden)	**239.0**	246.1
Other assets	**55.7**	98.6
	29,078.3	31,935.3
LIABILITIES		
Accounts payable and accrued liabilities	**1,386.6**	1,385.6
Premium deposits	**1,297.0**	1,198.5
	2,683.6	2,584.1

Provision for claims	**17,555.5**	20,442.2
Unearned premiums	**2,278.2**	2,276.3
Long term debt	**1,996.7**	2,102.0
Trust preferred securities of subsidiary	**392.7**	378.8
	22,223.1	25,199.3
Non-controlling interest	**616.1**	601.7
Excess of net assets acquired over purchase price	**212.1**	234.2
SHAREHOLDERS' EQUITY		
Capital stock	**2,012.9**	2,066.3
Preferred stock	**200.0**	200.0
Retained earnings	**1,130.5**	1,049.7
	3,343.4	3,316.0
	29,078.3	31,935.3

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

CONSOLIDATED STATEMENTS OF EARNINGS

for the nine months ended

September 30, 2000 and 1999

(unaudited — $ millions, except per share data)

	Third quarter		First nine months	
	2000	1999	**2000**	1999
Gross premiums written	**1,471.8**	1,488.7	**4,462.9**	4,130.0
Net premiums written	**1,055.2**	1,103.5	**3,330.3**	3,010.3
Net premiums earned:				
Insurance - Canada	**167.7**	155.4	**486.7**	482.1
- U.S.	**598.2**	699.0	**1,758.8**	1,647.3
Reinsurance	**276.3**	264.7	**889.5**	864.0
Run-off	**54.4**	103.4	**162.6**	103.4
Interest and dividends	**182.2**	207.6	**613.5**	577.0
Realized gains on investments	**14.4**	33.2	**181.9**	139.3
Claims fees	**92.0**	102.9	**275.8**	319.5
	1,385.2	1,566.2	**4,368.8**	4,132.6
Expenses				
Losses on claims	**885.3**	932.7	**2,654.1**	2,366.8
Operating expenses	**278.0**	339.2	**868.7**	918.9
Commissions, net	**185.0**	222.8	**610.1**	579.2
Interest expense	**57.7**	47.5	**143.9**	123.7
Restructuring costs	**32.5**	—	**32.5**	—
	1,438.5	1,542.2	**4,309.3**	3,988.6
Earnings before income taxes	**(53.3)**	24.0	**59.5**	144.0
Provision for (recovery of) income taxes	**(40.1)**	(10.9)	**(55.0)**	(8.0)
Earnings (loss) from operations	**(13.2)**	34.9	**114.5**	152.0
Discontinued operations	**(6.6)**	(0.2)	**(7.8)**	0.7

Non-controlling interest	**(2.3)**	0.6	**(9.3)**	1.6
Net earnings	**(22.1)**	35.3	**97.4**	154.3
Net earnings per share	**$(1.93)**	$2.45	**$6.60**	$11.64
Shares outstanding (000) (weighted average)			**13,196**	13,252

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

CONSOLIDATED STATEMENTS OF
RETAINED EARNINGS
for the nine months ended
September 30, 2000 and 1999

(unaudited — $ millions)

	2000	1999
Retained earnings - beginning of period	**1,049.7**	1,016.5
Net earnings for the period	**97.4**	154.3
Excess over stated value of shares purchased for cancellation	**(6.3)**	(73.3)
Preferred dividends	**(10.3)**	—
Retained earnings - end of period	**1,130.5**	1,097.5

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

CONSOLIDATED STATEMENTS OF

CHANGES IN CASH RESOURCES

for the nine months ended

September 30, 2000 and 1999

(unaudited — $ millions)

	2000	1999
Operating Activities		
Earnings from operations	**114.5**	152.0
Amortizations	**57.5**	12.9
Deferred income taxes	**(43.5)**	(20.1)
Gains on investments	**(181.9)**	(139.3)
	(53.4)	5.5
Increase (decrease) in:		
Provision for claims	**(2,726.8)**	(982.5)
Unearned premiums	**(43.8)**	43.9
Accounts receivable and other	**124.4**	(154.3)
Recoverable from reinsurers	**997.3**	140.0
Income tax refundable	**(133.4)**	4.4
Accounts payable and accrued liabilities	**86.0**	129.6
Other	**(94.8)**	215.6
Cash provided by (used in) operating activities	**(1,844.5)**	(597.8)
Investing Activities		
Investments - net sales	**1,758.3**	569.1
Marketable securities	**19.4**	(40.6)
Capital assets	**(2.9)**	(41.6)
Purchase of subsidiary, net of cash acquired	**(93.0)**	(418.4)
Cash provided by (used in) investing activities	**1,681.8**	68.5
Financing Activities		
Shares issued	**—**	959.7
Shares repurchased	**(59.7)**	(151.9)
Change in long term debt	**(105.4)**	335.3
Preferred dividends	**(10.3)**	—
Change in non-controlling interest	**5.3**	499.2
Cash provided by (used in) financing		

activities	**(170.1)**	1,642.3
Change in cash resources	**(332.8)**	1,113.0
Cash resources		
- beginning of period	**2,416.1**	1,142.2
Cash resources		
- end of period	**2,083.3**	2,255.2

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

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

SOURCES OF NET EARNINGS
(Lindsey Morden equity accounted)
for the nine months ended
September 30, 2000 and 1999
(unaudited — $ millions)

	2000	1999
Underwriting:		
Insurance - Canada	**(24.3)**	(45.7)
- U.S.	**(253.1)**	(195.4)
Reinsurance	**(71.1)**	(132.3)
Interest and dividends	**447.4**	545.9
	98.9	172.5
Realized gains	**181.9**	139.3
Run-off operations	**1.6**	(3.5)
Claims adjusting (Fairfax portion)	**(7.0)**	(2.3)
Interest expense	**(132.8)**	(113.9)
Goodwill and other amortization	**(3.8)**	(3.8)
Swiss Re costs	**(6.1)**	(19.3)
Restructuring costs	**(32.5)**	—
Corporate overhead and other	**(26.8)**	(20.2)
Pre-tax income	**73.4**	148.8
Less (add): taxes	**(45.5)**	(4.8)
Less: discountinued operations, net of tax	**(7.8)**	0.7
Less: non-controlling interest	**(13.7)**	—
Net earnings	**97.4**	154.3
Combined ratio:		
Insurance - Canada	**105%**	110%
- U.S.	**114%**	111%
Reinsurance	**108%**	115%
Consolidated	**111%**	112%

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the nine months ended September 30, 2000

CAPITAL STRUCTURE

(Lindsey Morden equity accounted)

as at September 30, 2000 and December 31, 1999

(unaudited — $ millions, except per share data)

	2000	1999
Cash and short term investments	**396.9**	613.2
Marketable securities	**80.0**	99.5
Long term debt	**1,859.7**	1,959.0
Net debt	**1,382.8**	1,246.3
Common shareholders' equity	**3,143.4**	3,116.0
Preferred equity	**200.0**	200.0
Trust preferred securities of subsidiary	**392.7**	378.8
Total equity	**3,736.1**	3,694.8
Net debt/equity	**37%**	34%
Net debt/total capital	**27%**	25%
Shareholders' equity per share	**$239.94**	$231.98

At November 7, 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.