Consolidated Financial Statements

for the fourth quarter and full year

2008 and 2007

(unaudited except as to full year 2007)

Consolidated Balance Sheets
as at December 31, 2008 and 2007
(unaudited — US$ millions)

	2008	2007 *(audited)*
Assets		
Holding company cash, short term investments and marketable securities (including assets pledged for short sale and derivative obligations - $19.7; 2007 – nil)	**1,564.2**	971.8
Accounts receivable and other	**1,688.7**	1,906.9
Recoverable from reinsurers (including recoverables on paid losses – $298.9; 2007 – $371.8)	**4,234.2**	5,038.5
	7,487.1	7,917.2
Portfolio investments		
Subsidiary cash and short term investments (cost $5,492.3; 2007 – $3,218.8)	**5,508.5**	3,218.1
Bonds (cost $8,532.6; 2007 - $9,978.8)	**8,425.8**	10,049.9
Preferred stocks (cost $41.2; 2007 - $20.8)	**38.2**	19.9
Common stocks (cost $3,964.1; 2007- $2,314.9)	**3,816.9**	2,617.5
Investments, at equity (fair value $575.3; 2007 – $485.7)	**219.3**	408.0
Derivatives and other invested assets (cost $157.3; 2007 – $339.7)	**398.0**	979.6
Assets pledged for short sale and derivative obligations (cost $8.3; 2007 – $1,800.9)	**8.3**	1,798.7
	18,415.0	19,091.7
Deferred premium acquisition costs	**321.9**	371.1
Future income taxes	**699.4**	344.3
Premises and equipment	**133.1**	53.8
Goodwill and intangible assets	**123.2**	89.4
Other assets	**125.7**	74.3
	27,305.4	27,941.8
Liabilities		
Subsidiary indebtedness	**21.1**	—
Accounts payable and accrued liabilities	**1,326.5**	1,232.6
Income taxes payable	**656.3**	68.9
Short sale and derivative obligations (including at the holding company - $9.2; 2007 - $8.4)	**29.4**	1,062.8
Funds withheld payable to reinsurers	**355.1**	362.6
	2,388.4	2,726.9
Provision for claims	**14,728.4**	15,048.1
Unearned premiums	**1,890.6**	2,153.0
Long term debt – holding company borrowings	**869.6**	1,063.2
Long term debt – subsidiary company borrowings	**889.1**	915.0
Other long term obligations – holding company	**187.7**	192.6
	18,565.4	19,371.9
Non-controlling interests	**1,382.8**	1,585.0
Contingencies (note 10)		
Shareholders' Equity		
Common stock	**2,124.9**	2,067.4
Other paid in capital	—	57.9
Treasury stock, at cost	**(22.7)**	(22.6)
Preferred stock	**102.5**	136.6
Retained earnings	**2,871.9**	1,658.2
Accumulated other comprehensive income (loss)	**(107.8)**	360.5
	4,968.8	4,258.0
	27,305.4	27,941.8

See accompanying notes.

Consolidated Statements of Earnings
for the three and twelve months ended December 31, 2008 and 2007
(unaudited — US$ millions except per share amounts)

	Fourth quarter		Year ended December 31	
	2008	2007	**2008**	2007 *(audited)*
Revenue				
Gross premiums written	**1,149.7**	1,251.9	**5,061.4**	5,214.5
Net premiums written	**964.2**	1,077.7	**4,332.2**	4,498.4
Net premiums earned	**1,122.3**	1,177.2	**4,529.1**	4,648.8
Interest and dividends	**146.0**	157.9	**626.4**	761.0
Net gains on investments	**816.5**	947.0	**2,720.5**	1,639.4
Other	**99.4**	125.3	**99.4**	434.5
	2,184.2	2,407.4	**7,975.4**	7,483.7
Expenses				
Losses on claims	**1,062.2**	811.2	**3,720.9**	3,132.0
Operating expenses	**194.3**	233.1	**823.8**	820.0
Commissions, net	**180.4**	176.3	**729.8**	760.3
Interest expense	**40.3**	45.0	**158.6**	209.5
Other costs and expenses	**98.0**	107.0	**98.0**	401.5
	1,575.2	1,372.6	**5,531.1**	5,323.3
Earnings from operations before income taxes	**609.0**	1,034.8	**2,444.3**	2,160.4
Provision for income taxes	**247.3**	343.8	**755.6**	711.1
Net earnings before non-controlling interests	**361.7**	691.0	**1,688.7**	1,449.3
Non-controlling interests	**(14.9)**	(127.4)	**(214.9)**	(353.5)
Net earnings	**346.8**	563.6	**1,473.8**	1,095.8
Net earnings per share	**$ 19.73**	$ 31.71	**$ 80.38**	$ 61.20
Net earnings per diluted share	**$ 19.62**	$ 30.15	**$ 79.53**	$ 58.38
Cash dividends paid per share	**—**	—	**$ 5.00**	$ 2.75
Shares outstanding (000) (weighted average)	**17,498**	17,667	**18,037**	17,700

Consolidated Statements of Comprehensive Income
for the three and twelve months ended December 31, 2008 and 2007
(unaudited – US$ millions)

	Fourth quarter		Year ended December 31	
	2008	2007	**2008**	2007 *(audited)*
Net earnings	**346.8**	563.6	**1,473.8**	1,095.8
Other comprehensive income (loss), net of income taxes				
Change in net unrealized gains and losses on available for sale securities[(1)]	**(92.8)**	147.8	**(548.0)**	293.0
Reclassification of net realized (gains) losses to earnings[(2)]	**100.9**	(21.8)	**248.6**	(95.4)
Change in unrealized foreign currency translation gains and losses[(3)]	**(116.2)**	(16.1)	**(186.6)**	114.9
Reclassification of foreign currency translation (gains) losses on disposition of investee company	**24.9**	(13.7)	**24.9**	(13.7)
Changes in gains and losses on hedges of net investment in foreign subsidiary[(4)]	**(7.2)**	—	**(7.2)**	—
Other comprehensive income (loss)	**(90.4)**	96.2	**(468.3)**	298.8
Comprehensive income	**256.4**	659.8	**1,005.5**	1,394.6

(1) *Net of income tax recovery of $25.9 (2007 – income tax expense of $72.9) and $213.4 (2007 – income tax expense of $142.2) for the fourth quarter and year ended December 31, 2008, respectively.*

(2) *Net of income tax expense of $36.7 (2007 – income tax recovery of $9.2) and $86.1 (2007 – income tax recovery of $35.3) for the fourth quarter and year ended December 31, 2008, respectively.*

(3) *Net of income tax expense of $24.5 (2007 – income tax recovery of $2.8) and $45.3 (2007 – income tax recovery of $7.6) for the fourth quarter and year ended December 31, 2008, respectively.*

(4) *Net of income tax recovery of $2.8 (2007 – nil) for the fourth quarter and year ended December 31, 2008.*

See accompanying notes.

Consolidated Statements of Shareholders' Equity

for the years ended December 31, 2008 and 2007
(unaudited – US$ millions)

	2008	2007 *(audited)*
Common stock -		
Subordinate voting shares – beginning of year	**2,063.6**	2,068.1
Issuances on conversion of convertible senior debentures	**192.3**	—
Purchases for cancellation	**(134.8)**	(4.5)
Subordinate voting shares – end of year	**2,121.1**	2,063.6
Multiple voting shares – beginning and end of year	**3.8**	3.8
Common stock	**2,124.9**	2,067.4
Other paid in capital – beginning of year	**57.9**	57.9
Conversion of convertible senior debentures	**(57.9)**	—
Other paid in capital – end of year	**—**	57.9
Treasury shares (at cost) – beginning of year	**(22.6)**	(18.3)
Net acquisitions	**(0.1)**	(4.3)
Treasury shares (at cost) – end of year	**(22.7)**	(22.6)
Preferred stock -		
Series A – beginning of year	**51.2**	51.2
Purchases for cancellation	**(12.8)**	—
Series A – end of year	**38.4**	51.2
Series B – beginning of year	**85.4**	85.4
Purchases for cancellation	**(21.3)**	—
Series B – end of year	**64.1**	85.4
Preferred stock	**102.5**	136.6
Retained earnings – beginning of year	**1,658.2**	596.6
Transition adjustment – financial instruments	**—**	29.8
Net earnings for the year	**1,473.8**	1,095.8
Excess over stated value of common shares purchased for cancellation	**(147.2)**	(2.5)
Excess over stated value of preferred shares purchased for cancellation	**(13.9)**	—
Common share dividends	**(88.9)**	(49.0)
Preferred share dividends	**(10.1)**	(12.5)
Retained earnings – end of year	**2,871.9**	1,658.2
Accumulated other comprehensive income – beginning of year	**360.5**	12.2
Transition adjustment – financial instruments	**—**	49.5
Other comprehensive income (loss)	**(468.3)**	298.8
Accumulated other comprehensive income (loss) – end of year	**(107.8)**	360.5
Retained earnings and accumulated other comprehensive income	**2,764.1**	2,018.7
Total shareholders' equity	**4,968.8**	4,258.0

Number of shares outstanding		
Common stock -		
Subordinate voting shares – beginning of year	**16,918,020**	16,981,970
Issuances on conversion of convertible senior debentures	**886,888**	—
Purchases for cancellation	**(1,066,601)**	(38,600)
Net treasury shares acquired	**(252)**	(25,350)
Subordinate voting shares – end of year	**16,738,055**	16,918,020
Multiple voting shares – beginning and end of year	**1,548,000**	1,548,000
Interest in shares held through ownership interest in shareholder – beginning and end of year	**(799,230)**	(799,230)
Common stock effectively outstanding – end of year	**17,486,825**	17,666,790
Preferred stock -		
Series A – beginning of year	**3,000,000**	3,000,000
Purchases for cancellation	**(750,000)**	—
Series A – end of year	**2,250,000**	3,000,000
Series B – beginning of year	**5,000,000**	5,000,000
Purchases for cancellation	**(1,250,000)**	—
Series B – end of year	**3,750,000**	5,000,000

See accompanying notes.

Consolidated Statements of Cash Flows

for the three and twelve months ended December 31, 2008 and 2007
(unaudited — US$ millions)

	Fourth quarter		Year ended December 31	
	2008	2007	**2008**	2007 *(audited)*
Operating activities				
Earnings before non-controlling interests	**361.7**	691.0	**1,688.7**	1,449.3
Amortization	**4.2**	5.4	**22.4**	27.0
Bond discount amortization	**(8.4)**	(0.5)	**(3.9)**	(17.6)
(Earnings) losses on investments, at equity	**24.3**	33.8	**49.4**	(7.7)
Future income taxes	**(329.7)**	156.7	**(342.9)**	323.5
Loss on significant commutations	—	—	**84.2**	—
Net (gains) losses on available for sale securities	**137.6**	(31.0)	**334.7**	(130.7)
Other net gains on investments	**(954.1)**	(916.0)	**(3,055.2)**	(1,508.7)
	(764.4)	(60.6)	**(1,222.6)**	135.1
Changes in:				
Provision for claims	**79.1**	(316.2)	**186.6**	(981.6)
Unearned premiums	**(177.2)**	(131.7)	**(200.0)**	(172.4)
Accounts receivable and other	**100.8**	(53.0)	**292.1**	19.9
Recoverable from reinsurers	**20.6**	138.7	**582.5**	665.2
Funds withheld payable to reinsurers	**4.1**	(13.5)	**(25.6)**	(28.3)
Accounts payable and accrued liabilities	**(87.9)**	(207.4)	**(158.0)**	69.3
Income taxes payable	**334.0**	68.9	**614.0**	67.8
Other	**21.0**	(7.9)	**50.9**	(19.8)
Cash provided by (used in) operating activities	**(469.9)**	(582.7)	**119.9**	(244.8)
Investing activities				
Net sales of assets and liabilities classified as held for trading	**1,790.2**	241.1	**3,157.3**	482.6
Net sales (purchases) of securities designated as held for trading	**(3,376.3)**	(2.2)	**(3,814.6)**	40.9
Available for sale securities – purchases	**(2,528.1)**	(718.3)	**(6,333.0)**	(3,693.5)
– sales	**5,716.7**	786.7	**9,233.7**	2,273.8
Net purchases of available for sale short term investments	**(2,614.1)**	(957.0)	**(1,762.9)**	(1,538.4)
Net decrease (increase) in restricted cash and cash equivalents	**(21.1)**	(1.6)	**196.3**	(107.9)
Net sales (purchases) of investments, at equity	**11.7**	(23.8)	**(54.2)**	381.3
Net sales of other invested assets	**—**	7.6	**—**	7.6
Net purchases of premises and equipment and intangible assets	**(10.6)**	(9.8)	**(23.7)**	(18.0)
Proceeds on partial disposition of investee company	**—**	60.0	**—**	60.0
Sale (purchase) of subsidiaries, net of cash acquired	**(74.8)**	1.8	**(11.0)**	1.8
Cash provided by (used in) investing activities	**(1,106.4)**	(615.5)	**587.9**	(2,109.8)
Financing activities				
Subsidiary indebtedness				
Issuances	—	—	—	6.9
Repayment	(13.2)	(73.4)	(13.2)	(73.4)
Long term debt – holding company				
Repayment	—	—	(62.1)	(107.8)
Debt issuance costs	—	—	—	(15.0)
Long term debt – subsidiary companies				
Issuances	3.3	—	3.3	330.0
Repayment	—	—	**(118.6)**	(295.7)
Debt issuance costs	—	—	—	(23.4)
Other long term obligations – holding company - repayment	**(1.2)**	(1.1)	**(4.9)**	(4.5)
Repurchase of subsidiary securities	**(25.7)**	(28.2)	**(419.5)**	(121.5)
Repurchase of subordinate voting shares	**(8.6)**	—	**(282.0)**	(7.0)
Repurchase of preferred shares	**—**	—	**(48.0)**	—
Purchase of shares for treasury	—	(0.1)	**(0.2)**	(4.4)
Common share dividends	—	—	**(88.9)**	(49.0)
Preferred share dividends	**(1.6)**	(3.3)	**(10.1)**	(12.5)
Dividends paid to non-controlling interests	**(6.9)**	(6.9)	**(25.6)**	(27.3)
Cash provided by (used in) financing activities	**(53.9)**	(113.0)	**(1,069.8)**	(404.6)
Foreign currency translation	**(183.6)**	(6.6)	**(224.8)**	107.9
Increase (decrease) in cash and cash equivalents	**(1,813.8)**	(1,317.8)	**(586.8)**	(2,651.3)
Cash and cash equivalents – beginning of period	**4,339.5**	4,430.3	**3,112.5**	5,763.8
Cash and cash equivalents – end of period	**2,525.7**	3,112.5	**2,525.7**	3,112.5

See accompanying notes.

Cash and cash equivalents consist of holding company and subsidiary cash and short term investments that are readily convertible into cash and have maturities of three months or less when purchased and exclude cash and short term investments that are restricted. Cash and cash equivalents are included in the consolidated balance sheet as follows:

	December 31,	
	2008	2007
Holding company cash and short term investments	**293.8**	31.3
Subsidiary cash and short term investments	**2,338.8**	2,164.8
Subsidiary cash and short term investments pledged for short sale and derivative obligations	**8.3**	1,244.2
	2,640.9	3,440.3
Subsidiary restricted cash and short term investments	**(115.2)**	(327.8)
	2,525.7	3,112.5

Notes to Consolidated Financial Statements
for the years ended December 31, 2008 and 2007
(unaudited - in US$ and $ 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, 2007. 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, 2007 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

In October 2008, amendments were made to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments – Recognition and Measurement and Section 3862, Financial Instruments – Disclosure. These amendments permit companies to move certain financial assets out of categories that require fair value changes to be recognized immediately in net income. No such transfers have been effected by the company.

Effective November 4, 2008, the company consolidated the assets and liabilities and results of operations of Ridley Inc. ("Ridley") pursuant to the transaction described in note 4. The significant accounting policies of Ridley's animal nutrition business are as follows:

Revenues from the sale of animal nutrition products are recognized when the price is fixed or determinable, collection is reasonably assured and the product has been shipped to the customer from the plant or facility. These revenues are recorded in Revenue – Other in the consolidated statement of earnings. Inventories of $58.5 (2007 – nil) are included in Other assets in the consolidated balance sheet and are measured at the lower of cost or net realizable value on a first-in, first-out basis. Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the anticipated selling price.

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

Accounting Pronouncements to be adopted in the future

Goodwill and intangible assets
In November 2007, the Accounting Standards Board ("AcSB") issued CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Provisions concerning goodwill are unchanged from the previous Section 3062. Section 3064 is effective for the company on January 1, 2009. The adoption of this standard is not expected to have a significant impact on the company's consolidated financial position or results of operations.

Business combinations and non-controlling interests
In January 2009, the AcSB issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests, which replaces Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. Section 1582 retains the fundamental requirements of Section 1581 to identify an acquirer and to use the acquisition method of accounting for each business combination. This new standard requires: measurement of share consideration issued at fair value at the acquisition date; recognition of contingent consideration at fair value at the date of acquisition with subsequent changes in fair value generally reflected in net earnings; and the acquirer to expense acquisition-related costs as incurred. A non-controlling interest may be measured at fair value or the proportionate share of identifiable net assets. Under current Canadian GAAP, a non-controlling interest is recorded at the proportionate share of the carrying value of the acquiree. Section 1602 provides guidance on the treatment of a non-controlling interest after acquisition in a business combination. This new standard requires: a non-controlling interest to be presented clearly in equity, but separately from the parent's equity; the amount of consolidated net income attributable to the parent and to a non-controlling interest to be clearly identified and presented on the consolidated statement of income; and accounting for changes in ownership interests of a subsidiary that do not result in a loss of control as an equity transaction. Section 1601 carries forward existing guidance on aspects of the preparation of consolidated financial statements subsequent to the acquisition date other than that pertaining to a non-controlling interest.

These three new sections apply to the company's consolidated financial statements effective January 1, 2011 with earlier adoption permitted. The company is currently evaluating the impact of adopting these three new sections on its consolidated financial position and results of operations.

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, 2008					December 31, 2007				
	Classified as held for trading	**Designated as held for trading**	**Classified as available for sale**	**Other**	**Total carrying value**	Classified as held for trading	Designated as held for trading	Classified as available for sale	Other	Total carrying value
Holding company:										
Cash and short term investments	**275.4**	**—**	**521.1**	**—**	**796.5**	31.3	—	413.0	—	444.3
Assets pledged for short sale and derivative obligations - cash and short term investments	**18.4**	**—**	**1.3**	**—**	**19.7**	—	—	—	—	—
Bonds	**—**	**216.6**	**12.2**	**—**	**228.8**	—	17.6	12.2	—	29.8
Preferred stocks	**—**	**—**	**12.1**	**—**	**12.1**	—	—	—	—	—
Common stocks	**—**	**—**	**424.3**	**—**	**424.3**	—	—	235.0	—	235.0
Derivatives	**82.8**	**—**	**—**	**—**	**82.8**	262.7	—	—	—	262.7
	376.6	**216.6**	**971.0**	**—**	**1,564.2**	294.0	17.6	660.2	—	971.8
Short sale and derivative obligations	**(9.2)**	**—**	**—**	**—**	**(9.2)**	(8.4)	—	—	—	(8.4)
	367.4	**216.6**	**971.0**	**—**	**1,555.0**	285.6	17.6	660.2	—	963.4
Portfolio investments:										
Cash and short term investments	**2,338.8**	**355.2**	**2,814.5**	**—**	**5,508.5**	2,164.8	—	1,053.3	—	3,218.1
Bonds	**—**	**4,463.3**	**3,962.5**	**—**	**8,425.8**	—	1,215.9	8,834.0	—	10,049.9
Preferred stocks	**—**	**—**	**38.2**	**—**	**38.2**	—	—	19.9	—	19.9
Common stocks	**—**	**80.7**	**3,736.2**	**—**	**3,816.9**	—	—	2,617.5	—	2,617.5
Investments, at equity	**—**	**—**	**—**	**219.3**	**219.3**	—	—	—	408.0	408.0
Derivatives	**372.7**	**—**	**—**	**—**	**372.7**	950.7	—	—	—	950.7
Other invested assets	**—**	**—**	**—**	**25.3**	**25.3**	—	—	—	28.9	28.9
	2,711.5	**4,899.2**	**10,551.4**	**244.6**	**18,406.7**	3,115.5	1,215.9	12,524.7	436.9	17,293.0
Assets pledged for short sale and derivative obligations:										
Cash and short term investments	**8.3**	**—**	**—**	**—**	**8.3**	1,244.2	—	121.9	—	1,366.1
Bonds	**—**	**—**	**—**	**—**	**—**	—	—	432.6	—	432.6
	8.3	**—**	**—**	**—**	**8.3**	1,244.2	—	554.5	—	1,798.7
	2,719.8	**4,899.2**	**10,551.4**	**244.6**	**18,415.0**	4,359.7	1,215.9	13,079.2	436.9	19,091.7
Short sale and derivative obligations	**(20.2)**	**—**	**—**	**—**	**(20.2)**	(1,054.4)	—	—	—	(1,054.4)
	2,699.6	**4,899.2**	**10,551.4**	**244.6**	**18,394.8**	3,305.3	1,215.9	13,079.2	436.9	18,037.3

Restricted cash and cash equivalents of $115.2 (2007 – $327.8) are included in cash and short term investments and in assets pledged for short sale and derivative obligations in portfolio investments, with $3.9 (2007 – $221.3) pledged as collateral for derivative positions and the remainder consisting primarily of amounts pledged to the Society and Council of Lloyd's ("Lloyd's") to support the underwriting capacity of subsidiaries' Lloyd's syndicates.

In July 2008 and December 2008, OdysseyRe received assets from Lloyd's with a par value of $63.9 and $24.2 respectively, in each case representing a permanent reduction and unconditional release of such amount, prior to the stated termination date. Following these returns of assets, and as of December 31, 2008, Lloyd's has returned all the pledged assets related to Advent Capital (Holdings) PLC ("Advent") to OdysseyRe, and OdysseyRe has received a deed of total release from Lloyd's with respect thereto. At December 31, 2008, nSpire Re placed assets comprised of U.S. treasury securities with a fair value of $31.3 (£21.7 million) at Lloyd's to replace OdysseyRe's support to Advent. The company believes that the financial resources of Advent provide adequate protection to support its liabilities in the ordinary course of business. In the event that Advent's financial resources were unable to support Advent's underwritings at Lloyd's, such an event could trigger the forfeiture of a portion or all of nSpire Re's pledged assets.

At each reporting date, and more frequently when conditions warrant, management evaluates all available for sale (and if applicable, held to maturity) securities with unrealized losses to determine whether those unrealized losses are other than temporary and should be recognized in net earnings rather than in accumulated other comprehensive income (loss). If management's assessment indicates that the impairment in value is other than temporary, or the company does not have the intent or ability to hold the security until its fair value recovers, the security is written down to its fair value at the balance sheet date, and a loss is recognized in net gains (losses) on investments in the consolidated statement of earnings. As a result, net gains on investments for the fourth quarter and twelve months of 2008 include $612.8 (2007 - $32.4) and $996.4 (2007- $102.6) respectively of provisions for other than temporary impairment related to securities with unrealized losses at December 31, 2008. After such provisions, the unrealized losses on such securities at December 31, 2008 were $398.7 (2007 – $103.1), $3.0 (2007 – $0.9) and $118.1 (2007 – $95.8) with respect to common stocks, preferred stocks and debt securities respectively.

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.

The amortized cost and carrying value of bonds is summarized below:

December 31, 2008

	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	**350.8**	**216.6**	**12.4**	**12.2**	**363.2**	**228.8**
Portfolio investments	**4,693.8**	**4,463.3**	**3,838.8**	**3,962.5**	**8,532.6**	**8,425.8**
	5,044.6	**4,679.9**	**3,851.2**	**3,974.7**	**8,895.8**	**8,654.6**

December 31, 2007

	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
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

Subsequent to December 31, 2008

On February 11, 2009, the company made an additional investment of $49.0 in its equity affiliate, Cunningham Lindsey Group Limited to facilitate that company's acquisition of the international operations of GAB Robins, a leading provider of loss adjusting and claims management services.

On January 13, 2009, the company purchased 24.8% of the outstanding common shares of Northbridge for an aggregate purchase price of $374.0 (Cdn$458.4) pursuant to a previously announced offer to acquire all of the outstanding shares of Northbridge other than those shares already owned by the company and its affiliates. Immediately prior to the completion of this transaction, the company owned a 63.6% interest in Northbridge. The company expects to purchase the remaining 11.6% of the outstanding common shares of Northbridge following a meeting on February 19, 2009 at which Northbridge shareholders approved a subsequent acquisition transaction which will result in the company's acquisition of the remainder of the shares not tendered to the offer. Subsequently, Northbridge will become a wholly-owned subsidiary of the company.

On January 7, 2009, the company completed the acquisition of 100% of the outstanding shares of Polskie Towarzystwo Reasekuracji Spólka Akcyjna ("Polish Re"), a Polish reinsurance and insurance company, for cash consideration of $57.0, pursuant to a previously announced tender offer. The company is in the process of finalizing the purchase price allocation for this acquisition. The assets and liabilities and results of operations of Polish Re will be included in the company's consolidated financial reporting in the Reinsurance - Other reporting segment.

Year ended December 31, 2008

During November 2008, the company, directly and through its operating companies, purchased 9,412,095 common shares of Ridley (a 67.9% interest) from Ridley's Australian parent, Ridley Corporation Limited and in the open market. In exchange for total cash purchase consideration of $68.4 (Cdn$79.4), the company acquired assets of $231.0 (including $2.0 of cash and cash equivalents), assumed liabilities of $114.9 and recorded $48.8 of non-controlling interests and $1.1 of goodwill. The assets and liabilities and results of operations of Ridley have been included in the company's consolidated financial reporting in the Other reporting segment. Ridley is one of North America's leading commercial animal nutrition companies.

On September 11, 2008, the company, directly and through its operating companies, acquired an additional 14.0% interest in Advent for $17.3 (£9.5 million), increasing the company's total ownership of Advent to 58.5% from 44.5%. Prior to this acquisition of a controlling interest, the company recorded its investment in Advent using the equity method of accounting. Following the transaction, the assets and liabilities and results of operations of Advent have been included in the company's consolidated financial reporting in the Reinsurance – Other reporting segment. The consolidation resulted in an increase of $831.7 in assets (including approximately $89.1 in cash and cash equivalents and $485.1 in portfolio investments), $649.2 in liabilities and $76.4 in non-controlling interests and the elimination of the equity accounted carrying value of Advent immediately prior to the acquisition of

control. On various dates during the fourth quarter of 2008, the company, directly and through its operating companies, purchased an additional 8.1% interest in Advent for cash of $8.3 (£5.4 million), increasing the company's total ownership interest in Advent to 66.6% at December 31, 2008. These transactions during the fourth quarter of 2008 decreased non-controlling interests by $12.0 in the consolidated balance sheet and resulted in the recognition of $4.5 of negative goodwill in the consolidated statement of earnings. Advent is a reinsurance and insurance company, operating through Syndicate 780 at Lloyd's, focused on specialty property reinsurance and insurance risks.

On August 29, 2008, the company through OdysseyRe purchased certain assets and liabilities associated with the crop insurance business previously produced by CropUSA Insurance Agency, Inc. ("CropUSA") for cash consideration of $8.0. Since 2006, CropUSA has acted as managing general underwriter for OdysseyRe in the crop insurance sector. The acquisition resulted in an increase of $20.9 in assets, $26.1 in liabilities, $7.7 in goodwill and $5.5 in intangible assets, which will be amortized over the expected useful lives of such assets.

During 2008, Northbridge repurchased on the open market 2,340,000 (1,035,400 in the fourth quarter) of its common shares for cash of $65.4 ($25.7 in the fourth quarter), and OdysseyRe repurchased on the open market 9,480,756 (nil in the fourth quarter) of its common shares for cash of $351.4 (nil in the fourth quarter). These transactions are part of Northbridge and OdysseyRe's previously announced common share repurchase programmes and increased the company's ownership of Northbridge from 60.2% at December 31, 2007 to 63.6% at December 31, 2008 and of OdysseyRe from 61.0% at December 31, 2007 to 70.4% at December 31, 2008. These transactions resulted in decreases to non-controlling interests for 2008 of $63.8 ($24.5 in the fourth quarter) and $362.0 (nil in the fourth quarter) with respect to Northbridge and OdysseyRe respectively.

On June 13, 2008, Cunningham Lindsey Group Limited ("Holdco") repaid a Cdn$125.0 promissory note payable to the company's wholly-owned subsidiary Cunningham Lindsey Group Inc. ("Cunningham Lindsey") using funds received from its new bank credit facility. Cunningham Lindsey used the proceeds received to repay its Cdn$125.0 7.0% unsecured Series B debentures due June 16, 2008 (its "Public Bonds"), as described in note 6. During the second quarter of 2008, Cunningham Lindsey increased its investment in Holdco by Cdn$23.0 by contributing Cdn$5.9 in cash and by converting a Cdn$17.1 promissory note due from Holdco to equity. Subsequent to this investment, Cunningham Lindsey's interest in Holdco increased to 45.7%. On December 5, 2008, the assets of Cunningham Lindsey were liquidated into Fairfax, triggering the recognition of a loss of $24.9 in net gains on investments in the consolidated statement of earnings related to the release of cumulative foreign currency translation losses, with the result that the equity accounted investment in the CL Operations (defined below) is now owned directly by Fairfax through an intermediate holding company.

Year ended December 31, 2007

Cunningham Lindsey

During 2007, the company purchased all of the outstanding shares of 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 all of its assets and liabilities (the "CL Operations") excluding Cunningham Lindsey's Cdn$125.0 of 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 Holdco, a new holding company, 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 were 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 was 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.

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). Of the Cdn$199.6 of goodwill prior to the sale, 55.4% or Cdn$110.6 was disposed of and included in the $7.6 net loss on disposition of the CL Operations, with the remaining 44.6% or Cdn$89.0 included in the opening carrying value of the equity accounted investment.

Other

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) and 2,636,989 (770,400 in the fourth quarter) 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 interests of $25.7 and $86.4 and increases to goodwill of $3.8 and $8.1 with respect to Northbridge and OdysseyRe respectively.

On December 31, 2007, TIG 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. TIG 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.

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.

5. Securities Sold but not yet Purchased and Derivative Transactions

	December 31, 2008				December 31, 2007			
		Notional	**Fair value**			Notional	Fair value	
	Cost	**value**	**Assets**	**Liabilities**	Cost	value	Assets	Liabilities
Securities sold short								
SPDRs	—	—	—	—	819.7	—	—	975.4
Common stock	—	—	—	—	74.8	—	—	72.8
Short positions effected by equity contracts								
Equity index total return swaps	—	—	—	—	—	1,629.8	59.5	6.8
Equity total return swaps	—	**1.3**	—	—	—	247.0	19.2	3.8
S&P 500 index call options	**0.1**	**518.4**	—	—	3.6	2,480.0	0.3	—
Credit contracts								
Credit default swaps	**161.5**	**8,873.0**	**415.0**	—	340.0	18,539.2	1,119.1	—
Warrants	**19.2**	**342.6**	**0.6**	—	20.5	418.2	15.3	—
Other	—	—	**39.9**	**29.4**	—	—	—	4.0
Total			**455.5**	**29.4**			1,213.4	1,062.8

During the second quarter of 2008, the company closed its previous short positions in SPDRs and listed common stocks and substantially replaced these investments with equity index total return swaps and equity total return swaps. During the fourth quarter of 2008, as a result of the very significant decline of the equity markets, the company closed out its synthetic short position in various global equity indices and listed common stocks, realizing net pre-tax gains of $1,272.0 and $714.0 respectively for the year ended December 31, 2008. The fair value of derivatives in a gain position are presented on the consolidated balance sheet in derivatives and other invested assets in portfolio investments and in the cash, short term investments and marketable securities of the holding company. The fair value of derivatives in a loss position and obligations to purchase securities sold short are presented on the consolidated balance sheet in short sale and derivative obligations.

At December 31, 2008, the fair value included in portfolio investments for assets pledged as collateral for total return swap obligations was $8.3 (2007 – $1,798.7, including assets pledged for obligations to purchase securities sold), of which $3.9 (2007 – $221.3) was restricted cash; the remainder of the assets, although pledged, may be substituted with similar assets. The closing of total return swaps and short positions during 2008 resulted in the release of a significant portion of collateral formerly pledged in support of those obligations.

The company has 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. These credit default swaps have a remaining average life of 3.3 years (2007 – 4.0 years) and a notional amount and fair value as shown in the table above. During the fourth quarter of 2008, the company sold $3,363.9 (2007 – $735.5) notional amount of credit default swaps for proceeds of $378.0 (2007 – $151.9) and recorded net gains on sale of $48.2 (2007 – $73.3) and net mark-to-market gains of $1.7 (2007 – $631.9). During 2008, the company sold $11,629.8 (2007 – $965.5) notional amount of credit default swaps for proceeds of $2,048.7 (2007 – $199.3) and recorded net gains on sale of $1,052.3 (2007 – $184.7) and net mark-to-market gains of $238.2 (2007 – $960.3).

Credit default swaps with a notional amount of $8,873.0 (reflecting $836.0 of U.S. dollar-euro currency translation effect since December 31, 2007) had a fair value of $415.0 at December 31, 2008, compared to the fair value of $1,119.1 at December 31, 2007 of the $18,539.2 notional amount of credit default swaps held on that date.

The company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its credit default swap contracts, pursuant to which the counterparties to these transactions are contractually required to deposit cash or government securities in collateral accounts for the benefit of the company in amounts related to the then current fair value of the credit default swaps. The fair value of this collateral at December 31, 2008, all of which consists of government securities, is $285.1 (2007 – $886.0), $107.6 of which (2007 – nil) the company has the right to sell or repledge, and $177.5 (2007 – $886.0) of which the company does not have the right to sell or repledge.

The following table summarizes the impact of investments classified or designated as held for trading on net gains (losses) on investments included in the consolidated statement of earnings. Other is primarily comprised of warrants, foreign exchange forward contracts and futures contracts. Common stock and equity index short positions includes positions in securities sold but not yet purchased, total return swaps and equity index call options.

	Common stock and equity index short positions	Credit default swaps	Other	Total	Bonds designated as held for trading	Common stocks designated as held for trading
For the three months ended December 31, 2008						
Inception-to-date realized gains (losses) on positions closed in the period	**1,305.5**	**309.9**	**53.8**	**1,669.2**	**(1.5)**	—
Reversal of mark-to-market (gains) losses recognized in prior periods on positions closed in the period	**(251.8)**	**(261.7)**	**(13.0)**	**(526.5)**	**(0.1)**	—
Mark-to-market gains (losses) arising on positions remaining open at period end	**1.3**	**1.7**	**4.5**	**7.5**	**(193.4)**	**(20.8)**
Net gains (losses)	**1,055.0**	**49.9**	**45.3**	**1,150.2**	**(195.0)**	**(20.8)**
For the three months ended December 31, 2007						
Inception-to-date realized gains (losses) on positions closed in the period	53.4	132.7	0.2	186.3	—	—
Reversal of mark-to-market (gains) losses recognized in prior periods on positions closed in the period	13.4	(59.4)	0.4	(45.6)	—	—
Mark-to-market gains (losses) arising on positions remaining open at period end	105.6	631.9	(1.6)	735.9	3.9	—
Net gains (losses)	172.4	705.2	(1.0)	876.6	3.9	—

	Common stock and equity index short positions	Credit default swaps	Other	Total	Bonds designated as held for trading	Common stocks designated as held for trading
For the twelve months ended December 31, 2008						
Inception-to-date realized gains (losses) on positions closed in the year	**1,989.9**	**1,802.9**	**62.5**	**3,855.3**	**(2.1)**	—
Reversal of mark-to-market (gains) losses recognized in prior periods on positions closed in the year	**89.9**	**(750.6)**	**2.9**	**(657.8)**	**0.1**	—
Mark-to-market gains (losses) arising on positions remaining open at year end	**(0.2)**	**238.2**	**(1.9)**	**236.1**	**(354.1)**	**(20.8)**
Net gains (losses)	**2,079.6**	**1,290.5**	**63.5**	**3,433.6**	**(356.1)**	**(20.8)**
For the twelve months ended December 31, 2007						
Inception-to-date realized gains (losses) on positions closed in the year	106.0	173.6	(1.4)	278.2	19.1	—
Reversal of mark-to-market (gains) losses recognized in prior periods on positions closed in the year	(15.9)	11.1	(2.1)	(6.9)	(12.6)	—
Mark-to-market gains (losses) arising on positions remaining open at year end	52.9	960.3	(9.8)	1,003.4	(48.5)	—
Net gains (losses)	143.0	1,145.0	(13.3)	1,274.7	(42.0)	—

6. Subsidiary Indebtedness, Long Term Debt and Capital

Subsequent to December 31, 2008

On the maturity date, January 28, 2009, the company repaid the outstanding $12.8 of its 6.15% secured loan.

Year ended December 31, 2008

Under the terms of normal course issuer bids, during 2008 the company repurchased for cancellation 1,066,601 (34,700 in the fourth quarter) subordinate voting shares at a net cost of $282.0 ($8.6 in the fourth quarter), of which $147.2 ($4.2 in the fourth quarter) was charged to retained earnings, and during 2007 the company repurchased for cancellation 38,600 (nil in the fourth quarter) subordinate voting shares for a net cost of $7.0 (nil in the fourth quarter), of which $2.5 (nil in the fourth quarter) was charged to retained earnings.

During the first nine months of 2008, the company paid $18.3 to repurchase for cancellation 750,000 Series A preferred shares with stated capital of $12.8 (Cdn$18.8), and $29.7 to repurchase for cancellation 1,250,000 Series B preferred shares with stated capital of $21.3 (Cdn$31.3). These transactions resulted in a charge to retained earnings of $13.9, representing the excess paid over the stated capital of the preferred shares repurchased, resulting from movement in the Canadian-U.S. dollar exchange rate.

Effective November 4, 2008 the company consolidated the assets and liabilities of Ridley, pursuant to the transaction described in note 4. The carrying values and the terms and conditions of Ridley's indebtedness and long term debt included in the company's consolidated balance sheet as at December 31, 2008 as a result thereof are as follows:

	Principal	Unamortized issue costs and discounts	Total carrying value
Cdn$30.0 or U.S. dollar equivalent secured revolving term facility at floating rate due October 31, 2011	14.7	(0.3)	14.4
US$20.0 secured revolving term facility at floating rate due October 31, 2011	7.0	(0.3)	6.7
Economic development loan at 1% due August 10, 2019	0.8	(0.1)	0.7
	22.5	(0.7)	21.8

Effective September 11, 2008, the company consolidated the assets and liabilities of Advent, pursuant to the transaction described in note 4. The carrying values and the terms and conditions of Advent's long term debt included in the company's consolidated balance sheet as at December 31, 2008 as a result thereof are as follows:

	Principal	Unamortized issue costs and discounts	Total carrying value
US$34.0 subordinated notes at 3 month LIBOR + 3.90% due June 3, 2035[(1)]	34.0	(1.1)	32.9
€12.0 subordinated notes at 3 month EURIBOR + 3.85% due June 3, 2035[(1)]	16.7	(0.5)	16.2
US$26.0 senior notes at 3 month LIBOR + 4.50% due January 15, 2026[(2)]	26.0	(1.0)	25.0
US$20.0 senior notes at 3 month LIBOR + 4.15% due December 15, 2026[(3)]	20.0	(0.7)	19.3
	96.7	(3.3)	93.4

(1) *Callable by Advent after June 3, 2010 at par.*
(2) *Callable by Advent after January 16, 2011 at par.*
(3) *Callable by Advent after December 15, 2011 at par.*

On June 16, 2008, Crum & Forster redeemed for cash all $4.3 principal amount of its outstanding 10.375% unsecured senior notes due June 15, 2013 for total consideration of $4.5.

On June 16, 2008, Cunningham Lindsey repaid the outstanding Cdn$125.0 of its 7.0% unsecured Series B debentures which matured on that date. This transaction decreased subsidiary company borrowings by $118.6 net of $8.1 of these debentures owned by the company.

On April 15, 2008, the company repaid the outstanding $62.1 of its 6.875% unsecured senior notes which matured on that date.

On January 9, 2008, the company called for redemption all of its 5.0% convertible senior debentures due July 15, 2023. On February 13, 2008, $188.5 principal amount of these debentures were 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 conversion was recorded as a $192.3 increase of common stock and a $134.4 and $57.9 reduction of long term debt and other paid in capital respectively.

Year ended December 31, 2007

During the second quarter of 2007, OdysseyRe redeemed $23.5 principal amount of its 4.375% convertible senior debentures due 2022. All holders had their debentures converted into common stock of OdysseyRe with the result that no convertible debentures thereafter remained outstanding. These transactions decreased the company's ownership percentage of OdysseyRe from 59.6% to 58.7%, increased non-controlling interests by $29.0 and resulted in a dilution loss of $3.3.

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 7.75% 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 was classified as a reduction to the carrying value of the debt.

On May 7, 2007, Crum & Forster completed a private placement debt offering of $330.0 principal amount of 7.75% 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 10.375% senior notes due 2013, the net proceeds of the 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. One-time debt extinguishment and transaction costs of $21.2 incurred in this tender offer and debt offering did not qualify for deferral and amortization pursuant to debt modification accounting treatment. A registration statement on Form S-4 with respect to the 7.75% senior notes due 2017 was declared effective on July 13, 2007.

On February 7, 2007, the company repaid the outstanding $60.4 of its 2.5% secured notes which matured on February 27, 2007. During the first six months of 2007, the company purchased $40.0 of its 7.375% unsecured senior notes due April 15, 2018 and $9.1 of its 8.25% unsecured senior notes due October 1, 2015 for cash payments of $38.1 and $9.3 respectively.

Northbridge maintains a five-year, unsecured, revolving credit facility with a Canadian chartered bank for up to Cdn$50.0. As at December 31, 2008, there was Cdn$1.6 utilized under this credit facility, all of which was in support of letters of credit.

OdysseyRe maintains a five-year $200.0 credit facility with a syndicate of lenders. As at December 31, 2008, there was $56.5 utilized under this credit facility, all of which was in support of letters of credit.

7. Significant Commutations

On June 26, 2008, Crum & Forster commuted an aggregate stop loss contract. The commutation resulted in receipt of $302.5 of cash proceeds, a decrease in recoverable from reinsurers of $386.7 and a non-cash pre-tax charge of $84.2 in these consolidated financial statements.

8. Accumulated Other Comprehensive Income (Loss)

The balances related to each component of accumulated other comprehensive income (loss) are as follows:

	December 31, 2008			December 31, 2007		
	Pre-tax amount	**Income tax (expense) recovery**	**After-tax amount**	Pre-tax amount	Income tax (expense) recovery	After-tax amount
Net unrealized gains (losses) on available for sale securities						
Bonds	**133.5**	**(41.8)**	**91.7**	74.8	(19.9)	54.9
Common stocks and other	**(199.7)**	**55.7**	**(144.0)**	285.6	(93.4)	192.2
	(66.2)	**13.9**	**(52.3)**	360.4	(113.3)	247.1
Currency translation account	**(32.4)**	**(23.1)**	**(55.5)**	94.1	19.3	113.4
	(98.6)	**(9.2)**	**(107.8)**	454.5	(94.0)	360.5

9. Income Taxes

The effective income tax rate of 40.6% implicit in the $247.3 provision for income taxes in the fourth quarter of 2008 differed from the company's statutory income tax rate of 33.5% primarily as a result of the effect of the unrecorded tax benefit on unrealized losses arising from other than temporary impairments recorded on common stock and bond investments, and the effect of losses in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate and where the benefit of accumulated income tax losses is unrecorded, partially offset by the effect of reduced unrealized foreign exchange gains on public debt. The effective income tax rate of 30.9% implicit in the $755.6 provision for income taxes in 2008 differed from the company's statutory income tax rate of 33.5% primarily as a result of the effect of income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate and where the benefit of accumulated income tax losses is unrecorded, and the effect of reduced unrealized foreign exchange gains on public debt, partially offset by the effect of the unrecorded tax benefit on unrealized losses arising from other than temporary impairments recorded on common stock and bond investments.

The effective income tax rates of 33.2% and 32.9% implicit in the $343.8 and the $711.1 provisions for income taxes in the fourth quarter and twelve months of 2007 respectively differed from the company's statutory income tax rate of 36.1% primarily as a result of the effects of the non-taxable portion of the gain recognized on the sale of Hub by the Canadian subsidiaries and of income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate and where the benefit of accumulated income tax losses is unrecorded, mostly offset by realized foreign exchange gains on repurchases of U.S. dollar denominated debt which received recognition for tax purposes only.

The Internal Revenue Service ("IRS") completed its regularly scheduled examination of the 2003 and 2004 U.S. Federal income tax returns of Fairfax's U.S. subsidiaries included in Fairfax's U.S. consolidated tax group, including OdysseyRe and Crum & Forster. The 2003 and 2004 taxation years for these subsidiaries are now closed. As part of the examination, the IRS reviewed the purchase of OdysseyRe shares by Fairfax in March 2003 and the issuance by Fairfax of debentures exchangeable into shares of OdysseyRe in payment for that purchase. No changes were made to the consolidated 2003 and 2004 tax returns with respect to that purchase of shares and issuance of exchangeable debentures or the inclusion of OdysseyRe and its subsidiaries in Fairfax's U.S. consolidated tax group as a result.

10. 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 will continue to

respond to any 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 will continue to comply with any 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 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 denied in February 2008. 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 were granted in February 2008, with leave being granted to Fairfax to replead the claims against those two defendants. Fairfax filed an amended complaint in March 2008, which again asserted claims against those defendants. Those defendants filed a motion to dismiss

the amended complaint, which motion was denied in August 2008. In September 2008, those two defendants also filed a counterclaim against Fairfax, as well as third-party claims against certain Fairfax executives, OdysseyRe, Fairfax's outside legal counsel and PricewaterhouseCoopers. Fairfax has not yet responded to this counterclaim. In December 2007, an individual defendant filed a counterclaim against Fairfax. Fairfax's motion to dismiss that counterclaim was denied in August 2008. Fairfax intends to vigorously defend against these counterclaims. In September 2008, the Court granted a motion for summary judgment brought by two defendants, and dismissed Fairfax's claims against those defendants without prejudice. 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 counterclaim.

11. Earnings per Share

Net earnings per share is calculated in the following table based upon weighted average common shares outstanding:

	Fourth quarter		Year ended December 31	
	2008	2007	**2008**	2007
Net earnings	**346.8**	563.6	**1,473.8**	1,095.8
Preferred share dividends	**(1.6)**	(3.3)	**(10.1)**	(12.5)
Excess over stated value of preferred shares purchased for cancellation	**—**	—	**(13.9)**	—
Net earnings available to common shareholders – basic	**345.2**	560.3	**1,449.8**	1,083.3
Interest expense on convertible debt, net of tax	**—**	1.7	**0.3**	7.0
Net earnings available to common shareholders – diluted	**345.2**	562.0	**1,450.1**	1,090.3
Weighted average common shares outstanding – basic	**17,498,052**	17,666,790	**18,036,670**	17,700,393
Effect of dilutive shares				
Convertible debt	**—**	886,888	**104,197**	886,888
Options to purchase treasury stock acquired	**94,304**	90,050	**91,890**	87,944
Total effect of dilutive shares	**94,304**	976,938	**196,087**	974,832
Weighted average common shares outstanding – diluted	**17,592,356**	18,643,728	**18,232,757**	18,675,225
Net earnings per common share – basic	**$ 19.73**	$ 31.71	**$ 80.38**	$ 61.20
Net earnings per common share – diluted	**$ 19.62**	$ 30.15	**$ 79.53**	$ 58.38

On February 13, 2008, the company's 5.0% convertible senior debentures due July 15, 2023 were converted by their holders into 886,888 subordinate voting shares, which were thereafter weighted for inclusion in the calculation of basic earnings per share. The subordinate voting shares issuable on conversion of the debentures were weighted for inclusion in the calculation of diluted earnings per share for 2008 from the beginning of 2008 until the date of conversion.

12. Financial Risk Management

Credit Risk Management

Subsidiary portfolio investments and holding company investments include $415.0 (2007 – $1,119.1) at fair value of credit default swaps (with a remaining average life of approximately 3.3 years (2007 – 4.0 years)) 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 company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its total return swap and credit default swap contracts, pursuant to which the counterparties to these transactions are contractually required to deposit cash or government securities in collateral accounts for the benefit of the company in amounts related to the then current fair value of the total return and credit default swaps. The fair value of this collateral at December 31, 2008, all of which consists of government securities, is $285.1 (2007 – $886.0), $107.6 of which (2007 – nil) the company has the right to sell or repledge, and $177.5 (2007 – $886.0) of which the company does not have the right to sell or repledge.

Capital Management

The company's measurement of capital at December 31, 2008, comprising shareholders' equity and non-controlling interests, was $6,351.6, compared to $5,843.0 at December 31, 2007.

The company manages its capital based on the following financial measurements and ratios:

	December 31,	
	2008	2007
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**1,555.0**	963.4
Holding company debt	**869.6**	1,063.2
Subsidiary debt	**910.2**	915.0
Other long term obligations – holding company	**187.7**	192.6
Total debt	**1,967.5**	2,170.8
Net debt	**412.5**	1,207.4
Common shareholders' equity	**4,866.3**	4,121.4
Preferred equity	**102.5**	136.6
Non-controlling interests	**1,382.8**	1,585.0
Total equity and non-controlling interests	**6,351.6**	5,843.0
Net debt/total equity and non-controlling interests	**6.5%**	20.7%
Net debt/net total capital(1)	**6.1%**	17.1%
Total debt/total capital(2)	**23.7%**	27.1%
Interest coverage(3)	**16.4x**	11.3x

(1) Net total capital is calculated by the company as the sum of total shareholders' equity, non-controlling interests and net debt.

(2) Total capital is calculated by the company as the sum of total shareholders' equity, non-controlling interests and total debt.

(3) Interest coverage is calculated by the company as the sum of earnings from operations before income taxes and interest expense divided by interest expense.

13. Segmented Information

The company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance, conducted on a primary 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. 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. The revenues and expenses of Ridley since its acquisition on November 4, 2008 are included in the newly formed Other business segment. Prior period comparatives have been reclassified to also reflect Cunningham Lindsey in the Other business segment whereas previously it was included in the Corporate and Other business segment.

Effective September 11, 2008, the date of the initial consolidation of Advent, the identifiable assets of Advent have been included in the Reinsurance - Other business segment ($780.0 of identifiable assets at December 31, 2008). Effective from November 4, 2008, the date of the initial consolidation of Ridley, the identifiable assets of Ridley have been included in the Other business segment ($262.8 of identifiable assets at December 31, 2008). There were no other significant changes in the identifiable assets by business segment as at December 31, 2008 compared to December 31, 2007.

14. U.S. GAAP Reconciliation

The consolidated financial statements of the company have been prepared in accordance with Canadian GAAP which are different in some respects from those applicable in the United States, as described in note 20 on pages 71 to 76 of the company's 2007 Annual Report (subject to the changes described below).

Consolidated Statements of Net Earnings and Comprehensive Income

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

	Fourth quarter		Year ended December 31	
	2008	2007	**2008**	2007 *(audited)*
Net earnings, Canadian GAAP	**346.8**	563.6	**1,473.8**	1,095.8
Recoveries on retroactive reinsurance (a)	**10.7**	5.2	**30.8**	16.0
Equity accounting (b)	**(7.2)**	—	**(7.2)**	—
Other differences (c)	**2.2**	0.4	**7.5**	(11.1)
Tax effect	**(2.7)**	(2.6)	**(9.6)**	(2.0)
Net earnings, US GAAP	**349.8**	566.6	**1,495.3**	1,098.7
Other comprehensive income (loss), Canadian GAAP	**(90.4)**	96.2	**(468.3)**	298.8
Pension liability adjustment pursuant to FAS 158	**25.3**	22.6	**25.3**	22.6
Other differences	**—**	—	**—**	2.4
Other comprehensive income (loss), US GAAP	**(65.1)**	118.8	**(443.0)**	323.8
Comprehensive income, US GAAP	**284.7**	685.4	**1,052.3**	1,422.5
Net earnings per common share - basic, US GAAP	**$ 19.90**	$ 31.88	**$ 81.57**	$ 61.37
Net earnings per common share - diluted, US GAAP	**$ 19.79**	$ 30.31	**$ 80.71**	$ 58.54

(a) Included in recoveries on retroactive reinsurance for the year ended December 31, 2008 is pre-tax income of $8.8 related to the release of the unamortized deferred gain in connection with the commutation by Crum & Forster in the second quarter as described in note 7. The non-cash pre-tax charge under US GAAP related to this commutation was therefore $75.4.

The fourth quarter of 2008 reflects pre-tax income of $11.8 related to the release of a portion of an unamortized deferred gain caused by a decrease in the losses ceded to the underlying retroactive reinsurance contract.

(b) Under Canadian GAAP, certain of the company's investments in partnership trusts that do not have a quoted price in an active market are accounted for on the cost basis. Canadian GAAP requires the use of the equity method of accounting when the company is deemed to exert significant influence over the investee, whereas U.S. GAAP requires the use of the equity method to account for such investments when the equity interest is more than minor. As a result of these differing requirements, a pre-tax loss of $7.2 was recognized in the fourth quarter of 2008 under US GAAP for one of the company's investments in a partnership trust, whereas under Canadian GAAP this investment is recorded at cost.

(c) Included in other differences for the year ended December 31, 2008 is income of $5.2 related to the release of the "FIN 48" (FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an interpretation of FASB No. 109) reserve established on January 1, 2007 on a tax position which is no longer uncertain at December 31, 2008.

Included in other differences for the year ended December 31, 2007 are cost base adjustments to the company's investment in Hub related to the valuation of embedded derivatives of $12.7 which reduced the realized gain on sale from $220.5 under Canadian GAAP to $207.8 under US GAAP.

Consolidated Balance Sheets

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:

	December 31, 2008			December 31, 2007		
	Canadian GAAP	**Differences**	**US GAAP**	Canadian GAAP	Differences	US GAAP
Assets						
Holding company cash, short term investments and marketable securities	**1,564.2**	**—**	**1,564.2**	971.8	—	971.8
Portfolio investments						
Common stocks [(i)]	**3,816.9**	**(257.8)**	**3,559.1**	2,617.5	—	2,617.5
Investments, at equity [(i)]	**219.3**	**251.9**	**471.2**	408.0	0.9	408.9
All other portfolio investments	**14,378.8**	**—**	**14,378.8**	16,066.2	—	16,066.2
Future income taxes[(ii)]	**699.4**	**56.1**	**755.5**	344.3	72.5	416.8
Goodwill and intangible assets[(iii)]	**123.2**	**29.6**	**152.8**	89.4	29.6	119.0
All other assets	**6,503.6**	**—**	**6,503.6**	7,444.6	—	7,444.6
	27,305.4	**79.8**	**27,385.2**	27,941.8	103.0	28,044.8
Liabilities						
Accounts payable and accrued liabilities[(iv)]	**1,326.5**	**152.0**	**1,478.5**	1,232.6	214.4	1,447.0
Income taxes payable	**656.3**	**—**	**656.3**	68.9	8.7	77.6
Long term debt – holding company borrowings	**869.6**	**—**	**869.6**	1,063.2	51.5	1,114.7
All other liabilities	**17,931.6**	**—**	**17,931.6**	19,559.4	—	19,559.4
	20,784.0	**152.0**	**20,936.0**	21,924.1	274.6	22,198.7
Mandatorily redeemable shares of TRG	**169.8**	**—**	**169.8**	174.7	—	174.7
Non-controlling interests	**1,382.8**	**(2.2)**	**1,380.6**	1,585.0	(3.5)	1,581.5
	1,552.6	**(2.2)**	**1,550.4**	1,759.7	(3.5)	1,756.2
Shareholders' Equity	**4,968.8**	**(70.0)**	**4,898.8**	4,258.0	(168.1)	4,089.9
	27,305.4	**79.8**	**27,385.2**	27,941.8	103.0	28,044.8

The difference in consolidated shareholders' equity is as follows:

	December 31,	
	2008	2007
Shareholders' equity based on Canadian GAAP	**4,968.8**	4,258.0
Accumulated other comprehensive income	**(19.4)**	(44.7)
Reduction of common stock on conversion of debentures[(v)]	**(6.6)**	—
Reduction of other paid in capital[(v)]	**—**	(57.9)
Cumulative reduction in net earnings under US GAAP[(vi)]	**(44.0)**	(65.5)
Shareholders' equity based on US GAAP	**4,898.8**	4,089.9

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

	December 31,	
	2008	2007
Pension liability adjustment pursuant to FAS 158	**(29.3)**	(61.4)
Related deferred income taxes	**9.9**	16.7
	(19.4)	(44.7)

(i) Under Canadian GAAP, the company's investment of $177.1 in partnership trusts that do not have a quoted price in an active market are accounted for on the cost basis. Canadian GAAP requires the use of the equity method of accounting when the company is deemed to exert significant influence over the investee, whereas US GAAP requires the use of the equity method to account for such investment in partnership trusts.

The company's investment of $80.7 in limited partnerships whose fair value can be reliably measured are recorded in the consolidated balance sheet as common stocks designated as held for trading. US GAAP requires the use of the equity method to account for such investments.

(ii) The differences are comprised principally of deferred tax adjustments of $42.4 (2007 – $53.1) related to the unamortized deferred gain on retroactive reinsurance contracts and $9.9 (2007 – $16.7) related to the pension liability adjustment pursuant to FAS 158.

(iii) The differences result from differences between Canadian and US GAAP related to the purchase equation on the acquisition of TIG in 1999.

(iv) The differences are comprised of the unamortized deferred gain on retroactive reinsurance contracts of $121.3 (2007 – $152.1) and the pension liability adjustment pursuant to FAS 158 of $30.7 (2007 – $62.3).

(v) Under Canadian GAAP, the value of the conversion option of the company's 5.0% convertible senior debentures of $57.9 was included in paid in capital. Under US GAAP, the full principal amount of the debentures was included in holding company debt. Upon conversion of the 5.0% convertible senior debentures in February 2008, the full principal amount thereof was reclassified as an increase to common stock under US GAAP. The impact on common stock of the conversion under Canadian and US GAAP is similar; however, the accretion of the long term debt component recognized under Canadian GAAP in prior years has resulted in a permanent US GAAP adjustment decreasing common stock under Canadian GAAP by $6.6 with a corresponding increase in the cumulative reduction of net earnings under US GAAP.

(vi) Comprised principally of the cumulative impact of negative US GAAP adjustments of $78.9 (2007 – $98.9) related to the accounting for retroactive reinsurance contracts, partially offset by positive US GAAP adjustments of $32.2 (2007 – $32.2) related to the purchase equation on the acquisition of TIG in 1999.

Accounting pronouncements adopted in 2008

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs used in valuation techniques. The fair value hierarchy is designed to indicate the relative reliability of fair value measurement. The highest priority is given to quoted prices in active markets and the lowest to unobservable data. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The company has adopted the SFAS 157 fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is summarized as follows:

Level 1 - Quoted prices in active markets for identical instrument – Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair value of the majority of the company's preferred and common stocks and positions in securities sold but not yet purchased (including in prior periods, the SPDRs short position) are determined based on quoted prices in active markets obtained from external pricing sources. At December 31, 2008, the fair value of $10,149.9 (52.1%) of the company's $19,472.7 of investments (net of $29.4 of short sale and derivative obligations) required to be measured at fair value was determined using Level 1 techniques.

Level 2 - Significant other observable inputs – Inputs include directly or indirectly observable inputs other than quoted prices for identical instruments exchanged in active markets. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

The company's investments in government securities (including federal, state, provincial and municipal bonds), corporate securities, private placements and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments. The fair value of derivatives such as credit default swaps, total return swaps, equity index total return swaps and S&P index call options are based on broker-dealer quotes. To assess the reasonableness of pricing received from broker-dealers, the company compares the fair values supplied by broker-dealers to industry accepted valuation models, to observable inputs such as credit spreads and discount rates, and to recent transaction prices for similar assets where available. At December 31, 2008, the fair value of $9,147.7 (47.0%) of the company's investments required to be measured at fair value was determined using Level 2 techniques.

Level 3 - Significant unobservable inputs – Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these assets or liabilities or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets or liabilities. To verify pricing, the company assesses the reasonability of the fair values by comparing to industry accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available. At December 31,

2008, the fair value of $175.1 (0.9%) of the company's investments required to be measured at fair value was determined using Level 3 techniques.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP FAS 157-3"), which clarifies the application of SFAS 157 and provides guidance in determining the fair value of a financial asset when the market for that financial asset is not active. FSP FAS 157-3 is effective upon issuance, including for prior periods for which financial statements have not been issued. Adoption of FSP FAS 157-3 did not affect the company's financial position or results of operations under US GAAP at December 31, 2008 or for the quarter or year then ended.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans ("SFAS 158"). SFAS 158 requires companies to measure the funded status of their benefit plans as of the date of their fiscal year-end, effective for fiscal years ending after December 15, 2008. On January 1, 2008, the company adopted the measurement date provisions of SFAS 158 for its consolidated financial statements prepared under Canadian GAAP. As of January 1, 2008, two of the company's benefit plans had measurement dates of October 1. The adjustment required to reflect a December 31 measurement date for these two plans was insignificant and was included in Canadian GAAP consolidated net earnings.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS No. 115 ("SFAS 159"), which provides a company the option, primarily on an instrument-by-instrument basis, to measure at fair value many financial instruments and certain other items that are not otherwise accounted for at fair value under other accounting standards. The election to use the fair value option is available at specified election dates, such as when an entity first recognizes a financial instrument. Once the election is made, subsequent changes in fair value are recorded through earnings. Additionally, SFAS 159 allows for a one-time election for existing eligible financial instruments upon adoption, with the transition adjustment recorded to beginning retained earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not affect the company's financial position or results of operations under US GAAP at December 31, 2008 or for the quarter then ended.

Recent accounting pronouncements

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations ("SFAS 141(R)"), which replaces SFAS 141, Business Combinations ("SFAS 141"), and Statement No. 160, Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 ("SFAS 160"). SFAS 141(R) and SFAS 160 are substantively similar to Section 1582, Section 1601 and Section 1602 described in note 2 with respect to the financial reporting of an entity's business combinations except that SFAS 141(R) requires a non-controlling interest in a subsidiary to be measured initially at fair value whereas Canadian GAAP permits a non-controlling interest in a subsidiary to be measured initially at fair value or the proportionate share of identifiable net assets. Other differences between Canadian and US GAAP related to accounting for business combinations include the differences in the recognition of contingent assets and liabilities, the definition of "control", and the definition of "fair value." SFAS 141(R) and SFAS 160 will be effective for the company for business combinations with acquisition dates on or after January 1, 2009. The company is currently evaluating the impact of the adoption of these two new SFASs on its consolidated financial position and results of operations under US GAAP with respect to the two business combinations with acquisition dates subsequent to January 1, 2009 described in note 4.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133 ("SFAS 161"), which is intended to improve the financial reporting of derivative instruments and hedging activities by requiring enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The company is currently evaluating the impact of adoption of SFAS 161 on its financial position and results of operations under US GAAP.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). SFAS 162 identifies the sources of accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP. SFAS 162 is effective sixty days following the Securities and Exchange Commission approval of the Public Company Accounting Oversight Board amendments to the American Institute of Certified Public Accountants Statement on Auditing Standards Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The company currently adheres to the hierarchy of GAAP as presented in SFAS 162 in preparing its reconciliation to US GAAP, and does not expect its adoption will have a material impact on its financial position or results of operations under US GAAP.

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, 2007 as set out in the company's Audited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2007.

Sources of Revenue

Revenues reflected in the consolidated financial statements for the three and twelve months ended December 31, 2008 and 2007 are shown in the table that follows (Other revenue comprises, in 2008, animal nutrition revenue earned by Ridley Inc. ("Ridley") and, in 2007, claims fees earned by Cunningham Lindsey Group Inc. ("Cunningham Lindsey")).

	Fourth quarter		Year ended December 31,	
	2008	2007	**2008**	2007
Net premiums earned				
Insurance – Canada (Northbridge)	**239.2**	274.3	**1,076.1**	1,017.1
– U.S. (Crum & Forster)	**237.3**	293.5	**1,005.0**	1,187.4
– Asia (Fairfax Asia)	**22.0**	20.2	**84.6**	68.7
Reinsurance – OdysseyRe	**504.0**	518.9	**2,076.4**	2,120.5
– Other	**113.5**	71.6	**269.6**	258.4
Runoff	**6.3**	(1.3)	**17.4**	(3.3)
	1,122.3	1,177.2	**4,529.1**	4,648.8
Interest and dividends	**146.0**	157.9	**626.4**	761.0
Net gains on investments	**816.5**	947.0	**2,720.5**	1,639.4
Other revenue	**99.4**	125.3	**99.4**	434.5
	2,184.2	2,407.4	**7,975.4**	7,483.7

Revenue in the fourth quarter of 2008 decreased to $2,184.2 from $2,407.4 in the fourth quarter of 2007, principally as a result of decreased investment income and decreased insurance and reinsurance net premiums earned. The decline in insurance and reinsurance net premiums earned reflected the impact of reduced underwriting activity in increasingly competitive markets and the effect of the appreciation of the U.S. dollar on the translation of net premiums earned by the non-U.S. operations of the company (primarily Northbridge's Canadian operations, OdysseyRe's non-U.S. operations, Advent Capital (Holdings) PLC ("Advent") and Fairfax Asia), partially offset by a year-over-year increase in net premiums earned as a result of the consolidation of Advent (commenced on September 11, 2008). Decreased investment income reflected lower interest income resulting from the year-over-year decline in short term interest rates and decreased net gains on investments. Other revenue in the fourth quarter of 2008 comprised the revenue resulting from the consolidation of Ridley (commenced on November 4, 2008), whereas other revenue in the fourth quarter of 2007 comprised revenue of Cunningham Lindsey. Following the sale in 2007 of a majority of the company's interest in the operating companies of Cunningham Lindsey, other revenue reflected the deconsolidation of those operating companies in 2008.

Revenue in 2008 increased to $7,975.4 from $7,483.7 in 2007, principally as a result of increased net gains on investments, partially offset by decreases in other revenue, interest and dividends and net premiums earned. The decline in insurance and reinsurance premiums earned reflected the impact of reduced underwriting activity in increasingly competitive markets and the effect of the appreciation of the U.S. dollar on the translation of net premiums earned by the non-U.S. operations of the company, partially offset by a year-over-year increase in net premiums earned as a result of the consolidation of Advent. Increased net gains on investments included increased net gains related to credit default swaps and equity and equity index total return swaps, partially offset by other than temporary impairments recorded principally on equity securities. Decreased interest and dividends reflected lower interest income resulting from the year-over-year decline in short term interest rates. Other revenue in 2008 comprised the revenues resulting from the consolidation of Ridley, whereas other revenue in 2007 comprised revenue of Cunningham Lindsey. Following the sale in 2007 of a majority of the company's interest in the operating companies of Cunningham Lindsey, revenues reflected the deconsolidation of those operating companies in 2008.

Net premiums written by the company's insurance and reinsurance operations in the fourth quarter of 2008 declined 12.6% to $958.3 from $1,096.7 in the fourth quarter of 2007. The decline in net premiums written in the fourth quarter and twelve months of 2008 reflected the company's disciplined response to increasingly competitive conditions and pricing trends in insurance and reinsurance markets where the company's insurance and reinsurance companies compete. Net premiums written by Northbridge measured in U.S. dollars decreased 13.4% during the fourth quarter of 2008 compared to net premiums written during the fourth quarter of 2007, reflecting the impact of the year-over-year appreciation of the U.S. dollar relative to the Canadian dollar. Measured in

local currency, net premiums written by Northbridge increased by 6.1%, principally as a result of changes to the 2008 reinsurance program that resulted in increased premium retention and reduced cessions to reinsurers by the Northbridge operating companies. Net premiums written by Crum & Forster during the fourth quarter declined 20.3% in total, with declines across all major lines of business with the exception of accident and health, reflecting Crum & Forster's disciplined response to deteriorating market conditions in the U.S. commercial lines business. Net premiums written by OdysseyRe during the fourth quarter declined 9.2%, with declines in the Americas, EuroAsia and U.S. Insurance divisions partially offset by an increase in the London Market division. Appreciation of the U.S. dollar during the fourth quarter of 2008 relative to other currencies also contributed to the decline in OdysseyRe's net premiums written compared to the fourth quarter of 2007. Reflecting the above mentioned factors, net premiums written by the company's insurance and reinsurance operations in 2008 declined 4.2% to $4,321.1 from $4,508.8 in 2007. Net premiums written increased at Northbridge by 10.3% (8.4% measured in local currency) and decreased at Crum & Forster by 20.2% and at OdysseyRe by 2.8%.

Fourth Quarter and Twelve Months Results

The company's sources of net earnings and combined ratios by business segment were as set out below for the three and twelve months ended December 31, 2008 and 2007. On January 1, 2008, nSpire Re's Group Re business was reclassified from the Reinsurance – Other business segment to the Runoff business segment. On September 11, 2008, the company commenced consolidation of Advent following an increase in the company's investment in Advent, as described in note 4 to the consolidated financial statements. The results for Advent are included in the Reinsurance – Other business segment. On November 4, 2008, the company commenced consolidation of Ridley following the acquisition of a 67.9% interest in Ridley, as described in note 4 to the consolidated financial statements. The results for Ridley are included in the Other business segment.

	Fourth quarter		**Year ended December 31,**	
	2008	2007	**2008**	2007
Combined ratios				
Insurance – Canada (Northbridge)	**119.1%**	99.8%	**107.3%**	92.3%
– U.S. (Crum & Forster)	**104.0%**	88.0%	**117.6%**	93.5%
– Asia (Fairfax Asia)	**125.0%**	41.0%	**92.1%**	70.4%
Reinsurance – OdysseyRe	**103.4%**	93.8%	**103.5%**	95.5%
– Other	**214.1%**	96.0%	**150.0%**	95.6%
Consolidated	**118.6%**	93.0%	**110.1%**	94.0%
Sources of net earnings				
Underwriting				
Insurance – Canada (Northbridge)	**(45.7)**	0.5	**(78.7)**	78.0
– U.S. (Crum & Forster)	**(9.5)**	35.3	**(177.2)**	77.0
– Asia (Fairfax Asia)	**(5.5)**	11.9	**6.7**	20.3
Reinsurance – OdysseyRe	**(17.0)**	32.1	**(73.5)**	94.7
– Other	**(129.7)**	2.8	**(135.0)**	11.3
Underwriting income (loss)	**(207.4)**	82.6	**(457.7)**	281.3
Interest and dividends	**122.1**	128.2	**476.1**	604.4
Operating income (loss)	**(85.3)**	210.8	**18.4**	885.7
Net gains on investments	**465.4**	555.8	**1,558.6**	984.0
Runoff	**72.8**	131.8	**392.6**	187.6
Other[1]	**1.4**	10.7	**1.4**	25.4
Interest expense	**(40.3)**	(45.0)	**(158.6)**	(209.5)
Corporate overhead and other	**195.0**	170.7	**631.9**	287.2
Pre-tax income	**609.0**	1,034.8	**2,444.3**	2,160.4
Income taxes	**(247.3)**	(343.8)	**(755.6)**	(711.1)
Non-controlling interests	**(14.9)**	(127.4)	**(214.9)**	(353.5)
Net earnings	**346.8**	563.6	**1,473.8**	1,095.8

(1) Other comprises the pre-tax income before interest and other of the Ridley animal nutrition business for the three and twelve months ended December 31, 2008 and the Cunningham Lindsey claims adjusting business for the three and twelve months ended December 31, 2007.

The company's insurance and reinsurance operations had an underwriting loss of $207.4 in the fourth quarter of 2008 compared to an underwriting profit of $82.6 in the fourth quarter of 2007. The combined ratio of those operations in the fourth quarter of 2008 was 118.6% compared to 93.0% in the fourth quarter of 2007, with Northbridge, Crum & Forster and OdysseyRe producing combined ratios of 119.1%, 104.0% and 103.4% respectively. Fourth quarter 2008 underwriting results generally reflected the year-over-year deterioration in commercial lines pricing and market conditions, and in addition included 12.2 combined ratio points ($135.8) of net adverse development of prior years' reserves, comprised of the adverse impact on prior years' reserves of U.S. dollar strengthening relative to other currencies (14.4 combined ratio points, $160.6), partially offset by otherwise net favourable development (excluding

the effects of currency translation) of prior years' reserves of 2.2 combined ratio points ($24.8), principally at Northbridge and OdysseyRe. 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). Catastrophe losses negatively impacted fourth quarter 2008 underwriting results by 8.6 points ($90.1) compared to 1.1 points ($13.5) in the fourth quarter of 2007. Fourth quarter 2008 catastrophe losses related primarily to increased loss estimates on Hurricanes Ike and Gustav by Advent (impact of 4.8 combined ratio points, or $54.1 net of reinstatement premiums) and OdysseyRe (impact of 1.5 combined ratio points, or $16.9 net of reinstatement premiums). Underwriting results in the fourth quarter of 2008 also included the effect of foreign currency movements (affecting both current year and prior years' reserves) which added a total of 15.2 combined ratio points ($169.7) to the combined ratio of the company's insurance and reinsurance operations (compared to 0.2 combined ratio points ($2.0) in the fourth quarter of 2007). The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. Excluding the effect of foreign currency movements and the impact of the increased Hurricanes Ike and Gustav losses, the combined ratio of the company's insurance and reinsurance operations was 97.2% in the fourth quarter of 2008 (92.8% in the fourth quarter of 2007, excluding the effect of foreign currency movements).

For 2008, the company's insurance and reinsurance operations had an underwriting loss of $457.7 and a combined ratio of 110.1% compared to an underwriting profit of $281.3 and a combined ratio of 94.0% for 2007. Underwriting results in 2008 generally reflected the year-over-year deterioration in commercial lines pricing and market conditions, and in addition included a 10.3 combined ratio point impact of catastrophe losses totaling $462.0 (net of reinstatement premiums), including the impact in the third and fourth quarters of Hurricanes Ike and Gustav (7.2 combined ratio points, $326.3 net of reinstatement premiums), the impact of the Crum & Forster reinsurance commutation in the second quarter ($84.2 pre-tax, representing 1.9 combined ratio points of adverse prior years' reserve development) and the settlement of an asbestos-related lawsuit during the first quarter by Crum & Forster ($25.5 pre-tax, representing 0.6 combined ratio points of adverse prior years' reserve development). Underwriting results in 2008 also included the effect of foreign currency movements (affecting both current year and prior years' reserves) which added a total of 4.2 combined ratio points ($189.2) to the combined ratio of the company's insurance and reinsurance operations (compared to a benefit of 0.9 combined ratio points ($41.3) in 2007). The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. Excluding the effect of foreign currency movements, the impact of the Hurricanes Ike and Gustav losses and Crum & Forster's second quarter reinsurance commutation and first quarter lawsuit settlement, the combined ratio of the company's insurance and reinsurance operations was 96.2% in 2008 (94.8% in 2007, excluding the effect of foreign currency movements). Underwriting results in 2008 included 3.6 combined ratio points ($162.5) of net adverse prior years' reserve development, comprised of the adverse impact on prior years' reserves of U.S. dollar strengthening relative to other currencies (3.9 combined ratio points, $176.7), partially offset by net otherwise favourable development (excluding the effects of currency translation) of prior years' reserves of 0.3 combined ratio points ($14.2). The $14.2 benefit included net favourable development at Northbridge, Crum & Forster (excluding the commutation loss and the lawsuit settlement), OdysseyRe and Advent, partially offset by the adverse impact at Crum & Forster of the commutation loss and the lawsuit settlement. Catastrophe losses of 10.3 combined ratio points ($462.0), primarily reflecting the third and fourth quarter Hurricanes Ike and Gustav losses, also included the impact on OdysseyRe of winter storm and earthquake activity in China and the effects of storm events and weather severity on Crum & Forster and Northbridge, compared to 2.6 combined ratio points ($120.8) in 2007, principally related to the impact on OdysseyRe of the European windstorm Kyrill, Cyclone Gonu, Mexico floods, Jakarta floods, the Peru earthquake and U.K. floods and the effects of storm events on Crum & Forster.

Net earnings were $346.8 ($19.73 per share, $19.62 per diluted share) in the fourth quarter of 2008 compared to $563.6 ($31.71 per share, $30.15 per diluted share) in the fourth quarter of 2007. The decrease in fourth quarter net earnings primarily reflected a $130.5 decrease in net gains on investments to $816.5 (including net gains of $1,055.0 related to equity and equity index total return swaps and short positions, net gains on bonds of $289.0, net gains of $49.9 related to credit default swaps and net gains of $64.4 related to foreign currency, partially offset by $612.8 recorded as other than temporary impairments on common stock and bond investments) compared to net gains on investments of $947.0 in the fourth quarter of 2007 (including $705.2 of net gains related to credit default swaps, net gains of $172.4 on short equity and equity index positions, net gains on common stocks of $40.2, net gains on bonds of $36.9 and net gains related to foreign currency of $27.6, partially offset by $32.4 of other than temporary impairments recorded on common stock and bond investments), a decline in underwriting results from a $82.6 profit in 2007 to a loss of $207.4 in 2008, and an $11.9 decrease in interest and dividends from the fourth quarter of 2007, principally arising from a year-over-year decline in short term interest rates.

For 2008, net earnings were $1,473.8 ($80.38 per share, $79.53 per diluted share) compared to $1,095.8 ($61.20 per share, $58.38 per diluted share) for 2007. Improved net earnings in 2008 primarily reflected a $1,081.1 increase in net gains on investments to

$2,720.5 (including net gains of $2,079.6 related to equity and equity index total return swaps and short positions, net gains of $1,290.5 related to credit default swaps, net gains on bonds of $273.7, net gains on common stocks of $20.6 and net gains of $60.2 related to foreign currency, partially offset by $996.4 recorded as other than temporary impairments on common stock and bond investments) compared to net gains on investments of $1,639.4 in 2007 (including net gains of $1,145.0 related to credit default swaps, a gain of $220.5 on the disposition of the company's investment in Hub International Limited ("Hub"), net gains of $143.0 related to equity and equity index total return swaps and short positions, net gains on common stocks of $140.5, net gains of $51.2 related to foreign currency and net gains on bonds of $55.7, partially offset by $102.6 recorded as other than temporary impairments on common stock and bond investments), partially offset by a decline in underwriting results, from a $281.3 profit in 2007 to a $457.7 loss in 2008, and a $134.6 decrease in interest and dividends, principally arising from a year-over-year decline in short term interest rates.

Operating expenses in the three and twelve months ended December 31, 2008 in the consolidated statements of earnings include only the operating expenses of the company's insurance, reinsurance and runoff operations and corporate overhead. Operating expenses also reflect the consolidation of Advent commencing on September 11, 2008. The $45.5 decrease in fourth quarter 2008 operating expenses (after excluding fourth quarter 2008 Advent operating expenses) related primarily to decreased corporate overhead costs at Fairfax and the subsidiary holding companies and decreased operating expenses at Northbridge, partially offset by increased severance and related costs at Runoff. The $4.5 decrease in operating costs in 2008 (after excluding 2008 Advent operating expenses) primarily reflected decreased Fairfax and subsidiary holding companies corporate overhead costs and decreased operating expenses at Northbridge, partially offset by increased severance and related costs at Runoff.

Net Earnings by Business Segment

The company's sources of net earnings shown by business segment were as set out below for the three and twelve months ended December 31, 2008 and 2007. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the group, primarily to OdysseyRe, nSpire Re and Group Re. The intercompany adjustment for net gains on investments eliminates gains or losses on purchase and sale transactions within the consolidated group.

Quarter ended December 31, 2008

	Northbridge	**Crum & Forster**	**Fairfax Asia**	**OdysseyRe**	**Other Reinsurance**	**Ongoing Operations**	**Runoff**	**Other[1]**	**Intercompany**	**Corporate & Other**	**Consolidated**
Gross premiums written	**313.4**	**225.7**	**58.5**	**494.0**	**95.1**	**1,186.7**	**6.9**	**—**	**(43.9)**	**—**	**1,149.7**
Net premiums written	**234.9**	**191.6**	**16.0**	**437.7**	**78.1**	**958.3**	**5.9**	**—**	**—**	**—**	**964.2**
Net premiums earned	**239.2**	**237.3**	**22.0**	**504.0**	**113.5**	**1,116.0**	**6.3**	**—**	**—**	**—**	**1,122.3**
Underwriting loss	**(45.7)**	**(9.5)**	**(5.5)**	**(17.0)**	**(129.7)**	**(207.4)**	**—**	**—**	**—**	**—**	**(207.4)**
Interest and dividends	**22.6**	**29.3**	**(2.4)**	**62.5**	**10.1**	**122.1**	**—**	**—**	**—**	**—**	**122.1**
Operating income (loss) before:	**(23.1)**	**19.8**	**(7.9)**	**45.5**	**(119.6)**	**(85.3)**	**—**	**—**	**—**	**—**	**(85.3)**
Net gains (losses) on investments	**(33.2)**	**194.9**	**5.0**	**201.3**	**112.5**	**480.5**	**143.2**	**—**	**(15.1)**	**—**	**608.6**
Runoff operating loss	**—**	**—**	**—**	**—**	**—**	**—**	**(70.4)**	**—**	**—**	**—**	**(70.4)**
Other[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1.4**	**—**	**—**	**1.4**
Interest expense	**—**	**(7.0)**	**—**	**(8.4)**	**(2.2)**	**(17.6)**	**—**	**(0.4)**	**—**	**(22.3)**	**(40.3)**
Corporate overhead and other	**(2.9)**	**(4.6)**	**(2.8)**	**(0.4)**	**(1.3)**	**(12.0)**	**—**	**—**	**—**	**207.0**	**195.0**
Pre-tax income (loss)	**(59.2)**	**203.1**	**(5.7)**	**238.0**	**(10.6)**	**365.6**	**72.8**	**1.0**	**(15.1)**	**184.7**	**609.0**
Income taxes											**(247.3)**
Non-controlling interests											**(14.9)**
Net earnings											**346.8**

Quarter ended December 31, 2007

	Northbridge	Crum & Forster	Fairfax Asia	OdysseyRe	Other Reinsurance	Ongoing Operations	Runoff	Other[1]	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 loss	—	—	—	—	—	—	(61.3)	**—**	—	—	(61.3)
Other[1]	—	—	—	—	—	—	—	**10.7**	—	—	10.7
Interest expense	—	(7.0)	—	(9.4)	—	(16.4)	—	**(3.9)**	—	(24.7)	(45.0)
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	**6.8**	(12.5)	161.1	1,034.8
Income taxes											(343.8)
Non-controlling interests											(127.4)
Net earnings											563.6

Year ended December 31, 2008

	Northbridge	**Crum & Forster**	**Fairfax Asia**	**OdysseyRe**	**Other Reinsurance**	**Ongoing Operations**	**Runoff**	**Other[1]**	**Intercompany**	**Corporate & Other**	**Consolidated**
Gross premiums written	**1,452.1**	**1,019.6**	**227.0**	**2,294.5**	**245.8**	**5,239.0**	**12.6**	**—**	**(190.2)**	**—**	**5,061.4**
Net premiums written	**1,099.5**	**878.2**	**86.5**	**2,030.8**	**226.1**	**4,321.1**	**11.1**	**—**	**—**	**—**	**4,332.2**
Net premiums earned	**1,076.1**	**1,005.0**	**84.6**	**2,076.4**	**269.6**	**4,511.7**	**17.4**	**—**	**—**	**—**	**4,529.1**
Underwriting profit (loss)	**(78.7)**	**(177.2)**	**6.7**	**(73.5)**	**(135.0)**	**(457.7)**	**—**	**—**	**—**	**—**	**(457.7)**
Interest and dividends	**107.9**	**86.2**	**1.6**	**250.3**	**30.1**	**476.1**	**—**	**—**	**—**	**—**	**476.1**
Operating income (loss) before:	**29.2**	**(91.0)**	**8.3**	**176.8**	**(104.9)**	**18.4**	**—**	**—**	**—**	**—**	**18.4**
Net gains (losses) on investments	**66.5**	**605.7**	**3.2**	**785.9**	**118.1**	**1,579.4**	**472.8**	**—**	**(20.8)**	**—**	**2,031.4**
Runoff operating loss	**—**	**—**	**—**	**—**	**—**	**—**	**(80.2)**	**—**	**—**	**—**	**(80.2)**
Other[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1.4**	**—**	**—**	**1.4**
Interest expense	**—**	**(28.3)**	**—**	**(34.2)**	**(2.6)**	**(65.1)**	**—**	**(0.4)**	**—**	**(93.1)**	**(158.6)**
Corporate overhead and other	**(14.5)**	**(8.8)**	**(5.5)**	**(13.9)**	**(1.9)**	**(44.6)**	**—**	**—**	**—**	**676.5**	**631.9**
Pre-tax income (loss)	**81.2**	**477.6**	**6.0**	**914.6**	**8.7**	**1,488.1**	**392.6**	**1.0**	**(20.8)**	**583.4**	**2,444.3**
Income taxes											**(755.6)**
Non-controlling interests											**(214.9)**
Net earnings											**1,473.8**

Year ended December 31, 2007

	Northbridge	Crum & . Forster	Fairfax Asia	OdysseyRe	Other Reinsurance	Ongoing Operations	Runoff	Other[1]	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)
Other[1]	—	—	—	—	—	—	—	**25.4**	—	—	25.4
Interest expense	—	(51.0)	—	(37.7)	—	(88.7)	—	(15.7)	—	(105.1)	(209.5)
Corporate overhead and other	(12.4)	(9.6)	(3.2)	(13.8)	—	(39.0)	—	—	—	326.2	287.2
Pre-tax income (loss)	373.0	400.1	34.2	907.1	44.9	1,759.3	187.6	**9.7**	(17.3)	221.1	2,160.4
Income taxes											(711.1)
Non-controlling interests											(353.5)
Net earnings											1,095.8

(1) Other comprises the pre-tax income of the Ridley animal nutrition business for the three and twelve months ended December 31, 2008 and the Cunningham Lindsey claims adjusting business for the three and twelve months ended December 31, 2007.

Underwriting and Operating Income

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, 2008 and 2007.

Canadian Insurance – Northbridge

	Fourth quarter		**Year ended December 31,**	
	2008	2007	**2008**	2007
Underwriting profit (loss)	**(45.7)**	0.5	**(78.7)**	78.0
Combined ratio	**119.1**%	99.8%	**107.3**%	92.3%
Gross premiums written	**313.4**	407.4	**1,452.1**	1,531.3
Net premiums written	**234.9**	271.4	**1,099.5**	996.8
Net premiums earned	**239.2**	274.3	**1,076.1**	1,017.1
Underwriting profit (loss)	**(45.7)**	0.5	**(78.7)**	78.0
Interest and dividends	**22.6**	33.9	**107.9**	119.2
Operating income (loss)	**(23.1)**	34.4	**29.2**	197.2
Net gains (losses) on investments	**(33.2)**	94.2	**66.5**	188.2
Pre-tax income (loss) before interest and other	**(56.3)**	128.6	**95.7**	385.4
Net income (loss) after taxes	**(50.2)**	79.6	**45.7**	273.3

Northbridge had an underwriting loss of $45.7 and a combined ratio of 119.1% in the fourth quarter of 2008 compared to underwriting profit of $0.5 and a combined ratio of 99.8% in the fourth quarter of 2007. The decline in 2008 underwriting results generally reflected the year-over-year deterioration in commercial lines pricing and market conditions, increased weather-related claims frequency and loss severity, and expected increased net commissions expense resulting from reduced reinsurance ceding

commission income following changes to Northbridge's 2008 reinsurance programme, partially offset by lower general operating expenses. Underwriting results in the fourth quarter of 2008 included the effect of foreign currency movements (affecting both current year and prior years' reserves) which added a total of 14.0 points ($33.6) to the combined ratio (compared to 0.7 combined ratio points ($2.0) in the fourth quarter of 2007). The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. Excluding the effect of foreign currency movements, the combined ratio was 105.1% in the fourth quarter of 2008 (99.1% in the fourth quarter of 2007, excluding the effect of foreign currency movements). Fourth quarter 2008 underwriting results also included the net adverse impact of 0.2 combined ratio points ($0.4) arising from net adverse development of prior years' claims, comprised of the adverse impact of 10.3 combined ratio points ($24.6) attributable to foreign currency movements (the impact of the appreciation of the U.S. dollar relative to the Canadian dollar on U.S. dollar-denominated claims liabilities of Commonwealth and Markel) and net favourable development of 10.1 combined ratio points ($24.2) of prior years' reserves at all four operating companies. Fourth quarter 2007 underwriting results included the benefit of 4.8 combined ratio points ($13.1) of net favourable development of prior years' reserves, including 0.7 combined ratio points ($1.8) of benefit attributable to foreign currency movements. Catastrophe losses added 0.9 combined ratio points ($2.2) and 0.7 combined ratio points ($1.8) to fourth quarter 2008 and 2007 underwriting results respectively.

Northbridge had an underwriting loss of $78.7 and a combined ratio of 107.3% in 2008, compared to an underwriting profit of $78.0 and a combined ratio of 92.3% in 2007. Underwriting results in 2008 generally reflected the year-over-year deterioration in commercial lines pricing and market conditions, increased weather-related claims frequency and loss severity, and expected increased net commission expense resulting from reduced reinsurance ceding commission income following changes to Northbridge's 2008 reinsurance programme, partially offset by lower general operating expenses. Current period catastrophe losses, primarily related to Hurricane Ike in the third quarter and the added impact in the twelve months of elevated levels of weather-related events, added 3.4 combined ratio points ($36.2) to 2008 underwriting results (catastrophe losses added 0.7 combined ratio points ($7.0) to 2007 underwriting results). Underwriting results in 2008 included the effect of foreign currency movements (affecting both current year and prior years' reserves) which added a total of 4.9 points ($52.8) to the combined ratio (compared to a benefit of 4.1 combined ratio points ($41.3) in 2007). The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. Excluding the effect of foreign currency movements and the impact of the Hurricanes Ike and Gustav losses (2.3 combined ratio points, $25.2), Northbridge's combined ratio was 100.1% in 2008 (96.4% in 2007, excluding the effect of foreign currency movements). Underwriting results in 2008 also included 2.1 combined ratio points ($22.5) of net favourable development of prior years' reserves, principally attributable to better than expected development across most lines of business in the most recent accident years (5.9 combined ratio points, $63.3), partially offset by the adverse impact of 3.8 combined ratio points ($40.7) from movement in the U.S. dollar-Canadian dollar exchange rate. Underwriting results in 2007 included the benefit of 6.9 combined ratio points ($70.3) of net favourable development of prior years' reserves, primarily attributable to the favourable impact of movement in the U.S. dollar-Canadian dollar exchange rate (4.0 combined ratio points, $39.6) and better than expected claims development on recent accident years (3.0 combined ratio points, $30.6), and the impact of large losses (1.1 combined ratio points, $11.7) incurred in 2007 within the exited portion of Commonwealth's Energy & International business.

Northbridge's disciplined response to the softening underwriting cycle and increasing competition for new and renewal business contributed to a decline in gross premiums written in the fourth quarter and the twelve months of 2008 in Canadian dollar terms compared to the fourth quarter and the twelve months of 2007 of 5.5% and 6.8% respectively. Net premiums written increased by 6.1% in the fourth quarter and 8.4% in the twelve months of 2008 compared to 2007 in Canadian dollar terms, reflecting changes to Northbridge's 2008 reinsurance programme that resulted in increased premium retention through reduced cessions to reinsurers by the Northbridge operating companies.

Net losses on investments in the fourth quarter of 2008 of $33.2 (compared to net gains of $94.2 in the fourth quarter of 2007) primarily included $136.4 of other than temporary impairments recorded on common stock and bond investments, net losses of $40.2 on bonds, net losses on common stocks of $4.6 and net losses of $13.8 related to credit default swaps, partially offset by net gains of $134.1 on short equity and equity index positions and $27.2 related to net foreign currency gains principally attributable to U.S. dollar cash and short term investments. Net gains of $94.2 in the fourth quarter of 2007 included net gains of $71.3 related to credit default swaps, net gains on bonds of $13.1, net gains on short equity and equity index positions of $8.5 and net gains on common stocks of $3.8, partially offset by provisions recorded for other than temporary impairments of common stock and bond investments of $9.8. A year-over-year decrease in interest and dividends of $11.3 and the deterioration in underwriting results, in addition to the impact of the net investment losses, contributed to a net loss of $50.2 in the fourth quarter of 2008, compared to net income of $79.6 in the fourth quarter of 2007.

Net gains on investments of $66.5 in 2008 primarily included net gains related to short equity and equity index positions of $232.2, net gains related to credit default swaps of $134.9, net gains related to foreign currency of $32.0, principally attributable to U.S. dollar cash and short term investments, and net gains on common stocks of $18.9, partially offset by $273.6 of other than temporary impairments recorded on common stock and bond investments and net losses on bonds of $83.5. Net investment gains of $188.2 in 2007 included $125.5 of net gains related to credit default swaps, an $87.7 pre-tax gain on the sale of the company's investment in Hub and net gains of $30.1 on common stocks, partially offset by other than temporary impairments recorded on common stock and bond investments of $21.1, net foreign currency losses principally attributable to U.S. dollar cash and short term investments of $19.4, net losses on short equity and equity index positions of $9.9 and net losses on bonds of $9.7. The $121.7 decline in net gains on investments, an $11.3 decrease in interest and dividends and the deterioration in underwriting results contributed to a $227.6 decrease in net income in 2008 compared to 2007.

Cash used in operating activities in the fourth quarter of 2008 was $15.8 compared to cash provided by operating activities of $40.5 in the fourth quarter of 2007, with the change primarily due to reduced underwriting cash flows and decreased investment income. Cash provided by investing activities increased in the fourth quarter of 2008 compared to the fourth quarter of 2007, reflecting greater net purchases of investment securities in 2007. Increased cash used in financing activities in the fourth quarter of 2008 compared to the fourth quarter of 2007 primarily reflected the greater common share repurchases by Northbridge in 2008. Cash provided by operating activities in 2008 was $144.0 compared to $187.6 in 2007, with the decrease primarily attributable to reduced underwriting cash flows and decreased investment income. Cash used in investing activities declined to $192.0 in 2008 from $382.7 in 2007, largely as a result of the greater net purchases of investment securities in 2007 (primarily government bonds). Cash used in investing activities during 2008 included $253.9 used in the second quarter to close certain equity index short positions, as the company changed its approach to equity hedging by substituting equity index total return swaps for short sales. Cash used in financing activities in 2008 increased to $94.5 from $68.5 in 2007, primarily reflecting greater repurchases by Northbridge of its common shares in 2008.

Northbridge's fourth quarter and fiscal year 2008 financial results produced a book value per share at December 31, 2008 of Cdn$29.21, compared to Cdn$29.69 at September 30, 2008 and Cdn$28.59 at December 31, 2007.

For more information on Northbridge's results, please see its 2008 year-end press release posted on its website at *www.norfin.com*.

U.S. Insurance – Crum & Forster[(1)]

	Fourth quarter		Year ended December 31,	
	2008	2007	**2008**	2007
Underwriting profit (loss)	**(9.5)**	35.3	**(177.2)**	77.0
Combined ratio	**104.0%**	88.0%	**117.6%**	93.5%
Gross premiums written	**225.7**	275.6	**1,019.6**	1,245.0
Net premiums written	**191.6**	240.4	**878.2**	1,100.9
Net premiums earned	**237.3**	293.5	**1,005.0**	1,187.4
Underwriting profit (loss)	**(9.5)**	35.3	**(177.2)**	77.0
Interest and dividends	**29.3**	23.0	**86.2**	133.4
Operating income (loss)	**19.8**	58.3	**(91.0)**	210.4
Net gains on investments	**194.9**	170.4	**605.7**	250.3
Pre-tax income before interest and other	**214.7**	228.7	**514.7**	460.7
Net income after taxes	**133.8**	140.4	**320.9**	267.3

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

Crum & Forster had an underwriting loss of $9.5 and a combined ratio of 104.0% in the fourth quarter of 2008 compared to underwriting profit of $35.3 and a combined ratio of 88.0% in the fourth quarter of 2007. The fourth quarter 2008 results generally reflected the year-over-year deterioration in commercial lines pricing and market conditions, and in addition included the impact of net adverse prior years' reserve development of 0.8 combined ratio points ($1.9), attributable to adverse development primarily in the general liability (including asbestos and environmental) reserves partially offset by favourable development in workers' compensation. 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. Current period catastrophe losses of $1.1 (0.5 combined ratio points) did not materially impact fourth quarter 2008 underwriting results (there was no material impact of catastrophe losses in the fourth quarter of 2007).

The effects of unfavourable pricing trends and market conditions, the impact of Hurricanes Ike and Gustav (7.4 combined ratio

points, $74.3) in the third quarter, the second quarter reinsurance commutation and the settlement of an asbestos-related lawsuit in the first quarter of 2008 contributed to unfavourable underwriting results for Crum & Forster in 2008, with an underwriting loss of $177.2 and a combined ratio of 117.6% compared to underwriting profit of $77.0 and a combined ratio of 93.5% in 2007. Prior to giving effect to the impact of the Hurricanes Ike and Gustav losses, the reinsurance commutation and the lawsuit settlement, Crum & Forster's combined ratio in 2008 was 99.3%. In addition to the adverse impact on prior years' reserves of the reinsurance commutation ($84.2 or 8.4 combined ratio points) and the lawsuit settlement ($25.5 or 2.5 combined ratio points), underwriting results in 2008 included otherwise net favourable prior years' reserve development of 5.0 combined ratio points ($50.7), related primarily to workers' compensation, umbrella and Seneca business. 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 principally attributable to favourable emergence in workers' compensation lines, partially offset by adverse development in latent liability reserves. Catastrophe losses, primarily related to Hurricanes Ike and Gustav and storm events in the U.S. southeast and Midwest regions, added 9.3 combined ratio points ($93.7) to the combined ratio for 2008 (1.3 combined ratio points and $15.0 in 2007).

Crum & Forster's disciplined response to the softening underwriting cycle, increasing competition for new and renewal business and declining pricing contributed to year-over-year declines in gross premiums written and net premiums written in most lines of business, including primary casualty and property, partially offset by 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 18.1% and 20.3% respectively for the fourth quarter of 2008 compared to the fourth quarter of 2007. Net premiums earned decreased by 19.1% in the fourth quarter of 2008 compared to the fourth quarter of 2007. Reflecting the above mentioned factors, gross premiums written and net premiums written declined by 18.1% and 20.2% respectively in 2008 compared to 2007. Net premiums earned decreased by 15.4% in 2008 compared to 2007.

The year-over-year deterioration in fourth quarter underwriting results was only partially offset by increased net gains on investments of $194.9 (primarily attributable to $209.0 of net gains related to short equity and equity index positions, $113.6 of net gains on bonds and net gains of $7.5 related to credit default swaps, partially offset by $120.8 of other than temporary impairments recorded on common stock and bond investments and $16.5 of net losses on common stocks) and increased interest and dividends, resulting in a $6.6 decrease in net income in the fourth quarter of 2008 compared to the fourth quarter of 2007.

A decline in interest and dividend income in 2008, primarily attributable to reduced equity in earnings of investees and a year-over-year decline in short term interest rates, and the year-over-year deterioration in underwriting results were more than offset by increased net gains on investments of $605.7 (including $431.8 of net gains related to short equity and equity index positions, $283.5 of net gains related to credit default swaps and $101.5 of net gains on bonds, partially offset by $196.6 of other than temporary impairments recorded on common stock and bond investments and $13.4 of net losses on common stocks), resulting in a $53.6 increase in net income in 2008 compared to 2007.

Cash used in operating activities in the fourth quarter of 2008 was $164.9 compared to cash used in operating activities of $55.8 in the fourth quarter of 2007, with the increase primarily attributable to lower premium collections, higher paid losses and increased income tax payments. Cash provided by investing activities increased to $110.4 in the fourth quarter of 2008 from cash used in investing activities of $47.4 in the fourth quarter of 2007, primarily as a result of proceeds from total return swaps. Cash used in financing activities in the fourth quarter of 2008 of $205.2 increased from nil in the fourth quarter of 2007, primarily as a result of the $191.2 cash portion of the $350.0 dividend distributed by Crum & Forster to Fairfax. Cash provided by operating activities in 2008 was $100.9 compared to cash used in operating activities of $5.9 in 2007, with the increase primarily attributable to the $302.5 cash proceeds of the second quarter reinsurance commutation, partially offset by lower premium collections and higher income tax payments. Cash used in investing activities of $479.6 during 2008 (2007 − cash provided by investing activities of $220.5) reflected greater net purchases of investment securities (including the purchase of U.S. state, municipal and other tax-exempt bonds, partially offset by the sale of the majority of the company's U.S. Treasury bonds), and in addition reflected $642.1 used to close certain equity index short positions in the second quarter, as the company changed its approach to equity hedging by substituting equity index total return swaps for short sales. Increased cash used in financing activities of $339.5 (2007 - $118.5) primarily reflected increased dividends paid by Crum & Forster to Fairfax in 2008 compared to 2007.

During the fourth quarter of 2008, Crum & Forster distributed an extraordinary dividend out of excess capital, which was approved by the relevant insurance regulator, in the amount of $350.0. The proceeds of the dividend, consisting of $191.2 of cash and $158.8 of securities, were distributed to Fairfax. Total dividends paid to Fairfax in 2008 were $494.0 (2007 - $183.7). Primarily as a result of these dividends and 2008 net earnings and other comprehensive income, Crum & Forster's US GAAP basis shareholders' equity declined to $1.17 billion at December 31, 2008 compared to $1.29 billion at December 31, 2007.

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,	
	2008	2007	**2008**	2007
Underwriting profit (loss)	**(5.5)**	11.9	**6.7**	20.3
Combined ratio	**125.0%**	41.0%	**92.1%**	70.4%
Gross premiums written	**58.5**	45.7	**227.0**	171.2
Net premiums written	**16.0**	16.7	**86.5**	70.5
Net premiums earned	**22.0**	20.2	**84.6**	68.7
Underwriting profit (loss)	**(5.5)**	11.9	**6.7**	20.3
Interest and dividends	**(2.4)**	7.2	**1.6**	17.4
Operating income (loss)	**(7.9)**	19.1	**8.3**	37.7
Net gains (losses) on investments	**5.0**	(0.6)	**3.2**	(0.3)
Pre-tax income (loss) before interest and other	**(2.9)**	18.5	**11.5**	37.4
Net income (loss) after taxes	**(7.4)**	15.4	**0.9**	28.7

Underwriting results for Fairfax Asia in the fourth quarter featured an underwriting loss of $5.5 and a combined ratio of 125.0%, reflecting favourable underwriting results from First Capital, offset by unfavourable results from Falcon, compared to underwriting profit of $11.9 and a combined ratio of 41.0% in the fourth quarter of 2007. The fourth quarter results included 10.0 combined ratio points ($2.2) attributable to net adverse development of prior years' reserves primarily related to workers' compensation at Falcon (compared to the benefit of 26.0 combined ratio points ($5.2) of net favourable development primarily attributable to First Capital in the fourth quarter of 2007). In the fourth quarter of 2008, increased marine, motor, engineering and workers' compensation business written by First Capital, a significant portion of which was ceded to third party reinsurers, and a minor increase in premiums written by Falcon resulted in a 28.0% increase in gross premiums written and a 4.2% decrease in net premiums written. Decreased underwriting profit and interest and dividends (due to reduced equity in earnings of investees, principally ICICI Lombard General Insurance Company Limited ("ICICI Lombard")) were only partially offset by increased net investment gains in the fourth quarter of 2008 compared to the fourth quarter of 2007, resulting in a net loss of $7.4 compared to net income of $15.4.

Fairfax Asia produced an underwriting profit of $6.7 and a combined ratio of 92.1% in 2008 (compared to an underwriting profit of $20.3 and a combined ratio of 70.4% in 2007), reflecting favourable underwriting results from First Capital, partially offset by unfavourable results from Falcon. The 2008 results included the impact of 4.1 combined ratio points ($3.4) attributable to net unfavourable development of prior years' reserves primarily related to workers' compensation at Falcon (compared to 6.4 combined ratio points ($4.4) of net favourable development primarily attributable to First Capital in 2007). In 2008, increased marine, motor, engineering and workers' compensation business written by First Capital, a significant portion of which was ceded to third party reinsurers and a minor increase in premiums written by Falcon resulted in a 32.6% increase in gross premiums written and a 22.7% increase in net premiums written. Decreased underwriting profit and interest and dividends (due to reduced equity in earnings of investees, principally ICICI Lombard) were only partially offset by increased net gains on investments in 2008 compared to 2007, resulting in a decrease in net income to $0.9 from $28.7.

During 2008, the company invested an additional $30.3 as its pro rata contribution in the share capital issuance by ICICI Lombard. As at December 31, 2008, the company had invested a total of $87.4 to acquire and maintain its 26.0% interest in ICICI Lombard and carried this investment at $73.1 on the equity basis of accounting (and at a fair value of $428.5 for balance sheet disclosure purposes).

Reinsurance – OdysseyRe[(1)]

	Fourth quarter		Year ended December 31,	
	2008	2007	**2008**	2007
Underwriting profit (loss)	**(17.0)**	32.1	**(73.5)**	94.7
Combined ratio	**103.4%**	93.8%	**103.5%**	95.5%
Gross premiums written	**494.0**	525.4	**2,294.5**	2,282.7
Net premiums written	**437.7**	482.3	**2,030.8**	2,089.4
Net premiums earned	**504.0**	518.9	**2,076.4**	2,120.5
Underwriting profit (loss)	**(17.0)**	32.1	**(73.5)**	94.7
Interest and dividends	**62.5**	63.5	**250.3**	309.3
Operating income	**45.5**	95.6	**176.8**	404.0
Net gains on investments	**201.3**	288.3	**785.9**	554.6
Pre-tax income before interest and other	**246.8**	383.9	**962.7**	958.6
Net income after taxes	**162.4**	240.9	**613.9**	596.0

(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 2008, OdysseyRe had an underwriting loss of $17.0 and a combined ratio of 103.4%, compared to an underwriting profit of $32.1 and a combined ratio of 93.8% in the fourth quarter of 2007. The 2008 fourth quarter combined ratio included 7.5 combined ratio points ($37.3) related to current period catastrophe losses (net of reinstatement premiums), with increased losses related to Hurricane Ike (3.4 combined ratio points, $16.9 net of reinstatement premiums) and the southern China snowstorm accounting for the largest losses. 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. Fourth quarter 2008 underwriting results were adversely impacted by 7.1 combined ratio points ($35.9) of net adverse prior period reserve development, comprised of the adverse impact on prior years' reserves of U.S. dollar strengthening relative to other currencies (9.1 combined ratio points, $45.8), partially offset by net favourable development (excluding the effects of currency translation) of prior years' reserves of 2.0 combined ratio points ($9.9). This $9.9 benefit included net favourable development in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by net adverse development in the Americas division. The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. 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, U.S. Insurance and EuroAsia divisions. Excluding the effect of foreign currency movements and the impact of the increased Hurricane Ike losses, OdysseyRe's combined ratio was 90.9% in the fourth quarter of 2008.

For 2008, OdysseyRe had an underwriting loss of $73.5 and a combined ratio of 103.5%, compared to an underwriting profit of $94.7 and a combined ratio of 95.5% in 2007. The 2008 combined ratio included 11.8 combined ratio points ($242.2) related to current period catastrophe losses (net of reinstatement premiums), primarily related to Hurricanes Ike and Gustav (6.6 combined ratio points, $136.9), the southern China snowstorm, windstorm Emma in central Europe, flood losses in eastern Australia and the China earthquake. Underwriting results in 2008 were adversely impacted by 1.7 combined ratio points ($35.7) of prior period reserve development, comprised of the adverse impact on prior years' reserves of U.S. dollar strengthening relative to other currencies (2.2 combined ratio points, $45.8), partially offset by net favourable development (excluding the effects of currency translation) of prior years' reserves of 0.5 combined ratio points ($10.1). This $10.1 benefit included net favourable reserve development in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by net unfavourable development in the Americas division. The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. 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). Excluding the effect of foreign currency movements and the impact of the Hurricanes Ike and Gustav losses, OdysseyRe's combined ratio was 94.7% in 2008.

OdysseyRe continued to experience broad competitive pressures in 2008 in the global reinsurance and insurance markets in which its divisions compete. Declines in the Americas division reinsurance premiums reflected increasing client retentions and softening pricing in reinsurance markets, while insurance premiums were affected by planned reductions in certain of the U.S. Insurance division's lines of business (including non-standard personal auto) and by increased competition in its medical professional liability segment. The EuroAsia division reported modestly increased written premiums in 2008, despite lower written premiums in the fourth quarter of 2008 compared to the fourth quarter of 2007 as a result of a system change in the reinsurance premium process (which had no impact on earned premiums). Decreased written premiums in the Americas and U.S. Insurance divisions were partially offset by the increase in EuroAsia and by increases in premiums written by the London Market division, which experienced growth in its professional liability business. Gross premiums written during the fourth quarter of 2008 decreased 6.0% to $494.0 from $525.4 in the fourth quarter of 2007, and included decreases of 7.6% in the Americas, 22.3% in EuroAsia and 3.3% in the U.S. Insurance division, partially offset by a 19.9% increase in the London Market division. Net premiums written during the quarter declined 9.2% from $482.3 to $437.7, and net premiums earned decreased 2.9% from $518.9 to $504.0. Gross premiums written during 2008 increased 0.5%, and included increases of 5.5% in EuroAsia, 9.1% in the London Market division and 1.4% in the U.S. Insurance division, mostly offset by a 7.0% decrease in the Americas division. Net premiums written during 2008 compared to 2007 declined 2.8% to $2,030.8, reflecting the effect of increased utilization of reinsurance in the London Market division, and net premiums earned declined 2.1% to $2,076.4.

Investment income earned in the fourth quarter of 2008 declined compared to the fourth quarter of 2007, with a 1.6% decline in interest and dividends to $62.5 from $63.5 reflecting reduced equity in earnings of investees and lower short term interest rates. Net investment gains decreased to $201.3 in the fourth quarter of 2008 (including net gains of $255.7 related to short equity and equity index positions, net gains of $34.9 related to credit default swaps and $191.5 of net gains on bonds, partially offset by $256.3 of other than temporary impairments recorded on common stock and bond investments) compared to net investment gains of $288.3 in the fourth quarter of 2007 (including net gains of $197.8 related to credit default swaps, net gains of $50.9 related to short equity and equity index positions, net gains on bonds of $23.0 and net gains on common stock of $22.8, partially offset by $13.6 of other than temporary impairments recorded on common stock and bond investments). The declines in underwriting results, interest and dividends and net gains on investments resulted in decreased net income of $162.4 in the fourth quarter of 2008 compared to $240.9 in the fourth quarter of 2007.

Increased net gains on investments of $785.9 in 2008 (including net gains of $548.0 related to short equity and equity index positions, net gains of $350.7 related to credit default swaps, net gains of $259.7 on bonds and net gains of $8.1 on common stocks, partially offset by other than temporary impairments recorded on common stock and bond investments of $358.7) compared to net gains on investments of $554.6 in 2007 (including net gains related to credit default swaps of $298.3, a net gain of $130.1 on the sale of the company's investment in Hub, net gains on bonds of $62.7, net gains of $51.7 related to short equity and equity index positions, net gains on common stocks of $28.0 and net gains on other derivative securities and foreign currency of $40.6, partially offset by other than temporary impairments recorded on common stock and bond positions of $54.5) more than offset the declines in underwriting profit and interest and dividends, and contributed to an increase in net income to $613.9 from $596.0 in 2007.

Cash used in operating activities in the fourth quarter of 2008 was $135.0 compared to $5.5 of cash provided by operating activities in the fourth quarter of 2007, with the change primarily attributable to decreased investment income, higher income tax payments and decreased underwriting cash flows, including higher paid losses and lower premiums collections. Cash used in investing activities of $898.7 in the fourth quarter of 2008 increased from $396.1 in the fourth quarter of 2007, primarily reflecting greater net purchases of investment securities (principally U.S. state, municipal and other tax-exempt bonds). Cash used in financing activities in the fourth quarter of 2008 declined to $4.9 from $37.3 in the fourth quarter of 2007, reflecting decreased repurchases by OdysseyRe of its common shares. Cash provided by operating activities in 2008 was $107.6 compared to $162.8 in 2007, with the decrease primarily attributable to decreased investment income, higher income tax payments and decreased underwriting cash flows, including higher paid losses and lower premiums collections. Net cash provided by investing activities in 2008 of $318.6 reflected greater net sales of investment securities (primarily U.S. Treasury bonds) compared to net cash used in 2007 of $1,355.6 (primarily purchases of U.S. Treasury bonds). Increased cash used in financing activities of $389.8 (2007 – $131.5) primarily reflected OdysseyRe's increased repurchases of its common shares, resulting in the retirement of 9.5 million common shares during 2008.

OdysseyRe's fourth quarter and fiscal year 2008 financial results produced a book value per share at December 31, 2008 (US GAAP basis) of $45.37, compared to $41.78 at September 30, 2008 and $36.78 at December 31, 2007.

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

Reinsurance – Other

For the quarters ended December 31, 2008 and 2007

	2008			2007
	Group Re	**Advent[1]**	**Total**	Group Re
Underwriting profit (loss)	**(26.0)**	**(103.7)**	**(129.7)**	2.8
Combined ratio	**149.9%**	**268.3%**	**214.1%**	96.0%
Gross premiums written	**46.5**	**48.6**	**95.1**	84.9
Net premiums written	**46.6**	**31.5**	**78.1**	85.9
Net premiums earned	**52.0**	**61.5**	**113.5**	71.6
Underwriting profit (loss)	**(26.0)**	**(103.7)**	**(129.7)**	2.8
Interest and dividends	**3.7**	**6.4**	**10.1**	0.6
Operating income (loss)	**(22.3)**	**(97.3)**	**(119.6)**	3.4
Net gains on investments	**34.4**	**78.1**	**112.5**	16.0
Pre-tax income (loss) before interest and other	**12.1**	**(19.2)**	**(7.1)**	19.4
Net income (loss) after taxes	**15.4**	**(16.4)**	**(1.0)**	19.4

For the years ended December 31, 2008 and 2007

	2008			2007
	Group Re	**Advent[1]**	**Total**	Group Re
Underwriting profit (loss)	(22.6)	(112.4)	(135.0)	11.3
Combined ratio	111.8%	242.5%	150.0%	95.6%
Gross premiums written	**185.4**	**60.4**	**245.8**	250.2
Net premiums written	**185.5**	**40.6**	**226.1**	251.2
Net premiums earned	**190.8**	**78.8**	**269.6**	258.4
Underwriting profit (loss)	**(22.6)**	**(112.4)**	**(135.0)**	11.3
Interest and dividends	**22.4**	**7.7**	**30.1**	25.1
Operating income (loss)	**(0.2)**	**(104.7)**	**(104.9)**	36.4
Net gains on investments	**40.4**	**77.7**	**118.1**	8.5
Pre-tax income (loss) before interest and other	**40.2**	**(27.0)**	**13.2**	44.9
Net income (loss) after taxes	**49.2**	**(20.2)**	**29.0**	44.9

(1) *These results differ from those published by Advent primarily due to differences in the classification of foreign currency translation between Canadian GAAP and IFRS.*

Commencing in the first quarter of 2008, the results for Reinsurance - Other were reported excluding the operating results of nSpire Re's Group Re business. Effective September 11, 2008, as a result of the company having increased its investment in Advent to 58.5% from 44.5% (described in note 4 to the consolidated financial statements), Advent's assets and liabilities and results of operations were included in the company's consolidated financial reporting. During the fourth quarter, the company increased its investment in Advent to 66.6%.

During the fourth quarter of 2008, the Reinsurance – Other segment produced a combined ratio of 214.1% (Group Re 149.9%, Advent 268.3%) and an underwriting loss of $129.7, compared to Group Re's combined ratio of 96.0% and an underwriting profit of $2.8 in the fourth quarter of 2007. Group Re's fourth quarter 2008 results reflected the impact of incurred losses of 25.0 combined ratio points ($13.0) related to the CTR life portfolio and 20.9 combined ratio points ($10.8) of net unfavourable development of prior years' reserves (compared to a benefit of 2.2 combined ratio points ($1.6) of net favourable development of prior years' reserves in the fourth quarter of 2007). Advent's fourth quarter 2008 results included the impact of increased losses related to Hurricanes Ike and Gustav (79.8 combined ratio points, $54.1 net of reinstatement premiums) and net adverse development of prior years' reserves (137.3 combined ratio points, $84.5). Net adverse development of prior years' reserves comprised the adverse impact of U.S. dollar strengthening relative to sterling (146.4 combined ratio points, $90.1), partially offset by net favourable development (excluding the effects of currency translation) of prior years' reserves of 9.1 combined ratio points ($5.6). Advent's underwriting results, and particularly its combined ratio, as reported above in Fairfax's business segment reporting was adversely impacted by virtue of the inclusion of Advent's net earned premiums only from September 11, 2008, concurrent with the inclusion since that date of significant incurred catastrophe losses from Hurricane Ike and of significant foreign currency translation losses. The company generally mitigates the impact of foreign currency movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. Excluding the effect of foreign currency movements, Advent's combined ratio was 121.9% in the fourth quarter of 2008. Prior to giving effect to the impact of foreign currency movements and the significant losses related to Hurricanes Ike and Gustav, Advent's fourth quarter combined ratio was 42.1%.

The Reinsurance – Other segment had a total underwriting loss of $135.0 and a combined ratio of 150.0% in 2008 (Group Re 111.8%, Advent 242.5%). Group Re had an underwriting loss of $22.6 and a combined ratio of 111.8% in 2008, compared to an $11.3 underwriting profit and a combined ratio of 95.6% in 2007. Group Re's results for 2008 included the impact of incurred losses of 6.8 combined ratio points ($13.0) related to the CTR life portfolio and 1.2 combined ratio points ($2.4) of net adverse development of prior years' reserves (compared to a benefit of 10.9 combined ratio points ($28.3) in 2007). Advent had an underwriting loss of $112.4 and a combined ratio of 242.5% for the portion of 2008 (since September 11, 2008) that its results were included in the consolidated Fairfax results. These 2008 results included the impact of catastrophe losses related to Hurricanes Ike and Gustav (99.4 combined ratio points, $83.8 net of reinstatement premiums) and net adverse development of prior years' reserves (107.2 combined ratio points, $84.5). Net adverse development of prior years' reserves comprised the adverse impact of U.S. dollar strengthening relative to sterling (114.3 combined ratio points, $90.1), partially offset by net favourable development (excluding the effects of currency translation) of prior years' reserves of 7.1 combined ratio points ($5.6). Advent's underwriting results, and particularly its combined ratio, as reported above in Fairfax's business segment reporting was adversely impacted by virtue of the inclusion of Advent's net earned premiums only from September 11, 2008, concurrent with the inclusion since that date of significant incurred catastrophe losses from Hurricane Ike and of significant foreign currency translation losses. The company generally mitigates the impact of foreign currency

movements on its foreign currency-denominated claims liabilities by holding foreign currency-denominated investments. As a result, the impact of foreign currency translation gains and losses included in incurred losses generally is partially or wholly mitigated by foreign currency translation gains and losses on investment assets that are included in financial results as investment income in net earnings or in other comprehensive income. Excluding the effect of foreign currency movements, Advent's combined ratio was 128.2% in 2008. Prior to giving effect to the impact of foreign currency movements and the significant losses related to Hurricanes Ike and Gustav, Advent's combined ratio in 2008 was 28.8%.

Gross premiums written and net premiums written in the fourth quarter of 2008 by the Reinsurance – Other segment compared to the fourth quarter of 2007 increased 12.0% and declined 9.1% respectively, reflecting the consolidation of Advent in 2008 and the significant year-over-year decline in premiums written by Group Re. Increasingly competitive conditions in reinsurance markets accounted for declines in gross premiums written and net premiums written in 2008 by Group Re compared to 2007 of 25.9% and 26.2% respectively. In the fourth quarter of 2008, an underwriting loss, primarily resulting from catastrophe losses, and the impact of foreign exchange, partially offset by increased net gains on investments, produced a net loss of $1.0 compared to net income of $19.4 in the fourth quarter of 2007. In 2008, an underwriting loss, primarily resulting from catastrophe losses, and the impact of foreign exchange, partially offset by increased net gains on investments, produced reduced net income of $29.0 compared to $44.9 in 2007.

Runoff

	Fourth quarter		**Year ended December 31,**	
	2008	2007	**2008**	2007
Gross premiums written	**6.9**	(17.2)	**12.6**	8.0
Net premiums written	**5.9**	(19.0)	**11.1**	(10.4)
Net premiums earned	**6.3**	(1.3)	**17.4**	(3.3)
Losses on claims	**(48.9)**	(59.1)	**(56.2)**	(122.2)
Operating expenses	**(39.8)**	(20.6)	**(109.6)**	(70.3)
Interest and dividends	**12.0**	19.7	**68.2**	91.6
Operating loss	**(70.4)**	(61.3)	**(80.2)**	(104.2)
Net gains on investments	**143.2**	193.1	**472.8**	291.8
Pre-tax income before interest and other	**72.8**	131.8	**392.6**	187.6

Commencing in the first quarter of 2008, nSpire Re's Group Re business was reported in Runoff such that Runoff now includes all of the operating results of nSpire Re. The Runoff segment produced pre-tax income of $72.8 in the fourth quarter of 2008, reflecting an operating loss of $70.4 and net gains on investments of $143.2 (principally comprised of net gains on bonds of $135.1, net gains of $69.0 related to equity and equity index total return swaps and net gains related to credit default swaps of $29.1, partially offset by other than temporary impairment charges recorded on common stock investments of $60.1 and net losses related to foreign currency of $26.0). Fourth quarter 2007 net gains on investments of $193.1 were principally comprised of net gains related to credit default swaps of $149.2, net gains of $8.5 related to equity and equity index total return swaps and net gains on common stocks, bonds and foreign currency, partially offset by other than temporary impairments recorded on common stock and bond investments of $3.4. Losses on claims in the fourth quarter of 2008 included $68.0 primarily related to strengthening of prior years' U.S. workers' compensation claims reserves and losses on commutations, partially offset by net favourable development of prior years' reserves in Europe. Fourth quarter 2008 operating expenses included $9.6 related to severance and related costs. Increased operating expenses and a decline in interest and dividends, partially offset by lower incurred losses on claims and loss adjustment expenses, resulted in an increased operating loss of $70.4 in the fourth quarter of 2008 compared to an operating loss of $61.3 in the fourth quarter of 2007.

The Runoff segment generated pre-tax income before interest and other of $392.6 in 2008, reflecting a decreased operating loss of $80.2 and net gains on investments of $472.8 (principally comprised of net gains related to credit default swaps of $313.6, net gains of $136.9 related to equity and equity index total return swaps, net gains on bonds of $122.7 and net gains on common stocks of $5.7, partially offset by other than temporary impairments recorded on common stock and bond investments of $76.5 and net foreign currency translation losses of $28.0). In 2007, the Runoff segment generated pre-tax income before interest and other of $187.6, inclusive of an operating loss of $104.2 and net gains on investments of $291.8 (principally comprised of net gains related to credit default swaps of $241.2, net gains on bonds of $19.9, net gains on common stocks of $8.5 and net gains related to foreign currency of $19.1, partially offset by other than temporary impairments recorded on common stock and bond investments of $3.4). Operating expenses for 2008 included $11.9 related to severance and related costs. Lower incurred losses on claims and loss adjustment expenses and higher net premiums earned, partially offset by increased operating expenses and a decline in interest and dividends, resulted in a decreased operating loss of $80.2 in 2008 compared to $104.2 in 2007.

Other

	Fourth quarter		Year ended December 31,	
	2008	2007	**2008**	2007
Revenue	**99.4**	125.3	**99.4**	434.5
Cost and expenses	**(98.0)**	(107.0)	**(98.0)**	(401.5)
Operating income	**1.4**	18.3	**1.4**	33.0
Net losses on investments	**—**	(7.6)	**—**	(7.6)
Pre-tax income before interest and other	**1.4**	10.7	**1.4**	25.4
Interest expense	**(0.4)**	(3.9)	**(0.4)**	(15.7)
Pre-tax income	**1.0**	6.8	**1.0**	9.7

The Other business segment comprises the animal nutrition business (Ridley) for the year ended December 31, 2008 and the claim adjusting business (Cunningham Lindsey) for the year ended December 31, 2007. During December 2007, the company sold its 55.4% interest in the Cunningham Lindsey operating companies and commenced equity accounting for the retained interests in those operations, pursuant to the transaction described in note 4.

During the fourth quarter of 2008, the company acquired a 67.9% interest in Ridley, pursuant to the transaction described in note 4. Effective November 4, 2008, Ridley's assets and liabilities and results of operations have been included in the company's consolidated financial reporting. Fourth quarter and twelve months results of operations for Ridley (as included in Fairfax's 2008 financial reporting) comprise the fifty-eight day period beginning November 4, 2008 and ending December 31, 2008. Ridley's results of operations for the fifty-eight day period include gross profits that reflect a continuation of a favourable product mix, strong unit margins and growth in specialty products. Ridley is one of North America's leading commercial animal nutrition companies.

Interest and Dividends and Net Gains on Investments

Interest and dividend income earned by the company's insurance and reinsurance operations declined by 4.8% to $122.1 for the fourth quarter of 2008 from $128.2 for the fourth quarter of 2007, due primarily to the effect of lower short term interest rates year-over-year, partially offset by lower losses recorded on equity method investments and the inclusion of interest and dividend income of Advent in fourth quarter 2008 results. Interest and dividend income earned by the company's insurance and reinsurance operations in 2008 decreased to $476.1 from $604.4 in 2007 due to losses recorded on equity method investments and the effect of lower short term interest rates prevailing in 2008 compared to 2007, partially offset by the inclusion of interest and dividend income of Advent in 2008 results.

During the fourth quarter of 2008, the company's insurance and reinsurance operations had net gains on investments of $465.4 compared to $555.8 in the fourth quarter of 2007. Consolidated net gains on investments decreased to $816.5 in the fourth quarter of 2008, including net gains of $143.2 for the runoff companies and $208.0 of net gains for the holding company, in addition to the net investment gains of the insurance and reinsurance operating companies. Fourth quarter 2007 consolidated net gains on investments of $947.0 included net gains of $193.1 for the runoff operations, $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.

Net gains on investments earned by the company's insurance and reinsurance operations increased in 2008 to $1,558.6 from $984.0 in 2007. Consolidated net gains on investments in 2008 of $2,720.5 included net gains of $472.8 for the runoff companies and $689.2 of net gains for the holding company, in addition to the net investment gains of the insurance and reinsurance operating companies. 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 net losses of $7.6 for the Cunningham Lindsey operations, in addition to the net investment gains of the insurance and reinsurance operating companies.

Other Elements of Net Earnings

Consolidated interest and dividend income in the fourth quarter of 2008 decreased 7.5% to $146.0 from $157.9 in the fourth quarter of 2007, primarily due to the year-over-year decline in short term interest rates, despite a $1.5 billion increase in the average investment portfolio in the fourth quarter of 2008 compared to the fourth quarter of 2007, including the effect of the consolidation of Advent in 2008. Consolidated interest and dividend income decreased 17.7% to $626.4 in 2008 from $761.0 in 2007, principally due to the year-over-year decline in short term interest rates, despite a $1.6 billion increase in the average investment portfolio in 2008 compared to 2007, including the effect of the consolidation of Advent in 2008.

Consolidated net gains on investments in the fourth quarter of 2008 of $816.5 included $1,055.0 of net gains related to short equity and equity index positions, $49.9 of net gains related to credit default swaps, net gains on bonds of $289.0 and net gains of $64.4 related to foreign currency, partially offset by $612.8 of other than temporary impairments recorded on common stock and bond investments. Net gains on bonds of $289.0 included net gains on sales of primarily government bonds of $484.0, net mark-to-market losses of $343.0 principally on convertible bonds and $157.9 of net mark-to-market gains on tax-exempt bonds designated as held-for-trading. Consolidated net gains on investments of $947.0 in the fourth quarter of 2007 included $705.2 of net gains related to credit default swaps, net gains of $172.4 on short equity and equity index positions, net gains on common stocks of $40.2, net gains on bonds of $36.9 and net gains related to foreign currency of $27.6, partially offset by $32.4 of other than temporary impairments recorded on common stock and bond investments.

Consolidated net gains on investments in 2008 of $2,720.5 included $2,079.6 of net gains related to short equity and equity index positions, $1,290.5 of net gains related to credit default swaps, net gains of $273.7 on bonds, $20.6 of net gains on common stocks and $60.2 of net gains related to foreign currency, partially offset by $996.4 of other than temporary impairments recorded on common stock and bond investments. Net gains on bonds of $273.7 included net gains on sales of primarily government bonds of $629.8, net mark-to-market losses of $506.4 principally on convertible bonds and $157.9 of net mark-to-market gains on tax-exempt bonds designated as held for trading securities. Consolidated net gains on investments of $1,639.4 in 2007 included $1,145.0 of net gains related to credit default swaps, $361.0 of net gains on common stocks (including a $220.5 gain on the sale of the company's investment in Hub), net gains of $143.0 on short equity and equity index positions, net gains of $51.2 related to foreign currency and $55.7 of net gains on bonds, partially offset by $102.6 of other than temporary impairments recorded on common stock and bond investments.

As of December 31, 2008, the company owned $8.87 billion notional amount of credit default swaps with an average term to maturity of 3.3 years, an original cost of $161.5 and a fair value of $415.0. As of December 31, 2007, the company owned $18.54 billion notional amount of credit default swaps, with an original cost of $340.0 and a fair value of $1,119.1. During the fourth quarter of 2008, the company sold $3.36 billion (2007 – $735.5) notional amount of credit default swaps for proceeds of $378.0 (2007 – $151.9) and recorded net gains on sale of $48.2 (2007 – $73.3) and net mark-to-market gains of $1.7 (2007 – $631.9). During 2008, the company sold $11.63 billion (2007 – $965.5) notional amount of credit default swaps for proceeds of $2,048.7 (2007 – $199.3) and recorded net gains on sale of $1,052.3 (2007 – $184.7) and net mark-to-market gains of $238.2 (2007 – $960.3).

The following table and accompanying commentary summarize the sales of credit default swaps since the inception of this investment position, and show the cumulative realized and unrealized gains on credit default swaps as of December 31, 2008. Note that non-GAAP measures are used in this illustrative summary, as explained below.

	Notional amount	Original acquisition cost	Sale proceeds	Excess of sale proceeds over original acquisition cost
FY 2007	965.5	25.7	199.3	173.6
Q1 2008	3,830.0	95.5	885.0	789.5
Q2 2008	855.0	22.8	190.0	167.2
Q3 2008	3,580.9	59.4	595.7	536.3
Q4 2008	3,363.9	68.1	378.0	309.9
Cumulative sales since inception	12,595.3	271.5	2,248.0	1,976.5
Remaining credit default swap positions at December 31, 2008	8,873.0	161.5	415.0(1)	253.5(2)
Cumulative realized and unrealized from inception	21,468.3	433.0	2,663.0	2,230.0

(1) Market value as of December 31, 2008

(2) Unrealized gain (measured using original acquisition cost) as of December 31, 2008

The company has sold $12.60 billion notional amount of credit default swaps since inception with an original acquisition cost of $271.5 for cash proceeds of $2.25 billion and a cumulative gain (measured using original acquisition cost) of $1.98 billion. As of December 31, 2008, the remaining $8.87 billion notional amount of credit default swaps had a market value of $415.0 and an original acquisition cost of $161.5, representing an unrealized gain (measured using original acquisition cost) of $253.5.

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 $40.3 in the fourth quarter of 2008 from $45.0 in the fourth quarter of 2007, principally due to significant year-over-year reductions in debt at the holding company and subsidiaries, partially offset by additional interest expense as a result of the consolidation of Advent and Ridley. Consolidated interest expense in 2008 decreased to $158.6 from $209.5 in 2007, primarily reflecting the significant year-over-year reductions in debt at the holding company and subsidiaries, and the inclusion in 2007 interest expense of one-time costs of $21.2 incurred in the Crum & Forster debt offering and tender offer in 2007, partially offset by additional interest expense as a result of the consolidation of Advent and Ridley. Consolidated interest expense is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2008	2007	**2008**	2007
Fairfax	**22.3**	24.7	**89.1**	105.1
Crum & Forster	**7.0**	7.0	**28.3**	29.8
Crum & Forster debt offering and tender offer costs	—	—	—	21.2
OdysseyRe	**8.4**	9.4	**34.2**	37.7
Cunningham Lindsey	—	3.9	**4.0**	15.7
Advent	**2.2**	—	**2.6**	—
Ridley	**0.4**	—	**0.4**	—
	40.3	45.0	**158.6**	209.5

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 gains on investments, earned on holding company cash, short term investments and marketable securities, and is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2008	2007	**2008**	2007
Fairfax corporate overhead	**12.8**	26.4	**94.7**	110.0
Subsidiary holding companies corporate overhead	**12.0**	15.1	**44.6**	39.0
Holding company interest and dividends	**(7.6)**	10.2	**(28.7)**	(19.3)
Holding company net gains on investments	**(208.0)**	(205.7)	**(689.2)**	(371.2)
Investment management and administration fees	**(4.2)**	(16.7)	**(53.3)**	(45.7)
	(195.0)	(170.7)	**(631.9)**	(287.2)

Fairfax corporate overhead expense in the fourth quarter of 2008 decreased to $12.8 from $26.4 in the fourth quarter of 2007, with the decrease primarily resulting from the recognition of negative goodwill related to the company's increased investment in Advent in 2008 and the effect of a capital tax reassessment in 2007 related to prior taxation years, partially offset by increased legal expenses and charitable donations in 2008. Subsidiary holding companies corporate overhead expense in the fourth quarter of 2008 decreased to $12.0 from $15.1 in the fourth quarter of 2007, primarily due to decreased compensation expense. Corporate overhead expenses incurred in the fourth quarter of 2008 were more than offset by investment income earned (including net gains on investments) on holding company cash, short term investments and marketable securities and by investment management and administration fees earned. Net gains on investments at the holding company of $208.0 in the fourth quarter of 2008 (2007 – $205.7) included $368.5 (2007 – $68.6) of net gains related to equity and equity index total return swaps, partially offset by net losses of $110.8 on bonds (principally related to convertible bonds) (2007 – net gains of $1.4), $10.0 (2007 – $141.0) of net losses related to credit default swaps and other than temporary impairments recorded on common stock and bond investments of $37.7 (2007 – nil).

Fairfax corporate overhead expense in 2008 decreased to $94.7 from $110.0 in 2007, primarily as a result of the recognition of negative goodwill related to the company's increased investment in Advent, and the effect of the inclusion in 2007 of a capital tax reassessment related to prior taxation years of $10.1, partially offset by increased legal and consulting fees. Subsidiary holding companies corporate overhead expense in 2008 increased to $44.6 from $39.0 in 2007, primarily due to subsidiaries' increased charitable donations, partially offset by year-over-year declines in office and general expenses and compensation expense. Corporate overhead expenses incurred in 2008 were more than offset by investment income earned (including net gains on investments) on holding company cash, short term investments and marketable securities and by investment management and administration fees

earned. Net gains on investments at the holding company of $689.2 in 2008 (2007 – $371.2) included $694.1 (2007 – $84.1) of net gains related to equity and equity index total return swaps, $200.3 (2007 – $247.4) of net gains related to credit default swaps and $1.6 (2007 – $16.4) of net gains on common stocks, partially offset by other than temporary impairments recorded on common stock and bond investments of $80.2 (2007 – nil) and net losses on bonds (principally related to convertible bonds) of $119.5 (2007 – net gains of $9.4).

The effective income tax rate of 40.6% implicit in the $247.3 provision for income taxes in the fourth quarter of 2008 differed from the company's statutory income tax rate of 33.5% primarily as a result of the effect of the unrecorded tax benefit on unrealized losses arising from other than temporary impairments recorded on common stock and bond investments, and the effect of losses in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate and where the benefit of accumulated income tax losses is unrecorded, partially offset by the effect of reduced unrealized foreign exchange gains on public debt. The effective income tax rate of 30.9% implicit in the $755.6 provision for income taxes in 2008 differed from the company's statutory income tax rate of 33.5% primarily as a result of the effect of income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate and where the benefit of accumulated income tax losses is unrecorded, and the effect of reduced unrealized foreign exchange gains on public debt, partially offset by the effect of the unrecorded tax benefit on unrealized losses arising from other than temporary impairments recorded on common stock and bond investments.

The effective income tax rates of 33.2% and 32.9% implicit in the $343.8 and the $711.1 provisions for income taxes in the fourth quarter and twelve months of 2007 respectively differed from the company's statutory income tax rate of 36.1% primarily as a result of the effects of the non-taxable portion of the gain recognized on the sale of Hub by the Canadian subsidiaries and of income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate and where the benefit of accumulated income tax losses is unrecorded were mostly offset by realized foreign exchange gains on repurchases of U.S. dollar denominated debt which received recognition for tax purposes only.

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

	Fourth quarter		**Year ended December 31,**	
	2008	**2007**	**2008**	**2007**
Northbridge	**(19.3)**	31.7	**18.4**	111.0
OdysseyRe	**46.0**	94.7	**209.9**	241.0
Cunningham Lindsey	**—**	1.0	**—**	1.5
Advent	**(12.0)**	—	**(13.6)**	—
Ridley	**0.2**	—	**0.2**	—
	14.9	127.4	**214.9**	353.5

During 2008, Northbridge and OdysseyRe purchased on the open market 2,340,000 and 9,480,756 respectively of their common shares pursuant to their previously announced common share repurchase programs, increasing the company's ownership of Northbridge to 63.6% and of OdysseyRe to 70.4% as at December 31, 2008. Subsequent to year-end, the company will acquire all of the outstanding common shares of Northbridge that it did not already own, as described in note 4 to the consolidated financial statements. Upon increasing the company's total interest in Advent to 58.5% in the third quarter of 2008 from 44.5%, the company commenced the consolidation of Advent's results of operations and the related non-controlling interest in its consolidated statements of earnings. During the fourth quarter of 2008 the company purchased an additional 8.1% interest in Advent, increasing the company's total ownership interest in Advent to 66.6% at December 31, 2008. Upon acquiring a 67.9% interest in Ridley in the fourth quarter of 2008, the company commenced the consolidation of Ridley's results of operations and the related non-controlling interest in its consolidated statements of earnings. Following the sale in 2007 of a majority of its interest in the Cunningham Lindsey operating companies to a third party, the company commenced equity accounting for its retained minority interest in those operations.

Financial Condition

Holding company cash, short term investments and marketable securities at December 31, 2008 totalled $1,564.2 ($1,555.0 net of $9.2 of holding company short sale and derivative obligations), compared to $971.8 at December 31, 2007 ($963.4 net of $8.4 of holding company short sale and derivative obligations). Significant movements at the Fairfax holding company level during the fourth quarter of 2008 included the receipt of $367.3 in cash dividends from subsidiaries and $167.4 of investment income (including investment gains and losses in net earnings or in other comprehensive income). The carrying values of holding company short term investments and marketable securities vary with changes in the fair values of those securities. Significant movements at the Fairfax holding company level during 2008 included the receipt of $608.7 in cash dividends from subsidiaries, the repurchase of 1,066,601 subordinate voting shares at a net cost of $282.0, the payment of $99.0 of common and preferred share dividends, repayment at maturity of $62.1 of the company's 6.875% unsecured senior notes, the repurchase of 2,000,000 Series A and B preferred shares at a

cost of $48.0, and $652.7 of investment income (including investment gains and losses in net earnings or in other comprehensive income).

During the second quarter of 2008, the U.S. runoff company TIG Insurance Company distributed an extraordinary dividend out of excess capital, which was approved by the relevant insurance regulator, in the amount of approximately $210. Of the proceeds of the dividend, approximately $100 of cash and approximately $10 of securities were distributed to Fairfax and approximately $100 of securities was distributed to nSpire Re.

During the fourth quarter of 2008, Crum & Forster distributed an extraordinary dividend out of excess capital, which was approved by the relevant insurance regulator, in the amount of $350.0. The proceeds of the dividend, consisting of $191.2 of cash and $158.8 of securities, were distributed to Fairfax.

Subsidiary cash and short term investments increased by $2,290.4 to $5,508.5 at December 31, 2008 from $3,218.1 at December 31, 2007, with the increase primarily related to the proceeds of sales of bonds and credit default swaps, Crum & Forster's second quarter reinsurance commutation and the addition of $396.4 as a result of the consolidation of Advent and Ridley, net of amounts used for increased investments in common stocks and other investments and subsidiaries' repurchases of their common shares. During the second quarter, subsidiary cash of $896.0 was used to close certain equity index short positions, as the company changed its approach to equity hedging by substituting equity index total return swaps for short sales. Subsidiary cash used to close the short positions had been classified as assets pledged for short sale and derivative obligations prior to this action.

Consolidated cash resources decreased by $1,813.8 during the fourth quarter of 2008, reflecting $469.9 of cash used in operating activities, $1,106.4 of cash used in investment activities, principally net purchases of investment securities, and $53.9 of cash used in financing activities, principally repurchases by Northbridge of its common shares and the company's repurchase of its subordinate voting shares. The fourth quarter 2008 decrease in consolidated cash resources of $1,813.8 compared to a $1,317.8 decrease in consolidated cash resources in the fourth quarter of 2007, which primarily related to cash used in investing activities as a result of greater net purchases of investment securities. The decrease in 2008 in consolidated cash resources was $586.8 compared to a $2,651.3 decrease in consolidated cash resources in 2007. The decrease in 2008 reflected $119.9 of cash provided by operating activities, $587.9 of cash provided by investing activities, primarily as a result of greater net sales of investment securities, and $1,069.8 of cash used in financing activities as a result of $749.7 of repurchases of holding company and subsidiary common and preferred shares, $198.8 of repayments and retirement of holding company and subsidiary debt and $124.6 of common and preferred share dividends paid by the holding company and subsidiaries. The $2,651.3 decrease in consolidated cash resources in 2007 primarily reflected cash used in investing activities of $2,109.8 as a result of greater net purchases of investment securities, principally bonds.

The net $804.3 decline in recoverable from reinsurers to $4,234.2 at December 31, 2008 from $5,038.5 at December 31, 2007 related primarily to Crum & Forster's reinsurance commutation in the second quarter (a reduction of $386.7), decreased reinsurance utilization by Northbridge in 2008 pursuant to its redesigned reinsurance program, 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, and continued progress by the runoff operations, partially offset by increased reinsurance utilization by OdysseyRe's insurance operations and the consolidation of the $93.0 of recoverable from reinsurers of Advent. The net $319.7 decrease in provision for claims to $14,728.4 at December 31, 2008 from $15,048.1 at December 31, 2007 related primarily to continued progress by the runoff operations and by 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, partially offset by the addition of $452.1 of claims provisions on the consolidation of Advent and increased catastrophe losses.

Portfolio investments comprise investments carried at fair value and investments carried at equity-accounted values (at December 31, 2008, these latter primarily included the company's investment in ICICI Lombard and the company's interest in the operating companies of Cunningham Lindsey), the aggregate carrying value of which was $18,415.0 at December 31, 2008 ($18,394.8 net of subsidiary short sale and derivative obligations), compared to an aggregate carrying value at December 31, 2007 of $19,091.7 ($18,037.3 net of subsidiary short sale and derivative obligations). During the fourth quarter of 2008 the company removed the hedges on its equity portfolio investments by closing out its equity and equity index total return swap contracts. The net $357.5 increase in the aggregate carrying value of portfolio investments (net of subsidiary short sale and derivative obligations) at December 31, 2008 compared to December 31, 2007 reflected the significant net investment gains recorded in 2008 (including subsidiary net gains on equity and equity index total return swaps of $1,291.9) and the consolidation of Advent and Ridley (the consolidation of Advent and Ridley added $535.7 and $6.2 respectively of portfolio investments at December 31, 2008), partially offset by subsidiary other than temporary impairment charges recorded on common stock and bond investments of $916.2, and the declines in the carrying value of available for sale investments in 2008 as a result of the declines in global equity and credit markets. Major changes to portfolio investments in 2008 included a net decrease of $5.4 billion in U.S. Treasury bonds, a net increase of $3.8 billion in U.S. state, municipal and other tax-exempt bonds (of $4.0 billion held at December 31, 2008, approximately $3.6 billion are fully insured by Berkshire Hathaway Assurance Corp. for the payment of interest and principal in the event of issuer default), a net increase in short

term investments (principally U.S. Treasury securities) of $2.0 billion, a net increase of $1.2 billion in common stocks (principally U.S. equities) and a net change of $1.0 billion reflecting the covering of short sale obligations related to the company's equity hedges. The unrecorded excess of fair value over the carrying value of investments carried at equity was $356.0 at December 31, 2008 ($77.7 at December 31, 2007).

Future income tax assets increased by $355.1 to $699.4 during 2008, the increase being primarily attributable to the increase in deferred taxes related to unrealized losses on investments and the consolidation of Advent, partially offset by the utilization of income tax losses at the Canadian holding companies and within the U.S. consolidated tax group. Income taxes payable increased by $587.4 to $656.3 during 2008, principally reflecting increased taxable income generated in 2008 compared to 2007.

Capital Structure and Liquidity

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

	December 31,	
	2008	2007
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**1,555.0**	963.4
Holding company debt	**869.6**	1,063.2
Subsidiary debt	**910.2**	915.0
Other long term obligations – holding company	**187.7**	192.6
Total debt	**1,967.5**	2,170.8
Net debt	**412.5**	1,207.4
Common shareholders' equity	**4,866.3**	4,121.4
Preferred equity	**102.5**	136.6
Non-controlling interests	**1,382.8**	1,585.0
Total equity and non-controlling interests	**6,351.6**	5,843.0
Net debt/total equity and non-controlling interests	**6.5%**	20.7%
Net debt/net total capital	**6.1%**	17.1%
Total debt/total capital	**23.7%**	27.1%
Interest coverage	**16.4x**	11.3x

Cash, short term investments and marketable securities held at the holding company at December 31, 2008 of $1,564.2, net of short sale and derivative obligations of $9.2, resulted in a net balance of holding company cash, short term investments and marketable securities of $1,555.0 ($963.4 at December 31, 2007). At December 31, 2008 the company's consolidated net debt/net total capital ratio improved to 6.1% from 17.1% at December 31, 2007, and the consolidated total debt/total capital ratio improved to 23.7% from 27.1% at December 31, 2007.

Holding company indebtedness (including other long term obligations) at December 31, 2008 declined by $198.5 to $1,057.3 from $1,255.8 at December 31, 2007, primarily reflecting the conversion in the first quarter of the company's 5.0% convertible senior debentures due July 15, 2023 into 886,888 subordinate voting shares of the company (the company paid a nominal amount of cash to redeem the unconverted debentures and in lieu of fractional shares) and the repayment at maturity in the second quarter of the outstanding $62.1 of its 6.875% unsecured senior notes. In 2008, the company also redeemed preferred shares with stated capital of $34.1 for cash consideration of $48.0.

Subsidiary indebtedness at December 31, 2008 decreased by $4.8 to $910.2 from $915.0 at December 31, 2007, reflecting the repayment at maturity of the Cdn$125.0 of Cunningham Lindsey unsecured 7.0% Series B debentures and the repurchase by Crum & Forster of the $4.3 balance of its 10.375% unsecured senior notes due June 15, 2013, partially offset by additional debt of $93.4 and $21.8 resulting from the consolidation of Advent and Ridley respectively.

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 2009. In addition to these holding company resources, the holding company expects to continue to receive investment management and administrative fees, investment income on its holdings of cash, short term investments and marketable securities, and dividends from its insurance and reinsurance subsidiaries. The holding company's known significant obligations for 2009, beyond the January and February 2009 payments that included the $140.8 dividend on common shares ($8.00 per share), the $57.0 cash purchase consideration paid for Polish Re and the $49.0 additional investment in Cunningham Lindsey Group Limited in conjunction with that company's acquisition of the international business of GAB Robins, and beyond the approximately Cdn$675 obligation (of which Cdn$458.4 was paid in January 2009, with the remaining

amount expected to be paid in February 2009) in respect of the company's privatization of Northbridge (as described in note 4), consist of interest and corporate overhead expenses, preferred share dividends, income tax payments and approximately $34.2 of purchase consideration payable.

Primarily as a result of 2008 net earnings, partially offset by the effects of the company's repurchases of its subordinate voting and preferred shares and reduced accumulated other comprehensive income (reflecting a net increase in unrealized losses on available for sale securities and unrealized foreign currency translation losses), shareholders' equity at December 31, 2008 increased by $710.8 to $4,968.8 from $4,258.0 at December 31, 2007. Common shareholders' equity at December 31, 2008 was $4,866.3 or $278.28 per basic share (excluding the unrecorded $356.0 excess of fair value over the carrying value of investments carried at equity) compared to $230.01 per basic share at the end of 2007, representing an increase per basic share in 2008 of 21.0% (without adjustment for the $5.00 per share dividend paid in the first quarter of 2008, or 23.2% adjusted to include that dividend). During 2008, the number of basic shares decreased by 179,965, primarily as a result of the company's repurchase of 1,066,601 subordinate voting shares, partially offset by the issuance of 886,888 subordinate voting shares upon the conversion of the company's convertible debentures. At December 31, 2008 there were 17,486,825 common shares effectively outstanding.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. The company will change over to IFRS for its interim and annual financial statements beginning on January 1, 2011 and is currently evaluating the impact of adopting IFRS on its financial position and results of operations.

SEC Subpoenas

There have been no material developments on this matter beyond the disclosure in note 13 of the company's 2007 Annual Report. For a full description of this matter, please see "SEC Subpoenas" in note 10 to the consolidated financial statements.

Lawsuits Seeking Class Action Status

There have been no material developments on this matter beyond the disclosure in note 13 of the company's 2007 Annual Report. For a full description of this matter, please see "Lawsuits" in note 10 to the consolidated financial statements.

Comparative Quarterly Data *(unaudited)*

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2008					
Revenue	**2,390.8**	**1,245.3**	**2,155.1**	**2,184.2**	**7,975.4**
Net earnings	**631.8**	**27.6**	**467.6**	**346.8**	**1,473.8**
Net earnings per share	**$ 34.72**	**$ 0.84**	**$ 25.40**	**$ 19.73**	**$ 80.38**
Net earnings per diluted share	**$ 33.78**	**$ 0.84**	**$ 25.27**	**$ 19.62**	**$ 79.53**
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

Operating results at the company's insurance and reinsurance operations were improving as a result of company efforts, although they have recently been affected by an increasingly difficult competitive environment. Individual quarterly results have been (and may in the future be) affected by losses from significant natural or other catastrophes, by reserve strengthenings and by settlements or commutations, 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 (including significant gains related to credit default swaps in the fourth quarter of 2007 and during 2008, and related to equity total return swaps in the third and fourth quarters of 2008), the timing of which are not predictable.

Fairfax's 2008 Annual Report is scheduled to be posted on its website *www.fairfax.ca* after the close of markets on Friday, March 6, 2009 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 most recently issued 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.