Consolidated Financial Statements

for the fourth quarter and full year

2007 and 2006

(unaudited except as to full year 2006)

Consolidated Balance Sheets
as at December 31, 2007 and 2006
(unaudited — US$ millions)

	2007	2006 *(audited)*
Assets		
Cash, short term investments and marketable securities	**971.8**	767.4
Accounts receivable and other	**1,908.8**	1,892.8
Recoverable from reinsurers (including recoverables on paid losses – $371.8; 2006 – $395.4)	**5,038.5**	5,506.5
	7,919.1	8,166.7
Portfolio investments		
Subsidiary cash and short term investments (fair value $3,218.1; 2006 – $4,620.1)	**3,218.1**	4,602.7
Bonds		
At fair value (cost $9,978.8)	**10,049.9**	—
At amortized cost (fair value $8,547.1)	**—**	8,674.1
Preferred stocks		
At fair value (cost $20.8)	**19.9**	—
At cost (fair value $19.6)	**—**	16.4
Common stocks		
At fair value (cost $2,314.9)	**2,617.5**	—
At cost (fair value $2,119.7)	**—**	1,890.0
Investments, at equity (fair value $485.7; 2006 – $682.9)	**408.0**	474.0
Derivatives and other invested assets (fair value $979.6; 2006 – $156.2)	**979.6**	154.7
Assets pledged for short sale and derivative obligations (fair value $1,798.7; 2006 – $1,018.1)	**1,798.7**	1,023.7
	19,091.7	16,835.6
Deferred premium acquisition costs	**371.1**	369.0
Future income taxes	**344.3**	771.3
Premises and equipment	**81.6**	86.0
Goodwill	**53.8**	239.2
Other assets	**80.2**	108.7
	27,941.8	26,576.5
Liabilities		
Subsidiary indebtedness	**—**	68.2
Accounts payable and accrued liabilities	**1,213.0**	1,091.2
Short sale and derivative obligations – holding company	**8.4**	—
Short sale and derivative obligations – subsidiary companies	**1,054.4**	783.3
Funds withheld payable to reinsurers	**362.6**	370.0
	2,638.4	2,312.7
Provision for claims	**15,048.1**	15,502.3
Unearned premiums	**2,241.5**	2,298.9
Long term debt – holding company borrowings	**1,063.2**	1,202.6
Long term debt – subsidiary company borrowings	**915.0**	913.1
Other long term obligations – holding company	**192.6**	197.1
	19,460.4	20,114.0
Non-controlling interests	**1,585.0**	1,292.9
Contingencies (note 9)		
Shareholders' Equity		
Common stock	**2,067.4**	2,071.9
Other paid in capital	**57.9**	57.9
Treasury stock, at cost	**(22.6)**	(18.3)
Preferred stock	**136.6**	136.6
Retained earnings	**1,658.2**	596.6
Accumulated other comprehensive income	**360.5**	12.2
	4,258.0	2,856.9
	27,941.8	26,576.5

See accompanying notes.

Consolidated Statements of Earnings
for the three and twelve months ended December 31, 2007 and 2006
(unaudited — US$ millions except per share amounts)

	Fourth quarter		Year ended December 31	
	2007	2006	**2007**	2006 *(audited)*
Revenue				
Gross premiums written	**1,251.9**	1,279.4	**5,214.5**	5,486.6
Net premiums written	**1,077.7**	1,144.4	**4,498.4**	4,789.7
Net premiums earned	**1,177.2**	1,233.2	**4,648.8**	4,850.6
Interest and dividends	**157.9**	214.2	**761.0**	746.5
Net gains on investments	**947.0**	20.3	**1,639.4**	765.6
Net gain on secondary offering	—	69.7	—	69.7
Claims fees	**125.3**	101.1	**434.5**	371.3
	2,407.4	1,638.5	**7,483.7**	6,803.7
Expenses				
Losses on claims	**811.2**	822.3	**3,132.0**	3,822.4
Operating expenses	**340.1**	309.1	**1,221.5**	1,111.6
Commissions, net	**176.3**	192.0	**760.3**	780.7
Interest expense	**45.0**	52.2	**209.5**	210.4
	1,372.6	1,375.6	**5,323.3**	5,925.1
Earnings from operations before income taxes	**1,034.8**	262.9	**2,160.4**	878.6
Provision for income taxes	**343.8**	64.0	**711.1**	485.6
Net earnings before non-controlling interests	**691.0**	198.9	**1,449.3**	393.0
Non-controlling interests	**(127.4)**	(39.8)	**(353.5)**	(165.5)
Net earnings	**563.6**	159.1	**1,095.8**	227.5
Net earnings per share	**$ 31.71**	$ 8.81	**$ 61.20**	$ 12.17
Net earnings per diluted share	**$ 30.15**	$ 8.45	**$ 58.38**	$ 11.92
Cash dividends paid per share	**—**	—	**$ 2.75**	$ 1.40
Shares outstanding (000) (weighted average)	**17,667**	17,737	**17,700**	17,763

Consolidated Statements of Comprehensive Income
for the three and twelve months ended December 31, 2007 and 2006
(unaudited – US$ millions)

	Fourth quarter		Year ended December 31	
	2007	2006	**2007**	2006
Net earnings	**563.6**	159.1	**1,095.8**	227.5
Other comprehensive income, net of income taxes				
Change in net unrealized gains on available for sale securities[1]	**147.8**	—	**293.0**	—
Reclassification of net (gains) losses on available for sale securities to earnings[2]	**(21.8)**	—	**(95.4)**	—
Change in unrealized foreign currency translation gains[3]	**(16.1)**	(21.4)	**114.9**	31.9
Reclassification of realized foreign currency translation gains on partial disposition of Cunningham Lindsey operating companies	**(13.7)**	—	**(13.7)**	—
Other comprehensive income	**96.2**	(21.4)	**298.8**	31.9
Comprehensive income	**659.8**	137.7	**1,394.6**	259.4

(1) Net of income tax expense of $72.9 and $142.2 for the fourth quarter and year ended December 31, 2007, respectively.

(2) Net of income tax recovery of $9.2 and $35.3 for the fourth quarter and for year ended December 31, 2007, respectively.

(3) Net of income tax recovery of $2.8 (2006 – $9.4) and $7.6 (2006 – $9.5) for the fourth quarter and year ended December 31, 2007, respectively.

See accompanying notes.

Consolidated Statements of Shareholders' Equity
for the years ended December 31, 2007 and 2006
(unaudited – US$ millions)

	2007	2006 *(audited)*
Common stock –		
Subordinate voting shares – beginning of year	**2,068.1**	2,075.8
Purchases during the year	**(4.5)**	(7.7)
Subordinate voting shares – end of year	**2,063.6**	2,068.1
Multiple voting shares – beginning and end of year	**3.8**	3.8
Common stock	**2,067.4**	2,071.9
Other paid in capital – beginning of year	**57.9**	59.4
Purchases of convertible senior debentures	**—**	(1.5)
Other paid in capital – end of year	**57.9**	57.9
Treasury shares (at cost) – beginning of year	**(18.3)**	(17.3)
Purchases during the year	**(4.4)**	(2.1)
Reissuances during the year	**0.1**	1.1
Treasury shares (at cost) – end of year	**(22.6)**	(18.3)
Preferred stock –		
Series A – beginning and end of year	**51.2**	51.2
Series B – beginning and end of year	**85.4**	85.4
Preferred stock	**136.6**	136.6
Retained earnings – beginning of year	**596.6**	405.6
Transition adjustment – financial instruments	**29.8**	—
Net earnings for the year	**1,095.8**	227.5
Excess over stated value of shares purchased for cancellation	**(2.5)**	—
Common share dividends	**(49.0)**	(25.1)
Preferred share dividends	**(12.5)**	(11.4)
Retained earnings – end of year	**1,658.2**	596.6
Accumulated other comprehensive income – beginning of year	**12.2**	(19.7)
Transition adjustment – financial instruments	**49.5**	—
Other comprehensive income	**298.8**	31.9
Accumulated other comprehensive income – end of year	**360.5**	12.2
Retained earnings and accumulated other comprehensive income	**2,018.7**	608.8
Total shareholders' equity	**4,258.0**	2,856.9

Number of shares outstanding		
Common stock –		
Subordinate voting shares – beginning of year	**16,981,970**	17,056,856
Purchases for cancellation	**(38,600)**	(67,800)
Net treasury shares reissued (acquired)	**(25,350)**	(7,086)
Subordinate voting shares – end of year	**16,918,020**	16,981,970
Multiple voting shares – beginning and end of year	**1,548,000**	1,548,000
Interest in shares held through ownership interest in shareholder	**(799,230)**	(799,230)
Common stock effectively outstanding – end of year	**17,666,790**	17,730,740
Preferred stock –		
Series A – beginning and end of year	**3,000,000**	3,000,000
Series B – beginning and end of year	**5,000,000**	5,000,000

See accompanying notes.

Consolidated Statements of Cash Flows

for the three and twelve months ended December 31, 2007 and 2006
(unaudited — US$ millions)

	Fourth quarter		Year ended December 31	
	2007	2006	**2007**	2006 *(audited)*
Operating activities				
Earnings before non-controlling interests	**691.0**	198.9	**1,449.3**	393.0
Amortization	**5.4**	7.0	**27.0**	24.9
Bond discount amortization	**(0.5)**	(39.6)	**(17.6)**	(67.9)
(Earnings) losses on investments, at equity	**33.8**	(14.3)	**(7.7)**	(78.0)
Future income taxes	**156.7**	(0.4)	**323.5**	375.2
Loss on significant commutations	**—**	—	**—**	412.6
Net gains on investments	**—**	(90.0)	**—**	(835.3)
Net gains on available for sale securities	**(31.0)**	—	**(130.7)**	—
Other net gains on investments	**(916.0)**	—	**(1,508.7)**	—
	(60.6)	61.6	**135.1**	224.5
Changes in:				
Provision for claims	**(316.2)**	(273.6)	**(981.6)**	(741.2)
Unearned premiums	**(135.3)**	(120.0)	**(208.0)**	(150.5)
Accounts receivable and other	**(53.0)**	85.0	**19.9**	555.6
Recoverable from reinsurers	**138.7**	243.3	**665.2**	1,154.2
Funds withheld payable to reinsurers	**(13.5)**	(32.9)	**(28.3)**	(97.5)
Accounts payable and accrued liabilities	**(134.9)**	26.5	**172.7**	(102.0)
Other	**(14.9)**	3.7	**(47.1)**	39.9
Cash provided by (used in) operating activities	**(589.7)**	(6.4)	**(272.1)**	883.0
Investing activities				
Investments – purchases	**—**	(2,502.3)	**—**	(3,971.3)
– sales	**—**	813.9	**—**	4,007.2
Net sales of assets and liabilities classified as held for trading	**239.5**	—	**374.7**	—
Net sales (purchases) of securities designated as held for trading	**(2.2)**	—	**40.9**	—
Available for sale securities – purchases	**(718.3)**	—	**(3,693.5)**	—
– sales	**786.7**	—	**2,273.8**	—
Net (purchases) of short term investments	**(957.0)**	—	**(1,538.4)**	—
Net sales (purchases) of marketable securities	**—**	(67.6)	**—**	51.3
Net (purchases) sales of investments, at equity	**(23.8)**	(9.6)	**381.3**	(2.8)
Net sales of other invested assets	**7.6**	—	**7.6**	—
Sales (purchases) of premises and equipment	**(9.8)**	(4.4)	**(18.0)**	(13.2)
Net proceeds on secondary offerings	**—**	337.6	**—**	337.6
Proceeds on partial disposition of Cunningham Lindsey operating companies	**60.0**	—	**60.0**	—
Sale of subsidiaries, net of cash	**1.8**	—	**1.8**	—
Purchase of subsidiary common stock	**(28.2)**	—	**(121.5)**	—
Cash provided by (used in) investing activities	**(643.7)**	(1,432.4)	**(2,231.3)**	408.8
Financing activities				
Subsidiary indebtedness				
Issuances	**—**	—	**6.9**	4.3
Repayment	**(73.4)**	(8.7)	**(73.4)**	—
Long term debt – holding company				
Repayment	**—**	(16.1)	**(107.8)**	(115.7)
Debt issuance costs	**—**	—	**(15.0)**	—
Long term debt – subsidiary companies				
Issuances	**—**	40.0	**330.0**	140.0
Repayment	**—**	(40.0)	**(295.7)**	(59.3)
Debt issuance costs	**—**	—	**(23.4)**	—
Repayment - other long term obligations – holding company	**(1.1)**	(18.2)	**(4.5)**	(43.7)
Subordinate voting shares repurchased	**—**	—	**(7.0)**	(7.7)
Reissued (purchased) treasury shares	**—**	(3.1)	**(4.4)**	(2.1)
Common share dividends	**—**	—	**(49.0)**	(25.1)
Preferred share dividends	**(3.3)**	(2.9)	**(12.5)**	(11.4)
Cash provided by (used in) financing activities	**(77.8)**	(49.0)	**(255.8)**	(120.7)
Foreign currency translation	**(6.6)**	(26.2)	**107.9**	2.3
Increase (decrease) in cash and cash equivalents	**(1,317.8)**	(1,514.0)	**(2,651.3)**	1,173.4
Cash and cash equivalents – beginning of period	**4,430.3**	7,277.8	**5,763.8**	4,590.4
Cash and cash equivalents – end of period	**3,112.5**	5,763.8	**3,112.5**	5,763.8

See accompanying notes.

Cash and cash equivalents consist of cash and short term investments, including subsidiary cash and short term investments, and exclude subsidiary cash and short term investments that are restricted. Cash equivalents are readily convertible into cash and have maturities of three months or less.

	December 31	
	2007	2006
Cash and short term investments	**31.3**	540.2
Subsidiary cash and short term investments	**2,164.8**	4,602.7
Cash and short term investments pledged for short sale and derivative obligations	**1,244.2**	829.3
	3,440.3	5,972.2
Restricted cash and short term investments	**(327.8)**	(208.4)
	3,112.5	5,763.8

Notes to Consolidated Financial Statements
for the years ended December 31, 2007 and 2006
(unaudited - in US$ millions except per share amounts and as otherwise indicated)

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, 2006. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") using the same accounting policies as were used for the company's consolidated financial statements for the year ended December 31, 2006 except as described in note 2, but they do not include all disclosures required by Canadian GAAP for annual financial statements.

2. Summary of Significant Accounting Policies

Changes in accounting policies

On January 1, 2007, the company adopted five new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. The adoption of these new accounting standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings or opening accumulated other comprehensive income as described below. The company adopted these standards prospectively and, accordingly, prior period balances have not been restated (except for the reclassification of the currency translation account which was adopted retroactively with prior period restatement). The adoption of these new accounting standards, specifically the accounting for bonds designated as held for trading under the fair value option, increased net earnings by $0.9 and reduced net earnings by $31.4 for the fourth quarter and year ended December 31, 2007 respectively. Consequently, basic earnings per share is higher by $0.05 and lower by $1.77 and diluted earnings per share is higher by $0.05 and lower by $1.68 for those periods respectively.

Financial Instruments – Recognition and Measurement. Under the new standards, financial assets are classified as held for trading, available for sale, held to maturity or loans and receivables. Financial liabilities are classified as held for trading or as other financial liabilities. Derivatives are classified as held for trading. The company may also designate certain financial instruments with embedded derivatives, on initial recognition or adoption of the standard, as held for trading under the fair value option. The company's financial assets and liabilities except for provision for claims, including all derivatives, are recorded on the consolidated balance sheet at fair value on initial recognition and subsequently accounted for based on their classification as described below.

Held for trading – Financial assets purchased for short term investment objectives are classified as held for trading or if designated as such by management (fair value option). Financial liabilities classified as held for trading are obligations related to securities sold but not yet purchased. Financial assets and liabilities and derivatives classified or designated as held for trading are carried at fair value on the consolidated balance sheet with realized and unrealized gains and losses recorded in net gains on investments. Dividends and interest earned net of interest incurred are included in interest and dividends in the consolidated statement of earnings.

At January 1, 2007, bonds totaling $1,109.7 (fair value $1,167.5) containing embedded derivatives that otherwise would require bifurcation were designated as held for trading under the fair value option. These financial assets were previously recorded at amortized cost and are now accounted for in the same manner as other financial assets classified as held for trading. Financial assets, primarily derivatives totaling $115.7 and financial liabilities totaling $783.3, previously accounted for at fair value, were classified as held for trading.

Available for sale – Non-derivative financial assets are classified as available for sale when they are intended to be held for long term profitability and are other than those classified as loans and receivables or held for trading. These assets are carried at fair value with changes in unrealized gains and losses recorded in other comprehensive income until realized, at which time the cumulative gain or loss is reclassified to net gains on investments in the consolidated statement of earnings. The fair value changes recorded through other comprehensive income and accumulated other comprehensive income are not allocated to non-controlling interests. When objective evidence indicates that unrealized losses on available for sale securities are other than temporary, the cost of the financial asset is written down to fair value with the change recorded in net gains (losses) on investments in the consolidated statement of earnings. Previously when there was a loss in value on an investment that was other than temporary, such securities were written down to net realizable value and were reflected in net gains (losses) on investments. Securities that are classified as available for sale and that do not have a readily available market value are recorded at cost. Interest and dividend income from available for sale securities, including amortization of premiums and accretion of discounts, are recorded in interest and dividends in the consolidated statement of earnings.

All bonds (other than those designated as held for trading), all common stocks, all preferred stocks and certain short term investments together totaling $10,159.8 (fair value $10,233.3), previously accounted for at cost or amortized cost, were classified as available for sale on January 1, 2007. The company continues to record the amortization of the discount or premium on bonds on a yield to maturity basis in interest and dividends on the consolidated statement of earnings.

Non-derivative financial assets that have a fixed maturity date, other than loans and receivables, for which the company has the intent and ability to hold to maturity or redemption are classified as held to maturity and reported at amortized cost. The company has not designated any financial assets as held to maturity.

Loans and receivables and other financial liabilities continue to be initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method. For financial assets, a provision for impairment is established when there is objective evidence that the company will not collect all amounts due according to their original terms.

Hedges –The company did not have any derivatives designated as accounting hedges upon adoption of the new standards or as at December 31, 2007.

Comprehensive income – Comprehensive income consists of net earnings and other comprehensive income and includes all changes in equity during a period, except for those resulting from investments by owners and distributions to owners. Unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments are recorded in the consolidated statement of comprehensive income and included in accumulated other comprehensive income until recognized in the consolidated statement of earnings. Accumulated other comprehensive income (net of income taxes) is included on the consolidated balance sheet as a separate component of shareholders' equity.

The fair values of financial instruments measured at fair value are based on bid prices for financial assets and offer prices for financial liabilities. The fair values of debt securities, preferred stocks and common stocks that are quoted in active markets are obtained from external pricing services. The fair values of private placements and of infrequently traded securities are based on quotes from brokers which are based on market observable inputs. The fair value of the Standard & Poor's Depository Receipts ("SPDRs") short position is based on quoted market price. The fair values of derivatives such as credit default swaps, total return swaps, equity index total return swaps and S&P index call options and of short positions in equity are based on counterparty broker-dealer quotes which are based on market observable inputs. The fair values of third party investment funds are based on the net asset values as advised by the funds. Short term investments comprise securities due to mature within one year from the date of purchase and are carried at amortized cost which approximates fair value.

Transaction costs related to financial assets and liabilities classified or designated as held for trading are expensed as incurred. Transaction costs related to available for sale financial assets and long term debt are capitalized to the cost of the asset or netted against the liability on initial recognition and, where applicable, are amortized in the consolidated statement of earnings.

The company continues to account for the purchase and sale of securities using trade date accounting for purposes of both the consolidated balance sheet and the consolidated statement of earnings. Transactions pending settlement are reflected in the consolidated balance sheet in accounts receivable and other or in accounts payable and accrued liabilities.

Transitional adjustment – On January 1, 2007, the company recognized all of its financial assets and liabilities in the consolidated balance sheet according to their classification. Any adjustment made to a previous carrying amount was recognized as an adjustment to opening retained earnings or opening accumulated other comprehensive income, net of income taxes. The currency translation account, previously presented as a separate component of shareholders' equity, was reclassified retroactively to accumulated other comprehensive income. Unamortized debt issuance costs of $28.2 were reclassified from other assets to long term debt. The impact on the consolidated balance sheet of adopting the new standards was as follows:

	Previously reported December 31, 2006	Classifications to conform with current year presentation	Reclassified December 31, 2006	Adjustment upon adoption of new standards	January 1, 2007
Assets					
Cash, short term investments and marketable securities	767.4	—	767.4	16.2	783.6
Portfolio investments					
Subsidiary cash and short term investments	5,432.0	(829.3)	4,602.7	—	4,602.7
Bonds	8,944.0	(269.9)	8,674.1	(127.0)	8,547.1
Preferred stocks	16.4	—	16.4	0.4	16.8
Common stocks	2,087.3	(197.3)	1,890.0	229.7	2,119.7
Strategic investments	337.9	(337.9)	—	—	—
Investments, at equity	—	474.0	474.0	—	474.0
Real estate	18.0	(18.0)	—	—	—
Derivatives and other invested assets	—	154.7	154.7	—	154.7
Assets pledged for short sale and derivative obligations	—	1,023.7	1,023.7	(5.6)	1,018.1
	16,835.6	—	16,835.6	97.5	16,933.1
Future income taxes	771.3	—	771.3	(26.7)	744.6
Other assets	108.7	—	108.7	(28.2)	80.5
All other assets	8,093.5	—	8,093.5	—	8,093.5
	26,576.5	—	26,576.5	58.8	26,635.3
Liabilities					
Long term debt – holding company borrowings	1,202.6	—	1,202.6	(21.1)	1,181.5
Long term debt – subsidiary company borrowings	913.1	—	913.1	(7.1)	906.0
All other liabilities	20,311.0	—	20,311.0	—	20,311.0
	22,426.7	—	22,426.7	(28.2)	22,398.5
Non-controlling interests	1,292.9	—	1,292.9	7.7	1,300.6
Shareholders' equity					
Common stock	2,071.9	—	2,071.9	—	2,071.9
Other paid in capital	57.9	—	57.9	—	57.9
Treasury stock, at cost	(18.3)	—	(18.3)	—	(18.3)
Preferred stock	136.6	—	136.6	—	136.6
Retained earnings	596.6	—	596.6	29.8	626.4
Currency translation account	12.2	(12.2)	—	—	—
Accumulated other comprehensive income					
Unrealized gains on available for sale securities	—	—	—	49.5	49.5
Currency translation account	—	12.2	12.2	—	12.2
	2,856.9	—	2,856.9	79.3	2,936.2
	26,576.5	—	26,576.5	58.8	26,635.3

Future accounting changes

The CICA has issued three new accounting standards: CICA Handbook Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation. Section 1535 requires the disclosure of information on the company's capital resources and how they are managed. Sections 3862 and 3863 enhance the disclosure requirements for financial instruments (the presentation requirements remain unchanged) by expanding the disclosure of information on the nature and extent of risks arising from financial instruments and how those risks are managed. The company will adopt these new accounting standards in its audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2007.

All publicly accountable enterprises in Canada will have to apply International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after a date to be determined, currently expected to be January 1, 2011. The then current Canadian GAAP will be eliminated upon the adoption of IFRS. The company is currently evaluating the impact of IFRS on its consolidated financial statements.

3. Cash and Investments

Cash and short term investments, marketable securities, portfolio investments and short sale and derivative contracts by financial instrument classification are shown in the table below:

	December 31, 2007						December 31, 2006	
	Classified as held for trading	**Designated as held for trading**	**Classified as available for sale**	**Other**	**Total carrying value**	**Total fair value**	Total carrying value	Total fair value
Holding company:								
Cash and short term investments	**31.3**	—	**413.0**	—	**444.3**	**444.3**	540.2	540.2
Bonds	—	**17.6**	**12.2**	—	**29.8**	**29.8**	34.2	35.1
Common stocks	—	—	**235.0**	—	**235.0**	**235.0**	173.9	189.2
Derivatives	**262.7**	—	—	—	**262.7**	**262.7**	19.1	19.1
	294.0	**17.6**	**660.2**	—	**971.8**	**971.8**	767.4	783.6
Short sale and derivative obligations	**(8.4)**	—	—	—	**(8.4)**	**(8.4)**	—	—
	285.6	**17.6**	**660.2**	—	**963.4**	**963.4**	767.4	783.6
Portfolio investments:								
Cash and short term investments	**2,164.8**	—	**1,053.3**	—	**3,218.1**	**3,218.1**	4,602.7	4,620.1
Bonds	—	**1,215.9**	**8,834.0**	—	**10,049.9**	**10,049.9**	8,674.1	8,547.1
Preferred stocks	—	—	**19.9**	—	**19.9**	**19.9**	16.4	19.6
Common stocks	—	—	**2,617.5**	—	**2,617.5**	**2,617.5**	1,890.0	2,119.7
Investments, at equity	—	—	—	**408.0**	**408.0**	**485.7**	474.0	682.9
Derivatives	**950.7**	—	—	—	**950.7**	**950.7**	115.8	115.8
Other invested assets	—	—	—	**28.9**	**28.9**	**28.9**	38.9	40.4
	3,115.5	**1,215.9**	**12,524.7**	**436.9**	**17,293.0**	**17,370.7**	15,811.9	16,145.6
Assets pledged for short sale and derivative obligations:								
Cash and short term investments	**1,244.2**	—	**121.9**	—	**1,366.1**	**1,366.1**	829.3	829.3
Bonds	—	—	**432.6**	—	**432.6**	**432.6**	194.4	188.8
	1,244.2	—	**554.5**	—	**1,798.7**	**1,798.7**	1,023.7	1,018.1
Short sale and derivative obligations	**(1,054.4)**	—	—	—	**(1,054.4)**	**(1,054.4)**	(783.3)	(783.3)
	3,305.3	**1,215.9**	**13,079.2**	**436.9**	**18,037.3**	**18,115.0**	16,052.3	16,380.4

Included in subsidiary cash and short term investments at December 31, 2007 is $106.5 of cash which is restricted as to use. This cash primarily consists of cash pledged to the Society and Council of Lloyd's ("Lloyd's") to support the underwriting capacity of subsidiaries' Lloyd's syndicates.

Included in investments, at equity under portfolio investments are investments in certain limited partnerships with a carrying value of $186.0 (2006 - $136.1).

At December 31, 2007, the amortized cost and carrying value of bonds is summarized below:

	Designated as held for trading		**Classified as available for sale**		**Total**	
	Amortized cost	**Carrying value**	**Amortized cost**	**Carrying value**	**Amortized cost**	**Carrying value**
Holding company	15.0	17.6	12.0	12.2	27.0	29.8
Portfolio investments	1,223.0	1,215.9	8,755.8	8,834.0	9,978.8	10,049.9
Assets pledged for short sale and derivative obligations	—	—	434.8	432.6	434.8	432.6
	1,238.0	1,233.5	9,202.6	9,278.8	10,440.6	10,512.3

4. Acquisitions and Divestitures

Year ended December 31, 2007

Cunningham Lindsey

During 2007, the company purchased all of the outstanding shares of Cunningham Lindsey Group Inc. ("Cunningham Lindsey") that it or its affiliates did not already own for cash of Cdn$12.6. On December 31, 2007, Cunningham Lindsey sold to Holdco (defined below) all of its assets and liabilities (the "CL Operations") excluding Cunningham Lindsey's Cdn$125.0 7.0% unsecured Series "B" debentures due June 16, 2008 (the "Public Bonds"), a Cdn$72.8 unsecured term loan facility (the "Term Facility") and two non-operating subsidiaries, which were retained by the company for nominal consideration.

Trident IV, L.P., a private equity fund managed by Stone Point Capital LLC, and certain affiliated entities (collectively the "Trident Investors") formed a new holding company, Cunningham Lindsey Group Limited ("Holdco"), into which they invested Cdn$88.0. Cunningham Lindsey sold the CL Operations to Holdco in exchange for consideration which included shares of Holdco, cash of Cdn$64.8 and two promissory notes in the total principal amount of $142.9. The two promissory notes are included in accounts receivable and other in the consolidated balance sheet of the company. The company also made a net investment in Cunningham Lindsey of approximately Cdn$12.4 (Cdn$23.1 before repayment of intercompany advances of Cdn$10.7).

The net cash received in Cunningham Lindsey was used to repay the Term Facility, which had been included in the consolidated balance sheet as subsidiary indebtedness, and to pay other current working capital obligations. As a result of the transactions described above, Holdco is owned 51.0% by the Trident Investors, 44.6% by the company, through its 100% ownership of Cunningham Lindsey, and 4.4% by senior management of the CL Operations. The shareholders of Holdco have entered into a shareholders' agreement which provides that if other financing is not available, the Trident Investors and the company will be responsible, 51% and 49%, respectively, for the repayment or refinancing of the Public Bonds when they become due.

On December 31, 2007, Cunningham Lindsey commenced equity accounting for its 44.6% interest in the CL Operations and the company's opening carrying value on that date was $58.8 (net of a $10.2 charge to adjust carrying value to fair value). Goodwill of Cdn$199.6 immediately before the transaction was included 55.4% in the $7.6 loss on disposition of the CL Operations with the remaining 44.6% included in the opening carrying value of the equity accounted investment.

Other

On April 3, 2007, the company completed the sale of substantially all of the assets of Guild Underwriters Napa Inc., realizing a net gain on investment before income taxes of $5.0.

On June 13, 2007, the company and its subsidiaries completed the sale of all of their 26.1% interest in Hub International Limited ("Hub") for cash proceeds of $41.50 per share. The sale of 10.3 million Hub shares held by the company and its subsidiaries resulted in cash proceeds of $428.5 and a net gain on investment before income taxes and non-controlling interests of $220.5. A portion of the gain recognized on the sale of Hub by the Canadian subsidiaries is non-taxable, contributing to an effective tax rate in the year which is lower than the statutory tax rate.

On various dates during the year ended December 31, 2007, Northbridge and OdysseyRe repurchased on the open market 841,947 (nil in the fourth quarter of 2007) and 2,636,989 (770,400 shares in the fourth quarter of 2007) respectively of their common shares as part of their previously announced common share repurchase programmes. These transactions increased the company's ownership of Northbridge from 59.2% at December 31, 2006 to 60.2% at December 31, 2007 and of OdysseyRe from 59.6% at December 31, 2006 to 61.0% at December 31, 2007 (including the conversion of the OdysseyRe convertible debenture described in note 6) and resulted in decreases to non-controlling interest, included in the consolidated balance sheet, of $25.7 and $86.4 and increases to goodwill of $3.8 and $8.1 for Northbridge and OdysseyRe, respectively.

On December 31, 2007, TIG Insurance Company ("TIC") sold its wholly-owned subsidiary TIG Specialty Insurance Company ("TSIC") to a third party purchaser, resulting in the recognition of a net gain on investment before income taxes of $8.5. TIC continues to reinsure 100% of the insurance liabilities of TSIC at December 31, 2007 and has entered into an administrative agreement with the purchaser which provides for claims handling services on those liabilities.

Year ended December 31, 2006

On January 5, 2006, Advent Capital (Holdings) PLC ("Advent"), through an underwritten public offering, issued equity for proceeds of $51.5 (£30.0) at $0.34 (20 pence) per share, with the company purchasing its pro rata share at a cost of $24.7 (£14.0). On December 12, 2006, Advent issued equity pursuant to an underwritten public offering for proceeds of $18.7 (£9.6) at $0.51 (26 pence) per share with the company purchasing shares at a cost of $4.0 (£2.0). These transactions reduced the company's ownership of Advent from 46.8% to 44.5% at December 31, 2006.

On February 7, 2006, subsidiaries of the company sold their remaining 3.8 million shares of Zenith National Insurance Corp. at $50.38 per share for net proceeds of $193.8, resulting in a net gain on investment before income taxes and non-controlling interests of $137.3.

On December 14, 2006, the company sold 10,165,000 common shares of its OdysseyRe subsidiary in an underwritten secondary public offering at a price of $34.60 per share, generating net proceeds of $337.6 and a pre-tax gain of $69.7. This transaction reduced the company's ownership of OdysseyRe from 80.1% to 59.6% at December 31, 2006.

5. Securities Sold but not yet Purchased and Derivative Transactions

	December 31, 2007				December 31, 2006			
		Notional	**Fair Value**			Notional	Fair Value	
	Cost	**Value**	**Assets**	**Liabilities**	Cost	Value	Assets	Liabilities
Short positions								
SPDRS	**819.7**	—	—	**975.4**	499.8	—	—	634.6
Common stock	**74.8**	—	—	**72.8**	140.3	—	—	144.5
Equity contracts								
Equity index total return swaps	—	**1,629.8**	**59.5**	**6.8**	—	681.4	—	4.2
S&P index call options	**3.6**	**2,480.0**	**0.3**	—	18.9	1,388.1	40.2	—
Total return swaps	—	**247.0**	**19.2**	**3.8**	—	—	—	—
Credit contracts								
Credit default swaps	**340.0**	**18,539.2**	**1,119.1**	—	275.6	13,175.4	71.2	—
Warrants	**20.5**	**418.2**	**15.3**	—	20.3	418.2	22.5	—
Other	—	—	—	**4.0**	—	—	1.0	—
Total			**1,213.4**	**1,062.8**			134.9	783.3

At December 31, 2007, as protection against a decline in equity markets, the company had short positions in SPDRs, U.S. listed common stocks, equity total return swaps and U.S. equity index total return swaps with total notional amounts or initial liabilities for securities sold but not yet purchased as shown in the table above. The company has purchased short term S&P index call options to limit the potential loss on U.S. equity index total return swaps and the SPDRs short positions and to provide general protection against the short position in common stocks. The fair value of derivatives in a gain position are presented on the balance sheet in derivatives and other invested assets. The fair value of derivatives in a loss position and obligations to purchase securities sold short are presented on the balance sheet in short sale and derivative obligations.

At December 31, 2007, the fair value of assets pledged as collateral for the obligations to purchase securities sold short, total return swaps and equity index total return swaps was $1,798.7 (2006 - $1,018.1), of which $221.3 (2006 - $208.4) was restricted cash; the remainder, although pledged, is able to be substituted with similar assets.

The company has purchased credit default swaps, referenced to various issuers in the banking, mortgage and insurance sectors of the financial services industry, which serve as an economic hedge against declines in the fair value of the company's financial assets. The notional amount and fair value of these credit default swaps are shown in the table above. During 2007, the company sold $965.5 (2006 - nil) notional amount of credit default swaps for proceeds of $199.3 (2006 - nil) and a net gain of $184.7 (2006 – nil) and recorded net mark-to-market gains of $960.3 (2006 – losses of $83.5).

Pursuant to the swap agreements governing the credit default swaps as negotiated by the company with the counterparties, the counterparties to these transactions are required to deposit government securities in collateral accounts for the benefit of the company in amounts related to the then current fair value of the swaps. The fair value of this collateral at December 31, 2007 was $886.0 (2006 - nil). Fairfax does not have the right to sell or repledge this collateral.

6. Capital, Long Term Debt, Trust Preferred Securities and Purchase Consideration Payable

Year ended December 31, 2007

Under the terms of normal course issuer bids approved by the Toronto Stock Exchange, during 2007 the company repurchased for cancellation 38,600 (2006 – 67,800) subordinate voting shares for a net cost of $7.0 (2006 – $7.7) of which $2.5 (2006 – nil) was charged to retained earnings.

During 2007, the company purchased $9.1 of its notes due in 2015 and $40.0 of its notes due in 2018 for cash payments of $9.3 and $38.1 respectively. The company repaid the outstanding $60.4 of its notes which matured on February 27, 2007.

On June 18, 2007, the company closed its note exchange offer (which was accounted for as a modification of debt), under which $282.6 of outstanding notes due in 2012 were exchanged for a cash early participation payment of $11.2 and the issue of $282.6 of new 7¾% senior notes due in 2017, plus accrued interest to the settlement date. Of the $3.8 of additional transaction costs, $2.9 qualified for deferral and amortization pursuant to debt modification accounting treatment and has been classified as a reduction to the carrying value of the debt.

On May 7, 2007, Crum & Forster Holdings Corp. ("Crum & Forster") completed a private placement debt offering of $330.0 principal amount of 7¾% senior notes due May 1, 2017 at an issue price of 100%. Pursuant to Crum & Forster's tender offer to purchase for cash any and all of its outstanding 10⅜% senior notes due 2013, the net proceeds of the above-mentioned offering of $325.2 (after commissions and expenses), together with available cash on hand, were used to purchase $295.7 of the 2013 senior notes for total consideration of $325.7, plus accrued and unpaid interest of $12.1. Interest for 2007 includes $21.2 of one-time debt extinguishment and transaction costs on Crum & Forster's tender offer and debt offering which did not qualify for deferral and amortization pursuant to debt modification accounting treatment.

During the first half of 2007, following OdysseyRe's calling the outstanding $23.5 principal amount of its 4.375% convertible senior debentures due 2022 for redemption, all holders of these debentures converted their debentures into common shares of OdysseyRe, with the result that none of these debentures thereafter remained outstanding. These transactions decreased the company's ownership percentage of OdysseyRe from 59.6% at December 31, 2006 to 58.7% at June 30, 2007, increased the balance sheet non-controlling interest by $29.0 and resulted in a dilution loss of $3.3.

During 2007, Northbridge established a five-year, unsecured, revolving credit facility with a Canadian chartered bank for up to Cdn$50.0, replacing its previous Cdn$40.0 demand facility. Borrowings under the credit facility are available to Northbridge in one or more direct loans bearing interest at the bank's prime rate of interest, in bankers' acceptances issuable at the applicable bankers' acceptance rate plus a specified drawing fee, or on a contingent basis through letters of credit for which an annual fee is paid equal to a specified percentage of the letters' face amount. The credit facility also permits Northbridge subsidiaries to access letters of credit guaranteed by Northbridge. As at December 31, 2007, letters of credit with an aggregate face amount of Cdn$21.3 were outstanding under the credit facility, of which Cdn$20.0 was outstanding in favour of Commonwealth in support of certain reinsurance recoverable balances.

OdysseyRe formerly maintained a three-year revolving credit facility of $150.0 which was available for direct, unsecured borrowings. On July 13, 2007, OdysseyRe entered into a new five-year $200.0 credit facility with a syndicate of lenders. Of this credit facility, $100.0 is available for direct, unsecured borrowings and all of it is available for the issuance of secured letters of credit. OdysseyRe also has the option to increase the aggregate amount of the facility by $100.0, to a maximum facility size of $300.0. As at December 31, 2007, there was $56.5 outstanding, all of which was in support of letters of credit.

Year ended December 31, 2006

During 2006, the company purchased $2.2 of its notes due in 2012 and $5.8 of its notes due in 2026 for a total cash consideration of $7.4 and repaid the outstanding $60.6 of its 7.375% notes which matured on March 15, 2006. The company also purchased for cancellation $5.0 principal amount of its convertible senior debentures due in 2023 for a cash payment of $4.3. This repurchase was recorded as a $3.6 and $1.5 reduction of long term debt and other paid in capital, respectively. In June and August 2006, the company repurchased $32.9 of its exchangeable debentures for cash consideration of $43.4 and in November 2006, the holder of $68.1 principal amount of these debentures exercised its right to receive 2.9 million OdysseyRe common shares in extinguishment of the remaining indebtedness under these debentures.

During 2006, the company purchased $34.5 of TIG's trust preferred securities for cash payments of $29.2. Also, in addition to normal course repayments during the year, the company repaid an additional $9.1 of its purchase consideration payable for cash payments of $10.7.

During 2006, the holders of $39.1 principal amount of OdysseyRe's 4.375% convertible senior debentures due 2022 converted those debentures into common shares of OdysseyRe. OdysseyRe also repurchased $16.9 principal amount of its above-mentioned debentures for cash payments aggregating $19.3, and repaid the outstanding $40.0 of its 7.49% notes which matured on November 30, 2006.

OdysseyRe issued $100.0 of senior unsecured notes on February 22, 2006. The notes were sold in two tranches: $50.0 Series A due in 2021 and $50.0 Series B due in 2016. The Series A and Series B notes are callable by OdysseyRe in 2011 and 2009, respectively, at their par value plus accrued and unpaid interest. OdysseyRe issued an additional $40.0 of senior unsecured notes on November 28, 2006. These Series C notes are due in 2021 and are callable by OdysseyRe in 2011 at their par value plus accrued and unpaid interest.

7. Swiss Re Commutation

On July 27, 2006, Fairfax exercised its right to commute the Swiss Re corporate adverse development cover, as it had determined that based on projected payout patterns and other financial considerations, that cover no longer provided it with a commercial or economic advantage. At the time of the commutation on August 3, 2006, Fairfax also terminated its $450 letter of credit facility effectively secured by the assets held in trust derived from the premiums on the Swiss Re corporate adverse development cover and the accumulated interest thereon. By virtue of the commutation, the $587.4 of funds held in trust under the Swiss Re corporate adverse development cover were paid to nSpire Re. The accounting effect of the commutation was a non-cash pre-tax and after-tax charge of $412.6.

8. Accumulated Other Comprehensive Income

The balances related to each component of accumulated other comprehensive income as at December 31, 2007 are as follows:

	Pre-tax amount	Income tax (expense) recovery	After-tax amount
Net unrealized gains on available for sale securities			
Bonds	74.8	(19.9)	54.9
Common stocks	285.6	(93.4)	192.2
	360.4	(113.3)	247.1
Currency translation account	94.1	19.3	113.4
	454.5	(94.0)	360.5

9. Contingencies

SEC Subpoenas

On September 7, 2005, the company announced that it had received a subpoena from the U.S. Securities and Exchange Commission (the "SEC") requesting documents regarding any nontraditional insurance or reinsurance product transactions entered into by the entities in the consolidated group and any non-traditional insurance or reinsurance products offered by the entities in that group. On September 26, 2005, the company announced that it had received a further subpoena from the SEC as part of its investigation into such loss mitigation products, requesting documents regarding any transactions in the company's securities, the compensation for such transactions and the trading volume or share price of such securities. Previously, on June 24, 2005, the company announced that the company's Fairmont subsidiary had received a subpoena from the SEC requesting documents regarding any nontraditional insurance product transactions entered into by Fairmont with General Re Corporation or affiliates thereof. The U.S. Attorney's office for the Southern District of New York is reviewing documents produced by the company to the SEC and is participating in the investigation of these matters. The company is cooperating fully with these requests. The company has prepared presentations and provided documents to the SEC and the U.S. Attorney's office, and its employees, including senior officers, have attended interviews conducted by the SEC and the U.S. Attorney's office.

The company and Prem Watsa, the company's Chief Executive Officer, received subpoenas from the SEC in connection with the answer to a question on the February 10, 2006 investor conference call concerning the review of the company's finite reinsurance contracts. In the fall of 2005, Fairfax and its subsidiaries prepared and provided to the SEC a list intended to identify certain finite

contracts and contracts with other non-traditional features of all Fairfax group companies. As part of the 2005 year-end reporting and closing process, Fairfax and its subsidiaries internally reviewed all of the contracts on the list provided to the SEC and some additional contracts as deemed appropriate. That review led to a restatement by OdysseyRe. That review also led to some changes in accounting for certain contracts at nSpire Re. Subsequently, during 2006, following an internal review of the company's consolidated financial statements and accounting records that was undertaken in contemplation of the commutation of the Swiss Re corporate adverse development cover, the company also restated various of its previously reported consolidated financial statements and related disclosures. That restatement included a restatement of the accounting for certain reinsurance contracts that were commuted in 2004 and a reinsurance contract that was commuted in 2002 to apply the deposit method of accounting rather than reinsurance accounting. All of the above noted items and related adjustments are reflected in the company's comparative results. The company continues to respond to requests for information from the SEC and there can be no assurance that the SEC's review of documents provided will not give rise to further adjustments.

The company understands that the SEC has issued subpoenas to various third parties involved in the matters which are the subject of the SEC subpoenas issued to the company, including the company's independent auditors (which in Canada received a letter requesting cooperation and in the U.S. received a subpoena) and a shareholder (that has previously disclosed receipt of a subpoena). In addition, it is possible that other governmental and enforcement agencies will seek to review information related to these matters, or that the company, or other parties with whom it interacts, such as customers or shareholders, may become subject to direct requests for information or other inquiries by such agencies.

These inquiries are ongoing and the company continues to comply with requests for information from the SEC and the U.S. Attorney's office. At the present time the company cannot predict the outcome from these continuing inquiries or the ultimate effect on its business, operations or financial condition, which effect could be material and adverse. The financial cost to the company to address these matters has been and may continue to be significant. The company expects that these matters may continue to require significant management attention, which could divert management's attention away from the company's business. In addition, the company could be materially adversely affected by negative publicity related to these inquiries or any similar proceedings. Any of the possible consequences noted above, or the perception that any of them could occur, could have an adverse effect upon the market price for the company's securities.

Lawsuits

(a) During 2006, several lawsuits seeking class action status were filed against Fairfax and certain of its officers and directors in the United States District Court for the Southern District of New York. The Court made an order consolidating the various pending lawsuits and granted the single remaining motion for appointment as lead plaintiffs. The Court also issued orders approving scheduling stipulations filed by the parties to the consolidated lawsuit. On February 8, 2007, the lead plaintiffs filed an amended consolidated complaint (the "Amended Consolidated Complaint"), which states that the lead plaintiffs seek to represent a class of all purchasers and acquirers of securities of Fairfax between May 21, 2003 and March 22, 2006 inclusive. The Amended Consolidated Complaint names as defendants Fairfax, certain of its officers and directors, OdysseyRe and Fairfax's auditors. The Amended Consolidated Complaint alleges that the defendants violated U.S. federal securities laws by making material misstatements or failing to disclose certain material information regarding, among other things, Fairfax's and OdysseyRe's assets, earnings, losses, financial condition, and internal financial controls. The Amended Consolidated Complaint seeks, among other things, certification of the putative class; unspecified compensatory damages (including interest); unspecified monetary restitution; unspecified extraordinary, equitable and/or injunctive relief; and costs (including reasonable attorneys' fees). These claims are at a preliminary stage. Pursuant to the scheduling stipulations, the various defendants filed their respective motions to dismiss the Amended Consolidated Complaint, the lead plaintiffs filed their oppositions thereto, the defendants filed their replies to those oppositions and the motions to dismiss were argued before the Court in December 2007. The Court has not yet issued a ruling on these motions. The ultimate outcome of any litigation is uncertain and should the consolidated lawsuit be successful, the defendants may be subject to an award of significant damages, which could have a material adverse effect on Fairfax's business, results of operations and financial condition. The consolidated lawsuit may require significant management attention, which could divert management's attention away from the company's business. In addition, the company could be materially adversely affected by negative publicity related to this lawsuit. Any of the possible consequences noted above, or the perception that any of them could occur, could have an adverse effect upon the market price for the company's securities. Fairfax, OdysseyRe and the named officers and directors intend to vigorously defend against the consolidated lawsuit and the company's financial statements include no provision for loss.

(b) On July 26, 2006, Fairfax filed a lawsuit seeking $6 billion in damages from a number of defendants who, the complaint (as subsequently amended) alleges, participated in a stock market manipulation scheme involving Fairfax shares. The complaint, filed in Superior Court, Morris County, New Jersey, alleges violations of various state laws, including the New Jersey Racketeer Influenced and Corrupt Organizations Act, pursuant to which treble damages may be available. The defendants

removed this lawsuit to the District Court for the District of New Jersey but pursuant to a motion filed by Fairfax, the lawsuit was remanded to Superior Court, Morris County, New Jersey. Most of the defendants filed motions to dismiss the lawsuit, all of which were denied during a Court hearing in September 2007. In October 2007, defendants filed a motion for leave to appeal to the Appellate Division from the denial of their motions to dismiss. In December 2007, that motion for leave was denied. Subsequently, two of the defendants filed a motion seeking leave to appeal certain limited issues to the New Jersey Supreme Court. That motion for leave was recently denied. In December 2007, two defendants who were added to the action after its initial filing filed motions to dismiss the claims against them. Those motions have been opposed by Fairfax and are pending. In December 2007 and January 2008, three defendants, two of whom are individuals, filed counterclaims against Fairfax. Also named as third party defendants on certain of these counterclaims are several of Fairfax's affiliates, directors and officers, Fairfax's auditors and Fairfax's outside counsel in this action. Fairfax and its named affiliates and officers intend to vigorously defend against these counterclaims, and Fairfax has filed a motion to dismiss them. Discovery in this action is ongoing. The ultimate outcome of any litigation is uncertain and the company's financial statements include no provision for loss on the counterclaims.

10. 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, and runoff operations, and was until December 31, 2007 engaged in insurance claims management.

In Management's Discussion and Analysis of Financial Condition and Results of Operations, the company shows the net premiums earned, combined ratios, and underwriting and operating results for each of its insurance and reinsurance groups and, as applicable, for its runoff operations as well as the earnings contributions from its claims management services. In the table showing the sources of net earnings, interest and dividends on the consolidated statements of earnings are included in the insurance and reinsurance group operating results and in the runoff operations and net gains on investments related to the runoff group are included in the runoff operations. Group Re assets of approximately $822.9 were reclassified effective January 1, 2007 from the Runoff and Other business segment (which then became the Runoff business segment) to the Reinsurance business segment. The identifiable assets associated with the company's claims adjusting, appraisal and loss management services were reclassified to the Corporate and other business segment consistent with equity accounting for 44.6% of Cunningham Lindsey's operating companies, commencing December 31, 2007, pursuant to the transaction described in note 4. There were no other significant changes in the identifiable assets by operating group as at December 31, 2007 compared to December 31, 2006.

11. U.S. GAAP Reconciliation

The consolidated financial statements of the company have been prepared in accordance with Canadian generally accepted accounting principles which are different in some respects from those applicable in the United States, as described in note 20 on pages 52 to 57 of the company's 2006 Annual Report (subject to the changes described below).

On January 1, 2007, the company adopted new Canadian accounting standards for financial instruments, hedges and other comprehensive income (described in note 2). Adoption of the new accounting standards has substantially increased harmonization of Canadian and US GAAP. An amount equal to the Canadian GAAP transition adjustments of $79.3 described in note 2 has been reversed against the opening US GAAP other comprehensive income to effect the harmonization of Canadian and US GAAP accounting standards related to financial instruments.

On January 1, 2007, the company adopted SFAS 155, Accounting for Certain Hybrid Financial Instruments – an amendment of SFAS 133 and 140 which allows companies to elect to measure certain hybrid financial instruments at fair value in their entirety, with any changes in fair value recognized in earnings. The company has elected to adopt fair value measurement for all existing hybrid financial instruments that contain embedded derivatives that are required to be bifurcated under SFAS 133, as amended. The impact of adopting SFAS 155 was a net of tax adjustment to increase opening cumulative reduction in net earnings under US GAAP by $11.3, with an offsetting decrease in accumulated other comprehensive income.

On January 1, 2007, the company adopted the measurement standards of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB No. 109 ("FIN 48") which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The impact was an increase to income taxes payable of $7.4, a decrease to non-controlling interests of $3.0 and a decrease to the opening cumulative reduction in net earnings under US GAAP of $4.4.

The following shows the net earnings in accordance with US GAAP:

	Fourth quarter		Year ended December 31	
	2007	2006	**2007**	2006
Net earnings, Canadian GAAP	**563.6**	159.1	**1,095.8**	227.5
Recoveries on retroactive reinsurance (a)	**5.2**	6.1	**16.0**	465.8
Fair value of derivatives embedded within bond investments	**—**	11.4	**—**	(3.1)
Other than temporary declines	**—**	—	**—**	7.9
Other differences (b)	**0.4**	(5.1)	**(11.1)**	(6.5)
Tax effect	**(2.6)**	(5.7)	**(2.0)**	(37.2)
Net earnings, US GAAP	**566.6**	165.8	**1,098.7**	654.4
Other comprehensive income (loss), Canadian GAAP	**96.2**	(21.4)	**298.8**	31.9
Unrealized net appreciation (depreciation) of investments	**—**	8.3	**—**	(221.9)
Pension liability adjustment pursuant to FAS 158	**22.6**	—	**22.6**	—
Minimum pension liability	**—**	(5.2)	**—**	(5.2)
Other differences	**—**	—	**2.4**	—
Other comprehensive income (loss)	**118.8**	(18.3)	**323.8**	(195.2)
Comprehensive income, US GAAP	**685.4**	147.5	**1,422.5**	459.2
Net earnings per share, US GAAP	**$ 31.88**	$ 9.18	**$ 61.37**	$ 36.20
Net earnings per diluted share, US GAAP	**$ 30.31**	$ 8.81	**$ 58.54**	$ 34.73

(a) *The Swiss Re corporate adverse development cover was commuted as described in note 7 in July 2006. The loss of $412.6 recorded under Canadian GAAP has been reversed and the related deferred gain of $429.9 at that date under US GAAP was eliminated. The pre-tax US GAAP gain related to the commutation of the Swiss Re corporate adverse development cover was $17.3.*

(b) *Included in other differences for the year ended December 31, 2007 are cost base adjustments to Hub related to the valuation of embedded derivatives of $12.7 which reduced the realized gain on the sale in the second quarter from $220.5 under Canadian GAAP to $207.8 under US GAAP. Included in other differences for the year ended December 31, 2006 are cost base adjustments of $10.3 recognized in connection with the OdysseyRe secondary offering which reduced the realized gain on the OdysseyRe secondary offering from $69.7 under Canadian GAAP to $59.4 under US GAAP.*

The following shows the balance sheet amounts in accordance with US GAAP, setting out individual amounts where different from the amounts reported under Canadian GAAP:

	2007	2006
Assets		
Cash, short term investments and marketable securities	**971.8**	783.6
Portfolio investments		
Subsidiary cash and short term investments	**3,218.1**	4,602.7
Bonds	**10,049.9**	8,547.1
Preferred stocks	**19.9**	19.6
Common stocks	**2,617.5**	2,119.7
Investments, at equity	**408.9**	486.7
Derivatives and other invested assets	**979.6**	154.7
Assets pledged for short sale and derivative obligations	**1,798.7**	1,018.1
Total portfolio investments	**19,092.6**	16,948.6
Future income taxes	**416.8**	811.6
Goodwill	**83.4**	268.8
All other assets	**7,480.2**	7,963.4
	28,044.8	26,776.0

	2007	2006
Liabilities		
Accounts payable and accrued liabilities	**1,436.1**	1,349.9
Short sale and derivative obligations – holding company	**8.4**	—
Short sale and derivative obligations – subsidiary companies	**1,054.4**	783.3
Long term debt – holding company borrowings	**1,114.7**	1,255.7
Long term debt – subsidiary company borrowings	**915.0**	913.1
All other liabilities	**17,670.1**	18,257.3
	22,198.7	22,559.3
Mandatorily redeemable shares of TRG	**174.7**	179.2
Non-controlling interests	**1,581.5**	1,292.9
	1,756.2	1,472.1
Shareholders' Equity	**4,089.9**	2,744.6
	28,044.8	26,776.0

The difference in consolidated shareholders' equity is as follows:

	2007	2006
Shareholders' equity based on Canadian GAAP	**4,258.0**	2,856.9
Accumulated other comprehensive income	**(44.7)**	(1.7)
Reduction of other paid in capital	**(57.9)**	(57.9)
Adjustment to initially apply FIN 48	**(4.4)**	—
Cumulative reduction in net earnings under US GAAP	**(61.1)**	(52.7)
Shareholders' equity based on US GAAP	**4,089.9**	2,744.6

The difference in consolidated accumulated other comprehensive income is as follows:

	2007	2006
Net unrealized gains on available for sale securities	**—**	99.1
Pension liability adjustment pursuant to FAS 158	**(61.4)**	(90.4)
Related deferred income taxes	**16.7**	(10.4)
	(44.7)	(1.7)

At December 31, 2007, the cumulative reduction in net earnings under US GAAP relates primarily to the deferred gain on retroactive reinsurance which is amortized into income as the underlying claims are paid.

Recent Accounting Pronouncements

In September 2006, FASB issued SFAS 157 Fair Value Measurements ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. SFAS 157 becomes effective for fiscal years beginning on or after November 15, 2007. The company is currently evaluating the effect of SFAS 157 but does not expect its implementation to have a material impact on its consolidated financial position and results of operations.

In February 2007, FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS 159"), which allows companies to choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. SFAS 159 becomes effective for fiscal years beginning on or after November 15, 2007. The company is currently evaluating the effect of SFAS 159 on its consolidated financial position and results of operations.

In December 2007, FASB issued SFAS 141 (Revised 2007) Business Combination ("SFAS 141(R)"). For a business combination, SFAS 141(R) specifies guidance for the recognition and measurement by the acquirer of the identifiable assets, the liabilities assumed, non-controlling interest in the acquiree if any, goodwill or amounts related to a bargain purchase. It also specifies the disclosure requirements about the nature and financial effect of a business combination. SFAS 141(R) becomes effective for business combinations with an acquisition date on or after December 15, 2008.

In December 2007, FASB issued SFAS 160 Non-Controlling Interests in Consolidated Financial Statements ("SFAS 160"). SFAS 160 requires that non-controlling interests be separately presented within equity of the consolidated balance sheet and that the amount of consolidated net income attributable to the parent and to the non-controlling interests be identified and presented on the consolidated statement of income. It also provides guidance on recognition and measurement for changes in a parent's ownership

interest, including deconsolidation of a subsidiary. SFAS 160 becomes effective for fiscal years and interim periods within those fiscal years beginning on or after December 15, 2008. The company is currently evaluating the effect of SFAS 160 on its consolidated financial position and results of operations.

12. Subsequent Event

On January 9, 2008, the company called for redemption all of its outstanding 5% convertible senior debentures due July 15, 2023. On the redemption date of February 13, 2008, $188.5 principal amount of these debentures had been converted by their holders into 886,888 subordinate voting shares of the company and the company paid a nominal amount of cash to redeem the unconverted debentures and in lieu of fractional shares.

13. Comparative Figures

Certain prior year comparative figures have been reclassified to be consistent with the current year's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(as of February 21, 2007) *(Unaudited - Figures and amounts are in US$ and $ millions except per share amounts and as otherwise indicated. Figures may not add due to rounding.)*

This management's discussion and analysis should be read in conjunction with notes 1 and 2 to the consolidated financial statements included herein and with the notes to the management's discussion and analysis for the year ended December 31, 2006 as set out in the company's Audited Consolidated Financial Statements and Management's Discussion and Analysis for the year ended December 31, 2006.

Sources of Revenue

Revenues reflected in the consolidated financial statements for the three and twelve months ended December 31, 2007 and 2006 are shown in the table that follows (claims fees are earned by Cunningham Lindsey).

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Net premiums earned				
Insurance – Canada (Northbridge)	**274.3**	260.8	**1,017.1**	1,025.8
Insurance – U.S. (Crum & Forster)	**293.5**	322.8	**1,187.4**	1,114.0
Insurance Asia (Fairfax Asia)	**20.2**	24.5	**68.7**	67.3
Reinsurance – OdysseyRe	**518.9**	542.4	**2,120.5**	2,225.8
– Group Re	**71.6**	70.3	**258.4**	332.4
Runoff	**(1.3)**	12.4	**(3.3)**	85.3
	1,177.2	1,233.2	**4,648.8**	4,850.6
Interest and dividends	**157.9**	214.2	**761.0**	746.5
Net gains on investments	**947.0**	90.0	**1,639.4**	835.3
Claims fees	**125.3**	101.1	**434.5**	371.3
	2,407.4	1,638.5	**7,483.7**	6,803.7

Revenue in the 2007 fourth quarter increased to $2,407.4 from $1,638.5 in the fourth quarter of 2006, primarily as a result of increased net gains on investments and claims fees. The increase was partially offset by a decline in net premiums earned resulting from reduced underwriting activity in increasingly competitive markets and by reduced interest and dividend income primarily as a result of losses recorded on equity method investments and the effect of lower interest rates year-over-year.

Revenue in 2007 increased to $7,483.7 from $6,803.7 in 2006, principally as a result of increases in investment income. Total investment income, including interest and dividends and net gains on investments, increased to $2,400.4 in 2007 from $1,581.8 in 2006, an increase of 51.8% (excluding the $69.7 gain on the OdysseyRe secondary offering in 2006, the increase was 58.7%), largely due to significantly increased net investment gains from sales of credit default swaps and net mark-to-market gains on credit default swaps. Softening market conditions during 2007 contributed to a decline in gross premiums written by Northbridge, expressed in local currency, Crum & Forster and OdysseyRe by 9.4%, 7.9% and 3.3% respectively from 2006. The operating companies' disciplined response to softening market conditions during 2007 also contributed to a decline in net premiums written by Northbridge, expressed in local currency, Crum & Forster and OdysseyRe by 6.3%, 8.0% and 4.5% respectively from 2006. Consolidated net premiums written in 2007 decreased by 6.1% to $4,498.4 from $4,789.7 in 2006. Net premiums earned from the insurance and reinsurance operations decreased by 2.4% to $4,652.1 in 2007 from $4,765.3 in 2006.

Claims fees for 2007 increased by 17.0% over 2006, denominated in U.S. dollars. Claims fees denominated in their respective local currencies increased in 2007 compared to 2006 in the U.K., Canada and International Divisions and declined modestly in the U.S. and European divisions.

Fourth Quarter and Twelve Month Results

The company's insurance and reinsurance operations generated underwriting profit of $82.6 in the fourth quarter of 2007 compared to an underwriting profit of $134.7 in the fourth quarter of 2006. The combined ratio of those operations in the fourth quarter of 2007 was 93.0% compared to 89.0% in the fourth quarter of 2006, with Northbridge, Crum & Forster and OdysseyRe producing combined ratios of 99.8%, 88.0% and 93.8% respectively. Fourth quarter 2007 underwriting results included the benefit of 3.3 points ($38.9) of net favourable development of prior years' reserves (related principally to net favourable reserve development at Crum & Forster, Northbridge and Fairfax Asia) compared to 1.3 points ($16.3) of net favourable reserve development included in the results for the fourth quarter of 2006 (related principally to net favourable reserve development at Crum & Forster and Northbridge, partially offset by net adverse development at OdysseyRe). Catastrophe losses negatively impacted fourth quarter underwriting results by 1.1 points ($13.5) compared to 0.7 points ($9.0) in the fourth quarter of 2006.

For 2007, the company's insurance and reinsurance operations generated underwriting profit of $281.3 and a combined ratio of 94.0%, compared to $212.6 and 95.5% respectively in 2006. Improved underwriting results for 2007 included the benefit of 2.3 points ($109.0) of net favourable development of prior years' reserves compared to 4.4 points ($209.3) of net unfavourable development included in 2006 results (related principally to net adverse reserve development at OdysseyRe (2001 and prior year's casualty losses), partially offset by net favourable reserve development at Crum & Forster). Catastrophe losses, principally incurred by OdysseyRe, negatively impacted underwriting results for 2007 by 2.6 points ($120.8) compared to 1.4 points ($66.7) for 2006.

Net earnings were $563.6 ($31.71 per share, $30.15 per diluted share) in the fourth quarter of 2007 compared to net earnings of $159.1 ($8.81 per share, $8.45 per diluted share) in the fourth quarter of 2006. The increase in net earnings reflects a $926.7 increase in net gains on investments in the fourth quarter of 2007 to $947.0, principally arising from gains on sales of credit default swaps and net mark-to-market gains on credit default swaps, from $20.3 in the fourth quarter of 2006. Increased net gains on investments also reflect net mark-to-market gains on short equity and equity index positions, partially offset by impairments recorded for certain common stocks and bonds.

For 2007, net earnings were $1,095.8 ($61.20 per share, $58.38 per diluted share) compared to net earnings of $227.5 ($12.17 per share, $11.92 per diluted share) for 2006. Increased earnings in 2007 reflect improved operating income of the insurance and reinsurance operations (operating income of $885.7 compared to $798.7, reflecting a 32.3% increase in underwriting profit and a 3.1% increase in interest and dividend income) and an improved runoff result (pre-tax income of $187.6 compared to a pre-tax loss of $382.2 in 2006 primarily due to the $412.6 pre-tax loss on the 2006 commutation of the Swiss Re corporate adverse development cover). Net gains on investments in 2007 increased to $1,639.4 (including net gains of $1,145.0 related to credit default swaps and a $220.5 gain on the sale of the company's investment in Hub International Limited) from $765.6 in 2006 (including significant gains derived in large part from the sale of Asian equities and a $137.3 gain on the sale of the company's remaining investment in Zenith National Insurance Corp., partially offset by net losses of $251.0 related to derivative positions including credit default swaps).

During the fourth quarter, Fairfax and subsidiary Cunningham Lindsey Group Inc. entered into an agreement pursuant to which private equity funds managed by Stone Point Capital LLC and senior management of Cunningham Lindsey and its operating companies acquired a 51.0% and 4.4% interest respectively in the Cunningham Lindsey operating companies. In the third quarter of 2007, as a result of the transaction and an assessment of future prospects, Fairfax recorded a $9.0 charge to 2007 earnings to reduce the carrying value of affected future tax assets. For 2007, Fairfax recorded a loss of $7.6 on the disposition of the 55.4% effective interest in the Cunningham Lindsey operating companies and a charge of $10.2 to adjust the carrying value of the 44.6% of Cunningham Lindsey operating companies retained to fair value at the balance sheet date. Following the completion of the transaction on December 31, 2007, Fairfax continues to consolidate the Cunningham Lindsey holding company which will record its effective 44.6% interest in the Cunningham Lindsey operating companies using the equity method of accounting in 2008 and beyond.

Of the $340.1 of consolidated operating expenses in the fourth quarter of 2007 ($309.1 in 2006), $233.1 ($215.8 in 2006) related to insurance, reinsurance and runoff operations and corporate overhead, while the balance of $107.0 ($93.3 in 2006) related to Cunningham Lindsey. For 2007, of the $1,221.5 ($1,111.6 in 2006) of consolidated operating expenses, $820.0 ($757.9 in 2006) related to insurance, reinsurance and corporate runoff operations and corporate overhead, while the balance of $401.5 ($353.7 in 2006) related to Cunningham Lindsey.

Net Earnings

The combined ratios by operating segment and the sources of net earnings (with Cunningham Lindsey equity accounted) were as follows for the three and twelve months ended December 31, 2007 and 2006:

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Combined ratios				
Insurance – Canada (Northbridge)	**99.8%**	94.3%	**92.3%**	98.0%
– U.S. (Crum & Forster)	**88.0%**	75.9%	**93.5%**	92.3%
– Asia (Fairfax Asia)	**41.0%**	45.3%	**70.4%**	78.4%
Reinsurance – OdysseyRe	**93.8%**	94.9%	**95.5%**	96.5%
– Group Re	**96.0%**	98.7%	**95.6%**	95.7%
Consolidated	**93.0%**	89.0%	**94.0%**	95.5%
Sources of net earnings				
Underwriting				
Insurance – Canada (Northbridge)	**0.5**	14.8	**78.0**	20.5
– U.S. (Crum & Forster)	**35.3**	77.8	**77.0**	86.2
– Asia (Fairfax Asia)	**11.9**	13.4	**20.3**	14.5
Reinsurance – OdysseyRe	**32.1**	27.8	**94.7**	77.0
– Group Re	**2.8**	0.9	**11.3**	14.4
Underwriting income	**82.6**	134.7	**281.3**	212.6
Interest and dividends	**128.2**	169.2	**604.4**	586.1
Operating income	**210.8**	303.9	**885.7**	798.7
Net gains (losses) on investments	**555.8**	(27.8)	**984.0**	666.6
Runoff	**131.8**	46.2	**187.6**	(382.2)
Claims adjusting (Fairfax portion)	**2.5**	0.4	**5.1**	—
Interest expense	**(41.1)**	(48.9)	**(193.8)**	(195.7)
Corporate overhead and other	**170.7**	(14.7)	**287.3**	(11.2)
Pre-tax income	**1,030.5**	259.1	**2,155.9**	876.2
Income taxes	**(340.4)**	(60.4)	**(708.1)**	(483.2)
Non-controlling interests	**(126.5)**	(39.6)	**(352.0)**	(165.5)
Net earnings	**563.6**	159.1	**1,095.8**	227.5

The above sources of net earnings (with Cunningham Lindsey equity accounted) shown by business segment were as set out below for the three and twelve months ended December 31, 2007 and 2006. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the group, primarily to OdysseyRe and Group Re. The intercompany adjustment for net gains on investments eliminates gains or losses on purchase and sale transactions within the group.

Quarter ended December 31, 2007

	Northbridge	U.S. Insurance	Fairfax Asia	OdysseyRe	Group Re	Ongoing Operations	Runoff	Intercompany	Corporate & Other	Consolidated
Gross premiums written	407.4	275.6	45.7	525.4	84.9	1,339.0	(17.2)	(69.9)	—	1,251.9
Net premiums written	271.4	240.4	16.7	482.3	85.9	1,096.7	(19.0)	—	—	1,077.7
Net premiums earned	274.3	293.5	20.2	518.9	71.6	1,178.5	(1.3)	—	—	1,177.2
Underwriting profit	0.5	35.3	11.9	32.1	2.8	82.6	—	—	—	82.6
Interest and dividends	33.9	23.0	7.2	63.5	0.6	128.2	—	—	—	128.2
Operating income before:	34.4	58.3	19.1	95.6	3.4	210.8	—	—	—	210.8
Net gains (losses) on investments	94.2	170.4	(0.6)	288.3	16.0	568.3	193.1	(12.5)	—	748.9
Runoff operating income (loss)	—	—	—	—	—	—	(61.3)	—	—	(61.3)
Claims adjusting	—	—	—	—	—	—	—	—	2.5	2.5
Interest expense	—	(7.0)	—	(9.4)	—	(16.4)	—	—	(24.7)	(41.1)
Corporate overhead and other	(3.4)	(8.6)	(0.4)	(2.7)	—	(15.1)	—	—	185.8	170.7
Pre-tax income (loss)	125.2	213.1	18.1	371.8	19.4	747.6	131.8	(12.5)	163.6	1,030.5
Income taxes										(340.4)
Non-controlling interests										(126.5)
Net earnings										563.6

Quarter ended December 31, 2006

	Northbridge	U.S. Insurance	Fairfax Asia	OdysseyRe	Group Re	Ongoing Operations	Runoff	Intercompany	Corporate & Other	Consolidated
Gross premiums written	384.6	326.4	43.7	538.9	51.4	1,345.0	27.3	(92.9)	—	1,279.4
Net premiums written	251.8	309.6	17.4	508.6	51.1	1,138.5	5.9	—	—	1,144.4
Net premiums earned	260.8	322.8	24.5	542.4	70.3	1,220.8	12.4	—	—	1,233.2
Underwriting profit	14.8	77.8	13.4	27.8	0.9	134.7	—	—	—	134.7
Interest and dividends	29.2	51.9	1.1	77.7	9.3	169.2	—	—	—	169.2
Operating income before:	44.0	129.7	14.5	105.5	10.2	303.9	—	—	—	303.9
Net gains (losses) on investments	8.3	2.8	0.9	26.9	0.7	39.6	118.2	(67.4)	—	90.4
Runoff operating loss	—	—	—	—	—	—	(72.0)	—	—	(72.0)
Claims adjusting	—	—	—	—	—	—	—	—	0.4	0.4
Interest expense	—	(8.3)	—	(9.4)	—	(17.7)	—	—	(31.2)	(48.9)
Corporate overhead and other	(2.2)	(2.0)	(1.3)	(5.2)	—	(10.7)	—	—	(4.0)	(14.7)
Pre-tax income (loss)	50.1	122.2	14.1	117.8	10.9	315.1	46.2	(67.4)	(34.8)	259.1
Income taxes										(60.4)
Non-controlling interests										(39.6)
Net earnings										159.1

Year ended December 31, 2007

	Northbridge	**U.S. Insurance**	**Fairfax Asia**	**OdysseyRe**	**Group Re**	**Ongoing Operations**	**Runoff**	**Intercompany**	**Corporate & Other**	**Consolidated**
Gross premiums written	**1,531.3**	**1,245.0**	**171.2**	**2,282.7**	**250.2**	**5,480.4**	**8.0**	**(273.9)**	**—**	**5,214.5**
Net premiums written	**996.8**	**1,100.9**	**70.5**	**2,089.4**	**251.2**	**4,508.8**	**(10.4)**	**—**	**—**	**4,498.4**
Net premiums earned	**1,017.1**	**1,187.4**	**68.7**	**2,120.5**	**258.4**	**4,652.1**	**(3.3)**	**—**	**—**	**4,648.8**
Underwriting profit	**78.0**	**77.0**	**20.3**	**94.7**	**11.3**	**281.3**	**—**	**—**	**—**	**281.3**
Interest and dividends	**119.2**	**133.4**	**17.4**	**309.3**	**25.1**	**604.4**	**—**	**—**	**—**	**604.4**
Operating income before:	**197.2**	**210.4**	**37.7**	**404.0**	**36.4**	**885.7**	**—**	**—**	**—**	**885.7**
Net gains (losses) on investments	**188.2**	**250.3**	**(0.3)**	**554.6**	**8.5**	**1,001.3**	**291.8**	**(17.3)**	**—**	**1,275.8**
Runoff operating (loss)	**—**	**—**	**—**	**—**	**—**	**—**	**(104.2)**	**—**	**—**	**(104.2)**
Claims adjusting	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**5.1**	**5.1**
Interest expense	**—**	**(51.0)**	**—**	**(37.7)**	**—**	**(88.7)**	**—**	**—**	**(105.1)**	**(193.8)**
Corporate overhead and other	**(12.4)**	**(9.6)**	**(3.2)**	**(13.8)**	**—**	**(39.0)**	**—**	**—**	**326.3**	**287.3**
Pre-tax income (loss)	**373.0**	**400.1**	**34.2**	**907.1**	**44.9**	**1,759.3**	**187.6**	**(17.3)**	**226.3**	**2,155.9**
Income taxes										**(708.1)**
Non-controlling interests										**(352.0)**
Net earnings										**1,095.8**

Year ended December 31, 2006

	Northbridge	U.S. Insurance	Fairfax Asia	OdysseyRe	Group Re	Ongoing Operations	Runoff	Intercompany	Corporate & Other	Consolidated
Gross premiums written	1,609.9	1,351.6	134.8	2,361.7	325.9	5,783.9	160.9	(458.2)	—	5,486.6
Net premiums written	1,012.3	1,196.5	60.5	2,186.9	314.5	4,770.7	19.0	—	—	4,789.7
Net premiums earned	1,025.8	1,114.0	67.3	2,225.8	332.4	4,765.3	85.3	—	—	4,850.6
Underwriting profit	20.5	86.2	14.5	77.0	14.4	212.6	—	—	—	212.6
Interest and dividends	100.8	156.5	3.3	298.4	27.1	586.1	—	—	—	586.1
Operating income before:	121.3	242.7	17.8	375.4	41.5	798.7	—	—	—	798.7
Net gains (losses) on investments	115.1	271.4	14.2	358.9	18.9	778.5	132.7	(111.9)	—	799.3
Runoff operating (loss)	—	—	—	—	—	—	(514.9)	—	—	(514.9)
Claims adjusting	—	—	—	—	—	—	—	—	—	—
Interest expense	—	(33.0)	—	(37.5)	—	(70.5)	—	—	(125.2)	(195.7)
Corporate overhead and other	(9.8)	(8.1)	(3.3)	(18.8)	—	(40.0)	—	—	28.8	(11.2)
Pre-tax income (loss)	226.6	473.0	28.7	678.0	60.4	1,466.7	(382.2)	(111.9)	(96.4)	876.2
Income taxes										(483.2)
Non-controlling interests										(165.5)
Net earnings										227.5

Set out and discussed below are the underwriting and operating results of Fairfax's insurance and reinsurance operations on a company-by-company basis for the three and twelve months ended December 31, 2007 and 2006, followed by a discussion of the principal other elements of net earnings.

Canadian Insurance – Northbridge

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Underwriting profit	**0.5**	14.8	**78.0**	20.5
Combined ratio	**99.8**%	94.3%	**92.3**%	98.0%
Gross premiums written	**407.4**	384.6	**1,531.3**	1,609.9
Net premiums written	**271.4**	251.8	**996.8**	1,012.3
Net premiums earned	**274.3**	260.8	**1,017.1**	1,025.8
Underwriting profit	**0.5**	14.8	**78.0**	20.5
Interest and dividends	**33.9**	29.2	**119.2**	100.8
Operating income	**34.4**	44.0	**197.2**	121.3
Net gains on investments	**94.2**	8.3	**188.2**	115.1
Pre-tax income before interest and other	**128.6**	52.3	**385.4**	236.4
Net income after taxes	**79.6**	32.8	**273.3**	147.3

Northbridge's underwriting performance in the fourth quarter of 2007 featured reduced underwriting profit of $0.5 and a combined ratio of 99.8% compared to underwriting profit of $14.8 and a combined ratio of 94.3% in the fourth quarter of 2006. The decline in underwriting results was primarily attributable to unfavourable results in Commonwealth's exited lines of business (including large losses of $3.6), the effects of increased price competition on Commonwealth's core business lines, increased losses from Northbridge's share in the Facility Association (the residual automobile market insurance pools in which Lombard, Markel and Federated are required by statute to participate), and reduced year-over-year benefit from favourable development of prior years' reserves. Included in results for the fourth quarter of 2006 were large losses of $8.3 incurred in Commonwealth's Energy & International business, which has largely been exited. Fourth quarter 2007 underwriting results included the benefit of 4.8 combined ratio points ($13.1) of net favourable development of prior years' reserves, principally related to commercial property and commercial auto lines of business, compared to the positive impact of 10.7 combined ratio points ($27.9) in the fourth quarter of 2006, primarily related to favourable emergence in recent accident years' claims, principally in commercial property lines. Underwriting results for 2007 improved relative to results for 2006, with increased underwriting profit of $78.0 and a combined ratio of 92.3% compared to $20.5 and 98.0% respectively in 2006. Included in 2007 underwriting results was the benefit of 6.9 combined ratio points ($70.3) arising from favourable development of prior years' claims, including 4.0 combined ratio points of benefit attributable to foreign currency movements (the impact of appreciation of the Canadian dollar relative to the U.S. dollar on U.S. dollar-denominated claims liabilities of Commonwealth and Markel). Underwriting results for 2006 included the negative impact of 4.6 combined ratio points ($47.7) of net adverse reserve development primarily related to 2005 hurricane losses. Underwriting results for 2007 reflect the company's disciplined response to the softening underwriting cycle and increasing competition for new business and renewal business, particularly at Markel and Commonwealth, where the year-over-year decline in Commonwealth's premium volume also reflects its withdrawal from certain classes of business formerly written by its Energy and International division. Gross premiums written during the fourth quarter of 2007 declined in Canadian dollar terms compared to 2006 by 7.4%, while net premiums written decreased by 5.6%. For 2007, gross premiums written declined in Canadian dollar terms compared to 2006 by 9.4%, and net premiums written declined by 6.3%. Current period catastrophe losses did not materially impact fourth quarter and full year 2007 underwriting results, and there was similarly no significant impact in the fourth quarter and full year 2006.

Net gains on investments in the fourth quarter of $94.2 primarily comprised net gains related to credit default swaps of $71.3 and net gains on short equity index positions (SPDRs), partially offset by an other than temporary impairment recorded on a common stock position. Net investment gains of $188.2 for 2007 included $27.0 of gains on sales on credit default swaps, $98.5 of net mark-to-market gains on credit default swaps, an $87.7 pre-tax gain on the sale of the company's investment in Hub International Limited, net gains of $30.1 on common stocks (partially offset by provisions for other than temporary impairment of $21.1), and net gains on short equity index positions (SPDRs), which were largely offset by foreign currency translation losses on U.S. dollar cash and short term investment cash equivalents. A year-over-year increase in interest and dividends and increased net investment gains contributed to a $76.3 increase in fourth quarter pre-tax income before interest and other compared to the fourth quarter of 2006. Increased operating income for the year, derived from the $57.5 increase in underwriting profit and the 18.3% increase in interest and dividend income, and increased net investment gains contributed to a $149.0 increase in pre-tax income before interest and other for 2007 compared to 2006.

Cash flow provided by operating activities for the fourth quarter of 2007 declined to $40.5 from $54.3 in the fourth quarter of 2006, primarily due to increased claims payments and reduced premium volumes written, partially offset by the timing of payments of premium deposits to reinsurers. Cash flow provided by operating activities for 2007 was $187.6 compared to $189.4 for 2006, with the decrease primarily attributable to increased claims payments and reduced premium volumes written, partially offset by increased receipts of amounts receivable and recoverable from reinsurers, reduced income tax payments and the timing of proceeds on investment securities sold.

For more information on Northbridge's results, please see its 2007 year-end press release posted on its website at www.norfin.com.

U.S. Insurance – Crum & Forster[(1)]

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Underwriting profit	**35.3**	77.8	**77.0**	86.2
Combined ratio	**88.0%**	75.9%	**93.5%**	92.3%
Gross premiums written	**275.6**	326.4	**1,245.0**	1,351.6
Net premiums written	**240.4**	309.6	**1,100.9**	1,196.5
Net premiums earned	**293.5**	322.8	**1,187.4**	1,114.0
Underwriting profit	**35.3**	77.8	**77.0**	86.2
Interest and dividends	**23.0**	51.9	**133.4**	156.5
Operating income	**58.3**	129.7	**210.4**	242.7
Net gains on investments	**170.4**	2.8	**250.3**	271.4
Pre-tax income before interest and other	**228.7**	132.5	**460.7**	514.1
Net income after taxes	**140.4**	81.5	**267.3**	314.6

(1) These results differ from those published by Crum & Forster Holdings Corp. primarily due to differences between Canadian and US GAAP.

Crum & Forster generated favourable underwriting results in the fourth quarter of 2007, with a combined ratio of 88.0% compared to 75.9% in the fourth quarter of 2006. The fourth quarter 2007 results included the benefit of 7.1 combined ratio points ($20.8) attributable to net favourable development of prior years' reserves (compared to 18.5 combined ratio points comprised of $31.3 of net favourable development of prior years' reserves and $30.0 of return premiums related to reduced cessions to aggregate reinsurance treaties in the fourth quarter of 2006). Current period catastrophe losses did not materially impact fourth quarter 2007 underwriting results (there was no material impact in the fourth quarter of 2006). For 2007, underwriting results featured a combined ratio of 93.5% and underwriting profit of $77.0 compared to 92.3% and $86.2 in 2006. Included in the results for 2007 was the benefit of 3.9 combined ratio points ($46.6) of net favourable development of prior years' reserves (compared to 7.1 combined ratio points comprised of $48.9 of net favourable development of prior years' reserves and $30.0 of return premiums related to reduced cessions to aggregate reinsurance treaties in 2006) principally attributable to favourable emergence in workers' compensation lines, partially offset by adverse development in latent liability reserves. Catastrophe losses added 1.3 combined ratio points and $15.0 to the combined ratio for 2007 (2.2 combined ratio points and $24.4 in 2006).

The company's disciplined response to the softening underwriting cycle, increasing competition for new business and declining renewal pricing contributed to year-over-year declines in gross premiums written and net premiums written in most lines of business, including primary casualty, umbrella and property, partially offset by significant growth in accident and health business written by the Fairmont Specialty division, resulting in overall decreases in gross premiums written and net premiums written of 15.6% and 22.4% respectively for the fourth quarter, and 7.9% and 8.0% respectively for the year. Net premiums earned decreased by 9.1% in the fourth quarter of 2007 and increased by 6.6% in 2007 and included the effect of additional earned premium from the Fairmont Specialty division (on January 1, 2006 the Fairmont entities were placed into runoff, while the ongoing business carried on as the Fairmont Specialty division of Crum & Forster).

A decline in fourth quarter interest and dividend income was more than offset by increased net gains on investments of $170.4 ($144.4 related to net gains on credit default swaps), contributing to a $96.2 increase in pre-tax income before interest and other for the fourth quarter of 2007 compared to the fourth quarter of 2006. For 2007, a $32.3 decrease in operating income and a $21.1 reduction in net investment gains to $250.3 (including $229.7 related to net gains on credit default swaps) from $271.4 in 2006 (which included a $122.2 gain on the sale of the company's remaining investment in Zenith National Insurance Corp.), contributed to decreased pre-tax income before interest and other of $460.7 compared to $514.1 in 2006.

Cash flow used in operating activities for the fourth quarter of 2007 was $55.8 compared to cash flow provided by operating activities of $6.7 for the fourth quarter of 2006, with the reduction primarily attributable to higher paid losses, lower premium collections and lower loss recoveries associated with 2005 hurricanes, which were partially offset by lower income tax payments. Cash flow used in operating activities for 2007 was $5.9 compared to cash flow provided by operating activities of $89.4 for 2006, with the decline primarily attributable to higher net paid losses, lower premium collections and higher underwriting expenses reflecting increased compensation and timing of technology payments, which were partially offset by lower income tax payments. The increase in net paid losses was primarily due to additional losses associated with the Fairmont Specialty business, which was acquired in 2006 and also experienced significant growth in net earned premium in 2007 as well as higher net paid losses in the workers' compensation and commercial automobile lines of business.

For more information on Crum & Forster's results, please see its annual report on Form 10-K which will in the near future be posted on its website at www.cfins.com.

Fairfax Asia

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Underwriting profit	**11.9**	13.4	**20.3**	14.5
Combined ratio	**41.0%**	45.3%	**70.4%**	78.4%
Gross premiums written	**45.7**	43.7	**171.2**	134.8
Net premiums written	**16.7**	17.4	**70.5**	60.5
Net premiums earned	**20.2**	24.5	**68.7**	67.3
Underwriting profit	**11.9**	13.4	**20.3**	14.5
Interest and dividends	**7.2**	1.1	**17.4**	3.3
Operating income	**19.1**	14.5	**37.7**	17.8
Net gains (losses) on investments	**(0.6)**	0.9	**(0.3)**	14.2
Pre-tax income before interest and other	**18.5**	15.4	**37.4**	32.0
Net income after taxes	**15.4**	10.2	**28.7**	23.0

Fairfax Asia's combined ratio was 41.0% in the fourth quarter of 2007 (45.3% in the fourth quarter of 2006), reflecting favourable underwriting results from First Capital, partially offset by weaker results from Falcon. The improved fourth quarter results included the benefit of 26.0 combined ratio points ($5.2) attributable to net favourable development of prior years' reserves (compared to 1.5 combined ratio points ($0.4) of net favourable development in the fourth quarter of 2006), with the majority of the net favourable development related to better than expected development on fire, hull and engineering lines. Underwriting performance for 2007 featured improved underwriting profit of $20.3 ($14.5 in 2006) and a combined ratio of 70.4% (78.4% in 2006). The improved results included 6.4 combined ratio points ($4.4) of net favourable development of prior years' reserves (4.2 combined ratio points ($2.8) of net adverse development in 2006). In 2007, increased marine business written by First Capital, a significant portion of which was ceded to third parties, was partially offset by a decrease in premiums written by Falcon due to intense market competition, resulting in a 27.0% increase in gross premiums written and a 16.5% increase in net premiums written. Increased interest and dividend income, partially offset by decreased underwriting profit and decreased net gains on investments in the fourth quarter of 2007 compared to the fourth quarter of 2006, contributed to an increase in pre-tax income before interest and other to $18.5 from $15.4. Improved operating income for 2007, reflecting improved underwriting profit and increased interest and dividend income, was partially offset by decreased net investment gains and contributed to increased pre-tax income before interest and other of $37.4 compared to $32.0 in 2006. During 2007, Fairfax Asia contributed $15.3 to ICICI Lombard General Insurance Company through participation in a rights offering to maintain Fairfax Asia's 26.0% interest. In total, as at December 31, 2007, the company had invested $57.1 in ICICI Lombard and carried this investment at $62.6 on the equity basis of accounting (and at a fair value of $149.0 for balance sheet disclosure purposes).

Reinsurance – OdysseyRe[1]

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Underwriting profit	**32.1**	27.8	**94.7**	77.0
Combined ratio	**93.8%**	94.9%	**95.5%**	96.5%
Gross premiums written	**525.4**	538.9	**2,282.7**	2,361.7
Net premiums written	**482.3**	508.6	**2,089.4**	2,186.9
Net premiums earned	**518.9**	542.4	**2,120.5**	2,225.8
Underwriting profit	**32.1**	27.8	**94.7**	77.0
Interest and dividends	**63.5**	77.7	**309.3**	298.4
Operating income	**95.6**	105.5	**404.0**	375.4
Net gains on investments	**288.3**	26.9	**554.6**	358.9
Pre-tax income before interest and other	**383.9**	132.4	**958.6**	734.3
Net income after taxes	**240.9**	81.4	**596.0**	470.7

(1) *These results differ from those published by Odyssey Re Holdings Corp. primarily due to differences between Canadian and US GAAP.*

In the fourth quarter of 2007, OdysseyRe generated underwriting profit of $32.1 and a combined ratio of 93.8%, compared to an underwriting profit of $27.8 and a combined ratio of 94.9% in the fourth quarter of 2006. The 2007 fourth quarter combined ratio

included 2.5 combined ratio points ($12.8) related to current period catastrophe losses (net of reinstatement premiums), primarily related to flood losses in southeastern Mexico and California fires. By comparison, the 2006 fourth quarter combined ratio included 1.0 combined ratio point ($5.4) related to current period catastrophe losses (net of reinstatement premiums). Fourth quarter 2007 underwriting results included 0.3 combined ratio points ($1.8) of net adverse development of prior years' reserves, principally comprising 13.9 combined ratio points ($71.9) of net adverse development in the Americas division on latent liability reserves (principally asbestos) and 2001 and prior years' casualty reserves, substantially offset by the benefit of 13.5 combined ratio points ($70.1) related to net favourable reserve development in the London Market and U.S. Insurance and EuroAsia divisions. Fourth quarter 2006 underwriting results included 7.2 combined ratio points ($39.0) of net adverse development of prior years' reserves, principally attributable to the Americas division 2001 and prior years' casualty reserves ($38.9) and strengthening of the Americas division latent (principally asbestos) reserves ($35.6), partially offset by the benefit of $35.8 of net favourable reserve development in the EuroAsia, London Market and U.S. Insurance divisions.

For 2007, OdysseyRe generated improved underwriting profit of $94.7 and a combined ratio of 95.5%, compared to $77.0 and 96.5% respectively in 2006. The 2007 combined ratio included 1.9 combined ratio points ($40.5) of net adverse reserve development (a total of $142.9 in the Americas division, including $63.0 for asbestos reserves strengthening, a $21.2 charge related to a third quarter litigation settlement, and adverse development of 2001 and prior years' casualty losses, partially offset by net favourable emergence in the London Market ($57.0) and U.S. Insurance ($38.7) divisions) and 4.7 combined ratio points ($98.8) for current period catastrophe losses (primarily Storm Kyrill, Cyclone Gonu, Mexico floods, Jakarta floods, Peru earthquake and UK floods). The 2006 underwriting results included 8.3 combined ratio points ($185.4) of net adverse reserve development (primarily the Americas division 2001 and prior years' casualty reserves and 2005 property catastrophe losses) and 1.6 combined ratio points ($34.9) of current period catastrophe losses (primarily U.S. Gulf storms and India floods) in 2006. OdysseyRe's 2006 underwriting results also included a $33.8 loss related to a commutation with affiliate nSpire Re (this was recorded as a loss of $5.5 under US GAAP in the consolidated financial statements of OdysseyRe) which was recorded as adverse reserve development in these OdysseyRe segment results and which was eliminated in the consolidated financial statements of Fairfax.

OdysseyRe continued to experience broad competitive pressures in the global reinsurance and insurance markets in which it competes. Declines in reinsurance premiums reflected increasing client retentions and softening pricing in global reinsurance markets, and planned reductions in the U.S. Insurance division's personal auto business. These decreases were partially offset by increases in premiums of the London Market and EuroAsia divisions, where favourable foreign currency movements also resulted in increased U.S. dollar-denominated premiums. Gross premiums written during the fourth quarter of 2007 declined 2.5% to $525.4 from $538.9 in the fourth quarter of 2006, with decreases in reinsurance premiums led by a 7.5% decline in the Americas and a 15.0% decline in the U.S. Insurance divisions, partially offset by increases of 3.1% in the EuroAsia and 26.2% in the London Market divisions. Gross premiums written during the year declined 3.3%, with a decrease in the Americas division (9.7%), partially offset by increases in the U.S. Insurance (4.5%), London Market (2.7%) and EuroAsia (0.8%) divisions. Net premiums written during the quarter declined 5.2% from $508.6 to $482.3, and net premiums earned decreased 4.3% from $542.4 to $518.9. Net premiums written during the year declined by 4.5%, and net premiums earned decreased by 4.7%.

Increased net gains on investments ($288.3 in the fourth quarter, including net gains of $197.8 on credit default swaps and $13.6 of impairments recorded on common stocks and bonds) contributed to an increase in pre-tax income before interest and other to $383.9 from $132.4 in the fourth quarter of 2006. For 2007, increased operating income, resulting from a 23.0% increase in underwriting profit and a 3.7% increase in interest and dividends, and a 54.5% increase in net investment gains ($554.6 , including $298.3 of net gains related to credit default swaps, a $130.1 gain on the sale of the company's investment in Hub International Limited, $180.7 of net gains on bonds, common stocks and other derivative securities, and $54.5 of impairments recorded on common stock and bond investments) contributed to a $224.3 increase in pre-tax income before interest and other of $958.6 compared to $734.3 for 2006.

Cash flow provided by operating activities for the fourth quarter of 2007 was $5.5 compared to $129.1 for the fourth quarter of 2006, with the reduction primarily attributable to lower underwriting cash flows, combined with higher income tax payments compared to the corresponding period in 2006. Cash flow provided by operating activities for 2007 was $162.8 compared to $745.2 for 2006, with the decline primarily attributable to decreased reinsurance recoveries and increased income taxes paid.

For more information on OdysseyRe's results, please see its year-end press release posted on its website *www.odysseyre.com*.

Reinsurance – Group Re

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Underwriting profit	**2.8**	0.9	**11.3**	14.4
Combined ratio	**96.0**%	98.7%	**95.6**%	95.7%
Gross premiums written	**84.9**	51.4	**250.2**	325.9
Net premiums written	**85.9**	51.1	**251.2**	314.5
Net premiums earned	**71.6**	70.3	**258.4**	332.4
Underwriting profit	**2.8**	0.9	**11.3**	14.4
Interest and dividends	**0.6**	9.3	**25.1**	27.1
Operating income	**3.4**	10.2	**36.4**	41.5
Net gains on investments	**16.0**	0.7	**8.5**	18.9
Pre-tax income before interest and other	**19.4**	10.9	**44.9**	60.4
Net income after taxes	**19.4**	10.9	**44.9**	59.6

Commencing in the first quarter of 2007, Group Re's results are reported separately from the results of the Runoff segment. During the fourth quarter of 2007, Group Re achieved a combined ratio of 96.0% and an underwriting profit of $2.8, compared to a combined ratio of 98.7% and an underwriting profit of $0.9 in the fourth quarter of 2006. Fourth quarter results reflected a benefit of 2.2 combined ratio points ($1.6) of net favourable development of prior years' reserves in the fourth quarter of 2007 compared to 6.0 combined ratio points ($4.2) of net adverse development in the fourth quarter of 2006. Underwriting results for 2007 featured underwriting profit of $11.3 ($14.4 in 2006) and a combined ratio of 95.6% (95.7% in 2006). Underwriting performance for the year included the benefit of 10.9 combined ratio points ($28.3) related to net favourable development of prior years' reserves in 2007, reflecting favourable loss emergence trends in the reserves of Group Re cedants (compared to net adverse development of 6.7 combined ratio points ($22.2) in 2006, principally related to 2005 hurricane losses). Increasingly competitive conditions in reinsurance markets accounted for declines in gross premiums written and net premiums written in 2007 compared to 2006 of 23.2% and 20.1% respectively. Modestly increased fourth quarter underwriting profit and increased net investment gains produced pre-tax income before interest and other of $19.4 compared to $10.9 in the fourth quarter of 2006. For the full year, a modest decrease in operating income and a decline in net investment gains led to a decline in pre-tax income before interest and other to $44.9 in 2007 from $60.4 in 2006.

Interest and Dividends and Net Gains on Investments

Interest and dividend income earned by the company's insurance and reinsurance operations declined by 24.2% to $128.2 for the fourth quarter of 2007 from $169.2 for the fourth quarter of 2006, due primarily to losses recorded on equity method investments and the effect of lower interest rates year-over-year. Interest and dividend income earned at the company's insurance and reinsurance operations in 2007 increased to $604.4 from $586.1 in 2006, as the effect of significantly increased portfolio investments more than offset the reduction due to losses recorded on equity method investments and the effect of lower average short term interest rates prevailing in 2007 compared to 2006.

During the fourth quarter of 2007, the company's insurance and reinsurance operations had net gains on investments of $555.8 compared to net losses on investments of $27.8 in the fourth quarter of 2006. Consolidated net gains on investments increased to $947.0 in the fourth quarter of 2007, including net gains of $193.1 for the runoff companies, $205.7 of net gains for the holding company and net losses of $7.6 for the Cunningham Lindsey operations, in addition to the net investment gains of the insurance and reinsurance operating companies. Fourth quarter 2006 consolidated results included net gains on investments of $20.3 and the $69.7 net gain on the company's secondary offering of OdysseyRe common shares. Total net gains of $90.0 comprised $118.2 of net gains for the Runoff segment (including a $111.6 pre-tax gain on OdysseyRe common shares sold by U.S. runoff companies to facilitate the company's secondary offering in the fourth quarter, a portion of which gain was eliminated on consolidation, resulting in a $69.7 gain on a consolidated basis) and a net loss of $0.4 for the holding company, in addition to the $27.8 of net investment losses for the insurance and reinsurance operating companies.

Net gains on investments earned by the company's insurance and reinsurance operations increased in 2007 to $984.0 from $666.6 in 2006. Consolidated net gains on investments in 2007 of $1,639.4 included net gains of $291.8 for the runoff companies, $371.2 of net gains for the holding company and a net loss of $7.6 for the Cunningham Lindsey operations, in addition to the net investment gains of the insurance and reinsurance operating companies. Consolidated results for 2006 included net gains on investments of $765.6 and the $69.7 net gain on the company's secondary offering of OdysseyRe common shares. Total net gains of $835.3 comprised $132.7 of net gains for the Runoff segment (including a $111.6 pre-tax gain on OdysseyRe common shares sold by U.S. runoff companies to facilitate the company's secondary offering in the fourth quarter, a portion of which gain was eliminated on consolidation, resulting in a $69.7 gain on a consolidated basis) and net investment gains of $36.0 for the holding company, in addition to the net investment gains of $666.6 for the insurance and reinsurance operating companies.

Runoff

	Fourth quarter					
	2007			2006		
	U.S.	**Europe**	**Total**	U.S.	Europe	Total
Gross premiums written	**(17.2)**	**—**	**(17.2)**	27.8	(0.5)	27.3
Net premiums written	**(19.0)**	**—**	**(19.0)**	6.7	(0.8)	5.9
Net premiums earned	**(1.3)**	**—**	**(1.3)**	12.9	(0.5)	12.4
Losses on claims	**(58.7)**	**(0.4)**	**(59.1)**	(35.3)	(35.2)	(70.5)
Operating expenses	**(12.4)**	**(8.2)**	**(20.6)**	(14.6)	(27.3)	(41.9)
Interest and dividends	**14.0**	**5.7**	**19.7**	22.5	5.5	28.0
Operating income (loss)	**(58.4)**	**(2.9)**	**(61.3)**	(14.5)	(57.5)	(72.0)
Net gains (losses) on investments (except as noted below)	**173.4**	**19.7**	**193.1**	8.7	(2.1)	6.6
Pre-tax income (loss) before the undernoted	**115.0**	**16.8**	**131.8**	(5.8)	(59.6)	(65.4)
Net gain on sale of OdysseyRe shares[(1)]	**—**	**—**	**—**	111.6	—	111.6
Pre-tax income (loss) before interest and other	**115.0**	**16.8**	**131.8**	105.8	(59.6)	46.2

	Year ended December 31,					
	2007			2006		
	U.S.	**Europe**	**Total**	U.S.	Europe	Total
Gross premiums written	**8.0**	**—**	**8.0**	163.2	(2.3)	160.9
Net premiums written	**(10.4)**	**—**	**(10.4)**	20.3	(1.3)	19.0
Net premiums earned	**(3.3)**	**—**	**(3.3)**	86.3	(1.0)	85.3
Losses on claims (excluding the reinsurance commutation below)	**(105.7)**	**(16.5)**	**(122.2)**	(129.4)	(39.7)	(169.1)
Operating expenses	**(35.8)**	**(34.5)**	**(70.3)**	(41.2)	(66.6)	(107.8)
Interest and dividends	**68.4**	**23.2**	**91.6**	79.9	9.4	89.3
Operating income (loss)	**(76.4)**	**(27.8)**	**(104.2)**	(4.4)	(97.9)	(102.3)
Net gains on investments (except as noted below)	**264.9**	**26.9**	**291.8**	11.7	9.4	21.1
Pre-tax income (loss) before the undernoted	**188.5**	**(0.9)**	**187.6**	7.3	(88.5)	(81.2)
Loss on reinsurance commutation[(2)]	**—**	**—**	**—**	—	(412.6)	(412.6)
Net gain on sale of OdysseyRe shares[(1)]	**—**	**—**	**—**	111.6	—	111.6
Pre-tax income (loss) before interest and other	**188.5**	**(0.9)**	**187.6**	118.9	(501.1)	(382.2)

(1) *Realized gain on the sale in 2006 of shares by U.S. runoff companies to facilitate the company's OdysseyRe secondary offering (a portion of which gain was eliminated on consolidation, resulting in a $69.7 gain on a consolidated basis).*

(2) *Loss on commutation of the Swiss Re corporate adverse development cover.*

Commencing in the first quarter of 2007, results for Runoff are reported excluding the operating results of Group Re. The Runoff segment generated pre-tax income of $131.8 for the fourth quarter of 2007, reflecting an operating loss of $61.3 and net investment gains of $193.1, principally comprised of gains on sales of credit default swaps of $7.8 and net mark-to-market gains on credit default swaps of $141.4. The reduced operating loss of $61.3 ($72.0 in the fourth quarter of 2006) reflects reduced operating expenses (resulting from cost reduction measures undertaken as part of the restructuring of the runoff organization in 2006 and 2007) and lower losses on claims (reduced losses in European runoff, partially offset by increases in U.S. runoff loss and LAE reserves, principally due to strengthening of TIG reserves for workers' compensation and uncollectible reinsurance). The year-over-year declines in fourth quarter written and earned premiums, as well as a portion of the changes in operating expenses and losses on claims, in U.S. runoff primarily reflect the transitional impact in 2006 of the acquisition of the Fairmont entities (on January 1, 2006 the Fairmont entities were placed into runoff, while the ongoing business carried on as the Fairmont Specialty division of Crum & Forster).

The 2006 fourth quarter pre-tax profit of $46.2 for the Runoff segment included a $111.6 gain related to OdysseyRe common shares sold by U.S. runoff companies to facilitate the company's secondary offering. Excluding this gain, the pre-tax loss was $65.4 for the fourth quarter of 2006. Fourth quarter 2006 results included net adverse development of prior years' reserves of $50.6 and charges related to the restructuring of the worldwide runoff organization of $14.7. The 2006 fourth quarter operating loss of $14.5 for U.S. runoff included net adverse development of $25.1, primarily related to strengthening of workers' compensation and general liability reserves and provision for uncollectible reinsurance. The fourth quarter operating loss for European runoff of $57.5 included net adverse development of prior years' reserves of $25.5, primarily attributable to U.S. construction defect claims reserves. Investment income earned in the fourth quarter of 2006 by the Runoff segment included interest and dividends of $28.0 and net investment gains (excluding the gain on the sale of OdysseyRe secondary offering common shares) of $6.6.

In 2007, the Runoff segment generated pre-tax income of $187.6, inclusive of an operating loss of $104.2 and net investment gains of $291.8, principally comprised of gains on sales of credit default swaps of $21.3 and net mark-to-market gains on credit default swaps of $219.9. The operating loss of $104.2 ($102.3 in 2006) reflects reduced operating expenses ($70.3 in 2007 compared to $107.8 in 2006 as a result of measures undertaken as part of the restructuring of the worldwide runoff organization in 2006 and 2007), lower losses on claims (reduced losses in European runoff, partially offset by increases in U.S. runoff loss and LAE reserves, principally due to strengthening of TIG reserves for workers' compensation and uncollectible reinsurance), as well as an $88.6 decline in net premiums earned. The year-over-year declines in 2007 written and earned premiums, as well as a portion of the declines in operating expenses and losses on claims, in U.S. runoff primarily reflect the transitional impact in 2006 of the acquisition of the Fairmont entities (on January 1, 2006 the Fairmont entities were placed into runoff, while the ongoing business carried on as the Fairmont Specialty division of Crum & Forster).

The Runoff segment's 2006 pre-tax loss of $382.2 included a $412.6 non-cash pre-tax and after-tax loss on the commutation of the Swiss Re corporate adverse development cover in the third quarter and the benefit of a $111.6 pre-tax gain on OdysseyRe common shares sold by U.S. runoff companies to facilitate the company's secondary offering in the fourth quarter (a portion of which gain was eliminated on consolidation, resulting in a $69.7 gain on a consolidated basis). The $81.2 pre-tax loss in 2006 for the Runoff segment remaining after the two transactions noted above included the following: $60.6 of pre-tax charges for net reserve strengthening in U.S. runoff, primarily attributable to strengthening of workers' compensation and general liability reserves as well as ULAE reserves; $15.2 of pre-tax charges for net reserve strengthening in European runoff, primarily arising from U.S. construction defect claims and including a $33.8 pre-tax gain on the commutation of an intercompany reinsurance treaty with OdysseyRe during the third quarter (this gain was eliminated in the consolidation of 2006 Fairfax results); $14.7 of pre-tax charges related to the restructuring and downsizing of the worldwide runoff organization announced during the fourth quarter; and $9.3 of pre-tax income representing the excess of interest and dividend income and net realized gains over runoff operating and other costs incurred during 2006.

Other Elements of Net Earnings

Consolidated interest and dividend income in the fourth quarter of 2007 decreased by 26.3% to $157.9 from $214.2 in the fourth quarter of 2006, primarily due to the impact on portfolio yield of losses of $37.4 recorded on equity method investments and the year-over-year decline in average short term interest rates, despite a $1.92 billion increase in the average investment portfolio for the fourth quarter of 2007 compared to the fourth quarter of 2006. Consolidated interest and dividend income for 2007 increased 1.9% to $761.0 from $746.5, principally as a result of the increase in the average investment portfolio for 2007 compared to 2006, partially offset by the effects of the general year-over-year decline in interest rates and losses recorded on equity method investments.

Consolidated net investment gains in the fourth quarter of 2007 increased to $947.0 from $20.3 in the fourth quarter of 2006. Net investment gains during the fourth quarter of 2007 included $705.2 of net gains related to credit default swaps, $175.3 related to net gains on other derivative positions, $42.5 of other than temporary impairments on common stocks and bonds, and $109.0 related to net gains on common stocks, bonds and other investments. Consolidated net investment gains of $20.3 in the fourth quarter of 2006 included $23.3 of net mark-to-market losses on credit default swaps, $18.4 of net gains related to other derivative positions, $26.6 of other than temporary impairments on common stocks and bonds, and $51.8 of net gains on common stocks, bonds and other investments. Consolidated net investment gains for 2007 of $1,639.4 ($765.6 in 2006) included $1,145.0 of net gains related to credit default swaps, $87.7 of net gains on other derivative positions, $140.5 of net gains on common stocks, $92.7 of net gains on bonds, $112.8 of other than temporary impairments on common stocks and bonds, a $220.5 gain on the sale of the company's investment in Hub International Limited, and $65.8 of net gains on other investments. Consolidated net investment gains of $765.6 in 2006 included $251.0 of net losses related to derivative positions, $795.1 of net gains on common stocks (including significant gains derived in large part from the sale of Asian equities and a $137.3 gain on the sale of the company's remaining investment in Zenith National Insurance Corp.), $209.0 of net gains on bonds, $37.8 of other than temporary impairments on common stocks and bonds, and $50.3 of net gains on other securities.

As of December 31, 2007, Fairfax owned $18.5 billion notional amount of credit default swaps with an average term to maturity of 4.0 years, an original cost of $340.0 and a market value of $1,119.1. As of December 31, 2006, the company held $13.2 billion notional amount of credit default swaps with an original cost of $275.6 and a market value of $71.2. During the fourth quarter of 2007 Fairfax recorded net gains of $73.3 on sales of $735.5 notional amount of credit default swaps and net mark-to-market gains on credit default swaps of $631.9 (net mark-to-market losses on credit default swaps of $23.3 in the fourth quarter of 2006). Net gains on sales in 2007 of credit default swaps with a notional amount of $965.5 were $184.7 (2006 – nil) and net mark-to-market gains were $960.3 (2006 - losses of $83.5).

In the first quarter of 2008, up to February 15, Fairfax sold an additional $2.7 billion notional amount of credit default swaps (including virtually all of its credit default swaps referenced to U.S. monoline bond insurers) for proceeds of $651.1 and gains on sale (being gains in excess of the mark-to-market value as at December 31, 2007) of $150.9. The net mark-to-market gain for the January 1

to February 15, 2008 period on the $18.0 billion notional amount of credit default swaps remaining at February 15, 2008 (including 2008 purchases of $2.2 billion notional amount of credit default swaps for $62.1) was $596.5, bringing total net gains related to credit default swaps for this period to $747.4. The fair value of the $18.0 billion notional amount of credit default swaps remaining at February 15, 2008 was $1,277.6.

The credit default swaps are extremely volatile, with the result that their market value and their liquidity may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known upon their disposition.

Consolidated interest expense decreased to $45.0 in the fourth quarter of 2007 from $52.2 in the fourth quarter of 2006, primarily reflecting reduced interest expense following the retirement of debt in the last quarter of 2006 and during 2007. Consolidated interest expense for 2007 decreased to $209.5 from $210.4 in 2006, with the reduced interest expense following the aforementioned retirement of debt being substantially offset by one-time costs of $21.2 incurred in the Crum & Forster debt offering and tender offer. Excluding these one-time costs, consolidated interest expense in 2007 decreased by $22.1 or 10.5% for the year. Consolidated interest expense is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Fairfax	**24.7**	31.2	**105.1**	125.2
Crum & Forster	**7.0**	8.3	**29.8**	33.0
Crum & Forster debt offering and tender offer costs	—	—	**21.2**	—
OdysseyRe	**9.4**	9.4	**37.7**	37.5
Cunningham Lindsey	**3.9**	3.3	**15.7**	14.7
	45.0	52.2	**209.5**	210.4

Corporate overhead and other consists of the expenses of all of the group holding companies, net of the company's investment management and administration fees and the investment income, including net investment gains, from Fairfax's cash, short term investments and marketable securities, and is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Fairfax corporate overhead	**26.4**	23.4	**109.9**	86.1
Subsidiary holding companies corporate overhead	**15.1**	10.7	**39.0**	40.0
Holding company interest and dividends	**10.2**	(5.6)	**(19.3)**	(23.9)
Holding company net gains on investments	**(205.7)**	0.4	**(371.2)**	(36.0)
Investment management and administration fees	**(16.7)**	(14.2)	**(45.7)**	(55.0)
	(170.7)	14.7	**(287.3)**	11.2

Increased Fairfax corporate overhead expense in the fourth quarter of 2007 resulted primarily from increased professional fees. The increase to $109.9 in 2007 from $86.1 in 2006 related primarily to increased professional fees and capital tax assessments relating to prior years. Increased fourth quarter subsidiary holding companies corporate overhead expense primarily reflects increased compensation expenses, partially offset by reduced legal, audit and consulting fees incurred year-over-year. Subsidiary holding companies corporate overhead expense for 2007 declined to $39.0 from $40.0 in 2006, primarily reflecting reduced professional fees. Corporate overhead expenses for the fourth quarter and the 2007 year were more than offset by investment income earned on holding company cash, short term investments and marketable securities. Net gains on investments at the holding company included $38.2 of net gains on sales of credit default swaps and $102.8 of net mark-to-market gains on credit default swaps in the fourth quarter, and $88.1 of net gains on sales of credit default swaps and $159.3 of net mark-to-market gains on credit default swaps in 2007.

The company recorded an income tax expense of $343.8 on its consolidated statement of earnings in the fourth quarter of 2007 at an effective tax rate of 33.2%, compared to income tax expense of $64.0 and an effective tax rate of 24.3% in the fourth quarter of 2006, principally due to a permanent difference that reduced the tax rate on the gain on the company's secondary offering of OdysseyRe common shares. Consolidated income tax expense was $711.1 for the 2007 year (an effective tax rate of 32.9%) compared to $485.6 and 55.3% in 2006, the 2006 effective tax rate primarily reflecting the fact that no income tax benefit was recognized on recording the loss on the 2006 commutation of the Swiss Re adverse development cover.

The company's non-controlling interests in its consolidated statements of earnings arose from the following subsidiaries:

	Fourth quarter		Year ended December 31,	
	2007	2006	**2007**	2006
Northbridge	**31.7**	12.8	**111.0**	59.5
OdysseyRe	**94.7**	26.8	**241.0**	106.0
Cunningham Lindsey	**1.0**	0.2	**1.5**	—
	127.4	39.8	**353.5**	165.5

Notwithstanding Fairfax's secondary offering of OdysseyRe common shares in December 2006 and the conversion of OdysseyRe's convertible senior debentures in the second quarter of 2007, as a result of OdysseyRe's repurchases of its common shares on the open market, Fairfax's interest in OdysseyRe increased to 61.0% compared to 59.6% in the fourth quarter of 2006. During 2007, Northbridge and OdysseyRe purchased on the open market 841,947 and 2,636,989, respectively, of their common shares pursuant to previously announced common share repurchase programmes, increasing Fairfax's ownership of Northbridge to 60.2% and of OdysseyRe to 61.0% and decreasing the balance sheet non-controlling interest by $25.7 and $86.4 for Northbridge and OdysseyRe respectively.

Financial Condition

Holding company cash, short term investments and marketable securities at December 31, 2007 totaled $971.8 ($963.4 net of holding company short sale and derivative obligations), compared to $767.4 at the end of 2006. Significant cash movements at the Fairfax holding company level during 2007 include payments of $112.3 to retire $114.0 principal amount of debt, interest paid of $105.1, cash early participation payments of $11.2 on the company's note exchange offer, the payment of $61.5 of common and preferred share dividends, the funding of Fairfax Asia's additional investment in ICICI Lombard of $15.3, the receipt of $112.6 in cash dividends from subsidiaries, payments received from subsidiaries pursuant to tax sharing agreements of $143.6, investment management fees of $52.6, and investment income earned on and the appreciation in the fair value of holding company cash, short term investments and marketable securities. The holding company cash, short term investments and marketable securities balance varies with changes in the fair values of the investment securities owned at the holding company.

Subsidiary cash and short term investments decreased by $1,384.6 to $3,218.1 at the end of 2007 from $4,602.7 at the end of 2006, with the cash decrease having been primarily invested in government bonds. Consolidated cash resources declined by $1,317.8 during the fourth quarter of 2007, primarily reflecting $589.7 of cash used in operating activities and $643.7 of cash used in investment activities, principally net purchases of short term investments and other investment securities. This fourth quarter 2007 decrease in consolidated cash resources improved relative to the $1,514.0 decrease in consolidated cash resources in the fourth quarter of 2006, which primarily related to $1,432.4 of cash used in investing activities as a result of greater net purchases of investment securities during the quarter, partially offset by receipt of the proceeds of the company's secondary offering of OdysseyRe common shares.

Consolidated cash resources decreased by $2,651.3 during 2007, primarily as a result of $2,231.3 of cash used in investing activities (net purchases of short term investments and other investment securities, principally government bonds). Consolidated cash resources increased by $1,173.4 during 2006, primarily reflecting $883.0 of cash provided by operating activities (principally collections from reinsurers related to paid losses on 2005 hurricane losses) and $408.8 of cash provided by investing activities (principally the proceeds of the company's secondary offering of OdysseyRe common shares in the fourth quarter of 2006).

The decline in reinsurance recoverable to $5,038.5 at December 31, 2007 from $5,506.5 at December 31, 2006 and the decline in provision for claims to $15,048.1 from $15,502.3 relate primarily to continued progress by the runoff operations and to selectively reduced underwriting activity as a result of the insurance and reinsurance operating companies' disciplined response to the softening underwriting cycle and increasingly competitive market conditions.

Portfolio investments comprise investments carried at fair value (see note 2 to the consolidated financial statements) and investments carried at equity-accounted values (at December 31, 2007, these included primarily the company's investments in Advent Capital (Holdings) PLC, ICICI Lombard General Insurance Company and the operating companies of Cunningham Lindsey), the aggregate carrying value of which was $19,091.7 at the end of 2007 ($18,037.3 net of short sale and derivative obligations). The unrecorded excess of fair value over the carrying value of investments carried at equity was $77.7 at December 31, 2007.

Future income tax assets declined by $427.0 to $344.3 during 2007, the decrease being primarily attributable to the deferred income taxes arising from the change in net unrealized gains on available for sale and held for trading securities, the utilization of losses at the Canadian holding companies, the utilization of U.S. tax losses and the recording of valuation allowances in Europe.

Capital Structure and Liquidity

The company's capital structure and financial ratios were as follows:

	December 31, 2007	Pro forma December 31, 2006[1]	December 31, 2006
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**963.4**	783.6	767.4
Holding company debt	**1,063.2**	1,181.5	1,202.6
Subsidiary debt	**915.0**	974.2	981.3
Other long term obligations – holding company	**192.6**	197.1	197.1
Total debt	**2,170.8**	2,352.8	2,381.0
Net debt	**1,207.4**	1,569.2	1,613.6
Common shareholders' equity	**4,121.4**	2,799.6	2,720.3
Preferred equity	**136.6**	136.6	136.6
Non-controlling interests	**1,585.0**	1,300.6	1,292.9
Total equity and non-controlling interests	**5,843.0**	4,236.8	4,149.8
Net debt/equity and non-controlling interests	**20.7%**	37.0%	38.9%
Net debt/net total capital	**17.1%**	27.0%	28.0%
Total debt/total capital	**27.1%**	35.7%	36.5%
Interest coverage	**11.3x**	5.2x	5.2x

(1) Pro forma December 31, 2006 balances reflect the adjustment upon adoption of the new accounting standards described in note 2 to the consolidated financial statements.

Cash, short term investments and marketable securities held at the holding company at December 31, 2007 of $971.8 net of holding company short sale and derivative obligations of $8.4 resulted in a net balance of cash, short term investments and marketable securities of $963.4 ($767.4 in 2006). At December 31, 2007 the company's consolidated net debt/net total capital ratio improved to 17.1% from 27.0% (pro forma) at December 31, 2006, and the consolidated total debt/total capital ratio improved to 27.1% from 35.7% (pro forma) at December 31, 2006.

Holding company indebtedness declined by $122.8 to $1,255.8 from $1,378.6 (pro forma the adoption of the new accounting standards described in note 2 to the consolidated financial statements) at December 31, 2006, reflecting the repayment of $60.4 of matured senior notes, open market repurchases of bonds for cancellation and other debt retirement totaling $52.0 and a net increase in debt transaction costs of $10.4 recorded as a reduction to the carrying value of debt. During the second quarter, Fairfax completed an exchange offer wherein $282.6 principal amount of 7¾% notes due 2012 were exchanged by noteholders for $282.6 principal amount of 7¾% notes due 2017. Fairfax paid $11.2 in cash early participation payments to tendering noteholders and incurred expenses of $2.9 which were deferred and recorded as a reduction of the balance sheet carrying value of the related debt and is being amortized to earnings over the term of the new notes.

Subsequent to the end of the fiscal year, on January 9, 2008, the company called for redemption all of its outstanding 5% convertible senior debentures due July 15, 2023. On the redemption date of February 13, 2008, $188.5 principal amount of these debentures had been converted by their holders into 886,888 subordinate voting shares of the company and the company paid a nominal amount of cash to redeem the unconverted debentures and in lieu of fractional shares. The pro forma total debt to total capital ratio as at December 31, 2007, after giving effect to the reduction of holding company debt and the increase in shareholders' equity as a result of the conversion, was 25.4%.

Subsidiary indebtedness decreased by $59.2 to $915.0 from $974.2 (pro forma) at December 31, 2006, reflecting the retirement by OdysseyRe of $23.5 principal amount of 4.375% convertible senior debentures due 2022, the completion by Crum & Forster of a tender offer that retired $295.7 principal amount of its 10 3/8% notes due 2013 for consideration of $325.7 and an offering of $330.0 principal amount of 7¾% notes due 2017 at an issue price of 100%, a $68.2 decrease principally attributable to Cunningham Lindsey indebtedness, a $17.8 increase in the carrying value of debt as a result of the impact of movements in the U.S. dollar-Canadian dollar exchange rate on Canadian dollar-denominated debt, and a net increase in debt transaction costs of $19.6 that has been classified as a reduction to the carrying value of debt. Of the $41.3 in costs related to the Crum & Foster tender offer and debt offering (comprised of cash payments to noteholders in connection with the tender offer of $29.9, transaction costs of the tender offer and the debt offering of $6.0, and non-cash costs of the retired debt of $5.4 which were previously deferred), $21.2 was charged to earnings as current period costs of debt extinguishment and $20.1 was deferred and recorded as a reduction of the balance sheet carrying value of the related debt

and is being amortized to earnings over the term of the new notes. The subsidiary indebtedness decrease of $68.2 is comprised of $66.5 in net repayments (inclusive of the full repayment of the Cunningham Lindsey Cdn$72.8 unsecured term loan facility), deconsolidation of the Cunningham Lindsey operations and the effect of movements in foreign exchange.

The company believes that cash, short term investments and marketable securities held at the holding company provide more than adequate liquidity to meet the holding company's obligations in 2008. In addition to these holding company resources, the holding company expects to continue to receive investment management fees, investment income on its holdings of cash, short term investments and marketable securities, and tax sharing payments and dividends from its insurance and reinsurance subsidiaries (although tax sharing payments in 2008 are expected to decline relative to those received in 2007 due to the 2006 deconsolidation of OdysseyRe from the U.S. consolidated tax group). For 2008, the holding company's known obligations, beyond the $88.9 dividend on common shares paid in February 2008, consist of interest and overhead expenses, preferred share dividends, the payment of $62.1 in April on the maturity of outstanding notes, and the payment of approximately $31.5 of purchase consideration payable.

Primarily as a result of 2007 net earnings, shareholders' equity at December 31, 2007 increased by $1,401.1 to $4,258.0 from $2,856.9 at the end of 2006. Common shareholders' equity at December 31, 2007 was $4,063.5 or $230.01 per basic share (excluding the $57.9 of capital attributable to the company's issue of convertible debentures in 2003 and the unrecorded $77.7 excess of fair value over the carrying value of investments carried at equity) compared to $150.16 per basic share ($154.63 per basic share adjusted for the adoption of the new accounting standards described in note 2 to the consolidated financial statements) at the end of 2006, representing an increase in 2007 over the $154.63 per basic share value at the end of 2006 of 48.7% (50.5% adjusted to include the $2.75 per share dividend paid in 2007). At December 31, 2007 there were 17,666,790 shares effectively outstanding.

Pro forma book value per basic share at December 31, 2007, reflecting the conversion in February 2008 of the $188.5 outstanding principal amount of Fairfax's 5% convertible debentures due July 15, 2023 into 886,888 subordinate voting shares, was $229.37.

SEC Subpoenas

There have been no material developments on this matter beyond the disclosure on pages 124 and 125 of the company's 2006 Annual Report. For a full description of this matter, please see "SEC Subpoenas" in note 9 to the consolidated financial statements.

Lawsuits Seeking Class Action Status

There have been no material developments on this matter beyond the disclosure on page 125 of the company's 2006 Annual Report. For a full description of this matter, please see paragraph (a) of "Lawsuits" in note 9 to the consolidated financial statements.

Comparative Quarterly Data *(unaudited)*

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2007					
Revenue	**1,535.0**	**1,670.1**	**1,871.2**	**2,407.4**	**7,483.7**
Net earnings	**110.9**	**168.1**	**253.2**	**563.6**	**1,095.8**
Net earnings per share	**6.10**	**9.32**	**14.12**	**31.71**	**61.20**
Net earnings per diluted share	**5.88**	**8.92**	**13.47**	**30.15**	**58.38**
2006					
Revenue	1,714.5	1,935.6	1,515.1	1,638.5	6,803.7
Net earnings (loss)	198.4	229.2	(359.2)	159.1	227.5
Net earnings (loss) per share	10.99	12.73	(20.41)	8.81	12.17
Net earnings (loss) per diluted share	10.51	12.14	(20.41)	8.45	11.92

Excluding any effect of the 2005 hurricanes, operating results at the company's insurance and reinsurance operations have been improving as a result of company efforts, although they have been affected by an increasingly difficult environment (interrupted temporarily subsequent to the 2005 hurricanes). Apart from reserve strengthenings which have occurred, individual quarterly results have been (and may in the future be) affected by losses from significant natural or other catastrophes and by settlements or commutations by the runoff group, the occurrence of which are not predictable, and have been (and are expected to continue to be) significantly impacted by net gains or losses on investments, the timing of which is not predictable.

Fairfax's 2007 Annual Report is scheduled to be posted on its website *www.fairfax.ca* after the close of markets on Friday, March 7, 2008 and will be mailed shortly thereafter to shareholders.

Certain statements contained herein may constitute forward-looking statements and are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fairfax to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: a reduction in net income if the reserves of our subsidiaries (including reserves for asbestos, environmental and other latent claims) are insufficient; underwriting losses on the risks our subsidiaries insure that are higher or lower than expected; the lowering or loss of one of our subsidiaries' financial or claims paying ability ratings; an inability to realize our investment objectives; exposure to credit risk in the event our subsidiaries' reinsurers or insureds fail to make payments; a decrease in the level of demand for our subsidiaries' products, or increased competition; an inability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect our subsidiaries; an inability to obtain required levels of capital; an inability to access cash of our subsidiaries; risks associated with requests for information from the Securities and Exchange Commission or other regulatory bodies; risks associated with current government investigations of, and class action litigation related to, insurance industry practice or any other conduct; the passage of new legislation; and the failure to realize future income tax assets. Additional risks and uncertainties are described in our Annual Report which is available at www.fairfax.ca and in our Supplemental and Base Shelf Prospectus (under "Risk Factors") filed with the securities regulatory authorities in Canada and the United States, which is available on SEDAR and EDGAR. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements.