FAIRFAX
FINANCIAL HOLDINGS LIMITED

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INTERIM REPORT

For the three months ended March 31, 2001

CONSOLIDATED BALANCE SHEETS
as at March 31, 2001 and December 31, 2000
(unaudited – $ millions)

	2001	2000
Assets		
Cash and short term investments	**334.5**	450.2
Marketable securities	**58.6**	95.2
Accounts receivable and other	**3,229.1**	2,917.4
Recoverable from reinsurers	**11,483.5**	11,099.5
	15,105.7	14,562.3
Portfolio investments		
Subsidiary cash and short term investments (market value – $1,624.8; 2000 – $1,955.5)	**1,624.8**	1,955.5
Bonds (market value – $12,096.3; 2000 – $11,295.0)	**12,381.5**	11,758.4
Preferred stocks (market value – $79.1; 2000 – $69.5)	**78.5**	70.2
Common stocks (market value – $817.2; 2000 – $859.8)	**736.3**	884.9
Real estate (market value – $74.7; 2000 – $76.3)	**74.7**	76.3
Total (market value – $14,692.1; 2000 – $14,256.1)	**14,895.8**	14,745.3
Investments in Hub and Zenith National	**421.0**	396.5
Deferred premium acquisition costs	**503.4**	386.7
Future income taxes	**1,368.4**	1,276.2
Capital assets	**141.2**	140.8
Goodwill	**259.4**	259.7
Other assets	**68.5**	65.8
	32,763.4	31,833.3
Liabilities		
Lindsey Morden bank indebtedness	**51.4**	42.5
Accounts payable and accrued liabilities	**1,787.3**	1,449.4
Funds withheld payable to reinsurers	**1,517.9**	1,325.3
	3,356.6	2,817.2
Provision for claims	**20,048.8**	20,225.8
Unearned premiums	**2,678.7**	2,252.4
Long term debt	**2,065.5**	1,990.6
Trust preferred securities of subsidiaries	**410.1**	392.0
	25,203.1	24,860.8
Non-controlling interests	**676.9**	645.2
Excess of net assets acquired over purchase price paid	**118.9**	129.8
Shareholders' Equity		
Common stock	**2,012.9**	2,012.9
Preferred stock	**200.0**	200.0
Retained earnings	**1,195.0**	1,167.4
	3,407.9	3,380.3
	32,763.4	31,833.3

CONSOLIDATED STATEMENTS OF EARNINGS
for the three months ended March 31, 2001 and 2000
(unaudited – $ millions)

	2001	2000
Revenue		
Gross premiums written	**1,755.1**	1,535.7
Net premiums written	**1,393.9**	1,000.6
Net premiums earned	**1,196.6**	1,144.3
Interest and dividends	**185.8**	236.3
Realized gains on investments	**45.0**	18.3
Claims fees	**100.9**	88.2
	1,528.3	1,487.1
Expenses		
Losses on claims	**933.8**	916.8
Operating expenses	**320.2**	289.7
Commissions, net	**219.9**	213.6
Interest expense	**42.8**	44.8
Restructuring and other costs	**19.2**	–
Kingsmead losses	**–**	0.8
Negative goodwill	**(18.9)**	(4.5)
	1,517.0	1,461.2
Earnings (loss) before income taxes	**11.3**	25.9
Recovery of income taxes	**(25.5)**	(12.2)
Earnings from operations	**36.8**	38.1
Non-controlling interests	**(5.9)**	(2.2)
Net earnings	**30.9**	35.9
Net earnings per share	**$ 2.11**	$ 2.58
Shares outstanding (000)	**13,101**	13,343
(weighted average)		

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
for the three months ended March 31, 2001 and 2000
(unaudited – $ millions)

	2001	2000
Retained earnings – beginning of period	**1,167.4**	1,049.7
Net earnings for the period	**30.9**	35.9
Excess over stated value of shares purchased for cancellation	**–**	(6.3)
Preferred share dividends	**(3.3)**	(3.7)
Retained earnings – end of period	**1,195.0**	1,075.6

CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES
for the three months ended March 31, 2001 and 2000
(unaudited – $ millions)

	2001	2000
Operating activities		
Earnings from operations	**36.8**	38.1
Amortization	**23.3**	19.2
Future income taxes	**(18.3)**	13.2
Negative goodwill	**(18.9)**	(4.5)
Gains on investments	**(45.0)**	(18.3)
	(22.1)	47.7
Increase (decrease) in:		
Provision for claims	**(1,032.8)**	(437.2)
Unearned premiums	**324.2**	124.1
Accounts receivable and other	**(173.3)**	(122.3)
Recoverable from reinsurers	**91.5**	(148.4)
Income tax refundable	**14.8**	(82.0)
Accounts payable and accrued liabilities	**246.0**	(113.6)
Funds withheld payable to reinsurers	**125.0**	(36.2)
Other	**(32.8)**	15.6
Cash provided by (used in) operating activities	**(459.5)**	(752.3)
Investing activities		
Investments – purchases	**(1,081.5)**	(1,339.4)
– sales	**1,104.1**	1,937.1
Sale (purchase) of marketable securities	**(7.9)**	28.6
Sale (purchase) of capital assets	**(5.1)**	8.5
Cash provided by (used in) investing activities	**9.6**	634.8
Financing activities		
Shares repurchased	**–**	(46.4)
Long term debt	**(2.1)**	(23.2)
Bank indebtedness	**8.9**	23.8
Preferred share dividends	**(3.3)**	(3.7)
Non-controlling interests	**–**	(8.0)
Cash provided by (used in) financing activities	**3.5**	(57.5)
Increase (decrease) in cash resources	**(446.4)**	(175.0)
Cash resources – beginning of period	**2,405.7**	2,459.9
Cash resources – end of period	**1,959.3**	2,284.9

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

Notes to Consolidated Financial Statements
for the three months ended March 31, 2001 and 2000
(unaudited – in $ millions)

1. Basis of Presentation

These consolidated financial statements should be read in conjunction with the company's consolidated financial statements for the year ended December 31, 2000 as set out on pages 28 to 51 of the company's 2000 Annual Report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the company's consolidated financial statements for the year ended December 31, 2000.

2. Restructuring and Other Costs

During the three months ended March 31, 2001, the company incurred a termination fee on the cancellation of TIG's computer services contract with a third party ($13.4) and claims and underwriting office closure and severance costs at TIG ($5.8), amounting to an aggregate of $19.2.

3. Segmented Information

The company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance conducted on a direct and reinsurance basis, runoff operations and claims adjusting, appraisal and loss management services.

In Management's Discussion and Analysis of Financial Condition and Results of Operations, the company shows in a table the net premiums earned, underwriting results and combined ratios for each of its insurance and reinsurance groups, as well as the earnings contributions from its runoff operations and claims adjusting, appraisal and loss management services. There were no significant changes in the identifiable assets by operating group as at March 31, 2001 compared to December 31, 2000.

4. Comparative Figures

The comparative figures for the consolidated statements of earnings for the three months ended March 31, 2000 have been adjusted to separately disclose Kingsmead's net operating losses using the same basis of presentation as the company's consolidated financial statements for the year ended December 31, 2000. Kingsmead was sold to Advent Capital plc on November 16, 2000.

5. Foreign Exchange

The translation of the company's consolidated balance sheet and results of operations are significantly affected by movements in the US dollar/Canadian dollar exchange rate. The following table sets out the Canadian dollar value of US$1.00 at the balance sheet dates and for the interim reporting periods.

(a) Period end exchange rate

March 31, 2001	$	1.5712
December 31, 2000	$	1.5012
Increase in the value of the US dollar vs. the Canadian dollar		+4.7%

(b) Average exchange rate for the quarter

March 31, 2001	$	1.5584
March 31, 2000	$	1.4532
Increase in the value of the US dollar vs. the Canadian dollar		+7.2%

6. Odyssey Re

On March 26, 2001, the company announced that its wholly-owned subsidiary, Odyssey Re Holdings Corp., had filed a registration statement with the U.S. Securities and Exchange Commission relating to a proposed initial public offering of a minority of its common stock. Odyssey Re intends to use the net proceeds from the offering to make a payment to Fairfax subsidiaries and for its general corporate purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In the first quarter, net earnings decreased 13.9% to $30.9 million from $35.9 million last year. Net earnings per share for the first quarter decreased to $2.11 per share from $2.58 per share last year. The weighted average outstanding shares for the three months ended March 31, 2001 were 13.1 million versus 13.3 million last year.

Revenue in the first quarter increased to $1,528.3 million from $1,487.1 million last year principally as a result of higher net premiums earned and higher realized gains, partially offset by lower interest and dividend income.

The combined ratios by segment, the sources of net earnings (with Lindsey Morden equity accounted) and the net premiums earned by segment were as follows for the three months ended March 31, 2001 and 2000:

	2001	2000
	(unaudited – $ millions)	
Combined ratio		
Insurance – Canada	**111%**	104%
– U.S.	**112%**	115%
Reinsurance	**104%**	107%
Consolidated	**109%**	111%
Source of net earnings (with Lindsey Morden equity accounted)		
Underwriting		
Insurance – Canada	**(18.3)**	(6.8)
– U.S.	**(82.0)**	(85.4)
Reinsurance	**(12.4)**	(21.3)
Interest and dividends	**142.3**	160.9
	29.6	47.4
Realized gains	**45.0**	18.3
Runoff	**(6.3)**	16.9
Claims adjusting (Fairfax portion)	**(1.9)**	(3.9)
Interest expense	**(39.8)**	(41.7)
Goodwill and other amortization	**(1.7)**	(1.2)
Swiss Re premium and interest	**(5.5)**	(1.7)
Kingsmead losses	**–**	(0.8)
Restructuring charges	**(19.2)**	–
Negative goodwill amortization	**18.9**	4.5
Corporate overhead and other	**(5.0)**	(3.7)
Pre-tax income	**14.1**	34.1
Less (add): taxes	**(23.7)**	(6.7)
Less: non-controlling interests	**(6.9)**	(4.9)
Net earnings	**30.9**	35.9
Net premiums earned		
Insurance – Canada	**162.5**	159.6
– U.S.	**703.4**	559.6
Reinsurance	**328.1**	303.0
Runoff	**2.6**	122.1
	1,196.6	1,144.3

The combined ratio for the three months ended March 31, 2001 decreased to 109% from 111% last year. The Canadian insurance combined ratio increased to 111% from 104% last year primarily due to more severe winter weather-related losses than normal at Lombard and Federated. The Canadian insurance combined ratio is expected to improve to historical levels over the rest of 2001. The U.S. insurance combined ratio decreased to 112% from 115% last year due to the effect of 2000 price increases and underwriting actions taken by Crum & Forster and TIG. Crum & Forster and TIG obtained average price increases on renewal business written in excess of 16% and 13% respectively for the first quarter of 2001, the highest quarterly price increase each company has obtained since prices began increasing in the first quarter of 2000. The benefit of these price increases and underwriting actions should be reflected in the U.S. insurance combined ratio over the next year. The reinsurance group's combined ratio decreased to 104% from 107% last year due to underlying price increases on business assumed from ceding insurance companies as well as higher reinsurance prices and more restrictive reinsurance terms.

Realized gains on disposal of portfolio securities were $45.0 million for the first quarter of 2001, principally from the company's basket of technology stocks, offset by put and other amortization.

Net premiums earned for the U.S. insurance and reinsurance groups were 25.7% and 8.3% higher respectively in the first quarter of 2001 compared with the first quarter of 2000. Both groups were positively affected by the higher average US dollar/Cdn dollar exchange rate in the first quarter of 2001. The U.S. insurance group's net premiums earned were also positively impacted by growth in Crum & Forster's net premiums earned due to 2000 pricing increases and an increase in new business written starting in the second half of 2000. Crum & Forster's net premiums written increased by 45% in the first quarter of 2001 compared to the first quarter of 2000, driven by continued pricing increases, new business and the August 2000 acquisition of Seneca Insurance. The decrease in runoff net premiums earned in the first quarter of 2001 compared with the first quarter of 2000 results from Sphere Drake ceasing active underwriting in 1999.

Interest and dividend income in the first quarter decreased to $142.3 million from $160.9 million last year due to a decrease in the average investment portfolio in the first quarter of 2001 compared to the first quarter of 2000 and higher interest expense on funds withheld balances payable to reinsurers.

The runoff operations consist of International Insurance, Odyssey Re Stockholm and Sphere Drake. Claims costs exceeded net investment income by $6.3 million, reflecting some reserve strengthening in the first quarter of 2001 and the impact of 2000 net claims payments on the average investment portfolio, resulting in lower interest and dividend income.

At March 31, 2001, Fairfax had ceded losses under its corporate insurance cover with Swiss Re totalling US$532.1 million (compared to US$523.6 million at December 31, 2000) leaving unutilized coverage of US$467.9 million. Premium and interest for the Swiss Re cover for the three months ended March 31, 2001 was $5.5 million.

As part of the company's strategy to build a common U.S. insurance group systems platform with the objective of realizing significant cost savings over the next three years, TIG incurred a termination fee of $13.4 million on the cancellation of its computer services contract with a third party. The annual savings resulting from this termination are expected to exceed the termination fee. As part of its consolidation of underwriting and claims offices, TIG also incurred closure and severance costs of $5.8 million.

The company recorded an income tax recovery of $23.7 million in the first quarter of 2001, principally due to higher income and realized gains in lower tax rate jurisdictions.

Investments

At March 31, 2001 the Fairfax investment portfolio had a pre-tax unrealized loss of $203.7 million, (consisting of an unrealized loss on bonds of $285.2 million offset by an unrealized gain on equities of $81.5 million) compared to an unrealized loss of $489.2 million at December 31, 2000 (consisting of an unrealized loss on bonds of $463.4 million and an unrealized loss on equities of $25.8 million). 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 quarter of 2001 coming from somewhat lower long term interest rates and narrower corporate spreads. The unrealized loss on bonds does not impact regulatory capital of the U.S. subsidiaries.

Capital Structure and Liquidity

The company's capital structure (with Lindsey Morden equity accounted) and financial ratios were as follows:

	March 31 2001	December 31 2000
	(unaudited – $ millions, except per share data)	
Cash, short term investments and marketable securities	**393.1**	545.4
Long term debt	**1,928.7**	1,851.4
Net debt	**1,535.6**	1,306.0
Common shareholders' equity	**3,207.9**	3,180.3
Preferred shares and trust preferred securities of subsidiary	**610.1**	592.0
Total equity	**3,818.0**	3,772.3
Net debt/equity	**40%**	35%
Net debt/total capital	**29%**	26%
Common shareholders' equity per share	**$ 244.87**	$ 242.75

During the first quarter of 2001, the company contributed additional capital of $167 million to TIG resulting in the decrease in holding company cash, short term investments and marketable securities. The increase in the company's net debt to equity and net debt to total capital ratios from December 31, 2000 to March 31, 2001 was principally due to the decrease in holding company cash, short term investments and marketable securities of $152.3 million and the strengthening of the U.S. dollar against the Canadian dollar which increases the Canadian dollar value of the company's U.S. dollar denominated debt (notwithstanding that that increase is offset by an equivalent increase in the dollar value of the company's U.S. assets). Subsequent to quarter end, the company paid the $177.1 million (US$112.7 million) premium payable to Swiss Re in respect of the company's ceded losses for the year ended December 31, 2000, from its holding company cash, short term investments and marketable securities.

Common shareholders' equity at March 31, 2001 was $3.2 billion or $244.87 per share.