Consolidated Financial Statements

for the fourth quarter and full year

2010 and 2009

(unaudited)

CONSOLIDATED BALANCE SHEETS
as at December 31, 2010 and 2009
(unaudited – US$ millions)

	2010	2009[1]
Assets		
Holding company cash, short term investments and marketable securities (including assets pledged for short sale and derivative obligations – $137.4; 2009 – $78.9)	**1,540.7**	1,251.6
Accounts receivable and other	**1,802.3**	1,805.0
Income taxes receivable	**216.8**	50.4
Recoverable from reinsurers (including recoverables on paid losses – $238.1; 2009 – $255.1)	**3,993.8**	3,818.6
	7,553.6	6,925.6
Portfolio investments		
Subsidiary cash and short term investments (cost $3,513.9; 2009 – $3,230.6)	**3,513.9**	3,244.8
Bonds (cost $11,865.8; 2009 – $10,742.0)	**11,748.2**	10,918.3
Preferred stocks (cost $581.3; 2009 – $292.4)	**583.9**	292.8
Common stocks (cost $3,202.8; 2009 – $4,082.4)	**4,131.3**	4,895.0
Investments, at equity (fair value $976.9; 2009 – $604.3)	**715.5**	433.5
Derivatives and other invested assets (cost $403.9; 2009 – $122.5)	**579.4**	142.7
Assets pledged for short sale and derivative obligations (cost $725.1; 2009 – $149.2)	**709.6**	151.5
	21,981.8	20,078.6
Deferred premium acquisition costs	**357.0**	372.0
Future income taxes	**514.4**	318.7
Premises and equipment	**197.6**	168.6
Goodwill and intangible assets	**949.1**	438.8
Other assets	**184.7**	149.7
	31,738.2	28,452.0
Liabilities		
Subsidiary indebtedness	**2.2**	12.1
Accounts payable and accrued liabilities	**1,269.6**	1,238.1
Income taxes payable	**25.4**	70.9
Short sale and derivative obligations (including at the holding company – $66.5; 2009 – $8.9)	**216.9**	57.2
Funds withheld payable to reinsurers	**363.2**	354.9
	1,877.3	1,733.2
Provision for claims	**16,270.3**	14,766.7
Unearned premiums	**2,120.9**	1,913.8
Long term debt – holding company borrowings	**1,498.1**	1,236.9
Long term debt – subsidiary company borrowings	**917.7**	891.3
Other long term obligations – holding company	**311.5**	173.5
	21,118.5	18,982.2
Contingencies (note 10)		
Equity		
Common shareholders' equity	**7,761.9**	7,391.8
Preferred stock	**934.7**	227.2
Shareholders' equity attributable to shareholders of Fairfax	**8,696.6**	7,619.0
Non-controlling interests	**45.8**	117.6
Total equity	**8,742.4**	7,736.6
	31,738.2	28,452.0

(1) Refer to note 2 for impact of new accounting policies.

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS
for the three and twelve months ended December 31, 2010 and 2009
(unaudited – US$ millions except per share amounts)

	Fourth quarter		Year ended December 31,	
	2010	2009[1]	**2010**	2009[1]
Revenue				
Gross premiums written	**1,260.0**	1,165.7	**5,362.9**	5,094.0
Net premiums written	**1,073.3**	990.5	**4,449.0**	4,286.1
Net premiums earned	**1,210.9**	1,115.1	**4,580.6**	4,422.0
Interest and dividends	**180.7**	172.4	**762.4**	712.7
Net gains (losses) on investments	**(683.9)**	(30.3)	**188.5**	944.5
Excess of fair value of net assets acquired over purchase price	**(0.4)**	—	**83.1**	—
Other revenue	**159.3**	150.1	**549.1**	556.4
	866.6	1,407.3	**6,163.7**	6,635.6
Expenses				
Losses on claims	**891.8**	839.2	**3,409.0**	3,186.9
Operating expenses	**271.4**	210.9	**961.3**	831.7
Commissions, net	**178.5**	182.7	**707.5**	701.1
Interest expense	**52.9**	49.3	**195.4**	166.3
Other expenses	**151.5**	142.0	**538.8**	544.0
	1,546.1	1,424.1	**5,812.0**	5,430.0
Earnings (loss) from operations before income taxes	**(679.5)**	(16.8)	**351.7**	1,205.6
Income taxes	**(316.2)**	(100.0)	**(119.5)**	214.9
Net earnings (loss)	**(363.3)**	83.2	**471.2**	990.7
Attributable to:				
Shareholders of Fairfax	**(364.6)**	79.4	**469.0**	856.8
Non-controlling interests	**1.3**	3.8	**2.2**	133.9
	(363.3)	83.2	**471.2**	990.7
Net earnings (loss) per share	**$ (18.43)**	$ 1.66	**$ 21.41**	$ 43.99
Net earnings (loss) per diluted share	**$ (18.43)**	$ 1.65	**$ 21.31**	$ 43.75
Cash dividends paid per share	**$ —**	$ —	**$ 10.00**	$ 8.00
Shares outstanding (000) (weighted average)	**20,474**	20,177	**20,436**	18,301

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three and twelve months ended December 31, 2010 and 2009
(unaudited – US$ millions)

	Fourth quarter		Year ended December 31,	
	2010	2009[1]	**2010**	2009[1]
Net earnings (loss)	**(363.3)**	83.2	**471.2**	990.7
Other comprehensive income (loss), net of income taxes				
Change in net unrealized gains (losses) on available for sale securities[2]	**(68.8)**	(22.2)	**363.1**	925.9
Reclassification of net realized (gains) losses to net earnings[3]	**(60.2)**	(81.2)	**(492.9)**	(47.6)
Share of other comprehensive income (loss) of investments, at equity[4]	**11.1**	—	**14.5**	8.2
Change in unrealized foreign currency translation gains (losses)[5]	**66.3**	39.2	**122.3**	213.3
Change in gains and losses on hedges of net investment in foreign subsidiary[6]	**(21.3)**	(11.9)	**(28.2)**	(25.5)
Other comprehensive income (loss), net of income taxes	**(72.9)**	(76.1)	**(21.2)**	1,074.3
Comprehensive income (loss)	**(436.2)**	7.1	**450.0**	2,065.0
Attributable to:				
Shareholders of Fairfax	**(437.6)**	5.2	**447.7**	1,824.9
Non-controlling interests	**1.4**	1.9	**2.3**	240.1
	(436.2)	7.1	**450.0**	2,065.0

(1) Refer to note 2 for impact of new accounting policies.

(2) Net of income tax recovery of $51.4 (2009 – $20.3) and income tax expense of $144.2 (2009 – $417.3) for the fourth quarter and year ended December 31, 2010, respectively.

(3) Net of income tax recovery of $25.6 (2009 – $39.5) and $207.6 (2009 – $47.2) for the fourth quarter and year ended December 31, 2010, respectively.

(4) Net of income tax expense of $2.5 (2009 – income tax recovery of $0.4) and $3.2 (2009 – nil) for the fourth quarter and year ended December 31, 2010, respectively.

(5) Net of income tax expense of $6.3 (2009 – $6.3) and $11.2 (2009 – income tax recovery of $22.0) for the fourth quarter and year ended December 31, 2010, respectively.

(6) Net of income tax recovery of nil (2009 – $1.2) and nil (2009 – $2.8) for the fourth quarter and year ended December 31, 2010, respectively.

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2010 and 2009
(unaudited – US$ millions)

	2010	2009[1]
Common stock –		
Subordinate voting shares – beginning of year	**3,054.8**	2,121.1
Issuances during the year	**199.8**	989.3
Purchases for cancellation	**(7.1)**	(55.6)
Subordinate voting shares – end of year	**3,247.5**	3,054.8
Multiple voting shares – beginning and end of year	**3.8**	3.8
Common stock	**3,251.3**	3,058.6
Treasury shares (at cost) – beginning of year	**(28.7)**	(22.7)
Net acquisitions	**(23.7)**	(6.0)
Treasury shares (at cost) – end of year	**(52.4)**	(28.7)
Share-based compensation – beginning of year	**—**	—
Amortization to net earnings during the year	**3.2**	—
Share-based compensation – end of year	**3.2**	—
Retained earnings – beginning of year	**3,468.8**	2,871.9
Net earnings for the year	**469.0**	856.8
Excess over stated value of common shares purchased for cancellation	**(9.7)**	(67.3)
Excess over stated value of preferred shares purchased for cancellation	**—**	(41.3)
Common share dividends	**(200.8)**	(140.8)
Preferred share dividends	**(31.4)**	(10.5)
Retained earnings – end of year	**3,695.9**	3,468.8
Accumulated other comprehensive income (loss) – beginning of year	**893.1**	(107.8)
Application of the equity method of accounting	**(7.9)**	32.8
Other comprehensive income (loss), net of income taxes:		
Change in net unrealized gains (losses) on available for sale securities	**363.1**	804.5
Reclassification of net realized (gains) losses to net earnings	**(492.9)**	(41.1)
Share of other comprehensive income (loss) of investments, at equity	**14.5**	8.2
Change in unrealized foreign currency translation gains (losses)	**122.2**	222.0
Change in gains and losses on hedge of net investment in foreign subsidiary	**(28.2)**	(25.5)
Other comprehensive income (loss), net of income taxes	**(21.3)**	968.1
Accumulated other comprehensive income – end of year	**863.9**	893.1
Common shareholders' equity	**7,761.9**	7,391.8
Preferred stock –		
Series A – beginning of year	**—**	38.4
Purchases for cancellation	**—**	(38.4)
Series A – end of year	**—**	—
Series B – beginning of year	**—**	64.1
Purchases for cancellation	**—**	(64.1)
Series B – end of year	**—**	—
Series C – beginning of year	**227.2**	—
Issuances during the year	**—**	227.2
Series C – end of year	**227.2**	227.2
Series E – beginning of year	**—**	—
Issuances during the year	**183.1**	—
Series E – end of year	**183.1**	—
Series G – beginning of year	**—**	—
Issuances during the year	**235.9**	—
Series G – end of year	**235.9**	—
Series I – beginning of year	**—**	—
Issuances during the year	**288.5**	—
Series I – end of year	**288.5**	—
Preferred stock	**934.7**	227.2
Shareholders' equity attributable to shareholders of Fairfax	**8,696.6**	7,619.0
Non-controlling interests – beginning of year	**117.6**	1,382.8
Net earnings for the year	**2.2**	133.9
Application of the equity method of accounting	**—**	4.7
Other comprehensive income (loss), net of income taxes:		
Change in net unrealized gains (losses) on available for sale securities	**—**	121.4
Reclassification of net realized (gains) losses to net earnings	**—**	(6.5)
Change in unrealized foreign currency translation gains (losses)	**0.1**	(8.7)
Other comprehensive income (loss), net of income taxes	**0.1**	106.2
Common share dividends	**—**	(7.3)
Net changes in capitalization	**(4.8)**	(1,493.8)
Other	**(69.3)**	(8.9)
Non-controlling interests – end of year	**45.8**	117.6
Total equity	**8,742.4**	7,736.6

(1) Refer to note 2 for impact of new accounting policies.

See accompanying notes.

	2010	2009
Number of shares outstanding		
Common stock –		
Subordinate voting shares – beginning of year	**19,240,100**	16,738,055
Issuances during the year	**563,381**	2,881,844
Purchases for cancellation	**(43,900)**	(360,100)
Net treasury shares acquired	**(53,104)**	(19,699)
Subordinate voting shares – end of year	**19,706,477**	19,240,100
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	**20,455,247**	19,988,870
Preferred stock –		
Series A – beginning of year	**—**	2,250,000
Purchases for cancellation	**—**	(2,250,000)
Series A – end of year	**—**	—
Series B – beginning of year	**—**	3,750,000
Purchases for cancellation	**—**	(3,750,000)
Series B – end of year	**—**	—
Series C – beginning of year	**10,000,000**	—
Issuances during the year	**—**	10,000,000
Series C – end of year	**10,000,000**	10,000,000
Series E – beginning of year	**—**	—
Issuances during the year	**8,000,000**	—
Series E – end of year	**8,000,000**	—
Series G – beginning of year	**—**	—
Issuances during the year	**10,000,000**	—
Series G – end of year	**10,000,000**	—
Series I – beginning of year	**—**	—
Issuances during the year	**12,000,000**	—
Series I – end of year	**12,000,000**	—

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and twelve months ended December 31, 2010 and 2009
(unaudited – US$ millions)

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Operating activities				
Net earnings (loss)	**(363.3)**	83.2	**471.2**	990.7
Amortization of premises and equipment and intangible assets	**13.4**	8.2	**46.3**	35.8
Net bond discount amortization	**(14.0)**	(8.3)	**(36.9)**	(29.5)
Earnings on investments, at equity	**(19.2)**	(1.6)	**(50.9)**	(23.3)
Future income taxes	**(154.2)**	(101.2)	**(114.7)**	12.8
Loss on significant commutations	**—**	(17.5)	**—**	3.6
Net gains on available for sale securities	**(88.7)**	(139.3)	**(780.9)**	(111.2)
Other net losses (gains) on investments	**772.6**	169.6	**592.4**	(833.3)
Excess of fair value of net assets acquired over purchase price	**0.4**	—	**(83.1)**	—
	147.0	(6.9)	**43.4**	45.6
Changes in operating assets and liabilities (note 16)	**(182.0)**	(163.0)	**(9.9)**	(764.8)
Cash provided by (used in) operating activities	**(35.0)**	(169.9)	**33.5**	(719.2)
Investing activities				
Net (purchases) sales of assets and liabilities classified as held for trading	**(625.0)**	161.1	**(985.9)**	320.4
Net sales (purchases) of securities designated as held for trading	**112.8**	(2,035.6)	**779.0**	(2,657.0)
Available for sale securities – purchases	**(1,169.5)**	(800.3)	**(5,722.0)**	(7,048.6)
– sales	**1,015.4**	1,644.0	**6,957.3**	10,363.0
Net (increase) decrease in restricted cash and cash equivalents	**(32.2)**	36.3	**(22.4)**	38.9
Net (purchases) sales of investments, at equity	**145.5**	(4.5)	**(214.8)**	(58.4)
Net purchases of premises and equipment and intangible assets	**(14.5)**	(32.1)	**(38.6)**	(49.1)
Net purchases of subsidiaries, net of cash acquired	**29.1**	(1,015.9)	**(454.9)**	(1,643.6)
Cash provided by (used in) investing activities	**(538.4)**	(2,047.0)	**297.7**	(734.4)
Financing activities				
Subsidiary indebtedness				
Issuances	**5.2**	0.4	**20.5**	8.2
Repayment	**(13.5)**	(4.6)	**(31.0)**	(21.0)
Long term debt – holding company				
Issuances	**—**	—	**269.6**	362.0
Issuance costs	**—**	(0.4)	**(1.8)**	(3.4)
Repayment	**—**	—	**—**	(13.8)
Long term debt – subsidiary companies				
Consent solicitation costs	**—**	—	**(6.0)**	—
Repayment	**(0.6)**	(0.5)	**(21.9)**	(1.4)
Other long term obligations – holding company repayment	**(1.4)**	(1.3)	**(5.8)**	(10.9)
Net (repurchases) issuances of subsidiary securities	**(70.6)**	3.2	**(75.0)**	(96.6)
Subordinate voting shares				
Issuances	**—**	—	**200.0**	1,000.0
Issuance costs	**—**	(0.8)	**(0.3)**	(17.0)
Repurchases	**(14.1)**	(112.4)	**(16.8)**	(122.9)
Preferred shares				
Issuances	**295.0**	232.3	**724.0**	232.3
Issuance costs	**(9.0)**	(7.3)	**(22.8)**	(7.3)
Repurchases	**—**	(143.8)	**—**	(143.8)
Purchase of subordinate voting shares for treasury	**(0.4)**	—	**(26.8)**	(12.8)
Common share dividends	**—**	—	**(200.8)**	(140.8)
Preferred share dividends	**(12.8)**	(4.6)	**(31.4)**	(10.5)
Dividends paid to non-controlling interests	**—**	—	**—**	(7.3)
Cash provided by (used in) financing activities	**177.8**	(39.8)	**773.7**	993.0
Foreign currency translation	**12.6**	(14.8)	**13.3**	91.8
Increase (decrease) in cash and cash equivalents	**(383.0)**	(2,271.5)	**1,118.2**	(368.8)
Cash and cash equivalents – beginning of period	**3,658.1**	4,428.4	**2,156.9**	2,525.7
Cash and cash equivalents – end of period	**3,275.1**	2,156.9	**3,275.1**	2,156.9
Cash and cash equivalents are included in the consolidated balance sheet as follows:				
Holding company cash and short term investments (including assets pledged for short sale and derivative obligations)	**337.3**	139.9	**337.3**	139.9
Subsidiary cash and short term investments (including assets pledged for short sale and derivative obligations)	**3,036.7**	2,093.3	**3,036.7**	2,093.3
Subsidiary restricted cash and short term investments	**(98.9)**	(76.3)	**(98.9)**	(76.3)
	3,275.1	2,156.9	**3,275.1**	2,156.9
Supplementary information				
Interest paid	**69.5**	63.7	**186.3**	148.5
Taxes paid (received)	**(44.6)**	80.1	**182.6**	823.3

See accompanying notes.

Notes to Consolidated Financial Statements
for the three and twelve months ended December 31, 2010 and 2009
(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, 2009. 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, 2009 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.

The holding company is a financial holding company with significant liquid resources that are generally not restricted by insurance regulators. The operating subsidiaries are primarily insurers and reinsurers that are often subject to a wide variety of insurance and other laws and regulations that vary by jurisdiction and are intended to protect policyholders rather than investors. These laws and regulations may limit the ability of operating subsidiaries to pay dividends or make distributions to parent companies. The company's consolidated balance sheet and consolidated statement of cash flows therefore makes a distinction in classification between the holding company and the operating subsidiaries for cash and short term investments and long term debt, to provide additional insight into the company's liquidity, financial leverage and capital structure.

2. Summary of Significant Accounting Policies

Comparative figures

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

Changes to the application of the equity method of accounting

On December 17, 2010, the company decreased its ownership of International Coal Group, Inc. ("ICG") from 22.2% to 11.1% through participation in an underwritten public offering of ICG's common stock. Pursuant to this transaction, the company sold 22,577,800 common shares of ICG for cash proceeds of $163.9 (net of expenses of the offering) and recorded net gains on investments of $77.9. Subsequent to this transaction, the company discontinued recording its residual investment in ICG using the equity method of accounting and commenced classifying it on a prospective basis as available for sale within common stocks after it concluded that it no longer exercised significant influence over ICG.

On July 15, 2010, the company exercised rights it had acquired and fulfilled certain obligations pursuant to a standby purchase agreement which resulted in the purchase by the company and its affiliates of 16,144,861 common shares of Fibrek Inc. ("Fibrek") for cash consideration of $15.7, that when aggregated with common shares already owned by the company and its affiliates represented 25.8% of the total common shares of Fibrek outstanding. Accordingly, the company commenced recording its investment in the common shares of Fibrek using the equity method of accounting on a prospective basis.

On March 31, 2010, in connection with its participation in the recapitalization of MEGA Brands Inc. ("MEGA"), the company received newly issued common shares, warrants and debentures of MEGA, as consideration for an additional investment in MEGA and for the cancellation of a convertible debenture which the company had acquired in August 2008. Immediately following the receipt of the recapitalization proceeds, the company sold a portion of the newly issued common shares, warrants and debentures of MEGA to a third party and determined that its remaining 16.5% interest in MEGA combined with its responsibility pursuant to the recapitalization agreement to represent the holders of the newly issued debentures through the nomination of three members to MEGA's board of directors, effectively resulted in the company being deemed to exercise significant influence over MEGA. Accordingly, on March 31, 2010, the company commenced recording its investment in the common shares of MEGA using the equity method of accounting on a prospective basis.

The impact on the consolidated balance sheet and the consolidated statement of earnings of the changes described in the preceding paragraphs on the dates specified below were as follows:

	ICG	Fibrek	MEGA	Total
Date equity method commenced:	—	July 15, 2010	March 31, 2010	
Date equity method discontinued:	December 17, 2010	—	—	
Portfolio investments:				
Subsidiary cash and short term investments	163.9	—	(41.2)	122.7
Bonds	—	—	7.8	7.8
Common stocks	159.9	(32.1)	—	127.8
Investments, at equity	(172.1)	20.3	26.5	(125.3)
Derivatives and other invested assets	—	—	6.9	6.9
Future income taxes	(20.4)	3.9	—	(16.5)
Accumulated other comprehensive income (loss)	53.4	(7.9)	—	45.5
Net gains (losses) on investments	77.9	—	—	77.9

Changes in accounting policies

Effective January 1, 2010, the company elected to early adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582, Business Combinations ("Section 1582"), Section 1601, Consolidated Financial Statements ("Section 1601") and Section 1602, Non-Controlling Interests ("Section 1602"). In accordance with the transitional provisions, these Handbook Sections were applied on a prospective basis, with the exception of the presentation and disclosure requirements for non-controlling interests which were applied retrospectively. The adoption of these Handbook Sections did not have a significant impact on the company's consolidated financial statements other than the reclassifications of non-controlling interests, as described below.

Pursuant to Section 1582 (equivalent to IFRS 3 "Business Combinations") business combinations completed on or after January 1, 2010 were accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the consideration transferred in a business combination is measured at fair value at the date of acquisition. This consideration includes any cash paid plus the fair value at the date of exchange of assets given, liabilities incurred and equity instruments issued by the company or its subsidiaries. The consideration transferred also includes contingent consideration arrangements recorded at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within operating expenses. At the date of acquisition, the company recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the fair value of consideration paid is less than the fair value of net assets acquired, the excess is recognized in the consolidated statement of earnings. Any pre-existing equity interests in an acquiree are re-measured to fair value at the date of the business combination and any resulting gain or loss is recognized in the consolidated statement of earnings.

Business combinations completed prior to January 1, 2010 were accounted for using the purchase method under previous Canadian GAAP. The fundamental requirements of the purchase method of accounting are similar to the acquisition method of accounting described above except that, among other differences, the purchase method required that share consideration issued by the acquirer be measured by reference to its market price for a reasonable period before and after the acquisition was announced, acquisition-related costs were included as part of the fair value of the purchase consideration, contingent consideration was generally not recognized initially as part of the consideration transferred, and identifiable assets acquired and liabilities assumed were adjusted to reflect fair values only to the extent of the acquirer's interest in the aquiree when that interest was less than 100 percent. Furthermore, where the fair value of consideration paid was less than the fair value of net assets acquired, the excess amount was first deducted proportionally from the purchase price allocated to certain acquired non-current assets until their carrying amounts were reduced to nil. Only then was any remaining excess recognized in the consolidated statement of earnings.

A non-controlling interest may be measured at fair value or at the proportionate share of identifiable net assets acquired. Under previous Canadian GAAP, a non-controlling interest was recorded at the proportionate share of the carrying value of the acquiree.

Section 1601 carried forward existing guidance on aspects of the preparation of consolidated financial statements subsequent to the acquisition date other than those pertaining to a non-controlling interest. Section 1602 provided guidance on the treatment of a non-controlling interest after acquisition in a business combination and required: a non-controlling interest to be presented clearly in equity, but separately from the parent's equity; the amount of consolidated net earnings and other comprehensive income attributable to the parent and to a non-controlling interest to be clearly identified and presented on the consolidated statements of earnings and comprehensive income respectively; and changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control to be accounted for as an equity transaction.

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, 2010					December 31, 2009				
	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	**337.3**	**111.3**	**—**	**—**	**448.6**	115.4	227.5	28.5	—	371.4
Cash and short term investments pledged for short sale and derivative obligations	**—**	**137.4**	**—**	**—**	**137.4**	24.5	30.0	24.4	—	78.9
Bonds	**—**	**268.0**	**245.5**	**—**	**513.5**	—	368.5	34.7	—	403.2
Preferred stocks	**—**	**43.4**	**—**	**—**	**43.4**	—	64.8	—	—	64.8
Common stocks	**—**	**2.8**	**340.4**	**—**	**343.2**	—	1.7	234.1	—	235.8
Derivatives	**54.6**	**—**	**—**	**—**	**54.6**	97.5	—	—	—	97.5
	391.9	**562.9**	**585.9**	**—**	**1,540.7**	237.4	692.5	321.7	—	1,251.6
Short sale and derivative obligations	**(66.5)**	**—**	**—**	**—**	**(66.5)**	(8.9)	—	—	—	(8.9)
	325.4	**562.9**	**585.9**	**—**	**1,474.2**	228.5	692.5	321.7	—	1,242.7
Portfolio investments:										
Cash and short term investments	**3,022.1**	**491.8**	**—**	**—**	**3,513.9**	2,093.3	803.8	347.7	—	3,244.8
Bonds	**—**	**6,011.8**	**5,736.4**	**—**	**11,748.2**	—	6,628.2	4,290.1	—	10,918.3
Preferred stocks	**—**	**541.9**	**42.0**	**—**	**583.9**	—	261.1	31.7	—	292.8
Common stocks	**—**	**262.5**	**3,868.8**	**—**	**4,131.3**	—	132.3	4,762.7	—	4,895.0
Investments, at equity	**—**	**—**	**—**	**715.5**	**715.5**	—	—	—	433.5	433.5
Derivatives	**547.8**	**—**	**—**	**—**	**547.8**	127.7	—	—	—	127.7
Other invested assets	**—**	**—**	**—**	**31.6**	**31.6**	—	—	—	15.0	15.0
	3,569.9	**7,308.0**	**9,647.2**	**747.1**	**21,272.2**	2,221.0	7,825.4	9,432.2	448.5	19,927.1
Assets pledged for short sale and derivative obligations:										
Cash and short term investments	**14.6**	**—**	**—**	**—**	**14.6**	—	4.6	—	—	4.6
Bonds	**—**	**417.9**	**277.1**	**—**	**695.0**	—	84.1	62.8	—	146.9
	14.6	**417.9**	**277.1**	**—**	**709.6**	—	88.7	62.8	—	151.5
	3,584.5	**7,725.9**	**9,924.3**	**747.1**	**21,981.8**	2,221.0	7,914.1	9,495.0	448.5	20,078.6
Short sale and derivative obligations	**(150.4)**	**—**	**—**	**—**	**(150.4)**	(48.3)	—	—	—	(48.3)
	3,434.1	**7,725.9**	**9,924.3**	**747.1**	**21,831.4**	2,172.7	7,914.1	9,495.0	448.5	20,030.3

Restricted cash and cash equivalents at December 31, 2010 of $98.9 ($76.3 at December 31, 2009) 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 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.

At December 31, 2010, the company classified U.S. state and municipal bonds of $890.6 ($996.6 at December 31, 2009) which were purchased prior to September 30, 2008 as available for sale. U.S. state and municipal bonds of $4,535.0 ($4,501.2 at December 31, 2009) which were acquired subsequent to September 30, 2008 have been designated as held for trading.

At December 31, 2010, the consolidated balance sheet includes $801.1 ($825.7 at December 31, 2009) 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, 2010				December 31, 2009			
	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
U.S. treasury	—	—	—	—	28.5	—	—	28.5
	—	—	—	—	52.9	—	—	52.9
Bonds:								
U.S. treasury	**246.5**	**1.7**	**(12.7)**	**235.5**	—	—	—	—
U.S. states and municipalities	—	—	—	—	22.5	0.8	—	23.3
Other government	**10.9**	—	**(1.9)**	**9.0**	—	—	—	—
Corporate and other	**1.0**	—	—	**1.0**	10.9	0.5	—	11.4
	258.4	**1.7**	**(14.6)**	**245.5**	33.4	1.3	—	34.7
Common stocks:								
Canadian	**15.5**	**18.8**	—	**34.3**	39.5	18.9	—	58.4
U.S.	**201.9**	**71.3**	—	**273.2**	80.7	44.2	(1.5)	123.4
Other	**20.7**	**12.2**	—	**32.9**	38.2	14.1	—	52.3
	238.1	**102.3**	—	**340.4**	158.4	77.2	(1.5)	234.1
Portfolio investments:								
Short term investments:								
Canadian government	—	—	—	—	15.5	0.5	—	16.0
U.S. treasury	—	—	—	—	192.5	—	—	192.5
Other government	—	—	—	—	125.5	13.7	—	139.2
	—	—	—	—	333.5	14.2	—	347.7
Bonds:								
Canadian government	**397.6**	**1.3**	**(10.9)**	**388.0**	179.2	—	(0.1)	179.1
Canadian provincials	**246.6**	**29.0**	—	**275.6**	417.4	39.6	—	457.0
U.S. treasury	**2,628.2**	**17.2**	**(188.7)**	**2,456.7**	490.1	12.3	(41.4)	461.0
U.S. states and municipalities	**766.3**	**3.3**	**(17.4)**	**752.2**	938.6	38.0	(3.3)	973.3
Other government	**948.3**	**16.7**	**(56.6)**	**908.4**	848.8	21.5	(27.6)	842.7
Corporate and other	**867.0**	**110.2**	**(21.7)**	**955.5**	1,239.7	138.3	(1.0)	1,377.0
	5,854.0	**177.7**	**(295.3)**	**5,736.4**	4,113.8	249.7	(73.4)	4,290.1
Preferred stocks:								
U.S.	**0.3**	—	—	**0.3**	0.1	—	—	0.1
Other	**39.1**	**2.6**	—	**41.7**	31.2	0.4	—	31.6
	39.4	**2.6**	—	**42.0**	31.3	0.4	—	31.7
Common stocks:								
Canadian	**431.2**	**346.5**	**(0.3)**	**777.4**	476.9	230.8	—	707.7
U.S.	**1,790.7**	**354.8**	**(11.0)**	**2,134.5**	2,716.2	398.5	—	3,114.7
Other	**718.4**	**242.3**	**(3.8)**	**956.9**	756.9	188.8	(5.4)	940.3
	2,940.3	**943.6**	**(15.1)**	**3,868.8**	3,950.0	818.1	(5.4)	4,762.7
Assets pledged for short sale and derivative obligations:								
Bonds:								
Canadian provincials	—	—	—	—	1.0	0.1	—	1.1
U.S. treasury	**143.2**	—	**(15.5)**	**127.7**	0.4	—	—	0.4
U.S. states and municipalities	**138.4**	—	—	**138.4**	—	—	—	—
Other government	**11.0**	—	—	**11.0**	54.1	1.7	—	55.8
Corporate and other	—	—	—	—	5.0	0.5	—	5.5
	292.6	—	**(15.5)**	**277.1**	60.5	2.3	—	62.8

(1) Includes nil ($24.4 at December 31, 2009) 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,	
	2010	2009	**2010**	2009
Gross realized gains from sales	**94.5**	159.4	**840.6**	538.6
Gross realized losses from sales	**(4.8)**	(11.5)	**(26.0)**	(87.4)
Provisions for other than temporary impairments	**(1.0)**	(8.6)	**(33.7)**	(340.0)
	88.7	139.3	**780.9**	111.2

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 2010 included $1.0 (2009 – $8.6) and $33.7 (2009 – $340.0) respectively of provisions for other than temporary impairments. After such provisions, the unrealized losses on such securities at December 31, 2010 were $15.1 ($6.9 at December 31, 2009) for common stocks and $325.4 ($73.4 at December 31, 2009) for bonds. The company had investments in seven debt securities (comprised primarily of U.S. treasury, other government and U.S. state and municipal debt securities) classified as available for sale which were in unrealized loss positions for a period greater than twelve months at December 31, 2010. The unrealized loss of $46.2 on these securities at December 31, 2010 was due to the effects of foreign currency translation on U.S. treasury and other government debt securities of $16.2 and the impact of an increase in interest rates on investments in U.S. treasury and U.S. state and municipal securities of $30.0.

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, 2010		December 31, 2009	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**555.4**	**525.1**	779.5	726.3
Due after 1 year through 5 years	**1,618.0**	**1,809.3**	2,445.5	2,199.3
Due after 5 years through 10 years	**4,870.1**	**5,223.6**	5,412.7	6,039.4
Due after 10 years	**5,596.6**	**5,398.7**	2,476.9	2,503.4
	12,640.1	**12,956.7**	11,114.6	11,468.4

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

	December 31, 2010		December 31, 2009	
	Fair value	**Carrying value**	Fair value	Carrying value
Portfolio investments:				
Investments, at equity				
Gulf Insurance Company[1]	**219.9**	**219.9**	—	—
ICICI Lombard General Insurance Company Limited	**266.5**	**94.2**	204.4	75.9
Cunningham Lindsey Group Limited	**186.1**	**128.9**	159.5	134.8
International Coal Group, Inc.[2]	—	—	173.9	163.0
Singapore Reinsurance Corporation Limited	**30.3**	**28.7**	22.9	20.9
The Brick Group Income Fund	**26.8**	**15.7**	8.9	4.2
Partnerships, trusts and other	**175.4**	**171.3**	34.7	34.7
MEGA Brands Inc.[3]	**34.8**	**29.7**	—	—
Fibrek Inc.[4]	**37.1**	**27.1**	—	—
	976.9	**715.5**	604.3	433.5

(1) On September 28, 2010, the company completed the acquisition of a 41.3% interest in Gulf Insurance Company for cash consideration of $217.1 (61.9 million Kuwaiti dinar), as described in note 5.

(2) On December 17, 2010, the company decreased its ownership of International Coal Group, Inc. from 22.2% to 11.1% and received cash consideration of $163.9 and recorded net gains on investments of $77.9, as described in note 2.

(3) On March 31, 2010, the company participated in the recapitalization of MEGA and received newly issued common shares and commenced recording its investment in the common shares of MEGA using the equity method of accounting, as described in note 2.

(4) On July 15, 2010, pursuant to the transaction described in note 2 the company purchased common shares of Fibrek for cash consideration of $15.7, that when aggregated with common shares already owned by the company and its affiliates represented 25.8% of the total common shares of Fibrek outstanding. Accordingly, the company commenced recording its investment in Fibrek using the equity method of accounting.

Fair values for substantially all of the company's financial instruments are measured using market or income approaches. 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 categorizes its fair value measurements according to a three level hierarchy described below:

Level 1 – Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair value of the majority of the company's common stocks, equity call options and certain warrants are based on published quotes in an active market.

Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs. The fair value of the majority of the company's investments in bonds, derivative contracts (total return swaps and credit default swaps) and certain warrants are based on third party broker-dealer quotes.

The fair values of investments in certain limited partnerships classified as common stocks on the consolidated balance sheets are based on the net asset values received from the general partner, adjusted for liquidity as required and are classified as Level 2 when they may be liquidated or redeemed within three months or less of providing notice to the general partner. Otherwise, investments in limited partnerships are classified as Level 3 within the fair value hierarchy.

Level 3 – 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. Included in Level 3 are investments in CPI-linked derivatives, mortgage backed securities purchased at deep discounts to par during 2008 and certain private placement debt securities and preferred shares. CPI-linked derivatives are classified within derivatives and other invested assets on the consolidated balance sheets and are valued using broker-dealer quotes which management has determined utilize market observable inputs except for the inflation volatility input which is not market observable. Mortgage backed securities are classified within bonds on the consolidated balance sheets and are valued using an internal discounted cash flow model that incorporates certain inputs that are not market observable; specifically, projections of the amount and timing of the remaining cash flows expected to be received from the underlying mortgages and other assumptions and inputs that are based on security-specific collateral. Private placement debt securities are classified within bonds on the consolidated balance sheets and are valued using industry accepted discounted cash flow and option pricing models that incorporate certain inputs that are not market observable; specifically share price volatility (for convertible securities) and credit spreads of the issuer.

The company assesses the reasonableness of pricing received from third party broker-dealers by comparing the fair values received from broker-dealers to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and to market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

The company assesses the reasonableness of the fair values of CPI-linked derivative contracts by comparing the fair values received from broker-dealers to values determined using option pricing models that incorporate market observable and unobservable inputs such as the current value of the relevant CPI index underlying the derivative, the inflation swap rate, nominal swap rate and inflation volatility and by comparing to recent market transactions where available. The fair values of CPI-linked derivative contracts are sensitive to assumptions such as market expectations of future rates of inflation and related inflation volatilities.

The company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3) in the valuation of securities and derivative contracts were by type of issuers as follows:

	December 31, 2010				December 31, 2009			
	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	**3,374.0**	**3,374.0**	**—**	**—**	2,233.2	2,233.2	—	—
Short term investments:								
Canadian government	**—**	**—**	**—**	**—**	71.8	71.8	—	—
Canadian provincials	**88.6**	**88.6**	**—**	**—**	—	—	—	—
U.S. treasury	**368.5**	**368.5**	**—**	**—**	1,196.5	1,196.5	—	—
Other government	**254.2**	**250.6**	**3.6**	**—**	177.2	135.0	42.2	—
Corporate and other	**29.2**	**—**	**29.2**	**—**	21.0	—	21.0	—
	740.5	**707.7**	**32.8**	**—**	1,466.5	1,403.3	63.2	—
Bonds:								
Canadian government	**393.5**	**—**	**393.5**	**—**	191.7	—	191.7	—
Canadian provincials	**1,251.3**	**—**	**1,251.3**	**—**	1,346.8	—	1,346.8	—
U.S. treasury	**2,824.7**	**—**	**2,824.7**	**—**	541.4	—	541.4	—
U.S. states and municipalities	**5,425.6**	**—**	**5,425.6**	**—**	5,497.8	—	5,497.8	—
Other government	**954.6**	**—**	**954.6**	**—**	919.7	—	919.7	—
Corporate and other	**2,107.0**	**—**	**2,045.1**	**61.9**	2,689.3	—	2,672.2	17.1
Mortgage backed securities – residential	**—**	**—**	**—**	**—**	281.7	—	251.6	30.1
	12,956.7	**—**	**12,894.8**	**61.9**	11,468.4	—	11,421.2	47.2
Preferred stocks:								
Canadian	**134.6**	**—**	**134.6**	**—**	110.4	—	110.4	—
U.S.	**451.0**	**—**	**450.7**	**0.3**	215.6	—	215.6	—
Other	**41.7**	**—**	**41.7**	**—**	31.6	—	31.6	—
	627.3	**—**	**627.0**	**0.3**	357.6	—	357.6	—
Common stocks:[(1)]								
Canadian	**802.0**	**784.3**	**14.6**	**3.1**	755.5	740.2	15.3	—
U.S.	**2,485.0**	**2,345.0**	**47.4**	**92.6**	3,228.6	3,187.6	38.6	2.4
Other	**1,053.6**	**665.9**	**324.7**	**63.0**	1,020.7	710.3	292.6	17.8
	4,340.6	**3,795.2**	**386.7**	**158.7**	5,004.8	4,638.1	346.5	20.2
Derivatives and other invested assets[(2)]	**609.4**	**—**	**280.8**	**328.6**	232.2	41.6	190.6	—
Short sale and derivative obligations	**(216.9)**	**—**	**(216.9)**	**—**	(57.2)	—	(57.2)	—
Holding company cash, short term investments and marketable securities and portfolio investments measured at fair value	**22,431.6**	**7,876.9**	**14,005.2**	**549.5**	20,705.5	8,316.2	12,321.9	67.4
	100.0%	**35.1%**	**62.4%**	**2.5%**	100.0%	40.2%	59.5%	0.3%

(1) Excluded from these totals are available for sale investments of $70.2 ($66.4 at December 31, 2009) and $63.7 ($59.6 at December 31, 2009) in common shares and partnership trusts respectively which are carried at cost as they do not have quoted market values in active markets.

(2) Excluded from these totals are real estate investments of $24.6 ($8.0 at December 31, 2009) which are carried at cost.

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, 2010					December 31, 2009		
	Bonds	**Common stocks**	**Preferred stocks**	**Derivatives and other invested assets**	**Total**	Bonds	Common stocks	Total
Balance – beginning of year	**47.2**	**20.2**	**—**	**—**	**67.4**	166.6	3.8	170.4
Total realized and unrealized gains (losses)								
Included in net gains (losses) on investments	**29.7**	**6.8**	**4.6**	**(64.6)**	**(23.5)**	(12.5)	—	(12.5)
Included in other comprehensive income (loss)	**2.6**	**2.4**	**—**	**—**	**5.0**	1.1	(0.9)	0.2
Purchases	**63.9**	**39.6**	**100.0**	**37.1**	**240.6**	44.2	0.9	45.1
Acquisition of Zenith National	**1.0**	**78.2**	**0.3**	**—**	**79.5**	—	—	—
Sales	**(82.5)**	**(3.5)**	**—**	**—**	**(86.0)**	(56.7)	—	(56.7)
Transfer in (out) of category	**—**	**15.0**	**(104.6)**	**356.1**	**266.5**	(95.5)	16.4	(79.1)
Balance – end of year	**61.9**	**158.7**	**0.3**	**328.6**	**549.5**	47.2	20.2	67.4
Total gains (losses) for the period recognized in net gains (losses) on investments in the consolidated statements of earnings for assets held at the end of the reporting period					**(57.6)**			(19.8)

During the fourth quarter of 2010, the company determined that the inflation volatility input used in the valuation of its CPI-linked derivative contracts had ceased to be observable as these contracts were out-of-the money and their average term to maturity no longer corresponded with the term of more actively traded 10-year contracts. Accordingly, on October 1, 2010, CPI-linked derivative contracts with a fair value of $356.1 previously classified as Level 2 within the fair value hierarchy were reclassified to Level 3. During the third quarter of 2010, the credit spread (an observable input) became available for a preferred stock owned in the

company's investment portfolio following the receipt of a credit rating for the issuer of that preferred stock. As a result, on July 1, 2010, preferred stock with a fair value of $104.6 previously classified as Level 3 within the fair value hierarchy was reclassified to Level 2. In addition, during the first quarter of 2009, as a 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 values were previously determined using Level 3 inputs. Accordingly, $95.5 of these securities were transferred from the Level 3 classification within the fair value hierarchy to Level 2. The company has adopted a policy of recording transfers between fair value hierarchy categories effective from the beginning of the reporting period in which the transfer is identified.

4. Short Sale and Derivative Transactions

The following table summarizes the notional amount and fair value of the company's derivative instruments:

	December 31, 2010				December 31, 2009			
		Notional	**Fair value**			Notional	Fair value	
	Cost	**amount**	**Assets**	**Liabilities**	Cost	amount	Assets	Liabilities
Equity derivatives:								
Equity index total return swaps – short positions	**—**	**5,463.3**	**10.3**	**133.7**	—	1,582.7	9.2	—
Equity total return swaps – short positions	**—**	**624.5**	**18.0**	**28.3**	—	232.2	—	1.2
Equity total return swaps – long positions	**—**	**1,244.3**	**0.7**	**8.3**	—	214.6	8.7	7.7
Equity call options	**—**	**—**	**—**	**—**	46.2	79.3	46.0	—
Warrants	**21.6**	**158.8**	**171.1**	**—**	10.1	127.5	71.6	—
Credit derivatives:								
Credit default swaps	**70.8**	**3,499.3**	**67.2**	**—**	114.8	5,926.2	71.6	—
Warrants	**16.6**	**340.2**	**6.5**	**—**	15.8	340.2	2.8	—
CPI-linked derivative contracts	**302.3**	**34,182.3**	**328.6**	**—**	8.8	1,490.7	8.2	—
Foreign exchange forward contracts	**—**	**—**	**—**	**25.5**	—	—	1.6	48.0
Other derivative contracts	**—**	**—**	**—**	**21.1**	—	—	5.5	0.3
Total			**602.4**	**216.9**			225.2	57.2

The company is exposed to significant market risk through its investing activities. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. 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 sheets 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, if any, are presented on the consolidated balance sheets 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 statements of 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 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 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. 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 2010, the company added a net notional amount of $933.6 to its equity total return swaps – long positions on individual equity securities for investment purposes. As a result of volatility in the equity markets and international credit concerns, the company has taken measures to protect 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. Accordingly, the company added short positions in certain equities ($284.4 notional amount entered into during the third quarter of 2010), the Russell 2000 index ($3.3 billion notional amount at an average Russell 2000 index value of 646.5 entered into during the second quarter of 2010) and to its short positions in the S&P 500 index ($1.5 billion notional amount at an average S&P 500 index value of 1,062.52 entered into during the third quarter of 2009). During the fourth quarter of 2010, the company closed out $212.4 of the original notional amount of its short positions in S&P 500 index total return swaps to realign its equity hedges with its underlying equity and equity-related holdings (this transaction had a nominal impact on the average S&P 500 index value of the remaining $1.3 billion original notional amount of S&P 500 index total return swaps). At December 31, 2010, equity hedges represented approximately 88.8% of the company's equity and equity-related holdings ($6,854.5). During the fourth quarter and twelve months of 2010, the company paid net cash of $764.1 (2009 – $83.2) and $796.9 (2009 – $107.5) respectively to satisfy obligations incurred in connection with the quarterly reset provisions of its short equity and equity index total return swaps. During the fourth quarter and twelve months of 2010, the company received net cash of $169.3 (2009 – $109.7) and $91.9 (2009 – $83.3) respectively from counterparties in connection with the quarterly reset provisions of the company's long equity total return swaps. 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 should a significant correction in the market occur; 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.

At December 31, 2010, the fair value of the collateral deposited for the benefit of derivative counterparties included in assets pledged for short sale and derivative obligations was $847.0 ($206.0 at December 31, 2009), of which $733.2 ($156.4 at December 31, 2009) was collateral required to be deposited to enter into such derivative contracts (principally related to total return swaps) and $113.8 ($49.6 at December 31, 2009) of which was required to support amounts owed to counterparties of the company's total return swaps and foreign exchange forward contracts at the balance sheet date.

Equity call options include derivative purchase contracts and call options on certain U.S. publicly traded common stocks. 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 2 years to 4 years.

Credit contracts

Since 2003, subsidiary portfolio investments and holding company investments included credit default swaps referenced to various issuers in the financial services industry as an economic hedge of risks affecting specific financial assets of the company, exposures potentially affecting the fair value of the company's fixed income portfolio and of broader systemic risk. The company's holdings of credit default swap contracts declined significantly by the end of 2010 largely as a result of significant sales in 2008 and contract expirations in 2009 and 2010 (as indicated in 2009, the company determined not to utilize credit default swaps currently as part of its economic hedging program and therefore not to replace its credit default swaps as sales or expiries occurred, with the result that the company no longer has significant holdings of credit default swaps). Accordingly, the company no longer considers credit default swaps to be an economic hedge of its financial assets effective January 1, 2011. The company's remaining credit default swaps have a weighted average life of 2.4 years (2.4 years at December 31, 2009) 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 statements of earnings at each balance sheet date, with a corresponding adjustment to the carrying value of the derivative asset. Sales or expiration of credit default swap contracts during the twelve months of 2010 and 2009 caused the company to reverse any previously recorded unrealized market value changes since inception of the contract and to record the amount of the final cash settlement through net gains (losses) on investments in the consolidated statements of net earnings. The impact of credit default swaps on the company's net earnings is shown below in the table entitled *Financial performance*.

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 35.8 years (36.6 years at December 31, 2009).

CPI-linked derivative contracts

The company has purchased derivative contracts referenced to consumer price indices ("CPI") in the geographic regions in which it operates, which serve as an economic hedge against the potential adverse financial impact on the company of decreasing price levels. These contracts have a remaining weighted average life of 9.4 years (10.0 years at December 31, 2009) and a notional amount and fair

value as shown in the table below. As the average remaining life of a contract declines, the fair value of the contract (excluding the impact of CPI changes) will generally decline. The initial premium paid for each contract is recorded as a derivative asset and is subsequently adjusted for changes in the unrealized fair value of the contract at each balance sheet date. Changes in the unrealized fair value of the contracts are recorded as net gains (losses) on investments in the company's consolidated statements of earnings at each balance sheet date, with a corresponding adjustment to the carrying value of the derivative asset. In the event of a sale, expiration or early settlement of any of these contracts, the company would receive the fair value of that contract on the date of the transaction. The company's maximum potential loss on any contract is limited to the original cost of that contract. The following table summarizes the notional amounts and weighted average strike prices of CPI indices underlying the company's CPI-linked derivative contracts:

	December 31, 2010			December 31, 2009		
	Notional Amount			Notional Amount		
Underlying CPI Index	**Original currency**	**U.S. dollars**	**Weighted average strike price**	Original currency	U.S. dollars	Weighted average strike price
United States	**16,250.0**	**16,250.0**	**216.58**	800.0	800.0	215.85
United Kingdom	**550.0**	**861.1**	**216.01**	250.0	403.8	215.30
European Union	**12,725.0**	**17,071.2**	**108.83**	200.0	286.9	107.91
		34,182.3			1,490.7	

During the fourth quarter of 2010 and twelve months of 2010, the company purchased $3,679.0 (2009 – $1,490.7) and $32,670.2 (2009 – $1,490.7) notional amount of CPI-linked derivative contracts at a cost of $37.1 (2009 – $8.8) and $291.4 (2009 – $8.8) respectively. The impact of CPI-linked derivative contracts on the company's net earnings is shown below in the table entitled *Financial performance*.

The CPI-linked derivative contracts 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 company's purchase of these derivative contracts is consistent with its capital management framework designed to protect its capital in the long term. Due to the uncertainty of the market conditions which will exist many years into the future, it is not possible to estimate the reasonably likely future impact of this aspect of the company's risk management program.

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 equity accounted investments and 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 British 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 to maturity 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 derivative contracts. Pursuant to these agreements, the counterparties to these transactions are contractually required to deposit eligible collateral in collateral accounts (subject to certain minimum thresholds) for the benefit of the company depending on the then current fair value of the derivative contracts. Agreements negotiated with counterparties also provide for a single net settlement of all financial instruments covered by the agreement in the event of default by the counterparty, thereby permitting obligations owed by the company to a counterparty to be offset to the extent of the aggregate amount receivable by the company from that counterparty. The following table sets out the company's exposure to credit risk related to the counterparties to its derivative contracts:

	Year ended December 31,	
	2010	2009
Total derivative assets (excluding exchange traded instruments comprised principally of equity call options and warrants and credit warrants which are not subject to counterparty risk)	**424.8**	104.8
Impact of net settlement arrangements	**(119.0)**	(11.1)
Fair value of collateral deposited for the benefit of the company	**(120.5)**	(23.2)
Net derivative counterparty exposure after net settlement and collateral arrangements	**185.3**	70.5

The fair value of the collateral deposited for the benefit of the company at December 31, 2010 consisted of cash of $26.1 (nil at December 31, 2009) and government securities of $94.4 ($23.2 at December 31, 2009) that may be sold or repledged by the company. The company has recognized the cash collateral within subsidiary cash and short term investments and recognized a corresponding liability within accounts payable and accrued liabilities. The company had not exercised its right to sell or repledge collateral at December 31, 2010. The net derivative counterparty exposure after net settlement and collateral arrangements relates principally to balances due from counterparties that are lower than certain minimum thresholds which would require that collateral be deposited for the benefit of the company.

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 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 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	CPI-linked derivatives	Other	Total	Bonds	Preferred and common stocks	Total
For the three months ended December 31, 2010									
Realized gains (losses) on positions closed in the period[1]	**(455.3)**	**—**	**—**	**—**	**(5.8)**	**(461.1)**	**(106.8)**	**—**	**(106.8)**
Mark-to-market gains (losses) arising on positions remaining open at period end	**(139.6)**	**(2.5)**	**33.5**	**(61.5)**	**(41.0)**	**(211.1)**	**(113.6)**	**62.7**	**(50.9)**
Net gains (losses)	**(594.9)**	**(2.5)**	**33.5**	**(61.5)**	**(46.8)**	**(672.2)**	**(220.4)**	**62.7**	**(157.7)**
For the three months ended December 31, 2009									
Realized gains (losses) on positions closed in the period[1]	(68.9)	—	19.8	—	(9.9)	(59.0)	20.8	1.7	22.5
Mark-to-market gains (losses) arising on positions remaining open at period end	6.9	(10.0)	(0.9)	(0.5)	(1.1)	(5.6)	(155.5)	27.7	(127.8)
Net gains (losses)	(62.0)	(10.0)	18.9	(0.5)	(11.0)	(64.6)	(134.7)	29.4	(105.3)

	Classified as held for trading						Designated as held for trading		
	Common stock and equity index positions	Credit default swaps	Equity warrants	CPI-linked derivatives	Other	Total	Bonds	Preferred and common stocks	Total
For the year ended December 31, 2010									
Realized gains (losses) on positions closed in the year[1]	**(700.1)**	**10.4**	**—**	**—**	**(2.1)**	**(691.8)**	**251.2**	**(0.2)**	**251.0**
Mark-to-market gains (losses) arising on positions remaining open at year end	**(139.4)**	**5.4**	**83.6**	**28.1**	**(43.4)**	**(65.7)**	**(55.3)**	**17.2**	**(38.1)**
Net gains (losses)	**(839.5)**	**15.8**	**83.6**	**28.1**	**(45.5)**	**(757.5)**	**195.9**	**17.0**	**212.9**
For the year ended December 31, 2009									
Realized gains (losses) on positions closed in the year[1]	(15.4)	46.2	172.7	—	(44.9)	158.6	87.6	9.2	96.8
Mark-to-market gains (losses) arising on positions remaining open at year end	8.8	(160.8)	58.2	(0.5)	(26.8)	(121.1)	604.1	50.4	654.5
Net gains (losses)	(6.6)	(114.6)	230.9	(0.5)	(71.7)	37.5	691.7	59.6	751.3

(1) *Amounts include net gains (losses) arising on certain derivatives which require the counterparties to cash-settle on a quarterly basis the market value movement since the previous quarterly reset date notwithstanding that the derivative contract may remain open subsequent to the quarterly cash settlement.*

Hedge of net investment in Northbridge

In June 2010 and August 2009, the company designated the carrying value of Cdn$275.0 and Cdn$400.0 principal amount respectively of its Canadian dollar denominated senior notes as a hedge of its net investment in Northbridge for financial reporting purposes. In the fourth quarter and twelve months of 2010, the company recognized pre-tax losses of $21.3 (2009 – $8.9) and $28.2 (2009 – $18.3) respectively related to foreign currency movements on the senior notes in change in gains and losses on hedge of net investment in foreign subsidiary in the consolidated statements of comprehensive income.

5. Acquisitions and Divestitures

Subsequent to December 31, 2010

Acquisition of First Mercury Financial Corporation

On February 9, 2011, Crum & Forster Holdings Corp., an indirect wholly-owned subsidiary of Fairfax, completed the acquisition of all of the outstanding common shares of First Mercury Financial Corporation ("First Mercury") for $16.50 per share in cash, representing an aggregate purchase consideration of $294.3. The assets and liabilities and results of operations of First Mercury will be included in the company's financial reporting in the Insurance – U.S. reporting segment. First Mercury underwrites insurance products and services primarily to the specialty commercial insurance markets, focusing on niche and underserved segments. The company expects to prepare a preliminary determination of the acquired assets and liabilities during 2011 when estimates and assumptions related thereto are available for review.

Cunningham Lindsey

On January 4, 2011, the company's equity affiliate Cunningham Lindsey Group Limited ("CLGL") acquired the U.S. operations of GAB Robins North America, Inc., a provider of loss adjusting and claims management services.

Year ended December 31, 2010

Agreement to Purchase The Pacific Insurance Berhad

On December 3, 2010, the company announced an agreement with PacificMas Berhad to acquire The Pacific Insurance Berhad ("Pacific Insurance") pursuant to which an indirect wholly-owned subsidiary of Fairfax will acquire all of the outstanding shares of Pacific Insurance common stock for approximately $64 in cash. The transaction is expected to be completed in the first quarter of 2011. Regulatory requirements in Malaysia do not permit the company to own greater than 70% of Pacific Insurance. Accordingly, the company has agreed to divest 30% of Pacific Insurance within one year of the closing date. Following the completion of this transaction, the assets and liabilities and results of operations of Pacific Insurance will be included in the company's financial reporting in the Insurance – Fairfax Asia reporting segment. Pacific Insurance underwrites all classes of general insurance and medical insurance in Malaysia.

Acquisition of General Fidelity Insurance Company

On August 17, 2010, TIG Insurance Company ("TIG"), an indirect wholly-owned subsidiary of Fairfax, completed the acquisition of all of the issued and outstanding shares of General Fidelity Insurance Company ("GFIC"), for total consideration of $240.6 comprised of a cash payment of $100.0 and a contingent promissory note issued by TIG (the "TIG Note") with an acquisition date fair value of $140.6 (the "GFIC Transaction"). The TIG Note is non-interest bearing (except interest of 2% per annum will be payable during periods, if any, when there is an increase in the United States consumer price index of six percentage points or more) and is due following the sixth anniversary of the closing of the GFIC Transaction. The principal amount of the TIG Note will be reduced based on the cumulative adverse development, if any, of GFIC's loss reserves at the sixth anniversary of the closing of the GFIC Transaction. The principal amount will be reduced by 75% of any adverse development up to $100, and by 90% of any adverse development in excess of $100 until the principal amount is nil. The fair value of the TIG Note was determined as the present value of the expected payment at maturity using a discount rate of 6.17% per annum due to the long term nature of this financial instrument. Fairfax has guaranteed TIG's obligations under the TIG Note. Following this transaction, the assets and liabilities and results of operations of GFIC have been included in the company's consolidated financial reporting in the Runoff reporting segment. The purchase price of $240.6 is comprised of net assets acquired of $323.7 less the excess of the fair value of net assets acquired over the purchase price of $83.1 recorded in the consolidated statement of earnings. GFIC is a property and casualty insurance company based in the United States whose insurance business will be run off under the management of Fairfax's RiverStone subsidiary. In connection with the purchase of GFIC, the company also acquired 100% ownership of BA International Underwriters Limited (subsequently renamed RiverStone Corporate Capital 2 Limited), the only interest of Lloyd's Syndicate 2112 ("Syndicate 2112"), for nominal cash consideration. Following this transaction, the assets and liabilities and results of operations of Syndicate 2112 have been included in the company's consolidated financial reporting in the Runoff reporting segment.

Acquisition of Zenith National

On May 20, 2010, the company completed the acquisition of all of the outstanding common shares of Zenith National Insurance Corp. ("Zenith National"), other than those common shares already owned by Fairfax and its affiliates, for $38.00 per share in cash, representing aggregate cash consideration of $1.3 billion. Prior to May 20, 2010, the company classified its $90.0 investment (original cost) in 8.2% of the outstanding common shares of Zenith National as available for sale. Upon completion of the acquisition of the remaining Zenith National shares, the company remeasured its previously owned investment in Zenith National to its fair value of $118.5 and recognized a one-time pre-tax gain of $28.5 reflecting the reclassification of the unrealized gain on previously owned common shares of Zenith National from accumulated other comprehensive income in common shareholders' equity to net gains (losses) on investments in the consolidated statement of earnings. Following this transaction, the assets and liabilities and results of operations of Zenith National have been included in the company's consolidated financial reporting in the Insurance – U.S. reporting segment. The $1.4 billion purchase consideration includes the fair value of the previously owned common shares of Zenith National and Zenith National's assets and liabilities acquired as summarized in the table below. Zenith National is engaged, through its wholly owned subsidiaries, in the workers' compensation insurance business throughout the United States.

	Syndicate 2112	GFIC	Zenith National
Acquisition date	October 1, 2010	August 17, 2010	May 20, 2010
Percentage of common shares acquired	100%	100%	100%
Assets:			
Holding company cash, short term investments and marketable securities[1]	—	—	50.6
Accounts receivable and other	1.5	47.8	570.4
Recoverable from reinsurers	0.7	10.5	235.1
Portfolio investments[2]	29.1	661.1	1,746.6
Future income taxes	—	42.2	—
Intangible assets[3]	—	—	175.5
Goodwill	—	—	317.6
Other assets	—	—	76.1
	31.3	761.6	3,171.9
Liabilities:			
Accounts payable and accrued liabilities	0.7	10.4	206.2
Future income taxes[4]	—	—	44.2
Provision for claims	30.6	394.7	1,175.8
Unearned premiums	—	32.8	246.6
Long term debt – subsidiary company borrowings	—	—	57.7
	31.3	437.9	1,730.5
Net assets acquired	—	323.7	1,441.4
	31.3	761.6	3,171.9
Excess of fair value of net assets acquired over purchase price	—	83.1	—

(1) Included in the carrying value of Zenith National's holding company cash, short term investments and marketable securities acquired was $40.6 of holding company cash and cash equivalents.

(2) Included in the carrying value of the acquired portfolio investments of Syndicate 2112 and GFIC were $29.1 and $650.0 respectively of subsidiary cash and cash equivalents. Included in the carrying value of Zenith National's portfolio investments acquired was $231.5 of subsidiary cash and cash equivalents and $47.5 of debt securities issued by Fairfax and OdysseyRe. The $47.5 fair value of debt securities acquired was eliminated against long term debt – holding company borrowings ($40.6) and long term debt – subsidiary company borrowings ($6.9) on the consolidated balance sheet.

(3) Zenith National's intangible assets were comprised of broker relationships of $147.5, brand names of $20.2 and computer software of $7.8.

(4) Included in Zenith National's future income taxes was a future income tax liability of $58.7 associated with the recognition of broker relationships and brand names as described in footnote 3.

The financial statements of Syndicate 2112, GFIC and Zenith National are included in the company's consolidated financial statements as of their respective acquisition dates. Goodwill in the amount of $317.6 recorded on the acquisition of Zenith National is primarily attributable to intangible assets that do not qualify for separate recognition. The excess of the fair value of net assets acquired over the purchase price in the amount of $83.1 recorded on the acquisition of GFIC is primarily attributable to the TIG Note being non-interest bearing except in periods, if any, when there is significant inflation in the United States. In 2010, the company's consolidated statements of earnings included Zenith National's revenue of $328.8 ($101.2 in the fourth quarter of 2010) and net loss of $24.0 ($45.3 in the fourth quarter of 2010) since the acquisition date of May 20, 2010. The following table presents unaudited pro-forma revenue and net earnings attributable to shareholders of Fairfax for 2010 as if the Zenith National acquisition was consummated on the same terms on January 1, 2010. As runoff entities, Syndicate 2112 and GFIC have not generated significant revenues or net earnings in the fourth quarter and twelve months of 2010. Therefore the acquisition of Syndicate 2112 and the GFIC Transaction have not been included in the pro-forma disclosure below.

	Year ended December 31, 2010
Revenue – as reported	**6,163.7**
Revenue – Zenith National (from the beginning of the period to May 20)	**194.6**
Pro-forma revenue	**6,358.3**
Net earnings attributable to shareholders of Fairfax – as reported	**469.0**
Net loss attributable to shareholders of Fairfax – Zenith National (from the beginning of the period to May 20)	**(26.3)**
Pro-forma net earnings attributable to shareholders of Fairfax	**442.7**
Pro-forma net earnings per share	**$ 20.13**
Pro-forma net earnings per diluted share	**$ 20.03**

Sale of TIG Indemnity

On July 1, 2010, TIG sold its wholly-owned inactive subsidiary TIG Indemnity Company ("TIC") to a third party purchaser, resulting in the recognition of a net gain on investment before income taxes of $7.5. TIG will continue to reinsure 100% of the insurance liabilities of TIC existing at June 30, 2010 and has entered into an administrative agreement with the purchaser whereby TIG will provide claims handling services on those liabilities.

Other

Investment in Gulf Insurance

On September 28, 2010, the company completed the acquisition of a 41.3% interest in Gulf Insurance Company ("Gulf Insurance") for cash consideration of $217.1 (61.9 million Kuwaiti dinar) inclusive of a 2.1% interest in Gulf Insurance which the company had previously acquired for cash consideration of $8.5 (2.0 million Kuwaiti dinar). Subsequent to making its investment, the company determined that it had obtained significant influence over Gulf Insurance and commenced recording its 41.3% interest in Gulf Insurance using the equity method of accounting. The equity accounted investment in Gulf Insurance was reported in the corporate and other reporting segment. Gulf Insurance is headquartered in Kuwait and underwrites a full range of primary property and casualty and life and health insurance products in the Middle East and North Africa.

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 Brazilian 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 commenced underwriting in March 2010, following the 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 aggregate cash consideration 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 acquisition 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. The intangible assets acquired of $37.9 have been included in the company's financial reporting in the Reinsurance – OdysseyRe reporting segment.

Privatization of Advent

On July 17, 2009, the company announced a formal offer to acquire all of the outstanding common shares of Advent, other than those shares not already owned by the company, for 220 U.K. pence in cash per common share. On October 17, 2009, the company completed the acquisition for aggregate cash consideration of $59.5 (£35.8 million) and Advent became a wholly owned subsidiary of the company. 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 aggregate cash consideration 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 Step 1 and Step 2 acquisitions were completed at an offering price of Cdn$39.00 per share. The result of these transactions is summarized in the table that follows. The intangible assets acquired of $90.8 have been included in the company's financial reporting in the Insurance – Northbridge reporting segment.

Acquisition of 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 result of this transaction is summarized in the table that follows. The assets and liabilities and results of operations of Polish Re have been included in the company's consolidated financial reporting in the Reinsurance and Insurance – 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.

	OdysseyRe	Advent	Northbridge			Polish Re
			Step 1 acquisition	Step 2 acquisition	Total	
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.

The Syndicate 2112, GFIC and Zenith National acquisitions were accounted for using the acquisition method and the OdysseyRe, Advent, Northbridge and Polish Re acquisitions were accounted for using the purchase method. The fair values of intangible assets were determined primarily through earnings-based approaches incorporating internal forecasts of revenues and expenses and estimates of discount rates and growth rates, supplemented by the use of market-based approaches where estimated fair values were compared to similar market transactions. The customer and broker relationship intangible assets are amortized on a straight-line basis over periods ranging from 8 to 20 years and the resulting amortization expense is included in the operating results of the respective reporting segments, 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.

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 $66.4. The purchase was approved by the Chinese Insurance Regulatory Commission on September 29, 2009. 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. 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.

Investment in Cunningham Lindsey

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

Repurchases of shares

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

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

Year ended December 31, 2010

During the year, the company issued the following cumulative five-year rate reset preferred shares:

	Date of issue	Number of shares issued	Stated capital	Issue price and liquidation preference per share	Dividend rate per annum	Net proceeds after commissions and expenses	
Series I[1]	October 5, 2010	12,000,000	Cdn $300.0	Cdn $25.00	5.00%[1]	$286.0[2]	Cdn $290.8
Series G[1]	July 28, 2010	10,000,000	Cdn $250.0	Cdn $25.00	5.00%[1]	$233.8[3]	Cdn $242.2
Series E[1]	February 1, 2010	8,000,000	Cdn $200.0	Cdn $25.00	4.75%[1]	$181.4[4]	Cdn $193.5

(1) *Redeemable by the company on December 31, 2015 (for Series I), September 30, 2015 (for Series G) and March 31, 2015 (for Series E) and on each subsequent five-year anniversary date at Cdn$25.00 per share. Holders of unredeemed Series I, Series G and Series E preferred shares will have the right, at their option, to convert their shares into floating rate cumulative preferred shares Series J (on December 31, 2015), Series H (on September 30, 2015) and Series F (on March 31, 2015) respectively and on each subsequent five-year anniversary date. The Series J, Series H and 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 December 31, 2015, September 30, 2015 and March 31, 2015 or any subsequent five-year anniversary plus 2.85%, 2.56% and 2.16% respectively.*

(2) *Commissions and expenses of $9.0 were charged to preferred stock and recorded net of $2.5 of future income tax recovery.*

(3) *Commissions and expenses of $7.6 were charged to preferred stock and recorded net of $2.1 of future income tax recovery.*

(4) *Commissions and expenses of $6.2 were charged to preferred stock and recorded net of $1.7 of future income tax recovery.*

On September 15, 2010, OdysseyRe called for redemption all of the outstanding shares of its 8.125% noncumulative Series A preferred shares and its floating rate noncumulative Series B preferred shares not owned by it or by other subsidiaries of the company. On the redemption date of October 20, 2010, OdysseyRe paid $43.6 to repurchase $42.4 of the stated capital of the Series A preferred shares and $27.0 to repurchase $26.1 of the stated capital of the Series B preferred shares. These transactions decreased non-controlling interests by $68.5 and a pre-tax loss of $2.1 was recognized in net gains (losses) on investments in the consolidated statement of earnings.

On September 17, 2010, Zenith National purchased $7.0 principal amount of its redeemable debentures due 2028 for cash consideration of $7.0. On June 9, 2010, Zenith National purchased $13.0 principal amount of its redeemable debentures due 2028 for cash consideration of $13.0.

On August 17, 2010, in connection with the acquisition of GFIC as described in note 5, TIG issued a non-interest bearing contingent promissory note with an acquisition date fair value of $140.6. The TIG Note is non-interest bearing (except interest of 2% per annum will be payable during periods, if any, when there is an increase in the United States consumer price index of six percentage points or more) and is due following the sixth anniversary of the closing of the GFIC Transaction. The principal amount of the TIG Note will be reduced based on the cumulative adverse development, if any, of GFIC's loss reserves at the sixth anniversary of the closing of the GFIC Transaction. The principal amount will be reduced by 75% of any adverse development up to $100, and by 90% of any adverse development in excess of $100 until the principal amount is nil. The fair value of the TIG Note was determined as the present value of the expected payment at maturity using a discount rate of 6.17% per annum due to the long term nature of this financial instrument. Fairfax has guaranteed TIG's obligations under the TIG Note. Amortization of the discount on the TIG Note is recognized as interest expense in the consolidated statement of earnings.

During 2010, holders of OdysseyRe's 7.65% senior notes due 2013 and 6.875% senior notes due 2015 and Crum & Forster's 7.75% senior notes due 2017 provided their consent to amend the indentures governing those senior notes to allow OdysseyRe and Crum & Forster to make available to senior note holders certain specified financial information and financial statements in lieu of the reports OdysseyRe and Crum & Forster previously filed with the Securities and Exchange Commission ("SEC"). In exchange for their consent to amend the indentures, OdysseyRe and Crum & Forster paid cash participation payments of $2.7 and $3.3 respectively to the senior note holders which were recorded as a reduction of the carrying value of the senior notes and will be amortized as an adjustment to the effective interest rate on the senior notes through interest expense in the consolidated statements of earnings. Transaction costs of $1.2, comprised of legal and agency fees incurred in connection with the consent solicitations, were recognized as an expense in the consolidated statement of earnings.

On June 22, 2010, the company completed a public debt offering of Cdn$275.0 principal amount of 7.25% unsecured senior notes due June 22, 2020 issued at par for net proceeds after commissions and expenses of $267.1 (Cdn$272.5). Commissions and expenses of $2.5 (Cdn$2.5) were included as part of the carrying value of the debt. The notes are redeemable at the company's option, in whole or in part, at any time at the greater of a specified redemption price based on the then current yield of a Government of Canada bond with a term to maturity equal to the remaining term to June 22, 2020 and par. The company has designated these senior notes as a hedge of a portion of its net investment in Northbridge.

Effective May 20, 2010, the company consolidated the assets and liabilities of Zenith National, pursuant to the transaction described in note 5. As a result, the carrying value of $38.0 of redeemable securities issued by a statutory business trust subsidiary of Zenith National, was included in long term debt – subsidiary company borrowings on the company's consolidated balance sheet as at December 31, 2010. These securities mature on August 1, 2028, pay semi-annual cumulative cash distributions at an annual rate of 8.55% of the $1,000 liquidation amount per security and are redeemable at Zenith National's option at any time prior to their stated maturity date at a redemption price of 100% plus the excess of the then present value of the remaining scheduled payments of principal and interest over 100% of the principal amount together with the accrued and unpaid interest. Zenith National fully and unconditionally guarantees the distributions and redemptions of these redeemable securities. On May 26, 2010, holders of the redeemable securities provided their consent to amend the indenture governing these securities to allow Zenith National to make available to the security holders certain specified financial information and financial statements in lieu of the reports Zenith National previously filed with the SEC.

The acquisition of Zenith National resulted in the consolidation of aggregate principal amount of $38.7 and $6.3 of debt securities issued by Fairfax and OdysseyRe respectively, which were recorded in Zenith National's investment portfolio as available for sale securities on the acquisition date. Accordingly, the $47.5 fair value of these debt securities was eliminated against long term debt – holding company borrowings and long term debt – subsidiary company borrowings on the consolidated balance sheet. As a result, the carrying value of long term debt – holding company borrowings and long term debt – subsidiary company borrowings decreased by $38.0 and $6.3 respectively and the company recorded a pre-tax loss of $3.2 in net gains (losses) on investments in the consolidated statement of earnings.

On February 26, 2010, the company completed a public equity offering and issued 563,381 subordinate voting shares at $355.00 per share, for net proceeds after expenses (net of tax) of $199.8.

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 carrying 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.

During the year, the company issued the following cumulative five-year rate reset preferred shares:

	Date of issue	Number of shares issued	Stated capital	Issue price and liquidation preference per share	Dividend rate per annum	Net proceeds after commissions and expenses	
Series C[(1)]	October 5, 2009	10,000,000	Cdn $250.0	Cdn $25.00	5.75%[(1)]	$225.0[(2)]	Cdn $242.2

(1) Redeemable by the company on December 31, 2014 and on each subsequent five-year anniversary date 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 floating rate cumulative preferred shares Series D on December 31, 2014 and on each subsequent five-year anniversary date. 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%.

(2) Commissions and expenses of $7.3 were charged to preferred stock and recorded net of $2.2 of future income taxes.

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 $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, in whole or in part, 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.

Repurchases of shares

Under the terms of normal course issuer bids, during the fourth quarter of 2010, the company repurchased for cancellation 36,000 (2009 – 315,600) subordinate voting shares at a net cost of $14.1 (2009 – $112.4), of which $8.2 (2009 – $62.4) was charged to retained earnings. During 2010, the company repurchased for cancellation 43,900 (2009 – 360,100) subordinate voting shares at a net cost of $16.8 (2009 – $122.9), of which $9.7 (2009 – $67.3) was charged to retained earnings. In connection with its senior share plans, during the fourth quarter of 2010, the company acquired net treasury shares of 1,052 (2009 – reissued net treasury shares of 6,882) for a net cost of $0.3 (2009 – net proceeds of $1.3). During 2010, the company acquired net treasury shares of 53,104 (2009 – 19,699) for a net cost of $23.7 (2009 – $6.0).

Dividends

On January 5, 2011, the company declared a cash dividend of $10.00 per share on its outstanding multiple voting and subordinate voting shares, payable on January 26, 2011 to shareholders of record on January 19, 2011 for a total cash payment of $205.9.

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 $200.8.

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 models. The estimated fair values of the company's long term debt and other long term obligations compared to their carrying values were as follows:

	December 31, 2010		December 31, 2009	
	Carrying value	**Fair value**	Carrying value	Fair value
Long term debt – holding company borrowings	**1,498.1**	**1,614.1**	1,236.9	1,317.4
Long term debt – subsidiary company borrowings	**917.7**	**987.9**	891.3	917.4
Other long term obligations – holding company	**311.5**	**309.4**	173.5	171.3
	2,727.3	**2,911.4**	2,301.7	2,406.1

Credit facilities

On November 10, 2010, Fairfax entered into a three year $300.0 unsecured revolving credit facility (the "credit facility") with a syndicate of lenders to enhance its financial flexibility. As of December 31, 2010, no amounts had been drawn on the credit facility. In accordance with the terms of the credit facility agreement, Northbridge terminated its five-year unsecured revolving credit facility with a Canadian chartered bank on November 10, 2010.

As at December 31, 2009 and until February 23, 2010, OdysseyRe maintained a five-year $200.0 credit facility with a syndicate of lenders maturing in 2012. As at February 24, 2010, the size of this credit facility was reduced to $100.0 with an option to increase the size of the facility by an amount up to $50.0, to a maximum facility size of $150.0. Following such a request, each lender has the right, but not the obligation, to commit to all or a portion of the proposed increase. As at December 31, 2010, there was $33.8 utilized under this credit facility, all of which was in support of letters of credit.

7. Significant Commutations

During 2009, TIG Insurance Company ("TIG") commuted several reinsurance contracts. As a result of the commutations, TIG received $37.2 in 2009 of total cash proceeds of $136.2 (and received the remaining balance of $99.0 in the first quarter of 2010) and recorded a reduction of recoverable from reinsurers of $139.8 and a net pre-tax charge of $3.6 in the consolidated statement of earnings.

8. Accumulated Other Comprehensive Income (Loss)

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

	December 31, 2010			December 31, 2009		
	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	**(148.2)**	**47.0**	**(101.2)**	181.2	(60.5)	120.7
Common stocks and other	**998.7**	**(291.3)**	**707.4**	874.3	(251.1)	623.2
	850.5	**(244.3)**	**606.2**	1,055.5	(311.6)	743.9
Share of accumulated other comprehensive income (loss) of investments, at equity	**6.9**	**(4.4)**	**2.5**	(10.8)	(1.2)	(12.0)
Currency translation account	**273.1**	**(17.9)**	**255.2**	167.9	(6.7)	161.2
	1,130.5	**(266.6)**	**863.9**	1,212.6	(319.5)	893.1

9. Income Taxes

A reconciliation of income tax calculated at the Canadian statutory tax rate with the income tax provision (recovery) at the effective tax rate in the consolidated statements of earnings for the fourth quarters and years ended December 31 is summarized in the following table:

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Provision for (recovery of) income taxes at the statutory income tax rate (2010 – 31.0%; 2009 – 33.0%)	**(210.6)**	(5.5)	**109.0**	397.9
Tax rate differential on income earned outside Canada	**(52.9)**	(19.1)	**(91.5)**	(48.5)
Non-taxable investment income	**(19.0)**	(16.6)	**(89.0)**	(78.0)
Change in unrecorded tax benefit of losses	**(40.1)**	(9.7)	**(43.7)**	(47.7)
Non-taxable gain arising from U.S. acquisitions	**—**	—	**(39.1)**	—
Withholding tax on U.S. dividend	**—**	—	**35.6**	—
Change in tax rate for future income taxes	**(11.7)**	6.1	**(12.7)**	2.1
(Recovery) charge related to prior years	**15.5**	(47.1)	**(1.7)**	(48.2)
Foreign exchange	**(1.4)**	(11.7)	**2.5**	25.5
Other including permanent differences	**4.0**	3.6	**11.1**	11.8
Provision for (recovery of) income taxes	**(316.2)**	(100.0)	**(119.5)**	214.9

The effective income tax rate of 46.5% implicit in the $316.2 recovery of income taxes in the fourth quarter of 2010 differed from the company's Canadian statutory income tax rate of 31.0% (decreased from 33.0% in 2009) primarily as a result of 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 and the effect of non-taxable investment income (including dividend income and interest on bond investments in U.S. states and municipalities), partially offset by the impact of the resolution of certain income tax matters from previous years.

The $119.5 recovery of income taxes in the twelve months of 2010 differed from the company's Canadian statutory income tax rate of 31.0% (decreased from 33.0% in 2009) primarily as a result of income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate, the effect of non-taxable investment income (including dividend income and interest on bond investments in U.S. states and municipalities and capital gains in Canada which are only 50.0% taxable), the recognition of the benefit of previously unrecorded accumulated income tax losses, and the excess of the fair value of net assets acquired over the purchase price in respect of the GFIC acquisition and the gain on previously owned common shares of Zenith National which are non-taxable, partially offset by withholding tax paid on an intercompany dividend from the U.S. to Canada.

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 Canadian 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 and 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 (included in (recovery) charge related to prior years), partially offset by income taxes on unrealized foreign currency gains on the company's publicly issued debt securities.

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. In March 2010, the Court granted the defendants' motions to dismiss the Amended Consolidated Complaint, on the grounds that the Court had no jurisdiction in that Complaint as constituted, and denied as futile any request by plaintiffs for leave to file a further amended complaint. Previously, in November 2009, the Court had 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 had not been ruled upon prior to the Court's issuance of its judgment dismissing the Amended Consolidated Complaint. The original lead plaintiffs and the proposed replacement co-lead plaintiffs filed a motion asking the Court to alter or amend its March 2010 judgment so as to reinstate the claims of U.S. residents and to appoint the proposed replacement co-lead plaintiffs as co-lead plaintiffs. That motion was denied. One of the proposed replacement co-lead plaintiffs filed a motion asking the Court to grant it leave to intervene for the purpose of pursuing an appeal of the March 2010 judgment and renewing its application for appointment as replacement lead plaintiff. That motion was denied in late July 2010. The same proposed replacement co-lead plaintiff has filed notices of appeal of the March 2010 judgment and of the July 2010 denial of its motion referred to in the second preceding sentence above. Fairfax, OdysseyRe and the named officers and directors intend to oppose these purported appeals. The ultimate outcome of any litigation is uncertain, and should the consolidated lawsuit be allowed to continue (or a new comparable lawsuit be commenced) 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 is allowed to continue, or a subsequently commenced comparable lawsuit may require significant management attention, which could divert management's attention away from the company's business. In addition, the company could be materially adversely affected by negative publicity related to either such 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. If the consolidated lawsuit is allowed to continue or a new comparable lawsuit is commenced, Fairfax, OdysseyRe and the named officers and directors intend to vigorously defend against them and the company's financial statements include no provision for loss in this matter.

(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. Those defendants have not to date served all parties named in the third-party complaint and have not pursued any counterclaims. 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

On February 24, 2010, the company issued a Cdn$4.0 standby letter of credit on behalf of an investee for a term of six months. In connection with the standby letter of credit, the company had pledged short term investments in the amount of Cdn$4.2 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. On August 24, 2010, the standby letter of credit expired undrawn which was followed by the release of the company's collateral.

11. Earnings per Share

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

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Net earnings (loss) attributable to shareholders of Fairfax	**(364.6)**	79.4	**469.0**	856.8
Preferred share dividends	**(12.8)**	(4.6)	**(31.4)**	(10.5)
Excess over stated value of preferred shares purchased for cancellation	**—**	(41.3)	**—**	(41.3)
Net earnings (loss) attributable to common shareholders – basic and diluted	**(377.4)**	33.5	**437.6**	805.0
Weighted average common shares outstanding – basic	**20,474,164**	20,177,461	**20,436,346**	18,301,133
Restricted share awards	**—**	93,946	**98,226**	96,765
Weighted average common shares outstanding – diluted	**20,474,164**	20,271,407	**20,534,572**	18,397,898
Net earnings (loss) per common share – basic	**$ (18.43)**	$ 1.66	**$ 21.41**	$ 43.99
Net earnings (loss) per common share – diluted	**$ (18.43)**	$ 1.65	**$ 21.31**	$ 43.75

The number of weighted average common shares outstanding used in calculating the company's diluted net loss per share for the fourth quarter of 2010 excludes the effect of dilutive shares as their inclusion would be anti-dilutive. The number of common shares attributable to restricted share awards in the fourth quarter of 2010 was 123,739.

12. Capital Management

The company's capital management framework is designed to protect, in the following order, its policyholders, its bondholders, and preferred shareholders and then to optimize returns to common 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, 2010, comprising shareholders' equity attributable to shareholders of Fairfax and non-controlling interests, was $8,742.4, compared to $7,736.6 at December 31, 2009. The company manages its capital based on the following financial measurements and ratios:

	December 31, 2010	December 31, 2009
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**1,474.2**	1,242.7
Holding company debt	**1,498.1**	1,236.9
Subsidiary debt	**919.9**	903.4
Other long term obligations – holding company	**311.5**	173.5
Total debt	**2,729.5**	2,313.8
Net debt	**1,255.3**	1,071.1
Common shareholders' equity	**7,761.9**	7,391.8
Preferred stock	**934.7**	227.2
Non-controlling interests	**45.8**	117.6
Total equity	**8,742.4**	7,736.6
Net debt/total equity	**14.4%**	13.8%
Net debt/net total capital[(1)]	**12.6%**	12.2%
Total debt/total capital[(2)]	**23.8%**	23.0%
Interest coverage[(3)]	**2.8x**	8.2x
Interest and preferred share dividend distribution coverage[(4)]	**2.3x**	7.5x

(1) *Net total capital is calculated by the company as the sum of total equity and net debt.*

(2) *Total capital is calculated by the company as the sum of total equity 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.*

(4) *Interest and preferred share dividend distribution coverage is calculated by the company as the sum of earnings (loss) from operations before income taxes and interest expense divided by interest expense and preferred share dividend distribution obligations adjusted to a before tax equivalent at the company's Canadian statutory tax rate.*

During 2010, the company issued Cdn$750.0 of stated capital of cumulative five-year rate reset preferred shares. Accordingly, the company commenced monitoring its interest and preferred share dividend distribution coverage ratio calculated as described in footnote 4 in the table above. The company's capital management objectives includes maintaining sufficient liquid resources at the holding company to be able to pay interest on its debt, dividends to its preferred shareholders and all other holding company obligations.

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 company's exposure to potential loss from its insurance and reinsurance operations and investing activities primarily relates to underwriting risk, credit risk, liquidity risk and various market risks, as disclosed in note 19 of the company's consolidated financial statements for the year ended December 31, 2009. 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 Financial 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, 2010.

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. On May 20, 2010, the company completed the acquisition of all of the outstanding common shares of Zenith National, other than those common shares already owned by the company. The identifiable assets of Zenith National ($2,530.5 at December 31, 2010) have been included in the Insurance – U.S. reporting segment (formerly known as U.S. Insurance – Crum & Forster business segment prior to May 20, 2010). Crum & Forster's identifiable assets (included in the Insurance – U.S. reporting segment) decreased during 2010 primarily as a result of $486.0 of ordinary and extraordinary dividends paid to Fairfax. In March 2010, Fairfax Brasil Seguros Corporativos S.A. ("Fairfax Brasil"), the company's recently established wholly-owned insurance company, commenced writing commercial property and casualty insurance in Brazil following the receipt of approvals from Brazilian insurance regulatory authorities. The identifiable assets of Fairfax Brasil ($103.5 at December 31, 2010) have been included in the Reinsurance and Insurance – Other reporting segment (formerly known as the Reinsurance – Other reporting segment prior to January 1, 2010). The Insurance – Fairfax Asia reporting segment's identifiable assets increased during 2010 principally as the result of an increase in recoverable from reinsurers and portfolio investments, primarily related to bonds. On August 17, 2010, TIG completed the acquisition of all of the outstanding shares of GFIC. The identifiable assets

of GFIC ($702.1 at December 31, 2010) have been included in the Runoff reporting segment. The Corporate and other reporting segment's identifiable assets decreased during 2010 primarily as a result of the funding requirement in connection with the September 28, 2010 acquisition of the company's 41.3% interest in Gulf Insurance and the May 20, 2010 acquisition of Zenith National as described in note 5, partially offset by the preferred share issuances, the public debt offering and the public equity offering, as described in note 6 and the receipt of dividends from subsidiaries.

An analysis of pre-tax income (loss) by reporting segment for the fourth quarters and years ended December 31 is presented below:

Quarter ended December 31, 2010

	Insurance			Reinsurance	Reinsurance and Insurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other (animal nutrition)	Corporate and other	Eliminations and adjustments	Consolidated
Net premiums earned	253.6	303.5	42.7	479.4	128.3	1,207.5	—	—	—	—	1,207.5
Underwriting expenses	(281.7)	(396.3)	(38.8)	(445.5)	(115.5)	(1,277.8)	—	—	—	—	(1,277.8)
Underwriting profit (loss)	(28.1)	(92.8)	3.9	33.9	12.8	(70.3)	—	—	—	—	(70.3)
Interest income	27.8	21.1	3.4	63.9	16.9	133.1	18.0	—	(2.4)	—	148.7
Dividends	6.6	5.4	0.3	6.1	0.1	18.5	3.7	—	0.5	—	22.7
Earnings (losses) on investments, at equity	3.0	0.4	6.1	3.3	(0.3)	12.5	2.9	—	3.8	—	19.2
Investment expenses	(3.4)	(7.1)	(0.4)	(11.8)	(1.9)	(24.6)	(7.2)	—	(2.0)	23.9	(9.9)
Interest and dividends	34.0	19.8	9.4	61.5	14.8	139.5	17.4	—	(0.1)	23.9	180.7
Other											
Revenue	—	—	—	—	—	—	3.0	159.3	23.9	(23.9)	162.3
Expenses	—	—	—	—	—	—	(22.8)	(151.5)	—	—	(174.3)
	—	—	—	—	—	—	(19.8)	7.8	23.9	(23.9)	(12.0)
Operating income (loss) before:	5.9	(73.0)	13.3	95.4	27.6	69.2	(2.4)	7.8	23.8	—	98.4
Net gains (losses) on investments	(82.0)	(157.2)	(1.8)	(344.9)	(11.1)	(597.0)	(28.1)	—	(57.6)	(1.2)	(683.9)
Interest expense	—	(7.9)	—	(7.7)	(1.2)	(16.8)	(3.2)	(0.1)	(32.8)	—	(52.9)
Corporate overhead and other	(3.8)	(3.1)	(0.4)	(7.8)	(0.9)	(16.0)	—	—	(25.1)	—	(41.1)
Pre-tax income (loss)	(79.9)	(241.2)	11.1	(265.0)	14.4	(560.6)	(33.7)	7.7	(91.7)	(1.2)	(679.5)
Income taxes											316.2
Net earnings (loss)											(363.3)
Attributable to:											
Shareholders of Fairfax											(364.6)
Non-controlling interests											1.3
											(363.3)

Quarter ended December 31, 2009

	Insurance			Reinsurance	Reinsurance and Insurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other (animal nutrition)	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 (losses) 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
Net earnings											83.2
Attributable to:											
Shareholders of Fairfax											79.4
Non-controlling interests											3.8
											83.2

Year ended December 31, 2010

	Insurance			Reinsurance	Reinsurance and Insurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other (animal nutrition)	Corporate and other	Eliminations and adjustments	Consolidated
Net premiums earned	996.6	1,000.1	155.0	1,885.7	536.0	4,573.4	—	—	—	—	4,573.4
Underwriting expenses	(1,069.0)	(1,168.3)	(138.4)	(1,859.9)	(574.4)	(4,810.0)	—	—	—	—	(4,810.0)
Underwriting profit (loss)	(72.4)	(168.2)	16.6	25.8	(38.4)	(236.6)	—	—	—	—	(236.6)
Interest income	106.9	91.1	13.2	271.0	52.0	534.2	63.4	—	5.6	—	603.2
Dividends	24.9	27.1	5.0	40.3	0.7	98.0	24.4	—	6.4	—	128.8
Earnings (losses) on investments, at equity	5.0	3.3	23.2	10.9	(1.4)	41.0	3.9	—	6.0	—	50.9
Investment expenses	(11.0)	(17.6)	(1.6)	(33.3)	(6.3)	(69.8)	(13.2)	—	(3.2)	65.7	(20.5)
Interest and dividends	125.8	103.9	39.8	288.9	45.0	603.4	78.5	—	14.8	65.7	762.4
Other											
Revenue[1]	—	—	—	—	—	—	90.3	549.1	65.7	(65.7)	639.4
Expenses	—	—	—	—	—	—	(124.0)	(538.8)	—	—	(662.8)
	—	—	—	—	—	—	(33.7)	10.3	65.7	(65.7)	(23.4)
Operating income (loss) before:	53.4	(64.3)	56.4	314.7	6.6	366.8	44.8	10.3	80.5	—	502.4
Net gains (losses) on investments	55.7	122.5	(3.5)	(28.8)	72.9	218.8	98.7	—	(125.6)	(3.4)	188.5
Interest expense	—	(30.7)	—	(30.5)	(4.5)	(65.7)	(3.2)	(0.6)	(125.9)	—	(195.4)
Corporate overhead and other	(15.4)	(7.7)	(2.4)	(31.3)	(3.1)	(59.9)	—	—	(83.9)	—	(143.8)
Pre-tax income (loss)	93.7	19.8	50.5	224.1	71.9	460.0	140.3	9.7	(254.9)	(3.4)	351.7
Income taxes											119.5
Net earnings											471.2
Attributable to:											
Shareholders of Fairfax											469.0
Non-controlling interests											2.2
											471.2

(1) *The Runoff segment revenue includes $83.1 of the excess of the fair value of net assets acquired over the purchase price related to the acquisition of GFIC, as described in note 5.*

Year ended December 31, 2009

	Insurance			Reinsurance	Reinsurance and Insurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other (animal nutrition)	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 (losses) 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)
Net earnings											990.7
Attributable to:											
Shareholders of Fairfax											856.8
Non-controlling interests											133.9
											990.7

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

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Revenue of reporting segments:				
Net premiums earned	**1,207.5**	1,115.1	**4,573.4**	4,422.0
Interest and dividends	**180.7**	172.4	**762.4**	712.7
Net gains (losses) on investments	**(683.9)**	(30.3)	**188.5**	944.5
Other revenue per reportable segment	**162.3**	150.1	**639.4**	556.4
Total consolidated revenue	**866.6**	1,407.3	**6,163.7**	6,635.6

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 21 on pages 89 to 97 of the company's 2009 Annual Report (updated for the changes that follow).

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

	Fourth quarter		Year ended December 31,	
	2010	2009[1]	**2010**	2009[1]
Net earnings (loss), Canadian GAAP	**(363.3)**	83.2	**471.2**	990.7
Recoveries on retroactive reinsurance[2]	**4.0**	3.7	**15.9**	14.9
Equity accounting[3]	**0.2**	10.7	**9.2**	3.6
Northbridge step acquisitions[4]	**2.1**	2.7	**12.2**	(1.9)
OdysseyRe step acquisition[5]	**9.4**	17.0	**86.1**	17.0
Repurchase of subsidiary securities[6]	**—**	0.3	**—**	(16.9)
Tax effects	**(10.5)**	(11.2)	**(48.4)**	(11.0)
Net earnings (loss), US GAAP	**(358.1)**	106.4	**546.2**	996.4
Attributable to:				
Shareholders of Fairfax, US GAAP	**(359.4)**	103.6	**544.0**	860.3
Non-controlling interests, US GAAP	**1.3**	2.8	**2.2**	136.1
	(358.1)	106.4	**546.2**	996.4
Net earnings (loss) per share, US GAAP	**$ (18.18)**	$ 2.86	**$ 25.08**	$ 44.18
Net earnings (loss) per diluted share, US GAAP	**$ (18.18)**	$ 2.85	**$ 24.96**	$ 43.95
Other comprehensive income (loss), Canadian GAAP	**(72.9)**	(76.1)	**(21.2)**	1,074.3
Equity accounting[3]	**(0.7)**	14.5	**0.5**	(3.7)
Northbridge step acquisitions[4]	**(5.9)**	(4.8)	**(15.2)**	(7.1)
OdysseyRe step acquisition[5]	**(9.0)**	(18.3)	**(85.9)**	(18.3)
Pension liability adjustment	**2.8**	(8.3)	**2.8**	(8.3)
Tax effects	**5.6**	2.1	**34.6**	(3.8)
Other comprehensive income (loss), US GAAP	**(80.1)**	(90.9)	**(84.4)**	1,033.1
Attributable to:				
Shareholders of Fairfax, US GAAP	**(79.7)**	(87.3)	**(84.0)**	928.6
Non-controlling interests, US GAAP	**(0.4)**	(3.6)	**(0.4)**	104.5
	(80.1)	(90.9)	**(84.4)**	1,033.1
Net earnings (loss), US GAAP	**(358.1)**	106.4	**546.2**	996.4
Other comprehensive income (loss), US GAAP	**(80.1)**	(90.9)	**(84.4)**	1,033.1
Comprehensive income (loss), US GAAP	**(438.2)**	15.5	**461.8**	2,029.5
Attributable to:				
Shareholders of Fairfax, US GAAP	**(439.1)**	16.3	**460.0**	1,788.9
Non-controlling interests, US GAAP	**0.9**	(0.8)	**1.8**	240.6
	(438.2)	15.5	**461.8**	2,029.5

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, 2010			December 31, 2009[1]		
	Canadian GAAP	**Differences**	**US GAAP**	Canadian GAAP	Differences	US GAAP
Assets						
Holding company cash, short term investments and marketable securities[3]	**1,540.7**	**—**	**1,540.7**	1,251.6	—	1,251.6
Portfolio investments:						
Common stocks[3]	**4,131.3**	**(326.0)**	**3,805.3**	4,895.0	(186.8)	4,708.2
Investments, at equity[3]	**715.5**	**312.3**	**1,027.8**	433.5	165.0	598.5
All other portfolio investments	**17,135.0**	**—**	**17,135.0**	14,750.1	—	14,750.1
Future income taxes[2][3][4][5][7]	**514.4**	**76.9**	**591.3**	318.7	89.3	408.0
Goodwill and intangible assets[4][5]	**949.1**	**(268.4)**	**680.7**	438.8	(265.4)	173.4
All other assets	**6,752.2**	**—**	**6,752.2**	6,364.3	—	6,364.3
	31,738.2	**(205.2)**	**31,533.0**	28,452.0	(197.9)	28,254.1
Liabilities						
Accounts payable and accrued liabilities[2]	**1,269.6**	**111.7**	**1,381.3**	1,238.1	130.8	1,368.9
All other liabilities	**21,567.6**	**—**	**21,567.6**	19,312.9	—	19,312.9
	22,837.2	**111.7**	**22,948.9**	20,551.0	130.8	20,681.8
Mandatorily redeemable shares of TRG	**158.6**	**—**	**158.6**	164.4	—	164.4
Equity[1][2][3][4][5][6][7]	**8,742.4**	**(316.9)**	**8,425.5**	7,736.6	(328.7)	7,407.9
	31,738.2	**(205.2)**	**31,533.0**	28,452.0	(197.9)	28,254.1

The difference in consolidated total equity was as follows:

	December 31, 2010			December 31, 2009[1]		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Total equity based on Canadian GAAP	**8,742.4**	**8,696.6**	**45.8**	7,736.6	7,619.0	117.6
Accumulated other comprehensive loss	**(123.8)**	**(121.6)**	**(2.2)**	(60.6)	(58.9)	(1.7)
Cumulative reduction in retained earnings under US GAAP	**(193.1)**	**(193.1)**	**—**	(268.1)	(268.1)	—
Total equity based on US GAAP	**8,425.5**	**8,381.9**	**43.6**	7,407.9	7,292.0	115.9

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

	December 31, 2010			December 31, 2009		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Equity accounting[3]	**(3.2)**	**(3.2)**	**—**	(3.7)	(3.7)	—
Northbridge step acquisitions[4]	**(22.3)**	**(22.3)**	**—**	(7.1)	(7.1)	—
OdysseyRe step acquisition[5]	**(104.2)**	**(104.2)**	**—**	(18.3)	(18.3)	—
Pension liability adjustment[7]	**(34.8)**	**(31.8)**	**(3.0)**	(37.6)	(35.1)	(2.5)
Related future income taxes	**40.7**	**39.9**	**0.8**	6.1	5.3	0.8
	(123.8)	**(121.6)**	**(2.2)**	(60.6)	(58.9)	(1.7)

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

	December 31, 2010			December 31, 2009		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Net actuarial loss	**(40.1)**	**(36.7)**	**(3.4)**	(44.7)	(41.6)	(3.1)
Prior service costs	**2.8**	**2.4**	**0.4**	3.5	2.9	0.6
Transitional amounts	**2.5**	**2.5**	**—**	3.6	3.6	—
Total	**(34.8)**	**(31.8)**	**(3.0)**	(37.6)	(35.1)	(2.5)

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

	December 31, 2010			December 31, 2009		
	Total	**Parent company**	**Non - controlling interests**	Total	Parent company	Non - controlling interests
Recoveries on retroactive reinsurance[2]	**(58.9)**	**(58.9)**	**—**	(69.2)	(69.2)	—
Equity accounting[3]	**3.4**	**3.4**	**—**	(2.6)	(2.6)	—
Northbridge step acquisitions[4]	**(147.0)**	**(147.0)**	**—**	(150.4)	(150.4)	—
OdysseyRe step acquisition[5]	**(22.8)**	**(22.8)**	**—**	(78.1)	(78.1)	—
Purchase price allocation on the acquisition of TIG Re (now part of OdysseyRe) in 1999	**32.2**	**32.2**	**—**	32.2	32.2	—
	(193.1)	**(193.1)**	**—**	(268.1)	(268.1)	—

(1) The presentation under Canadian and US GAAP of non-controlling interests on the consolidated balance sheets and in the consolidated statements of earnings was substantially harmonized following the adoption by the company of new Canadian GAAP accounting pronouncements related to business combinations and non-controlling interests on January 1, 2010 as described in note 2. Accordingly, certain comparative figures have been reclassified to conform to the presentation of non-controlling interests adopted under Canadian GAAP in the current year.

(2) Under Canadian GAAP, recoveries on certain stop loss reinsurance treaties are recorded at the same time as the claims incurred are ceded. Under US GAAP, these recoveries, which are considered to be retroactive reinsurance, are recorded up to the amount of the premium paid with the excess of the ceded liabilities over the premium paid recorded as a deferred gain. The deferred gain is amortized to income over the estimated settlement period over which the company expects to receive the recoveries and is recorded in accounts payable and accrued liabilities.

(3) Under Canadian GAAP, certain of the company's investments in partnership trusts that do not have a quoted price in an active market are accounted for on the cost basis. Under Canadian GAAP, the company's investment in limited partnerships whose fair value can be reliably measured are recorded in the consolidated balance sheet as common stocks designated as held for trading. For the investments in partnership trusts and limited partnerships described above, US GAAP requires the use of the equity method to account for such investments since the company's equity interest in these investments is more than minor.

(4) 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, 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, in the first quarter of 2009, 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 relating to investments of $0.5 and $6.2 which decreased pre-tax net earnings and increased other comprehensive income under Canadian GAAP in the fourth quarter and twelve months of 2010 respectively are not recognized in comprehensive income under US GAAP. Fair value adjustments relating to investments of $1.2 which decreased pre-tax earnings and increased other comprehensive income under Canadian GAAP in the fourth quarter of 2009 and $7.4 which increased pre-tax earnings and decreased other comprehensive income under Canadian GAAP in the twelve months of 2009 are not recognized in comprehensive income under US GAAP.

(5) Under Canadian GAAP, the privatization of OdysseyRe was accounted for as a step acquisition of the outstanding common shares of OdysseyRe. Under US GAAP, 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, as described in note 18 of the company's 2009 Annual Report. These fair value adjustments to assets and liabilities and goodwill are not recognized under US GAAP. As a result, in the fourth quarter of 2009, 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 relating to investments of $7.8 and $84.7 which decreased pre-tax net earnings and increased pre-tax other comprehensive income under Canadian GAAP in the fourth quarter and twelve months of 2010 respectively are not recognized in comprehensive income under US GAAP. Fair value adjustments relating to investments of $17.0 which decreased pre-tax net earnings and increased other comprehensive income under Canadian GAAP in the fourth quarter and twelve months of 2009 are not recognized in comprehensive income under US GAAP.

(6) Under Canadian GAAP, the repurchase by OdysseyRe of its common shares as described in note 5 was accounted for as a step acquisition. Under US GAAP, changes in ownership interests of a subsidiary that do not result in a loss or acquisition of control are accounted for as equity transactions. Step acquisition accounting under Canadian GAAP recognizes fair value adjustments to the net assets acquired. These fair value adjustments are not recognized under US GAAP. As a result, the gain of $16.9 recognized in 2009 in connection with OdysseyRe's repurchase of its common shares under Canadian GAAP was charged to cumulative reduction in retained earnings under US GAAP.

(7) US GAAP requires the recognition of a net asset or liability to report the funded status of a company's defined benefit and other post retirement benefit plans on its balance sheet with an offsetting adjustment to accumulated other comprehensive income in total equity. There is no such requirement under Canadian GAAP.

Statements of Cash Flows

Under Canadian GAAP, the privatization of Northbridge in the first quarter of 2009 was presented in the consolidated statements of cash flows as an investing activity. Under US GAAP, 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 are presented in the consolidated statements of cash flows as a financing activity. Accordingly, $1,015.9 and $1,618.5 of cash used in investing activities and classified as purchases of subsidiaries, net of cash acquired under Canadian GAAP, would be reclassified as a financing activity under US GAAP in the fourth quarter and twelve months of 2009 respectively. There were no other significant differences in the consolidated statements of cash flows under US GAAP as compared to Canadian GAAP.

Accounting pronouncements adopted in 2010

On January 1, 2010, the company adopted Accounting Standards Update No. 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interests Entities ("ASU 2009-17"), which amends ASC Topic 810, Consolidation. The amendments replaced the previous quantitative risks and rewards approach for determining consolidation of 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. ASU 2009-17 also requires: reconsideration of whether an entity is a variable interest entity when any changes in fact and circumstances occur; ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity; and additional disclosures about an enterprise's involvement in variable interest entities. The adoption of ASU 2009-17 did not have any significant impact on the company's consolidated financial position or results of operations under US GAAP.

On January 1, 2010, the company adopted Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements ("ASU 2010-06"). ASU 2010-06 requires the disclosures about the transfers in and out of Levels 1 and 2 and information about purchases, sales, issuances and settlements for Level 3 activities. It also clarifies requirements for existing fair value disclosures with respect to the level of disaggregation required within the fair value hierarchy and inputs and valuation techniques used to measure fair value. The adoption of ASU 2010-06 did not have any significant impact on the company's consolidated financial position or results of operations under US GAAP.

Accounting pronouncements to be adopted in 2011

On January 4, 2008, the U.S. Securities and Exchange Commission ("SEC") adopted rules to accept from foreign private issuers in their filings with the SEC financial statements prepared in accordance with IFRS without reconciliation to the US GAAP. The amendments are applicable to financial statements for financial years ending after November 15, 2007 and interim periods within those years contained in the filings made after the effective date. As such, the company will discontinue presenting a US GAAP reconciliation when the company changes over to IFRS for its interim and annual financial statements beginning January 1, 2011.

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,	
	2010	2009	**2010**	2009
Provision for claims	**(70.4)**	(326.4)	**(282.9)**	(661.3)
Unearned premiums	**(194.4)**	(163.2)	**(125.3)**	(135.4)
Accounts receivable and other	**176.5**	107.6	**616.1**	75.1
Income taxes receivable	**(68.3)**	11.4	**(176.5)**	(25.1)
Recoverable from reinsurers	**110.7**	291.3	**152.8**	514.7
Funds withheld payable to reinsurers	**7.0**	(6.3)	**8.3**	(0.2)
Accounts payable and accrued liabilities	**(111.1)**	(19.0)	**(202.7)**	12.5
Income taxes payable	**(98.1)**	(74.2)	**(46.2)**	(579.4)
Other	**66.1**	15.8	**46.5**	34.3
Changes in operating assets and liabilities	**(182.0)**	(163.0)	**(9.9)**	(764.8)

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, 2009 contained in the company's 2009 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, 2010 and 2009 are shown in the table that follows (Other revenue comprises animal nutrition revenue earned by Ridley Inc. ("Ridley")).

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Net premiums earned				
Insurance – Canada (Northbridge)	**253.6**	256.4	**996.6**	969.2
– U.S. (Crum & Forster and Zenith National)	**303.5**	191.6	**1,000.1**	781.3
– Asia (Fairfax Asia)	**42.7**	32.9	**155.0**	116.0
Reinsurance – OdysseyRe	**479.4**	483.0	**1,885.7**	1,927.4
Reinsurance and Insurance – Other	**128.3**	151.2	**536.0**	628.1
Runoff	**3.4**	—	**7.2**	—
	1,210.9	1,115.1	**4,580.6**	4,422.0
Interest and dividends	**180.7**	172.4	**762.4**	712.7
Net gains (losses) on investments	**(683.9)**	(30.3)	**188.5**	944.5
Excess of fair value of net assets acquired over purchase price	**(0.4)**	—	**83.1**	—
Other revenue	**159.3**	150.1	**549.1**	556.4
	866.6	1,407.3	**6,163.7**	6,635.6

Revenue in the fourth quarter of 2010 decreased to $866.6 from $1,407.3 in the fourth quarter of 2009, principally as a result of the significant year-over-year increase in net investment losses, partially offset by increased net premiums earned, interest and dividend income and other revenue related to Ridley. The increase in net premiums earned by the insurance and reinsurance operations in the fourth quarter of 2010 of 8.3% to $1,207.5 from $1,115.1 in the fourth quarter of 2009 reflected the consolidation of the net premiums earned by Zenith National Insurance Corp. ("Zenith National") and increased net premiums earned by Fairfax Asia, partially offset by declines in net premiums earned by Reinsurance and Insurance – Other, OdysseyRe, Northbridge and Crum & Forster.

Interest and dividend income increased in the fourth quarter of 2010 relative to the fourth quarter of 2009 (by $8.3, or 4.8%) with the increase primarily reflecting the consolidation of interest and dividends earned by Zenith National and General Fidelity Insurance Company ("GFIC"). Consolidated interest and dividend income in the fourth quarter of 2010 decreased 4.6% to $164.4 from $172.4 in the fourth quarter of 2009 (after excluding $12.1 and $4.2 of interest and dividends earned by Zenith National and GFIC respectively in the fourth quarter of 2010) primarily as the result of increased investment expenses incurred in connection with total return swaps, partially offset by increased equity earnings of investees and the impact of higher yielding securities owned in the investment portfolio.

Increased net investment losses of $683.9 in the fourth quarter of 2010 included net mark-to-market losses of $763.6 and $425.5 related to short equity and equity index total return swaps and U.S. state and municipal bonds respectively, partially offset by net gains primarily related to common stocks and corporate and other bonds. The company uses short equity and equity index total return swaps to economically hedge equity price risk associated with its equity and equity-related holdings, the majority of which are carried at fair value with mark-to-market gains and losses recorded in other comprehensive income (loss) until realized or impaired. The net pre-tax impact on total equity of the company's equity hedging program was a decrease of $90.3 in the fourth quarter of 2010 as indicated in the tabular analysis under the heading of Market Price Fluctuations in the Financial Risk Management section that follows in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Net losses on U.S. state and municipal bonds were comprised primarily of net mark-to-market losses arising from an increase in interest rates during the fourth quarter of 2010 and were partially offset by net gains on corporate and other bonds.

Revenue in 2010 decreased to $6,163.7 from $6,635.6 in 2009, principally as a result of the significant year-over-year decrease in net gains on investments and a decline in other revenue related to Ridley, partially offset by increased net premiums earned, the benefit of the $83.1 excess of the fair value of net assets acquired over the purchase price recorded by Runoff related to the acquisition of GFIC and increased interest and dividend income. The increase in net premiums earned by the insurance and reinsurance operations in 2010 of 3.4% to $4,573.4 from $4,422.0 in 2009 reflected the consolidation of net premiums earned by Zenith National and increased net premiums earned by Fairfax Asia and Northbridge (increased in U.S. dollar terms, but decreased 6.8% in Canadian dollars), partially offset by declines in net premiums earned by Reinsurance and Insurance – Other (principally Advent and Polish Re), Crum & Forster and OdysseyRe.

Interest and dividend income increased in the twelve months of 2010 relative to 2009 (by $49.7, or 7.0%) with the increase primarily reflecting the consolidation of interest and dividends earned by Zenith National and GFIC. Consolidated interest and dividend income in the twelve months of 2010 increased 2.0% to $727.2 from $712.7 in the twelve months of 2009 (after excluding $29.8 and $5.4 of interest and dividends recorded by Zenith National and GFIC respectively in the twelve months of 2010) primarily as the result of the impact of higher yielding securities owned in the investment portfolio and the effect of the larger average portfolio investments held during 2010 compared to 2009 and increased equity earnings of investees, partially offset by increased investment expense incurred in connection with total return swaps.

Net gains on investments decreased significantly in 2010 compared to 2009 (by $756.0, or 80.0%), principally reflecting net mark-to-market losses of $936.6 and $170.9 related to short equity and equity index total return swaps and U.S. state and municipal bonds respectively, partially offset by net gains primarily related to common stocks and corporate and other bonds. The company uses short equity and equity index total return swaps to economically hedge equity price risk associated with its equity and equity-related holdings, the majority of which are carried at fair value with mark-to-market gains and losses recorded in other comprehensive income (loss) until realized or impaired. The net pre-tax impact on total equity of the company's equity hedging program was a decrease of $51.4 in the twelve months of 2010 as indicated in the tabular analysis under the heading of Market Price Fluctuations in the Financial Risk Management section that follows in this Management's Discussion and Analysis of Financial Condition and Results of Operations. Net losses on U.S. state and municipal bonds were comprised primarily of net mark-to-market losses arising from an increase in interest rates during 2010 (most notably in the fourth quarter) and were more than offset by net gains on corporate and other bonds.

The global insurance and reinsurance industry continued to experience challenging market and economic conditions. Consolidated gross premiums written in the fourth quarter and twelve months of 2010 included the gross premiums written of Zenith National and GFIC (which were not included in the fourth quarter and twelve months of 2009). Gross premiums written increased 1.4% in the fourth quarter of 2010 compared to the fourth quarter of 2009, (after excluding gross premiums written by Zenith National ($77.9) and GFIC ($0.4) in the fourth quarter of 2010), with increases at Crum & Forster and Fairfax Asia, partially offset by decreases at OdysseyRe, Northbridge (decreased 5.1% in Canadian dollars) and Reinsurance and Insurance – Other (decreased at Group Re, Polish Re and Advent, partially offset by the inclusion of Fairfax Brasil Seguros Corporativos S.A. ("Fairfax Brasil")). Gross premiums written increased 1.5% in 2010 compared to 2009, (after excluding gross premiums written by Zenith National ($192.3) and GFIC ($0.4 of gross premiums returned) in 2010), with increases at Fairfax Asia, Northbridge (increased in U.S. dollar terms, but decreased 5.7% in Canadian dollars), and Crum & Forster, partially offset by decreases at Reinsurance and Insurance – Other (primarily decreases at Advent (reflecting Advent's greater reinsurance-to-close premiums in 2009), Group Re, and Polish Re, partially offset by the inclusion of Fairfax Brasil) and OdysseyRe.

Net premiums written by the insurance and reinsurance operations in the fourth quarter of 2010 increased 8.2% to $1,072.2 from $990.7 in the fourth quarter of 2009, and reflected the consolidation of Zenith National ($75.4), the year-over-year increases at Crum & Forster ($12.2 or 7.1%), Fairfax Asia ($4.5 or 15.8%), OdysseyRe ($3.7, or 0.9%) and Northbridge ($2.8, or 1.1%, with the increase principally attributable to currency translation), partially offset by decreases at Reinsurance and Insurance – Other ($17.1, or 15.2%). Net premiums written by the insurance and reinsurance operations in 2010 increased by 3.7% or $159.6 from $4,286.6 in 2009, and principally reflected the consolidation of Zenith National ($186.1).

Net premiums written by Northbridge measured in U.S. dollars increased by 6.1% (decreased 3.8% measured in Canadian dollar terms) during the twelve months of 2010 as a result of continuing weakness in commercial lines market conditions and Northbridge companies' pricing discipline which resulted in unprofitable business being let go, as well as the planned strategic exit from certain lines of business and business written in catastrophe exposed regions. Continued growth in Crum & Forster's specialty lines (principally accident and health and certain specialty lines at its Seneca division), partially offset by decreased writings of standard commercial property and casualty lines as a result of challenging U.S. commercial lines market conditions, industry-wide pricing weakness in casualty lines that affected both new and renewal business and downward pricing pressure on commercial property lines caused by excess industry capacity and lower catastrophe losses, resulted in an overall increase in net premiums written of 2.4% in the twelve months of 2010. Net premiums written by Zenith National continued to be affected by the impact of the weak economy on the payrolls of its insured customers, as well as competition and rate levels. Net premiums written by OdysseyRe decreased by 2.1%

during the twelve months of 2010 as the result of the continuation in 2010 of the broad competitive pressures in the global reinsurance and insurance markets in which the divisions of OdysseyRe compete and the selective exiting from certain programs where rates were considered to be inadequate, partially offset by selective growth in certain property catastrophe, surety and energy lines of business. OdysseyRe's net premiums written in the twelve months of 2010 decreased in its US Insurance division (14.2%), EuroAsia division (2.6%) and Americas division (0.9%), partially offset by increased net premiums written of 13.3% in the London market division.

Other revenue of $159.3 and $549.1 (2009 – $150.1 and $556.4) and other expenses of $151.5 and $538.8 (2009 – $142.0 and $544.0) for the fourth quarter and twelve months of 2010 respectively, represent the revenue and the operating and other costs 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 as follows for the fourth quarters and years ended December 31, 2010 and 2009. In August 2010, TIG Insurance Company ("TIG"), an indirect wholly-owned subsidiary of Fairfax, completed the acquisition of all of the outstanding shares of GFIC, a property and casualty insurance company based in the United States. The operating results of GFIC since acquisition are included in the Runoff business segment. In May 2010, the company completed the acquisition of all of the outstanding shares of Zenith National, other than those common shares already owned by the company. The operating results of Zenith National since acquisition are included in the Insurance – U.S. business segment (formerly known as U.S. Insurance – Crum & Forster business segment prior to May 20, 2010). In March 2010, Fairfax Brasil, the company's recently established wholly-owned insurance company, commenced writing commercial property and casualty insurance in Brazil following the receipt of approvals from Brazilian insurance regulatory authorities. The operating results of Fairfax Brasil are included in the Reinsurance and Insurance – Other business segment (formerly known as the Reinsurance – Other business segment prior to January 1, 2010).

The fourth quarter and twelve months of 2009 results reflected the company's 100% interest in Northbridge, 100% interest in OdysseyRe, 100% interest in Advent and include the results of operations of Polish Re. In October 2009, the company completed the acquisition of the 36.5% of the outstanding common shares of Advent not already owned by Fairfax, as described in note 5. 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. 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 of Polish Re are included in the Reinsurance and Insurance – Other business segment. During the latter part of 2009, the company completed the acquisition of the 27.4% of the outstanding common shares of OdysseyRe not already owned by Fairfax, as described in note 5.

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Combined ratios				
Insurance – Canada (Northbridge)	**111.1%**	112.6%	**107.3%**	105.9%
– U.S. (Crum & Forster and Zenith National)	**130.6%**	106.9%	**116.8%**	104.1%
– Asia (Fairfax Asia)	**90.8%**	85.3%	**89.3%**	82.6%
Reinsurance – OdysseyRe	**92.9%**	96.6%	**98.6%**	96.7%
Reinsurance and Insurance – Other	**90.0%**	101.5%	**107.2%**	98.1%
Consolidated	**105.8%**	102.4%	**105.2%**	99.8%
Sources of net earnings				
Underwriting				
Insurance – Canada (Northbridge)	**(28.1)**	(32.2)	**(72.4)**	(57.1)
– U.S. (Crum & Forster and Zenith National)	**(92.8)**	(13.3)	**(168.2)**	(32.0)
– Asia (Fairfax Asia)	**3.9**	4.8	**16.6**	20.2
Reinsurance – OdysseyRe	**33.9**	16.3	**25.8**	64.3
Reinsurance and Insurance – Other	**12.8**	(2.3)	**(38.4)**	11.9
Underwriting profit (loss)	**(70.3)**	(26.7)	**(236.6)**	7.3
Interest and dividends – insurance and reinsurance	**139.5**	129.6	**603.4**	557.0
Operating income	**69.2**	102.9	**366.8**	564.3
Net gains (losses) on investments – insurance and reinsurance	**(598.2)**	(43.8)	**215.4**	668.0
Runoff	**(30.5)**	(47.7)	**143.5**	31.2
Other (animal nutrition)	**7.8**	8.1	**10.3**	12.4
Interest expense	**(52.9)**	(49.3)	**(195.4)**	(166.3)
Corporate overhead and other	**(74.9)**	13.0	**(188.9)**	96.0
Pre-tax income (loss)	**(679.5)**	(16.8)	**351.7**	1,205.6
Income taxes	**316.2**	100.0	**119.5**	(214.9)
Net earnings (loss)	**(363.3)**	83.2	**471.2**	990.7
Attributable to:				
Shareholders of Fairfax	**(364.6)**	79.4	**469.0**	856.8
Non-controlling interests	**1.3**	3.8	**2.2**	133.9
	(363.3)	83.2	**471.2**	990.7

The insurance and reinsurance operations reported an underwriting loss of $70.3 in the fourth quarter of 2010 compared to an underwriting loss of $26.7 in the fourth quarter of 2009. The combined ratio of those operations in the fourth quarter of 2010 was 105.8% compared to 102.4% in the fourth quarter of 2009, with Northbridge, U.S. Insurance, Fairfax Asia, OdysseyRe and Reinsurance and Insurance – Other producing combined ratios of 111.1%, 130.6%, 90.8%, 92.9% and 90.0% respectively. Catastrophe losses negatively impacted fourth quarter 2010 underwriting results by 3.9 combined ratio points ($46.8 net of reinstatement premiums) compared to 3.5 combined ratio points ($38.4 net of reinstatement premiums) in the fourth quarter of 2009. Catastrophe losses, net of reinstatement premiums, included in the fourth quarter of 2010 underwriting results were comprised primarily of attritional catastrophe losses and reserve increases related to the New Zealand earthquake at OdysseyRe, Advent and Group Re, partially offset by reinsurance recoveries at Advent related to the New Zealand earthquake which were triggered in the fourth quarter. Catastrophe losses, net of reinstatement premiums, included in the fourth quarter 2009 underwriting results primarily related to storm activity and flooding in Turkey and the Philippines. Fourth quarter 2010 underwriting results included 2.8 combined ratio points ($34.0) of net adverse development of prior years' reserves (principally at Zenith National, Northbridge, Crum & Forster and Group Re, partially offset by net favourable development of prior years' reserves at Advent, Fairfax Asia and OdysseyRe) compared to 1.3 combined ratio points ($14.5) of net adverse development of prior years' reserves included in the fourth quarter 2009 underwriting results (principally at Group Re and Northbridge, partially offset by net favourable development at Fairfax Asia and Crum & Forster).

In 2010, the insurance and reinsurance operations reported an underwriting loss of $236.6 compared to an underwriting profit of $7.3 in 2009. The combined ratio of those operations in 2010 was 105.2% compared to 99.8% in 2009, with Northbridge, U.S. Insurance, Fairfax Asia, OdysseyRe and Reinsurance and Insurance – Other producing combined ratios of 107.3%, 116.8%, 89.3%, 98.6% and 107.2% respectively. Catastrophe losses negatively impacted 2010 underwriting results by 7.3 combined ratio points ($331.4 net of reinstatement premiums) compared to 3.8 combined ratio points ($165.6 net of reinstatement premiums) in 2009. Catastrophe losses in 2010 principally related to the impact of the Chilean earthquake ($137.2 net of reinstatement premiums, 3.0 combined ratio points) which affected the underwriting results of OdysseyRe ($86.5 net of reinstatement premiums), Advent ($35.5 net of reinstatement premiums) and Group Re ($15.2 net of reinstatement premiums). The 2010 underwriting loss also included attritional catastrophe losses at OdysseyRe and Advent, the impact of the New Zealand earthquake, Windstorm Xynthia, the Eastern

European floods and the Haitian earthquake and the impact of the Deepwater Horizon loss ($36.8 net of reinstatement premiums, 0.8 combined ratio points). Prior to giving effect to the impact of the Deepwater Horizon loss and the Chilean earthquake losses, the combined ratio of the insurance and reinsurance operations was 101.4% in 2010. Catastrophe losses negatively impacted 2009 underwriting results by 3.8 combined ratio points ($165.6 net of reinstatement premiums) related primarily to storm activity in Europe and severe weather in the U.S. Underwriting results in 2010 included the benefit of 0.3 of a combined ratio point ($11.5) of net favourable development of prior years' reserves principally at Advent, Fairfax Asia, OdysseyRe and Northbridge, partially offset by net adverse development of prior years' reserves at Zenith National, Crum & Forster and Group Re. Underwriting results in 2009 included the benefit of 0.6 of a combined ratio point ($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.

In the fourth quarter of 2010, the company reported a net loss attributable to shareholders of Fairfax of $364.6 ($18.43 per basic and diluted share) compared to net earnings attributable to shareholders of Fairfax of $79.4 ($1.66 per share, $1.65 per diluted share) in the fourth quarter of 2009. The year-over-year decrease in fourth quarter net earnings primarily reflected increased net investment losses of $683.9 (described below) and a decline in underwriting results, partially offset by an increase in the benefit attributable to the corporate income tax recovery in the fourth quarter of 2010, the reduced Runoff operating loss and increased interest and dividend income. Net losses on investments in the fourth quarter of 2010 of $683.9 ($30.3 in the fourth quarter of 2009) were comprised as shown in the table below.

In 2010, the company reported net earnings attributable to shareholders of Fairfax of $469.0 ($21.41 per share, $21.31 per diluted share) compared to $856.8 ($43.99 per share, $43.75 per diluted share) in 2009. The year-over-year decrease in net earnings primarily reflected decreased net gains on investments, the significant underwriting losses resulting from the Chilean earthquake, the Deepwater Horizon loss and other attritional catastrophes and increased interest expense, partially offset by the benefit attributable to the corporate income tax recovery in 2010, the reduction in earnings attributable to non-controlling interests following the privatization of Northbridge and OdysseyRe during 2009, the benefit of the $83.1 excess of the fair value of net assets acquired over the purchase price recorded by Runoff related to the acquisition of GFIC, increased interest and dividend income and the reduced Runoff operating loss. Net gains on investments in 2010 of $188.5 ($944.5 in the twelve months of 2009) were comprised as follows:

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Net gains (losses) on investments:				
Common stocks	**83.0**	125.0	**476.5**	239.0
Equity derivatives	**(561.4)**	(43.1)	**(755.9)**	224.3
Bonds	**(212.1)**	(108.2)	**573.9**	937.9
Preferred stocks	**47.5**	23.2	**(13.8)**	26.6
Other derivatives	**(78.5)**	(14.5)	**26.4**	(147.2)
Partial disposition of investee company	**77.9**	—	**77.9**	—
Provisions for other than temporary impairments	**(1.0)**	(8.6)	**(33.7)**	(340.0)
Foreign currency	**(43.9)**	0.9	**(178.2)**	(17.6)
Other	**4.6**	(5.0)	**15.4**	21.5
	(683.9)	(30.3)	**188.5**	944.5

The fourth quarter of 2010 included net mark-to-market losses of $763.6 ($936.6 in the twelve months of 2010) related to short equity and equity index total return swaps included in equity derivatives in the table above which were partially offset by net gains on long equity total return swaps and equity warrants. The company uses short equity and equity index total return swaps to economically hedge equity price risk associated with its equity and equity-related holdings, the majority of which are carried at fair value with mark-to-market gains and losses recorded in other comprehensive income (loss) until realized or impaired. At December 31, 2010, equity hedges represented approximately 88.8% of the company's equity and equity-related holdings ($6,854.5). The net pre-tax impact on total equity of the company's equity hedging program was a decrease of $90.3 in the fourth quarter of 2010 ($51.4 in the twelve months of 2010) as indicated in the tabular analysis under the heading of Market Price Fluctuations in the Financial Risk Management section that follows in this Management's Discussion and Analysis of Financial Condition and Results of Operations. The fourth quarter of 2010 also included net mark-to-market losses of $425.5 ($170.9 in the twelve months of 2010) on U.S. state and municipal bonds included in bonds in the table above. These were comprised primarily of net mark-to-market losses arising from an increase in interest rates during 2010 (most notably in the fourth quarter) and were more than offset by net gains on corporate and other bonds.

Operating expenses in the fourth quarter and twelve months of 2010 in the consolidated statements of earnings include only the operating expenses of the company's insurance, reinsurance and runoff operations and corporate overhead. The $12.3 increase in fourth quarter 2010 operating expenses compared to the fourth quarter of 2009 (after excluding $44.6 and $3.6 of operating expenses recorded by Zenith National and GFIC in the fourth quarter of 2010 respectively) related primarily to increased corporate overhead of Fairfax holding companies and increased operating expenses at Northbridge. The $21.0 increase in 2010 operating expenses compared

to 2009 (after excluding $103.9 and $4.7 of operating expenses recorded by Zenith National and GFIC in 2010 respectively) related primarily to increased operating expenses at Northbridge (with the increase principally attributable to currency translation), OdysseyRe, Advent and the inclusion of the operating expenses of Fairfax Brasil, partially offset by decreased corporate overhead of Fairfax and subsidiary holding companies and decreased operating expenses at Crum & Forster and Runoff.

The increase in common shareholders' equity was primarily as a result of net earnings attributable to shareholders of Fairfax and the company's first quarter equity issuance, partially offset by the net decrease in accumulated other comprehensive income (net decrease in unrealized gains on available for sale securities, partially offset by the net increase in foreign currency translation), and by dividends paid on common and preferred shares. Common shareholders' equity at December 31, 2010 increased to $7,761.9 or $379.46 per basic share from $369.80 per basic share at December 31, 2009, representing an increase per basic share in 2010 of 2.6% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2010, or 5.3% adjusted to include that dividend).

Net Earnings by Business Segment

The company's sources of net earnings shown by business segment are set out below for the fourth quarters and years ended December 31, 2010 and 2009. 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 investment purchase and sale transactions within the consolidated group.

Quarter ended December 31, 2010

	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other Reinsurance and Insurance	Ongoing Operations	Runoff	Other (animal nutrition)	Intercompany	Corporate & Other	Consolidated
Gross premiums written	323.4	305.7	85.6	475.3	111.0	1,301.0	0.9	—	(41.9)	—	1,260.0
Net premiums written	248.6	260.2	33.0	434.7	95.7	1,072.2	1.1	—	—	—	1,073.3
Net premiums earned	253.6	303.5	42.7	479.4	128.3	1,207.5	3.4	—	—	—	1,210.9
Underwriting profit (loss)	(28.1)	(92.8)	3.9	33.9	12.8	(70.3)	—	—	—	—	(70.3)
Interest and dividends	34.0	19.8	9.4	61.5	14.8	139.5	—	—	—	—	139.5
Operating income (loss) before:	5.9	(73.0)	13.3	95.4	27.6	69.2	—	—	—	—	69.2
Net losses on investments	(82.0)	(157.2)	(1.8)	(344.9)	(11.1)	(597.0)	(28.1)	—	(1.2)	—	(626.3)
Runoff	—	—	—	—	—	—	(2.4)	—	—	—	(2.4)
Other (animal nutrition)	—	—	—	—	—	—	—	7.8	—	—	7.8
Interest expense	—	(7.9)	—	(7.7)	(1.2)	(16.8)	(3.2)	(0.1)	—	(32.8)	(52.9)
Corporate overhead and other	(3.8)	(3.1)	(0.4)	(7.8)	(0.9)	(16.0)	—	—	—	(58.9)	(74.9)
Pre-tax income (loss)	(79.9)	(241.2)	11.1	(265.0)	14.4	(560.6)	(33.7)	7.7	(1.2)	(91.7)	(679.5)
Income taxes											316.2
Net earnings (loss)											(363.3)
Attributable to:											
Shareholders of Fairfax											(364.6)
Non-controlling interests											1.3
											(363.3)

Quarter ended December 31, 2009

	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other Reinsurance and Insurance	Ongoing Operations	Runoff	Other (animal nutrition)	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 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 (animal nutrition)	—	—	—	—	—	—	—	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
Net earnings											83.2
Attributable to:											
Shareholders of Fairfax											79.4
Non-controlling interests											3.8
											83.2

Year ended December 31, 2010

	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other Reinsurance and Insurance	Ongoing Operations	Runoff	Other (animal nutrition)	Intercompany	Corporate & Other	Consolidated
Gross premiums written	**1,299.9**	**1,078.3**	**353.2**	**2,167.3**	**628.0**	**5,526.7**	**2.8**	**—**	**(166.6)**	**—**	**5,362.9**
Net premiums written	**985.0**	**919.5**	**157.4**	**1,853.8**	**530.5**	**4,446.2**	**2.8**	**—**	**—**	**—**	**4,449.0**
Net premiums earned	**996.6**	**1,000.1**	**155.0**	**1,885.7**	**536.0**	**4,573.4**	**7.2**	**—**	**—**	**—**	**4,580.6**
Underwriting profit (loss)	**(72.4)**	**(168.2)**	**16.6**	**25.8**	**(38.4)**	**(236.6)**	**—**	**—**	**—**	**—**	**(236.6)**
Interest and dividends	**125.8**	**103.9**	**39.8**	**288.9**	**45.0**	**603.4**	**—**	**—**	**—**	**—**	**603.4**
Operating income (loss) before:	**53.4**	**(64.3)**	**56.4**	**314.7**	**6.6**	**366.8**	**—**	**—**	**—**	**—**	**366.8**
Net gains (losses) on investments	**55.7**	**122.5**	**(3.5)**	**(28.8)**	**72.9**	**218.8**	**98.7**	**—**	**(3.4)**	**—**	**314.1**
Runoff[1]	**—**	**—**	**—**	**—**	**—**	**—**	**44.8**	**—**	**—**	**—**	**44.8**
Other (animal nutrition)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10.3**	**—**	**—**	**10.3**
Interest expense	**—**	**(30.7)**	**—**	**(30.5)**	**(4.5)**	**(65.7)**	**(3.2)**	**(0.6)**	**—**	**(125.9)**	**(195.4)**
Corporate overhead and other	**(15.4)**	**(7.7)**	**(2.4)**	**(31.3)**	**(3.1)**	**(59.9)**	**—**	**—**	**—**	**(129.0)**	**(188.9)**
Pre-tax income (loss)	**93.7**	**19.8**	**50.5**	**224.1**	**71.9**	**460.0**	**140.3**	**9.7**	**(3.4)**	**(254.9)**	**351.7**
Income taxes											**119.5**
Net earnings											**471.2**
Attributable to:											
Shareholders of Fairfax											**469.0**
Non-controlling interests											**2.2**
											471.2

(1) Comprised of the \$83.1 excess of the fair value of net assets acquired over the purchase price related to the acquisition of GFIC, partially offset by the Runoff operating loss of \$38.3.

Year ended December 31, 2009

	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other Reinsurance and Insurance	Ongoing Operations	Runoff	Other (animal nutrition)	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 (animal nutrition)	—	—	—	—	—	—	—	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)
Net earnings											990.7
Attributable to:											
Shareholders of Fairfax											856.8
Non-controlling interests											133.9
											990.7

Underwriting and Operating Income

Set out and discussed below are the underwriting and operating results of Fairfax's insurance and reinsurance operations by segment for the fourth quarters and years ended December 31, 2010 and 2009.

Canadian Insurance – Northbridge

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Underwriting profit (loss)	**(28.1)**	(32.2)	**(72.4)**	(57.1)
Combined ratio	**111.1%**	112.6%	**107.3%**	105.9%
Gross premiums written	**323.4**	328.6	**1,299.9**	1,250.5
Net premiums written	**248.6**	245.8	**985.0**	928.7
Net premiums earned	**253.6**	256.4	**996.6**	969.2
Underwriting profit (loss)	**(28.1)**	(32.2)	**(72.4)**	(57.1)
Interest and dividends	**34.0**	28.5	**125.8**	113.0
Operating income (loss)	**5.9**	(3.7)	**53.4**	55.9
Net gains (losses) on investments	**(82.0)**	(6.0)	**55.7**	94.4
Pre-tax income (loss) before interest and other	**(76.1)**	(9.7)	**109.1**	150.3

Challenging industry conditions in the Canadian commercial lines market persisted in the fourth quarter of 2010 and contributed to an underwriting loss of $28.1 and a combined ratio of 111.1%, a slight improvement over the underwriting loss of $32.2 and a combined ratio of 112.6% in the fourth quarter of 2009. The 2010 fiscal year produced an underwriting loss of $72.4 and a combined ratio of 107.3% compared to an underwriting loss of $57.1 and a combined ratio of 105.9% in 2009. Northbridge's fourth quarter and twelve months of 2010 underwriting results were impacted by continuing weakness in commercial lines market conditions and Northbridge companies' pricing discipline which resulted in unprofitable business being let go, as well as the planned strategic exit from certain lines of business and business written in catastrophe exposed regions. The combination of these factors resulted in a 4.7% decline in net premiums earned and upward pressure on the expense ratio in Canadian dollar terms. The expense ratios of 21.6% and 20.5% in the fourth quarter and twelve months of 2010 respectively, compared to 17.6% and 18.4% in the fourth quarter and twelve months of 2009 and were impacted by lower net premiums earned and severance costs incurred in 2010.

Northbridge's fourth quarter 2010 underwriting results included 0.7 of a combined ratio point ($1.7) of catastrophe losses primarily related to the effects of Hurricane Igor on its large account and small-to-medium account segments. Catastrophe losses, primarily related to wind and flood activity added 1.1 combined ratio points ($2.9) to fourth quarter 2009 underwriting results. Fourth quarter 2010 underwriting results included 8.4 combined ratio points ($21.3) of net adverse development of prior years' reserves principally attributable to pre-1990 liability claims reserves, increased provisions for uncollectible reinsurance recoverables and increased claims reserves on certain discontinued business, partially offset by favourable development across most other lines of coverage. 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 reserves in its large account segment, and general liability reserves in its small-to-medium account segment.

Underwriting results in 2010 included 2.1 combined ratio points ($21.0) of catastrophe losses primarily related to the effects of the Ontario tornado, flooding in the south and central United States, the hailstorms in Western Canada and the effects of Hurricane Igor. Catastrophe losses, primarily related to wind and flood activity, added 1.3 combined ratio points ($13.1) to the twelve months of 2009 underwriting results. The 2010 underwriting results included 0.1 of a combined ratio point ($1.2) of net favourable development principally attributable to net favourable development across most lines of coverage and accident years, partially offset by adverse development principally attributable to pre-1990 liability claims reserves in the small-to-medium account segment, increased claims reserves on certain discontinued programs and increased provisions for uncollectible reinsurance recoverables. 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.

The impact of underwriting actions undertaken by Northbridge including selective exiting from certain programs and reductions in catastrophe-exposed regions, and challenging industry and economic conditions, including increased competition for new and renewal business, partially offset by rate increases on renewal business, contributed to a 5.1% and 5.7% decline in gross premiums written during the fourth quarter and the twelve months of 2010 in Canadian dollar terms respectively compared to the fourth quarter and the twelve months of 2009. Net premiums written decreased by 2.6% and 3.8% in the fourth quarter and twelve months of 2010 in Canadian dollar terms compared to the fourth quarter and twelve months of 2009.

Net investment losses in the fourth quarter of 2010 of $82.0 (compared to net losses of $6.0 in the fourth quarter of 2009) included $85.3 of net losses on common stocks and equity derivatives (including $113.0 of net mark-to-market losses related to the company's equity hedges), $14.5 of net losses related to foreign currency and $7.9 of net losses related to CPI-linked and other derivatives, partially offset by $17.6 of net gains on preferred stocks and $8.5 of net gains on bonds (including $5.3 of net mark-to-market losses on U.S. state and municipal bonds). Net losses on investments of $6.0 in the fourth quarter of 2009 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 gains on investments in 2010 of $55.7 (compared to net gains of $94.4 in 2009) included $181.9 of net gains on bonds (including $7.0 of net mark-to-market gains on U.S. state and municipal bonds) and $4.1 of net gains on preferred stocks, partially offset by $75.3 of net losses on common stocks and equity derivatives (including $129.6 of net mark-to-market losses related to the company's equity hedges), $42.9 of net losses related to foreign currency and $5.3 of net losses related to CPI-linked and other derivatives. Net gains on investments of $94.4 in 2009 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.

The impact of increased net investment losses, partially offset by the year-over-year improvement in underwriting results and increased interest and dividends (primarily as a result of an increase in yield and the effects of foreign currency translation) produced a pre-tax loss before interest and other of $76.1 in the fourth quarter of 2010 compared to a pre-tax loss before interest and other of $9.7 in the fourth quarter of 2009. A year-over-year decrease in net investment gains and the decline in underwriting results, partially offset by increased interest and dividends (primarily related to the effects of foreign currency translation) produced pre-tax income before interest and other of $109.1 in 2010, compared to a pre-tax income before interest and other of $150.3 in 2009.

Northbridge's cash resources in the fourth quarter of 2010 decreased by $51.2 compared to a decrease of $94.2 in the fourth quarter of 2009. Net cash used in operating activities in the fourth quarter of 2010 of $12.6 compared to $17.3 of net cash used in operating activities in the fourth quarter of 2009, with the year-over-year change primarily attributable to lower non-claims expense payments, partially offset by higher income tax payments.

Northbridge's cash resources in 2010 increased by $12.1 compared to a decrease of $75.6 in 2009. Net cash used in operating activities in 2010 of $178.1 compared to $80.6 of net cash used in operating activities in 2009, with the year-over-year change primarily attributable to higher income tax payments and lower premiums collected, partially offset by lower non-claims expense payments.

U.S. Insurance

For the quarters ended December 31, 2010 and 2009

	2010			2009
	Crum & Forster	Zenith National[(1)]	Total	Crum & Forster[(1)]
Underwriting profit (loss)	**(31.3)**	**(61.5)**	**(92.8)**	(13.3)
Combined ratio	**116.4%**	**154.8%**	**130.6%**	106.9%
Gross premiums written	**227.8**	**77.9**	**305.7**	210.5
Net premiums written	**184.8**	**75.4**	**260.2**	172.6
Net premiums earned	**191.3**	**112.2**	**303.5**	191.6
Underwriting profit (loss)	**(31.3)**	**(61.5)**	**(92.8)**	(13.3)
Interest and dividends	**7.7**	**12.1**	**19.8**	23.9
Operating income (loss)	**(23.6)**	**(49.4)**	**(73.0)**	10.6
Net gains (losses) on investments	**(134.1)**	**(23.1)**	**(157.2)**	(4.0)
Pre-tax income (loss) before interest and other	**(157.7)**	**(72.5)**	**(230.2)**	6.6

For the years ended December 31, 2010 and 2009

	2010			2009
	Crum & Forster	Zenith National[(1)]	Total	Crum & Forster[(1)]
Underwriting profit (loss)	**(66.5)**	**(101.7)**	**(168.2)**	(32.0)
Combined ratio	**109.1%**	**137.8%**	**116.8%**	104.1%
Gross premiums written	**886.0**	**192.3**	**1,078.3**	863.8
Net premiums written	**733.4**	**186.1**	**919.5**	716.4
Net premiums earned	**731.2**	**268.9**	**1,000.1**	781.3
Underwriting profit (loss)	**(66.5)**	**(101.7)**	**(168.2)**	(32.0)
Interest and dividends	**74.1**	**29.8**	**103.9**	113.9
Operating income (loss)	**7.6**	**(71.9)**	**(64.3)**	81.9
Net gains on investments	**92.4**	**30.1**	**122.5**	229.1
Pre-tax income (loss) before interest and other	**100.0**	**(41.8)**	**58.2**	311.0

(1) *These results differ from those published by Crum & Forster and Zenith National primarily due to differences between Canadian and US GAAP and purchase accounting adjustments recorded by Fairfax related to the acquisition of Zenith National.*

On May 20, 2010, the company commenced consolidating the assets, liabilities and results of operations of Zenith National following the completion of the acquisition of all of the outstanding common shares of Zenith National other than those common shares already owned by the company, as described in note 5. Zenith National is engaged through its wholly-owned insurance subsidiaries (primarily Zenith Insurance Company) in the workers' compensation insurance business, nationally. The operating results of Zenith National since acquisition are included in the U.S. Insurance business segment (formerly known as the U.S. Insurance – Crum & Forster business segment prior to May 20, 2010).

Crum & Forster

Crum & Forster's reported underwriting loss of $31.3 and combined ratio of 116.4% in the fourth quarter of 2010 compared to an underwriting loss of $13.3 and a combined ratio of 106.9% in the fourth quarter of 2009 and generally reflected the continuation in 2010 of the impact of the weak U.S. economy, the continuing challenging conditions in commercial lines markets, and underwriting actions undertaken by the company. The underwriting results in the fourth quarter of 2010 included 9.1 combined ratio points ($17.4) of net adverse development of prior years' reserves, principally related to general liability lines and workers' compensation for recent accident years and reserve strengthening related to two large prior year claims in general liability and surety lines, partially offset by net favourable emergence in umbrella lines and a reduction in unallocated loss adjustment expense reserves. The fourth quarter of 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. Catastrophe losses had a nominal impact on the underwriting results in the fourth quarter 2010 compared to 2.6 combined ratio points ($4.9) in the fourth quarter of 2009. Crum & Forster's expense ratio excluding commissions improved in the fourth quarter of 2010 compared to the fourth quarter of 2009 (20.6% compared to 22.4% respectively) as a result of the 0.2% decline in net premiums earned relative to an 8.2% decline in underwriting operating expenses (reflecting the benefit of actions taken by management to reduce operating expenses). Crum & Forster's commission expense ratio of 11.7% in the fourth quarter of 2010 improved from 12.2% in the fourth quarter of 2009.

Crum & Forster's reported underwriting loss of $66.5 and combined ratio of 109.1% in 2010 compared to an underwriting loss of $32.0 and a combined ratio of 104.1% in 2009 and generally reflected the continuation in 2010 of the impact of the weak U.S. economy, the continuing challenging conditions in commercial lines markets, and underwriting actions undertaken by the company. The underwriting results in 2010 included 1.5 combined ratio points ($11.3) of net adverse development of prior years' reserves, principally related to general liability lines and workers' compensation for recent accident years and reserve strengthening related to two large prior year claims in general liability and surety lines, partially offset by net favourable emergence in umbrella lines and at Crum & Forster's Seneca division. 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 net favourable emergence in specialty lines and workers' compensation, partially offset by net adverse development in commercial auto lines and latent claims. Crum & Forster's combined ratio in 2010 included a modest year-over-year improvement in its expense ratio excluding commissions (22.7% in 2010, compared to 23.1% in 2009) as a result of a 6.4% decline in net premiums earned relative to a 7.8% decline in underwriting operating expenses (reflecting the benefit of actions taken by management to reduce operating expenses). Crum & Forster's commission expense ratio of 12.1% in 2010, compared to 11.8% in 2009, reflected the competitive insurance market. Catastrophe losses of $3.2, primarily related to winter storm activity in the U.S. northeast, added 0.4 of a combined ratio point to the twelve months of 2010 underwriting results compared to $11.6 and 1.5 combined ratio points in the twelve months of 2009.

U.S. commercial lines market conditions continued to be challenging in the fourth quarter and twelve months of 2010, and featured industry-wide pricing weakness in casualty lines (including general liability, automobile and workers' compensation) affecting both renewals and new business. Commercial property lines also continued to experience downward pricing pressure in the fourth quarter of 2010 caused by excess industry capacity as financial markets stabilized and catastrophe losses remained low. Gross premiums written and net premiums written increased by 8.2% and 7.1% respectively in the fourth quarter of 2010 compared to the fourth quarter of 2009 primarily as the result of continued growth in risk management (comprised of larger casualty accounts), accident and health and at Crum & Forster's Seneca division, partially offset by decreased writings of standard commercial property and casualty lines. Net premiums earned decreased by 0.2% in the fourth quarter of 2010 compared to the fourth quarter of 2009, reflecting the decline in net premiums written in 2009. Gross premiums written and net premiums written increased by 2.6% and 2.4% respectively in 2010 compared to 2009 primarily as the result of continued growth in specialty lines (principally accident and health and certain specialty lines at Crum & Forster's Seneca division), partially offset by decreased writings of standard commercial property and casualty lines. Net premiums earned decreased by 6.4% in 2010 compared to 2009, reflecting the decline in net premiums written in 2009.

During the fourth quarter of 2010, Crum & Forster recorded net investment losses of $134.1 (principally comprised of $82.0 of net losses on common stocks and equity derivatives (including $214.4 of net mark-to-market losses related to the company's equity hedges), $39.5 of net losses on bonds (including $89.3 of net mark-to-market losses on U.S. state and municipal bonds) and $17.4 of net losses related to CPI-linked and other derivatives, partially offset by $4.3 of net gains on preferred stocks) compared to $4.0 of net investment losses in the fourth quarter of 2009 (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). The year-over-year increase in net losses on investments, the increased underwriting loss and decreased interest and dividends (principally the result of increased investment expenses related to total return swaps and lower average portfolio investments held during the fourth quarter of 2010 compared to the fourth quarter of 2009) produced a pre-tax loss before interest and other of $157.7 in the fourth quarter of 2010 compared to pre-tax income before interest and other of $6.6 in the fourth quarter of 2009.

During 2010, Crum & Forster recorded net gains on investments of $92.4 (principally comprised of $101.7 of net gains on bonds (including $51.3 of net mark-to-market losses on U.S. state and municipal bonds) and $10.9 of net gains related to CPI-linked and other derivatives, partially offset by $7.8 of net losses on common stocks and equity derivatives (including $258.6 of net mark-to-market losses related to the company's equity hedges), $8.1 of other than temporary impairments recorded on common stocks and $4.7 of net losses on preferred stocks) compared to $229.1 of net gains on investments 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 and $9.8 of net losses related to credit default swaps and other derivatives). The year-over-year decline in net gains on investments, the impact of decreased interest and dividends (principally the result of increased investment expenses related to total return swaps and lower average portfolio investments held during 2010 compared to 2009) and an increased underwriting loss produced pre-tax income before interest and other of $100.0 in 2010 compared to pre-tax income before interest and other of $311.0 in 2009.

Crum & Forster's cash resources in the fourth quarter of 2010 increased by $117.9 compared to a decrease of $86.9 in the fourth quarter of 2009. Cash used in operating activities of $51.8 in the fourth quarter of 2010 compared to $92.9 of cash used in operating activities in the fourth quarter of 2009 with the year-over-year improvement primarily attributable to lower income tax payments and higher premium collections.

Crum & Forster's cash resources in 2010 increased by $196.6 compared to an increase of $79.3 in 2009. Cash used in operating activities of $183.0 in 2010 compared to $402.4 of cash used in operating activities in 2009 with the improvement attributable to lower income tax payments, net paid losses and underwriting expense payments during 2010. Crum & Forster paid $486.0 of dividends (including a $350.0 extraordinary dividend) to Fairfax in 2010 compared to dividends of $115.0 paid to Fairfax in 2009.

Zenith National

Zenith National reported an underwriting loss of $61.5 and combined ratio of 154.8% for the fourth quarter of 2010 and an underwriting loss of $101.7 and combined ratio of 137.8% for the period of May 21, 2010 through December 31, 2010. The results reflect an increase in the accident year loss ratio, increased expense ratio and net adverse development of prior accident years' reserves of $24.1 or 21.5 combined ratio points and $24.4 or 9.1 combined ratio points in the fourth quarter of 2010 and the period of May 21 through December 31, 2010, respectively. Net premiums earned by Zenith National continued to be affected by the impact of the weak economy on the payrolls of its insured customers, as well as intense competition. Policies and insured payroll in-force declined 5.4% and 0.6%, respectively, in the twelve months ended December 31, 2010, which is an improvement from that experienced in the twelve months ended December 31, 2009 of 14.2% and 11.5%, respectively. Premium rates in California, Zenith National's largest state, started to increase modestly during 2010, and are expected to continue to increase during 2011. Rates in Florida (Zenith National's second largest state), declined during 2010 and are expected to increase by approximately 5% on 2011 policies.

Zenith National's pre-tax loss before interest and other of $72.5 in the fourth quarter of 2010 was comprised of an underwriting loss of $61.5 and net losses on investments of $23.1, partially offset by interest and dividend income of $12.1. The $23.1 of net losses on investments was comprised of $24.3 of net losses on bonds (including $26.9 of net mark-to-market losses on U.S. state and municipal bonds) and $1.2 of net losses on preferred stocks, partially offset by $2.4 of net gains on common stocks. During the period of May 21, 2010 through December 31, 2010, Zenith National's pre-tax loss before interest and other of $41.8 was comprised of an underwriting loss of $101.7, partially offset by net gains on investments of $30.1 and interest and dividend income of $29.8. The $30.1 of net gains on investments was comprised of $21.2 of net gains on bonds (including $18.5 of net mark-to-market losses on U.S. state and municipal bonds), $4.1 of net gains on preferred stocks and $4.8 of net gains on common stocks.

Zenith National's investment portfolio at December 31, 2010 consisted primarily of liquid securities, including cash resources of $83.3. Net cash of $21.5 and $60.6 was used in operating activities in the fourth quarter of 2010 and for the period May 21, 2010 through December 31, 2010, respectively, and included cash payments for acquisition-related expenses which were accrued in the opening Zenith National balance sheet as of May 20, 2010. Zenith National paid a dividend of $282.9 to Fairfax and its affiliates (of which $259.6 was paid to Fairfax) in June 2010. In June and September 2010, Zenith National repurchased, at par value, $13.0 and $7.0, respectively, of the aggregate principal amount of its outstanding debt securities, resulting in a $38.4 aggregate principal amount of Zenith National debt securities outstanding at December 31, 2010.

During the second quarter of 2010, holders of Crum & Forster's and Zenith National's senior notes provided their consent to amend the indentures governing those notes to allow Crum & Forster and Zenith National to make available to senior note holders certain specified financial information and financial statements in lieu of the reports previously filed with the Securities and Exchange Commission ("SEC"). Accordingly, Crum & Forster and Zenith National are no longer subject to SEC reporting obligations.

Fairfax Asia

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Underwriting profit	**3.9**	4.8	**16.6**	20.2
Combined ratio	**90.8%**	85.3%	**89.3%**	82.6%
Gross premiums written	**85.6**	71.7	**353.2**	285.8
Net premiums written	**33.0**	28.5	**157.4**	127.9
Net premiums earned	**42.7**	32.9	**155.0**	116.0
Underwriting profit	**3.9**	4.8	**16.6**	20.2
Interest and dividends	**9.4**	(5.3)	**39.8**	9.0
Operating income (loss)	**13.3**	(0.5)	**56.4**	29.2
Net gains (losses) on investments	**(1.8)**	1.4	**(3.5)**	17.8
Pre-tax income before interest and other	**11.5**	0.9	**52.9**	47.0

Underwriting results for Fairfax Asia in the fourth quarter of 2010 featured an underwriting profit of $3.9 and a combined ratio of 90.8%, compared to an underwriting profit of $4.8 and a combined ratio of 85.3% in the fourth quarter of 2009, with the fourth quarter of 2010 reflecting favourable underwriting results at First Capital, partially offset by unfavourable results at Falcon. In the fourth quarter of 2010, increased motor, property and marine hull business activity at First Capital and Falcon resulted in a 19.4% increase in gross premiums written and a 15.8% increase in net premiums written. The 2010 fourth quarter results included 21.6 combined ratio points ($9.2) attributable to net favourable development of prior years' reserves, primarily related to workers' compensation, marine cargo and general liability lines of business (compared to 26.0 combined ratio points ($8.6) of net favourable development of prior years' reserves in the fourth quarter of 2009). Fairfax Asia recorded net losses on investments in the fourth quarter of 2010 of $1.8 (including $2.9 of net losses related to foreign currency and $0.5 of net losses on common stocks and equity derivatives (including $12.8 of net mark-to-market losses related to the company's equity hedges), partially offset by $1.6 of net gains on preferred stocks) compared to net gains of $1.4 in the fourth quarter of 2009 (primarily related to net gains on common stocks at Falcon). Increased interest and dividends (due to increased equity earnings of investees, principally ICICI Lombard and higher average portfolio investments held during the fourth quarter of 2010 compared to the fourth quarter of 2009), partially offset the year-over-year decrease in net gains on investments and lower underwriting profit produced fourth quarter pre-tax income before interest and other of $11.5 in 2010 compared to pre-tax income before interest and other of $0.9 in the fourth quarter of 2009.

Fairfax Asia produced an underwriting profit of $16.6 and a combined ratio of 89.3% in 2010 compared to an underwriting profit of $20.2 and a combined ratio of 82.6% in 2009, with each of 2010 and 2009 reflecting favourable underwriting results at First Capital, partially offset by unfavourable results at Falcon. In 2010, increased motor, property and marine hull business activity at First Capital and Falcon resulted in a 23.6% increase in gross premiums written and a 23.1% increase in net premiums written. The results for 2010 included 6.4 combined ratio points ($10.0) attributable to net favourable development of prior years' reserves, primarily related to workers' compensation lines of business (compared to 7.0 combined ratio points ($8.1) of net favourable development in 2009). Fairfax Asia recorded net investment losses in 2010 of $3.5 (including $8.8 of net losses related to foreign currency, partially offset by $2.8 of net gains on bonds and $2.3 of net gains on common stocks and equity derivatives (including $12.6 of net mark-to-market losses related to the company's equity hedges)) compared to net gains of $17.8 in 2009 (including $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). Increased interest and dividends (due to increased equity earnings of investees, principally ICICI Lombard and higher average portfolio investments held during 2010 compared to 2009), partially offset by the year-over-year decrease in net gains on investments and lower underwriting profit produced pre-tax income before interest and other of $52.9 in 2010 compared to pre-tax income before interest and other of $47.0 in 2009.

Reinsurance – OdysseyRe[1]

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Underwriting profit	**33.9**	16.3	**25.8**	64.3
Combined ratio	**92.9%**	96.6%	**98.6%**	96.7%
Gross premiums written	**475.3**	497.8	**2,167.3**	2,195.0
Net premiums written	**434.7**	431.0	**1,853.8**	1,893.8
Net premiums earned	**479.4**	483.0	**1,885.7**	1,927.4
Underwriting profit	**33.9**	16.3	**25.8**	64.3
Interest and dividends	**61.5**	71.7	**288.9**	283.6
Operating income	**95.4**	88.0	**314.7**	347.9
Net gains (losses) on investments	**(344.9)**	(26.5)	**(28.8)**	353.6
Pre-tax income (loss) before interest and other	**(249.5)**	61.5	**285.9**	701.5

(1) These results differ from those published by Odyssey Re Holdings Corp. primarily due to differences between Canadian and US GAAP and purchase accounting adjustments recorded by Fairfax related to the privatization of OdysseyRe.

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 2010, OdysseyRe reported an underwriting profit of $33.9 and a combined ratio of 92.9%, compared to an underwriting profit of $16.3 and a combined ratio of 96.6% in the fourth quarter of 2009. The 2010 fourth quarter combined ratio included 8.7 combined ratio points ($41.4 net of reinstatement premiums) related to current period catastrophe losses, principally attritional losses and increased catastrophe losses related to the New Zealand earthquake. The 2009 fourth quarter combined ratio included 4.9 combined ratio points ($23.3 net of reinstatement premiums) related to current period catastrophe losses, principally flooding in Turkey and storm activity in the Philippines and Europe. Fourth quarter 2010 underwriting results included 1.2 combined ratio points ($5.6) attributable to net favourable development of prior years' reserves, comprised of net favourable development in the U.S. Insurance, London Market and EuroAsia divisions, partially offset by net adverse development in the Americas division related to pre-2002 casualty reserves. Fourth quarter 2009 underwriting results were modestly impacted by 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. OdysseyRe's combined ratio for the fourth quarter of 2010 was favourably affected by a year-over-year improvement in its expense ratio (10.4% in the fourth quarter of 2010, compared to 11.0% in the fourth quarter of 2009) as a result of a 5.8% decrease in underwriting operating expenses (primarily the result of a year-over-year decrease in personnel costs), partially offset by a 0.7% decline in net premiums earned.

In 2010, OdysseyRe reported an underwriting profit of $25.8 and a combined ratio of 98.6%, compared to an underwriting profit of $64.3 and a combined ratio of 96.7% in 2009. The 2010 combined ratio included 11.6 combined ratio points ($217.8 net of reinstatement premiums) related to current period catastrophe losses, principally related to the Chilean earthquake (4.6 combined ratio points, $86.5 net of reinstatement premiums), the New Zealand earthquake, Windstorm Xynthia, the Eastern European floods and the Haitian earthquake. The combined ratio in 2010 included 1.6 combined ratio points ($30.7 net of reinstatement premiums) related to the Deepwater Horizon loss. Underwriting results in 2009 included the impact of catastrophe losses of 6.1 combined ratio points ($116.1 net of reinstatement premiums) principally related to storm activity and flooding in Europe and Turkey. The 2010 underwriting results included 0.2 of a combined ratio point ($3.6) attributable to net favourable prior period reserve development, comprised of net favourable development in the U.S. Insurance, London Market and EuroAsia divisions, partially offset by net adverse development in the Americas division related to pre-2002 casualty reserves. OdysseyRe's results in 2009 were favourably impacted by 0.6 of a combined ratio point ($11.3) of net favourable prior period reserve development, comprised of net favourable development in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by a strengthening of reserves in the Americas division. OdysseyRe's combined ratio for 2010 was adversely affected by a year-over-year deterioration in its expense ratio (10.4% in 2010, compared to 9.6% in 2009) as a result of the 2.2% decline in net premiums earned relative to a 5.4% increase in underwriting operating expenses, primarily the result of infrastructure investments within the U.S. Insurance division, increased compensation costs (including pension costs) and net increases in provisions for uncollectible balances.

Gross premiums written during the fourth quarter of 2010 decreased 4.5% to $475.3 from $497.8 primarily as the result of the continuing broad competitive pressures in the global reinsurance and insurance markets in which the divisions of OdysseyRe compete and included selective exiting from certain programs where rates were inadequate, partially offset by selective growth in certain property catastrophe, surety and energy lines of business. Gross premiums written in the fourth quarter of 2010 decreased by 23.5%, and 14.7% in the London Market and US Insurance divisions respectively, partially offset by increases of 10.6% and 0.1% in the Americas and EuroAsia divisions respectively. Net premiums written of $434.7 during the fourth quarter of 2010 increased modestly from $431.0 in the fourth quarter of 2009. Net premiums earned decreased 0.7% to $479.4 from $483.0 reflecting the decline in net premiums written in the fourth quarter of 2009 and first nine months of 2010.

Gross premiums written in 2010 decreased modestly by 1.3% to $2,167.3 from $2,195.0 and included decreases of 3.7%, 0.9% and 1.1% in the EuroAsia, US Insurance and London Market divisions respectively, partially offset by an increase of 0.2% in the Americas division. Net premiums written in 2010 decreased 2.1% to $1,853.8 from $1,893.8 and net premiums earned decreased 2.2% to $1,885.7 from $1,927.4.

Interest and dividend income in the fourth quarter of 2010 decreased 14.2% compared to the fourth quarter of 2009, primarily reflecting increased expenses incurred in connection with total return swaps, partially offset by decreased investment administration expenses and a slight increase in yield. OdysseyRe reported net investment losses of $344.9 in the fourth quarter of 2010 (including $161.8 of net losses on bonds (including $230.2 of net mark-to-market losses on U.S. state and municipal bonds), $144.0 of net losses on common stocks and equity derivatives (including $281.0 of net mark-to-market losses related to the company's equity hedges), $28.4 of net losses related to foreign currency and $27.4 of net losses related to CPI-linked and other derivatives, partially offset by $15.9 of net gains on preferred stocks) compared to 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). The year-over-year increase in net losses on investments and decreased interest and dividends, partially offset by improved underwriting results produced a pre-tax loss before interest and other of $249.5 in the fourth quarter of 2010 compared to pre-tax income before interest and other of $61.5 in the fourth quarter of 2009.

Interest and dividend income in 2010 increased 1.9% compared to 2009, primarily reflecting increased yield and the larger average size of the investment portfolio held during 2010 compared to 2009, partially offset by increased expenses incurred in connection with total return swaps. OdysseyRe reported net investment losses of $28.8 in 2010 (including $129.3 of net losses related to foreign currency, $49.1 of net losses on common stocks and equity derivatives (including $327.9 of net mark-to-market losses related to the company's equity hedges), $17.9 of other than temporary impairments recorded on common stocks and bonds and $6.3 of net losses related to preferred stocks, partially offset by $165.3 of net gains on bonds (including $84.7 of net mark-to-market losses on U.S. state and municipal bonds) and $11.8 of net gains related to CPI-linked and other derivatives) compared to net investment gains of $353.6 in 2009 (including $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 $31.3 of net losses related to credit default swaps and other derivatives). The decline in net gains on investments and decreased underwriting profitability, partially offset by increased interest and dividends, produced pre-tax income before interest and other of $285.9 in 2010 compared to $701.5 in 2009.

Cash resources at OdysseyRe decreased by $439.4 to $1,066.4 during the fourth quarter of 2010. Net cash provided by operating activities in the fourth quarter of 2010 of $30.7 compared to net cash used in operating activities in the fourth quarter of 2009 of $55.3, with the year-over-year change primarily attributable to lower paid losses offset by an increase in taxes paid in the fourth quarter of 2010.

Cash resources at OdysseyRe increased by $124.9 to $1,066.4 during 2010. Net cash provided by operating activities in 2010 of $273.3 compared to net cash used in operating activities of $1.3 in 2009, with the year-over-year change primarily attributable to higher income tax payments in 2009 (substantially related to significant investment gains realized in 2008) and increased underwriting cash flows in 2010.

During the third quarter of 2010, holders of OdysseyRe's senior notes provided their consent to amend the indenture governing those senior notes to allow OdysseyRe to make available to senior note holders certain specified financial information and financial statements in lieu of the reports filed with the SEC in prior periods. In addition, during the third quarter of 2010, OdysseyRe called for redemption all of its outstanding Series A and Series B preferred shares not owned by it or by other subsidiaries of the company, as described in note 6. Accordingly, OdysseyRe will no longer be subject to SEC reporting requirements.

Reinsurance and Insurance – Other

For the quarters ended December 31, 2010 and 2009

	2010						2009				
	Group Re	**Advent[1]**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**	Group Re	Advent[1]	Polish Re	Inter-company	Total
Underwriting profit (loss)	**(2.3)**	**16.1**	**1.2**	**(2.2)**	**—**	**12.8**	(8.2)	6.5	(0.6)	—	(2.3)
Combined ratio	**103.2%**	**59.2%**	**93.4%**	**—**	**—**	**90.0%**	110.6%	87.3%	102.5%	—	101.5%
Gross premiums written	**55.9**	**27.3**	**14.2**	**19.5**	**(5.9)**	**111.0**	68.8	28.7	20.1	(4.4)	113.2
Net premiums written	**55.9**	**22.6**	**12.1**	**5.1**	**—**	**95.7**	68.8	26.4	17.6	—	112.8
Net premiums earned	**70.0**	**39.4**	**17.8**	**1.1**	**—**	**128.3**	78.0	51.3	21.9	—	151.2
Underwriting profit (loss)	**(2.3)**	**16.1**	**1.2**	**(2.2)**	**—**	**12.8**	(8.2)	6.5	(0.6)	—	(2.3)
Interest and dividends	**5.8**	**7.5**	**1.2**	**0.3**	**—**	**14.8**	5.2	3.9	1.7	—	10.8
Operating income (loss)	**3.5**	**23.6**	**2.4**	**(1.9)**	**—**	**27.6**	(3.0)	10.4	1.1	—	8.5
Net gains (losses) on investments	**(2.6)**	**(10.3)**	**0.3**	**1.5**	**—**	**(11.1)**	(10.1)	(1.5)	4.0	—	(7.6)
Pre-tax income (loss) before interest and other	**0.9**	**13.3**	**2.7**	**(0.4)**	**—**	**16.5**	(13.1)	8.9	5.1	—	0.9

For the years ended December 31, 2010 and 2009

	2010						2009				
	Group Re	**Advent[1]**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**	Group Re	Advent[1]	Polish Re	Inter-company	Total
Underwriting profit (loss)	**(8.2)**	**(18.0)**	**(3.0)**	**(9.2)**	**—**	**(38.4)**	(10.3)	21.6	0.6	—	11.9
Combined ratio	**103.3%**	**108.4%**	**104.4%**	**—**	**—**	**107.2%**	104.0%	92.5%	99.2%	—	98.1%
Gross premiums written	**243.3**	**318.9**	**81.7**	**35.0**	**(50.9)**	**628.0**	263.7	386.1	88.4	(49.9)	688.3
Net premiums written	**243.3**	**214.3**	**68.2**	**4.7**	**—**	**530.5**	263.7	277.0	79.1	—	619.8
Net premiums earned	**250.8**	**214.8**	**69.6**	**0.8**	**—**	**536.0**	255.2	289.6	83.3	—	628.1
Underwriting profit (loss)	**(8.2)**	**(18.0)**	**(3.0)**	**(9.2)**	**—**	**(38.4)**	(10.3)	21.6	0.6	—	11.9
Interest and dividends	**24.4**	**16.7**	**3.0**	**0.9**	**—**	**45.0**	15.6	17.8	4.1	—	37.5
Operating income (loss)	**16.2**	**(1.3)**	**—**	**(8.3)**		**6.6**	5.3	39.4	4.7	—	49.4
Net gains (losses) on investments	**59.2**	**5.2**	**6.0**	**2.5**	**—**	**72.9**	(22.5)	(11.0)	7.7	—	(25.8)
Pre-tax income (loss) before interest and other	**75.4**	**3.9**	**6.0**	**(5.8)**	**—**	**79.5**	(17.2)	28.4	12.4	—	23.6

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

In March 2010, the company's recently established, wholly-owned insurer, Fairfax Brasil Seguros Corporativos S.A. ("Fairfax Brasil") commenced writing commercial property and casualty insurance in Brazil following the receipt of approvals from Brazilian insurance regulatory authorities. The results of Fairfax Brasil are included in the Reinsurance and Insurance – Other business segment (formerly known as the Reinsurance – Other business segment prior to January 1, 2010). 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, as described in note 5. In October 2009, the company completed the acquisition of the 36.5% of the outstanding common shares of Advent not already owned by Fairfax, as described in note 5.

In the fourth quarter of 2010, the Reinsurance and Insurance – Other segment produced a combined ratio of 90.0% and an underwriting profit of $12.8, compared to a combined ratio of 101.5% and an underwriting loss of $2.3 in the fourth quarter of 2009. The fourth quarter 2010 results included current period catastrophe losses of 2.7 combined ratio points ($3.5 net of reinstatement premiums) principally related to increased catastrophe losses related to the New Zealand earthquake at Advent and Group Re, partially offset by reinsurance recoveries at Advent related to the New Zealand earthquake which were triggered in the fourth quarter. 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. Fourth quarter 2010 underwriting results included 11.0 combined ratio points ($14.1) of net favourable development of prior years' reserves, comprising net favourable development at Advent (principally related to the World Trade Center claims) and Polish Re, partially offset by net unfavourable development at Group Re. Fourth quarter 2009 underwriting results included 11.4 combined ratio points ($17.2) of net unfavourable development of prior years' reserves, primarily related to Group Re's 2002 and prior years' losses assumed from Northbridge.

In 2010, the Reinsurance and Insurance – Other segment produced a combined ratio of 107.2% and an underwriting loss of $38.4, compared to a combined ratio of 98.1% and an underwriting profit of $11.9 in 2009. The underwriting results in 2010 included current period catastrophe losses of 16.7 combined ratio points ($89.4 net of reinstatement premiums) primarily related to the impact of the Chilean earthquake on the property reinsurance businesses of Advent and Group Re, the impact of the New Zealand earthquake on Group Re and the impact of the Eastern European floods on the property catastrophe business of Polish Re and also included 1.1 combined ratio points ($6.1) related to the Deepwater Horizon loss. Current period catastrophe losses in 2009 totalled 4.0 combined ratio points ($24.8 net of reinstatement premiums) and related principally to Advent's property catastrophe business. Prior to giving effect to the impact of the Chilean earthquake ($35.5 and $15.2 at Advent and Group Re net of reinstatement premiums respectively),

the combined ratio of the Reinsurance and Insurance – Other segment was 97.8% in 2010. The 2010 underwriting results also included 6.0 combined ratio points ($32.4) of net favourable development of prior years' reserves, comprising net favourable development at Advent (principally related to the World Trade Center claims) and Polish Re, partially offset by net adverse development at Group Re. The 2009 underwriting results included 5.1 combined ratio points ($32.2) of net adverse development of prior years' reserves, primarily related to Group Re's 2002 and prior years' claims assumed from Northbridge and increased losses at Advent primarily related to Hurricane Ike.

Gross premiums written and net premiums written by the Reinsurance and Insurance – Other segment in the fourth quarter of 2010 decreased by 1.9% and 15.2% respectively compared to the fourth quarter of 2009 and reflected decreased written premiums assumed at Group Re and decreased written premiums at Polish Re, partially offset by the consolidation of Fairfax Brasil. The Reinsurance and Insurance – Other segment had net investment losses of $11.1 in the fourth quarter of 2010 (principally $12.9 of net losses on bonds (including $8.9 of net mark-to-market losses on U.S. state and municipal bonds), $4.3 of net losses on CPI-linked derivatives and $3.5 of net losses related to foreign currency, partially offset by $8.5 of net gains on common stocks and equity derivatives (including $1.9 of net mark-to-market losses related to the company's equity hedges)) compared to net investment losses of $7.6 in the fourth quarter of 2009 (principally related to common stocks and bonds). Increased underwriting profitability and interest and dividends, partially offset by increased net investment losses produced pre-tax income before interest and other of $16.5 compared to a pre-tax income before interest and other of $0.9 in the fourth quarter of 2009.

Gross premiums written and net premiums written by the Reinsurance and Insurance – Other segment in 2010 declined by 8.8% and 14.4% respectively compared to 2009 and reflected lower reinsurance-to-close premiums received by Advent in the first quarter of 2010 compared to the first quarter of 2009 and decreased written premiums assumed by Group Re, partially offset by the consolidation of Fairfax Brasil. Increased utilization of catastrophe reinsurance by Advent and the cost of purchasing excess of loss reinsurance for the start-up operations of Fairfax Brasil resulted in the decrease in net premiums written being in excess of the decrease in gross premiums written. Group Re's gross premiums written in 2010 included $42.9 (2009 - $42.3) of property reinsurance business assumed through a 30% (2009 - 40%) quota share reinsurance contract with Advent and $8.0 (2009 - $7.6) of property reinsurance business assumed through a 31.8% (2009 – 36.5% since inception on July 1, 2009) quota share reinsurance contract with Polish Re. The Reinsurance and Insurance – Other segment had net investment gains of $72.9 in 2010 (principally $42.7 of net gains on common stocks and equity derivatives (including $2.4 of net mark-to-market losses related to the company's equity hedges), $34.9 of net gains on bonds (including $9.0 of net mark-to-market gains on U.S. state and municipal bonds), partially offset by $2.8 of net losses related to foreign currency and $3.1 of net losses on CPI-linked derivatives) compared to net investment losses of $25.8 in 2009 (principally $19.0 of other than temporary impairments recorded on common stock investments and $13.7 of net losses on bonds, partially offset by $5.8 of net gains related to foreign currency and $5.4 of net gains on common stocks and equity derivatives). Significantly increased net gains on investments and increased interest and dividend income, partially offset by a deterioration in underwriting profit, produced pre-tax income before interest and other of $79.5 compared to pre-tax income before interest and other of $23.6 in 2009.

Runoff

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Gross premiums written	**0.9**	(0.5)	**2.8**	1.1
Net premiums written	**1.1**	(0.2)	**2.8**	(0.5)
Net premiums earned	**3.4**	—	**7.2**	—
Losses on claims	**(3.5)**	(34.1)	**(43.5)**	(57.6)
Operating expenses	**(19.3)**	(19.8)	**(80.5)**	(94.8)
Interest and dividends	**17.4**	14.0	**78.5**	54.4
Operating loss	**(2.0)**	(39.9)	**(38.3)**	(98.0)
Net gains (losses) on investments	**(28.1)**	(7.8)	**98.7**	129.2
	(30.1)	(47.7)	**60.4**	31.2
Excess of fair value of net assets acquired over purchase price	**(0.4)**	—	**83.1**	—
Pre-tax income (loss)	**(30.5)**	(47.7)	**143.5**	31.2

On August 17, 2010, the company commenced consolidating the assets, liabilities and results of operations of GFIC following the completion of the acquisition of all of the outstanding common shares of GFIC, as described in note 5. The operating results of GFIC since the acquisition are included in the Runoff business segment.

The Runoff segment pre-tax loss of $30.5 reported in the fourth quarter of 2010 (compared to pre-tax loss of $47.7 in the fourth quarter of 2009), primarily reflected a decreased operating loss of $2.0 (compared to an operating loss of $39.9 in the fourth quarter of 2009), partially offset by a year-over-year increase in net investment losses. The reduced operating loss principally reflected lower losses on claims, increased interest and dividends and modestly decreased operating expenses. Incurred losses of $3.5 in the fourth

quarter of 2010 included $41.1 of strengthening of loss reserves in U.S. Runoff (primarily related to net strengthening of workers' compensation and asbestos lines), partially offset by $21.8 of net favourable development of prior years' reserves in European Runoff (comprised of $35.1 of net favourable development across all lines, partially offset by $13.3 of increases to provisions for uncollectible reinsurance recoverable balances) and net releases in European Runoff of unallocated loss adjustment expense reserves of $15.8. 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. Interest and dividend income increased to $17.4 in the fourth quarter of 2010 compared to the fourth quarter of 2009 primarily as a result of increased yield and equity earnings of investees partially offset by increased investment expenses. Fourth quarter 2010 net investment losses of $28.1 included $45.7 of net losses on bonds (including $64.5 of net mark-to-market losses on U.S. state and municipal bonds) and $5.7 of net losses related to CPI-linked and other derivatives, partially offset by $19.3 of net gains on common stocks and equity derivatives (including $9.2 of net mark-to-market losses related to the company's equity hedges) and $1.8 of net gains related to foreign currency. Fourth quarter 2009 net losses on investments of $7.8 were principally comprised of $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.

The Runoff segment pre-tax income of $143.5 reported in 2010 (compared to a pre-tax income of $31.2 in 2009), primarily reflected the benefit of the $83.1 excess of the fair value of net assets acquired over the purchase price related to the acquisition of GFIC, a decreased operating loss of $38.3 (compared to an operating loss of $98.0 in 2009), partially offset by a year-over-year decrease in net gains on investments. The reduced operating loss principally reflected increased interest and dividend income (primarily as a result of increased yield and the larger average size of the investment portfolio during 2010 compared to 2009), lower operating expenses resulting from operating cost initiatives undertaken early in 2009 (primarily decreased third party claims administrator fees and compensation expenses) and decreased incurred losses. Incurred losses of $43.5 in 2010 included $69.7 of net strengthening of loss reserves in U.S. Runoff (primarily related to net strengthening of workers' compensation and asbestos lines), partially offset by $16.5 of net favourable development of prior years' reserves in European Runoff (primarily comprised of $29.8 of net favourable development across all lines, partially offset by $13.3 of increases to provisions for uncollectible reinsurance recoverable balances) and net releases in European Runoff of unallocated loss adjustment expense reserves of $9.7. 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. In 2010, net gains on investments of $98.7 were principally comprised of $37.1 of net gains on common stocks and equity derivatives (including $11.3 of net mark-to-market losses related to the company's equity hedges), $27.9 of net gains on CPI-linked and other derivatives, $22.9 of net gains on bonds (including $35.2 of net mark-to-market losses on U.S. state and municipal bonds), $7.5 of net gains on the sale of TIG Indemnity Company as described in note 5 and $2.8 of net gains related to foreign currency. Net gains on investments of $129.2 in 2009 were principally comprised of $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.

Other[(1)]

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Revenue	**159.3**	150.1	**549.1**	556.4
Expenses	**(151.5)**	(142.0)	**(538.8)**	(544.0)
Pre-tax income before interest and other	**7.8**	8.1	**10.3**	12.4
Interest expense	**(0.1)**	(0.2)	**(0.6)**	(1.0)
Pre-tax income	**7.7**	7.9	**9.7**	11.4

(1) These results differ from those published by Ridley Inc. primarily due to purchase accounting adjustments related to the acquisition of Ridley.

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

Ridley's financial results in 2010 included a $2.6 impairment loss recognized on the closure of two manufacturing facilities. The effect of lower overall volumes in 2010 compared to 2009 was partially offset by improved product mix. Ridley is one of North America's leading animal nutrition companies.

Other Elements of Net Earnings

Consolidated interest and dividend income in the fourth quarter and twelve months of 2010 of $180.7 and $762.4 respectively included the interest and dividends of Zenith National and GFIC since acquisition (which were not included in the fourth quarter and twelve months of 2009). Consolidated interest and dividend income in the fourth quarter of 2010 decreased 4.6% to $164.4 from $172.4 in the fourth quarter of 2009 and in the twelve months of 2010 increased 2.0% to $727.2 from $712.7 in the twelve months of 2009 (after excluding interest and dividends earned by Zenith National and GFIC of $16.3 and $35.2 in the fourth quarter and twelve months of 2010 respectively). The decreased interest and dividend income earned in the fourth quarter of 2010 compared to the fourth quarter of 2009 is primarily due to increased investment expenses incurred in connection with total return swaps, partially offset by increased equity earnings of investees and the impact of higher yielding securities owned in the investment portfolio. The increased interest and dividend income earned in 2010 compared to 2009 is primarily due to the impact of higher yielding securities owned in the investment portfolio and the effect of the larger average portfolio investments held during 2010 compared to 2009 and increased equity earnings of investees, partially offset by increased investment expense incurred in connection with total return swaps.

Consolidated net losses on investments in the fourth quarter of 2010 of $683.9 ($30.3 in the fourth quarter of 2009) and net gains on investments during the twelve months of 2010 of $188.5 ($944.5 during the twelve months of 2009) were comprised as follows:

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Net gains (losses) on investments:				
Common stocks	**83.0**	125.0	**476.5**	239.0
Equity derivatives	**(561.4)**	(43.1)	**(755.9)**	224.3
Bonds	**(212.1)**	(108.2)	**573.9**	937.9
Preferred stocks	**47.5**	23.2	**(13.8)**	26.6
Other derivatives	**(78.5)**	(14.5)	**26.4**	(147.2)
Partial disposition of investee company	**77.9**	—	**77.9**	—
Provision for other than temporary impairments	**(1.0)**	(8.6)	**(33.7)**	(340.0)
Foreign currency	**(43.9)**	0.9	**(178.2)**	(17.6)
Other	**4.6**	(5.0)	**15.4**	21.5
	(683.9)	(30.3)	**188.5**	944.5

The fourth quarter of 2010 included net mark-to-market losses of $763.6 ($936.6 in the twelve months of 2010) related to short equity and equity index total return swaps included in equity derivatives in the table above which were partially offset by net gains on long equity total return swaps and equity warrants. The company uses short equity and equity index total return swaps to economically hedge equity price risk associated with its equity and equity-related holdings, the majority of which are carried at fair value with mark-to-market gains and losses recorded in other comprehensive income (loss) until realized or impaired. At December 31, 2010, equity hedges represented approximately 88.8% of the company's equity and equity-related holdings ($6,854.5). The net pre-tax impact on total equity of the company's equity hedging program was a decrease of $90.3 in the fourth quarter of 2010 ($51.4 in the twelve months of 2010) as indicated in the tabular analysis under the heading of Market Price Fluctuations in the Financial Risk Management section that follows in this Management's Discussion and Analysis of Financial Condition and Results of Operations. The fourth quarter of 2010 also included net mark-to-market losses of $425.5 ($170.9 in the twelve months of 2010) on U.S. state and municipal bonds included in bonds in the table above. These were comprised primarily of net mark-to-market losses arising from an increase in interest rates during 2010 (most notably in the fourth quarter) and were more than offset by net gains on corporate and other bonds.

Consolidated interest expense increased 7.3% to $52.9 in the fourth quarter of 2010 from $49.3 in the fourth quarter of 2009 and increased 17.5% to $195.4 in 2010 from $166.3 in 2009, primarily reflecting the additional interest expense incurred following the company's third quarter 2009 issuance of Cdn$400.0 of senior unsecured notes, the company's second quarter 2010 issuance of Cdn$275.0 of senior unsecured notes, interest expense incurred on Zenith National's redeemable debentures following the acquisition of Zenith National in the second quarter of 2010 and interest expense incurred on the TIG Note in connection with the acquisition of GFIC in the third quarter of 2010, as described in note 5. Consolidated interest expense is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Fairfax	**32.8**	33.4	**125.9**	101.4
Crum & Forster	**7.1**	7.0	**28.2**	27.8
Zenith National	**0.8**	—	**2.5**	—
OdysseyRe	**7.7**	7.5	**30.5**	31.0
Advent	**1.2**	1.2	**4.5**	5.1
Runoff (TIG)	**3.2**	—	**3.2**	—
Ridley	**0.1**	0.2	**0.6**	1.0
	52.9	49.3	**195.4**	166.3

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

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
Fairfax corporate overhead	**25.1**	20.7	**83.9**	88.3
Subsidiary holding companies corporate overhead	**16.0**	16.4	**59.9**	64.3
Holding company interest and dividends	**0.1**	(11.6)	**(14.8)**	(36.4)
Holding company net (gains) losses on investments	**57.6**	(21.3)	**125.6**	(147.3)
Investment management and administration fees	**(23.9)**	(17.2)	**(65.7)**	(64.9)
	74.9	(13.0)	**188.9**	(96.0)

Fairfax corporate overhead expense in the fourth quarter of 2010 increased to $25.1 from $20.7 in the fourth quarter of 2009, primarily as a result of increased legal expenses and charitable donations, partially offset by decreased compensation expenses. Subsidiary holding companies' corporate overhead expense in the fourth quarter of 2010 decreased to $16.0 from $16.4 in the fourth quarter of 2009, primarily as a result of decreased compensation expenses and decreased charitable donations in the fourth quarter of 2010. Interest and dividends earned on holding company cash, short term investments and marketable securities decreased in the fourth quarter of 2010 compared to the fourth quarter of 2009 as a result of increased expenses incurred in connection with total return swaps. Net losses on investments at the holding company of $57.6 in the fourth quarter of 2010 (2009 – net gains of $21.3) included $117.3 of net losses on common stocks and equity derivatives (including $131.3 of net mark-to-market losses related to the company's equity hedges) and $15.8 of net losses related to credit default swaps and other derivatives, partially offset by $63.5 of net gains on bonds, $7.4 of net gains on preferred stocks and $3.9 of net gains related to foreign currency. Net gains on investments at the holding company of $21.3 in the fourth quarter of 2009 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.

Fairfax corporate overhead expense in 2010 decreased to $83.9 from $88.3 in 2009, primarily as a result of a recovery of a corporate reinsurance recoverable which was fully provided for in a prior period, partially offset by increased legal expenses. Subsidiary holding companies' corporate overhead expense decreased to $59.9 in 2010 from $64.3 in 2009, principally due to decreased charitable donations and decreased legal and compensation expenses during 2010. Interest and dividends earned on holding company cash, short term investments and marketable securities decreased in 2010 compared to 2009 as a result of increased expenses incurred in connection with total return swaps and lower equity earnings of investees. Net losses on investments at the holding company of $125.6 in 2010 (2009 – net gains of $147.3) included $154.4 of net losses on common stocks and equity derivatives (including $194.2 of net mark-to-market losses related to the company's equity hedges), $15.8 of net losses on credit default swaps and other derivatives and $11.8 of net losses on preferred stocks, partially offset by $43.2 of net gains on bonds. Net gains on investments at the holding company of $147.3 in 2009 included $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.

The effective income tax rate of 46.5% implicit in the $316.2 recovery of income taxes in the fourth quarter of 2010 differed from the company's Canadian statutory income tax rate of 31.0% (decreased from 33.0% in 2009) primarily as a result of 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 and the effect of non-taxable investment income (including dividend income and interest on bond investments in U.S. states and municipalities), partially offset by the impact of the resolution of certain income tax matters from previous years.

The $119.5 recovery of income taxes in the twelve months of 2010 differed from the company's Canadian statutory income tax rate of 31.0% (decreased from 33.0% in 2009) primarily as a result of income earned in jurisdictions where the corporate income tax rate is lower than the company's statutory income tax rate, the effect of non-taxable investment income (including dividend income and interest on bond investments in U.S. states and municipalities, and capital gains in Canada which are only 50.0% taxable), the recognition of the benefit of previously unrecorded accumulated income tax losses, and the excess of the fair value of net assets acquired over the purchase price in respect of the GFIC acquisition and the gain on previously owned common shares of Zenith National which are non-taxable, partially offset by withholding tax paid on an intercompany dividend from the U.S. to Canada.

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 Canadian 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 and 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 (included in recovery (charge) related to prior years), partially offset by income taxes on unrealized foreign currency gains on the company's publicly issued debt securities.

The attribution of net earnings to the non-controlling interests in the consolidated statements of earnings is comprised as follows:

	Fourth quarter		Year ended December 31,	
	2010	2009	**2010**	2009
OdysseyRe	**—**	2.1	**—**	128.8
Northbridge	**—**	—	**—**	2.7
Advent	**—**	(0.1)	**—**	0.8
Ridley	**1.2**	1.5	**1.3**	0.3
Fairfax Asia	**0.1**	0.3	**0.9**	1.3
	1.3	3.8	**2.2**	133.9

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 the first quarter of 2009, the company completed the Northbridge going-private transaction, increasing the company's ownership of Northbridge to 100% (this transaction is described in note 5).

Financial Condition

Holding company cash, short term investments and marketable securities at December 31, 2010 totaled $1,540.7 ($1,474.2 net of $66.5 of holding company short sale and derivative obligations), compared to $1,251.6 at December 31, 2009 ($1,242.7 net of $8.9 of holding company short sale and derivative obligations). Significant cash movements at the Fairfax holding company level during 2010 included the following inflows – the receipt of $286.0 (Cdn$290.8) of net proceeds on the issuance of Series I preferred shares, $233.8 (Cdn$242.2) of net proceeds on the issuance of Series G preferred shares, the receipt of $181.4 (Cdn$193.5) of net proceeds on the issuance of Series E preferred shares, the receipt of $199.8 of net proceeds on the issuance of subordinate voting shares, the receipt of $267.1 (Cdn$272.5) of net proceeds on the issuance of 7.25% unsecured notes due 2020, taxes received of $168.6 and the receipt of $745.6 of dividends (comprised of a $136.0 ordinary and a $350.0 extraordinary dividend received from Crum & Forster and a $259.6 dividend received from Zenith National subsequent to its acquisition by the company) and the following outflows – the payment of $1.3 billion in respect of the company's acquisition of Zenith National, the acquisition of 41.3% of Gulf Insurance for $217.1 and the payment of $232.2 of common and preferred share dividends. 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 increased by $269.1 to $3,513.9 at December 31, 2010 from $3,244.8 at December 31, 2009, with the increase primarily related to the consolidation of the cash and short term investments of Zenith National and GFIC of $88.4 and $89.7 respectively and net sales of investments (principally available for sale securities) to fund subsidiaries' operating cash requirements, partially offset by dividends to Fairfax of $745.6 paid during 2010.

Consolidated cash resources decreased by $383.0 during the fourth quarter of 2010, primarily as a result of $538.4 of cash used in investing activities and $35.0 of cash used in operating activities, partially offset by $177.8 of cash provided by financing activities (including the issuance of Cdn$300.0 par value of Series I preferred shares for net proceeds of $286.0 (Cdn$290.8), partially offset by $70.6 of Series A and B preferred shares purchased by OdysseyRe and the payment of $12.8 of preferred share dividends). 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 increased by $1,118.2 during 2010, primarily as a result of $297.7 of cash provided by investing activities (which included cash used in the company's acquisition of Zenith National and its investment in 41.3% of Gulf Insurance, partially offset by net cash acquired in connection with the purchase of GFIC as described in note 5), $33.5 of cash provided by operating activities, and $773.7 of cash provided by financing activities (including the issuance of Cdn$300 par value of Series I preferred shares for net proceeds of $286.0 (Cdn$290.8), Cdn$250 par value of Series G preferred shares for net proceeds of $233.8 (Cdn$242.2), the issuance of Cdn$200 par value of Series E preferred shares for net proceeds of $181.4 (Cdn$193.5), the issuance of subordinate voting shares for net proceeds of $199.8 and the issuance of Cdn$275.0 par value of 7.25% unsecured notes due 2020 for net proceeds of $267.1 (Cdn$272.5), partially offset by $232.2 of common and preferred share dividends paid, $26.8 of shares purchased for treasury and $21.9 of repayment of long term debt (primarily by Zenith National as described in note 6). 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).

The net $175.2 increase in recoverable from reinsurers to $3,993.8 at December 31, 2010 from $3,818.6 at December 31, 2009 primarily related to the acquisition of Zenith National and GFIC, the effects of losses ceded to reinsurers related to the Chilean earthquake (principally by OdysseyRe) and business growth at Fairfax Asia, partially offset by continued progress by Runoff in collecting and commuting its remaining reinsurance recoverable balances.

The net $1,503.6 increase in provision for claims to $16,270.3 at December 31, 2010 from $14,766.7 at December 31, 2009 related primarily to the acquisition of Zenith National and GFIC, the effects of the significant catastrophe losses incurred by OdysseyRe, Advent and Group Re in the first quarter of 2010, large losses incurred in the second quarter of 2010 related to the Deepwater Horizon losses (principally at OdysseyRe and Advent) and business growth at Fairfax Asia, partially offset by continued progress by Runoff and reduced underwriting activity at Crum & Forster 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 equity accounted investments (at December 31, 2010, the latter primarily included the company's investments in ICICI Lombard, Gulf Insurance, Cunningham Lindsey Group and other partnerships and trusts), the aggregate carrying value of which was $21,981.8 at December 31, 2010 ($21,831.4 net of subsidiary short sale and derivative obligations), compared to an aggregate carrying value at December 31, 2009 of $20,078.6 ($20,030.3 net of subsidiary short sale and derivative obligations). The net $1,801.1 increase in the aggregate carrying value of portfolio investments (net of subsidiary short sale and derivative obligations) at December 31, 2010 compared to December 31, 2009 primarily reflected the consolidation of the investment portfolios of Zenith National and GFIC ($1.6 billion and $604.9 respectively at December 31, 2010), increased net unrealized gains on common stocks and the favourable impact of foreign currency translation, partially offset by increased unrealized losses on the company's equity hedges, U.S. state and municipal fixed income securities and U.S. treasury securities and subsidiary uses of cash, funded by subsidiary portfolio investments, that included $351.2 of subsidiary corporate income tax payments and the payment of dividends to Fairfax. Major movements in portfolio investments in 2010 included increases of $269.1 in subsidiary cash and short term investments (as previously described) and an $829.9 increase in bonds, partially offset by a $763.7 decrease in common stocks. Investments, at equity, increased $282.0 (principally as the result of the acquisition of a 41.3% interest in Gulf Insurance) and derivatives and other invested assets increased $436.7 (principally related to the purchase of additional CPI-linked derivatives and increased mark-to-market gains on equity warrants and appreciation of CPI-linked derivatives).

The company holds significant investments in equities and equity-related securities. 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 2010, the company added a net notional amount of $933.6 to its equity total return swaps – long positions on individual equity securities for investment purposes. As a result of volatility in the equity markets and international credit concerns, the company has taken measures to protect 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. Accordingly, the company added short positions in certain equities ($284.4 notional amount entered into during the third quarter of 2010), the Russell 2000 index ($3.3 billion notional amount at an average Russell 2000 index value of 646.5 entered into during the second quarter of 2010) and to its short positions in the S&P 500 index ($1.5 billion notional amount at an average S&P 500 index value of 1,062.52 entered into during the third quarter of 2009). During the fourth quarter of 2010, the company closed out $212.4 of the original notional amount of its short positions in S&P 500 index total return swaps to realign its equity hedges with its underlying equity and equity-related holdings (this transaction had a nominal impact on the average S&P 500 index value of the remaining $1.3 billion original notional amount of S&P 500 index

total return swaps). At December 31, 2010, equity hedges represented approximately 88.8% of the company's equity and equity-related holdings ($6,854.5). During the fourth quarter and twelve months of 2010, the company paid net cash of $764.1 (2009 – $83.2) and $796.9 (2009 – $107.5) respectively to satisfy obligations incurred in connection with the quarterly reset provisions of its short equity and equity index total return swaps. During the fourth quarter and twelve months of 2010, the company received net cash of $169.3 (2009 – $109.7) and $91.9 (2009 – $83.3) respectively from counterparties in connection with the quarterly reset provisions of the company's long equity total return swaps. The unrecorded excess of fair value over the carrying value of equity accounted investments was $261.4 at December 31, 2010 ($170.8 at December 31, 2009).

Income taxes receivable increased by $166.4 to $216.8 during 2010, as tax instalments paid exceeded estimated tax liabilities for the year and tax losses enabled certain entities to recover taxes paid in prior years. The future income tax asset increased by $195.7 to $514.4 during 2010, with the change primarily attributable to increases in unrealized losses on investments held for trading, increases in unutilized foreign tax credits in the U.S. and the consolidation of the future income tax asset of GFIC, partially offset by the consolidation of the future income tax liability of Zenith National.

The $510.3 increase in goodwill and intangible assets in 2010 resulted from the Zenith National acquisition as described in note 5 and the effect of foreign currency translation related to the Northbridge and Polish Re goodwill and intangible assets. Consolidated goodwill of $572.1 (December 31, 2009 – $249.3) and intangible assets of $377.0 (December 31, 2009 – $189.5) (principally related to the value of customer and broker relationships and brand names) are comprised primarily of amounts arising on the acquisition of Zenith National during 2010, and the privatization of Northbridge and OdysseyRe during 2009. Annual impairment tests for goodwill and intangible assets not subject to amortization were completed in 2010 and it was concluded that no impairment had occurred. The intended use, expected life and economic benefit to be derived from intangible assets are evaluated by the company when there are potential indicators of impairment. The customer and broker relationships intangible assets will be amortized to net earnings over periods ranging from 8 to 20 years.

Non-controlling interests decreased by $71.8 to $45.8 during 2010, with the decrease primarily attributable to the redemption by OdysseyRe of its outstanding Series A and Series B preferred shares not owned by it or by other subsidiaries of the company, as described in note 6. Prior to being called for redemption, OdysseyRe's Series A and Series B preferred shares were classified as non-controlling interests in the consolidated balance sheets of the company. The non-controlling interests balance remaining at December 31, 2010 primarily relates to Ridley.

Financial Risk Management

The company has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organization. The company's exposure to potential loss from its insurance and reinsurance operations and investing activities primarily relates to underwriting risk, credit risk, liquidity risk and various market risks, as disclosed in note 19 of the company's consolidated financial statements for the year ended December 31, 2009. There have been no significant changes to the company's exposure to these risks or the framework to monitor, evaluate and manage them other than as described below.

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, 2010 compared to December 31, 2009.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial 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, total return swaps and CPI-linked derivatives). The company's exposure to credit risk changed year-over-year as proceeds from sales of corporate and other bonds and mortgage backed securities were reinvested into U.S., Canadian and other sovereign government fixed income securities with nominal credit risk. The company's hedging of credit risk with credit default swaps declined during 2010 as the company's holdings of credit default swap contracts declined significantly by the end of 2010 largely as a result of significant sales in 2008 and contract expirations in 2009 and 2010. Notwithstanding the foregoing, there were no significant changes to the company's framework used to monitor, evaluate and manage credit risk at December 31, 2010 compared to December 31, 2009.

Since 2003, subsidiary portfolio investments and holding company investments included credit default swaps referenced to various issuers in the financial services industry as an economic hedge of risks affecting specific financial assets of the company, exposures potentially affecting the fair value of the company's fixed income portfolio and of broader systemic risk. The company's holdings of credit default swap contracts declined significantly by the end of 2010 as described above. The company determined not to utilize credit default swaps currently as part of its economic hedging program and therefore not to replace its credit default swaps as sales or expiries occurred, with the result that the company no longer has significant holdings of credit default swaps. Accordingly, the company no longer considers credit default swaps to be an economic hedge of its financial assets effective January 1, 2011.

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, 2010 and 2009:

	As of and for the period ended December 31, 2010							
			Fourth quarter			**Year**		
	Exposure / notional amount	**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	**4,172.8**	**4,172.8**	**—**	**—**	**—**	**—**	**—**	**—**
Canadian provincials	**1,251.3**	**1,251.3**	**—**	**—**	**—**	**—**	**—**	**—**
U.S. states and municipalities	**5,425.6**	**5,425.6**	**(78.6)**	**(417.4)**	**(496.0)**	**(49.7)**	**(148.1)**	**(197.8)**
Corporate and other	**2,107.0**	**2,107.0**	**(34.6)**	**228.2**	**193.6**	**(89.3)**	**479.6**	**390.3**
Derivatives and other invested assets:								
Receivable from counterparties to derivatives	**602.4**	**602.4**	**—**	**(13.6)**	**(13.6)**	**—**	**4.5**	**4.5**
Accounts receivable and other	**1,802.3**	**1,802.3**	**—**	**1.1**	**1.1**	**—**	**2.0**	**2.0**
Recoverable from reinsurers	**3,988.8**	**3,988.8**	**—**	**(25.4)**	**(25.4)**	**—**	**(32.0)**	**(32.0)**
Cash and short term investments	**4,114.5**	**4,114.5**	**—**	**—**	**—**	**—**	**—**	**—**
	23,464.7	**23,464.7**	**(113.2)**	**(227.1)**	**(340.3)**	**(139.0)**	**306.0**	**167.0**
Hedging instruments:								
Derivatives and other invested assets:								
Credit default swaps	**(3,499.3)**	**67.2**	**—**	**(2.5)**	**(2.5)**	**—**	**15.8**	**15.8**
Net exposure and financial effects	**19,965.4**		**(113.2)**	**(229.6)**	**(342.8)**	**(139.0)**	**321.8**	**182.8**

	As of and for the period ended December 31, 2009							
			Fourth quarter			Year		
	Exposure / notional amount	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	1,652.8	1,652.8	—	—	—	—	—	—
Canadian provincials	1,346.8	1,346.8	—	—	—	—	—	—
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	1,805.0	1,805.0	—	1.4	1.4	—	(1.9)	(1.9)
Recoverable from reinsurers	3,818.6	3,818.6	—	(58.0)	(58.0)	—	(59.7)	(59.7)
Cash and short term investments	3,699.7	3,699.7	—	—	—	—	—	—
	21,016.9	21,016.9	(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	15,090.7		(56.9)	(172.8)	(229.7)	250.7	734.6	985.3

The consolidated investment portfolio included $5.4 billion ($5.5 billion at December 31, 2009) of U.S. state and municipal bonds, almost all of which were purchased during 2008. Of the $5.4 billion ($5.4 billion at December 31, 2009) held in the subsidiary investment portfolios at December 31, 2010, approximately $3.5 billion ($3.5 billion at December 31, 2009) 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. During the fourth quarter of 2010, interest rates on U.S. state and municipal bonds increased and resulted in the company recognizing significant mark-to-market losses in consolidated net earnings. Notwithstanding these fourth quarter losses, at December 31, 2010, the aggregate net fair value of the company's U.S. state and municipal bond portfolio remained in excess of the cost paid to acquire these bonds in 2008 (when credit spreads were significantly wider than at December 31, 2010).

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 amount 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, due to the timing of opportunities related to the company's ability to exit and enter hedges at attractive prices or during the transition period when the company is adding to a new hedging program or discontinuing an existing hedging program.

The company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its derivative contracts. Pursuant to these agreements, the counterparties to these transactions are contractually required to deposit eligible collateral in collateral accounts (subject to certain minimum thresholds) for the benefit of the company depending on the then current fair value of the derivative contracts. Agreements negotiated with counterparties also provide for a single net settlement of all financial instruments covered by the agreement in the event of default by the counterparty, thereby permitting obligations owed by the company to a counterparty to be offset to the extent of the aggregate amount receivable by the company from that counterparty. The following table sets out the company's exposure to credit risk related to the counterparties to its derivative contracts:

	Year ended December 31,	
	2010	2009
Total derivative assets (excluding exchange traded instruments comprised principally of equity call options and warrants and credit warrants which are not subject to counterparty risk)	**424.8**	104.8
Impact of net settlement arrangements	**(119.0)**	(11.1)
Fair value of collateral deposited for the benefit of the company	**(120.5)**	(23.2)
Net derivative counterparty exposure after net settlement and collateral arrangements	**185.3**	70.5

The fair value of the collateral deposited for the benefit of the company at December 31, 2010 consisted of cash of $26.1 (nil at December 31, 2009) and government securities of $94.4 ($23.2 at December 31, 2009) that may be sold or repledged by the company. The company has recognized the cash collateral within subsidiary cash and short term investments and recognized a corresponding liability within accounts payable and accrued liabilities. The company had not exercised its right to sell or repledge collateral at December 31, 2010. The net derivative counterparty exposure after net settlement and collateral arrangements relates principally to balances due from counterparties that are lower than certain minimum thresholds which would require that collateral be deposited for the benefit of the company.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. 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.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As interest rates rise, the fair value of fixed income investments declines and, conversely, as interest rates decline, the market value of fixed income investments rises. In each case, the longer the maturity of the financial instrument, the greater the consequence of the change in interest rates. The company's exposure to interest rate risk has increased during 2010 with the purchase of U.S., Canadian and other sovereign government fixed income securities with longer maturities.

Market Price Fluctuations

As at December 31, 2010, the company had aggregate equity and equity-related holdings of $6,854.5 (common stock of $4,474.5, investments, at equity of $976.9 plus equity-related derivatives of $1,403.1) compared to aggregate equity and equity-related holdings at December 31, 2009 of $6,156.5 (common stocks of $5,130.8, investments, at equity of $604.3 plus equity-related derivatives of $421.4). As at December 31, 2010, 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 $7,532.6 compared to $8,468.8 at December 31, 2009. The company continues to have significant exposures to interest rate risk (through its fixed income holdings) and equity price risk (through its equity and equity-related holdings) at December 31, 2010 compared to December 31, 2009. The company believes that its current financial risk management framework is able to manage these risk exposures.

The company holds significant investments in equities and equity-related securities. 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 2010, the company added a net notional amount of $933.6 to its equity total return swaps – long positions on individual equity securities for investment purposes. As a result of volatility in the equity markets and international credit concerns, the company has taken measures to protect 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. Accordingly, the company added short positions in certain equities ($284.4 notional amount entered into during the third quarter of 2010), the Russell 2000 index ($3.3 billion notional amount at an average Russell 2000 index value of 646.5 entered into during the second quarter of 2010) and to its short positions in the S&P 500 index ($1.5 billion notional amount at an average S&P 500 index value of 1,062.52 entered into during the third quarter

of 2009). During the fourth quarter of 2010, the company closed out $212.4 of the original notional amount of its short positions in S&P 500 index total return swaps to realign its equity hedges with its underlying equity and equity-related holdings (this transaction had a nominal impact on the average S&P 500 index value of the remaining $1.3 billion original notional amount of S&P 500 index total return swaps). At December 31, 2010, equity hedges represented approximately 88.8% of the company's equity and equity-related holdings ($6,854.5). During the fourth quarter and twelve months of 2010, the company paid net cash of $764.1 (2009 – $83.2) and $796.9 (2009 – $107.5) respectively to satisfy obligations incurred in connection with the quarterly reset provisions of its short equity and equity index total return swaps. During the fourth quarter and twelve months of 2010, the company received net cash of $169.3 (2009 – $109.7) and $91.9 (2009 – $83.3) respectively from counterparties in connection with the quarterly reset provisions of the company's long equity total return swaps. 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 should a significant correction in the market occur; 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.

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 fourth quarters and years ended December 31, 2010 and 2009:

	As of and for the period ended December 31, 2010							
			Fourth quarter			Year		
	Exposure / notional amount	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	**4,474.5**	**4,474.5**	**291.5**	**82.0**	**373.5**	**125.2**	**442.4**	**567.6**
Investments, at equity	**976.9**	**715.5**	**(1.0)**	**98.6**	**97.6**	**1.8**	**135.1**	**136.9**
Derivatives and other invested assets:								
Equity total return swaps – long positions	**1,244.3**	**(7.6)**	**—**	**165.1**	**165.1**	**—**	**83.2**	**83.2**
Equity warrants	**158.8**	**171.1**	**—**	**33.5**	**33.5**	**—**	**83.6**	**83.6**
Equity call options	**—**	**—**	**—**	**3.6**	**3.6**	**—**	**13.9**	**13.9**
Total equity and equity related holdings	**6,854.5**	**5,353.5**	**290.5**	**382.8**	**673.3**	**127.0**	**758.2**	**885.2**
Hedging instruments:								
Derivatives and other invested assets:								
Equity total return swaps – short positions	**(624.5)**	**(10.3)**	**—**	**(50.1)**	**(50.1)**	**—**	**(93.0)**	**(93.0)**
Equity index total return swaps – short positions	**(5,463.3)**	**(123.4)**	**—**	**(713.5)**	**(713.5)**	**—**	**(843.6)**	**(843.6)**
	(6,087.8)	**(133.7)**	**—**	**(763.6)**	**(763.6)**	**—**	**(936.6)**	**(936.6)**
Net exposure and financial effects	**766.7**		**290.5**	**(380.8)**	**(90.3)**	**127.0**	**(178.4)**	**(51.4)**

	As of and for the period ended December 31, 2009							
			Fourth quarter			Year		
	Exposure / notional amount	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	5,130.8	5,130.8	25.2	114.8	140.0	1,207.5	(91.5)	1,116.0
Investments, at equity	604.3	433.5	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:								
S&P 500 index call options	—	—	—	—	—	—	2.6	2.6
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)	—	(75.4)	(75.4)
	(1,814.9)	8.0	—	(84.1)	(84.1)	—	(99.6)	(99.6)
Net exposure and financial effects	4,341.6		28.5	73.3	101.8	1,210.8	156.1	1,366.9

One risk of a hedging strategy (sometimes referred to as basis risk) is the risk that offsetting investments in a hedging strategy will not experience perfectly correlated opposite changes in fair value, creating the potential for gains or losses. The objective of the company when selecting a hedging instrument (including its equity index total return swaps) is to economically protect capital over potentially long periods of time and especially during periods of market turbulence. The company regularly monitors the effectiveness of its equity hedging program on a prospective and retrospective basis and based on its historical observation, the company believes that its hedges of its equity and equity related holdings will be effective over the long term and especially in the event of a significant market correction.

In the normal course of effecting its economic hedging strategy with respect to equity risk, the company expects that there may be periods when the notional amount 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.

Risk of Decreasing Price Levels

The risk of decreases in the general price level of goods and services is the potential for a negative impact on the consolidated balance sheet (including the company's equity and equity-related holdings and fixed income investments in non-sovereign debt) and/or consolidated statement of earnings. Among their effects on the economy, generally decreasing price levels typically result in decreased consumption, restriction of credit, shrinking output and investment and numerous bankruptcies.

The company has purchased derivative contracts referenced to consumer price indices ("CPI") in the geographic regions in which it operates, which serve as an economic hedge against the potential adverse financial impact on the company of decreasing price levels. These contracts have a remaining weighted average life of 9.4 years (10.0 years at December 31, 2009), a notional amount of $34,182.3 and fair value of $328.6 at December 31, 2010. As the average remaining life of a contract declines, the fair value of the contract (excluding the impact of CPI changes) will generally decline. The initial premium paid for each contract is recorded as a derivative asset and is subsequently adjusted for changes in the unrealized fair value of the contract at each balance sheet date. Changes in the unrealized fair value of the contracts are recorded as net gains (losses) on investments in the company's consolidated statements of earnings at each balance sheet date, with a corresponding adjustment to the carrying value of the derivative asset. The company's maximum potential loss on any contract is limited to the original cost of that contract.

During the fourth quarter of 2010, the company purchased $3,679.0 (2009 – $1,490.7) notional amount of CPI-linked derivative contracts at a cost of $37.1 (2009 – $8.8) and recorded net mark-to-market losses of $61.5 (2009 – $0.5) in respect of positions remaining open at quarter end. During 2010, the company purchased $32,607.2 (2009 – $1,490.7) notional amount of CPI-linked derivative contracts at a cost of $291.4 (2009 – $8.8) and recorded net mark-to-market gains of $28.1 (2009 – net mark-to-market losses of $0.5) in respect of positions remaining open at the end of the period.

The CPI-linked derivative contracts 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 company's purchase of these derivative contracts is consistent with its capital management framework designed to protect its capital in the long term. Due to the uncertainty of the market conditions which will exist many years into the future, it is not possible to estimate the reasonably likely future impact of this aspect of the company's risk management program.

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 equity accounted investments and net investment in subsidiaries that have a functional currency other than the U.S. dollar. There were no significant changes to the company's exposure to foreign currency risk or the framework used to monitor, evaluate and manage foreign currency risk at December 31, 2010 compared to December 31, 2009.

In June 2010 and August 2009, the company designated the carrying value of Cdn$275.0 and Cdn$400.0 principal amount respectively of its Canadian dollar denominated senior notes as a hedge of its net investment in Northbridge for financial reporting purposes. In the fourth quarter and twelve months of 2010, the company recognized pre-tax losses of $21.3 (2009 – $8.9) and $28.2 (2009 – $18.3) respectively related to foreign currency movement on the senior notes in change in gains and losses on hedge of net investment in foreign subsidiary in the consolidated statements of comprehensive income.

The following table presents the pre-tax foreign exchange effect on certain line items in the company's consolidated financial statements for the fourth quarters and years ended December 31, 2010 and 2009:

	Fourth quarter		**Year ended December 31,**	
	2010	2009	**2010**	2009
Net gains (losses) on investments				
Underwriting activities	**(10.5)**	(20.2)	**(26.4)**	14.3
Investing activities	**(33.4)**	21.1	**(151.8)**	(31.9)
Foreign currency gains (losses) included in pre-tax net earnings	**(43.9)**	0.9	**(178.2)**	(17.6)
Other comprehensive income – investing activities foreign currency gains (losses)	**7.0**	16.3	**100.7**	(39.3)
	(36.9)	17.2	**(77.5)**	(56.9)

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.

Refer to the first paragraph of the Financial Condition section immediately preceding this Financial Risk Management section for a description of the significant cash movements at the Fairfax holding company level during 2010, including the payment of $1.3 billion to complete the company's acquisition of Zenith National. Subsequent to the completion of the Zenith National acquisition, the company believes that it continues to have adequate liquidity at the holding company level to satisfy its known obligations for the foreseeable future. The company's operating companies continue to maintain capital above minimum regulatory levels, in excess of levels required to support their issuer credit and financial strength ratings, and above internally calculated risk management levels.

During any quarter, the insurance and reinsurance subsidiaries may experience cash inflows or outflows (which at times could be significant) related to cash settlements of market value movements of total return swaps which have occurred since the most recent reset date. During 2010, the insurance and reinsurance subsidiaries paid net cash of $613.8 (2009 – $68.9) with respect to short equity and equity index total return swap derivative obligations (excluding the impact of collateral requirements). The insurance and reinsurance subsidiaries typically fund such obligations from cash provided by operating activities and from sales of equity related investments whose market value will generally vary inversely to the market value of short equity and equity index total return swaps.

For the maturity profile of the company's material contractual obligations (including financial liabilities and credit and liquidity commitments) as at December 31, 2010, refer to the Contractual Obligations section that follows in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Capital Structure and Liquidity

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

	December 31,	
	2010	2009
Holding company cash, short term investments and marketable securities, net of short sale and derivative obligations	**1,474.2**	1,242.7
Holding company debt	**1,498.1**	1,236.9
Subsidiary debt	**919.9**	903.4
Other long term obligations – holding company	**311.5**	173.5
Total debt	**2,729.5**	2,313.8
Net debt	**1,255.3**	1,071.1
Common shareholders' equity	**7,761.9**	7,391.8
Preferred stock	**934.7**	227.2
Non-controlling interests	**45.8**	117.6
Total equity	**8,742.4**	7,736.6
Net debt/total equity	**14.4%**	13.8%
Net debt/net total capital[1]	**12.6%**	12.2%
Total debt/total capital[2]	**23.8%**	23.0%
Interest coverage[3]	**2.8x**	8.2x
Interest and preferred share dividend distribution coverage[4]	**2.3x**	7.5x

(1) *Net total capital is calculated by the company as the sum of total equity and net debt.*

(2) *Total capital is calculated by the company as the sum of total equity 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.*

(4) *Interest and preferred share dividend distribution coverage is calculated by the company as the sum of earnings (loss) from operations before income taxes and interest expense divided by interest expense and preferred share dividend distributions adjusted to a before tax equivalent at the company's Canadian statutory tax rate.*

Holding company debt (including other long term obligations) at December 31, 2010 increased by $399.2 to $1,809.6 from $1,410.4 at December 31, 2009, primarily reflecting the issuance of Cdn$275.0 par value of 7.25% unsecured notes due 2020 for net proceeds of $267.1 (Cdn$272.5), the issuance of the contingent note in connection with the acquisition of GFIC as described in note 6, and the foreign currency translation effect during 2010 of the strengthening of the Canadian dollar relative to the U.S. dollar, partially offset by the elimination on consolidation of Zenith National's holdings of Fairfax's debt securities as described in note 6.

Subsidiary debt at December 31, 2010 increased by $16.5 to $919.9 from $903.4 at December 31, 2009, primarily reflecting the consolidation of Zenith National's redeemable securities pursuant to the acquisition transaction described in note 5, partially offset by the elimination on consolidation of Zenith National's holdings of OdysseyRe's debt securities as described in note 6.

At December 31, 2010 the company's consolidated net debt/net total capital ratio increased to 12.6% from 12.2% at December 31, 2009. The change primarily reflected the issuance of Cdn$275.0 par value of 7.25% unsecured notes due 2020 for net proceeds of $267.1 (Cdn$272.5) and the issuance of the contingent note in connection with the GFIC acquisition as described in note 6, partially offset by the increase in holding company cash, short term investments and marketable securities (discussed in the Financial Condition section immediately preceding this Financial Risk Management section), increased common shareholders' equity (resulting from increased retained earnings, partially offset by decreased accumulated other comprehensive income), the first quarter issuance of $199.8 of subordinate voting shares, and the increase in preferred stock as a result of the first quarter issuance of $181.4 (Cdn$193.5) of Series E preferred shares, the third quarter issuance of $233.8 (Cdn$242.2) of Series G preferred shares and the fourth quarter issuance of $286.0 (Cdn$290.8) of Series I preferred shares. The consolidated total debt/total capital ratio increased to 23.8% at December 31, 2010 from 23.0% at December 31, 2009. The increase related primarily to the effects of the above-mentioned increases in total debt partially offset by increases in total equity.

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 2011. 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.

The holding company's known significant commitments for 2011 consist of the $294.3 and approximately $64 payments in respect of the company's acquisitions of First Mercury and Pacific Insurance respectively, as described in note 5, interest and corporate overhead expenses, common and preferred share dividends and income tax payments.

Primarily as a result of the company's first quarter issuance of subordinate voting shares (net proceeds $199.8) and Series E preferred shares (net proceeds $181.4), third quarter issuance of Series G preferred shares (net proceeds $233.8), the fourth quarter issuance of Series I preferred shares (net proceeds $286.0) and net earnings attributable to shareholders of Fairfax of $469.0, partially offset by the effect of decreased accumulated other comprehensive income (a decrease of $29.2 in 2010, primarily reflecting a decrease in unrealized gains on available for sale securities, partially offset by a net increase in foreign currency translation) and the company's dividend payments ($232.2) on its common shares and preferred shares, shareholders' equity at December 31, 2010 increased by $1,077.6 to $8,696.6 from $7,619.0 at December 31, 2009. Common shareholders' equity at December 31, 2010 was $7,761.9 or $379.46 per basic share (excluding the unrecorded $261.4 excess of fair value over the carrying value of equity accounted investments) compared to $369.80 per basic share (excluding the unrecorded $170.8 excess of fair value over the carrying value of equity accounted investments) at the end of 2009, representing an increase per basic share in 2010 of 2.6% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2010, or 5.3% adjusted to include that dividend). During 2010, the number of basic shares increased primarily as a result of the company's February 26, 2010 issuance of 563,381 subordinate voting shares at $355.00 per share, partially offset by the repurchase of 53,104 subordinate voting shares for treasury (for use in the company's senior share plans) and 43,900 subordinate voting shares for cancellation. At December 31, 2010, there were 20,455,247 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 165 of the company's 2009 Annual Report. The following table provides a payment schedule of the company's material current and future obligations (holding company and subsidiaries) as at December 31, 2010.

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Gross claims liability	3,756.9	4,172.4	2,721.0	5,620.0	16,270.3
Long term debt obligations – principal	0.4	376.2	207.6	1,887.0	2,471.2
Long term debt obligations – interest	178.1	338.0	294.1	666.0	1,476.2
Operating leases – obligations	59.2	76.2	49.1	79.5	264.0
Other long term liabilities – principal	6.7	8.7	10.3	343.4	369.1
Other long term liabilities – interest	14.4	27.5	25.8	31.7	99.4
	4,015.7	4,999.0	3,307.9	8,627.6	20,950.2

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 a transition 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 US GAAP.

Disclosure of the company's transition balance sheet as at January 1, 2010, including commentary on individual Canadian GAAP to IFRS measurement differences will be included in the Management's Discussion and Analysis in the company's 2010 Annual Report scheduled for release on March 4, 2011.

In 2008 the company established a steering committee, a project team and working groups with appropriate IFRS training and expertise 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, including activities completed in the quarter, activities planned for the following quarter and progress towards key goals and milestones. 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 is nearing completion. 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 IFRS (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 IFRS, ongoing changes to IFRS, 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 IFRS Interpretations Committee (formerly the IFRIC). The company assesses the impact of the proposed standards on its financial statements and disclosure as additional information becomes available.

In its transition balance sheet the company will apply certain of the optional exemptions available under IFRS 1 – *First-time Adoption of International Financial Reporting Standards*. The company intends to: recognize all unamortized actuarial gains and losses of its defined benefit pension plans directly in opening retained earnings; apply IFRS prospectively for business combinations and compound financial instruments from the date of transition to IFRS; and recognize all cumulative foreign exchange gains and losses recorded in accumulated other comprehensive income (loss) in opening retained earnings except for those related to subsidiary companies already reporting under IFRS.

Management's assessment to date has identified the following areas expected to be most affected by the transition to IFRS based on IFRS currently in force: the measurement of financial assets, insurance contracts, employee benefits, and income taxes. With the exception of these items, and those discussed below, the company does not expect its IFRS accounting policies subsequent to January 1, 2010 to differ significantly from those currently applied under Canadian GAAP. The 2010 comparative IFRS financial statements will use the same estimates in their preparation as those used in the 2010 Canadian GAAP financial statements.

At the date of transition to IFRS, most non-financial assets must be tested for impairment in accordance with International Accounting Standard 36 – *Impairment of Assets* ("IAS 36"). IAS 36 uses a one-step approach for both testing and measurement of impairment, with an asset's carrying value compared directly with the higher of (i) the asset's fair value less costs to sell and (ii) value in use, which is determined using discounted future cash flows. Canadian GAAP uses a two-step approach by first comparing an asset's carrying value to its undiscounted future cash flows to determine whether impairment exists; only when the carrying value exceeds the undiscounted future cash flows is impairment then measured by comparing the asset's carrying value to its fair value. With the exception of goodwill and indefinite-life intangibles, IAS 36 also permits reversal of previous impairment losses where circumstances have changed. Canadian GAAP prohibits reversal of impairment losses. The company does not anticipate the difference in methodologies to result in significant asset impairments or any impairment reversals upon transition to IFRS.

Many IFRS are currently undergoing modification or are yet to be issued for the first time. Most notably, in response to financial reporting issues that emerged from the 2008 global financial crisis, the IASB set out to revise or replace the IFRS standards that addressed many of these areas. The IASB is replacing its existing financial instruments standard, IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"), in several phases. The first phase was completed in November 2009 with the publication of IFRS 9 – *Financial Instruments* ("IFRS 9"), 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 equity instruments 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 is recognized in the income statement. Fixed income investments are measured at amortized cost if both of the following criteria are met: (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) 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, otherwise fixed income investments are measured at FVTPL. While this new standard is not mandatory until January 1, 2013, the company is early adopting the first phase of IFRS 9 as currently written for the classification and measurement of its financial assets on transition to IFRS to simplify its accounting for financial instruments and streamline its conversion process. Under this standard, the company's business model will require its investment portfolio to primarily be measured at FVTPL, with no significant impact on the company's equity.

As part of the first phase of the IASB's financial instruments revision, the IASB also concluded that the accounting model for financial liabilities under IFRS 9 will remain unchanged from that under IAS 39, with two measurement categories: FVTPL and amortized cost. Financial liabilities held for trading will continue to be measured at FVTPL, and all other financial liabilities will be measured at amortized cost unless the fair value option is applied using existing criteria in IAS 39. However, unlike current guidance under IAS 39, changes in own credit risk for financial liabilities designated at FVTPL using the fair value option will be recorded in other comprehensive income. Other changes in the fair value of the financial liability will be recorded in profit and loss. The company currently records its financial liabilities under Canadian GAAP at amortized cost and intends to continue doing so under IFRS. The accounting model for financial liabilities under IFRS 9, as currently written, is not expected to have any significant impact on its adoption upon transition to IFRS.

The second phase of the IASB's financial instruments revision will amend the recognition and measurement requirements for impairment of financial assets carried at amortized cost. The IASB issued an Exposure Draft – *Financial Instruments: Amortized Cost and Impairment* on November 5, 2009 and on January 31, 2011, issued a narrow scope supplementary Exposure Draft – *Financial Instruments: Impairment*, that addresses certain of the more challenging operational aspects of the initial exposure draft. 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 second quarter of 2011 with mandatory adoption no earlier than January 1, 2013. With the company's investment

portfolio primarily classified as FVTPL under IFRS 9, the proposed standard is not expected to have a significant impact on the company's equity.

The third phase of the IASB's financial instruments revision addresses hedge accounting. The IASB issued an Exposure Draft – *Hedge Accounting* on December 9, 2010. The proposed model is intended to more closely align hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. Existing hedge accounting under IAS 39 is complex and primarily rules driven; the proposed model is principles based and permits, for instance, hedging of components of non-financial items and the hedging of net positions, two areas that are prohibited under IAS 39. The final standard is expected to be issued in the second quarter of 2011 with mandatory adoption no earlier than January 1, 2013. The proposed hedge accounting model under IFRS 9, as currently drafted, is not expected to have a significant impact on the company's equity, but may present opportunities for expanded application of hedge accounting in the future.

Another area where the company anticipates that the adoption of IFRS will have a significant impact is accounting for insurance contracts. The Exposure Draft – *Insurance Contracts* was issued by the IASB on July 30, 2010 and the final standard is expected to be issued in the second quarter of 2011. The exposure draft is a comprehensive standard that addresses recognition, measurement, presentation and disclosure for insurance contracts. The measurement approach is based on the following building blocks: (i) a current, unbiased and probability-weighted average of future cash flows expected to arise as the insurer fulfils the contract; (ii) the effect of time value of money; and (iii) an explicit risk adjustment and a residual margin calibrated to ensure that no profit is recognized on inception of the contract. Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is required for short-duration contracts in which the coverage period is approximately one year or less. The effective date of the proposed standard remains to be determined, but will not be earlier than January 1, 2013. Retrospective application will be required with some practical expedients available on adoption. The company has commenced evaluating the impact of the exposure draft on its financial reporting, and potentially, its business activities. The building block approach and the need for current estimates could add significant operational complexity compared to existing practice. The use of different measurement models depending on whether an insurance contract is considered short-duration or long-duration under the exposure draft presents certain implementation challenges and the proposed presentation requirements significantly alter the disclosure of profit and loss from insurance contracts in the financial statements.

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. Current guidance under International Accounting Standard 19 – *Employee Benefits* ("IAS 19") is similar to both Canadian and US GAAP and allows, as an accounting policy choice for defined benefit pension plans, the deferral and amortization of certain actuarial gains and losses to future accounting periods when determining pension expense (the "corridor method"). IAS 19 also permits actuarial gains and losses to be recognized immediately in net income or other comprehensive income. On April 29, 2010, the IASB issued an Exposure Draft – *Defined Benefit Plans: Proposed amendments to IAS 19*. The exposure draft: eliminates the corridor method; requires that actuarial gains and losses be immediately recognized in other comprehensive income without recycling to net income; removes the ability to incorporate an expected rate of return on plan assets; and proposes a new presentation approach for changes in defined benefit obligations and the fair value of plan assets. The final standard is expected to be issued late in the first quarter of 2011, with mandatory adoption no earlier than January 1, 2013. In keeping with the company's objective to streamline its conversion process, and as permitted under IAS 19, the company will immediately recognize all actuarial gains and losses arising subsequent to its transition to IFRS in other comprehensive income, consistent with the requirements of the exposure draft.

The IASB (along with the FASB) is also developing a new accounting standard for leases, impacting both lessees and lessors. On August 17, 2010, the IASB issued an Exposure Draft – *Leases* that proposes to eliminate the distinction between operating and capital leases. Lessees would be required to recognize a right-of-use asset and a liability for its obligation to make lease payments. Lessors would apply a performance obligation model or a derecognition model depending on whether control and all but a trivial amount of the risks and benefits of the underlying asset are transferred to the lessee. The final standard is expected in the second quarter of 2011, with mandatory adoption expected to be no earlier than January 1, 2013. However, the proposed standard would apply to all leases in force at the effective date. The company has commenced a preliminary assessment of the impact of the exposure draft on its lease commitments.

The company is well advanced in the preparation of its transition balance sheet and is currently working through the adjustments with the company's external auditors. The company continues to monitor the impact of IFRS on its business activities and based on current IFRS, does not expect any significant impact on the company's equity on transition to IFRS.

The company has evaluated its financial information systems and processes and the financial reporting impact of the issues identified in the Preliminary Impact Assessment and Detailed Planning phases. Based on IFRS currently in force, management is confident that the company's internal controls over financial reporting, disclosure controls and procedures, and underlying financial information systems and processes are appropriately designed and properly functioning for an IFRS reporting environment. It is

conceivable that new requirements may arise that could necessitate significant revision to the company's internal controls over financial reporting, disclosure controls and procedures, and financial information systems and processes as a result of the proposed changes for the determination of impairment of financial assets carried at amortized cost and the requirements of the insurance contracts exposure draft. Management continues to concurrently monitor changes to IFRS and the ability of the company's controls, systems and processes to meet these potential requirements.

The company nears completion of 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 is completing its pro-forma IFRS financial statement formats and notes. Preliminary quarterly financial information for 2010 on an IFRS basis continues to be prepared after each Canadian GAAP reporting period. At this time the company's auditors continue their review of the company's analysis and documentation of identified measurement differences between Canadian GAAP and IFRS, the adjustments for the transition balance sheet, and the company's 2010 IFRS quarterly information. Management believes that the company continues to track well with its IFRS conversion plan as approved by the Audit Committee.

Lawsuit Seeking Class Action Status

For a full description of this matter, including the purported appeals by a proposed replacement lead plaintiff of the March 2010 judgment dismissing this action and of the July 2010 denial of that proposed replacement lead plaintiff's motion to intervene, please see section (a) of "Lawsuits" in note 10 to the consolidated financial statements.

Comparative Quarterly Data (unaudited)

	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Revenue	**866.6**	1,681.0	1,811.7	1,804.4	1,407.3	2,213.4	1,735.5	1,279.4
Net earnings (loss)	**(363.3)**	219.8	324.5	290.2	83.2	625.6	321.5	(39.6)
Net earnings (loss) attributable to shareholders of Fairfax	**(364.6)**	219.0	325.2	289.4	79.4	562.4	275.4	(60.4)
Net earnings (loss) per share	**$ (18.43)**	$ 10.29	$ 15.55	$ 14.08	$ 1.66	$ 31.04	$ 15.65	$ (3.55)
Net earnings (loss) per diluted share	**$ (18.43)**	$ 10.24	$ 15.49	$ 14.02	$ 1.65	$ 30.88	$ 15.56	$ (3.55)

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 2010 Annual Report is scheduled to be posted on its website www.fairfax.ca after the close of markets on Friday, March 4, 2011 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 our loss reserves (including reserves for asbestos, environmental and other latent claims) are insufficient; underwriting losses on the risks we insure that are higher or lower than expected; the occurrence of catastrophic events with a frequency or severity exceeding our estimates; the cycles of the insurance market and general economic conditions, which can substantially influence our and our competitors' premium rates and capacity to write new business; changes in market variables, including interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect our investment portfolio; risks associated with our use of derivative instruments; the failure of our hedging methods to achieve their desired risk management objective; exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements; exposure to credit risk in the event our insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to us or failure by our insureds to reimburse us for deductibles that are paid by us on their behalf; risks associated with implementing our business strategies; the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated by us; the inability of our subsidiaries to maintain financial or claims paying ability ratings; a decrease in the level of demand for insurance or reinsurance products, or increased competition in the insurance industry; the failure of any of the loss limitation methods we employ; the impact of emerging claim and coverage issues; our inability to obtain reinsurance coverage in sufficient amounts, at reasonable prices or on terms that adequately protect us; our inability to access cash of our subsidiaries; our inability to obtain required levels of capital on favorable terms, if at all; loss of key employees; the passage of legislation subjecting our businesses to additional supervision or regulation, including additional tax

regulation, in the United States, Canada or other jurisdictions in which we operate; risks associated with government investigations of, and litigation related to, insurance industry practice or any other conduct; risks associated with political and other developments in foreign jurisdictions in which we operate; risks associated with the current purported class action litigation; risks associated with our pending civil litigation; the influence exercisable by our significant shareholder; adverse fluctuations in foreign currency exchange rates; our dependence on independent brokers over whom we exercise little control; an impairment in the carrying value of our goodwill and indefinite-lived intangible assets; our failure to realize future income tax assets; assessments and shared market mechanisms which may adversely affect our U.S. insurance subsidiaries; and failures or security breaches of our computer and data processing systems. 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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