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# FAIRFAX

FINANCIAL HOLDINGS LIMITED

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## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Fairfax Financial Holdings Limited will be held at the Glenn Gould Studio, Canadian Broadcasting Centre, 250 Front Street West, Toronto, Canada on Wednesday, April 16, 2008 at 9:30 a.m. (Toronto time) for the following purposes:

- (a) to elect directors;
- (b) to appoint auditors; and
- (c) to transact such other business as may properly come before the meeting.

By Order of the Board,

Bradley P. Martin  
Vice President, Chief Operating Officer  
and Corporate Secretary

Toronto, March 7, 2008

**If you cannot be present to vote in person at the meeting, please complete and sign the enclosed form of proxy and return it in the envelope provided.** Please refer to the accompanying Management Proxy Circular for further information regarding completion and use of the proxy and other information pertaining to the meeting.

## MANAGEMENT PROXY CIRCULAR

*(Note: Dollar amounts in this Management Proxy Circular are in Canadian dollars except as otherwise indicated.)*

### **Voting Shares and Principal Holders Thereof**

We have 17,685,758 subordinate voting shares and 1,548,000 multiple voting shares outstanding. Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting share carries ten votes per share at all meetings of shareholders except in certain circumstances (which have not occurred) and except for separate meetings of holders of another class of shares. The outstanding subordinate voting shares currently represent 53.3% of the total votes attached to all classes of our outstanding shares.

Each holder of our subordinate voting shares or multiple voting shares of record at the close of business on March 5, 2008 (the "record date" established for notice of the meeting and for voting in respect of the meeting) will be entitled to vote at the meeting or any adjournment thereof, either in person or by proxy. Shareholders representing in person or by proxy at least 15% of our outstanding shares constitute a quorum at any meeting of shareholders.

The Sixty Two Investment Company Limited ("Sixty Two") owns 50,620 subordinate voting shares and 1,548,000 multiple voting shares, representing 46.8% of the total votes attached to all classes of our shares (100% of the total votes attached to the multiple voting shares and 0.3% of the total votes attached to the subordinate voting shares). V. Prem Watsa, our Chairman and Chief Executive Officer, controls Sixty Two and himself beneficially owns an additional 256,534 subordinate voting shares and exercises control or direction over an additional 2,100 subordinate voting shares. These shares, together with the shares owned directly by Sixty Two, represent 47.6% of the total votes attached to all classes of our shares (100% of the total votes attached to the multiple voting shares and 1.7% of the total votes attached to the subordinate voting shares). To the knowledge of our directors and officers, there are no other persons who beneficially own (directly or indirectly) or exercise control or direction over more than 10% of the votes attached to any class of our shares, except that, according to our best information, Southeastern Asset Management, Inc. owns or controls 15.9% of our subordinate voting shares and Mackenzie Financial Corporation owns or controls 13.7% of our subordinate voting shares.

### **Annual Report**

We have enclosed a copy of our Annual Report including our consolidated financial statements and the notes thereto for the year ended December 31, 2007. No action will be taken at the meeting with respect to approval or disapproval of the Annual Report.

You may obtain a copy of our latest annual information form (together with the documents incorporated therein by reference), our comparative consolidated financial statements for 2007 together with the report of the auditors thereon, management's discussion and analysis of our financial condition and results of operations for 2007, any of our interim financial statements for periods subsequent to the end of our 2007 fiscal year and this circular, upon request to our Corporate Secretary. If you are one of our securityholders, there will be no charge to you for these documents. You can also find these documents on our website ([www.fairfax.ca](http://www.fairfax.ca)) or on SEDAR ([www.sedar.com](http://www.sedar.com)).

### **Election of Directors**

A Board of seven directors is to be elected at the meeting to serve until the next annual meeting. If you submit a proxy in the enclosed form, it will, unless you direct otherwise, be voted for the election of the nominees named below. However, in case any of the nominees should become unavailable for election for any presently unforeseen reason, the persons named in the

proxy will have the right to use their discretion in selecting a substitute. The following information is submitted with respect to the nominees for director (committee membership is the anticipated membership after the election of directors):

Names of nominees, offices held in Fairfax (or significant affiliates) and principal occupations	Director since	Ownership or control over voting securities (subordinate voting or common shares, unless otherwise noted) of:		
		Fairfax Financial Holdings Limited	Northbridge Financial Corporation (one of our public subsidiaries)	Odyssey Re Holdings Corp. (one of our public subsidiaries)
ANTHONY F. GRIFFITHS <sup>(a)(b)(c)(d)</sup> Independent Business Consultant and Corporate Director	2002	13,000 <sup>(1)</sup>	5,000 <sup>(2)</sup>	5,247 <sup>(3)</sup>
ROBERT J. GUNN <sup>(a)(c)</sup> Independent Business Consultant and Corporate Director	2007	500 <sup>(1)</sup>	2,900 <sup>(2)(4)</sup>	—
ALAN D. HORN <sup>(a)</sup> Chairman, Rogers Communications Inc. and President and Chief Executive Officer, Rogers Telecommunications Limited	—	(5)	—	—
DAVID L. JOHNSTON <sup>(b)</sup> President and Vice-Chancellor and Professor, University of Waterloo	2007	475 <sup>(1)</sup>	—	—
PAUL L. MURRAY <sup>(a)</sup> President, Pinesmoke Investments Ltd. (private investment company)	2005	80,000 <sup>(1)</sup>	—	—
BRANDON W. SWEITZER <sup>(b)(c)</sup> Senior Fellow of the U.S. Chamber of Commerce	2004	2,364 <sup>(6)</sup>	—	1,247 <sup>(3)</sup>
V. PREM WATSA Chairman and Chief Executive Officer of Fairfax	1985	(7)	—	—

(a) Member of the Audit Committee (Chair — Paul Murray; anticipated Chair — Alan Horn)

(b) Member of the Governance and Nominating Committee (Chair — Anthony Griffiths)

(c) Member of the Compensation Committee (Chair — Anthony Griffiths)

(d) Lead Director

(1) Each of Messrs. Griffiths, Gunn, Johnston and Murray has received an option on, respectively, 2,750; 2,000; 2,000 and 2,840 of our previously issued subordinate voting shares, vesting as to 10% a year commencing from, respectively, 2003, 2008, 2008 and 2006. To date, 1,375 have vested for Mr. Griffiths and 568 have vested for Mr. Murray. All option grants are on our previously issued shares purchased in the market, as described below under "Equity Compensation Plan".

(2) Each of Messrs. Griffiths and Gunn has received an option on 8,700 Northbridge common shares. The options are granted in relation to previously issued common shares and vest as to 50% in 2009 and 50% in 2014.

(3) Each of Messrs. Griffiths and Sweitzer has received a restricted stock grant of 741 Odyssey Re Holdings common shares vesting as to one third a year commencing from 2007 (to date, 247 have vested for each) and Mr. Sweitzer has received a restricted stock grant of 674 Odyssey Re Holdings common shares vesting as to one third a year commencing from 2008. In addition, each of Messrs. Griffiths and Sweitzer has received an option on 5,000 Odyssey Re Holdings common shares, vesting as to 25% a year commencing from 2003 (to date, all have vested) and Mr. Griffiths received an option on 674 Odyssey Re Holdings common shares vesting as to one third a year commencing from 2008.

(4) Mr. Gunn's spouse also beneficially owns 1,000 common shares of Northbridge.

(5) Mr. Horn's spouse beneficially owns 500 of our subordinate voting shares.

(6) Mr. Sweitzer has received a restricted stock grant of 2,264 of our outstanding subordinate voting shares purchased in the market, vesting as to 50% in 2009 and 50% in 2014.

(7) Mr. Watsa controls Sixty Two, which owns 50,620 of our subordinate voting shares and 1,548,000 of our multiple voting shares, and himself beneficially owns an additional 256,534 subordinate voting shares and exercises control or direction over an additional 2,100 of our subordinate voting shares.

The information as to shares beneficially owned or controlled by each nominee, and certain of the biographical information provided below, not being within our knowledge, has been furnished by such nominee.

Legend:

BD — Board of Directors      AC — Audit Committee      CC — Compensation Committee      G&NC — Governance and Nominating Committee

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**V. Prem Watsa**, 57, has been the Chairman of our Board of Directors and our Chief Executive Officer since 1985. He has served as Vice President of Hamblin Watsa Investment Counsel Ltd. since 1985. Mr. Watsa is the Chairman of Northbridge Financial Corporation (“Northbridge”), Crum & Forster Holdings Corp. (“Crum & Forster”) and Odyssey Re Holdings Corp. (“OdysseyRe”), all of which are our subsidiaries. Mr. Watsa formerly served as Vice President of GW Asset Management from 1983 to 1984 and in various positions, ultimately as a Vice President, with Confederation Life Investment Counsel from 1974 to 1983. Mr. Watsa is a resident of Toronto, Canada.

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Meetings Attended in 2007  
7 of 7 BD

**Anthony F. Griffiths**, 77, is a member of our Board of Directors and our Lead Director. Mr. Griffiths is currently an independent business consultant and corporate director. He is a director of Northbridge, Crum & Forster and OdysseyRe. He is also the Chairman of Russel Metals Inc. and Novadaq Technologies Inc. and a director of Vitran Corporation Inc., PreMD Inc. and Jaguar Mining Inc. Mr. Griffiths serves on the Audit Committees of Northbridge, Crum & Forster, OdysseyRe, Novadaq, Jaguar and PreMD. Mr. Griffiths was the Chairman of Mitel Corporation, a telecommunications company, from 1987 to 1993, and from 1991 to 1993 assumed the positions of President and Chief Executive Officer in addition to that of Chairman. Mr. Griffiths is a member of our Audit Committee, the Chair of our Compensation and Governance and Nominating Committees, and is a resident of Toronto, Canada.

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Meetings Attended in 2007  
7 of 7 BD  
6 of 6 AC  
1 of 1 CC  
1 of 1 G&NC

**Robert J. Gunn**, 62, is a member of our Board of Directors. Mr. Gunn is currently an independent business consultant and corporate director. Since 2004 Mr. Gunn has been the Vice Chairman of the Board of Directors and a member of the Audit Committee of Northbridge. Mr. Gunn is also a director and a member of the Audit and Compensation Committees of Crum & Forster. Mr. Gunn previously served as the Chief Executive Officer and Chief Operating Officer of Royal & SunAlliance plc, a diversified insurance company in London, England, from 2002 to 2003 and 2001 to 2002, respectively. He also served as Group Director, Americas, of Royal & SunAlliance from 1998-2001. From 1990 to 2001, Mr. Gunn held the positions of President and Chief Executive Officer at Royal & SunAlliance Canada. Mr. Gunn is currently a director and member of the Audit Committees of BCX Split Corp., Energy Split Corp. Inc. and Energy Split Corp. II Inc. Mr. Gunn is a member of our Audit and Compensation Committees, and is a resident of Toronto, Canada.

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Meetings Attended in 2007\*  
4 of 4 BD  
4 of 4 AC  
*\*Since his election to the Board on April 18, 2007*

**Alan D. Horn**, 56, is a new nominee for election to our Board of Directors. Mr. Horn has been Chairman of Rogers Communications Inc. and President and Chief Executive Officer of Rogers Telecommunications Limited since March 2006. Mr. Horn served as Vice-President, Finance and Chief Financial Officer of Rogers Communications Inc. from 1996 to 2006 and was President and Chief Operating Officer of Rogers Telecommunications Limited from 1990 to 1996. Mr. Horn is a Chartered Accountant and a director of March Networks Corporation, and is a resident of Toronto, Canada.

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New Nominee

**David L. Johnston**, 66, is a member of our Board of Directors. Mr. Johnston has served as President and Vice-Chancellor of the University of Waterloo since July 1999, where he is also a Professor specializing in Securities Regulation, Corporation Law, Public Policy and Information Technology Law. Mr. Johnston was the Principal and Vice-Chancellor of McGill University from 1979 to 1994, and was a Professor in the Faculty of Law at McGill University from 1994 to 1999. Mr. Johnston is a director of Masco Corp., CGI Group Inc. and ARISE Technologies Corporation. Mr. Johnston is a member of our Governance and Nominating Committee, and is a resident of St. Clements, Ontario, Canada.

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Meetings Attended in 2007\*

4 of 4 BD

*\*Since his election to the Board on April 18, 2007*

**Paul L. Murray**, 76, is a member of our Board of Directors. Mr. Murray is a chartered accountant and has been President of Pinesmoke Investments Ltd., an investment company based in Toronto, Ontario, since 1985. He is also a director and serves on the Audit and Compensation Committees of Crum & Forster. From 1989 to 1998 Mr. Murray served as President and Secretary/Treasurer of Lockwood Manufacturing Inc. of Brantford, Ontario. From 1985 to 1989 Mr. Murray was the Vice President of Finance of Redpath Industries Limited, a manufacturing company formerly traded on the Toronto Stock Exchange. Mr. Murray is the Chair of our Audit Committee, and is a resident of Toronto, Canada.

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Meetings Attended in 2007

7 of 7 BD

6 of 6 AC

1 of 1 CC

1 of 1 G&NC

**Brandon W. Sweitzer**, 65, is a member of our Board of Directors. Mr. Sweitzer is a Senior Fellow of the U.S. Chamber of Commerce. He is a director of our subsidiaries OdysseyRe and Falcon Insurance Company and the Chair of the Audit Committee of OdysseyRe. He also serves on the Board of the St. John's University School of Risk Management. Mr. Sweitzer became Chief Financial Officer of Marsh Inc. in 1981, and was its President from 1999 through 2000. From 1996 to 1999, Mr. Sweitzer served as President and Chief Executive Officer of Guy Carpenter & Company. Mr. Sweitzer is a member of our Compensation and Governance and Nominating Committees, and is a resident of New Canaan, Connecticut, U.S.A.

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Meetings Attended in 2007

7 of 7 BD

1 of 1 CC

1 of 1 G&NC

None of our director nominees serve together on the Board of any other companies, other than subsidiaries of Fairfax, or act together as trustees for other entities.

Frank B. Bennett was a director and a member of our Audit Committee until his retirement in April 2007. In 2007, Mr. Bennett attended 3 Board meetings and 2 Audit Committee meetings, which were all of such meetings in the year prior to his retirement.

Mr. Griffiths was formerly a director of Brazilian Resources Inc. which was subject to an insider cease trade order issued by the Ontario Securities Commission on June 10, 2001 due to the company's late filing of financial statements. All required documents were filed by the company and the cease trade order was rescinded on July 30, 2001. Mr. Griffiths was formerly a

director of Consumers Packaging Inc. while it operated under the protection of the *Companies' Creditors Arrangement Act* (Canada) (the "CCAA") commencing in 2001. During the protection period, cease trade orders were issued against management and insiders due to the company's failure to file financial statements. Mr. Griffiths was formerly a director of Slater Steel Inc. which, under the protection of the CCAA commencing in 2003, operated in an orderly wind-down.

Mr. Horn was formerly a director of AT&T Canada Inc., as a representative of Rogers Communications Inc., when it filed for protection from its creditors in October 2002.

### **Appointment of Auditors**

If you submit a proxy in the enclosed form, it will, unless you direct otherwise, be voted for the appointment of PricewaterhouseCoopers LLP as our auditors to hold office until the next annual meeting. PricewaterhouseCoopers LLP (formerly Coopers & Lybrand) have been our auditors since 1974. The resolution to appoint PricewaterhouseCoopers LLP as our auditors must be passed by a majority of the votes cast in person or by proxy at the meeting.

### **Shareholder Proposals for Next Year's Annual Meeting**

The *Canada Business Corporations Act* permits certain eligible shareholders to submit shareholder proposals to us, which proposals may be included in a management proxy circular relating to an annual meeting of shareholders. The final date by which we must receive shareholder proposals for our annual meeting of shareholders to be held in 2009 is December 8, 2008.

### **Other Business**

Our management is not aware of any other matters which are to be presented at the meeting. However, if any matters other than those referred to herein should be presented at the meeting, the persons named in the enclosed proxy are authorized to vote the shares represented by the proxy in their discretion and in accordance with their best judgment.

### **Compensation of Directors**

Our directors who are not officers or employees of us or any of our subsidiaries receive an annual retainer of \$75,000 per year. There are no additional fees based on meeting attendance. The Chair of the Audit Committee and the Lead Director each also receives a further retainer of \$10,000 per year, and the Chair of each other committee also receives a further retainer of \$5,000 per year, for services in those respective capacities. In addition, non-management directors joining the Board in or after 2002 are granted a restricted stock grant (or, as a result of applicable tax rules, an option equivalent) of approximately \$500,000 of our subordinate voting shares, vesting as to 10% a year commencing one year after the grant (or, if desired, on a slower vesting schedule). Additional amounts may be paid for special assignments. Please see the table "Ownership or control over voting securities" for information concerning stock-related awards to directors. Any such awards made to directors are on our outstanding subordinate voting shares purchased in the market and, since they involve no previously unissued stock, there is no dilution to shareholders. In 2007, directors received aggregate cash compensation of \$345,250 pursuant to the above arrangements as then in effect. Non-management directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending Board or committee meetings or in otherwise being engaged on our business. Our Chairman does not receive compensation for his services as a director separate from his compensation as Chief Executive Officer.

Messrs. Griffiths and Gunn and, until April 2007, Mr Bennett served on the Board of Directors of our Northbridge subsidiary in 2007. In that capacity, each received a retainer at a rate of \$20,000 per year plus \$1,000 per meeting attended, plus, as Vice Chair of the Board and an outside director serving on the Board of a principal subsidiary of Northbridge, Mr. Gunn also received \$75,000 per year and \$3,000 per year respectively.

Messrs. Griffiths, Gunn and Murray and, until April 2007, Mr. Bennett served on the Board of Directors of our Crum & Forster subsidiary in 2007. In that capacity, each received a retainer at a rate of US\$15,000 per year plus US\$750 per meeting attended.

Messrs. Griffiths and Sweitzer served on the Board of Directors of our OdysseyRe subsidiary in 2007. In that capacity, each received a retainer of US\$60,000 per year plus an annual award of US\$25,000 of restricted stock vesting equally over three years, plus, for the Chairman of the Audit Committee (currently Mr. Sweitzer), US\$10,000 per year, with no additional fees for attendance at meetings.

Messrs. Griffiths and Murray served on the Board of Directors of our Cunningham Lindsey subsidiary in 2007. In that capacity, each received a retainer of \$15,000 per year plus \$1,000 per meeting attended.

### **Director Share Ownership**

Each Board member is expected to hold for the long term significant equity in Fairfax. Our Corporate Governance Guidelines provide that the Board will confirm each year that each member owns equity equal in value to at least five times the amount of his or her annual retainer. Directors who do not meet this minimum must apply their annual retainers to purchase subordinate voting shares (or similar equity-like ownership) of Fairfax until it is satisfied.

### **Directors' and Officers' Insurance**

We purchase and maintain Directors' and Officers' Liability Insurance for our directors and officers and the directors and officers of certain of our subsidiaries. This insurance forms part of a blended insurance program which provides a combined aggregate limit of liability of US\$175 million, with a deductible to us of US\$10 million per loss under the Directors' and Officers' Liability Insurance. The approximate annual premium for this Directors' and Officers' Liability Insurance is US\$1,475,000.

### **Indebtedness of Directors and Executive Officers**

We maintain a share purchase plan whereby the directors could, until July 30, 2002 when U.S. legislation applicable to us prohibited the making of any further loans under the Plan, from time to time grant to designated employees, officers and directors of us or any subsidiary a loan (which may be interest free) repayable after a specified period (which often relates to when the recipient leaves the employment of us or a subsidiary, or when the recipient dies) to purchase our subordinate voting shares. A loan made to any individual was on a one-time or infrequent basis, and the shares purchased with the loan are expected to be held, not traded. All loans made under the Plan have been for the purchase of previously issued shares purchased in the market, so that they involve no previously unissued stock and consequently no dilution to shareholders. Until repayment, the shares are held by a trustee subject to the terms of the Plan. Of the \$17.4 million of currently outstanding loans made under the Plan to all current and former executive officers, directors and employees of us and our subsidiaries (including \$6.1 million to our current executive officers), \$9.6 million (including \$5.8 million to our current executive officers) have been refinanced by the borrowers with a Canadian chartered bank (the current aggregate value of the shares securing these refinanced loans is \$52.5 million). We or our subsidiaries generally pay the prime plus one-half percent per annum interest on these refinanced loans on behalf of the borrowers and may under certain circumstances be obligated to purchase these loans from the bank.

**Table of Indebtedness of Directors and Executive Officers  
under Securities Purchase Programs  
(being only the above-described share purchase arrangements)**

<b>Name and principal position with Fairfax</b>	<b>Largest amount outstanding during fiscal year ended Dec. 31, 2007</b>	<b>Amount outstanding as at March 7, 2008</b>	<b>Security for indebtedness<sup>(1)</sup></b>
Trevor J. Ambridge, Vice President	\$ 999,800	\$ 999,800	3,428
Jean Cloutier, Vice President and Chief Actuary	775,000	775,000	2,750
Bradley P. Martin, Vice President, Chief Operating Officer and Corporate Secretary	499,800	499,800	1,428
Eric P. Salsberg, Vice President, Corporate Affairs	1,925,000	1,925,000	80,000
Ronald Schokking, Vice President and Treasurer	1,542,750	1,542,750	25,000
Jane Williamson, Vice President	351,500	351,500	1,850

(1) In all cases, our subordinate voting shares.



## Summary Compensation Table

Name and principal position	Annual Compensation				All Other Compensation <sup>(2)</sup>
	Year	Salary	Bonus	Other Annual Compensation <sup>(1)</sup>	
V. Prem Watsa	2007	\$600,000	\$ 0	\$ 0	\$19,000
Chairman and	2006	600,000	0	0	18,000
Chief Executive Officer	2005	600,000	0	0	16,500
Greg Taylor <sup>(3)(4)</sup>	2007	500,000	750,000	0	19,000
Vice President and	2006	400,000	1,000,000	0	18,000
Chief Financial Officer	2005	362,500	1,100,000	0	11,365
Bradley P. Martin <sup>(3)</sup>	2007	500,000	750,000	32,990	19,000
Vice President,	2006	400,000	600,000	31,292	18,000
Chief Operating Officer and Corporate Secretary	2005	400,000	400,000	24,473	16,500
Eric P. Salsberg	2007	450,000	675,000	127,063	80,238
Vice President,	2006	450,000	675,000	120,523	79,238
Corporate Affairs	2005	450,000	450,000	94,259	77,738
Jean Cloutier <sup>(3)</sup>	2007	400,000	600,000	33,003	19,000
Vice President and	2006	300,000	450,000	31,304	18,000
Chief Actuary	2005	300,000	300,000	24,483	16,500

(1) The amounts quoted in this column represent the taxable benefits on interest or deemed interest on loans with respect to the share purchase plan described above under "Indebtedness of Directors and Executive Officers".

(2) The amounts shown are payments in respect of life insurance policies and registered retirement savings plans contributions made in lieu of the establishment of a pension plan.

(3) In 2006, Messrs. Martin and Taylor each received a grant of options on 7,000 of our previously issued subordinate voting shares, vesting 100% in 5 years and Mr. Cloutier received a grant of options on 3,500 of our previously issued subordinate shares, vesting 100% in 5 years. In 2005, Messrs. Taylor and Cloutier each received a grant of options on, respectively, 5,800 and 1,320 of our previously issued subordinate voting shares, vesting as to 50% in 2010 and 50% in 2015. All option grants are on our previously issued shares purchased in the market as described below under "Equity Compensation Plan".

(4) Mr. Taylor assumed the office of Chief Financial Officer in May 2005. Prior thereto, Mr. Taylor was the Chief Financial Officer of our Northbridge subsidiary. A portion of the 2005 salary and bonus amounts shown above for Mr. Taylor were paid by Northbridge.

## Equity Compensation Plan

We have established an equity compensation plan under which stock-related awards may be made to the executive officers of us and our subsidiaries. An award made to any individual is on a one-time or infrequent basis, and the awards granted are expected to be held, not traded. The awards are made of our subordinate voting shares which have been previously issued and the shares underlying these awards are purchased in the market and paid for in full, so that they involve no previously unissued stock and consequently no dilution to shareholders. As at December 31, 2007, a total of 65,085 options have been granted to our employees, representing 0.38% of our subordinate voting shares outstanding as at that date. For U.S. participants, the plan is structured as a restricted share plan, providing grants of outstanding shares which vest at future dates. For participants in Canada, the plan operates as much as possible like a restricted share plan but, in light of differences in applicable tax law, is structured instead to provide awards of options on previously issued shares purchased in the market, with the exercise price of each share being at least the closing market price on the date preceding the date of grant. The option is generally exercisable as to 50% five years from the date of grant and as to the remainder ten years from the date of grant or 100% five years from date of grant, subject to the grantee remaining an employee of us or our subsidiaries at the time the option becomes exercisable, and generally expires 15 years from the date of grant. Upon any option exercise we may provide a bonus equal to the exercise price, but have no obligation to do so. Any option grant is made by our affiliated entity

incorporated for that purpose, which upon any exercise may, but is not obligated to, pay an amount equal to any dividends paid on the shares acquired upon the option exercise during the period from the date of grant to the date of exercise. As the shares are purchased in the market and fully paid for, there is no further cost to either us or our affiliate in the event such discretionary payments are made.

We did not grant any of the above described options to our executive officers during 2007.

### **Executive Share Ownership**

All of our executive officers are long term shareholders of Fairfax. While we do not have formal executive share ownership guidelines, our executive officers are expected to hold their shares throughout their tenure. In practice, with the exception of charitable donations, there has been almost no trading of our shares by our executive officers.

### **Report on Executive Compensation**

In 2007, our Compensation Committee evaluated the performance of each of our executive officers and reviewed and approved their compensation, including that of our Chairman and Chief Executive Officer, Mr. Watsa.

Mr. Watsa proposed to the Compensation Committee the remuneration of our other executive officers. The Compensation Committee considered the proposals by Mr. Watsa, which included a description of the accomplishments of our executives.

Our executive compensation program is designed to align the interests of our executives and shareholders by linking compensation with our performance and to be competitive on a total compensation basis in order to attract and retain executives. Except in the case of Mr. Watsa, as described below, the remuneration of our executive officers consists of an annual base salary, an annual bonus and long term participation in our fortunes by the ownership of shares through the equity compensation plan (details of this participation are set out above under "Equity Compensation Plan") and through the now discontinued share purchase plan (details of this participation are set out above under "Indebtedness of Directors and Executive Officers").

The base salaries of our executive officers are intended to be competitive but to remain relatively constant, generally increasing only when the executive assumes greater responsibilities. A discretionary bonus in the range of 50-150% of base salary, if and to the extent appropriate, is awarded annually. In awarding bonuses, the Compensation Committee considers the performance of our executive team during the year in light of its accomplishments and relative to our Guiding Principles, and our corporate performance during the year. An award to an individual under the equity compensation plan is generally made on a one-time or infrequent basis, and the reward granted is expected to be held, not traded.

### **Compensation of the Chief Executive Officer**

Since 2000, Mr. Watsa has agreed that his aggregate compensation from us will consist solely of an annual salary of \$600,000 (and standard benefits provided to our executives generally), with no bonus or other profit participation, no participation in any equity plans (other than the employee payroll share purchase plan) and no pension entitlement. Mr. Watsa's compensation arrangements reflect his belief that as a controlling shareholder involved in the management of the company, his compensation should be closely linked to all shareholders; this close link is achieved by his "compensation", beyond a fixed salary, coming only from his share ownership.

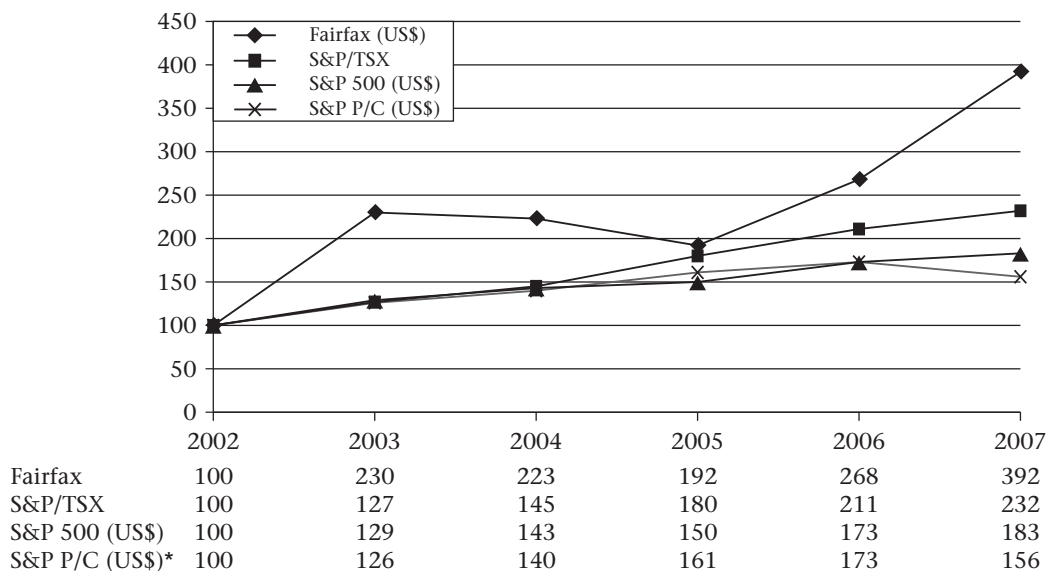
Submitted by the Compensation Committee:

Anthony F. Griffiths  
Robert J. Gunn  
Brandon W. Sweitzer

## Performance Graph

The following graph assumes that \$100 was invested on December 31, 2002 in our subordinate voting shares and in common shares of the S&P/TSX Composite Index, the S&P 500 Index and the S&P Property-Casualty Insurance Index, respectively.

### Cumulative Value of a \$100 Investment Assuming Reinvestment of Dividends



\* No comparable Canadian index.

### **Statement of Corporate Governance Practices**

In 2005, our Board of Directors, in consultation with outside experts retained by the Board, reviewed our corporate governance practices. As part of this process, and by way of formalizing our governance approaches, the Board (i) approved a set of Corporate Governance Guidelines that includes the Board's written mandate, (ii) established a Governance and Nominating Committee and a Compensation Committee (in addition to the previously established Audit Committee), (iii) approved written charters for all of its committees (which charters include position descriptions for the Chair of each committee), (iv) approved a Code of Business Conduct and Ethics applicable to our directors, officers and employees and (v) established, in conjunction with the Audit Committee, a Whistleblower Policy. All of these items are available for review on our website at [www.fairfax.ca](http://www.fairfax.ca) under the heading "Corporate Governance".

The Corporate Governance Guidelines retain and enhance the principles and practices described in prior Management Proxy Circulars as underlying our governance system. The Code of Business Conduct and Ethics is built around the first value in our longstanding and regularly reported Guiding Principles — "honesty and integrity are essential in all our relationships and will never be compromised".

Our corporate governance policies and practices are reviewed regularly by our Board of Directors and updated as necessary or advisable. Our corporate governance practices are in compliance with all applicable rules and substantially comply with all applicable policies and guidelines, including those of the Canadian Securities Administrators and the New York Stock Exchange. A description of our corporate governance practices is set out below.

### **Independent Directors**

The Board has affirmatively determined that all of our directors and director nominees (other than Mr. Watsa) are independent in that each of them has no material relationship with us, that is, a relationship which could, in the Board's view, be reasonably expected to interfere with the exercise of the member's independent judgment. In making this determination, the Board considered, among other things, that none of those individuals (i) is, or has been within the last three years, an employee or member of management of us or our subsidiaries or related to any member of management, (ii) is related to our controlling shareholder, (iii) is associated with our auditor or has any family member that is associated with our auditor, (iv) receives any direct or indirect compensation (including to family members) from us except in connection with Board related work, (v) works or has worked at a company for which any member of our management was a member of the compensation committee, or (vi) has (other than possibly as an insured under an insurance policy issued on usual commercial terms) any material business or other relationship with us, our subsidiaries or our controlling shareholder. Accordingly, all of our directors are independent except for V. Prem Watsa, our Chairman and CEO. Shareholders and others may communicate with our non-management directors by addressing their concerns in writing to our Corporate Secretary at 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

Our directors have an on-going obligation to inform the Board of any material changes in their circumstances or relationships that may affect the Board's determination as to their independence and, depending on the nature of the change, a director may be asked to resign as a result.

### **Lead Director and Independent Functioning of the Board**

Our Chairman is also our CEO and controlling shareholder. Accordingly, the Board has appointed Anthony Griffiths as the Lead Director of Fairfax. The Lead Director is responsible for ensuring the independent functioning of the Board, including establishing, in consultation with the CEO, the agenda for each Board meeting, acting as spokesperson for the independent directors collectively in communications with the Chairman and presiding over meetings of the independent directors.

The agenda for each Board meeting (and each committee meeting to which members of management have been invited) affords an opportunity for the independent directors to meet separately and the independent directors regularly exercise that opportunity. In 2007, our independent directors held five *in camera* meetings, at which 100% of the independent directors attended. All committees are composed solely of independent directors.

### ***Corporate Governance Guidelines (including Board Mandate)***

Our Corporate Governance Guidelines, which include our Board Mandate, set out the overall governance principles that apply to us. Our Corporate Governance Guidelines include (i) position descriptions for each of the Chairman, the Lead Director and the CEO, (ii) sole authority for the Board and each committee to appoint, at our expense, outside advisors in connection with the performance of its duties, including determining fees and other retention terms, (iii) a mechanism for shareholders and others to communicate with us, (iv) share ownership requirements for directors, (v) obligations of directors in respect of meeting preparation and attendance, (vi) accountability of the CEO to the Board for implementing and achieving our Guiding Principles and corporate objectives approved by the Board and (vii) the Board's adoption of and commitment to the Code of Business Conduct and Ethics, which is applicable to all of our directors, officers and employees.

In our Corporate Governance Guidelines, the Board has explicitly assumed responsibility for our stewardship and for supervising the management of our business and affairs. Our Board Mandate states:

The directors' primary responsibility is to act in good faith and to exercise their business judgment in what they reasonably believe to be the best interests of Fairfax. In fulfilling its responsibilities, the Board is, among other matters, responsible for the following:

- Appointing the CEO and other corporate officers;
- On an ongoing basis, satisfying itself as to the integrity of the CEO and other executive officers and that the CEO and the other executive officers create a culture of integrity throughout Fairfax;
- Monitoring and evaluating the performance of the CEO and the other executive officers against the approved Guiding Principles and corporate objectives;
- Succession planning;
- Approving, on an annual basis, Fairfax's Guiding Principles and corporate objectives;
- Satisfying itself that Fairfax is pursuing a sound strategic direction in accordance with the approved Guiding Principles and corporate objectives;
- Reviewing operating and financial performance results relative to established corporate objectives;
- Approving an annual fiscal plan;
- Ensuring that it understands the principal risks of Fairfax's business, and that appropriate systems to manage these risks are implemented;
- Ensuring that the materials and information provided by Fairfax to the Board and its committees are sufficient in their scope and content and in their timing to allow the Board and its committees to satisfy their duties and obligations;
- Reviewing and approving Fairfax's annual and interim financial statements and related management's discussion and analysis, annual information form, annual report and management proxy circular;
- Approving material acquisitions and divestitures;
- Confirming the integrity of Fairfax's internal control and management information systems;
- Approving any securities issuances and repurchases by Fairfax;
- Declaring dividends;
- Approving the nomination of directors;
- Approving the charters of the Board committees and approving the appointment of directors to Board committees and the appointment of the Chairs of those committees; and

- Adopting a communications policy for Fairfax (including ensuring the timeliness and integrity of communications to shareholders and establishing suitable mechanisms to receive shareholder views).

Our Board has delegated to management responsibility for our day to day operations, including for all matters not specifically assigned to the Board or any committee of the Board.

### ***Audit Committee***

The members of our Audit Committee are Paul Murray (Chair), Robert Gunn and Anthony Griffiths, all of whom are independent and financially literate. In addition, Mr. Murray has accounting or related financial management expertise and is therefore a financial expert as defined by the SEC. Mr. Murray is a chartered accountant and has considerable experience on the Board and Audit Committees of public companies. He has been the Chief Financial Officer of a public company listed on the TSX and the President of a manufacturing company. Mr. Griffiths received an MBA from Harvard University, has extensive experience as an Audit Committee and Board member of a number of public companies and has a sound understanding of accounting principles, including those used in preparation of our financial statements. Mr. Gunn has significant experience with financial statement disclosure through his previous work experience, including as Chief Executive Officer and Chief Operating Officer of Royal & SunAlliance, a diversified insurance company. He also has experience as an Audit Committee and Board member of a number of public companies, including as Audit Committee chair. For additional information concerning Messrs. Murray, Griffiths and Gunn, please see the information above under “Election of Directors”.

Our Corporate Governance Guidelines prohibit a member of the Audit Committee from serving on the Audit Committees of more than two other public companies (with the exception of our public company subsidiaries) except with the prior approval of the Board, including a determination by the Board that such service would not impair the ability of the director to effectively serve on the Audit Committee. Two of the members of our Committee, Anthony Griffiths and Robert Gunn, are members of the Audit Committees of, respectively, seven other public companies (four of which are our subsidiaries) and five other public companies (two of which are our subsidiaries). The Board has approved each of Mr. Griffiths and Mr. Gunn acting on these other Audit Committees and has determined that such service does not impair their ability to effectively serve on our Audit Committee.

The responsibilities of the Audit Committee include (i) recommending to the Board the auditor to be nominated for approval by shareholders, (ii) approving the compensation of the auditor, (iii) overseeing the work of the auditor and management with respect to the preparation of financial statements and audit related matters and communicating regularly with the auditor and management in that regard, (iv) ensuring that suitable internal control and audit systems are in place, (v) reviewing annual and interim financial information, including MD&A, prior to its release and (vi) reviewing annual and interim conclusions about the effectiveness of our disclosure controls and procedures and internal controls and procedures. The text of our Audit Committee Charter can be found on our website, [www.fairfax.ca](http://www.fairfax.ca), or in our Annual Information Form under the heading “Audit Committee”, which is available on SEDAR, [www.sedar.com](http://www.sedar.com). Our Annual Information Form also contains information concerning fees paid to our external auditors for services they have rendered to us in each of the last two fiscal years.

In order to ensure the independence of our external auditor, the Committee has adopted a Policy on Review and Approval of Auditor’s Fees requiring Audit Committee approval of all audit and non-audit services provided by the auditor and, among other things, requiring the CFO and the auditor to report to the Committee quarterly on the status of projects previously pre-approved.

### ***Compensation Committee***

The members of our Compensation Committee are Anthony Griffiths (Chair), Robert Gunn and Brandon Sweitzer, all of whom are independent. The responsibilities of the Committee include establishing the compensation of directors and approving the compensation of the CEO and other executive officers. In establishing the compensation of the directors, the Committee will examine the time commitment, responsibilities and risks associated with being a director and compensation paid by companies similar to us. In approving the compensation of the CEO, the important factors for evaluating the CEO’s performance are our Guiding Principles and corporate objectives.

### ***Governance and Nominating Committee***

The members of our Governance and Nominating Committee are Anthony Griffiths (Chair), David Johnston and Brandon Sweitzer, all of whom are independent. The Committee is responsible for our overall approach to corporate governance. The Committee recommends nominations to the Board each year and recommends the directors it considers qualified for appointment to each Board committee and as Chair of each committee. The Committee is also responsible for annually evaluating and reporting to the Board on the performance and effectiveness of the Board, each of its committees and each of its directors. In conducting that evaluation, the Committee considers the Corporate Governance Guidelines, applicable committee charters and position descriptions, and the contributions individual members are expected to make. The Committee also monitors changes in the area of corporate governance and recommends any changes it considers appropriate.

### ***Selection of Directors***

We seek as directors committed individuals who have a high degree of integrity, sound practical and commercial judgment and an interest in the long term best interests of us and our shareholders. With this goal in mind, each year the Board determines what competencies and skills the Board as a whole should possess (taking into account our particular business and what competencies and skills each existing director possesses). The Board makes these determinations at a time suitable for the Governance and Nominating Committee to reflect them in its recommendations for nominees to the Board. In making its recommendations, the Governance and Nominating Committee also considers the competencies and skills any new nominee may possess, the independence requirements and the requirements for any distinctive expertise.

### ***Orientation and Continuing Education of Directors***

Each new director will receive a comprehensive orientation from our Chairman, including an overview of the role of the Board, the Board committees and each individual member, the nature and operation of our business and the contribution and time commitment the new director is expected to make. The orientation will include access to our senior management and facilities. The Lead Director will also meet with each new director to orient that director on the independent operation and functioning of the Board.

The Board is responsible for considering from time to time appropriate continuing education for directors, which may include presentations from management, site visits and presentations from industry experts. Each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director and, as discussed in more detail below, is subject to an annual evaluation.

### ***Board Performance Evaluation***

Each year a confidential annual review process is completed to assess the overall effectiveness of the Board, the individual directors and each committee. As part of this process, each director completes a Board Effectiveness Survey and a Confidential Director Self-Evaluation Form. The Board Effectiveness Survey reviews Board responsibilities, operation and effectiveness. The Director Self-Evaluation Form asks directors to consider their participation on and contributions to the Board and its committees and their goals and objectives in serving as a director of our company. The Chair of the Governance and Nominating Committee collates the results of the survey and meets with individual directors to discuss evaluations at a director's request (or as required to address a specific issue) and reports to the Governance and Nominating Committee and to the Board on evaluation results.

### ***Ethical Business Conduct***

The Board has approved a Code of Business Conduct and Ethics that is built around the first value in our Guiding Principles — “honesty and integrity are essential in all our relationships and will never be compromised”. The Board is responsible for monitoring compliance with the Code and accordingly has, in conjunction with the Audit Committee, established a Whistleblower Policy pursuant to which violations of the Code can be reported confidentially or anonymously and without risk of recrimination. The Board has also approved a Public Disclosure Policy applicable to all directors and employees and those authorized to speak on our behalf.

Among other things, the Code requires every director, officer and employee of Fairfax to be scrupulous in seeking to avoid any actual, potential or perceived conflict of interest and to constantly consider whether any may exist. If any material transaction or relationship that could give rise to a conflict of interest arises, the individual must immediately advise the Chair of the Audit Committee in writing and not take any action to proceed unless and until the action has been approved by the Audit Committee. The Governance and Nominating Committee also reviews all proposed significant related party transactions involving directors, executive officers or a controlling shareholder.

### **Solicitation of Proxies**

**Our management is soliciting the enclosed proxy for use at the Annual Meeting of Shareholders to be held on April 16, 2008 and at any adjournment thereof.**

We will bear the cost of soliciting proxies. We will reimburse brokers, custodians, nominees and other fiduciaries for their reasonable charges and expenses incurred in forwarding proxy material to beneficial owners of shares. In addition to solicitation by mail, certain of our officers and employees may solicit proxies personally or by a means of telecommunication. These persons will receive no compensation beyond their regular salaries.

The information contained in this management proxy circular is given as at March 7, 2008, except where otherwise noted.

### **Provisions Relating to Proxies**

All properly executed proxies delivered to our transfer agent, CIBC Mellon Trust Company, at Proxy Department, P.O. Box 721, Agincourt, Canada M1S 0A1 (if delivered by mail), at 320 Bay Street, Banking Hall Level, Toronto, Canada M5H 4A6 (if delivered by hand), or at (416) 368-2502 (if delivered by fax), so that it is received before 12:00 noon (Toronto time) on April 15, 2008, or to the chairman or secretary of the meeting for which the proxy is given before the time of voting, will be voted or withheld from voting, as appropriate, at the meeting and, if a choice is specified in respect of any matter to be acted upon, will be voted or withheld from voting in accordance with the direction given. **In the absence of such direction, such proxies will be voted for the election of directors and appointment of auditors as described above.**

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to or variations of matters identified in the notice of meeting and with respect to other matters which may properly come before the meeting. At the date of this circular, our management knows of no such amendments, variations or other matters.

The persons named in the enclosed proxy are two of our officers. **If you wish to appoint some other person to represent you at the meeting, you may do so either by inserting such other person's name in the blank space provided in the enclosed proxy or by completing another form of proxy.** Such other person need not be a shareholder.

Under governing law, only registered holders of our subordinate voting and multiple voting shares, or the persons they appoint as their proxies, are permitted to attend and vote at the meeting. However, in many cases, our subordinate voting shares beneficially owned by a holder (a "Non-Registered Holder") are registered either:

- (a) in the name of an intermediary that the Non-Registered Holder deals with in respect of the shares, such as, among others, banks, trust companies, securities dealers, brokers, or trustees or administrators of self-administered RRSPs, RRIFFs, RESPs and similar plans; or
- (b) in the name of a depository (such as The Canadian Depository for Securities Limited or Depository Trust Company).

In accordance with Canadian securities law, we have distributed copies of the notice of meeting, this management proxy circular, the form of proxy and the 2007 Annual Report (which includes management's discussion and analysis) (collectively, the "meeting materials") to the depositories and intermediaries for onward distribution to Non-Registered Holders.



Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, intermediaries will use service companies to forward the meeting materials to Non-Registered Holders. Non-Registered Holders who have not waived the right to receive meeting materials will:

- A. be given a proxy which has already been signed by the intermediary (typically by a facsimile, stamped signature) which is restricted to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it as described above; or
- B. more typically, receive, as part of the meeting materials, a voting instruction form which must be completed, signed and delivered by the Non-Registered Holder in accordance with the directions on the voting instruction form (which may in some cases permit the completion of the voting instruction form by telephone or through the Internet).

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the shares they beneficially own. Should a Non-Registered Holder who receives either a proxy or a voting instruction form wish to attend and vote at the meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their intermediaries and their service companies.**

If you have given a proxy, you may revoke it by an instrument in writing executed by you or by your attorney authorized in writing or, if you are a corporation, under your corporate seal or by an officer or attorney duly authorized, and deposited either at our head office at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman or secretary of the meeting on the day of the meeting or any adjournment thereof.

A Non-Registered Holder may revoke a voting instruction form or a waiver of the right to receive meeting materials and to vote given to an intermediary at any time by written notice to the intermediary, except that an intermediary is not required to act on a revocation of voting instruction form or of a waiver of the right to receive materials and to vote that is not received by the intermediary at least seven days prior to the meeting.

#### **Approval**

Our Board of Directors has approved the contents of this Management Proxy Circular and the sending thereof to our shareholders.

By Order of the Board,

Dated March 7, 2008

Bradley P. Martin  
Vice President, Chief Operating Officer  
and Corporate Secretary

**Fairfax Financial Holdings Limited**  
95 Wellington Street West, Suite 800, Toronto, Canada M5J 2N7

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