FAIRFAX
FINANCIAL HOLDINGS LIMITED

Consolidated Financial Statements

for the fourth quarter and full year

2009 and 2008

(unaudited)

Consolidated Balance Sheets
as at December 31, 2009 and 2008
(unaudited – US$ millions)

	2009	2008
Assets		
Holding company cash, short term investments and marketable securities (including assets pledged for short sale and derivative obligations – $78.9; 2008 – $19.7)	**1,251.6**	1,564.2
Accounts receivable and other	**1,855.4**	1,688.7
Recoverable from reinsurers (including recoverables on paid losses – $255.1; 2008 – $298.9)	**3,809.1**	4,234.2
	6,916.1	7,487.1
Portfolio investments		
Subsidiary cash and short term investments (cost $3,230.6; 2008 – $5,492.3)	**3,244.8**	5,508.5
Bonds (cost $10,742.0; 2008 – $8,302.1)	**10,918.3**	8,425.8
Preferred stocks (cost $292.4; 2008 – $41.2)	**292.8**	38.2
Common stocks (cost $4,040.4; 2008- $3,964.1)	**4,853.1**	3,816.9
Investments, at equity (fair value $646.2; 2008 – $575.3)	**475.4**	219.3
Derivatives and other invested assets (cost $122.5; 2008 – $157.3)	**142.7**	398.0
Assets pledged for short sale and derivative obligations (cost $149.2; 2008 – $8.3)	**151.5**	8.3
	20,078.6	18,415.0
Deferred premium acquisition costs	**332.3**	321.9
Future income taxes	**318.7**	699.4
Premises and equipment	**168.6**	133.1
Goodwill and intangible assets	**438.8**	123.2
Other assets	**149.7**	125.7
	28,402.8	27,305.4
Liabilities		
Subsidiary indebtedness	**12.1**	21.1
Accounts payable and accrued liabilities	**1,202.2**	1,326.5
Income taxes payable	**70.9**	656.3
Short sale and derivative obligations (including at the holding company – $8.9; 2008 – $9.2)	**57.2**	29.4
Funds withheld payable to reinsurers	**354.9**	355.1
	1,697.3	2,388.4
Provision for claims	**14,747.1**	14,728.4
Unearned premiums	**1,920.1**	1,890.6
Long term debt – holding company borrowings	**1,236.9**	869.6
Long term debt – subsidiary company borrowings	**891.3**	889.1
Other long term obligations – holding company	**173.5**	187.7
	18,968.9	18,565.4
Non-controlling interests	**117.6**	1,382.8
Contingencies (note 10)		
Shareholders' Equity		
Common stock	**3,058.6**	2,124.9
Treasury stock, at cost	**(28.7)**	(22.7)
Preferred stock	**227.2**	102.5
Retained earnings	**3,468.8**	2,871.9
Accumulated other comprehensive income (loss)	**893.1**	(107.8)
	7,619.0	4,968.8
	28,402.8	27,305.4

See accompanying notes.

Consolidated Statements of Earnings
for the three and twelve months ended December 31, 2009 and 2008
(unaudited – US$ millions except per share amounts)

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Revenue				
Gross premiums written	**1,165.7**	1,149.7	**5,094.0**	5,061.4
Net premiums written	**990.5**	964.2	**4,286.1**	4,332.2
Net premiums earned	**1,115.1**	1,122.3	**4,422.0**	4,529.1
Interest and dividends	**172.4**	146.0	**712.7**	626.4
Net gains (losses) on investments[1]	**(30.3)**	681.0	**944.5**	2,570.7
Other revenue	**150.1**	99.4	**556.4**	99.4
	1,407.3	2,048.7	**6,635.6**	7,825.6
Expenses				
Losses on claims[1]	**839.2**	913.9	**3,186.9**	3,559.1
Operating expenses[1]	**210.9**	207.1	**831.7**	835.8
Commissions, net	**182.7**	180.4	**701.1**	729.8
Interest expense	**49.3**	40.3	**166.3**	158.6
Other expenses	**142.0**	98.0	**544.0**	98.0
	1,424.1	1,439.7	**5,430.0**	5,381.3
Earnings (loss) from operations before income taxes	**(16.8)**	609.0	**1,205.6**	2,444.3
Income taxes	**(100.0)**	247.3	**214.9**	755.6
Net earnings before non-controlling interests	**83.2**	361.7	**990.7**	1,688.7
Non-controlling interests	**(3.8)**	(14.9)	**(133.9)**	(214.9)
Net earnings	**79.4**	346.8	**856.8**	1,473.8
Net earnings per share	**$ 1.66**	$ 19.73	**$ 43.99**	$ 80.38
Net earnings per diluted share	**$ 1.65**	$ 19.62	**$ 43.75**	$ 79.53
Cash dividends paid per share	**$ —**	$ —	**$ 8.00**	$ 5.00
Shares outstanding (000) (weighted average)	**20,177**	17,498	**18,301**	18,037

Consolidated Statements of Comprehensive Income
for the three and twelve months ended December 31, 2009 and 2008
(unaudited – US$ millions)

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Net earnings	**79.4**	346.8	**856.8**	1,473.8
Other comprehensive income (loss), net of income taxes				
Change in net unrealized gains (losses) on available for sale securities[2]	**(23.3)**	(92.8)	**804.5**	(548.0)
Reclassification of net realized (gains) losses to net earnings[3]	**(78.0)**	100.9	**(37.9)**	248.6
Change in unrealized foreign currency translation gains (losses)[4]	**39.0**	(116.2)	**227.0**	(186.6)
Reclassification of foreign currency translation (gains) losses on disposition of investee company	**—**	24.9	**—**	24.9
Change in gains and losses on hedges of net investment in foreign subsidiary[5]	**(11.9)**	(7.2)	**(25.5)**	(7.2)
Other comprehensive income (loss), net of income taxes	**(74.2)**	(90.4)	**968.1**	(468.3)
Comprehensive income	**5.2**	256.4	**1,824.9**	1,005.5

(1) *Reflects certain reclassifications of foreign exchange gains and losses in the fourth quarter and year ended December 31, 2008 as described in note 2.*

(2) *Net of income tax recovery of $20.9 (2008 – $25.9) and income tax expense of $353.9 (2008 – income tax recovery of $213.4) for the fourth quarter and year ended December 31, 2009, respectively.*

(3) *Net of income tax recovery of $39.5 (2008 – income tax expense of $36.7) and $43.8 (2008 – income tax expense of $86.1) for the fourth quarter and year ended December 31, 2009, respectively.*

(4) *Net of income tax expense of $6.9 (2008 – $24.5) and income tax recovery of $12.4 (2008 – income tax expense of $45.3) for the fourth quarter and year ended December 31, 2009, respectively.*

(5) *Net of income tax recovery of $1.2 (2008 – $2.8) and $2.8 (2008 – $2.8) for the fourth quarter and year ended December 31, 2009, respectively.*

See accompanying notes.

Consolidated Statements of Shareholders' Equity
for the years ended December 31, 2009 and 2008
(unaudited – US$ millions)

	2009	2008
Common stock –		
Subordinate voting shares – beginning of year	**2,121.1**	2,063.6
Issuances during the year	**989.3**	—
Issuances on conversion of convertible senior debentures	**—**	192.3
Purchases for cancellation	**(55.6)**	(134.8)
Subordinate voting shares – end of year	**3,054.8**	2,121.1
Multiple voting shares – beginning and end of year	**3.8**	3.8
Common stock	**3,058.6**	2,124.9
Other paid in capital – beginning of year	**—**	57.9
Conversion of convertible senior debentures	**—**	(57.9)
Other paid in capital – end of year	**—**	—
Treasury shares (at cost) – beginning of year	**(22.7)**	(22.6)
Net acquisitions	**(6.0)**	(0.1)
Treasury shares (at cost) – end of year	**(28.7)**	(22.7)
Preferred stock –		
Series A – beginning of year	**38.4**	51.2
Purchases for cancellation	**(38.4)**	(12.8)
Series A – end of year	**—**	38.4
Series B – beginning of year	**64.1**	85.4
Purchases for cancellation	**(64.1)**	(21.3)
Series B – end of year	**—**	64.1
Series C – beginning of year	**—**	—
Issuances during the year	**227.2**	—
Series C – end of year	**227.2**	—
Preferred stock	**227.2**	102.5
Retained earnings – beginning of year	**2,871.9**	1,658.2
Net earnings for the year	**856.8**	1,473.8
Excess over stated value of common shares purchased for cancellation	**(67.3)**	(147.2)
Excess over stated value of preferred shares purchased for cancellation	**(41.3)**	(13.9)
Common share dividends	**(140.8)**	(88.9)
Preferred share dividends	**(10.5)**	(10.1)
Retained earnings – end of year	**3,468.8**	2,871.9
Accumulated other comprehensive income (loss) – beginning of year	**(107.8)**	360.5
Application of the equity method of accounting	**32.8**	—
Other comprehensive income (loss)	**968.1**	(468.3)
Accumulated other comprehensive income (loss) – end of year	**893.1**	(107.8)
Retained earnings and accumulated other comprehensive income (loss)	**4,361.9**	2,764.1
Total shareholders' equity	**7,619.0**	4,968.8
Number of shares outstanding		
Common stock –		
Subordinate voting shares – beginning of year	**16,738,055**	16,918,020
Issuances during the year	**2,881,844**	—
Issuances on conversion of convertible senior debentures	**—**	886,888
Purchases for cancellation	**(360,100)**	(1,066,601)
Net treasury shares acquired	**(19,699)**	(252)
Subordinate voting shares – end of year	**19,240,100**	16,738,055
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	**19,988,870**	17,486,825
Preferred stock –		
Series A – beginning of year	**2,250,000**	3,000,000
Purchases for cancellation	**(2,250,000)**	(750,000)
Series A – end of year	**—**	2,250,000
Series B – beginning of year	**3,750,000**	5,000,000
Purchases for cancellation	**(3,750,000)**	(1,250,000)
Series B – end of year	**—**	3,750,000
Series C – beginning of year	**—**	—
Issuances during the year	**10,000,000**	—
Series C – end of year	**10,000,000**	—

See accompanying notes.

Consolidated Statements of Cash Flows
for the three and twelve months ended December 31, 2009 and 2008
(unaudited – US$ millions)

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Operating activities				
Earnings before non-controlling interests	**83.2**	361.7	**990.7**	1,688.7
Amortization of premises and equipment and intangible assets	**8.2**	4.2	**35.8**	22.4
Net bond discount amortization	**(8.3)**	(8.4)	**(29.5)**	(3.9)
(Earnings) losses on investments, at equity	**(1.6)**	24.3	**(23.3)**	49.4
Future income taxes	**(101.2)**	(329.7)	**12.8**	(342.9)
Net (gains) losses on significant commutations	**(17.5)**	—	**3.6**	84.2
Net (gains) losses on available for sale securities	**(139.3)**	150.5	**(111.2)**	386.2
Other net (gains) losses on investments	**169.6**	(831.5)	**(833.3)**	(2,956.9)
	(6.9)	(628.9)	**45.6**	(1,072.8)
Changes in operating assets and liabilities (note 16)	**(163.0)**	159.0	**(764.8)**	1,192.7
Cash provided by (used in) operating activities	**(169.9)**	(469.9)	**(719.2)**	119.9
Investing activities				
Net sales of assets and liabilities classified as held for trading	**161.1**	1,790.2	**320.4**	3,157.3
Net purchases of securities designated as held for trading	**(2,035.6)**	(3,376.3)	**(2,657.0)**	(3,814.6)
Available for sale securities – purchases	**(800.3)**	(7,567.6)	**(7,048.6)**	(15,306.1)
– sales	**1,644.0**	8,142.1	**10,363.0**	16,443.9
Net decrease (increase) in restricted cash and cash equivalents	**36.3**	(21.1)	**38.9**	196.3
Net sales (purchases) of investments, at equity	**(4.5)**	11.7	**(58.4)**	(54.2)
Net purchases of premises and equipment and intangible assets	**(32.1)**	(10.6)	**(49.1)**	(23.7)
Purchase of subsidiaries, net of cash acquired	**(1,015.9)**	(74.8)	**(1,643.6)**	(11.0)
Cash provided by (used in) investing activities	**(2,047.0)**	(1,106.4)	**(734.4)**	587.9
Financing activities				
Subsidiary indebtedness				
Issuances	**0.4**	—	**8.2**	—
Repayment	**(4.6)**	(13.2)	**(21.0)**	(13.2)
Long term debt – holding company				
Issuances	**—**	—	**362.0**	—
Debt issuance costs	**(0.4)**	—	**(3.4)**	—
Repayment	**—**	—	**(13.8)**	(62.1)
Long term debt – subsidiary companies				
Issuances	**—**	3.3	**—**	3.3
Repayment	**(0.5)**	—	**(1.4)**	(118.6)
Other long term obligations – holding company repayment	**(1.3)**	(1.2)	**(10.9)**	(4.9)
Net (repurchases) issuances of subsidiary securities	**3.2**	(25.7)	**(96.6)**	(419.5)
Subordinate voting shares				
Issuances	**—**	—	**1,000.0**	—
Issuance costs	**(0.8)**	—	**(17.0)**	—
Repurchases	**(112.4)**	(8.6)	**(122.9)**	(282.0)
Preferred shares				
Issuances	**232.3**	—	**232.3**	—
Issuance costs	**(7.3)**	—	**(7.3)**	—
Repurchases	**(143.8)**	—	**(143.8)**	(48.0)
Purchase of shares for treasury	**—**	—	**(12.8)**	(0.2)
Common share dividends	**—**	—	**(140.8)**	(88.9)
Preferred share dividends	**(4.6)**	(1.6)	**(10.5)**	(10.1)
Dividends paid to non-controlling interests	**—**	(6.9)	**(7.3)**	(25.6)
Cash provided by (used in) financing activities	**(39.8)**	(53.9)	**993.0**	(1,069.8)
Foreign currency translation	**(14.8)**	(183.6)	**91.8**	(224.8)
Increase (decrease) in cash and cash equivalents	**(2,271.5)**	(1,813.8)	**(368.8)**	(586.8)
Cash and cash equivalents – beginning of period	**4,428.4**	4,339.5	**2,525.7**	3,112.5
Cash and cash equivalents – end of period	**2,156.9**	2,525.7	**2,156.9**	2,525.7
Cash and cash equivalents are included in the consolidated balance sheet as follows:				
Holding company cash and short term investments	**139.9**	293.8	**139.9**	293.8
Subsidiary cash and short term investments	**2,093.3**	2,338.8	**2,093.3**	2,338.8
Subsidiary cash and short term investments pledged for short sale and derivative obligations	**—**	8.3	**—**	8.3
Subsidiary restricted cash and short term investments	**(76.3)**	(115.2)	**(76.3)**	(115.2)
	2,156.9	2,525.7	**2,156.9**	2,525.7
Supplementary information				
Interest paid	**63.7**	65.8	**148.5**	160.2
Taxes paid	**80.1**	189.7	**823.3**	483.8

See accompanying notes.

Notes to Consolidated Financial Statements
for the three and twelve months ended December 31, 2009 and 2008
(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, 2008. 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, 2008 except as described in note 2, but they do not include all disclosures normally provided in annual financial statements prepared in accordance with Canadian GAAP.

2. Summary of Significant Accounting Policies

The following summary describes significant changes to accounting policies during 2009, including changes resulting from recent accounting pronouncements.

Application of the Equity Method of Accounting

The company began acquiring common shares of Singapore Reinsurance Corporation Limited ("Singapore Re") in 1999 and until December 24, 2009 accounted for its investment in 17.5% of the common shares of Singapore Re as available for sale at fair value. On December 24, 2009, the company increased its interest in Singapore Re to 20.0% and determined that it had obtained significant influence, and accordingly, the company changed the accounting treatment of its investment in Singapore Re from available for sale to the equity method of accounting on a prospective basis.

The company began acquiring units of The Brick Group Income Fund ("The Brick") in 2006 and until November 27, 2009 accounted for its interest of 12.8% in The Brick as available for sale at fair value. The company determined that the 12.8% interest, combined with certain other events occurring during the fourth quarter of 2009, effectively resulted in the company being deemed to exercise significant influence over The Brick. Accordingly, on November 28, 2009, the company changed its accounting treatment of its investment in The Brick from available for sale to the equity method of accounting on a prospective basis. Factors considered by the company in making this determination included: (1) a potential fully diluted voting interest of 29.1% as the result of ownership of 45.3 million warrants, each of which entitle the company to purchase one unit of The Brick at a discount to the average trading price of those units during the fourth quarter; (2) the expiration of a standstill agreement on November 28, 2009 which precluded the company from exercising the warrants, acquiring additional units or seeking to influence management; and (3) the appointment of an individual related to the company to the board of directors of The Brick, in addition to one board member already representing Fairfax by virtue of its 12.8% interest.

The company began acquiring common shares of International Coal Group, Inc. ("ICG") in 2006 and until December 31, 2008 accounted for its investment in 19.7% of the common shares of ICG as available for sale at fair value. During the first quarter of 2009, the company increased its interest in ICG to 23.8%. Accordingly, on February 20, 2009, the company changed the accounting treatment of its investment in ICG from available for sale to the equity method of accounting on a prospective basis. During the fourth quarter of 2009, the company further increased its interest in ICG to 27.7%.

The impact on the consolidated balance sheet at the date of the application of the equity method of accounting to the investments described in the preceding paragraphs was as follows:

	Singapore Re	The Brick	ICG	Total
Date equity method commenced:	December 24, 2009	November 28, 2009	February 20, 2009	
Portfolio investments:				
Investments, at equity	19.6	4.2	119.3	143.1
Common stocks	(22.8)	(8.7)	(55.5)	(87.0)
Future income taxes	1.0	1.4	(21.0)	(18.6)
Non-controlling interests	(1.2)	—	5.9	4.7
Accumulated other comprehensive income (loss)	(1.0)	(3.1)	36.9	32.8

Change in Presentation of Foreign Currency Gains (Losses)

The company reclassified realized and unrealized foreign currency gains and losses in its consolidated statements of net earnings to enhance the transparency of its financial reporting by removing distortions to underwriting results caused by volatility in foreign currency rates and by giving recognition to the economic hedging relationship that exists between claims liabilities and portfolio investments denominated in foreign currencies within the same operating company. Prior year comparative figures have been reclassified to be consistent with the current year's presentation, resulting in the reclassification in the fourth quarter of 2008 of $148.3 of net realized and unrealized foreign currency losses ($161.8 in the twelve months of 2008) and $12.8 of net realized and unrealized foreign currency gains ($12.0 in the twelve months of 2008) from losses on claims and operating expenses respectively to net gains (losses) on investments. The following table presents the pre-tax foreign currency effect on certain line items in the company's consolidated financial statements for the fourth quarter and year ended December 31, 2009 and 2008:

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Net gains (losses) on investments				
Underwriting activities	**(20.2)**	(134.0)	**14.3**	(147.9)
Investing activities	**21.1**	74.3	**(31.9)**	102.5
Foreign currency gains (losses) included in pre-tax net earnings	**0.9**	(59.7)	**(17.6)**	(45.4)
Other comprehensive income – investing activities foreign currency gains (losses)	**16.3**	66.1	**(39.3)**	41.6
	17.2	6.4	**(56.9)**	(3.8)

Financial Instruments

Effective October 1, 2009, the company adopted the amendments made to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, Financial Instruments – Disclosures, which required enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. These required new disclosures will be included in the company's 2009 annual consolidated financial statements. Since these amendments relate to disclosure only, there is no impact on the company's financial position as at December 31, 2009 or its results of operations for the fourth quarter and year then ended.

Effective October 1, 2009, the company adopted the amendments made to CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, which required certain amendments to Canadian GAAP to achieve consistency with international standards on impairment of debt securities. The amendments include changing the categories into which debt instruments are required and permitted to be classified and eliminating the distinction between debt securities and other debt instruments. As a result, debt instruments not quoted in an active market may be classified as loans and receivables and subsequently assessed for impairment using the incurred credit loss model. The incurred credit loss model requires recognition of an impairment loss equal to the difference between the carrying amount and the estimated realizable amount when there is no longer reasonable assurance of timely collection of future cash flows. The estimated realizable amount is the present value of the expected future cash flows discounted at the original effective interest rate. The amendments also required the reversal of an impairment loss relating to an available for sale debt instrument in the instance when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. The adoption of these amendments was applied retroactively to January 1, 2009 and did not have an impact on the company's financial position as at December 31, 2009 or its results of operations for the fourth quarter and year then ended.

Effective July 1, 2009, the company adopted the amendment made to CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, concerning the assessment of embedded derivatives upon reclassifications occurring after July 1, 2009 of financial assets out of the held for trading category. No such reclassifications have been effected by the company.

In June 2009, the company adopted the amendment made to CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement, which clarified the application of the effective interest method to a financial asset subsequent to the recognition of an impairment loss. The adoption of this amendment did not have an impact on the company's financial position as at December 31, 2009 or its results of operations for the fourth quarter and year then ended.

Goodwill and Intangible Assets

Effective January 1, 2009, the company adopted 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 established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this guidance did not result in a change in the recognition of the company's goodwill and intangible assets.

Credit Risk

Effective January 1, 2009, the company adopted the CICA's Emerging Issues Committee Abstract EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"), which provides additional guidance on how to measure financial assets and liabilities by taking into account the company's own credit risk and the credit risk of the counterparty. The adoption of EIC-173 did not have an impact on the company's financial position as at December 31, 2009 or its results of operations for the fourth quarter and year then ended.

Recent Accounting Pronouncements

In June 2009, the CICA amended CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement to clarify the conditions for determining when a prepayment option embedded in a debt host instrument is closely related to the host for accounting purposes. The amendment is effective for the company's 2011 interim and annual consolidated financial statements. The company is currently in the process of evaluating the impact of adopting this amendment.

3. Cash and Investments

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

	December 31, 2009					December 31, 2008				
	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	**115.4**	**227.5**	**28.5**	**—**	**371.4**	275.4	—	521.1	—	796.5
Cash and short term investments pledged for short sale and derivative obligations	**24.5**	**30.0**	**24.4**	**—**	**78.9**	18.4	—	1.3	—	19.7
Bonds	**—**	**368.5**	**34.7**	**—**	**403.2**	—	216.6	12.2	—	228.8
Preferred stocks	**—**	**64.8**	**—**	**—**	**64.8**	—	—	12.1	—	12.1
Common stocks	**—**	**1.7**	**234.1**	**—**	**235.8**	—	—	424.3	—	424.3
Derivatives	**97.5**	**—**	**—**	**—**	**97.5**	82.8	—	—	—	82.8
	237.4	**692.5**	**321.7**	**—**	**1,251.6**	376.6	216.6	971.0	—	1,564.2
Short sale and derivative obligations	**(8.9)**	**—**	**—**	**—**	**(8.9)**	(9.2)	—	—	—	(9.2)
	228.5	**692.5**	**321.7**	**—**	**1,242.7**	367.4	216.6	971.0	—	1,555.0
Portfolio investments:										
Cash and short term investments	**2,093.3**	**803.8**	**347.7**	**—**	**3,244.8**	2,338.8	355.2	2,814.5	—	5,508.5
Bonds	**—**	**6,628.2**	**4,290.1**	**—**	**10,918.3**	—	4,463.3	3,962.5	—	8,425.8
Preferred stocks	**—**	**261.1**	**31.7**	**—**	**292.8**	—	—	38.2	—	38.2
Common stocks	**—**	**90.4**	**4,762.7**	**—**	**4,853.1**	—	80.7	3,736.2	—	3,816.9
Investments, at equity	**—**	**—**	**—**	**475.4**	**475.4**	—	—	—	219.3	219.3
Derivatives	**127.7**	**—**	**—**	**—**	**127.7**	372.7	—	—	—	372.7
Other invested assets	**—**	**—**	**—**	**15.0**	**15.0**	—	—	—	25.3	25.3
	2,221.0	**7,783.5**	**9,432.2**	**490.4**	**19,927.1**	2,711.5	4,899.2	10,551.4	244.6	18,406.7
Assets pledged for short sale and derivative obligations:										
Cash and short term investments	**—**	**4.6**	**—**	**—**	**4.6**	8.3	—	—	—	8.3
Bonds	**—**	**84.1**	**62.8**	**—**	**146.9**	—	—	—	—	—
	—	**88.7**	**62.8**	**—**	**151.5**	8.3	—	—	—	8.3
	2,221.0	**7,872.2**	**9,495.0**	**490.4**	**20,078.6**	2,719.8	4,899.2	10,551.4	244.6	18,415.0
Short sale and derivative obligations	**(48.3)**	**—**	**—**	**—**	**(48.3)**	(20.2)	—	—	—	(20.2)
	2,172.7	**7,872.2**	**9,495.0**	**490.4**	**20,030.3**	2,699.6	4,899.2	10,551.4	244.6	18,394.8

Restricted cash and cash equivalents at December 31, 2009 of $76.3 was comprised primarily of amounts required to be maintained on deposit with various regulatory authorities to support the subsidiaries' insurance and reinsurance operations. Restricted cash and cash equivalents at December 31, 2008 of $115.2 consisted primarily of cash and cash equivalents pledged to the Society and Council of Lloyd's ("Lloyd's") to support the underwriting capacity of subsidiaries' Lloyd's syndicates. Cash and cash equivalents pledged to Lloyd's at December 31, 2008 was substantially replaced by debt securities at December 31, 2009. Restricted cash and cash equivalents are included in the consolidated balance sheets in holding company cash, short term investments and marketable securities, or in subsidiary cash and short term investments and assets pledged for short sale and derivative obligations in portfolio investments.

The company classified U.S. state and municipal bonds of $996.6 (2008 – $979.7) which were purchased prior to September 30, 2008 as available for sale. U.S. state and municipal bonds of $4,501.2 (2008 – $3,124.9) which were acquired subsequent to September 30, 2008 have been designated as held for trading.

The consolidated balance sheet includes $825.7 (2008 – $499.5) of convertible bonds containing embedded derivatives (sometimes referred to as hybrid financial instruments) which the company has designated as held for trading.

Gross unrealized gains and losses on investments classified as available for sale by type of issuer, including assets pledged for short sale and derivative obligations, were as follows:

	December 31, 2009				December 31, 2008			
	Cost or amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Total carrying value**	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Total carrying value
Holding company:								
Short term investments:[1]								
Canadian government	**24.4**	**—**	**—**	**24.4**	136.7	—	(1.4)	135.3
U.S. treasury	**28.5**	**—**	**—**	**28.5**	387.1	—	—	387.1
	52.9	**—**	**—**	**52.9**	523.8	—	(1.4)	522.4
Bonds:								
U.S. treasury	**—**	**—**	**—**	**—**	12.0	—	—	12.0
U.S. states and municipalities	**22.5**	**0.8**	**—**	**23.3**	—	—	—	—
Corporate and other	**10.9**	**0.5**	**—**	**11.4**	0.4	—	(0.2)	0.2
	33.4	**1.3**	**—**	**34.7**	12.4	—	(0.2)	12.2
Preferred stocks:								
Canadian	**—**	**—**	**—**	**—**	11.8	0.3	—	12.1
Common stocks:								
Canadian	**39.5**	**18.9**	**—**	**58.4**	58.4	—	(11.1)	47.3
U.S.	**80.7**	**44.2**	**(1.5)**	**123.4**	397.2	12.4	(56.8)	352.8
Other	**38.2**	**14.1**	**—**	**52.3**	20.0	4.2	—	24.2
	158.4	**77.2**	**(1.5)**	**234.1**	475.6	16.6	(67.9)	424.3
Portfolio investments:								
Short term investments:								
Canadian government	**15.5**	**0.5**	**—**	**16.0**	196.9	—	(0.1)	196.8
U.S. treasury	**192.5**	**—**	**—**	**192.5**	2,307.9	—	(3.4)	2,304.5
Other government	**125.5**	**13.7**	**—**	**139.2**	297.1	16.1	—	313.2
	333.5	**14.2**	**—**	**347.7**	2,801.9	16.1	(3.5)	2,814.5
Bonds:								
Canadian government	**596.6**	**39.6**	**(0.1)**	**636.1**	928.1	57.0	—	985.1
U.S. treasury	**490.1**	**12.3**	**(41.4)**	**461.0**	739.2	140.4	—	879.6
U.S. states and municipalities	**938.6**	**38.0**	**(3.3)**	**973.3**	999.7	12.7	(32.7)	979.7
Other government	**848.8**	**21.5**	**(27.6)**	**842.7**	856.8	24.3	(66.6)	814.5
Corporate and other	**1,239.7**	**138.3**	**(1.0)**	**1,377.0**	315.0	7.2	(18.6)	303.6
	4,113.8	**249.7**	**(73.4)**	**4,290.1**	3,838.8	241.6	(117.9)	3,962.5
Preferred stocks:								
Canadian	**—**	**—**	**—**	**—**	10.2	—	—	10.2
U.S.	**0.1**	**—**	**—**	**0.1**	0.6	—	(0.5)	0.1
Other	**31.2**	**0.4**	**—**	**31.6**	30.4	—	(2.5)	27.9
	31.3	**0.4**	**—**	**31.7**	41.2	—	(3.0)	38.2
Common stocks:								
Canadian	**476.9**	**230.8**	**—**	**707.7**	535.8	43.6	(66.4)	513.0
U.S.	**2,716.2**	**398.5**	**—**	**3,114.7**	2,731.1	95.8	(250.9)	2,576.0
Other	**756.9**	**188.8**	**(5.4)**	**940.3**	616.5	44.2	(13.5)	647.2
	3,950.0	**818.1**	**(5.4)**	**4,762.7**	3,883.4	183.6	(330.8)	3,736.2
Assets pledged for short sale and derivative obligations:								
Bonds:								
Canadian government	**1.0**	**0.1**	**—**	**1.1**	—	—	—	—
U.S. treasury	**0.4**	**—**	**—**	**0.4**	—	—	—	—
Other government	**54.1**	**1.7**	**—**	**55.8**	—	—	—	—
Corporate and other	**5.0**	**0.5**	**—**	**5.5**	—	—	—	—
	60.5	**2.3**	**—**	**62.8**	—	—	—	—

(1) Includes $24.4 (December 31, 2008 – $1.3) of short term investments included in assets pledged for short sale and derivative obligations.

Net gains (losses) on investments include the following gross gains and losses realized on the sale of securities classified as available for sale:

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Gross realized gains from sales	**159.4**	499.5	**538.6**	660.7
Gross realized losses from sales	**(11.5)**	(22.6)	**(87.4)**	(35.1)
	147.9	476.9	**451.2**	625.6

At each reporting date, and more frequently when conditions warrant, management evaluates all available for sale securities with unrealized losses to determine whether those unrealized losses are other than temporary and should be recognized in net earnings (loss) rather than in 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. Net gains (losses) on investments for the fourth quarter and twelve months of 2009 included $8.6 (2008 – $627.4) and $340.0 (2008 – $1,011.8) respectively of provisions for other than temporary impairments. After such provisions, the unrealized losses on such securities at December 31, 2009 were $6.9 (2008 - $398.7), nil (2008 - $3.0) and $73.4 (2008 - $118.1) with respect to common stocks, preferred stocks and bonds respectively. The company had investments in six debt securities primarily other government debt securities classified as available for sale which were in unrealized loss positions for a period greater than twelve months at December 31, 2009. The unrealized loss of $25.7 on these securities at December 31, 2009 was primarily due to the effect of fluctuations in foreign currency translation rates.

Bonds designated or classified as held for trading and classified as available for sale are summarized by the earliest contractual maturity date in the table below. Actual maturities may differ from maturities shown due to the existence of call and put features.

	December 31, 2009		December 31, 2008	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**779.5**	**726.3**	804.7	825.7
Due after 1 year through 5 years	**2,445.5**	**2,199.3**	2,048.0	1,567.0
Due after 5 years through 10 years	**5,412.7**	**6,039.4**	5,099.5	5,235.4
Due after 10 years	**2,476.9**	**2,503.4**	943.6	1,026.5
	11,114.6	**11,468.4**	8,895.8	8,654.6

The fair value and carrying value of investments, at equity were as follows:

	December 31, 2009		December 31, 2008	
	Fair value	**Carrying value**	Fair value	Carrying value
Portfolio investments:				
Investments, at equity				
ICICI Lombard General Insurance Company Limited	**204.4**	**75.9**	428.5	73.1
Cunningham Lindsey Group Limited	**159.5**	**134.8**	83.9	83.9
International Coal Group, Inc.	**173.9**	**163.0**	—	—
Singapore Reinsurance Corporation Limited	**22.9**	**20.9**	—	—
The Brick Group Income Fund	**8.9**	**4.2**	—	—
Partnerships, trusts and other	**76.6**	**76.6**	62.9	62.3
	646.2	**475.4**	575.3	219.3

The company is responsible for determining the fair value of its investment portfolio by utilizing market driven fair value measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. The company uses a 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 at December 31, 2009 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 common stocks and equity call options (including in prior periods, the S&P 500 index-based Standard & Poor's Depositary Receipts ("SPDRs") short position) and positions in securities sold but not yet purchased are determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 - Significant other observable inputs – Inputs include directly or indirectly observable inputs other than quoted prices included within Level 1. 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.

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. Market observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments.

The fair values of derivatives such as equity total return swaps, equity index total return swaps and S&P index call options are based on broker-dealer quotes. The fair values of warrants are based on quoted market prices or broker-dealer quotations where available. Otherwise, valuation techniques are employed to estimate the fair value of warrants on the basis of pricing models that incorporate the quoted price, volatility and dividend yield of the underlying security and the risk free rate. 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.

The fair values of credit default swaps are based principally on third party broker-dealer quotes that are derived from market observable inputs, with current market spreads being the primary observable input. In addition, the company assesses the reasonableness of the fair values obtained from these providers by comparing these fair values to values produced using individual issuer credit default swap yield curves, by referencing them to movements in credit spreads and by comparing them to recent market transaction prices for similar credit default swaps where available. The fair values of credit default swaps are subject to significant volatility arising from the potential differences in the perceived risk of default of the underlying issuers, movements in credit spreads and the length of time to the contracts' maturity.

The company has investments of $1,231.4 (2008 - $463.1) in certain private placement debt securities and preferred shares which have been designated as held for trading or classified as available for sale depending on the characteristics of the security. The fair values of these securities are determined based on industry accepted valuation models, which are sensitive to certain assumptions, specifically share price volatility and credit spreads of the issuer.

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.

The company values its Level 3 investments, which are comprised primarily of mortgage-backed securities purchased at deep discounts to par during 2008 (fair value of $30.1 at December 31, 2009 (2008 - $151.7)), using an internal discounted cash flow model. The cash flow model incorporates actual cash flows on the mortgage-backed securities through the current period and projects the remaining cash flows from the underlying mortgages, using a number of assumptions and inputs that are based on the security-specific collateral. The company assesses the reasonableness of the fair values of these securities by comparing to industry accepted valuation models, by reference to movements in credit spreads and by comparing the fair values to recent transaction prices for similar assets where available.

The company's use of quoted market prices, internal models using observable market information as inputs and internal models without observable market information as inputs in the valuation of securities and derivative contracts were as follows:

	December 31, 2009				December 31, 2008			
	Total fair value asset (liability)	**Quoted prices (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	Total fair value asset (liability)	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	**2,233.2**	**2,233.2**	**—**	**—**	2,640.9	2,640.9	—	—
Short term investments:								
Canadian government	**71.8**	**71.8**	**—**	**—**	334.9	334.9	—	—
U.S. Treasury	**1,196.5**	**1,196.5**	**—**	**—**	2,947.5	2,946.7	0.8	—
Other government	**177.2**	**135.0**	**42.2**	**—**	409.7	381.4	28.3	—
Corporate and other	**21.0**	**—**	**21.0**	**—**	—	—	—	—
	1,466.5	**1,403.3**	**63.2**	**—**	3,692.1	3,663.0	29.1	—
Bonds:								
Canadian government	**1,538.5**	**—**	**1,538.5**	**—**	1,726.3	—	1,726.3	—
U.S. Treasury	**541.4**	**—**	**541.4**	**—**	985.0	—	985.0	—
U.S. states and municipalities	**5,497.8**	**—**	**5,497.8**	**—**	4,104.6	—	4,104.6	—
Other government	**919.7**	**—**	**919.7**	**—**	853.4	—	852.4	1.0
Corporate and other	**2,689.3**	**—**	**2,672.2**	**17.1**	833.6	—	819.7	13.9
Mortgage backed securities - residential	**281.7**	**—**	**251.6**	**30.1**	151.7	—	—	151.7
	11,468.4	**—**	**11,421.2**	**47.2**	8,654.6	—	8,488.0	166.6
Preferred stocks:(1)								
Canadian	**110.4**	**—**	**110.4**	**—**	10.1	10.1	—	—
U.S.	**215.6**	**—**	**215.6**	**—**	0.1	—	0.1	—
Other	**31.6**	**—**	**31.6**	**—**	28.0	—	28.0	—
	357.6	**—**	**357.6**	**—**	38.2	10.1	28.1	—
Common stocks:(1)								
Canadian	**755.5**	**740.2**	**15.3**	**—**	560.3	548.0	12.3	—
U.S.	**3,226.6**	**3,187.6**	**38.6**	**0.4**	2,798.0	2,750.6	47.4	—
Other	**980.8**	**710.3**	**267.1**	**3.4**	705.8	518.1	183.9	3.8
	4,962.9	**4,638.1**	**321.0**	**3.8**	4,064.1	3,816.7	243.6	3.8
Derivatives and other invested assets	**240.2**	**41.6**	**198.6**	**—**	480.8	39.4	441.4	—
Short sale and derivative obligations	**(57.2)**	**—**	**(57.2)**	**—**	(29.4)	(20.1)	(9.3)	—
Holding company cash, short term investments and marketable securities and portfolio investments measured at fair value	**20,671.6**	**8,316.2**	**12,304.4**	**51.0**	19,541.3	10,150.0	9,220.9	170.4
	100.0%	**40.2%**	**59.5%**	**0.3%**	100.0%	51.9%	47.2%	0.9%

(1) *Excluded from these totals are available for sale investments of $66.4 (nil at December 31, 2008), nil ($12.1 at December 31, 2008) and $59.6 ($177.1 at December 31, 2008) in common shares, preferred stocks and partnership trusts respectively which are carried at cost as they do not have quoted market values in active markets.*

A summary of changes in fair values of Level 3 financial assets measured at fair value on a recurring basis for the years ended December 31 follows:

	December 31, 2009			December 31, 2008		
	Bonds	**Common stocks**	**Total**	Bonds	Common stocks	Total
Balance – beginning of year	**166.6**	**3.8**	**170.4**	23.3	10.6	33.9
Total realized and unrealized gains (losses)						
Included in net gains (losses) on investments	**(12.5)**	**—**	**(12.5)**	(35.9)	7.9	(28.0)
Included in other comprehensive income	**1.1**	**(0.9)**	**0.2**	(1.5)	—	(1.5)
Purchases	**44.2**	**0.9**	**45.1**	188.1	4.8	192.9
Sales	**(56.7)**	**—**	**(56.7)**	(7.4)	(17.0)	(24.4)
Transfer out of category	**(95.5)**	**—**	**(95.5)**	—	(2.5)	(2.5)
Balance – end of year	**47.2**	**3.8**	**51.0**	166.6	3.8	170.4

A net gain for the fourth quarter of $2.8 (2008 – a net loss of $27.5) and a net loss for the twelve months of 2009 of $19.8 (2008 – $29.2) representing the change in fair value of the company's investments still held as at December 31, 2009 (principally mortgage-backed securities purchased at deep discounts to par) priced using Level 3 inputs was recognized in net gains (losses) on investments in the consolidated statements of earnings. During 2009, as the result of an increase in market liquidity, broker quotations and observable market transactions became available for certain of the company's mortgage-backed securities where fair value was previously determined using Level 3 inputs. Accordingly, $95.5 of these securities were transferred from the Level 3 category to the Level 2 category.

4. Short Sale and Derivative Transactions

The following table summarizes the notional and fair value of the company's derivative instruments and securities sold but not yet purchased:

	December 31, 2009				December 31, 2008			
		Notional	**Fair value**			Notional	Fair value	
	Cost	**value**	**Assets**	**Liabilities**	Cost	value	Assets	Liabilities
Equity derivatives:								
Equity index total return swaps – short positions	**—**	**1,582.7**	**9.2**	**—**	—	—	—	—
Equity total return swaps – short positions	**—**	**232.2**	**—**	**1.2**	—	1.3	—	—
Equity total return swaps – long positions	**—**	**214.6**	**8.7**	**7.7**	—	—	—	—
Equity and equity index call options	**46.2**	**79.3**	**46.0**	**—**	0.1	518.4	—	—
Warrants	**10.1**	**127.5**	**71.6**	**—**	—	—	—	—
Credit derivatives:								
Credit default swaps	**114.8**	**5,926.2**	**71.6**	**—**	161.5	8,873.0	415.0	—
Warrants	**15.8**	**340.2**	**2.8**	**—**	19.2	342.6	0.6	—
Foreign exchange forward contracts	**—**	**—**	**1.6**	**48.0**	—	—	39.4	20.1
Other	**—**	**—**	**13.7**	**0.3**	—	—	0.5	9.3
Total			**225.2**	**57.2**			455.5	29.4

The company is exposed to significant market risk through its investing activities. Market risk is the potential for a negative impact on the consolidated balance sheet and/or statement of earnings resulting from adverse changes in the value of financial instruments as a result of changes in certain market variables including interest rates, foreign exchange rates, equity prices and credit spreads. The company's derivative contracts, with limited exceptions, are used for the purpose of managing these risks. Derivative contracts entered into by the company are considered economic hedges and are not designated as hedges for financial reporting purposes.

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. The initial premium paid for a derivative contract, if any, would be recorded as a derivative asset and subsequently adjusted for changes in the market value of the contract at each balance sheet date. Changes in the market value of a contract are recorded as net gains (losses) on investments in the company's consolidated statement of net earnings at each balance sheet date, with a corresponding adjustment to the carrying value of the derivative asset or liability.

Equity contracts

Short positions in equity and equity index total return swaps are held primarily to provide protection against significant declines in the value of the company's portfolio of common stocks. The company's equity and equity index total return swaps contain contractual reset provisions requiring counterparties to cash-settle on a quarterly basis any market value movements arising subsequent to the prior settlement. Any cash amounts paid to settle unfavourable market value changes and, conversely, any cash amounts received in settlement of favourable market value changes are recognized by the company as net gains (losses) on investments in the consolidated statements of net earnings. To the extent that a contractual reset date of a contract does not correspond to the balance sheet date, the company records net gains (losses) on investments in the consolidated statements of net earnings to adjust the carrying value of the derivative asset or liability associated with each total return swap contract to reflect its fair value at the balance sheet date. Final cash settlements of total return swaps are recognized as net gains (losses) on investments net of any previously recorded unrealized market value changes since the last quarterly reset date. Total return swaps require no initial net investment and at inception, their fair value is zero.

The company holds significant investments in equities and equity-related securities, which the company believes will significantly appreciate in value over time. The market value and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over the long term. During the third quarter of 2009, as a result of the rapid increase in the valuation level of worldwide equity markets, the company determined to protect a portion of its equity and equity-related holdings against a potential decline in equity markets by way of short positions effected through equity index total return swaps. At the inception of the short positions, the resulting equity hedge ($1.5 billion notional amount at an average S&P 500 index value of 1,062.52) represented approximately one-quarter of the company's equity and equity-related holdings ($6,517.9). At year-end, as a result of decreased equity and equity-related holdings of $6,156.5 and increased short positions, the equity hedges had increased to approximately 30%. The company believes that the equity hedges will be reasonably effective in protecting that proportion of the company's equity and equity-related holdings to which the hedges relate, however, due to a lack of a perfect correlation between the hedged items and the hedging items, combined with other market uncertainties, it is not possible to estimate the reasonably likely future impact of the company's economic hedging programs related to equity risk.

During much of 2008 and immediately preceding years, the company had been concerned with the valuation level of worldwide equity markets, uncertainty resulting from credit issues in the United States and global economic conditions. As protection against a decline in equity markets, during this period the company had held short positions effected by way of equity index-based exchange-traded securities including the SPDRs, U.S. listed common stocks, equity total return swaps and equity index total return swaps, referred to in the aggregate as the company's equity hedges. The company had purchased short term S&P 500 index call options to limit the potential loss on U.S. equity index total return swaps and the SPDRs short positions and to provide general protection against the short position in common stocks. During the fourth quarter of 2008, following significant declines in global equity markets, the company revised the financial objectives of its economic hedging program on the basis of its assessment that the formerly elevated risks in the global equity markets had moderated and subsequently closed substantially all of its equity hedge positions, realizing net pre-tax gains of $1,272.0 and $714.0 for the fourth quarter and year ended December 31, 2008 respectively. During the remainder of the fourth quarter of 2008, the company significantly increased its investments in equities as a result of the opportunities presented by significant declines in equity valuations.

At December 31, 2009, the fair value included in portfolio investments and in the cash, short term investments and marketable securities of the holding company of assets pledged as collateral was $230.4 ($28.0 at December 31, 2008), of which nil ($3.9 at December 31, 2008) was restricted cash; the remainder of the assets, although pledged, may be substituted with similar assets. Total assets pledged of $230.4 is comprised of collateral primarily for equity and equity index total return swap obligations of $206.0 and assets pledged for the Cdn$25.0 standby letter of credit of $24.4 as described in note 10 under the heading Financial guarantee.

A limited number of long positions in equity total return swaps were entered into during the first quarter of 2009 for investment purposes based on attractive valuation levels following the significant declines in the global equity markets during the fourth quarter of 2008.

Equity and equity index call options include derivative purchase contracts and call options relating to U.S. publicly traded common stock and indices.

Equity warrants were acquired in conjunction with the company's investment in debt securities of various Canadian companies during the second quarter of 2009. The warrants have expiration dates ranging from 4 years to 5 years.

Credit contracts

The company has credit default swaps, referenced primarily to various issuers in the banking 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 2.4 years (3.3 years at December 31, 2008) and a notional amount and fair value as shown in the table above. As the average remaining life of a contract declines, the fair value of the contract (excluding the impact of credit spreads) will generally decline. The initial premium paid for each credit default swap contract was recorded as a derivative asset and was subsequently adjusted for changes in the market value of the contract at each balance sheet date. Changes in the market value of the contract were recorded as net gains (losses) on investments in the company's consolidated statement of net earnings at each balance sheet date, with a corresponding adjustment to the carrying value of the derivative asset.

During the fourth quarter of 2009, the company sold nil (2008 – $3,363.9) notional amount of credit default swaps for proceeds of nil (2008 – $378.0) and recorded net gains on sale of nil (2008 – $43.8) and recorded net mark-to-market losses of $10.0 (2008 – $4.6) in respect of positions remaining open at year end. During 2009, the company sold $3,042.9 (2008 – $11,629.8) notional amount of credit default swaps for proceeds of $231.6 (2008 – $2,048.7) and recorded net gains on sale of $46.2 (2008 – $1,047.5) and recorded net mark-to-market losses of $160.8 (2008 – net gains of $238.9) in respect of positions remaining open at year end. Sales of credit default swap contracts during 2009 and 2008 caused the company to reverse any previously recorded unrealized market value changes since the inception of the contract and to record the actual amount of the final cash settlement through net gains (losses) on investments in the consolidated statements of net earnings.

The company holds, for investment purposes, various bond warrants that give the company an option to purchase certain long dated corporate bonds. The warrants have expiration dates averaging 37 years.

Foreign exchange forward contracts

A significant portion of the company's business is conducted in currencies other than the U.S. dollar. The company is also exposed to currency rate fluctuations through its net investments in subsidiaries that have a functional currency other than the U.S. dollar. Long and short foreign exchange forward contracts primarily denominated in the pound sterling and the Canadian dollar are used to manage certain foreign currency exposures arising from foreign currency denominated transactions. The contracts have an average term of less than one year and may be renewed at market rates.

Counterparty risk

The company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its total return swap, credit default swap and other derivative securities contracts. Pursuant to these agreements, the company and the counterparties to these transactions are contractually required to deposit eligible collateral in collateral accounts for either the benefit of the company or the counterparty depending on the then current fair value or change in fair value of the derivative contracts.

The fair value of the collateral deposited for the benefit of the company at December 31, 2009, all of which consisted of government securities that may be sold or repledged by the company, was $23.2. The fair value of the collateral deposited for the benefit of the company at December 31, 2008, all of which consisted of government securities, was $285.1, of which $107.6 was eligible to be sold or repledged by the company. The company had not exercised its right to sell or repledge collateral at December 31, 2009.

The fair value of the collateral deposited for the benefit of counterparties at December 31, 2009 was $206.0, of which $156.4 was collateral required to be deposited to enter into such derivative contracts and $49.6 of which was collateral required to be deposited due to changes in fair value. The fair value of collateral deposited for the benefit of counterparties at December 31, 2008 was $28.0.

Financial performance

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

	Classified as held for trading					Designated as held for trading		
	Common stock and equity index positions	Credit default swaps	Equity warrants	Other	Total	Bonds	Preferred and common stocks	Total
For the three months ended December 31, 2009								
Inception-to-date realized gains (losses) on positions closed in the period	**26.4**	**—**	**172.7**	**(10.1)**	**189.0**	**31.2**	**7.0**	**38.2**
Mark-to-market (gains) losses recognized in prior periods on positions closed in the period	**(95.3)**	**—**	**(152.9)**	**0.2**	**(248.0)**	**(10.4)**	**(5.3)**	**(15.7)**
Mark-to-market gains (losses) arising on positions remaining open at period end	**6.9**	**(10.0)**	**(0.9)**	**(1.6)**	**(5.6)**	**(155.5)**	**27.7**	**(127.8)**
Net gains (losses)	**(62.0)**	**(10.0)**	**18.9**	**(11.5)**	**(64.6)**	**(134.7)**	**29.4**	**(105.3)**
For the three months ended December 31, 2008								
Inception-to-date realized gains (losses) on positions closed in the period	1,305.4	306.2	—	53.6	1,665.2	(1.4)	—	(1.4)
Mark-to-market (gains) losses recognized in prior periods on positions closed in the period	(251.8)	(262.4)	—	(13.0)	(527.2)	(0.1)	—	(0.1)
Mark-to-market gains (losses) arising on positions remaining open at period end	1.4	(4.6)	—	4.5	1.3	(191.9)	(21.3)	(213.2)
Net gains (losses)	1,055.0	39.2	—	45.1	1,139.3	(193.4)	(21.3)	(214.7)

	Classified as held for trading					Designated as held for trading		
	Common stock and equity index positions	**Credit default swaps**	**Equity warrants**	**Other**	**Total**	**Bonds**	**Preferred and common stocks**	**Total**
For the year ended December 31, 2009								
Inception-to-date realized gains (losses) on positions closed in the year	**(15.5)**	**185.4**	**172.7**	**(26.1)**	**316.5**	**58.8**	**9.2**	**68.0**
Mark-to-market (gains) losses recognized in prior years on positions closed in the year	**0.1**	**(139.2)**	**—**	**(18.8)**	**(157.9)**	**28.8**	**—**	**28.8**
Mark-to-market gains (losses) arising on positions remaining open at year end	**8.8**	**(160.8)**	**58.2**	**(27.3)**	**(121.1)**	**604.1**	**50.4**	**654.5**
Net gains (losses)	**(6.6)**	**(114.6)**	**230.9**	**(72.2)**	**37.5**	**691.7**	**59.6**	**751.3**
For the year ended December 31, 2008								
Inception-to-date realized gains (losses) on positions closed in the year	1,994.2	1,801.5	—	62.4	3,858.1	(2.0)	—	(2.0)
Mark-to-market (gains) losses recognized in prior years on positions closed in the year	84.7	(754.0)	—	2.9	(666.4)	0.1	—	0.1
Mark-to-market gains (losses) arising on positions remaining open at year end	(0.2)	238.9	—	(1.9)	236.8	(348.1)	(21.3)	(369.4)
Net gains (losses)	2,078.7	1,286.4	—	63.4	3,428.5	(350.0)	(21.3)	(371.3)

Hedge of net investment in Northbridge

In a net investment hedging relationship, the gains and losses relating to the hedged portion of the underlying asset or liability (the effective portion of the hedge) are recorded in other comprehensive income (loss). The gains and losses relating to the ineffective portion of the hedge are recorded in net gains (losses) on investments in the consolidated statements of net earnings. In the case of a hedged net investment in foreign operations, gains and losses previously recorded in accumulated other comprehensive income (loss) are recognized in net earnings when the hedged net investment in foreign operations is reduced.

In the first quarter of 2009 Northbridge, which conducts business primarily in Canada, became a wholly owned subsidiary of Fairfax as described in note 5. As a self-sustaining operation with a Canadian dollar functional currency, the net assets of Northbridge represent a significant foreign currency exposure to Fairfax. In keeping with the company's foreign currency risk management objective of mitigating the impact of foreign currency rate fluctuations on its financial position, in August 2009 the company designated the carrying value of its Canadian dollar denominated senior notes due August 19, 2019 as a hedge of a portion of its net investment in Northbridge for financial reporting purposes. In the fourth quarter and year ended December 31, 2009, the company recognized $8.9 and $18.3 respectively of foreign currency movement on the senior notes in changes in gains and losses on hedges of net investment in foreign subsidiary in the consolidated statement of comprehensive income. The foreign currency exposure deferred in the currency translation account in accumulated other comprehensive income will remain until such time that the net investment in Northbridge is reduced.

5. Acquisitions and Divestitures

Subsequent to December 31, 2009

On February 18, 2010, the company announced an agreement with Zenith National Insurance Corp. ("Zenith") pursuant to which the company will acquire all of the outstanding shares of Zenith common stock, other than those shares not already owned by Fairfax and its affiliates, for $38.00 per share in cash and pursuant to which Zenith will become a wholly owned subsidiary of the company. The aggregate cash consideration payable under the merger agreement for the shares that are not already held by Fairfax is estimated to be approximately $1.3 billion. The company intends to finance the acquisition with a combination of holding company cash and subsidiary dividends, and also intends to raise $200.0 through a common equity issue prior to the closing. Following the completion of the acquisition, the company expects to continue to maintain approximately $1.0 billion in cash, short term investments and marketable securities at the holding company level. The transaction is expected to close in the second quarter of 2010, subject to the approval by Zenith shareholders and receipt of customary regulatory approvals. Zenith is engaged, through its wholly owned subsidiaries, in the workers' compensation insurance business throughout the United States.

Year ended December 31, 2009

Establishment of New Brazilian Insurer

At December 31, 2009, the company had invested initial capital of $39.9 (71.2 million Reais) in a newly established, wholly-owned Brazilian property and casualty insurance company, Fairfax Brasil Seguros Corporativos S.A. ("Fairfax Brasil"). Fairfax Brasil is headquartered in São Paulo, Brazil and plans to commence underwriting in the first quarter of 2010, subject to receipt of approvals by Brazilian insurance regulatory authorities, in all lines of commercial business, with a primary focus on Brazilian property, energy, casualty, surety, marine, financial lines, special risks, hull and aviation.

Privatization of OdysseyRe

On September 23, 2009, the company announced a tender offer to acquire the 27.4% of the outstanding common shares of OdysseyRe that the company did not already own for $65.00 in cash per share (the "OdysseyRe Offer"), representing an aggregate cash purchase price of approximately $1.0 billion. On October 27, 2009, the company paid for and acquired the 14.2 million OdysseyRe shares which had been tendered at the expiry of the OdysseyRe Offer, increasing the company's ownership of OdysseyRe to 96.8% (71.9% at June 30, 2009). On October 28, 2009, in accordance with the terms of the related merger agreement, all of OdysseyRe's common shares held by the remaining minority shareholders were cancelled and converted into the right to receive $65.00 per share in cash and OdysseyRe became a wholly owned subsidiary of the company. The result of this transaction is summarized in the table that follows.

Privatization of Advent

On October 17, 2009, the company completed the acquisition of all of the outstanding common shares of Advent, other than those common shares already owned by the company, for aggregate cash consideration of $59.5 (£35.8 million), pursuant to a previously announced tender offer. The result of this transaction is summarized in the table that follows.

Privatization of Northbridge

On January 13, 2009, the company purchased 24.8% of the outstanding common shares of Northbridge for an aggregate cash purchase price of $374.0 (Cdn$458.4) pursuant to a previously announced offer to acquire all of the outstanding common shares of Northbridge other than those common shares already owned by the company (the "Step 1" acquisition). Immediately following the February 19, 2009 approval by Northbridge shareholders of a going private transaction, Northbridge redeemed the remaining 11.6% of its outstanding common shares for an aggregate cash consideration of $172.4 (Cdn$215.9) (the "Step 2" acquisition). The result of these transactions is summarized in the table that follows.

Acquisition of Polskie Towarzystwo Reasekuracji Spólka Akcyjna ("Polish Re")

On January 7, 2009, the company completed the acquisition of 100% of the outstanding common shares of Polish Re, a Polish reinsurance company, for cash consideration of $57.0 (168.3 million Polish zloty), pursuant to a previously announced tender offer. The assets and liabilities and results of operations of Polish Re have been included in the company's consolidated financial reporting in the Reinsurance – Other reporting segment. This investment increased the company's exposure to the Central and Eastern European economies and has established a platform for business expansion in that region over time. The result of this transaction is summarized in the table that follows.

The OdysseyRe, Advent, Northbridge and Polish Re acquisitions were accounted for using the purchase method. The total intangible assets acquired of $37.9 and $90.8 in the OdysseyRe and Northbridge acquisitions have been included in the company's financial reporting in the Reinsurance – OdysseyRe and Insurance – Northbridge reporting segments respectively. The customer and broker relationship intangible assets are amortized on the straight-line basis over periods ranging from 8 to 20 years and the resulting amortization expense is included in OdysseyRe and Northbridge's operating results, while the brand names have indefinite lives and are not amortized. The OdysseyRe and Northbridge acquisitions decreased non-controlling interests in the consolidated balance sheet by $950.2 and $398.5 respectively. The purchase price allocation of the OdysseyRe acquisition is preliminary and may be revised when estimates and assumptions are finalized and the valuations of assets and liabilities are finalized within twelve months of the purchase date.

	OdysseyRe	Advent	Northbridge Step 1 acquisition	Northbridge Step 2 acquisition	Northbridge Total	Polish Re
Acquisition date	October 21, 2009	September 2, 2009	January 13, 2009	February 20, 2009		January 7, 2009
Percentage of common shares acquired	27.4%	36.5%	24.8%	11.6%	36.4%	100%
Cash purchase consideration	1,017.0	59.5	374.0	172.4	546.4	57.0
Fair value of assets acquired:						
Tangible assets[1]	3,028.7	368.3	1,070.2	496.0	1,566.2	141.0
Intangible assets:						
Customer and broker relationships	27.9	—	53.5	26.1	79.6	—
Brand names	10.0	—	7.5	3.7	11.2	—
Goodwill	64.6	—	51.5	29.1	80.6	13.8
Total fair value of assets acquired	3,131.2	368.3	1,182.7	554.9	1,737.6	154.8
Total fair value of liabilities assumed	(2,114.2)	(308.8)	(808.7)	(382.5)	(1,191.2)	(97.8)
Net assets acquired	1,017.0	59.5	374.0	172.4	546.4	57.0

(1) Of the $141.0 of tangible assets acquired in the Polish Re transaction, $31.9 comprised cash and cash equivalents.

Other

Investment in Alltrust

On August 31, 2009, the company announced the purchase of a 15.0% interest in Alltrust Insurance Company of China Ltd. (“Alltrust”) for cash consideration of $65.9. The closing of this purchase was subject to final approval by the Chinese Insurance Regulatory Commission, which was received on September 29, 2009. Alltrust is headquartered in Shanghai and provides a full range of primary insurance products and services in China, including property insurance, liability insurance, surety bonds, short-term health insurance, accident insurance, motor insurance and reinsurance. The company recorded its investment in Alltrust at cost within the available for sale classification as Alltrust does not have a quoted price in an active market.

On February 11, 2009, the company made an additional investment of $49.0 in its equity affiliate Cunningham Lindsey Group Limited (“CLGL”) to facilitate that company’s acquisition of the international operations of GAB Robins, a provider of loss adjusting and claims management services. The company’s ownership of CLGL at December 31, 2009 was 43.6% (45.7% at December 31, 2008).

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), primarily from Ridley’s Australian parent, Ridley Corporation Limited. 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 a commercial animal nutrition company with operations throughout North America.

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 accounted for 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 business segment. 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 in Advent to 66.6% at December 31, 2008. 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.

On June 13, 2008, CLGL, a new holding company formed in December 2007 to facilitate the disposition of the Cunningham Lindsey Group Inc. (“CLGI”) operating companies, repaid a Cdn$125.0 promissory note payable to CLGI using funds received from its new bank credit facility. CLGI used the proceeds received to repay its 7.0% unsecured Series B debentures (Cdn$125.0), as described in note 6. During the second quarter of 2008, CLGI increased its investment in CLGL by Cdn$23.0 by contributing Cdn$5.9 in cash and by converting a Cdn$17.1 promissory note due from CLGL to equity. Subsequent to this investment, CLGI’s interest in CLGL increased to 45.7%. On December 5, 2008, the assets of CLGI 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 CLGL was owned directly by Fairfax through an intermediate holding company.

In June 2008, the company through one of its subsidiaries purchased a 19.8% interest in Arab Orient Insurance Company ("Arab Orient") for cash consideration of $10.4. Arab Orient is a publicly traded insurance company based in Amman, Jordan. The company recorded its investment in Arab Orient at fair value within the available for sale classification.

Repurchases of shares

During 2009, OdysseyRe repurchased for cancellation on the open market 1,789,100 (nil in the fourth quarter) of its common shares with a cost of $72.6 (nil in the fourth quarter), as part of its previously announced common share repurchase programme. These transactions increased the company's ownership of OdysseyRe to 72.6% (2008 - 70.4%), and decreased non-controlling interests by $89.6 (nil in the fourth quarter) prior to the previously described going private transaction in the fourth quarter of 2009. During 2009, Northbridge did not repurchase any of its common shares for cancellation except for those shares repurchased as part of the going private transaction described previously.

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

6. Subsidiary Indebtedness, Long Term Debt, Other Long Term Obligations and Capital

Subsequent to December 31, 2009

On February 1, 2010, the company issued 8,000,000 cumulative five-year rate reset preferred shares, Series E for Cdn$25.00 per share, resulting in net proceeds after commissions and expenses (net of tax of $1.7) of $183.1 (Cdn$195.3). The Series E preferred shares have a dividend rate of 4.75% per annum until March 31, 2015 and thereafter an annual rate to be reset every five years equal to the then current five-year Government of Canada bond yield plus 2.16%. The Series E preferred shares have a liquidation preference of Cdn$25.00 per share and are redeemable by the company on March 31, 2015 and on March 31 every five years thereafter at Cdn$25.00 per share. Holders of unredeemed Series E preferred shares will have the right, at their option, to convert their shares into Series F floating rate cumulative preferred shares on March 31, 2015, and on March 31 every five years thereafter. The Series F preferred shares (of which none are currently issued) will have a dividend rate equal to the three-month Government of Canada Treasury Bill yield current on March 31, 2015 or any subsequent five-year anniversary plus 2.16%.

Year ended December 31, 2009

On December 1, 2009, the company repurchased for cancellation 2,250,000 and 3,750,000 Series A and B preferred shares respectively. The company paid $53.9 to repurchase $38.4 (Cdn$56.2) of the stated capital of the Series A preferred shares and $89.9 to repurchase $64.1 (Cdn$93.8) of the stated capital of the Series B preferred shares. These redemptions resulted in a charge to retained earnings of $41.3, representing the excess of the redemption amount paid (stated capital of Cdn$150.0) over the balance sheet carried value of the redeemed shares, the difference arising as a result of the movement in the Canadian-U.S. dollar exchange rate between the date the company commenced financial reporting in U.S. dollars and the redemption date.

On October 5, 2009, the company issued 10,000,000 cumulative five-year rate reset preferred shares, Series C for Cdn$25.00 per share, resulting in net proceeds after commissions and expenses (net of tax of $2.2) of $227.2 (Cdn$244.5). The Series C preferred shares have a dividend rate of 5.75% per annum until December 31, 2014 and thereafter an annual rate to be reset every five years equal to the then current five-year Government of Canada bond yield plus 3.15%. The Series C preferred shares have a liquidation preference of Cdn$25.00 per share and are redeemable by the company on December 31, 2014 and on December 31 every five years thereafter at Cdn$25.00 per share. Holders of unredeemed Series C preferred shares will have the right, at their option, to convert their shares into Series D floating rate cumulative preferred shares on December 31, 2014, and on December 31 every five years thereafter. The Series D preferred shares (of which none are currently issued) will have a dividend rate equal to the three-month Government of Canada Treasury Bill yield current on December 31, 2014 or any subsequent five-year anniversary plus 3.15%.

On September 25, 2009, the company purchased $1.0 principal amount of its senior notes due 2012 for cash consideration of $1.0.

On September 11, 2009, the company completed a public equity offering and issued 2,881,844 subordinate voting shares at $347.00 per share, for net proceeds after commissions and expenses (net of tax of $6.3) of $989.3.

On August 18, 2009, the company completed a public debt offering of Cdn$400.0 principal amount of 7.50% unsecured senior notes due August 19, 2019 at an issue price of 99.639 for net proceeds after discount, commissions and expenses of $358.6 (Cdn$394.8). Commissions and expenses of $3.4 (Cdn$3.7) were included as part of the carrying value of the debt. The notes are redeemable at the company's option at any time at the greater of a specified redemption price based upon the then current yield of a Government of Canada bond with a term to maturity equal to the remaining term to August 19, 2019 and par. The company has designated these senior notes as a hedge of a portion of its net investment in Northbridge.

On April 28, 2009, the company purchased $8.8 principal amount of its trust preferred securities for cash consideration of $5.5.

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

Effective November 4, 2008, the company consolidated the revolving term facilities and long term debt of Ridley pursuant to the transactions described in note 5. The interest rates on the revolving term facilities are the bankers acceptance rate for Canadian dollar debt and LIBOR for U.S. dollar debt plus a margin of 1.00% to 1.50% based on a specific debt ratio.

Effective from September 11, 2008, the company consolidated all the assets and liabilities of Advent pursuant to the transaction described in note 5, including Advent's long term debt with an aggregate principal amount of $96.8 and total carrying value of $93.4.

On June 16, 2008, Crum & Forster Holdings Corp. ("Crum & Forster") redeemed for cash all $4.3 principal amount of its outstanding notes due 2013 for total consideration of $4.5.

On June 16, 2008, Cunningham Lindsey repaid the outstanding Cdn$125.0 of its 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 principal amount of its notes which matured on that date.

On January 9, 2008, the company called for redemption all of its 5.0% convertible senior debentures due 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.

Repurchases of shares

Under the terms of normal course issuer bids, during the fourth quarter of 2009 the company repurchased for cancellation 315,600 (2008 – 34,700) subordinate voting shares at a net cost of $112.4 (2008 – $8.6), of which $62.4 (2008 – $4.2) was charged to retained earnings. During 2009, the company repurchased for cancellation 360,100 (2008 – 1,066,601) subordinate voting shares at a net cost of $122.9 (2008 – $282.0), of which $67.3 (2008 – $147.2) was charged to retained earnings.

During 2008, the company repurchased for cancellation 750,000 (nil in the fourth quarter) and 1,250,000 (nil in the fourth quarter) Series A and Series B preferred shares respectively. The company paid $18.3 to repurchase $12.8 (Cdn$18.8) of the stated capital of the Series A preferred shares and $29.7 (nil in the fourth quarter) to repurchase $21.3 (Cdn$31.3) of the stated capital of the Series B preferred shares. These transactions resulted in a charge to retained earnings of $13.9 (nil in the fourth quarter), representing the excess of the redemption amount paid (stated capital of Cdn$50.0) over the balance sheet carried value of the redeemed shares, the difference arising as a result of the movement in the Canadian-U.S. dollar exchange rate between the date the company commenced financial reporting in U.S. dollars and the redemption date.

Dividends

On January 5, 2010, the company declared a cash dividend of $10.00 per share on its outstanding multiple voting and subordinate voting shares, payable on January 26, 2010 to shareholders of record on January 19, 2010 for a total cash payment of $201.2.

On January 6, 2009, the company declared a cash dividend of $8.00 per share on its outstanding multiple voting and subordinate voting shares, payable on January 27, 2009 to shareholders of record on January 20, 2009 for a total cash payment of $140.8.

Fair value

The fair values of the company's long term debt and other long term obligations are based principally on market prices, where available, or discounted cash flow calculations. The estimated fair values of the company's long term debt and other long term obligations compared to their carrying values are as follows:

	December 31, 2009		December 31, 2008	
	Carrying value	**Fair value**	Carrying value	Fair value
Long term debt – holding company borrowings	**1,236.9**	**1,317.4**	869.6	711.1
Long term debt – subsidiary company borrowings	**891.3**	**917.4**	889.1	748.7
Other long term obligations – holding company	**173.5**	**171.3**	187.7	181.2
	2,301.7	**2,406.1**	1,946.4	1,641.0

Credit facilities

Northbridge maintains a five-year, unsecured, revolving credit facility with a Canadian chartered bank maturing in 2012 for up to Cdn$50.0. As at December 31, 2009, there was Cdn$1.2 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 maturing in 2012. As at December 31, 2009, there was $54.9 utilized under this credit facility, all of which was in support of letters of credit, which included $21.0 in letters of credit that were cancelled effective January 15, 2010.

7. Significant Commutations

During the fourth quarter of 2009, TIG Insurance Company ("TIG") commuted a reinsurance contract. As a result of the commutation, TIG received cash proceeds of $86.5 (in January 2010) and recorded a reduction of recoverable from reinsurers of $69.0 and a pre-tax gain of $17.5 in the consolidated financial statements.

During the third quarter of 2009, TIG commuted two reinsurance contracts. As a result of the commutations, TIG received cash proceeds of $37.2 in the fourth quarter of 2009 and expects to receive the remaining balance of $12.5 in the first quarter of 2010 and recorded a reduction of recoverable from reinsurers of $70.8 and a pre-tax charge of $21.1 in the consolidated financial statements.

On June 26, 2008, Crum & Forster commuted an aggregate stop loss reinsurance contract. As a result of the commutation, Crum & Forster received cash proceeds of $302.5 and recorded a reduction of recoverable from reinsurers of $386.7 and a pre-tax charge of $84.2 in the consolidated financial statements.

8. Accumulated Other Comprehensive Income (Loss)

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

	December 31, 2009			December 31, 2008		
	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	**181.2**	**(60.5)**	**120.7**	133.5	(41.8)	91.7
Common stocks and other	**877.5**	**(251.1)**	**626.4**	(199.7)	55.7	(144.0)
	1,058.7	**(311.6)**	**747.1**	(66.2)	13.9	(52.3)
Currency translation account	**153.9**	**(7.9)**	**146.0**	(32.4)	(23.1)	(55.5)
	1,212.6	**(319.5)**	**893.1**	(98.6)	(9.2)	(107.8)

9. Income Taxes

The $100.0 recovery of income taxes in the fourth quarter of 2009 and the effective income tax rate of 17.8% implicit in the $214.9 provision for income taxes in the twelve months of 2009 differed from the company's statutory income tax rate of 33.0% primarily as a result of the effect of non-taxable investment income in the U.S. tax group (including dividend income and interest on bond investments in U.S. states and municipalities), income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate, the recognition of the benefit of previously unrecorded accumulated income tax losses, the release of $30.7 of income tax provisions subsequent to the completion of examinations of the tax filings of prior years by taxation authorities, and adjustments for prior years partially offset by income taxes on unrealized foreign currency gains on the company's publicly issued debt securities.

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, the release in the second quarter of $23.3 of income tax provisions subsequent to the completion of an examination by taxation authorities, 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.

10. Contingencies

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. In November 2009, the Court granted a motion by the lead plaintiffs to withdraw as lead plaintiffs, and allowed other prospective lead plaintiffs 60 days to file motions seeking appointment as replacement lead plaintiff. Two entities filed such motions and subsequently asked the Court to appoint them as co-lead plaintiffs. These motions remain pending. The ultimate outcome of any litigation is uncertain and should the consolidated lawsuit continue and 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, if it continues, 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 been served with 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.

Financial guarantee

In August 2009, the company issued a Cdn$25.0 standby letter of credit on behalf of an investee for a term of six months, which is extendible to one year at the option of the investee for an additional premium. In connection with the standby letter of credit, the company has pledged short term investments in the amount of Cdn$25.0, representing the company's maximum loss under the standby letter of credit assuming failure of any right of recourse the company may have against the investee. The company's consolidated balance sheet includes a liability of $2.9 (Cdn$3.0) representing the fair value of the consideration received for issuing the standby letter of credit. This liability may be recognized in net earnings if the standby letter of credit expires undrawn, may be increased by the additional consideration received if the term is extended to one year or may be increased to reflect increased credit risk in the event of a deterioration in the credit quality of the investee. At December 31, 2009, no draw-downs had been made on this standby letter of credit.

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,	
	2009	2008	**2009**	2008
Net earnings	**79.4**	346.8	**856.8**	1,473.8
Preferred share dividends	**(4.6)**	(1.6)	**(10.5)**	(10.1)
Excess over stated value of preferred shares purchased for cancellation	**(41.3)**	—	**(41.3)**	(13.9)
Net earnings available to common shareholders – basic	**33.5**	345.2	**805.0**	1,449.8
Interest expense on convertible debt, net of tax	**—**	—	**—**	0.3
Net earnings available to common shareholders – diluted	**33.5**	345.2	**805.0**	1,450.1
Weighted average common shares outstanding – basic	**20,177,461**	17,498,052	**18,301,133**	18,036,670
Effect of dilutive shares:				
Convertible debt	**—**	—	**—**	104,197
Options to purchase treasury stock acquired	**93,946**	94,304	**96,765**	91,890
Total effect of dilutive shares	**93,946**	94,304	**96,765**	196,087
Weighted average common shares outstanding – diluted	**20,271,407**	17,592,356	**18,397,898**	18,232,757
Net earnings per common share – basic	**$ 1.66**	$ 19.73	**$ 43.99**	$ 80.38
Net earnings per common share – diluted	**$ 1.65**	$ 19.62	**$ 43.75**	$ 79.53

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. Capital Management

The company's capital management framework is designed to first protect its policyholders, then to protect its bondholders, and finally to optimize returns to shareholders. Effective capital management includes measures designed to maintain capital above minimum regulatory levels, above levels required to satisfy issuer credit ratings and financial strength ratings requirements, and above internally determined and calculated risk management levels. Total capital at December 31, 2009, comprising shareholders' equity and non-controlling interests, was $7,736.6, compared to $6,351.6 at December 31, 2008. The company manages its capital based on the following financial measurements and ratios:

	December 31,	
	2009	2008
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**1,242.7**	1,555.0
Holding company debt	**1,236.9**	869.6
Subsidiary debt	**903.4**	910.2
Other long term obligations – holding company	**173.5**	187.7
Total debt	**2,313.8**	1,967.5
Net debt	**1,071.1**	412.5
Common shareholders' equity	**7,391.8**	4,866.3
Preferred equity	**227.2**	102.5
Non-controlling interests	**117.6**	1,382.8
Total equity and non-controlling interests	**7,736.6**	6,351.6
Net debt/total equity and non-controlling interests	**13.8%**	6.5%
Net debt/net total capital(1)	**12.2%**	6.1%
Total debt/total capital(2)	**23.0%**	23.7%
Interest coverage(3)	**8.2x**	16.4x

(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 (loss) from operations before income taxes and interest expense divided by interest expense.

13. Financial Risk Management

The company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The key financial instrument risks are classified as underwriting, credit, market and liquidity risk, as disclosed in note 18 of the company's consolidated financial statements for the year ended December 31, 2008. There have been no significant changes to the company's exposure to these risks or the framework used to monitor, evaluate and manage them other than as outlined in the Risk Management section of Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the company's Interim Report for the fourth quarter and year ended December 31, 2009.

14. 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. Effective from January 7, 2009, the date of the acquisition of Polish Re, all of the assets of Polish Re ($194.6 at December 31, 2009) have been included in the Reinsurance – Other reporting segment. Northbridge, Fairfax Asia and OdysseyRe's identifiable assets increased during 2009 primarily as a result of the appreciation of the value of their portfolio investments. There were no other significant changes in the identifiable assets by reporting segment as at December 31, 2009 compared to December 31, 2008. The Other reporting segment is comprised of revenues and expenses of Ridley since its acquisition on November 4, 2008.

An analysis of net earnings by reporting segment for the fourth quarter and year ended December 31 is presented below:

Quarter ended December 31, 2009

	Insurance			Reinsurance							
	Northbridge	Crum & Forster	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and other	Eliminations and adjustments	Consolidated
Net premiums earned	256.4	191.6	32.9	483.0	151.2	1,115.1	—	—	—	—	1,115.1
Underwriting expenses	(288.6)	(204.9)	(28.1)	(466.7)	(153.5)	(1,141.8)	—	—	—	—	1,141.8
Underwriting profit (loss)	(32.2)	(13.3)	4.8	16.3	(2.3)	(26.7)	—	—	—	—	(26.7)
Interest income	24.2	22.6	3.2	66.1	11.4	127.5	14.6	—	3.8	—	145.9
Dividends	6.6	6.0	1.2	10.9	0.8	25.5	2.6	—	2.1	—	30.2
Earnings (loss) on investments, at equity	0.3	1.7	(9.0)	2.2	—	(4.8)	—	—	6.4	—	1.6
Investment expenses	(2.6)	(6.4)	(0.7)	(7.5)	(1.4)	(18.6)	(3.2)	—	(0.7)	17.2	(5.3)
Interest and dividends	28.5	23.9	(5.3)	71.7	10.8	129.6	14.0	—	11.6	17.2	172.4
Other											
Revenue	—	—	—	—	—	—	—	150.1	17.2	(17.2)	150.1
Expenses	—	—	—	—	—	—	(53.9)	(142.0)	—	—	(195.9)
	—	—	—	—	—	—	(53.9)	8.1	17.2	(17.2)	(45.8)
Operating income (loss) before:	(3.7)	10.6	(0.5)	88.0	8.5	102.9	(39.9)	8.1	28.8	—	99.9
Net gains (losses) on investments	(6.0)	(4.0)	1.4	(26.5)	(7.6)	(42.7)	(7.8)	—	21.3	(1.1)	(30.3)
Interest expense	—	(7.0)	—	(7.5)	(1.2)	(15.7)	—	(0.2)	(33.4)	—	(49.3)
Corporate overhead and other	(5.5)	—	0.3	(5.2)	(6.0)	(16.4)	—	—	(20.7)	—	(37.1)
Pre-tax income (loss)	(15.2)	(0.4)	1.2	48.8	(6.3)	28.1	(47.7)	7.9	(4.0)	(1.1)	(16.8)
Income taxes											100.0
Non-controlling interests											(3.8)
Net earnings											79.4

Quarter ended December 31, 2008

	Insurance			Reinsurance							
	Northbridge	Crum & Forster	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and other	Eliminations and adjustments	Consolidated
Net premiums earned	239.2	237.3	22.0	504.0	113.5	1,116.0	—	—	—	—	1,116.0
Underwriting expenses	(261.8)	(246.8)	(27.3)	(475.2)	(153.3)	(1,164.4)	—	—	—	—	(1,164.4)
Underwriting profit (loss)	(22.6)	(9.5)	(5.3)	28.8	(39.8)	(48.4)	—	—	—	—	(48.4)
Interest income	15.7	31.2	0.7	60.8	10.5	118.9	14.8	—	8.1	—	141.8
Dividends	8.7	7.6	1.4	10.9	0.3	28.9	3.2	—	(2.3)	—	29.8
Earnings (loss) on investments, at equity	0.6	(7.6)	(4.1)	(9.7)	—	(20.8)	(5.5)	—	2.0	—	(24.3)
Investment expenses	(2.4)	(1.9)	(0.4)	0.5	(0.7)	(4.9)	(0.5)	—	(0.1)	4.2	(1.3)
Interest and dividends	22.6	29.3	(2.4)	62.5	10.1	122.1	12.0	—	7.7	4.2	146.0
Other											
Revenue	—	—	—	—	—	—	6.3	99.4	4.2	(4.2)	105.7
Expenses	—	—	—	—	—	—	(109.9)	(98.0)	—	—	(207.9)
	—	—	—	—	—	—	(103.6)	1.4	4.2	(4.2)	(102.2)
Operating income (loss) before:	—	19.8	(7.7)	91.3	(29.7)	73.7	(91.6)	1.4	11.9	—	(4.6)
Net gains (losses) on investments	(56.3)	194.9	4.8	157.8	22.6	323.8	164.4	—	207.9	(15.1)	681.0
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)	(2.7)	(1.3)	(14.3)	—	—	(12.8)	—	(27.1)
Pre-tax income (loss)	(59.2)	203.1	(5.7)	238.0	(10.6)	365.6	72.8	1.0	184.7	(15.1)	609.0
Income taxes											(247.3)
Non-controlling interests											(14.9)
Net earnings											346.8

Year ended December 31, 2009

	Insurance			Reinsurance							
	Northbridge	Crum & Forster	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and other	Eliminations and adjustments	Consolidated
Net premiums earned	969.2	781.3	116.0	1,927.4	628.1	4,422.0	—	—	—	—	4,422.0
Underwriting expenses	(1,026.3)	(813.3)	(95.8)	(1,863.1)	(616.2)	(4,414.7)	—	—	—	—	(4,414.7)
Underwriting profit (loss)	(57.1)	(32.0)	20.2	64.3	11.9	7.3	—	—	—	—	7.3
Interest income	96.8	90.6	10.2	258.9	38.9	495.4	55.0	—	14.9	—	565.3
Dividends	24.9	34.4	5.6	52.0	2.5	119.4	11.4	—	6.7	—	137.5
Earnings (loss) on investments, at equity	0.1	4.7	(4.6)	6.5	0.4	7.1	—	—	16.2	—	23.3
Investment expenses	(8.8)	(15.8)	(2.2)	(33.8)	(4.3)	(64.9)	(12.0)	—	(1.4)	64.9	(13.4)
Interest and dividends	113.0	113.9	9.0	283.6	37.5	557.0	54.4	—	36.4	64.9	712.7
Other											
Revenue	—	—	—	—	—	—	—	556.4	64.9	(64.9)	556.4
Expenses	—	—	—	—	—	—	(152.4)	(544.0)	—	—	(696.4)
	—	—	—	—	—	—	(152.4)	12.4	64.9	(64.9)	(140.0)
Operating income (loss) before:	55.9	81.9	29.2	347.9	49.4	564.3	(98.0)	12.4	101.3	—	580.0
Net gains (losses) on investments	94.4	229.1	17.8	353.6	(25.8)	669.1	129.2	—	147.3	(1.1)	944.5
Interest expense	—	(27.8)	—	(31.0)	(5.1)	(63.9)	—	(1.0)	(101.4)	—	(166.3)
Corporate overhead and other	(19.8)	(3.3)	(2.3)	(25.8)	(13.1)	(64.3)	—	—	(88.3)	—	(152.6)
Pre-tax income (loss)	130.5	279.9	44.7	644.7	5.4	1,105.2	31.2	11.4	58.9	(1.1)	1,205.6
Income taxes											(214.9)
Non-controlling interests											(133.9)
Net earnings											856.8

Year ended December 31, 2008

	Insurance			Reinsurance							
	Northbridge	Crum & Forster	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and other	Eliminations and adjustments	Consolidated
Net premiums earned	1,076.1	1,005.0	84.6	2,076.4	269.6	4,511.7	—	—	—	—	4,511.7
Underwriting expenses	(1,114.0)	(1,182.2)	(77.7)	(2,104.1)	(314.6)	(4,792.6)	—	—	—	—	(4,792.6)
Underwriting profit (loss)	(37.9)	(177.2)	6.9	(27.7)	(45.0)	(280.9)	—	—	—	—	(280.9)
Interest income	94.4	107.4	5.6	256.2	30.1	493.7	71.2	—	42.1	—	607.0
Dividends	23.0	23.8	2.1	31.1	1.1	81.1	10.0	—	(15.1)	—	76.0
Earnings (loss) on investments, at equity	0.6	(32.2)	(4.9)	(13.2)	1.4	(48.3)	(4.2)	—	3.1	—	(49.4)
Investment expenses	(10.1)	(12.8)	(1.2)	(23.8)	(2.5)	(50.4)	(8.8)	—	(1.3)	53.3	(7.2)
Interest and dividends	107.9	86.2	1.6	250.3	30.1	476.1	68.2	—	28.8	53.3	626.4
Other											
Revenue	—	—	—	—	—	—	17.4	99.4	53.3	(53.3)	116.8
Expenses	—	—	—	—	—	—	(192.8)	(98.0)	—	—	(290.8)
	—	—	—	—	—	—	(175.4)	1.4	53.3	(53.3)	(174.0)
Operating income (loss) before:	70.0	(91.0)	8.5	222.6	(14.9)	195.2	(107.2)	1.4	82.1	—	171.5
Net gains (losses) on investments	25.7	605.7	3.0	740.1	28.1	1,402.6	499.8	—	689.1	(20.8)	2,570.7
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)	—	—	(94.7)	—	(139.3)
Pre-tax income (loss)	81.2	477.6	6.0	914.6	8.7	1,488.1	392.6	1.0	583.4	(20.8)	2,444.3
Income taxes											(755.6)
Non-controlling interests											(214.9)
Net earnings											1,473.8

A reconciliation of total revenue of the reporting segments to the company's consolidated revenue for the fourth quarter and year ended December 31 is presented below:

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Revenue of reporting segments:				
Net premiums earned	**1,115.1**	1,116.0	**4,422.0**	4,511.7
Interest and dividends	**172.4**	146.0	**712.7**	626.4
Other revenue per reportable segment	**150.1**	105.7	**556.4**	116.8
Net gains (losses) on investments	**(30.3)**	681.0	**944.5**	2,570.7
Total consolidated revenue	**1,407.3**	2,048.7	**6,635.6**	7,825.6

15. US GAAP Reconciliation

The consolidated financial statements of the company have been prepared in accordance with Canadian GAAP, which differ in some respects from those applicable in the United States, as described in note 20 on pages 75 to 80 of the company's 2008 Annual Report (updated as follows for the changes described below).

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

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Net earnings, Canadian GAAP	**79.4**	346.8	**856.8**	1,473.8
Non-controlling interests	**3.8**	14.9	**133.9**	214.9
Recoveries on retroactive reinsurance	**3.7**	10.7	**14.9**	30.8
Equity accounting	**10.7**	(7.2)	**3.6**	(7.2)
Repurchase of subsidiary securities(i)	**0.3**	—	**(16.9)**	—
Northbridge step acquisitions(ii)	**2.7**	—	**(1.9)**	—
OdysseyRe step acquisition(iii)	**17.0**	—	**17.0**	—
Other differences	**—**	—	**—**	8.8
Tax effects	**(11.2)**	(2.7)	**(11.0)**	(9.6)
Net earnings, US GAAP	**106.4**	362.5	**996.4**	1,711.5
Net earnings attributable to non-controlling interests, US GAAP	**(2.8)**	(12.7)	**(136.1)**	(216.2)
Net earnings attributable to parent company, US GAAP	**103.6**	349.8	**860.3**	1,495.3
Earnings per share, US GAAP	**$ 2.86**	$ 19.90	**$ 44.18**	$ 81.57
Earnings per diluted share, US GAAP	**$ 2.85**	$ 19.79	**$ 43.95**	$ 80.71
Other comprehensive income (loss), Canadian GAAP	**(74.2)**	(90.4)	**968.1**	(468.3)
Non-controlling interests	**(1.9)**	(49.1)	**106.2**	(77.1)
Northbridge step acquisitions(ii)	**(4.8)**	—	**(7.1)**	—
OdysseyRe step acquisition(iii)	**(18.3)**	—	**(18.3)**	—
Equity accounting	**14.5**	—	**(3.7)**	—
Pension liability adjustment	**(8.3)**	32.1	**(8.3)**	32.1
Tax effects	**2.1**	(6.8)	**(3.8)**	(6.8)
Other comprehensive income (loss), US GAAP	**(90.9)**	(114.2)	**1,033.1**	(520.1)
Other comprehensive (income) loss attributable to non-controlling interests, US GAAP	**3.6**	49.1	**(104.5)**	77.1
Other comprehensive income (loss) attributable to parent company, US GAAP	**(87.3)**	(65.1)	**928.6**	(443.0)
Net earnings, US GAAP	**106.4**	362.5	**996.4**	1,711.5
Other comprehensive income (loss), US GAAP	**(90.9)**	(114.2)	**1,033.1**	(520.1)
Comprehensive income, US GAAP	**15.5**	248.3	**2,029.5**	1,191.4
Comprehensive (income) loss attributable to non-controlling interests, US GAAP	**0.8**	36.4	**(240.6)**	(139.1)
Comprehensive income attributable to parent company, US GAAP	**16.3**	284.7	**1,788.9**	1,052.3

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

	December 31, 2009			December 31, 2008		
	Canadian GAAP	**Differences**	**US GAAP**	Canadian GAAP	Differences	US GAAP
Assets						
Holding company cash, short term investments and marketable securities	**1,251.6**	**(1.7)**	**1,249.9**	1,564.2	—	1,564.2
Portfolio investments:						
Common stocks	**4,853.1**	**(144.9)**	**4,708.2**	3,816.9	(257.8)	3,559.1
Investments, at equity	**475.4**	**124.8**	**600.2**	219.3	251.9	471.2
All other portfolio investments	**14,750.1**	**—**	**14,750.1**	14,378.8	—	14,378.8
Future income taxes	**318.7**	**89.3**	**408.0**	699.4	56.1	755.5
Goodwill and intangible assets(ii)(iii)	**438.8**	**(265.4)**	**173.4**	123.2	29.6	152.8
All other assets	**6,315.1**	**—**	**6,315.1**	6,503.6	—	6,503.6
	28,402.8	**(197.9)**	**28,204.9**	27,305.4	79.8	27,385.2
Liabilities						
Accounts payable and accrued liabilities	**1,202.2**	**130.8**	**1,333.0**	1,326.5	152.0	1,478.5
All other liabilities	**19,299.6**	**—**	**19,299.6**	19,457.5	—	19,457.5
	20,501.8	**130.8**	**20,632.6**	20,784.0	152.0	20,936.0
Mandatorily redeemable shares of TRG	**164.4**	**—**	**164.4**	169.8	—	169.8
Non-controlling interests(iv)	**117.6**	**(117.6)**	**—**	1,382.8	(1,382.8)	—
	282.0	**(117.6)**	**164.4**	1,552.6	(1,382.8)	169.8
Equity(i)(ii)(iii)	**7,619.0**	**(211.1)**	**7,407.9**	4,968.8	1,310.6	6,279.4
	28,402.8	**(197.9)**	**28,204.9**	27,305.4	79.8	27,385.2

The difference in consolidated shareholders' equity was as follows:

	December 31, 2009			December 31, 2008		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Shareholders' equity based on Canadian GAAP	**7,619.0**	**7,619.0**	**—**	4,968.8	4,968.8	—
Non-controlling interests[(iv)]	**117.6**	**—**	**117.6**	1,382.8	—	1,382.8
Accumulated other comprehensive income (loss)	**(60.6)**	**(58.9)**	**(1.7)**	(19.4)	(19.4)	—
Cumulative reduction in retained earnings under US GAAP	**(268.1)**	**(268.1)**	**—**	(52.8)	(50.6)	(2.2)
Equity based on US GAAP	**7,407.9**	**7,292.0**	**115.9**	6,279.4	4,898.8	1,380.6

The difference in consolidated accumulated other comprehensive income (loss) was as follows:

	December 31, 2009			December 31, 2008		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Pension liability adjustment	**(37.6)**	**(35.1)**	**(2.5)**	(29.3)	(29.3)	—
Northbridge step acquisitions[(ii)]	**(7.1)**	**(7.1)**	**—**	—	—	—
OdysseyRe step acquisition[(iii)]	**(18.3)**	**(18.3)**	**—**	—	—	—
Equity accounting	**(3.7)**	**(3.7)**	**—**	—	—	—
Related deferred income taxes	**6.1**	**5.3**	**0.8**	9.9	9.9	—
	(60.6)	**(58.9)**	**(1.7)**	(19.4)	(19.4)	—

Amounts recognized in accumulated other comprehensive income (loss) relating to defined benefit pension and other post retirement benefit plans consisted of:

	December 31, 2009			December 31, 2008		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Net actuarial loss	**(44.7)**	**(41.6)**	**(3.1)**	(34.3)	(34.3)	—
Prior service costs	**3.5**	**2.9**	**0.6**	3.7	3.7	—
Transitional amounts	**3.6**	**3.6**	**—**	1.3	1.3	—
Total	**(37.6)**	**(35.1)**	**(2.5)**	(29.3)	(29.3)	—

The cumulative reduction in retained earnings under US GAAP was as follows:

	December 31, 2009			December 31, 2008		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Northbridge step acquisitions[(ii)]	**(150.4)**	**(150.4)**	**—**	—	—	—
OdysseyRe step acquisition[(iii)]	**(78.1)**	**(78.1)**	**—**	—	—	—
Recoveries on retroactive reinsurance	**(69.2)**	**(69.2)**	**—**	(78.9)	(78.9)	—
Equity accounting	**(2.6)**	**(2.6)**	**—**	(6.1)	(3.9)	(2.2)
Purchase price allocation on the acquisition of TIG Re (now part of OdysseyRe) in 1999	**32.2**	**32.2**	**—**	32.2	32.2	—
	(268.1)	**(268.1)**	**—**	(52.8)	(50.6)	(2.2)

(i) Under Canadian GAAP, the repurchase by OdysseyRe of its common shares during 2009 as described in note 5 was accounted for as a step acquisition. Under US GAAP, pursuant to the adoption by the company on January 1, 2009 of Statement of Financial Accounting Standards ("SFAS") No. 160, Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 (now known as Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 810-10, Consolidation ("FASB ASC 810-10")) (described below), changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. Under Canadian GAAP, the excess of the fair value of net assets acquired over the cost of the acquisition is recognized in consolidated net earnings. As a result, the gain of $16.9 recognized in connection with the repurchase of common shares by OdysseyRe under Canadian GAAP was charged to cumulative reduction in retained earnings under US GAAP.

(ii) Under Canadian GAAP, the privatization of Northbridge was accounted for as two separate step acquisitions of the outstanding common shares of Northbridge. Under US GAAP, pursuant to the adoption by the company on January 1, 2009 of FASB ASC 810-10, changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. Under Canadian GAAP, the step acquisition accounting for the privatization of Northbridge recognized fair value adjustments to the assets and liabilities acquired and goodwill (note 5). These fair value adjustments to assets and liabilities and goodwill are not recognized under US GAAP. As a result, an amount of $147.9 was charged to the cumulative reduction in retained earnings under US GAAP representing the excess of the cost of the acquisition of $546.4 over the carrying value of the non-controlling interest of $398.5. In addition, fair value adjustments of $2.7 which decreased pre-tax net earnings and $4.8 which increased other comprehensive income under Canadian GAAP in the fourth quarter

of 2009 are not recognized in comprehensive income under US GAAP. Fair value adjustments of $1.9 and $7.1 which increased pretax net earnings and other comprehensive income under Canadian GAAP for the year ended December 31, 2009 are not recognized in comprehensive income under US GAAP.

(iii) Under Canadian GAAP, the privatization of OdysseyRe was accounted for as a step acquisition of the outstanding common shares of OdysseyRe. Under US GAAP, pursuant to the adoption by the company on January 1, 2009 of FASB ASC 810-10, changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. Under Canadian GAAP, the step acquisition accounting for the privatization of OdysseyRe recognized fair value adjustments to the assets and liabilities acquired and goodwill (note 5). These fair value adjustments to assets and liabilities and goodwill are not recognized under US GAAP. As a result, an amount of $89.2 was charged to the cumulative reduction in retained earnings under US GAAP representing the excess of the cost of the acquisition of $1,017.0 and liabilities assumed related to the amendment of OdysseyRe's employee compensation plans of $22.4 over the carrying value of the non-controlling interest of $950.2. In addition, fair value adjustments of $17.0 which decreased pretax net earnings and $18.3 which increased pretax other comprehensive income under Canadian GAAP in the fourth quarter of 2009 and for the year ended December 31, 2009 are not recognized in comprehensive income under US GAAP.

(iv) On January 1, 2009, the company adopted FASB ASC 810-10. FASB ASC 810-10 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 and other comprehensive income attributable to the parent and to a non-controlling interest to be clearly identified and included in the consolidated statements of income and consolidated statements of other comprehensive income respectively; and accounting for changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control as an equity transaction. In accordance with the transitional guidance, the company has applied FASB ASC 810-10 on a prospective basis under US GAAP, except for the adjustment on a retroactive basis of net income and comprehensive income to include the portion attributed to the non-controlling interests and the reclassification of the non-controlling interests to equity. Under Canadian GAAP, non-controlling interests are excluded from shareholders' equity and net earnings.

(v) On January 1, 2009, the company adopted SFAS No. 141 (revised 2007), Business Combinations (now known as FASB ASC 805-10, Business Combinations ("FASB ASC 805-10")), which replaces SFAS No. 141, Business Combinations ("SFAS 141"). FASB ASC 805-10 retains the fundamental requirements of SFAS 141 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 must be measured at fair value. Under Canadian GAAP, a non-controlling interest is recorded at the proportionate share of the carrying value of the acquiree. In accordance with the transitional guidance, the company has applied FASB ASC 805-10 on a prospective basis under US GAAP.

Statements of Cash Flows

The following table presents the statements of cash flows in accordance with US GAAP, setting out individual amounts where different from the amounts reported under Canadian GAAP:

	Fourth quarter 2009			Year ended December 31, 2009		
	Canadian GAAP	Differences	US GAAP	Canadian GAAP	Differences	US GAAP
Operating activities						
Cash provided by (used in) operating activities	(169.9)	—	(169.9)	(719.2)	—	(719.2)
Investing activities						
Purchases of subsidiaries, net of cash acquired[(i)]	(1,015.9)	1,015.9	—	(1,643.6)	1,618.5	(25.1)
All other investing activities	(1,031.1)	—	(1,031.1)	909.2	—	909.2
Cash provided by (used in) investing activities	(2,047.0)	1,015.9	(1,031.1)	(734.4)	1,618.5	884.1
Financing activities						
Purchases of subsidiaries, net of cash acquired[(i)]	—	(1,015.9)	(1,015.9)	—	(1,618.5)	(1,618.5)
All other financing activities	(39.8)	—	(39.8)	993.0	—	993.0
Cash provided by (used in) financing activities	(39.8)	(1,015.9)	(1,055.7)	993.0	(1,618.5)	(625.5)
Foreign currency translation	(14.8)	—	(14.8)	91.8	—	91.8
Increase (decrease) in cash and equivalents	(2,271.5)	—	(2,271.5)	(368.8)	—	(368.8)
Cash and cash equivalents – beginning of period	4,428.4	—	4,428.4	2,525.7	—	2,525.7
Cash and cash equivalents – end of period	2,156.9	—	2,156.9	2,156.9	—	2,156.9

(i) Under Canadian GAAP, the privatizations of Northbridge, OdysseyRe and Advent were accounted for as investing activities. Under US GAAP, pursuant to the adoption by the company on January 1, 2009 of FASB ASC 810-10, changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions and presented in the statement of cash flows as a financing activity. There were no significant differences on the consolidated statements of cash flows under US GAAP as compared to Canadian GAAP for the fourth quarter and year ended December 31, 2008.

Other accounting pronouncements adopted in 2009

On December 16, 2009, the company adopted FASB Staff Positions ("FSP") FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets (now known as FASB ASC 715-20, Retirement Benefits – Defined Benefit Plans ("FASB ASC 715-20")). FASB ASC 715-20 requires enhanced disclosures regarding the major categories of plan assets, concentrations of risk, inputs and valuation techniques used to measure the fair value of plan assets and the effect of using unobservable inputs (Level 3 classification under FASB ASC 820-10). The adoption of FASB ASC 715-20 did not have any significant impact on the company's consolidated financial position and results of operations under US GAAP. Additional disclosures about pension plan assets and post retirement benefit plan assets will be included in the company's 2009 annual consolidated financial statements.

On October 1, 2009, the company adopted Accounting Standards Update No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) – Measuring Liabilities at Fair Value ("ASU 2009-05"). The amendments in ASU 2009-05 provide clarification that, in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using another valuation technique that is consistent with the principles of Topic 820. Two examples which are provided in Topic 820 would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the reporting entity would pay to transfer the identical liability or would receive to enter into the identical liability. ASU 2009-05 clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The adoption of ASU 2009-05 did not have any significant impact on the company's consolidated financial position, results of operations and disclosures under US GAAP.

In August 2009, the company adopted Accounting Standards Update No. 2009-04, Accounting for Redeemable Equity Instruments, ("ASU 2009-04"). The amendments in ASU 2009-04 provide the SEC staff's views on the accounting for redeemable equity instruments. The adoption of ASU 2009-04 did not have any significant impact on the company's financial position or results of operations under US GAAP.

On July 1, 2009, the company adopted SFAS No. 168, the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162 ("SFAS 168") (now known as FASB ASC 105-10, Generally Accepted Accounting Principles ("FASB ASC 105-10")). The Codification is officially the single source of authoritative non-governmental US GAAP, superseding FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and related accounting literature. Henceforth, only one level of authoritative GAAP exists: all other accounting literature are considered non-authoritative. The Codification reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included in the Codification is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections within the Codification. As FASB ASC 105-10 is not intended to change or alter existing US GAAP, the adoption of FASB ASC 105-10 did not have any significant impact on the company's consolidated financial position or results of operations under US GAAP.

On April 1, 2009, the company adopted SFAS No. 165, Subsequent Events (now known as FASB ASC 855-10, Subsequent Events ("FASB ASC 855-10")), which established the general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. FASB ASC 855-10 is effective for interim or annual financial periods ending after June 15, 2009 and is applied prospectively. The company has evaluated subsequent events after the balance sheet date of December 31, 2009 through February 18, 2010, the date the financial statements were issued. During this period, the company did not identify any subsequent events requiring recognition or disclosure in the consolidated financial statements other than the completion of a public offering of 8,000,000 Series E preferred shares for net proceeds of $183.1 (Cdn$195.3) as described in note 6 and the offer to acquire all of the outstanding shares of Zenith common stock, other than those shares not already held by Fairfax and its affiliates as described in note 5.

On April 1, 2009, the company adopted the following three FSPs issued on April 9, 2009, which are intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities:

(i) FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other Than Temporary Impairments (now known as FASB ASC 320-10, Investments – Debt and Equity Securities ("FASB ASC 320-10")) amends the other than temporary impairment guidance in US GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other than temporary impairments on debt and equity securities in the financial statements. The recognition provision within FASB ASC 320-10 applies only to debt securities that are other than temporarily impaired. If the company intends to sell or it is more likely than not that it will be required to sell a security in an unrealized loss position prior to recovery of its cost basis, the security is other than temporarily impaired and the full amount of the impairment is recognized as a loss through earnings. If the company asserts that it does not intend to sell and it is more likely than not that it will not be required to sell an other than temporarily impaired security before recovery of its cost basis, the impairment must be separated into credit and non-credit components with the credit portion of the other than temporary impairment recognized as a loss through earnings and the non-credit portion recognized in other comprehensive income. FASB ASC 320-10 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FASB ASC 320-10 effective April 1, 2009 did not affect the company's consolidated financial position or results of operations under US GAAP. FASB ASC 320-10 requires that the company record, as of the beginning of the interim period of adoption, a cumulative effect adjustment to reclassify the non-credit component of a previously recognized other than temporary impairment on debt securities which are still held as investments at the date of adoption from retained earnings to accumulated other comprehensive income. The company reviewed other than temporary impairments it had previously recorded through earnings on debt securities held at April 1, 2009 and determined that all of these other than temporary impairments were related to specific credit losses, resulting in no cumulative effect adjustment to opening retained earnings or accumulated other comprehensive income as of April 1, 2009.

(ii) FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (now known as FASB ASC 820-10, Fair Value Measurements and Disclosures ("FASB ASC 820-10")) provides additional guidance on estimating the fair value of an asset or liability when the volume and level of activity for the asset or liability have significantly decreased and on identifying transactions that are not orderly. FASB ASC 820-10 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FASB ASC 820-10 effective April 1, 2009 did not have a material impact on the company's consolidated financial position or results of operations under US GAAP.

(iii) FSP FAS 107-1 and Accounting Principles Board ("APB") 28-1, Interim Disclosures about Fair Value Measurement, which amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, and APB Opinion No. 28, Interim Financial Reporting, (now known as FASB ASC 825-10, Financial Instruments ("FASB ASC 825-10")) requires disclosures about the fair value of financial instruments for interim reporting periods. FASB ASC 825-10 also requires companies to disclose the methods and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim basis and to describe any changes during the period. FASB ASC 825-10 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of FASB ASC 825-10 effective April 1, 2009 did not have a material impact on the company's consolidated financial position or results of operations under US GAAP. The company commenced disclosure of the fair value of its long term debt and other long term obligations in note 6 in its interim financial reports.

On January 1, 2009, the company adopted FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination that Arise from Contingencies (now known as FASB ASC 805-10, Business Combinations – Overall ("FASB ASC 805-10") and FASB ASC 805-20, Business Combinations – Identifiable Assets and Liabilities, and Any Non-Controlling Interests ("FASB ASC 805-20")), which amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination. The adoption of FASB ASC 805-10 and FASB ASC 805-20 on January 1, 2009 did not affect the company's consolidated financial position or results of operations under US GAAP.

On January 1, 2009, SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement No. 133 (now known as FASB ASC 815-10, Derivatives and Hedging ("FASB 815-10")) became effective. The intent of FASB 815-10 is 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 815-10 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FASB 815-10 is effective for fiscal years beginning after November 15, 2008. Since FASB 815-10 requires only additional disclosures concerning derivatives and hedging activities, the adoption of FASB 815-10 on January 1, 2009 did not have a material impact on the company's consolidated financial position or results of operations under US GAAP. The enhanced disclosures required by FASB 815-10 were included in note 18 of the consolidated financial statements in the company's 2008 Annual Report.

On January 1, 2009, the company adopted FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (now known as FASB ASC 470-20, Debt – Debt with Conversion and Other Options ("FASB ASC 470-20"), FASB ASC 815-15, Derivatives and Hedging – Embedded Derivatives ("FASB ASC 815-15") and FASB ASC 825-10, Financial Instruments ("FASB ASC 825-10")), and applied it on a retrospective basis to its 5.0% convertible senior debentures due 2023. These debentures were converted by their holders into subordinate voting shares of the company on February 13, 2008. With the adoption of this new guidance, Canadian GAAP and US GAAP are converged with respect to accounting for convertible debt with options to settle partially or fully in cash. The application of this new guidance resulted in the elimination of the previous US GAAP adjustment, decreasing common stock under Canadian GAAP by $6.6 and with a corresponding increase in the cumulative reduction of net earnings under US GAAP.

Recent accounting pronouncements

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (now known as FASB ASC 810-10, Consolidation), to replace the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity. It also requires an additional reconsideration event when determining whether an entity is a variable interest entity when any changes in fact and circumstances occur and ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additional disclosures about an enterprise's involvement in variable interest entities are also required. FASB ASC 810-10 will be effective as of the beginning of the reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The company is currently evaluating the impact of the adoption of FASB ASC 810-10 on its consolidated financial position, results of operations and disclosures under US GAAP.

16. Changes in Operating Assets and Liabilities

Changes in the company's operating assets and liabilities in the consolidated statements of cash flows were comprised as follows:

	Fourth quarter		**Year ended December 31,**	
	2009	2008	**2009**	2008
Provision for claims	**(326.4)**	(66.8)	**(661.3)**	24.8
Unearned premiums	**(163.2)**	(177.2)	**(135.4)**	(200.0)
Accounts receivable and other	**119.0**	100.8	**50.0**	292.1
Recoverable from reinsurers	**291.3**	20.6	**514.7**	582.5
Funds withheld payable to reinsurers	**(6.3)**	4.1	**(0.2)**	(25.6)
Accounts payable and accrued liabilities	**(19.0)**	(77.5)	**12.5**	(146.0)
Income taxes payable	**(74.2)**	334.0	**(579.4)**	614.0
Other	**15.8**	21.0	**34.3**	50.9
Change in operating assets and liabilities	**(163.0)**	159.0	**(764.8)**	1,192.7

(as of February 18, 2010) (Figures and amounts are in US$ and $ millions except per share amounts and as otherwise indicated. Figures may not add due to rounding.)

This management's discussion and analysis should be read in conjunction with notes 1 and 2 to the consolidated financial statements included herein and with the notes to the Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2008 contained in the company's 2008 Annual Report.

The combined ratio is the traditional measure of underwriting results of property and casualty insurance companies, but is regarded as a non-GAAP measure. The combined ratio is calculated by the company as the sum of the loss ratio (claims losses and loss adjustment expenses expressed as a percentage of net premiums earned) and the expense ratio (commissions, premium acquisition costs and other underwriting expenses expressed as a percentage of net premiums earned).

Sources of Revenue

Revenues reflected in the consolidated financial statements for the fourth quarters and years ended December 31, 2009 and 2008 are shown in the table that follows (Other revenue comprises animal nutrition revenue earned by Ridley Inc. ("Ridley")).

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Net premiums earned				
Insurance – Canada (Northbridge)	**256.4**	239.2	**969.2**	1,076.1
– U.S. (Crum & Forster)	**191.6**	237.3	**781.3**	1,005.0
– Asia (Fairfax Asia)	**32.9**	22.0	**116.0**	84.6
Reinsurance – OdysseyRe	**483.0**	504.0	**1,927.4**	2,076.4
– Other	**151.2**	113.5	**628.1**	269.6
Runoff	**—**	6.3	**—**	17.4
	1,115.1	1,122.3	**4,422.0**	4,529.1
Interest and dividends	**172.4**	146.0	**712.7**	626.4
Net gains (losses) on investments	**(30.3)**	681.0	**944.5**	2,570.7
Other revenue	**150.1**	99.4	**556.4**	99.4
	1,407.3	2,048.7	**6,635.6**	7,825.6

Revenue in the fourth quarter of 2009 decreased to $1,407.3 from $2,048.7 in the fourth quarter of 2008, principally as a result of the significant year-over-year decline in net investment gains, partially offset by the inclusion of Polish Re and Ridley and increased interest and dividends. Net premiums earned in the fourth quarter of 2009 decreased by 0.6% to $1,115.1 from $1,122.3 in the fourth quarter of 2008, reflecting declines in net premiums earned by Crum & Forster and OdysseyRe, partially offset by increased net premiums earned by Northbridge (increased in U.S. dollar terms, but decreased in Canadian dollars) and Fairfax Asia and as a result of the inclusion of Polish Re. Gross premiums written and net premiums written increased in the fourth quarter of 2009 compared to the fourth quarter of 2008, with increases at Northbridge (increased in U.S. dollar terms, but decreased in Canadian dollars), Fairfax Asia and Other Reinsurance (due to the inclusion of Polish Re), insignificant changes at OdysseyRe, and decreases at Crum & Forster. Consolidated net premiums written by the company's insurance and reinsurance operations in the fourth quarter of 2009 increased 3.4% to $990.7 from $958.3 in the fourth quarter of 2008, reflecting the year-over-year increases at Northbridge ($10.9, or 4.6%, with the increase principally attributable to currency translation), Fairfax Asia ($12.5, or 78.1%) and Other Reinsurance ($34.7, or 44.4%, principally due to the inclusion of Polish Re), partially offset by decreases at Crum & Forster ($19.0, or 9.9%) and OdysseyRe ($6.7, or 1.5%).

Revenue in the twelve months of 2009 decreased to $6,635.6 from $7,825.6 in the twelve months of 2008, principally as a result of decreased net gains on investments and a 2.4% decline in net premiums earned, partially offset by the inclusion of Polish Re and the entire year's revenues of Advent, the increase in Other revenue relating to Ridley and a 13.8% increase in interest and dividends. The decline in net premiums earned in the twelve months of 2009 reflected declines at Northbridge ($106.9, or 9.9%), Crum & Forster ($223.7, or 22.3%) and OdysseyRe ($149.0, or 7.2%), partially offset by increases at Fairfax Asia ($31.4, or 37.1%) and as a result of the inclusion of Polish Re ($83.3) and the entire year's premiums of Advent ($289.6, including $91.4 related to reinsurance-to-close premiums). Consolidated gross premiums written in the twelve months of 2009 rose 0.6% relative to the prior year, primarily due to the inclusion of Advent ($386.1, including $110.0 of reinsurance-to-close premiums in the first quarter) and Polish Re ($88.4). Overall declines in net written and net earned premiums in the twelve months reflected the impact of economic and competitive conditions, including the foreign currency translation effects of U.S. dollar appreciation year-over-year relative to other currencies, and were partially offset by the inclusion of the net written and net earned premiums of Polish Re and of Advent for the entire year.

Interest and dividend income increased in the fourth quarter of 2009 relative to the fourth quarter of 2008 (by $26.4, or 18.1%), primarily reflecting the impact of higher yielding municipal and other tax exempt debt securities and corporate bonds purchased in the fourth quarter of 2008 and in 2009 with the proceeds of sale of lower yielding government debt securities, as well as the inclusion of the interest and dividend income of Polish Re. Interest income on a tax-equivalent basis increased significantly in the fourth quarter of 2009 compared to the fourth quarter of 2008 (tax advantaged bond holdings of $4,550.2 as at December 31, 2009 compared to $4,104.6 as at December 31, 2008).

Interest and dividend income increased in 2009 relative to 2008 (by $86.3, or 13.8%), primarily reflecting the impact of higher yielding municipal and other tax exempt debt securities and corporate bonds purchased in the fourth quarter of 2008 and in 2009 with the proceeds of sale of lower yielding government debt securities, as well as the inclusion of the interest and dividend income of Polish Re. Interest income on a tax-equivalent basis increased significantly in 2009 compared to 2008 (tax advantaged bond holdings of $4,550.2 as at December 31, 2009 compared to $4,104.6 as at December 31, 2008).

Other revenue of $150.1 (2008 - $99.4) and $556.4 (2008 - $99.4) and other expenses of $142.0 (2008 - $98.0) and $544.0 (2008 - $98.0) for the fourth quarter and year ended December 31, 2009 respectively represent the revenue and the operating and other costs respectively of Ridley.

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 fourth quarters and years ended December 31, 2009 and 2008. Fourth quarter and twelve months of 2009 results include the results of operations of Advent, Ridley and Polish Re and reflect the company's 100% interest in Northbridge. In September 2008 the company commenced consolidation of Advent following an increase in the company's investment in Advent, and in November 2008 the company commenced consolidation of Ridley following the acquisition of a 67.9% interest in Ridley, both as described in note 17 to the consolidated financial statements in the company's 2008 Annual Report. On January 7, 2009, the company commenced consolidation of Polish Re following the acquisition of a 100% interest in Polish Re, as described in note 5. The results for Polish Re are included in the Reinsurance – Other business segment. In February 2009 the company completed the acquisition of the 36.4% of the outstanding common shares of Northbridge not already owned by Fairfax, as described in note 5. During the fourth quarter of 2009 the company completed the acquisition of the outstanding common shares of OdysseyRe and Advent not already owned by Fairfax, as described in note 5.

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Combined ratios				
Insurance – Canada (Northbridge)	**112.6%**	109.4%	**105.9%**	103.5%
– U.S. (Crum & Forster)	**106.9%**	104.0%	**104.1%**	117.6%
– Asia (Fairfax Asia)	**85.3%**	123.9%	**82.6%**	91.8%
Reinsurance – OdysseyRe	**96.6%**	94.3%	**96.7%**	101.3%
– Other	**101.5%**	134.9%	**98.1%**	116.6%
Consolidated	**102.4%**	104.3%	**99.8%**	106.2%
Sources of net earnings				
Underwriting				
Insurance – Canada (Northbridge)	**(32.2)**	(22.6)	**(57.1)**	(37.9)
– U.S. (Crum & Forster)	**(13.3)**	(9.5)	**(32.0)**	(177.2)
– Asia (Fairfax Asia)	**4.8**	(5.3)	**20.2**	6.9
Reinsurance – OdysseyRe	**16.3**	28.8	**64.3**	(27.7)
– Other	**(2.3)**	(39.8)	**11.9**	(45.0)
Underwriting profit (loss)	**(26.7)**	(48.4)	**7.3**	(280.9)
Interest and dividends	**129.6**	122.1	**557.0**	476.1
Operating income	**102.9**	73.7	**564.3**	195.2
Net gains (losses) on investments	**(43.8)**	308.7	**668.0**	1,381.8
Runoff	**(47.7)**	72.8	**31.2**	392.6
Other[1]	**8.1**	1.4	**12.4**	1.4
Interest expense	**(49.3)**	(40.3)	**(166.3)**	(158.6)
Corporate overhead and other	**13.0**	192.7	**96.0**	631.9
Pre-tax income (loss)	**(16.8)**	609.0	**1,205.6**	2,444.3
Income taxes	**100.0**	(247.3)	**(214.9)**	(755.6)
Non-controlling interests	**(3.8)**	(14.9)	**(133.9)**	(214.9)
Net earnings	**79.4**	346.8	**856.8**	1,473.8

(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, 2009 and 2008.

The company's insurance and reinsurance operations reported an underwriting loss of $26.7 in the fourth quarter of 2009 compared to an underwriting loss of $48.4 in the fourth quarter of 2008. The combined ratio of those operations in the fourth quarter of 2009 was 102.4% compared to 104.3% in the fourth quarter of 2008, with Northbridge, Crum & Forster, Fairfax Asia, OdysseyRe and Reinsurance – Other producing combined ratios of 112.6%, 106.9%, 85.3%, 96.6% and 101.5% respectively. Fourth quarter 2009 results included 1.3 combined ratio points ($14.5) of net adverse development of prior years' reserves, principally at Group Re and Northbridge, partially offset by net favourable development at Fairfax Asia and Crum & Forster. Catastrophe losses, net of reinstatement premiums, included in the fourth quarter 2009 underwriting results represented 3.5 combined ratio points ($38.4) primarily related to storm activity and flooding in Turkey and the Philippines, compared to 8.6 combined ratio points ($95.8) in the fourth quarter of 2008 principally related to Hurricane Ike in the U.S.

In 2009, the company's insurance and reinsurance operations generated an underwriting profit of $7.3 and a combined ratio of 99.8% compared to an underwriting loss of $280.9 and a combined ratio of 106.2% in 2008. Underwriting results in 2009 included the benefit of 0.6 combined ratio points ($26.3) of net favourable development of prior years' reserves principally at Crum & Forster, Northbridge, OdysseyRe and Fairfax Asia, partially offset by net adverse development at Group Re and Advent. Underwriting results in 2008 included the impact of a reinsurance commutation in the second quarter by Crum & Forster ($84.2 pre-tax, representing 1.9 combined ratio points of adverse prior years' reserve development) and the settlement of an asbestos-related lawsuit in the first quarter by Crum & Forster ($25.5 pre-tax, representing 0.6 of a combined ratio point of adverse prior years' reserve development). Underwriting results in 2008 included the benefit of 0.3 combined ratio points ($14.2) of net favourable development of prior years' reserve development, comprised of the 2.4 combined ratio points of adverse reserve development resulting from the Crum & Forster reinsurance commutation and lawsuit settlement, offset by 2.7 combined ratio points of otherwise net favourable reserve development primarily at Crum & Forster, Northbridge and OdysseyRe. Catastrophe losses, principally related to storm activity in Europe and severe weather in the U.S., contributed 3.8 combined ratio points ($165.6) to underwriting results in 2009, compared to the impact of 10.3 combined ratio points ($462.0) in the twelve months of 2008, primarily related to U.S. hurricanes, southern China snowstorms, European windstorms, Australian floods and the China earthquake.

The company reported net earnings of $79.4 ($1.66 per share, $1.65 per diluted share) in the fourth quarter of 2009 compared to net earnings of $346.8 ($19.73 per share, $19.62 per diluted share) in the fourth quarter of 2008. The year-over-year decrease in net earnings was primarily attributable to net investment losses in the fourth quarter of 2009 compared to the significant net investment gains in the fourth quarter of 2008, principally related to short equity and equity index total return swaps. Fourth quarter 2009 results also included the effects of improved underwriting profit as a result of reduced catastrophe losses in 2009 (after the significant U.S. hurricane losses in 2008), increased interest and dividend income, a decreased runoff operating loss, increased subsidiary corporate overhead expenses, and the benefit of a $100.0 corporate income tax recovery. Net losses on investments of $30.3 in the fourth quarter of 2009 were primarily related to $108.2 of net losses on bonds, $14.6 of net losses on credit default swaps and other derivatives and $8.6 of other than temporary impairments recorded on common stocks and bonds, partially offset by $81.7 of net gains on common stocks and equity derivatives and $23.2 of net gains on preferred stocks. Net gains on investments of $681.0 in the fourth quarter of 2008 included $1,034.8 of net gains on common stocks and equity derivatives, $271.4 of net gains on bonds and $56.7 of net gains related to credit default swaps and other derivatives, partially offset by $627.4 of other than temporary impairments recorded on common stocks and bonds and $59.7 of net losses related to foreign currency.

In 2009, net earnings were $856.8 ($43.99 per share, $43.75 per diluted share) compared to $1,473.8 ($80.38 per share, $79.53 per diluted share) in 2008. Net earnings in 2009 reflected improved underwriting profit as a result of reduced catastrophe losses in 2009 (after the significant U.S. hurricane losses in 2008), increased interest and dividend income and net gains on investments of $944.5 (including $937.9 of net gains on bonds, $463.3 of net gains on common stocks and equity derivatives and $26.6 of net gains on preferred stocks, partially offset by $340.0 of other than temporary impairments recorded on common stocks and bonds, $147.2 of net losses related to credit default swaps and other derivatives, and $17.6 of net losses related to foreign currency) compared to net gains on investments of $2,570.7 in 2008 (including $2,096.8 of net gains on common stocks and equity derivatives, $1,305.7 of net gains related to credit default swaps and other derivatives and $218.9 of net gains on bonds, partially offset by $1,011.8 of other than temporary impairments recorded on common stocks and bonds and $45.4 of net losses related to foreign currency).

Primarily as a result of the company's third quarter equity issuance, net earnings and the effect on accumulated other comprehensive income of a net increase in unrealized gains on available for sale securities, common shareholders' equity at December 31, 2009 increased to $7,391.8 or $369.80 per basic share from $278.28 per basic share at the end of 2008, representing an increase per basic share in 2009 of 32.9% (without adjustment for the $8.00 per common share dividend paid in the first quarter of 2009, or 35.4% adjusted to include that dividend).

Operating expenses in the fourth quarter of 2009 in the consolidated statement of earnings include only the operating expenses of the company's insurance, reinsurance and runoff operations and corporate overhead. Operating expenses in the fourth quarter of 2009 included the operating expenses of Polish Re (which was not included in the fourth quarter of 2008). The $3.0 increase in fourth quarter 2009 operating expenses (after excluding fourth quarter 2009 Polish Re operating expenses) related primarily to increased expenses at Northbridge and expenses related to the privatization transactions at OdysseyRe and Advent, partially offset by decreased operating expenses at Crum & Forster and Runoff.

Operating expenses in 2009 in the consolidated statement of earnings include only the operating expenses of the company's insurance, reinsurance and runoff operations and corporate overhead. Operating expenses in 2009 included the operating expenses of Advent (which was not included in the first eight months of 2008) and Polish Re (which was not included in 2008). The $25.8 decrease in 2009 operating expenses (after excluding the operating expenses for the first eight months of 2009 for Advent and for 2009 for Polish Re) related primarily to reduced corporate overhead expenses at Fairfax (primarily reduced legal expenses and technology costs) and decreased operating expenses at Northbridge, Crum & Forster and Runoff, partially offset by increased privatization-related corporate overhead expenses at OdysseyRe.

Net Earnings by Business Segment

The company's sources of net earnings shown by business segment were as set out below for the fourth quarters and years ended December 31, 2009 and 2008. 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, 2009

	Northbridge	**Crum & Forster**	**Fairfax Asia**	**OdysseyRe**	**Other Reinsurance**	**Ongoing Operations**	**Runoff**	**Other[1]**	**Intercompany**	**Corporate & Other**	**Consolidated**
Gross premiums written	**328.6**	**210.5**	**71.7**	**497.8**	**113.2**	**1,221.8**	**(0.5)**	**—**	**(55.6)**	**—**	**1,165.7**
Net premiums written	**245.8**	**172.6**	**28.5**	**431.0**	**112.8**	**990.7**	**(0.2)**	**—**	**—**	**—**	**990.5**
Net premiums earned	**256.4**	**191.6**	**32.9**	**483.0**	**151.2**	**1,115.1**	**—**	**—**	**—**	**—**	**1,115.1**
Underwriting profit (loss)	**(32.2)**	**(13.3)**	**4.8**	**16.3**	**(2.3)**	**(26.7)**	**—**	**—**	**—**	**—**	**(26.7)**
Interest and dividends	**28.5**	**23.9**	**(5.3)**	**71.7**	**10.8**	**129.6**	**—**	**—**	**—**	**—**	**129.6**
Operating income (loss) before:	**(3.7)**	**10.6**	**(0.5)**	**88.0**	**8.5**	**102.9**	**—**	**—**	**—**	**—**	**102.9**
Net gains (losses) on investments	**(6.0)**	**(4.0)**	**1.4**	**(26.5)**	**(7.6)**	**(42.7)**	**(7.8)**	**—**	**(1.1)**	**—**	**(51.6)**
Runoff operating loss	**—**	**—**	**—**	**—**	**—**	**—**	**(39.9)**	**—**	**—**	**—**	**(39.9)**
Other[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**8.1**	**—**	**—**	**8.1**
Interest expense	**—**	**(7.0)**	**—**	**(7.5)**	**(1.2)**	**(15.7)**	**—**	**(0.2)**	**—**	**(33.4)**	**(49.3)**
Corporate overhead and other	**(5.5)**	**—**	**0.3**	**(5.2)**	**(6.0)**	**(16.4)**	**—**	**—**	**—**	**29.4**	**13.0**
Pre-tax income (loss)	**(15.2)**	**(0.4)**	**1.2**	**48.8**	**(6.3)**	**28.1**	**(47.7)**	**7.9**	**(1.1)**	**(4.0)**	**(16.8)**
Income taxes											**100.0**
Non-controlling interests											**(3.8)**
Net earnings											**79.4**

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 profit (loss)	(22.6)	(9.5)	(5.3)	28.8	(39.8)	(48.4)	—	—	—	—	(48.4)
Interest and dividends	22.6	29.3	(2.4)	62.5	10.1	122.1	—	—	—	—	122.1
Operating income (loss) before:	—	19.8	(7.7)	91.3	(29.7)	73.7	—	—	—	—	73.7
Net gains (losses) on investments	(56.3)	194.9	4.8	157.8	22.6	323.8	164.4	—	(15.1)	—	473.1
Runoff operating loss	—	—	—	—	—	—	(91.6)	—	—	—	(91.6)
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)	(2.7)	(1.3)	(14.3)	—	—	—	207.0	192.7
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

Year ended December 31, 2009

	Northbridge	**Crum & Forster**	**Fairfax Asia**	**OdysseyRe**	**Other Reinsurance**	**Ongoing Operations**	**Runoff**	**Other[1]**	**Intercompany**	**Corporate & Other**	**Consolidated**
Gross premiums written	**1,250.5**	**863.8**	**285.8**	**2,195.0**	**688.3**	**5,283.4**	**1.1**	**—**	**(190.5)**	**—**	**5,094.0**
Net premiums written	**928.7**	**716.4**	**127.9**	**1,893.8**	**619.8**	**4,286.6**	**(0.5)**	**—**	**—**	**—**	**4,286.1**
Net premiums earned	**969.2**	**781.3**	**116.0**	**1,927.4**	**628.1**	**4,422.0**	**—**	**—**	**—**	**—**	**4,422.0**
Underwriting profit (loss)	**(57.1)**	**(32.0)**	**20.2**	**64.3**	**11.9**	**7.3**	**—**	**—**	**—**	**—**	**7.3**
Interest and dividends	**113.0**	**113.9**	**9.0**	**283.6**	**37.5**	**557.0**	**—**	**—**	**—**	**—**	**557.0**
Operating income before:	**55.9**	**81.9**	**29.2**	**347.9**	**49.4**	**564.3**	**—**	**—**	**—**	**—**	**564.3**
Net gains (losses) on investments	**94.4**	**229.1**	**17.8**	**353.6**	**(25.8)**	**669.1**	**129.2**	**—**	**(1.1)**	**—**	**797.2**
Runoff operating loss	**—**	**—**	**—**	**—**	**—**	**—**	**(98.0)**	**—**	**—**	**—**	**(98.0)**
Other[1]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**12.4**	**—**	**—**	**12.4**
Interest expense	**—**	**(27.8)**	**—**	**(31.0)**	**(5.1)**	**(63.9)**	**—**	**(1.0)**	**—**	**(101.4)**	**(166.3)**
Corporate overhead and other	**(19.8)**	**(3.3)**	**(2.3)**	**(25.8)**	**(13.1)**	**(64.3)**	**—**	**—**	**—**	**160.3**	**96.0**
Pre-tax income (loss)	**130.5**	**279.9**	**44.7**	**644.7**	**5.4**	**1,105.2**	**31.2**	**11.4**	**(1.1)**	**58.9**	**1,205.6**
Income taxes											**(214.9)**
Non-controlling interests											**(133.9)**
Net earnings											**856.8**

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)	(37.9)	(177.2)	6.9	(27.7)	(45.0)	(280.9)	—	—	—	—	(280.9)
Interest and dividends	107.9	86.2	1.6	250.3	30.1	476.1	—	—	—	—	476.1
Operating income (loss) before:	70.0	(91.0)	8.5	222.6	(14.9)	195.2	—	—	—	—	195.2
Net gains (losses) on investments	25.7	605.7	3.0	740.1	28.1	1,402.6	499.8	—	(20.8)	—	1,881.6
Runoff operating loss	—	—	—	—	—	—	(107.2)	—	—	—	(107.2)
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

(1) Other comprises the pre-tax income of the Ridley animal nutrition business.

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 fourth quarters and years ended December 31, 2009 and 2008.

Canadian Insurance – Northbridge

	Fourth quarter		**Year ended December 31,**	
	2009	2008	**2009**	2008
Underwriting profit (loss)	**(32.2)**	(22.6)	**(57.1)**	(37.9)
Combined ratio	**112.6%**	109.4%	**105.9%**	103.5%
Gross premiums written	**328.6**	313.4	**1,250.5**	1,452.1
Net premiums written	**245.8**	234.9	**928.7**	1,099.5
Net premiums earned	**256.4**	239.2	**969.2**	1,076.1
Underwriting profit (loss)	**(32.2)**	(22.6)	**(57.1)**	(37.9)
Interest and dividends	**28.5**	22.6	**113.0**	107.9
Operating income (loss)	**(3.7)**	—	**55.9**	70.0
Net gains (losses) on investments	**(6.0)**	(56.3)	**94.4**	25.7
Pre-tax income (loss) before interest and other	**(9.7)**	(56.3)	**150.3**	95.7

Northbridge's underwriting performance in the fourth quarter of 2009 produced an underwriting loss of $32.2 and a combined ratio of 112.6%, compared to an underwriting loss of $22.6 and a combined ratio of 109.4% in the fourth quarter of 2008. Underwriting results in the 2009 fiscal year deteriorated relative to the results in 2008, with an underwriting loss of $57.1 and a combined ratio of 105.9% compared to an underwriting loss of $37.9 and a combined ratio of 103.5% in 2008. Results in the twelve months of 2008 included net losses of $25.2 related to Hurricane Ike. Northbridge's fourth quarter 2009 underwriting results generally reflected the continuing weakness in commercial lines pricing and market conditions and the impact of economic conditions on Northbridge's insured customers, and specifically included the impact of several large incurred losses in its small-to-medium account and trucking segments. Northbridge's combined ratio for the fourth quarter of 2009 was adversely affected by a year-over-year deterioration in its expense ratio (28.3% in the fourth quarter of 2009, compared to 25.0% in the fourth quarter of 2008), as a result of a 7.0% decline in net premiums earned relative to a 2.6% decline in general operating expenses in Canadian dollar terms. Northbridge's reported combined ratio for the twelve months of 2009 was similarly adversely affected, with a year-over-year increase in its expense ratio to 30.2% in 2009 from 28.3% in 2008, as a result of a 3.6% decline in net premiums earned and a 2.1% increase in general operating expenses in Canadian dollar terms.

Fourth quarter 2009 underwriting results included 5.2 combined ratio points ($13.4) of net adverse development of prior years' reserves, principally attributable to net adverse development of casualty and commercial auto liability claims and the impact on loss reserves of the imposition of an additional sales tax in certain Canadian provinces, partially offset by net favourable development of non-marine energy and Canadian casualty reserves in its large account segment, U.S. third party liability reserves in its transportation segment, and general liability reserves in its small-to-medium account segment. Underwriting results in the fourth quarter of 2008 included 10.1 combined ratio points ($24.2) of net favourable development of prior years' reserves, primarily related to better than expected development across most lines of business on the most recent accident years, partially offset by adverse development on pre-2003 casualty claims.

Underwriting results in 2009 included 1.5 combined ratio points ($14.1) of net favourable development of prior years' reserves, principally attributable to net favourable development of non-marine energy reserves in its large account segment, U.S. third party liability reserves in its transportation segment, and across most lines and accident years in its small-to-medium account segment, partially offset by adverse development of pre-2003 casualty and commercial auto liability claims and the impact on loss reserves of the imposition of an additional sales tax in certain Canadian provinces, compared to 5.9 combined ratio points ($63.3) of net favourable development of prior years' reserves in 2008, principally attributable to better than expected development across most lines of business for the most recent accident years.

Catastrophe losses, primarily related to wind and flood activity, added 1.1 combined ratio points ($2.9) to fourth quarter 2009 underwriting results and 1.3 combined ratio points ($13.1) in the twelve months of 2009. Catastrophe losses, primarily related to wind and hail storms, added 0.9 combined ratio points ($2.2) to fourth quarter 2008 underwriting results and 3.4 combined ratio points ($36.2, including $25.2 related to Hurricane Ike) in the twelve months of 2008.

The impact of economic conditions on Northbridge's insured customers, Northbridge's disciplined response to the soft underwriting market conditions and increased competition for new and renewal business contributed to a decline in gross premiums written during the fourth quarter and the twelve months of 2009 in Canadian dollar terms compared to the fourth quarter and the twelve months of 2008 of 9.5% and 7.8% respectively. Net premiums written decreased by 9.7% in the fourth quarter and 9.6% in the twelve months of 2009 in Canadian dollar terms.

Net losses on investments in the fourth quarter of 2009 of $6.0 (compared to net losses of $56.3 in the fourth quarter of 2008) included $26.0 of net losses related to foreign currency and $6.0 of net losses on common stocks and equity derivatives, partially offset by $24.0 of net gains on bonds and $5.4 of net gains on preferred stocks. Net losses on investments of $56.3 in the fourth quarter of 2008 included $146.4 of other than temporary impairments recorded on common stocks and bonds, $63.3 of net losses on bonds and $15.0 of net losses related to credit default swaps, partially offset by $129.4 of net gains on common stocks and equity derivatives and $39.0 of net gains related to foreign currency.

Net gains on investments in 2009 of $94.4 (compared to net gains of $25.7 in 2008) included $142.2 of net gains on bonds, $28.9 of net gains on common stocks and equity derivatives and $8.9 of net gains on preferred stocks, partially offset by $54.1 of other than temporary impairments recorded principally on common stocks and bonds and $33.1 of net losses related to foreign currency. Net gains on investments of $25.7 in 2008 included $250.2 of net gains on common stocks and equity derivatives, $132.7 of net gains related to credit default swaps and $26.8 of net gains related to foreign currency, partially offset by $279.0 of other than temporary impairments recorded on common stocks and bonds and $104.9 of net losses on bonds.

A year-over-year increase in interest and dividends in the fourth quarter, primarily as a result of increased bond yields, and a decline in net investment losses, partially offset by the decline in underwriting results, produced a pre-tax loss before interest and other of $9.7 in the fourth quarter of 2009, compared to a pre-tax loss before interest and other of $56.3 in the fourth quarter of 2008. The impact of increased net gains on investments and interest and dividends, partially offset by the deterioration in underwriting results, contributed to increased pre-tax income before interest and other of $150.3 in 2009, compared to pre-tax income before interest and other of $95.7 in 2008.

Northbridge's cash resources in the fourth quarter of 2009 decreased by $94.2, compared to a decrease of $89.5 in the fourth quarter of 2008, primarily as a result of cash of $72.9 used in investing activities in the fourth quarter of 2009 ($10.3 of cash provided in the fourth quarter of 2008). Cash used in operating activities in the fourth quarter of 2009 was $17.3 compared to $15.8 in the fourth quarter of 2008. Cash used in financing activities in the fourth quarter of 2009 declined to $4.0 compared to $33.2 used in the fourth quarter of 2008, primarily for repurchases by Northbridge of its common shares.

Northbridge's cash resources decreased by $75.6 in 2009, compared to a decline of $230.1 in 2008. Cash used in operating activities in 2009 was $80.6 compared to cash provided by operating activities of $144.0 in 2008, with the change primarily due to reduced underwriting cash flows. Cash provided by investing activities was $100.4 in 2009 compared to cash used of $192.0 in 2008, reflecting greater cash used in 2008 to close certain equity index short positions, as during the second quarter of 2008 the company changed its approach to hedging by substituting equity index total return swaps for short sales. Increased cash used in financing activities in 2009 of $155.2 compared to $94.5 used in 2008 primarily reflected the share redemption by Northbridge in 2009 related to the completion of the going private transaction as described in note 5.

U.S. Insurance – Crum & Forster[(1)]

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Underwriting profit (loss)	**(13.3)**	(9.5)	**(32.0)**	(177.2)
Combined ratio	**106.9%**	104.0%	**104.1%**	117.6%
Gross premiums written	**210.5**	225.7	**863.8**	1,019.6
Net premiums written	**172.6**	191.6	**716.4**	878.2
Net premiums earned	**191.6**	237.3	**781.3**	1,005.0
Underwriting profit (loss)	**(13.3)**	(9.5)	**(32.0)**	(177.2)
Interest and dividends	**23.9**	29.3	**113.9**	86.2
Operating income (loss)	**10.6**	19.8	**81.9**	(91.0)
Net gains (losses) on investments	**(4.0)**	194.9	**229.1**	605.7
Pre-tax income before interest and other	**6.6**	214.7	**311.0**	514.7

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

Crum & Forster reported an underwriting loss of $13.3 and a combined ratio of 106.9% in the fourth quarter of 2009, generally reflecting the impact of the weak U.S. economy, the continuing challenging conditions in commercial lines markets, and underwriting actions undertaken by the company. Competitive market conditions and underwriting actions by the company had similarly contributed to unfavourable underwriting results for Crum & Forster in the fourth quarter of 2008, and produced an underwriting loss of $9.5 and a combined ratio of 104.0%. Crum & Forster's combined ratio for the fourth quarter of 2009 was adversely affected by a year-over-year deterioration in its expense ratio (34.6% in the fourth quarter of 2009, compared to 30.3% in the fourth quarter of 2008) as a result of the 19.3% decline in net premiums earned relative to a 1.6% decline in underwriting operating expenses ($37.7 in the fourth quarter of 2009, compared to $38.3 in the fourth quarter of 2008). Fourth quarter 2009 underwriting results included the benefit of 3.9 combined ratio points ($7.4) of net favourable development of prior years' reserves, principally related to favourable emergence in workers' compensation and specialty lines, partially offset by adverse emergence in latent claims. Fourth quarter 2008 results included 0.8 of a combined ratio point ($1.9) of net adverse prior years' reserve development in latent claims and general liability lines, partially offset by net favourable development in workers' compensation. Catastrophe losses of $4.9, primarily related to storm activity in the U.S. northeast, added 2.6 combined ratio points to the fourth quarter of 2009 underwriting results, compared to $1.1 and 0.5 of a combined ratio point in the fourth quarter of 2008, primarily related to Hurricanes Ike and Gustav.

Crum & Forster reported an underwriting loss of $32.0 and a combined ratio of 104.1% in 2009 compared to an underwriting loss of $177.2 and a combined ratio of 117.6% in 2008 (including the impact of $74.3 of catastrophe losses attributable to Hurricanes Ike and Gustav, an $84.2 charge related to a second quarter reinsurance commutation and the $25.5 impact of a settlement of an asbestos-related lawsuit in the first quarter of 2008). The results in 2009 generally reflected the impact of the weak U.S. economy, the continuing challenging conditions in commercial lines markets, and underwriting actions taken by the company. Crum & Forster's combined ratio for the year was adversely affected by a year-over-year deterioration in its expense ratio (34.9% in 2009, compared to 31.8% in 2008) as a result of the 22.3% decline in net premiums earned relative to a 5.8% decline in underwriting operating expenses ($158.4 in 2009, compared to $168.1 in 2008). The underwriting results in 2009 included the benefit of 3.2 combined ratio points ($25.0) of net favourable development of prior years' reserves, principally related to favourable emergence in specialty lines and workers' compensation, partially offset by adverse emergence in commercial auto and latent claims. Included in the $59.0 of net adverse prior years' reserve development in underwriting results in 2008 were the unfavourable impacts of the reinsurance commutation ($84.2 or 8.4 combined ratio points) and the lawsuit settlement ($25.5 or 2.5 combined ratio points), partially offset by otherwise net favourable prior years' reserve development of 5.0 combined ratio points ($50.7), related primarily to workers' compensation, umbrella and specialty lines. Reduced catastrophe losses of $11.6 added 1.5 combined ratio points to the 2009 underwriting results compared to $93.7 and 9.3 combined ratio points in 2008 (primarily related to Hurricanes Ike and Gustav).

The impact of the weak U.S. economy and Crum & Forster's continuing disciplined response to the challenging market conditions, including 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 (standard commercial property, general liability and commercial automobile lines, in particular), partially offset by growth in accident and health and certain specialty lines, resulting in overall decreases in gross premiums written and net premiums written of 6.7% and 9.9% respectively for the fourth quarter of 2009 compared to the fourth quarter of 2008. Net premiums earned decreased by 19.3% in the fourth quarter of 2009 compared to the fourth quarter of 2008. Reflecting the above mentioned factors, gross premiums written and net premiums written declined by 15.3% and 18.4% respectively in 2009 compared to 2008. Net premiums earned decreased by 22.3% in 2009 compared to 2008.

During the fourth quarter of 2009 Crum & Forster recorded net losses on investments of $4.0 (including $19.3 of net losses on bonds and $4.9 of other than temporary impairments recorded on common stocks and bonds, partially offset by $20.8 of net gains on common stocks and equity derivatives) compared to $194.9 of net gains on investments in the fourth quarter of 2008 (including $192.1 of net gains on common stocks and equity derivatives, $110.4 of net gains on bonds and $12.2 of net gains related to credit default swaps and other derivatives, partially offset by $118.8 of other than temporary impairments recorded on common stocks and bonds). The year-over-year deterioration in underwriting results, decreased interest and dividend income and significantly lower net investment gains reduced Crum & Forster's pre-tax income before interest and other to $6.6 in the fourth quarter of 2009 from $214.7 in the fourth quarter of 2008.

Crum & Forster recorded significantly lower net gains on investments of $229.1 in 2009 (including $240.6 of net gains on bonds and $106.2 of net gains on common stocks and equity derivatives, partially offset by $106.1 of other than temporary impairments recorded on common stocks and bonds, $9.8 of net losses related to credit default swaps and other derivatives, and $4.3 of net losses related to foreign currency) compared to $605.7 of net gains on investments in 2008 (including $418.0 of net gains on common stocks and equity derivatives, $289.1 of net gains related to credit default swaps and other derivatives and $95.6 of net gains on bonds, partially offset by $198.0 of other than temporary impairments recorded on common stocks and bonds). The significant year-over-year decline in net investment gains was partially offset by improved underwriting results and higher interest and dividends, and contributed to decreased pre-tax income before interest and other of $311.0 in 2009 compared to $514.7 in 2008.

Lower premium collections related to declining written premiums continued to adversely affect Crum & Forster's operating cash flow in the fourth quarter. Cash used in operating activities in the fourth quarter of 2009 was $92.9 compared to cash used in operating activities of $164.9 in the fourth quarter of 2008. Cash provided by investing activities of $21.0 in the fourth quarter of 2009 compared to $110.4 of cash provided by investing activities in the fourth quarter of 2008, with the year-over-year change primarily reflecting decreased net sales of securities to fund the reduced negative operating cash flow. Cash used in financing activities in the fourth quarter of 2009 comprised $15.0 of dividends paid to Fairfax, compared to $205.2 used in the fourth quarter of 2008 (primarily increased dividends to Fairfax). As a result, Crum & Forster's cash resources in the fourth quarter of 2009 decreased by $86.9, compared to a decrease of $259.7 in the fourth quarter of 2008.

Crum & Forster's cash resources increased by $79.3 in 2009, compared to a $718.2 decline in 2008. Cash used in operating activities in 2009 was $402.4 compared to cash provided by operations of $100.9 in 2008, with the year-over-year change primarily attributable to lower premium collections related to the decline in premiums written, higher income tax payments and steady or only modestly declining outlays for paid losses, ceded reinsurance costs and fixed operating expenses in 2009 and the impact of the $302.5 cash proceeds of the reinsurance commutation received in 2008. Cash provided by investing activities during 2009 was $596.7 compared to $479.6 of cash used in 2008 (which included $642.1 used to close certain equity index short positions, as during the second quarter of 2008 the company changed its approach to equity hedging by substituting equity total return swaps for short sales). Cash used in financing activities of $115.0 in 2009 and $339.5 in 2008 primarily related to dividends paid to Fairfax.

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

Fairfax Asia

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Underwriting profit (loss)	**4.8**	(5.3)	**20.2**	6.9
Combined ratio	**85.3%**	123.9%	**82.6%**	91.8%
Gross premiums written	**71.7**	58.5	**285.8**	227.0
Net premiums written	**28.5**	16.0	**127.9**	86.5
Net premiums earned	**32.9**	22.0	**116.0**	84.6
Underwriting profit (loss)	**4.8**	(5.3)	**20.2**	6.9
Interest and dividends	**(5.3)**	(2.4)	**9.0**	1.6
Operating income (loss)	**(0.5)**	(7.7)	**29.2**	8.5
Net gains on investments	**1.4**	4.8	**17.8**	3.0
Pre-tax income (loss) before interest and other	**0.9**	(2.9)	**47.0**	11.5

Underwriting results for Fairfax Asia in the fourth quarter of 2009 featured an underwriting profit of $4.8 and a combined ratio of 85.3% reflecting favourable underwriting results at First Capital and Falcon, compared to an underwriting loss of $5.3 and a combined ratio of 123.9% in the fourth quarter of 2008, reflecting favourable underwriting results at First Capital, partially offset by unfavourable results at Falcon. In the fourth quarter of 2009, increased business activity at First Capital and Falcon resulted in a 22.6% increase in gross premiums written and a 78.1% increase in net premiums written. The 2009 fourth quarter results included 26.0 combined ratio points ($8.6) attributable to net favourable development of prior years' reserves, primarily related to favourable emergence at Falcon (compared to 9.8 combined ratio points ($2.2) of net adverse development of prior years' reserves in the fourth quarter of 2008). Interest and dividends loss in the fourth quarter of 2009 of $5.3 (compared to interest and dividends loss of $2.4 in the fourth quarter of 2008) included equity in losses of investees, principally ICICI Lombard. Net gains on investments in the fourth quarter of 2009 of $1.4 primarily related to net gains on common stocks at Falcon. Net gains of $4.8 in the fourth quarter of 2008 primarily related to net gains on common stocks at First Capital. Improved underwriting results, partially offset by reduced contributions from net investment gains and interest and dividends, resulted in increased fourth quarter pre-tax income before interest and other of $0.9 in 2009 compared to a pre-tax loss before interest and other of $2.9 in the fourth quarter of 2008.

Fairfax Asia reported improved underwriting profit of $20.2 and a combined ratio of 82.6% in 2009 (underwriting profit of $6.9 and a combined ratio of 91.8% in 2008), reflecting favourable underwriting results at First Capital and unfavourable results at Falcon. Increased business activity in 2009 at First Capital and Falcon, principally relating to increased commercial auto and marine hull business, resulted in a 25.9% increase in gross premiums written and a 47.9% increase in net premiums written. The twelve months results of 2009 included 7.0 combined ratio points ($8.1) of net favourable development of prior years' reserves, primarily related to net favourable emergence at Falcon (compared to 4.0 combined ratio points ($3.4) of net adverse development in the twelve months of 2008). Increased interest and dividends in 2009 of $9.0 (compared to interest and dividends of $1.6 in 2008) primarily related to the effects of reinvestment in higher yielding fixed income securities. Net gains on investments in 2009 of $17.8 included $9.8 of net gains on bonds and $10.6 of net gains on common stocks, partially offset by $1.1 of other than temporary impairments on common stocks and bonds. Significantly increased underwriting profit, increased interest and dividends (due to reinvestment of the portfolio into higher yielding fixed income securities) and net gains on investments in 2009 compared to 2008 resulted in increased pre-tax income before interest and other of $47.0 compared to $11.5.

Reinsurance – OdysseyRe(1)

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Underwriting profit (loss)	**16.3**	28.8	**64.3**	(27.7)
Combined ratio	**96.6%**	94.3%	**96.7%**	101.3%
Gross premiums written	**497.8**	494.0	**2,195.0**	2,294.5
Net premiums written	**431.0**	437.7	**1,893.8**	2,030.8
Net premiums earned	**483.0**	504.0	**1,927.4**	2,076.4
Underwriting profit (loss)	**16.3**	28.8	**64.3**	(27.7)
Interest and dividends	**71.7**	62.5	**283.6**	250.3
Operating income	**88.0**	91.3	**347.9**	222.6
Net gains (losses) on investments	**(26.5)**	157.8	**353.6**	740.1
Pre-tax income before interest and other	**61.5**	249.1	**701.5**	962.7

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

During the fourth quarter of 2009 the company completed the acquisition of the outstanding common shares of OdysseyRe not already owned by Fairfax, as described in note 5.

In the fourth quarter of 2009, OdysseyRe reported underwriting profit of $16.3 and a combined ratio of 96.6%, compared to an underwriting profit of $28.8 and a combined ratio of 94.3% in the fourth quarter of 2008. The fourth quarter of 2009 included a higher level of large risk losses, primarily within the London Market division, as well as an increase in the expense ratio due largely to a decline in net premiums earned. The 2009 fourth quarter combined ratio also included 4.9 combined ratio points ($23.3) related to current period catastrophe losses (net of reinstatement premiums), principally related to flooding in Turkey and storm activity in the Philippines and Europe. The 2008 fourth quarter combined ratio included 7.5 combined ratio points ($37.3) related to current period catastrophe losses (net of reinstatement premiums), primarily related to Hurricane Ike in the U.S. and the southern China snowstorms. Fourth quarter 2009 underwriting results were modestly impacted by less than 0.1 of a combined ratio point ($0.2) of net favourable prior period reserve development, comprised of net favourable development in the U.S. Insurance, EuroAsia and London Market divisions, partially offset by net adverse development in the Americas division. Fourth quarter 2008 underwriting results included 2.0 combined ratio points ($9.9) of net favourable prior period reserve development, principally comprised of net favourable reserve development in the U.S. Insurance, London Market and EuroAsia divisions, partially offset by net adverse development in the Americas division, primarily related to asbestos reserve strengthening.

Improved underwriting performance in 2009 produced underwriting profit of $64.3 and a combined ratio of 96.7%, compared to an underwriting loss of $27.7 and a combined ratio of 101.3% in 2008. Underwriting results in the twelve months included the impact of catastrophe losses of 6.1 combined ratio points ($116.1) in 2009, principally related to storm activity and flooding in Europe and Turkey, and 11.8 combined ratio points ($242.2) in 2008 primarily related to Hurricanes Ike and Gustav in the U.S., the southern China snowstorms, windstorm Emma in central Europe, flood losses in eastern Australia and the China earthquake. OdysseyRe's twelve month results in 2009 were favourably impacted by 0.6 of a combined ratio point ($11.3) of net favourable reserve development, including net favourable development in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by a strengthening of asbestos reserves in the Americas division. Twelve months results in 2008 were favourably impacted by 0.5 of a combined ratio point ($10.1) of prior years' reserve development (net favourable development in the U.S. Insurance, EuroAsia and London Market divisions, partially offset by net adverse development in the Americas division).

OdysseyRe continued to experience broad competitive pressures in the fourth quarter of 2009 in the global reinsurance and insurance markets in which its divisions compete. Gross premiums written in the fourth quarter of 2009 increased 0.8% to $497.8 from $494.0 in the fourth quarter of 2008, and included increases of 11.3% and 5.3% in the EuroAsia and London Market divisions respectively, partially offset by decreases of 4.4% and 5.3% in the Americas and U.S. Insurance divisions respectively. Net premiums written during the fourth quarter of 2009 declined 1.5% to $431.0 from $437.7 in the fourth quarter of 2008, and net premiums earned decreased 4.2% to $483.0 from $504.0. OdysseyRe's gross premiums written declined 4.3% to $2,195.0 in 2009 compared to 2008. Net premiums written declined 6.7% to $1,893.8 in 2009, and net premiums earned declined 7.2% to $1,927.4. Gross premiums written in 2009 declined in the London Market (10.2%), EuroAsia (6.3%) and Americas (3.9%) divisions, and increased in the U.S. Insurance division (1.4%). Premiums written expressed in U.S. dollars for the EuroAsia and London Market divisions were reduced by the year-over-year strengthening of the U.S. dollar.

Interest and dividend income in the fourth quarter of 2009 increased 14.7% compared to the fourth quarter of 2008, primarily reflecting the impact of higher yielding municipal and other tax exempt debt securities and corporate bonds purchased in the fourth quarter of 2008 and in 2009 with the proceeds of the sale of lower yielding government debt securities. OdysseyRe had net investment losses of $26.5 in the fourth quarter of 2009 (including $79.7 of net losses on bonds, partially offset by $36.2 of net gains on common stocks and equity derivatives, $11.6 of net gains related to foreign currency and $7.5 of net gains on preferred stocks) compared to net investment gains of $157.8 in the fourth quarter of 2008 (including $251.6 of net gains on common stocks and equity derivatives, $202.8 of net gains on bonds and $35.3 of net gains related to credit default swaps, partially offset by $265.0 of other than temporary impairments recorded on common stocks and bonds and $70.4 of net losses related to foreign currency). The decreases in net gains on investments and underwriting profit, partially offset by increased interest and dividends, resulted in decreased pre-tax income before interest and other of $61.5 in the fourth quarter of 2009 compared to $249.1 in the fourth quarter of 2008.

Interest and dividend income in 2009 increased 13.3% compared to 2008, primarily reflecting the impact of higher yielding municipal and other tax exempt debt securities and corporate bonds purchased in the fourth quarter of 2008 and in 2009 with the proceeds of the sale of lower yielding government debt securities. Net investment gains of $353.6 in 2009 ($394.6 of net gains on bonds, $99.0 of net gains on common stocks and equity derivatives and $7.3 of net gains on preferred stocks, partially offset by $119.1 of other than temporary impairments recorded on common stocks and bonds and $31.4 of net losses related to credit default swaps and other derivatives) declined from net investment gains of $740.1 in 2008 ($554.6 of net gains on common stocks and equity derivatives, $352.2 of net gains related to credit default swaps, and $233.2 of net gains on bonds, partially offset by $370.1 of other than temporary impairments recorded on common stocks and bonds and $33.4 of net losses related to foreign currency). This decline in net investment gains, partially offset by increased underwriting profit and interest and dividend income, produced pre-tax income before interest and other of $701.5 in 2009 compared to $962.7 in 2008.

OdysseyRe's cash resources decreased in the fourth quarters of 2009 and 2008 by $581.6 and $1,194.3 respectively, primarily as a result of net purchases of investments, principally state and municipal bonds and equities. Cash used in operating activities in the fourth quarter of 2009 was $55.3 compared to $135.0 in the fourth quarter of 2008. Cash used in investing activities of $552.6 in the fourth quarter of 2009 compared to $898.7 in the fourth quarter of 2008. Cash provided by financing activities of $2.0 in the fourth quarter of 2009 increased compared to cash used of $4.8 in the fourth quarter of 2008, related primarily to a reduction of dividends paid by OdysseyRe.

OdysseyRe's cash resources increased in 2009 by $185.7 and decreased in 2008 by $142.2. Cash used in operating activities in 2009 was $1.3 compared to $107.6 of cash provided by operating activities in 2008, with the change primarily attributable to higher income tax payments (substantially related to significant investment gains realized in 2008) and decreased underwriting cash flows, including higher paid losses and lower premiums collections. Cash provided by investing activities of $238.7 in 2009 decreased from $318.6 in 2008. Cash used in financing activities of $114.3 in 2009 and $389.8 in 2008 related primarily to repurchases by OdysseyRe of its common shares and dividends paid on its preferred and common shares.

For more information on OdysseyRe's results, please see its annual report on Form 10-K which will be posted on its website *www.odysseyre.com*.

Reinsurance – Other

For the quarters ended December 31, 2009 and 2008

	2009					2008		
	Group Re	**Advent[(1)]**	**Polish Re**	**Intercompany**	**Total**	Group Re	Advent[(1)]	Total
Underwriting profit (loss)	**(8.2)**	**6.5**	**(0.6)**	**—**	**(2.3)**	(26.2)	(13.6)	(39.8)
Combined ratio	**110.6%**	**87.3%**	**102.5%**	**—**	**101.5%**	150.3%	121.9%	134.9%
Gross premiums written	**68.8**	**28.7**	**20.1**	**(4.4)**	**113.2**	46.5	48.6	95.1
Net premiums written	**68.8**	**26.4**	**17.6**	**—**	**112.8**	46.6	31.5	78.1
Net premiums earned	**78.0**	**51.3**	**21.9**	**—**	**151.2**	52.0	61.5	113.5
Underwriting profit (loss)	**(8.2)**	**6.5**	**(0.6)**	**—**	**(2.3)**	(26.2)	(13.6)	(39.8)
Interest and dividends	**5.2**	**3.9**	**1.7**	**—**	**10.8**	3.7	6.4	10.1
Operating income (loss)	**(3.0)**	**10.4**	**1.1**	**—**	**8.5**	(22.5)	(7.2)	(29.7)
Net gains (losses) on investments	**(10.1)**	**(1.5)**	**4.0**	**—**	**(7.6)**	34.6	(12.0)	22.6
Pre-tax income (loss) before interest and other	**(13.1)**	**8.9**	**5.1**	**—**	**0.9**	12.1	(19.2)	(7.1)

For the years ended December 31, 2009 and 2008

	2009					2008		
	Group Re	**Advent[(1)]**	**Polish Re**	**Intercompany**	**Total**	Group Re	Advent[(1)]	Total
Underwriting profit (loss)	**(10.3)**	**21.6**	**0.6**	**—**	**11.9**	(22.7)	(22.3)	(45.0)
Combined ratio	**104.0%**	**92.5%**	**99.2%**	**—**	**98.1%**	111.9%	128.2%	116.6%
Gross premiums written	**263.7**	**386.1**	**88.4**	**(49.9)**	**688.3**	185.4	60.4	245.8
Net premiums written	**263.7**	**277.0**	**79.1**	**—**	**619.8**	185.5	40.6	226.1
Net premiums earned	**255.2**	**289.6**	**83.3**	**—**	**628.1**	190.8	78.8	269.6
Underwriting profit (loss)	**(10.3)**	**21.6**	**0.6**	**—**	**11.9**	(22.7)	(22.3)	(45.0)
Interest and dividends	**15.6**	**17.8**	**4.1**	**—**	**37.5**	22.4	7.7	30.1
Operating income (loss)	**5.3**	**39.4**	**4.7**	**—**	**49.4**	(0.3)	(14.6)	(14.9)
Net gains (losses) on investments	**(22.5)**	**(11.0)**	**7.7**	**—**	**(25.8)**	40.5	(12.4)	28.1
Pre-tax income (loss) before interest and other	**(17.2)**	**28.4**	**12.4**	**—**	**23.6**	40.2	(27.0)	13.2

(1) These results for Advent differ from those published by Advent Capital (Holdings) PLC primarily due to differences between Canadian GAAP and IFRS as adopted by the European Union.

In the third and fourth quarters of 2008, the company increased its investment in Advent to 66.7% and commenced consolidation of Advent's assets and liabilities and results of operations. In the first quarter of 2009, the company acquired a 100% interest in Polish Re, and Polish Re's assets and liabilities and results of operations were included in the company's consolidated financial reporting. During the fourth quarter of 2009, the company completed the acquisition of the outstanding common shares of Advent, other than those shares not already owned by the company and its affiliates. These transactions are described in greater detail in note 5.

In the fourth quarter of 2009, the Reinsurance – Other segment produced a combined ratio of 101.5% and an underwriting loss of $2.3, compared to a combined ratio of 134.9% and an underwriting loss of $39.8 in the fourth quarter of 2008, with 2008 underwriting results reflecting the significant impact of U.S. hurricane losses. Fourth quarter 2009 underwriting results included 11.4 combined ratio points ($17.2) of net adverse development of prior years' reserves, primarily comprising net adverse development at Group Re (compared to fourth quarter 2008 net adverse development of 4.6 combined ratio points or $5.3) related to 2002 and prior years' losses ceded by Northbridge. The fourth quarter of 2009 included current period catastrophe losses of 4.8 combined ratio points ($7.3 net of reinstatement premiums) primarily related to Advent's property catastrophe reinsurance business, compared to 47.1 combined ratio points ($55.2 net of reinstatement premiums) for Advent and Group Re in the fourth quarter of 2008, primarily related to Hurricanes Ike and Gustav.

Improved underwriting results for the Reinsurance – Other segment in 2009 included a combined ratio of 98.1% and underwriting profit of $11.9, compared to 116.6% and an underwriting loss of $45.0 respectively in 2008, with 2008 underwriting results reflecting the significant impact of U.S. hurricane losses. Net adverse development of prior years' reserves of 5.1 combined ratio points ($32.2) primarily related to Group Re's 2002 and prior years' losses ceded by Northbridge and increased losses at Advent primarily related to Hurricane Ike (compared to net favourable development in 2008 of 1.2 combined ratio points or $3.2). With fewer large catastrophe events in 2009 compared to 2008, current period catastrophe losses in 2009 totaled 4.0 combined ratio points ($24.8 net of reinstatement premiums) and related principally to Advent's property catastrophe business, compared to 32.9 combined ratio points ($89.9 net of reinstatement premiums) for Advent and Group Re in 2008, primarily related to Hurricanes Ike and Gustav.

Gross premiums written and net premiums written in the fourth quarter of 2009 by the Reinsurance – Other segment compared to the fourth quarter of 2008 increased at Group Re and as a result of the acquisition of Polish Re, partially offset by a reduction at Advent. Improved underwriting results and increased interest and dividend income, partially offset by decreased net gains on investments, and including the effect of the inclusion of the results of Advent and Polish Re, produced pre-tax income before interest and other of $0.9 compared to a pre-tax loss before interest and other of $7.1 in the fourth quarter of 2008.

Gross premiums written and net premiums written in 2009 by the Reinsurance – Other segment compared to 2008 increased significantly as a result of the consolidation of Advent and Polish Re and increased activity at Group Re. Advent's net premiums written (as well as its net premiums earned and net claims incurred) included $91.4 of reinsurance-to-close premiums related to the closure of Syndicate 2 into Syndicate 3330, an increase in Syndicate 3330 capacity from approximately 45% to 100%, and an increase in Syndicate 780 capacity from 80.4% to 83.7%. Increased gross premiums written by Group Re in 2009 included $42.3 related to a quota share contract with Advent (40% of Advent's property reinsurance business) and increased third party business, principally related to property catastrophe covers. Increased underwriting profit and interest and dividend income, partially offset by decreased net gains on investments, and including the effect of the inclusion of the results of Advent and Polish Re, produced increased pre-tax income before interest and other of $23.6 compared to $13.2 in 2008.

In 2009 Fairfax invested $39.9 and incurred $2.4 in start-up costs related to Fairfax Brasil, which expects to offer a comprehensive range of commercial property and casualty coverages to the Brazilian market in 2010, subject to receipt of final regulatory approval from the Brazilian insurance regulator.

Runoff

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Gross premiums written	**(0.5)**	6.9	**1.1**	12.6
Net premiums written	**(0.2)**	5.9	**(0.5)**	11.1
Net premiums earned	**—**	6.3	**—**	17.4
Losses on claims	**(34.1)**	(70.0)	**(57.6)**	(83.2)
Operating expenses	**(19.8)**	(39.9)	**(94.8)**	(109.6)
Interest and dividends	**14.0**	12.0	**54.4**	68.2
Operating loss	**(39.9)**	(91.6)	**(98.0)**	(107.2)
Net gains (losses) on investments	**(7.8)**	164.4	**129.2**	499.8
Pre-tax income (loss)	**(47.7)**	72.8	**31.2**	392.6

The Runoff segment reported a pre-tax loss of $47.7 in the fourth quarter of 2009 (compared to pre-tax income of $72.8 in the fourth quarter of 2008), primarily reflecting a significant year-over-year decrease in net investment gains, partially offset by a decreased operating loss of $39.9 compared to an operating loss of $91.6 in the fourth quarter of 2008. The reduced operating loss reflected decreased incurred losses and lower operating expenses resulting from operating cost reduction initiatives undertaken in 2008 and 2009. Incurred losses of $34.1 in the fourth quarter of 2009 included $78.6 of strengthening of loss reserves in U.S. Runoff (including $36.3 of strengthening of workers' compensation and latent reserves and $59.8 of reinsurance recoverable balances written off, partially offset by the favourable impact ($17.5) of a gain on a reinsurance commutation (as described in note 7)), partially offset by $44.5 of net favourable development of reserves across all lines in European Runoff. Incurred losses of $70.0 in the fourth quarter of 2008 included reserve strengthening of $65.2 in U.S. Runoff, primarily related to prior years' U.S. workers' compensation reserves, partially offset by modest net favourable development of prior years' reserves in Europe. Fourth quarter 2009 net losses on investments of $7.8 included $8.5 of net losses on bonds, $1.8 of net losses related to credit default swaps and other derivatives and $0.9 of net losses on common stocks and equity derivatives, partially offset by $3.5 of net gains related to foreign currency. Fourth quarter 2008 net gains on investments of $164.4 were principally comprised of $136.0 of net gains on bonds, $68.2 of net gains on common stocks and equity derivatives and $23.7 of net gains related to credit default swaps, partially offset by $60.1 of other than temporary impairments recorded on common stocks and bonds and $3.5 of net losses related to foreign currency.

The Runoff segment reported pre-tax income of $31.2 in 2009 compared to $392.6 in 2008, reflecting a decreased operating loss of $98.0 and lower net gains on investments of $129.2. Decreased operating expenses, decreased incurred losses and a decline in interest and dividend income resulted in a decreased operating loss of $98.0 in 2009 compared to an operating loss of $107.2 in 2008. Incurred losses of $57.6 in 2009 included $100.2 of net strengthening of loss reserves in U.S. Runoff (including $36.8 of strengthening of workers' compensation and latent reserves, $59.8 of reinsurance recoverable balances written off, and net losses of $3.6 resulting from third quarter commutation losses of $21.1 and fourth quarter commutation gains of $17.5 (as described in note 7)), partially offset by $42.6 of net favourable development of reserves across all lines in European Runoff. Incurred losses of $83.2 in 2008 included $68.0 primarily related to strengthening of prior years' U.S. workers' compensation claims reserves and losses of $13.0 on reinsurance commutations, partially offset by modest net favourable development of prior years' reserves in Europe. Reduced operating expenses in 2009 reflected the impact of operating cost reduction initiatives undertaken in 2008 and 2009 (operating expenses in 2008 included $11.9 in related severance and other costs). Net investment gains in 2009 of $129.2 included $96.2 of net gains on bonds, $92.1 of net gains on common stocks and equity derivatives and $6.0 of net gains related to foreign currency, partially offset by $35.4 of net losses related to credit default swaps and other derivatives and $29.8 of other than temporary impairments recorded on common stocks and bonds. Net gains on investments of $499.8 in 2008 were principally comprised of $311.5 of net gains related to credit default swaps, $142.8 of net gains on common stocks and equity derivatives and $126.5 of net gains on bonds, partially offset by $76.5 of other than temporary impairments recorded on common stocks and bonds and $5.4 of net losses related to foreign currency.

Other(1)

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Revenue	**150.1**	99.4	**556.4**	99.4
Expenses	**(142.0)**	(98.0)	**(544.0)**	(98.0)
Pre-tax income before interest and other	**8.1**	1.4	**12.4**	1.4
Interest expense	**(0.2)**	(0.4)	**(1.0)**	(0.4)
Pre-tax income	**7.9**	1.0	**11.4**	1.0

(1) *These results differ from those published by Ridley Inc. primarily due to the reversal of purchase accounting adjustments which arose on the acquisition of Ridley.*

The Other business segment comprises the animal nutrition business (Ridley).

During the fourth quarter of 2008, the company acquired a 67.9% interest in Ridley, and Ridley's assets and liabilities and results of operations were included in the company's consolidated financial reporting. Ridley's financial results in the fourth quarter and twelve months of 2009 reflected the impact of improved gross profits and increased sales volumes across all of Ridley's reporting segments. Improved operating margins reflected the successful achievement of cost reductions and expense management initiatives. Ridley is one of North America's leading commercial animal nutrition companies.

Other Elements of Net Earnings

Consolidated interest and dividend income in the fourth quarter of 2009 increased 18.1% to $172.4 from $146.0 in the fourth quarter of 2008, and in the twelve months of 2009 increased 13.8% to $712.7 from $626.4 in the twelve months of 2008, primarily due to the inclusion of Advent and Polish Re in 2009 and the impact of purchases of higher yielding municipal and other tax exempt debt securities and corporate bonds in the fourth quarter of 2008 and in 2009 with the proceeds of sale of lower yielding government debt securities.

Consolidated net losses on investments in the fourth quarter of 2009 of $30.3 included $108.2 of net losses on bonds, $14.6 of net losses related to credit default swaps and other derivatives, and $8.6 of other than temporary impairments recorded on common stocks and bonds, partially offset by $81.7 of net gains on common stocks and equity derivatives and $23.2 of net gains on preferred stocks. Consolidated net gains on investments of $681.0 in the fourth quarter of 2008 included $1,034.8 of net gains on common stocks and equity derivatives, $271.4 of net gains on bonds and $56.7 of net gains related to credit default swaps and other derivatives, partially offset by $627.4 of other than temporary impairments recorded on common stocks and bonds and $59.7 of net losses related to foreign currency.

Consolidated net gains on investments in 2009 of $944.5 included $937.9 of net gains on bonds, $463.3 of net gains on common stocks and equity derivatives and $26.6 of net gains on preferred stocks, partially offset by $340.0 of other than temporary impairments recorded on common stock and bond investments, $147.2 of net losses related to credit default swaps and other derivatives and $17.6 of net losses related to foreign currency. Consolidated net gains on investments in 2008 of $2,570.7 included $2,096.8 of net gains on common stocks and equity derivatives, $1,305.7 of net gains related to credit default swaps and other derivatives and $218.9 of net gains on bonds, partially offset by $1,011.8 of other than temporary impairments recorded on common stocks and bonds and $45.4 of net losses related to foreign currency.

Fairfax holds significant investments in equities and equity-related securities, which the company believes will significantly appreciate in value over time. The market value and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over the long term. During the third quarter of 2009, as a result of the rapid increase in the valuation level of worldwide equity markets, the company determined to protect a portion of its equity and equity-related holdings against a potential decline in equity markets by way of short positions effected through equity index total return swaps. At the inception of the short positions, the resulting equity hedge represented approximately one-quarter of the company's equity and equity-related holdings. At year-end, as a result of decreased equity and equity-related holdings and increased short positions, the equity hedges had increased to approximately 30%. The company believes that the equity hedges will be reasonably effective in protecting that proportion of the company's equity and equity-related holdings to which the hedges relate; however, due to a lack of a perfect correlation between the hedged items and the hedging items, combined with other market uncertainties, it is not possible to estimate the reasonably likely future impact of the company's economic hedging programs related to equity risk.

As of December 31, 2009, the company owned $5.9 billion notional amount of credit default swaps with an average term to maturity of 2.4 years, an original cost of $114.8 and a fair value of $71.6. As the average remaining life of a contract declines, the fair value of the contract (excluding the impact of credit spreads) will generally decline. The initial premium paid for each credit default swap contract was recorded as a derivative asset and was subsequently adjusted for changes in the unrealized market value of the contract at each balance sheet date. Changes in the unrealized market value of the contract were recorded as net gains (losses) on investments in the company's consolidated statements of net earnings at each balance sheet date, with a corresponding adjustment to the carrying value of the derivative asset.

The purchased credit protection positions held by the company at December 31, 2008 comprised a diversified portfolio of industry-standard credit default swap contracts referenced to approximately two dozen entities in the global financial services industry. At the inception of a purchase of credit protection in the form of a credit default swap (or in very limited instances, at regular intervals during the term of the credit default swap contract), the company paid a cash premium to the counterparty for the right to recover any decrease in value of the underlying debt security that resulted from a credit event related to the referenced issuer for a period ranging from five to seven years from the contract's inception. The credit events, as defined by the respective credit default swap contracts establishing the rights to recover amounts from the counterparties, are comprised of ISDA standard credit events which are: bankruptcy, obligation acceleration, obligation default, failure to pay, repudiation/moratorium and restructuring. All credit default swap contracts held at December 31, 2008 had been entered into with Citibank, Deutsche Bank AG, Barclays Bank PLC or the Bank of Montreal as the counterparty, with contracts referenced to certain issuers held with more than one of these counterparties. As the company's only exposure to loss on these contracts stems from the initial premium paid in cash to enter into the contract at inception, there are no requirements for the company to post collateral with respect to these contracts. With the exception of the Bank of Montreal (with which the company has placed only one small contract), the bank counterparties are required to post government debt securities as collateral in support of their total obligation owed to the company for all credit default swap contracts outstanding once such total obligation, aggregated for all contracts with that counterparty, exceeds a threshold amount (except for Citibank where there was no threshold), as defined in the individual master agreements with each counterparty.

During the fourth quarter of 2009, the company sold nil (2008 – $3,363.9) notional amount of credit default swaps for proceeds of nil (2008 – $378.0) and recorded net gains on sale of nil (2008 – $43.8) and net mark-to-market losses of $10.0 (2008 – $4.6) in respect of positions remaining open at year end. During 2009, the company sold $3,042.9 (2008 – $11,629.8) notional amount of credit default swaps for proceeds of $231.6 (2008 – $2,048.7) and recorded net gains on sale of $46.2 (2008 – $1,047.5) and net mark-to-market losses of $160.8 (2008 – net gains of $238.9) in respect of positions remaining open at year end. Sales of credit default swap contracts during 2009 and 2008 caused the company to reverse any previously recorded unrealized market value changes since the inception of the contract and to record the actual amount of the final cash settlement through net gains (losses) on investments in the consolidated statements of net earnings.

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, 2009. 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
FY 2008	11,629.8	245.8	2,048.7	1,802.9
Q1 2009	2,902.6	45.5	223.0	177.5
Q2 2009	140.3	1.4	8.6	7.2
Q3 2009	—	—	—	—
Q4 2009	—	—	—	—
Cumulative sales since inception	15,638.2	318.4	2,479.6	2,161.2
Remaining credit default swap positions at December 31, 2009	5,926.2	114.8	71.6(1)	(43.2)(2)
Cumulative realized and unrealized from inception	21,564.4	433.2	2,551.2	2,118.0

(1) Market value as of December 31, 2009.

(2) Unrealized loss (measured using original acquisition cost) as of December 31, 2009.

The company has sold $15.64 billion notional amount of credit default swaps since inception with an original acquisition cost of $318.4 for cash proceeds of $2.48 billion and a cumulative gain (measured using original acquisition cost) of $2.16 billion. As of December 31, 2009, the remaining $5.93 billion notional amount of credit default swaps had a market value of $71.6 and an original acquisition cost of $114.8, representing an unrealized loss (measured using original acquisition cost) of $43.2.

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. The timing and amount of changes in fair value of fixed income securities and recoverable from reinsurers are by their nature uncertain. As a result of these data limitations and market uncertainties, it is not possible to estimate the reasonably likely future impact of the company's economic hedging programs related to credit risk.

Consolidated interest expense increased 22.3% to $49.3 in the fourth quarter of 2009 from $40.3 in the fourth quarter of 2008 (and increased 4.9% to $166.3 in 2009 from $158.6 in 2008), primarily reflecting the additional interest expense incurred following the company's third quarter issuance of Cdn$400.0 of senior unsecured notes, partially offset by decreased interest expense as a result of lower subsidiary debt in 2009 compared to 2008. Consolidated interest expense is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
Fairfax	**33.4**	22.3	**101.4**	89.1
Crum & Forster	**7.0**	7.0	**27.8**	28.3
OdysseyRe	**7.5**	8.4	**31.0**	34.2
Advent	**1.2**	2.2	**5.1**	2.6
Ridley	**0.2**	0.4	**1.0**	0.4
Cunningham Lindsey	**—**	—	**—**	4.0
	49.3	40.3	**166.3**	158.6

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 (losses) 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,	
	2009	2008	**2009**	2008
Fairfax corporate overhead	**20.7**	12.8	**88.3**	94.7
Subsidiary holding companies corporate overhead	**16.4**	14.3	**64.3**	44.6
Holding company interest and dividends	**(11.6)**	(7.7)	**(36.4)**	(28.8)
Holding company net gains on investments	**(21.3)**	(207.9)	**(147.3)**	(689.1)
Investment management and administration fees	**(17.2)**	(4.2)	**(64.9)**	(53.3)
	(13.0)	(192.7)	**(96.0)**	(631.9)

Fairfax corporate overhead expense in the fourth quarter of 2009 increased to $20.7 from $12.8 in the fourth quarter of 2008, primarily as a result of increased compensation expense, partially offset by decreased legal expenses. Subsidiary holding companies corporate overhead expense in the fourth quarter of 2009 increased to $16.4 from $14.3 in the fourth quarter of 2008, primarily due to increased compensation and legal expenses, including expenses related to the OdysseyRe privatization. Interest and dividends earned on holding company cash, short term investments and marketable securities increased in the fourth quarter of 2009 compared to the fourth quarter of 2008 as a result of the increased average holding company portfolio during the year. Net gains on investments at the holding company of $21.3 in the fourth quarter of 2009 (2008 – $207.9) included $27.2 of net gains on common stocks and equity derivatives, $10.3 of net gains related to foreign currency and $7.9 of net gains on preferred stocks, partially offset by $14.0 of net losses on bonds and $8.2 of net losses related to credit default swaps and other derivatives. Net gains on investments at the holding company of $207.9 in the fourth quarter of 2008 included $372.9 of net gains on common stocks and equity derivatives, partially offset by $35.4 of other than temporary impairments recorded on common stocks and bonds, $132.0 of net losses on bonds, $8.0 of net losses related to foreign currency and $5.3 of net losses related to credit default swaps and other derivatives.

Fairfax corporate overhead expense in 2009 declined to $88.3 from $94.7 in 2008, primarily reflecting lower legal expenses, partially offset by increased compensation expenses. Subsidiary holding companies corporate overhead expenses increased from $44.6 in 2008 to $64.3 in 2009, principally as a result of increased compensation and legal expenses, including expenses related to the OdysseyRe privatization. Interest and dividend income increased in 2009, reflecting increased average holdings of cash, short term investments and marketable securities during the year. Net investment gains were $147.3 in 2009 (including $121.1 of net gains on common stocks and equity derivatives, $68.2 of net gains on bonds, $8.2 of net gains related to foreign currency and $7.9 of net gains on preferred stocks, partially offset by $72.0 of net losses related to credit default swaps and other derivatives and $10.8 of other than temporary impairments recorded on common stocks and bonds), compared to net investment gains of $689.1 in 2008 (including $693.0 of net gains on common stocks and equity derivatives and $209.4 of net gains related to credit default swaps and other derivatives, partially offset by $77.2 of other than temporary impairments recorded on common stocks and bonds, $142.8 of net losses on bonds and $15.2 of net losses related to foreign currency).

The $100.0 recovery of income taxes in the fourth quarter of 2009 and the effective income tax rate of 17.8% implicit in the $214.9 provision for income taxes in the twelve months of 2009 differed from the company's statutory income tax rate of 33.0% primarily as a result of the effect of non-taxable investment income in the U.S. tax group (including dividend income and interest on bond investments in U.S. states and municipalities), income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate, the recognition of the benefit of previously unrecorded accumulated income tax losses, the release of $30.7 of income tax provisions subsequent to the completion of examinations of the tax filings of prior years by taxation authorities, and adjustments for prior years, partially offset by income taxes on unrealized foreign currency gains on the company's publicly issued debt securities.

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, the release in the second quarter of $23.3 of income tax provisions subsequent to the completion of an examination by the taxation authorities, 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 company's non-controlling interests in its consolidated statements of earnings arose from the following subsidiaries:

	Fourth quarter		Year ended December 31,	
	2009	2008	**2009**	2008
OdysseyRe	**2.4**	46.0	**130.1**	209.9
Northbridge	**—**	(19.3)	**2.7**	18.4
Advent	**(0.1)**	(12.0)	**0.8**	(13.6)
Ridley	**1.5**	0.2	**0.3**	0.2
	3.8	14.9	**133.9**	214.9

During the fourth quarter of 2009, the company completed the acquisition of the outstanding common shares of OdysseyRe and Advent not already owned by Fairfax, as described in note 5.

During 2009 (prior to the OdysseyRe privatization), OdysseyRe purchased on the open market approximately 1.8 million of its common shares pursuant to its previously announced common share repurchase programme, increasing the company's ownership of OdysseyRe to 72.6% as at September 30, 2009. During the first quarter of 2009, the company completed the previously announced Northbridge going-private transaction, increasing the company's ownership of Northbridge to 100% (this transaction is described in note 5). 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 and the first six months of 2009, the company purchased an additional 8.1% and 0.1% interest in Advent respectively, increasing the company's total ownership interest in Advent to 66.7% (27.1 million common shares). On July 17, 2009, the company announced a formal offer to acquire all of the outstanding common shares of Advent, other than those shares already owned by Fairfax and its affiliates, for 220 U.K. pence in cash per common share. Upon acquiring a 67.9% interest in Ridley in the fourth quarter of 2008 (an additional 3.1% interest was acquired in 2009), the company commenced the consolidation of Ridley's results of operations and the related non-controlling interest in its consolidated statements of earnings.

Financial Condition

Holding company cash, short term investments and marketable securities at December 31, 2009 totaled $1,251.6 ($1,242.7 net of $8.9 of holding company short sale and derivative obligations), compared to $2,340.6 at September 30, 2009 ($2,328.9 net of $11.7 of holding company short sale and derivative obligations) and $1,564.2 at December 31, 2008 ($1,555.0 net of $9.2 of holding company short sale and derivative obligations). Significant cash movements at the Fairfax holding company level during 2009 included the receipt of $983.0 of net proceeds on the issuance of subordinate voting shares in the third quarter, the receipt of $358.6 of net proceeds on the issuance of unsecured senior notes in the third quarter, the receipt of $225.0 of net proceeds on the issuance of Series C preferred shares in the fourth quarter, the receipt of $115.4 in cash dividends from subsidiaries, the payment of $1.0 billion in respect of the company's privatization of OdysseyRe (as described in note 5) in the fourth quarter, the payment of $374.0 (Cdn$458.4) in respect of the company's privatization of Northbridge in the first quarter (as described in note 5), the payment of $157.5 in corporate income taxes, the payment of $151.3 of common and preferred share dividends, the investment of $65.9 to acquire a 15% equity interest in Alltrust Insurance Company of China Ltd. ("Alltrust") in the third quarter, the $57.0 cash consideration paid in the first quarter to acquire Polish Re, the additional investment of $49.0 in Cunningham Lindsey Group Limited in the first quarter (in conjunction with that company's acquisition of the international business of GAB Robins), the investment of $39.9 during the year in the start-up insurance operations of Fairfax Brasil, the holding company's share of $12.3 in the third quarter privatization of Advent, the payment of $143.8 to redeem Series A and B preferred shares, the $135.7 of cash used to repurchase the company's common shares and the repayment of $12.8 at maturity in the first quarter of the company's 6.15% secured loan. The carrying values of holding company short term investments and marketable securities vary with changes in the fair values of those securities.

Subsidiary cash and short term investments decreased by $2,263.7 to $3,244.8 at December 31, 2009 from $5,508.5 at December 31, 2008, with the decrease primarily related to additional investments in bonds, common stocks and other investments, cash used in operating activities including cash used for corporate income tax payments, and cash used to complete the privatizations of Northbridge and Advent and to repurchase common stock of OdysseyRe.

Consolidated cash resources decreased by $2,271.5 during the fourth quarter of 2009, primarily as a result of $2,047.0 of cash used in investing activities ($1.0 billion related to the OdysseyRe privatization, and net new investments in municipal and state government bonds and preferred stocks funded by the proceeds of sale of short term investments and common stocks), $169.9 of cash used in operating activities, and $39.8 of cash used in financing activities (including the issuance of Series C preferred shares, the redemption of the Series A and Series B preferred shares, and the repurchase of $112.4 of the company's common shares). Consolidated cash resources decreased by $1,813.8 in the fourth quarter of 2008, primarily as a result of $469.9 of cash used in operating activities, $1,106.4 of cash used in investing activities and $53.9 of cash used in financing activities.

Consolidated cash resources decreased by $368.8 in 2009, primarily as a result of $734.4 of cash used in investing activities (including the privatizations of OdysseyRe, Northbridge and Advent, the acquisition of Polish Re and investments in Alltrust and Cunningham Lindsey), $719.2 of cash used in operating activities (reflecting declining premiums and steady or only modestly declining paid losses and fixed operating expenses at certain operating companies), and $993.0 provided by financing activities (including issuances of common stock, senior notes and the Series C preferred shares, partially offset by cash used to redeem the Series A and Series B preferred shares, repurchase Fairfax common shares, and pay common and preferred share dividends). Consolidated cash resources decreased by $586.8 in 2008, primarily as a result of $1,069.8 of net cash used in financing activities, including the payment of common share and preferred dividends and repurchases by Fairfax, Northbridge and OdysseyRe of their common and preferred shares, partially offset by $119.9 of cash provided by operating activities and $587.9 of cash provided by investing activities.

The net $425.1 decline in recoverable from reinsurers to $3,809.1 at December 31, 2009 from $4,234.2 at December 31, 2008 related primarily to a significant reduction in U.S. runoff reinsurance recoverables as a result of ongoing collections, uncollectible reinsurance balances written off and commutation activity (as described in note 7), reduced underwriting activity as a result of the impact of weak economic conditions and of the softening underwriting cycle and increasingly competitive market conditions (particularly at Crum & Forster), and recoveries from reinsurers of ceded losses related to 2008 hurricanes, partially offset by increased reinsurance utilization by OdysseyRe's insurance operations, the acquisition of Polish Re and the foreign currency translation effects of U.S. dollar depreciation subsequent to the 2008 year-end.

The net $18.7 increase in provision for claims to $14,747.1 at December 31, 2009 from $14,728.4 at December 31, 2008 related primarily to the foreign currency translation effects of the depreciation since December 31, 2008 of the U.S. dollar relative to most of the major foreign currencies in which Fairfax's insurance and reinsurance companies transact their business and to the consolidation of Polish Re, substantially offset by continued progress by the runoff operations, claims payments related to 2008 hurricanes, and reduced underwriting activity as a result of the weak economic conditions, the softening underwriting cycle and competitive market conditions.

Portfolio investments comprise investments carried at fair value and investments carried at equity-accounted values (at December 31, 2009, these latter primarily included the company's investments in ICICI Lombard, International Coal Group and Cunningham Lindsey Group), the aggregate carrying value of which was $20,078.6 at December 31, 2009 ($20,030.3 net of subsidiary short sale and derivative obligations), compared to an aggregate carrying value at December 31, 2008 of $18,415.0 ($18,394.8 net of subsidiary short sale and derivative obligations). The net $1,635.5 increase in the aggregate carrying value of portfolio investments (net of subsidiary short sale and derivative obligations) at December 31, 2009 compared to December 31, 2008 primarily reflected the increase in net realized and unrealized gains in 2009 (including net investment gains on subsidiary portfolio investments of $797.2 and the $1,019.8 improvement in the net unrealized gains on subsidiary available for sale investments), and also reflected subsidiary uses of cash, funded by subsidiary portfolio investments, that included $665.8 of subsidiary corporate income tax payments (substantially related to significant investment gains realized in 2008), $172.4 paid by Northbridge to complete its privatization, and $72.6 paid by OdysseyRe to repurchase its common shares. Major changes to portfolio investments in 2009 included a net increase of $2.64 billion in bonds, a net decrease in cash and short term investments (principally U.S. Treasury securities) of $2.27 billion and a net increase of $1.04 billion in common stocks. During the third quarter of 2009, as a result of the rapid increase in the valuation level of equity markets, the company determined to protect a portion (approximately one-quarter, or $1.5 billion notional amount relative to $6,517.9 of equity and equity-related holdings) of its equity and equity-related investments against a decline in equity markets by way of short positions effected through S&P 500 index-referenced total return swap contracts entered into at an average S&P 500 index value of 1,062.52. At year-end, as a result of decreased equity and equity-related holdings and increased short positions, the equity hedges had increased to approximately 30%. The unrecorded excess of fair value over the carrying value of investments carried at equity was $170.8 at December 31, 2009 ($356.0 at December 31, 2008).

Fairfax holds significant investments in equities and equity-related securities, which the company believes will significantly appreciate in value over time. The market values and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over the long term.

Future income tax assets decreased by $380.7 to $318.7 during 2009, the decrease being primarily attributable to the decrease in future income taxes as a result of the appreciation of investments in 2009, and the utilization of income tax losses at the Canadian holding companies and within the U.S. consolidated tax group. Income taxes payable decreased by $585.4 to $70.9 during 2009, principally reflecting significant income tax payments made in 2009 related to 2008 earnings.

The $315.6 increase in goodwill and intangible assets in 2009 resulted from the privatizations of OdysseyRe and Northbridge and the acquisition of Polish Re, and foreign currency translation amounts related to the Northbridge and Polish Re goodwill and intangible assets. As described in note 5, in 2009 the company recorded $159.0 of goodwill (OdysseyRe – $64.6, Northbridge – $80.6, Polish Re – $13.8) and $128.7 of intangible assets, principally related to the value of customer and broker relationships and brand names (OdysseyRe – $37.9, Northbridge – $90.8, Polish Re – nil). The carrying value of the goodwill and brand name intangible assets will be tested annually by the company for impairment commencing in 2010. The customer and broker relationships intangible assets will be amortized to net earnings over periods ranging from 8 to 20 years.

Non-controlling interests declined in 2009 by $1,265.2 to $117.6 from $1,382.8 at December 31, 2008, principally as a result of the privatizations of OdysseyRe, Northbridge and Advent. The remaining non-controlling interests balance primarily relates to OdysseyRe's preferred stock and Ridley.

Risk Management

The company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The key financial risks are classified as underwriting, credit, market, foreign currency and liquidity risk. The company's framework to monitor, evaluate and manage these risks is consistent with that in place as at December 31, 2008 (as disclosed in note 18 to the consolidated financial statements in the company's 2008 Annual Report).

Underwriting Risk

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed premiums received and can arise as a result of numerous factors, including pricing risk, reserving risk and catastrophe risk. There were no significant changes to the company's exposure to underwriting risk or the framework used to monitor, evaluate and manage underwriting risk at December 31, 2009 compared to December 31, 2008.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial or contractual obligations to the company. Credit risk arises predominantly with respect to investments in debt instruments, reinsurance recoverables and receivables and balances due from counterparties to derivative contracts (primarily credit default swaps and total return swaps). Changes to the company's exposure to credit risk at December 31, 2009 compared to December 31, 2008 are described in the following sections.

Since 2003, the company has used credit default swap contracts referenced to various issuers in the banking, mortgage and insurance sectors of the financial services industry as an economic hedge of risks affecting specific financial assets (recoverables from reinsurers), exposures potentially affecting the fair value of the company's fixed income portfolio (principally investments in fixed income securities classified as Corporate and other and U.S. states and municipalities in the company's consolidated financial statements) and of broader systemic risk. The company's holdings of credit default swap contracts have declined significantly in 2009 relative to prior years, largely as a result of significant sales in 2008. In the latter part of 2008, the company revised the financial objectives of its economic hedging program by determining not to replace its credit default swap hedge position as sales or expiries occurred based on: (i) the company's judgment that its exposure to formerly elevated levels of credit risk had moderated and that as a result the company had made the determination that its historical approaches to managing credit risk apart from the use of credit default swaps were once again satisfactory as a means of mitigating the company's exposure to credit risk arising from its exposure to financial assets; (ii) the significant increase in the cost of purchasing credit protection (reducing the attractiveness of the credit default swap contract as a hedging instrument); and (iii) the fact that the company's capital and liquidity had benefited significantly from approximately $2.5 billion in cash proceeds of sales of credit default swaps realized since 2007. As a result, the effects that credit default swaps as hedging instruments may be expected to have on the company's future financial position, liquidity and operating results may be expected to diminish significantly relative to the effects in recent years. The company may initiate new credit default swap contracts as an effective hedging mechanism in the future, but there can be no assurance that it will do so.

The company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its total return swap, credit default swap and other derivative securities contracts. Pursuant to these agreements, the company and the counterparties to these transactions are contractually required to deposit eligible collateral in collateral accounts for either the benefit of the company or the counterparty depending on the then current fair value or change in fair value of the derivative contracts.

The fair value of the collateral deposited for the benefit of the company at December 31, 2009, all of which consisted of government securities that may be sold or repledged by the company, was $23.2. The fair value of the collateral deposited for the benefit of the company at December 31, 2008, all of which consisted of government securities, was $285.1, of which $107.6 was eligible to be sold or repledged by the company. The company had not exercised its right to sell or repledge collateral at December 31, 2009.

The following table summarizes the effect of the credit default swap hedging instruments and related economically hedged items on the company's historical financial position and results of operations as of and for the fourth quarters and years ended December 31, 2009 and 2008:

	As of and for the period ended December 31, 2009							
			Fourth quarter			Year		
	Exposure / notional value	Carrying value	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)
Credit risk exposures:								
Bonds:								
U.S., Canadian and other government	**2,999.6**	**2,999.6**	**—**	**—**	**—**	**—**	**—**	**—**
U.S. states and municipalities	**5,497.8**	**5,497.8**	**(38.3)**	**(186.6)**	**(224.9)**	**65.3**	**308.6**	**373.9**
Corporate and other and mortgage backed securities-residential	**2,971.0**	**2,971.0**	**(18.6)**	**83.0**	**64.4**	**185.4**	**599.1**	**784.5**
Derivatives and other invested assets:								
Receivable from counterparties to derivatives	**225.2**	**225.2**	**—**	**(2.6)**	**(2.6)**	**—**	**3.1**	**3.1**
Accounts receivable and other	**1,855.4**	**1,855.4**	**—**	**1.4**	**1.4**	**—**	**(1.9)**	**(1.9)**
Recoverable from reinsurers	**3,809.1**	**3,809.1**	**—**	**(58.0)**	**(58.0)**	**—**	**(59.7)**	**(59.7)**
Cash and short term investments	**3,699.7**	**3,699.7**	**—**	**—**	**—**	**—**	**—**	**—**
	21,057.8	**21,057.8**	**(56.9)**	**(162.8)**	**(219.7)**	**250.7**	**849.2**	**1,099.9**
Hedging instruments:								
Derivatives and other invested assets:								
Credit default swaps	**(5,926.2)**	**(71.6)**	**—**	**(10.0)**	**(10.0)**	**—**	**(114.6)**	**(114.6)**
Net exposure and financial effects	**15,131.6**	**20,986.2**	**(56.9)**	**(172.8)**	**(229.7)**	**250.7**	**734.6**	**985.3**

	As of and for the period ended December 31, 2008							
			Fourth quarter			Year		
	Exposure / notional value	Carrying value	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)
Credit risk exposures:								
Bonds:								
U.S., Canadian and other government	3,564.7	3,564.7	—	—	—	—	—	—
U.S. states and municipalities	4,104.6	4,104.6	32.4	157.9	190.3	(26.2)	157.9	131.7
Corporate and other and mortgage backed securities-residential	985.3	985.3	(15.2)	(359.9)	(375.1)	(23.2)	(543.9)	(567.1)
Derivatives and other invested assets:								
Receivable from counterparties to derivatives (primarily credit default swaps)	455.5	455.5	—	(8.0)	(8.0)	—	(14.1)	(14.1)
Accounts receivable and other	1,688.7	1,688.7	—	(3.6)	(3.6)	—	(4.1)	(4.1)
Recoverable from reinsurers	4,234.2	4,234.2	—	(6.0)	(6.0)	—	(14.8)	(14.8)
Cash and short term investments	6,333.0	6,333.0	—	—	—	—	—	—
	21,366.0	21,366.0	17.2	(219.6)	(202.4)	(49.4)	(419.0)	(468.4)
Hedging instruments:								
Derivatives and other invested assets:								
Credit default swaps	(8,873.0)	(415.0)	—	39.2	39.2	—	1,286.4	1,286.4
Net exposure and financial effects	12,493.0	20,951.0	17.2	(180.4)	(163.2)	(49.4)	867.4	818.0

The consolidated investment portfolio included $5.5 billion (2008 - $4.1 billion) in U.S. state, municipal and other tax-exempt bonds, almost all of which were purchased during 2008. Of the $5.4 billion (2008 - $4.0 billion) held in the subsidiary investment portfolios at December 31, 2009, approximately $3.5 billion (2008 - $3.5 billion) were fully insured by Berkshire Hathaway Assurance Corp. for the payment of interest and principal in the event of issuer default; the company believes that this insurance significantly mitigates the credit risk associated with these bonds.

In the normal course of effecting its economic hedging strategy with respect to credit risk, the company expects that there may be periods where the notional value of the hedging instruments may exceed or be deficient relative to the company's exposure to the items being hedged. This situation may arise when management compensates for imperfect correlations between the hedging item and the hedged item or due to the timing of opportunities related to the company's ability to exit and enter hedges at attractive prices.

Market Risk

Market risk is the potential for a negative impact on the consolidated balance sheet and/or statement of earnings resulting from adverse changes in the value of financial instruments as a result of changes in certain market-related variables including interest rates, foreign exchange rates, equity prices and credit spreads. The company is exposed to market risk principally in its investing activities but also in its underwriting activities to the extent that those activities expose the company to foreign currency risk. The company's investment portfolios are managed with a long term, value oriented investment philosophy emphasizing downside protection. The company has policies to limit and monitor its individual issuer exposures and aggregate equity exposure. Aggregate exposure to single issuers and total equity positions are monitored at the subsidiary level and in aggregate at the company level.

As at December 31, 2009, the company had aggregate equity and equity-related holdings of $6,156.5 (common stock of $5,088.9, investments, at equity of $646.2 plus equity-related derivatives of $421.4) compared to aggregate equity and equity-related holdings at December 31, 2008 with fair value of $4,816.5 (common stocks of $4,241.2 plus investments, at equity of $575.3). As at December 31, 2009, the company had holdings of bonds exposed to credit risk (primarily bonds included in Corporate and other and U.S. states and municipalities) with fair value of $8,468.8 compared to $5,089.9 at December 31, 2008. As a result of the significant increases in the company's equity and fixed income holdings, the company's exposure to equity price risk and interest rate risk at December 31, 2009 had increased compared to December 31, 2008. The company believes that its current financial risk management framework is able to manage these additional risk exposures.

During much of 2008 and immediately preceding years, the company had been concerned with the valuation level of worldwide equity markets, uncertainty resulting from credit issues in the United States and global economic conditions. As protection against a decline in equity markets, the company had held short positions effected by way of equity index-based exchange-traded securities, short positions in U.S. listed common stocks, equity total return swaps and equity index total return swaps, referred to in the aggregate as the company's equity hedges. The company had purchased short term S&P 500 index call options to limit the potential loss on the short positions effected by the U.S. equity index total return swaps and the equity index-based exchange-traded securities and to provide general protection against potential losses from the short positions in common stocks and equity total return swaps. In November 2008, following significant declines in global equity markets, the company revised the financial objectives of its hedging program on the basis of its assessment that formerly elevated risks in the global equity markets had moderated and subsequently closed substantially all of its equity hedge positions. During the remainder of the fourth quarter of 2008, the company significantly increased its investments in equities as a result of the opportunities presented by significant declines in equity valuations. During the third quarter of 2009, as a result of the rapid increase in the valuation level of equity markets, the company determined to protect a portion (approximately one-quarter, or $1.5 billion notional amount relative to $6,517.9 of equity and equity-related holdings) of its equity and equity-related investments against a decline in equity markets by way of short positions effected through S&P 500 index-referenced total return swap contracts entered into at an average S&P 500 index value of 1,062.52. At December 31, 2009, equity hedges represented approximately 30% of the company's equity and equity-related holdings as a result of decreased equity and equity-related holdings of $6,156.5 and increased short positions (aggregate notional amount of short equity and equity index total return swap contracts of $1,814.9).

The following table summarizes the effect of equity risk hedging instruments and related hedged items on the company's historical financial position and results of operations as of and for the three months and years ended December 31, 2009 and 2008:

	As of and for the period ended December 31, 2009							
			Fourth quarter			Year		
	Exposure / notional value	Carrying value	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)
Equity exposures:								
Common stocks	**5,088.9**	**5,088.9**	**25.2**	**114.8**	**140.0**	**1,207.5**	**(91.5)**	**1,116.0**
Investments, at equity	**646.2**	**475.4**	**3.3**	**1.6**	**4.9**	**3.3**	**23.3**	**26.6**
Derivatives and other invested assets:								
Equity total return swaps – long positions	**214.6**	**1.0**	**—**	**24.4**	**24.4**	**—**	**84.4**	**84.4**
Equity and equity index call options	**79.3**	**46.0**	**—**	**(2.3)**	**(2.3)**	**—**	**8.6**	**8.6**
Equity warrants	**127.5**	**71.6**	**—**	**18.9**	**18.9**	**—**	**230.9**	**230.9**
Total equity and equity related holdings	**6,156.5**	**5,682.9**	**28.5**	**157.4**	**185.9**	**1,210.8**	**255.7**	**1,466.5**
Hedging instruments:								
Derivatives and other invested assets:								
Equity total return swaps – short positions	**(232.2)**	**1.2**	**—**	**(2.4)**	**(2.4)**	**—**	**(26.8)**	**(26.8)**
Equity index total return swaps – short positions	**(1,582.7)**	**(9.2)**	**—**	**(81.7)**	**(81.7)**	**—**	**(72.8)**	**(72.8)**
	(1,814.9)	**(8.0)**	**—**	**(84.1)**	**(84.1)**	**—**	**(99.6)**	**(99.6)**
Net exposure and financial effects	**4,341.6**	**5,674.9**	**28.5**	**73.3**	**101.8**	**1,210.8**	**156.1**	**1,366.9**

	As of and for the period ended December 31, 2008							
			Fourth quarter			Year		
	Exposure / notional value	Carrying value	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)	Other comprehensive income (pre-tax)	Net earnings (pre-tax)	Net equity (pre-tax)
Equity exposures:								
Common stocks	4,241.2	4,241.2	(217.4)	(654.1)	(871.5)	(484.8)	(970.3)	(1,455.1)
Investments, at equity	575.3	219.3	—	(24.3)	(24.3)	—	(49.4)	(49.4)
Total equity and equity related holdings	4,816.5	4,460.5	(217.4)	(678.4)	(895.8)	(484.8)	(1,019.7)	(1,504.5)
Hedging instruments:								
Derivatives and other invested assets:								
Equity index total return swaps – short positions	—	—	—	680.2	680.2	—	1,349.4	1,349.4
Equity total return swaps – short positions	(1.3)	—	—	374.8	374.8	—	731.6	731.6
S&P 500 index call options	(518.4)	—	—	—	—	—	(2.3)	(2.3)
	(519.7)	—	—	1,055.0	1,055.0	—	2,078.7	2,078.7
Net exposure and financial effects	4,296.8	4,460.5	(217.4)	376.6	159.2	(484.8)	1,059.0	574.2

In the normal course of effecting its economic hedging strategy with respect to equity risk, the company expects that there may be periods where the notional value of the hedging instruments may exceed or be deficient relative to the company's exposure to the items being hedged. This situation may arise when management compensates for imperfect correlations between the hedging item and the hedged item or due to the timing of opportunities related to the company's ability to exit and enter hedges at attractive prices.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset will fluctuate because of changes in exchange rates and could produce an adverse effect on earnings and equity when measured in a company's functional currency. The company is exposed to foreign currency risk through transactions conducted in currencies other than the U.S. dollar, and also through its net investment in subsidiaries that have a functional currency other than the U.S. dollar. Long and short foreign exchange forward contracts primarily denominated in the pound sterling and the Canadian dollar are used to manage foreign currency exposure on foreign currency denominated transactions. Foreign currency denominated liabilities are generally used to manage the company's foreign currency exposures to net investments in self-sustaining foreign operations having a functional currency other than the U.S. dollar. The company's exposure to foreign currency risk was not materially different at December 31, 2009 compared to December 31, 2008, with the exception of the financial reporting hedge implemented for the company's net investment in Northbridge as described below.

In a net investment hedging relationship, the gains and losses relating to the effective portion of the hedge are recorded in other comprehensive income. The gains and losses relating to the ineffective portion of the hedge are recorded in net gains (losses) on investments in the consolidated statement of net earnings. Gains and losses in accumulated other comprehensive income are recognized in net earnings when the hedged net investment in foreign operations is reduced.

In the first quarter of 2009 Northbridge, which conducts business primarily in Canada, became a wholly owned subsidiary of Fairfax. As a self-sustaining operation with a Canadian dollar functional currency, the net assets of Northbridge represent a significant foreign currency exposure to Fairfax. In keeping with the company's foreign currency risk management objective of mitigating the impact of foreign currency rate fluctuations on its financial position, upon the completion of its issuance in August 2009 of Cdn$400.0 principal amount of Canadian dollar denominated senior notes due August 19, 2019, the company designated the carrying value of these notes as a hedge of a portion of its net investment in Northbridge for financial reporting purposes. In the fourth quarter and year ended December 31, 2009, the company recognized $8.9 and $18.3 respectively of foreign currency movement on the senior notes in changes in gains and losses on hedges of net investment in foreign subsidiary in the consolidated statement of comprehensive income. The financial impact of the foreign currency movements deferred in the currency translation account in accumulated other comprehensive income will remain deferred until such time that the net investment in Northbridge is reduced.

Liquidity Risk

Liquidity risk is the potential for loss if the company is unable to meet financial commitments in a timely manner at reasonable costs as they fall due. It is the company's policy to ensure that sufficient liquid assets are available to meet financial commitments, including liabilities to policyholders and debt holders, dividends on preferred shares and investment commitments. Key measures in this regard as at December 31, 2009 and 2008 are outlined in the capital structure and financial ratios table that follows.

Capital Structure and Liquidity

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

	December 31,	
	2009	2008
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**1,242.7**	1,555.0
Holding company debt	**1,236.9**	869.6
Subsidiary debt	**903.4**	910.2
Other long term obligations – holding company	**173.5**	187.7
Total debt	**2,313.8**	1,967.5
Net debt	**1,071.1**	412.5
Common shareholders' equity	**7,391.8**	4,866.3
Preferred equity	**227.2**	102.5
Non-controlling interests	**117.6**	1,382.8
Total equity and non-controlling interests	**7,736.6**	6,351.6
Net debt/total equity and non-controlling interests	**13.8%**	6.5%
Net debt/net total capital[(1)]	**12.2%**	6.1%
Total debt/total capital[(2)]	**23.0%**	23.7%
Interest coverage[(3)]	**8.2x**	16.4 x

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(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 (loss) from operations before income taxes and interest expense divided by interest expense.

Holding company debt (including other long term obligations) at December 31, 2009 increased by $353.1 to $1,410.4 from $1,057.3 at December 31, 2008, primarily reflecting the company's third quarter public debt offering of Cdn$400.0 principal amount of 7.50% unsecured senior notes due August 19, 2019, partially offset by debt repurchases and the repayment of $12.8 at maturity of its 6.15% secured loan.

Subsidiary debt at December 31, 2009 decreased by $6.8 to $903.4 from $910.2 at December 31, 2008, primarily reflecting a repayment by Ridley on its secured revolving term loan facilities.

On September 11, 2009, the company completed a public equity offering in which it issued 2,881,844 subordinate voting shares at $347.00 per share, for net proceeds after commissions and expenses (net of tax of $6.3) of $989.3. The net proceeds were applied to the company's completed privatization of OdysseyRe for the cash purchase price of $1,017.0 (as described in note 5).

At December 31, 2009 the company's consolidated net debt/net total capital ratio increased to 12.2% from 6.1% at December 31, 2008. The increase reflected primarily the decrease in holding company cash, short term investments and marketable securities (discussed in Financial Condition), the increases in retained earnings and accumulated other comprehensive income, the net increase in preferred equity as a result of the issuance of Series C preferred shares completed on October 5, 2009 and the redemption of Series A and Series B preferred shares on December 1, 2009 (as described in note 6), the decrease in non-controlling interests (primarily resulting from the Northbridge and OdysseyRe privatizations), and the increase in holding company debt as a result of the third quarter issuance of unsecured senior notes. The consolidated total debt/total capital ratio decreased to 23.0% at December 31, 2009 from 23.7% at December 31, 2008. The improvement related primarily to the effects of the above-mentioned increases in shareholders' equity, partially offset by the decrease in non-controlling interests (primarily resulting from the Northbridge and OdysseyRe privatizations) and the increase in holding company debt.

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 known obligations in 2010. In addition to these holding company resources, the holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries, investment income on its holdings of cash, short term investments and marketable securities, and dividends from its insurance and reinsurance subsidiaries. During the fourth quarter (on October 5, 2009, as described in note 6) the company received the net proceeds of $227.2 from the issuance of Series C preferred shares. During the fourth quarter, on October 28, 2009, the company completed the OdysseyRe privatization for the cash purchase price of $1,017.0 (as described in note 5). On December 1, 2009, the company redeemed its remaining Series A and Series B preferred shares (as described in note 6) for cash of $143.8. The holding company's known significant obligations for 2010 consist of interest and corporate overhead expenses, common and preferred share dividends and income tax payments. Subsequent to the year-end, significant cash movements included payment of the company's annual common share dividend ($201.2) and receipt of the net proceeds of $183.1 (Cdn$195.3) from the issuance of Series E preferred shares in the first quarter of 2010.

Primarily as a result of the company's third quarter issuance of subordinate voting shares (net proceeds of $989.3), net earnings of $856.8 and the effect of increased accumulated other comprehensive income (an increase of $1,000.9 in the year, primarily reflecting a net increase in unrealized gains on available for sale securities and unrealized foreign currency translation gains), partially offset by the company's dividend payments on its common shares and preferred shares during 2009, shareholders' equity at December 31, 2009 increased by $2,650.2 to $7,619.0 from $4,968.8 at December 31, 2008. Common shareholders' equity at December 31, 2009 was $7,391.8 or $369.80 per basic share (excluding the unrecorded $170.8 excess of fair value over the carrying value of investments carried at equity) compared to $278.28 per basic share (excluding the unrecorded $356.0 excess of fair value over the carrying value of investments carried at equity) at the end of 2008, representing an increase per basic share in 2009 of 32.9% (without adjustment for the $8.00 per common share dividend paid in the first quarter of 2009, or 35.4% adjusted to include that dividend). During 2009, the number of basic shares increased primarily as a result of the company's September 11, 2009 issuance of 2,881,844 subordinate voting shares at $347.00 per share, partially offset by the repurchase of 360,100 subordinate voting shares. At December 31, 2009 there were 19,988,870 common shares effectively outstanding.

Contractual Obligations

Details of the company's material contractual obligations (including financial liabilities and credit and liquidity commitments) which give rise to commitments of future payments affecting the company's short term and long term liquidity and capital resource needs are provided on page 149 of the company's 2008 Annual Report. The following table provides a payment schedule of current and future obligations (holding company and subsidiaries) as at December 31, 2009.

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Gross claims liability	3,412.7	4,240.0	2,343.0	4,751.4	14,747.1
Long term debt obligations – principal	1.8	181.0	225.2	1,774.9	2,182.9
Long term debt obligations – interest	156.8	306.3	268.0	647.8	1,378.9
Operating leases – obligations	51.7	66.9	36.3	79.4	234.3
Other long term liabilities – principal	6.1	10.8	9.5	147.1	173.5
Other long term liabilities – interest	15.0	28.3	26.7	44.0	114.0
	3,644.1	4,833.3	2,908.7	7,444.6	18,830.7

International Financial Reporting Standards ("IFRS")

Canadian public companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for fiscal years beginning on or after January 1, 2011. The company will report its financial results for the year ending December 31, 2011 and its quarterly unaudited interim financial results commencing with the quarter ending March 31, 2011 in accordance with IFRS. The company will also provide comparative data on an IFRS basis, including an opening balance sheet as at January 1, 2010. With the adoption of IFRS, the company will no longer provide a reconciliation of its financial results to U.S. GAAP.

In 2008 the company established a steering committee, a project team and working groups to manage the adoption and implementation of IFRS. The project team developed a conversion plan (described below) and provides regular updates to management, the Steering Committee and the Audit Committee on the execution of this plan. Education sessions have been, and continue to be, provided for employees, management and the Audit Committee to increase knowledge and awareness of IFRS and its impact.

The company's IFRS conversion plan consists of four phases: Preliminary Impact Assessment, Detailed Planning, Execution and Post-Implementation Review. The company has completed the first two phases and continues its work on the Execution phase, which it expects to complete by mid-2010. In working through the Detailed Planning phase, the company reviewed current requirements under IFRS, identified a number of potential measurement differences between IFRS and Canadian GAAP, and considered accounting policy choices along with available first-time adopter implementation exemptions. Management has made and continues to make presentations to the company's Audit Committee identifying the IFRSs (both current and expected) that it believes will have the most significant impact on the company's consolidated financial statements. These presentations include an overview of these various IFRSs, ongoing changes to IFRSs, alternative accounting policies available under IFRS, optional exemptions for the application of the standards available to first-time adopters and the identification of the operating groups expected to be impacted most significantly by the adoption of IFRS.

With a project of this scale and significance to the company's financial reporting, it is critical that the company continue to carefully assess the impact of any changes in requirements and processes on the adequacy of its financial reporting systems and internal controls, including information technology and disclosure controls. A significant amount of effort to adopt and comply with IFRS is required.

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures that need to be addressed. Throughout the project the company is monitoring discussion papers, exposure drafts and standards released by the IASB and the International Financial Reporting Interpretations Committee. The company assesses the impact of the proposed standards on its financial statements and disclosure as additional information becomes available.

Management's assessment to date has identified the following areas expected to be most affected by the transition to IFRS based on IFRSs currently in force: the measurement of financial assets, insurance contracts, and employee benefits.

Many IFRSs are currently undergoing modification or are yet to be issued for the first time. For example, in response to financial reporting issues emerging from the global financial crisis, the IASB is revising or replacing existing IFRS standards that address many of these areas. The IASB plans to replace its existing financial instruments standard in several phases. The first phase was recently completed with the publication of IFRS 9 – Financial Instruments, which addresses the classification and measurement of financial assets, including investment securities. The new accounting model eliminates the available for sale and held to maturity categories, and the need to bifurcate embedded derivatives: it measures hybrid contracts as a whole at fair value through profit and loss ("FVTPL"). Equity instruments are measured at FVTPL by default. An option is available to measure equities that are not held for trading at fair value through other comprehensive income ("FVTOCI") without recycling of gains and losses to the income statement. Dividend income on equity instruments measured at FVTOCI would be recognized in the income statement. Fixed income investments are measured at amortized cost if both of the following criteria are met: 1) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. While this new standard is not mandatory until January 1, 2013, the company is considering early adoption in an attempt to simplify its accounting of financial instruments and to streamline its conversion process.

The second phase of the IASB's financial instruments revision will amend the recognition and measurement requirements for impairment of financial instruments recorded at amortized cost. The IASB issued an Exposure Draft – Financial Instruments: Amortized Cost and Impairment on November 5, 2009. If this standard is finalized as currently drafted, only financial assets measured at amortized cost would be tested for impairment, using an expected credit loss model. Currently, an incurred credit loss model is applied to determine impairment. The final standard is expected to be issued in the fourth quarter of 2010 with mandatory adoption no earlier than January 1, 2013.

The third phase of the IASB's financial instruments revision will address hedge accounting. The IASB is scheduled to issue an exposure draft on this topic in the first quarter of 2010, with the final standard expected to be issued in the second half of 2010.

Another area where the company anticipates that the adoption of IFRS will have a significant impact is accounting for insurance contracts. The company is limited in its ability to estimate the impact that this standard will have on its financial reporting until a conclusion on the measurement model used for insurance contracts is reached by the IASB. The Exposure Draft – IFRS 4 – Insurance Contracts Phase II is expected to be issued in May 2010 and the final standard is expected to be issued in June 2011.

Lastly, the IASB (along with the Financial Accounting Standards Board ("FASB") in the U.S.) is developing a new accounting standard for employee benefits with the intent of improving accounting for defined benefit pension costs and obligations. The current IFRS is similar to both Canadian and US GAAP and allows the use of the corridor method to determine pension expense for defined benefit pension plans. This approach allows for the deferral and amortization of certain actuarial gains and losses to future accounting periods when determining pension expense (the "corridor method"). Both the IASB and FASB have agreed that the corridor method should be eliminated but have not concluded whether these actuarial gains and losses should be recognized in the period in which they occur directly in other comprehensive income or net earnings. The IASB is scheduled to issue an exposure draft on this topic in the first quarter of 2010 with the final standard expected to be issued in the first half of 2011.

As a result of the changes described above and anticipated changes to IFRS both prior and subsequent to the company's transition date, combined with changing market conditions, the financial impacts of the adoption of IFRS by the company cannot be reasonably quantified at this time.

The company has evaluated its financial information systems and the financial reporting impact of the issues identified in the Preliminary Impact Assessment and Detailed Planning phases. Based on IFRSs currently in force, management has concluded that the company's underlying financial information systems and control processes are appropriately designed and properly functioning. It is conceivable that system requirements may arise that could necessitate significant revision to the company's systems as a result of the recently proposed changes for the determination of impairment of financial assets carried at amortized cost and the yet to be defined requirements expected in Exposure Draft – IFRS 4 – Insurance Contracts Phase II. Management continues to monitor the ability of the company's systems and processes to meet these potential requirements.

The company continues through the Execution phase of its conversion plan, building on the detailed analysis and evaluation of the financial information systems and the financial reporting impact of the issues identified in the Preliminary Impact Assessment and Detailed Planning phases. The company's auditors are in the process of reviewing the company's analysis and documentation of identified measurement differences between Canadian GAAP and IFRS. Management believes that the company continues to track well with its IFRS conversion plan as approved by the Audit Committee.

Lawsuits Seeking Class Action Status

There have been no material developments on this matter beyond the disclosure in note 13 to the consolidated financial statements in the company's 2008 Annual Report. For a full description of this matter, please see "Lawsuits" in note 10 to the consolidated financial statements.

Comparative Quarterly Data (unaudited)

	December 31, 2009	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Revenue	**1,407.3**	**2,213.4**	**1,735.5**	**1,279.4**	2,048.7	2,162.9	1,243.5	2,370.5
Net earnings (loss)	**79.4**	**562.4**	**275.4**	**(60.4)**	346.8	467.6	27.6	631.8
Net earnings (loss) per share	**$ 1.66**	**$ 31.04**	**$ 15.65**	**$ (3.55)**	$ 19.73	$ 25.40	$ 0.84	$ 34.72
Net earnings (loss) per diluted share	**$ 1.65**	**$ 30.88**	**$ 15.56**	**$ (3.55)**	$ 19.62	$ 25.27	$ 0.84	$ 33.78

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 releases and 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, the timing of which are not predictable.

Fairfax's 2009 Annual Report is scheduled to be posted on its website www.fairfax.ca after the close of markets on Friday, March 5, 2010 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.

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