FAIRFAX
FINANCIAL HOLDINGS LIMITED

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INTERIM REPORT

For the six months ended June 30, 2001

CONSOLIDATED BALANCE SHEETS
as at June 30, 2001 and December 31, 2000
(unaudited – $ millions)

	2001	2000
Assets		
Cash and short term investments	**344.9**	450.2
Marketable securities	**39.6**	95.2
Accounts receivable and other	**3,049.9**	2,917.4
Recoverable from reinsurers	**10,360.6**	11,099.5
	13,795.0	14,562.3
Portfolio investments		
Subsidiary cash and short term investments (market value – $1,791.2; 2000 – $1,955.5)	**1,791.2**	1,955.5
Bonds (market value – $11,072.7; 2000 – $11,295.0)	**11,538.9**	11,758.4
Preferred stocks (market value – $187.2; 2000 – $69.5)	**134.0**	70.2
Common stocks (market value – $676.7; 2000 – $859.8)	**653.9**	884.9
Real estate (market value – $72.9; 2000 – $76.3)	**72.9**	76.3
Total (market value – $13,800.7; 2000 – $14,256.1)	**14,190.9**	14,745.3
Investments in Hub and Zenith National	**404.3**	396.5
Deferred premium acquisition costs	**492.3**	386.7
Future income taxes	**1,344.7**	1,276.2
Capital assets	**136.7**	140.8
Goodwill	**254.7**	259.7
Other assets	**66.9**	65.8
	30,685.5	31,833.3
Liabilities		
Lindsey Morden bank indebtedness	**60.7**	42.5
Accounts payable and accrued liabilities	**1,426.6**	1,449.4
Funds withheld payable to reinsurers	**1,365.1**	1,325.3
	2,852.4	2,817.2
Provision for claims	**18,328.9**	20,225.8
Unearned premiums	**2,629.2**	2,252.4
Long term debt	**1,971.4**	1,990.6
Trust preferred securities of subsidiaries	**343.0**	392.0
	23,272.5	24,860.8
Non-controlling interests	**1,023.5**	645.2
Excess of net assets acquired over purchase price paid	**86.4**	129.8
Shareholders' Equity		
Common stock	**2,012.9**	2,012.9
Preferred stock	**200.0**	200.0
Retained earnings	**1,237.8**	1,167.4
	3,450.7	3,380.3
	30,658.5	31,833.3

CONSOLIDATED STATEMENTS OF EARNINGS
for the six months ended June 30, 2001 and 2000
(unaudited – $ millions)

	Second quarter		First six months	
	2001	2000	**2001**	2000
Revenue				
Gross premiums written	**1,595.0**	1,455.4	**3,350.1**	2,991.1
Net premiums written	**1,210.0**	1,144.5	**2,603.9**	2,275.1
Net premiums earned	**1,185.9**	1,056.6	**2,382.5**	2,200.9
Interest and dividends	**167.7**	195.0	**353.5**	431.3
Realized gains on investments	**20.5**	149.2	**65.5**	167.5
Realized gain on OdysseyRe IPO	**51.2**	–	**51.2**	–
Claims fees	**106.4**	95.5	**207.3**	183.7
	1,531.7	1,496.3	**3,060.0**	2,983.4
Expenses				
Losses on claims	**844.2**	851.9	**1,778.0**	1,768.7
Operating expenses	**368.5**	314.3	**688.7**	604.0
Commissions, net	**259.4**	211.5	**479.3**	425.1
Interest expense	**44.7**	41.4	**87.5**	86.2
Restructuring and other costs	**–**	–	**19.2**	–
Kingsmead losses	**–**	0.4	**–**	1.2
Negative goodwill	**(19.0)**	(10.1)	**(37.9)**	(14.6)
	1,497.8	1,409.4	**3,014.8**	2,870.6
Earnings before income taxes	**33.9**	86.9	**45.2**	112.8
Recovery of income taxes	**(14.4)**	(1.5)	**(39.9)**	(13.7)
Earnings from operations	**48.3**	88.4	**85.1**	126.5
Non-controlling interests	**(2.3)**	(4.8)	**(8.2)**	(7.0)
Net earnings	**46.0**	83.6	**76.9**	119.5
Net earnings per share	**$ 3.27**	$ 5.95	**$ 5.38**	$ 8.53
Shares outstanding (000) (weighted average)	**13,101**	13,294	**13,101**	13,245

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
for the six months ended June 30, 2001 and 2000
(unaudited – $ millions)

	2001	2000
Retained earnings – beginning of period	**1,167.4**	1,049.7
Net earnings for the period	**76.9**	119.5
Excess over stated value of shares purchased for cancellation	**–**	(6.3)
Preferred share dividends	**(6.5)**	(6.9)
Retained earnings – end of period	**1,237.8**	1,156.0

CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES
for the six months ended June 30, 2001 and 2000
(unaudited – $ millions)

	Second quarter		First six months	
	2001	2000	**2001**	2000
Operating activities				
Earnings from operations	**48.3**	88.4	**85.1**	126.5
Amortization	**19.9**	19.1	**29.5**	38.3
Future income taxes	**(38.5)**	(31.6)	**(56.8)**	(18.4)
Negative goodwill	**(19.0)**	(10.1)	**(37.9)**	(14.6)
Gains on investments	**(71.7)**	(149.2)	**(116.7)**	(167.5)
	(61.0)	(83.4)	**(96.8)**	(35.7)
Increase (decrease) in:				
Provision for claims	**(1,058.1)**	(1,024.7)	**(2,090.9)**	(1,461.9)
Recoverable from reinsurers	**763.2**	219.4	**854.7**	71.0
Unearned premiums	**29.0**	29.5	**353.2**	153.6
Accounts receivable and other	**110.3**	94.1	**(63.0)**	(28.2)
Income tax refundable	**(57.2)**	95.2	**(42.4)**	13.2
Accounts payable and accrued liabilities	**(282.2)**	157.8	**(36.2)**	44.2
Funds withheld payable to reinsurers	**(99.9)**	–	**25.1**	(36.2)
Other	**(43.5)**	(75.5)	**(62.6)**	(60.0)
Cash provided by (used in) operating activities	**(699.4)**	(587.6)	**(1,158.9)**	(1,340.0)
Investing activities				
Investments – purchases	**(118.4)**	(111.1)	**(724.7)**	(701.1)
– sales	**561.6**	296.6	**1,190.5**	1,484.3
Sale (purchase) of marketable securities	**63.5**	(76.3)	**55.6**	(47.7)
Sale (purchase) of capital assets	**(15.3)**	(11.8)	**(20.4)**	(3.3)
Cash provided by (used in) investing activities	**491.4**	97.4	**501.0**	732.2
Financing activities				
Shares repurchased	**–**	(13.2)	**–**	(59.6)
Long term debt and trust preferreds	**(58.2)**	(55.2)	**(60.3)**	(78.4)
Bank indebtedness	**9.3**	9.8	**18.2**	33.7
Preferred share dividends	**(3.2)**	(3.2)	**(6.5)**	(6.9)
Proceeds on OdysseyRe IPO	**436.9**	–	**436.9**	–
Non-controlling interests	**–**	7.8	**–**	(0.2)
Cash provided by (used in) financing activities	**384.8**	(54.0)	**388.3**	(111.4)
Increase (decrease) in cash resources	**176.8**	(544.2)	**(269.6)**	(719.2)
Cash resources – beginning of period	**1,959.3**	2,284.9	**2,405.7**	2,459.9
Cash resources – end of period	**2,136.1**	1,740.7	**2,136.1**	1,740.7

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

Notes to Consolidated Financial Statements
for the six months ended June 30, 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. OdysseyRe Initial Public Offering

On June 14, 2001, Odyssey Re Holdings Corp. (OdysseyRe), the U.S. holding company for Odyssey America Re and its subsidiaries, issued 17,142,857 common shares, in an initial public offering, at US$18 per share for net proceeds (after expenses of issue) of US$284.8 million. Fairfax and its wholly-owned subsidiary, TIG Specialty Insurance, received $354.4 million (US$233.5 million) in cash from these proceeds. After the offering, Fairfax and TIG held 48 million (73.7%) of OdysseyRe's common shares and a $303.5 million (US$200 million) OdysseyRe three year term note bearing interest at the rate of 2.25% over LIBOR and repayable by annual principal payments of US$66.7 million beginning June 30, 2002. Based on the IPO price of US$18 per share, the value of the company's 48 million common shares and term note of OdysseyRe still held, together with the cash proceeds received from the IPO, amounts to $2 billion (US$1.3 billion). Fairfax recorded a $51.2 million gain on its effective sale of a 26.3% interest in OdysseyRe in the quarter ended June 30, 2001.

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. Interest and dividends in the consolidated statements of earnings are included in the insurance and reinsurance group operating results and in the runoff operations in the table showing the source of net earnings. There were no significant changes in the identifiable assets by operating group as at June 30, 2001 compared to December 31, 2000.

4. Comparative Figures

The comparative figures for the consolidated statements of earnings for the three months and six months ended June 30, 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

June 30, 2001	$1.5176
December 31, 2000	$1.5012
Increase in the value of the US dollar vs. the Canadian dollar	+1.1%

(b) Average exchange rate

	Second quarter	First six months
June 30, 2001	$1.5461	$1.5339
June 30, 2000	$1.4600	$1.4668
Increase in the value of the US dollar vs. the Canadian dollar	+5.8%	+4.6%

6. Equitas Settlement

On June 28, 2001, Fairfax completed a settlement of all claims liabilities and all reinsurance recoverable from Equitas (excluding certain facultative reinsurance). The aggregate amount of claims liabilities and reinsurance recoverable settled was approximately $520 million and $480 million respectively. This settlement did not impact Fairfax's earnings for the quarter ended June 30, 2001 and is not expected to have a significant impact on Fairfax's future results of operation.

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

In the second quarter, net earnings decreased 45.0% to $46.0 million from $83.6 million last year. Net earnings per share for the second quarter decreased to $3.27 per share from $5.95 per share last year. The weighted average outstanding shares for the three months ended June 30, 2001 were 13.1 million versus 13.3 million last year.

Revenue in the second quarter increased 2.4% to $1,531.7 million from $1,496.3 million last year principally due to higher net premiums earned offset by lower interest and dividends and lower realized gains on investments.

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 and six months ended June 30, 2001 and 2000:

	Second quarter		First six months	
	2001	2000	**2001**	2000
	(unaudited – $ millions)		*(unaudited – $ millions)*	
Combined ratio				
Insurance – Canada	**108%**	104%	**110%**	104%
– U.S.	**113%**	114%	**112%**	114%
Reinsurance	**102%**	110%	**103%**	108%
Consolidated	**109%**	111%	**109%**	111%
Source of net earnings (with Lindsey Morden equity accounted)				
Underwriting				
Insurance – Canada	**(14.1)**	(6.4)	**(32.4)**	(13.2)
– U.S.	**(90.4)**	(83.7)	**(172.4)**	(169.1)
Reinsurance	**(7.6)**	(29.7)	**(20.0)**	(51.0)
Interest and dividends	**131.5**	126.8	**273.8**	287.7
	19.4	7.0	**49.0**	54.4
Realized gains	**71.7**	149.2	**116.7**	167.5
Runoff	**(14.8)**	(13.3)	**(21.1)**	3.6
Claims adjusting (Fairfax portion)	**(1.4)**	(3.0)	**(3.3)**	(6.9)
Interest expense	**(41.0)**	(37.4)	**(80.8)**	(79.1)
Goodwill and other amortization	**(1.5)**	(1.3)	**(3.2)**	(2.5)
Swiss Re premium and interest	**(13.7)**	(4.4)	**(19.2)**	(6.1)
Kingsmead losses	**–**	(0.4)	**–**	(1.2)
Restructuring charges	**–**	–	**(19.2)**	–
Negative goodwill amortization	**19.0**	10.1	**37.9**	14.6
Corporate overhead and other	**(3.6)**	(14.7)	**(8.6)**	(18.4)
Pre-tax income	**34.1**	91.8	**48.2**	125.9
Less (add): taxes	**(14.9)**	1.3	**(38.6)**	(5.4)
Less: non-controlling interests	**(3.0)**	(6.9)	**(9.9)**	(11.8)
Net earnings	**46.0**	83.6	**76.9**	119.5
Net premiums earned				
Insurance – Canada	**170.9**	159.3	**333.4**	319.0
– U.S.	**685.0**	600.9	**1,388.4**	1,160.4
Reinsurance	**328.9**	310.3	**657.0**	613.3
Runoff	**1.0**	(13.9)	**3.7**	108.2
	1,185.8	1,056.6	**2,382.5**	2,200.9

The combined ratio for the six months ended June 30, 2001 decreased to 109% from 111% last year. Fairfax's insurance subsidiaries incurred net losses on Tropical Storm Allison of $22 million which were recorded in the second quarter. In addition, TIG discontinued its Non Standard Auto program in the first quarter of 2001 due to its poor performance and since it was not part of TIG's strategic focus. This program will be largely runoff by the end of 2001. Approximately 70% of the estimated 2001 Non Standard Auto net premiums earned have been reflected in the consolidated statements of operations for the six months ended June 30, 2001. Excluding the impact of Tropical Storm Allison and TIG's discontinued Non Standard Auto program, the combined ratio would have been 106% for the second quarter and 108% for the first six months of 2001.

The Canadian insurance combined ratio for the first six months of 2001 increased to 110% from 104% last year. The combined ratio for the first six months of 2001 decreased to 110% from 111% in the first quarter of 2001 as the combined ratio started to improve to historical levels following winter weather related losses in the first quarter of 2001. In the second quarter of 2001, Commonwealth incurred a net loss of $7 million from Tropical Storm Allison. Excluding the impact of Tropical Storm Allison, the Canadian insurance combined ratio would have been 104% for the second quarter and 108% for the first six months of 2001.

The U.S. insurance combined ratio for the first six months of 2001 decreased to 112% from 114% last year. In the second quarter, Crum & Forster incurred a net loss of $15 million from Tropical Storm Allison. Excluding the impact of Tropical Storm Allison and TIG's discontinued Non Standard Auto program, the U.S. insurance combined ratios would have been 110% for the second quarter and for the first six months of 2001. The improvement in the adjusted combined ratio reflects the effect of 2000 and 2001 price increases and underwriting actions taken by Crum & Forster and TIG. Crum & Forster and TIG obtained average price increases on renewal business written of 13% and 15% respectively for the first six months of 2001, continuing the double digit price increases the companies have obtained since prices began increasing in the first six months of 2000. The benefit of these price increases and underwriting actions should continue to be reflected in a reduction in the U.S. insurance combined ratio over the next year.

The reinsurance group's combined ratio for the first six months of 2001 decreased to 103% from 108% 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. For the first six months of 2001, OdysseyRe incurred catastrophe losses (including Tropical Storm Allison) which were within expectations.

Realized gains on sale of portfolio securities were $20.5 million in the second quarter of 2001, principally from the sale of an S&P put (with a notional value of US$100 million). The company also realized a gain of $51.2 million on the OdysseyRe IPO in the second quarter.

Net premiums earned for the U.S. insurance and reinsurance groups were 14.0% and 6.0% higher respectively in the second quarter of 2001 compared with the second quarter of 2000. Both groups were positively affected by the higher average US dollar/Cdn dollar exchange rate in the second 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 57% in the second quarter of 2001 compared to the second 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 for the first six months of 2001 compared with the first six months of 2000 results from Sphere Drake ceasing active underwriting in 1999.

Interest and dividend income in the first six months of 2001 decreased to $273.8 million from $287.7 million last year due to a decrease in the average investment portfolio in the first six months of 2001 compared to the first six months of 2000 and higher interest expense on funds withheld balances payable to reinsurers. The decrease in the average investment portfolio reflects the continuing payment of claims in the run off portfolio and the negative cash flow in the U.S. insurance and reinsurance group due to prior years' reunderwriting actions which had reduced premium volumes.

The runoff operations consist of International Insurance, Odyssey Re Stockholm and Sphere Drake. Claims costs exceeded net investment income by $21.1 million, reflecting reserve strengthening in the first six months of 2001 and the impact of 2000 net claims payments on the average investment portfolio, resulting in lower interest and dividend income.

At June 30, 2001, Fairfax had ceded losses under its corporate insurance cover with Swiss Re totalling US$551.6 million (compared to US$532.1 million at March 31, 2001 and US$523.6 million at December 31, 2000) leaving unutilized coverage of US$448.4 million. Premium and interest for the Swiss Re cover in the second quarter of 2001 was $13.7 million.

The company recorded an income tax recovery of $14.9 million in the second quarter of 2001, principally due to higher income and realized gains in lower tax rate jurisdictions and the tax free gain on sale of the OdysseyRe shares.

Investments

At June 30, 2001 the Fairfax investment portfolio had a pre-tax unrealized loss of $390.2 million (consisting of an unrealized loss on bonds of $466.2 million offset by an unrealized gain on equities of $76.0 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 which were virtually unchanged at June 30, 2001 compared to December 31, 2000. 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:

	June 30 2001	December 31 2000
	(unaudited – $ millions, except per share data)	
Cash, short term investments and marketable securities	**384.5**	545.4
Long term debt	**1,836.5**	1,851.4
Net debt	**1,452.2**	1,306.0
Common shareholders' equity	**3,250.7**	3,180.3
Preferred shares and trust preferred securities of subsidiaries	**543.0**	592.0
Total equity	**3,793.7**	3,772.3
Net debt/equity	**38%**	35%
Net debt/total capital	**28%**	26%
Common shareholders' equity per share	**$ 248.13**	$ 242.75

The decrease in holding company cash of $161 million since December 31, 2000 resulted from the company contributing additional capital of $167 million to TIG in the first quarter and paying the $177 million premium payable to Swiss Re in respect of the company's ceded losses for the year ended December 31, 2000 in the second quarter, partially offset by the company receiving $173 million of the OdysseyRe IPO proceeds in the second quarter.

The increase in the company's net debt to equity and net debt to total capital ratios from December 31, 2000 to June 30, 2001 was principally due to the decrease in holding company cash, short term investments and marketable securities of $160.9 million. The decrease in preferred shares and trust preferred securities of subsidiaries resulted from a repurchase of trust preferred securities.

Common shareholders' equity at June 30, 2001 was $3.3 billion or $248.13 per share.