

# FAIRFAX News Release

TSX Stock Symbol: FFH and FFH.U

TORONTO, July 30, 2015

## SECOND QUARTER FINANCIAL RESULTS

*(Note: All dollar amounts in this news release are expressed in U.S. dollars, except as otherwise noted. The financial results are reported under International Financial Reporting Standards, except as otherwise noted.)*

Fairfax Financial Holdings Limited (TSX: FFH and FFH.U) announces a net loss of \$185.7 million in the second quarter of 2015 (\$8.87 net loss per diluted share after payment of preferred share dividends) compared to net earnings of \$363.7 million in the second quarter of 2014 (\$16.15 per diluted share after payment of preferred share dividends), principally reflecting unrealized losses on investments. Book value per basic share at June 30, 2015 was \$387.53 compared to \$394.83 at December 31, 2014 (an increase of 0.6% adjusted for the \$10 per common share dividend paid in the first quarter of 2015).

"Our insurance companies continued to have excellent underwriting performance in the second quarter and the first half of 2015 with consolidated combined ratios of 91.9% and 91.6% respectively, but unrealized losses on bonds of \$677.2 million, due to rising interest rates, produced a net loss for the quarter. All of our major insurance companies again had combined ratios less than 100% in the quarter with OdysseyRe at 88.1% and Zenith at 88.4%. We also realized gains from our equity and equity-related investments of \$581.9 million in the quarter," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax. "We are maintaining our defensive equity hedges and deflation protection as we remain concerned about the financial markets and the economic outlook in this global deflationary environment. We continue to be soundly financed, with quarter-end cash and marketable securities in the holding company in excess of \$1.1 billion."

Highlights in the second quarter of 2015 (with comparisons to the second quarter of 2014 except as otherwise noted) included the following:

- The combined ratio of the insurance and reinsurance operations was 91.9% on a consolidated basis, producing an underwriting profit of \$136.1 million, compared to a combined ratio and underwriting profit of 92.7% and \$110.0 million respectively in 2014.
- Net premiums written by the insurance and reinsurance operations increased by 7.4% to \$1,756.8 million, primarily reflecting the consolidation of Brit from June 5, 2015.
- The insurance and reinsurance operations produced operating income (excluding net gains or losses on investments) of \$324.5 million, compared to \$202.2 million in 2014, primarily as a result of increased share of profit of associates and improved underwriting profit.
- Interest and dividend income of \$147.1 million increased from \$120.1 million in 2014. As of June 30, 2015, subsidiary cash and short term investments accounted for 23.7% of the company's portfolio investments. Interest income as reported is unadjusted for the positive tax effect of the company's significant holdings of tax-advantaged debt securities (holdings of \$5,017.7 million at June 30, 2015 and \$5,139.8 million at June 30, 2014).

- Share of profit of associates of \$116.9 million increased from \$0.8 million in 2014, primarily as the result of a \$78.0 million gain realized by the company's 59% limited partnership interest in certain Kennedy Wilson entities which sold all of their equity interests in 50 multi-family buildings located throughout Japan.
- Net investment losses of \$661.2 million in 2015 (net investment gains of \$409.0 million in 2014) consisted of the following:

	<b>Second quarter of 2015</b>		
	<i>(\$ millions)</i>		
	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Net gains (losses)</b>
Net gains (losses) on:			
Equity and equity-related investments	581.9	(485.8)	96.1
Equity hedges	4.0	(12.8)	(8.8)
Equity and equity-related investments after equity hedges	585.9	(498.6)	87.3
Bonds	20.0	(677.2)	(657.2)
CPI-linked derivatives	—	(52.3)	(52.3)
Other	9.7	(48.7)	(39.0)
	<u>615.6</u>	<u>(1,276.8)</u>	<u>(661.2)</u>

	<b>First six months of 2015</b>		
	<i>(\$ millions)</i>		
	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Net gains (losses)</b>
Net gains (losses) on:			
Equity and equity-related investments	877.4	(681.8)	195.6
Equity hedges	(54.5)	(123.9)	(178.4)
Equity and equity-related investments after equity hedges	822.9	(805.7)	17.2
Bonds	100.0	(616.1)	(516.1)
CPI-linked derivatives	—	22.9	22.9
Other	116.3	(125.0)	(8.7)
	<u>1,039.2</u>	<u>(1,523.9)</u>	<u>(484.7)</u>

Included in realized gains is a gain of \$269.8 million realized upon the company's sale of a portion of its holdings in the Bank of Ireland in the first quarter of 2015 and \$236.4 million realized on the sale of Ridley Inc. in the second quarter of 2015. Of the unrealized losses on equity and equity-related investments in the second quarter and first six months of 2015, \$321.7 million and \$381.9 million respectively resulted simply from reclassifying unrealized gains to realized gains.

- The company held \$1,110.1 million of cash, short term investments and marketable securities at the holding company level (\$1,103.7 million net of short sale and derivative obligations) at June 30, 2015, compared to \$1,244.3 million (\$1,212.7 million net of short sale and derivative obligations) at December 31, 2014.
- The company's total debt to total capital ratio improved to 23.3% at June 30, 2015 from 24.6% at December 31, 2014, reflecting the repayment of OdysseyRe senior notes at maturity on May 1, 2015.

- During the second quarter the company extended the term of its bank credit facility until May 2019 and increased the size of that facility from \$300 million to \$600 million. At June 30, 2015 none of the facility was drawn.
- The company acquired 97.0% of the shares of Brit PLC on June 5, 2015 for cash consideration of \$1,656.6 million (£1,089.1 million) and by July 8, 2015 had acquired the remaining 3.0% of the shares on the same terms. On June 29, 2015, the company completed the sale of 29.9% of Brit to OMERS for net proceeds of \$516.0 million, so that it currently has a 70.1% interest in Brit. Brit is a market-leading global Lloyd's of London specialty insurer and reinsurer.
- The company commenced consolidating Cara Operations Limited on April 10, 2015, the date on which it became the holder of a 52.6% and 40.7% voting and economic interest respectively. Cara is Canada's largest full-service restaurant company and franchises, owns and operates numerous restaurant brands across Canada.
- At June 30, 2015, the company owned \$108.1 billion notional amount of CPI-linked derivative contracts with an original cost of \$652.9 million, a market value of \$250.0 million, and a remaining weighted average life of 7.0 years. The majority of the contracts are based on the underlying United States CPI index (54.4%) or the European Union CPI index (37.9%).

(\$ in millions)

Underlying CPI Index	Floor Rate <sup>(1)</sup>	Average Life (in years)	Notional Amount	Cost	Cost <sup>(2)</sup> (in bps)	Market Value	Market Value <sup>(2)</sup> (in bps)	Unrealized Gain (Loss)
United States	0.0%	7.1	\$ 46,225.0	\$ 285.7	61.8	\$ 105.8	22.9	\$ (179.9)
United States	0.5%	9.3	12,600.0	39.9	31.7	77.8	61.7	37.9
European Union	0.0%	6.0	40,974.9	284.4	69.4	57.0	13.9	(227.4)
United Kingdom	0.0%	7.4	5,189.9	24.5	47.2	3.0	5.8	(21.5)
France	0.0%	7.2	3,064.1	18.4	60.1	6.4	20.9	(12.0)
		<u>7.0</u>	<u>\$ 108,053.9</u>	<u>\$ 652.9</u>		<u>\$ 250.0</u>		<u>\$ (402.9)</u>

(1) Contracts with a floor rate of 0.0% provide a payout at maturity if there is cumulative deflation over the life of the contract. Contracts with a floor rate of 0.5% provide a payout at maturity if cumulative inflation averages less than 0.5% per year over the life of the contract.

(2) Expressed as a percentage of the notional amount.

- At June 30, 2015, common shareholders' equity was \$8,628.9 million, or \$387.53 per basic share, compared to \$8,361.0 million, or \$394.83 per basic share, at December 31, 2014.

Fairfax holds significant investments in equity and equity-related securities. In response to the significant appreciation in equity market valuations and uncertainty in the economy, the company has hedged its equity investment exposure. At June 30, 2015, equity hedges represented 101.0% of the company's equity and equity-related holdings. The hedge ratio increased from 89.6% at December 31, 2014 primarily because of net sales of equity and equity-related holdings and net unrealized depreciation of those holdings caused by the unfavourable impact of foreign currency translation. The market value and the liquidity of these hedges 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.

There were 22.3 and 21.2 million weighted average shares outstanding during the second quarters of 2015 and 2014 respectively. At June 30, 2015, there were 22,266,171 common shares effectively outstanding.



**CONSOLIDATED BALANCE SHEETS**  
as at June 30, 2015 and December 31, 2014  
(unaudited - US\$ millions)

	<b>June 30, 2015</b>	December 31, 2014
<b>Assets</b>		
Holding company cash and investments (including assets pledged for short sale and derivative obligations – \$93.6; December 31, 2014 – \$109.7)	<b>1,110.1</b>	1,244.3
Insurance contract receivables	<b>3,075.5</b>	1,931.7
	<b>4,185.6</b>	3,176.0
<i>Portfolio investments</i>		
Subsidiary cash and short term investments	<b>6,121.0</b>	5,534.3
Bonds (cost \$10,946.5; December 31, 2014 – \$9,900.1)	<b>11,948.8</b>	11,445.5
Preferred stocks (cost \$229.7; December 31, 2014 – \$386.8)	<b>140.2</b>	376.4
Common stocks (cost \$6,356.7; December 31, 2014 – \$4,531.7)	<b>6,213.1</b>	4,848.5
Investments in associates (fair value \$1,820.6; December 31, 2014 – \$2,070.5)	<b>1,532.3</b>	1,617.7
Derivatives and other invested assets (cost \$607.0; December 31, 2014 – \$634.0)	<b>387.4</b>	426.8
Assets pledged for short sale and derivative obligations (cost \$547.2; December 31, 2014 – \$757.8)	<b>573.9</b>	860.0
Fairfax India portfolio investments	<b>990.4</b>	—
	<b>27,907.1</b>	25,109.2
Deferred premium acquisition costs	<b>731.3</b>	497.6
Recoverable from reinsurers (including recoverables on paid losses – \$338.3; December 31, 2014 – \$230.7)	<b>4,768.9</b>	3,982.1
Deferred income taxes	<b>586.6</b>	460.4
Goodwill and intangible assets	<b>2,644.9</b>	1,558.3
Other assets	<b>1,677.2</b>	1,347.6
	<b>42,501.6</b>	36,131.2
<b>Liabilities</b>		
Subsidiary indebtedness	<b>95.0</b>	37.6
Accounts payable and accrued liabilities	<b>2,286.1</b>	2,029.1
Income taxes payable	<b>56.6</b>	118.3
Short sale and derivative obligations (including at the holding company – \$6.4; December 31, 2014 – \$31.6)	<b>112.8</b>	160.8
Funds withheld payable to reinsurers	<b>816.7</b>	461.5
	<b>3,367.2</b>	2,807.3
Insurance contract liabilities	<b>24,308.1</b>	20,438.7
Long term debt	<b>3,384.0</b>	3,141.4
	<b>27,692.1</b>	23,580.1
<b>Equity</b>		
Common shareholders' equity	<b>8,628.9</b>	8,361.0
Preferred stock	<b>1,338.1</b>	1,164.7
Shareholders' equity attributable to shareholders of Fairfax	<b>9,967.0</b>	9,525.7
Non-controlling interests	<b>1,475.3</b>	218.1
Total equity	<b>11,442.3</b>	9,743.8
	<b>42,501.6</b>	36,131.2

**CONSOLIDATED STATEMENTS OF EARNINGS**  
*for the three and six months ended June 30, 2015 and 2014*  
*(unaudited - US\$ millions except per share amounts)*

	Second quarter		First six months	
	2015	2014	2015	2014
<b>Revenue</b>				
Gross premiums written	<b>2,052.6</b>	1,936.2	<b>4,116.8</b>	3,836.9
Net premiums written	<b>1,754.3</b>	1,645.4	<b>3,586.4</b>	3,257.8
Gross premiums earned	<b>1,982.3</b>	1,826.2	<b>3,836.0</b>	3,541.1
Premiums ceded to reinsurers	<b>(306.3)</b>	(294.0)	<b>(547.9)</b>	(571.2)
Net premiums earned	<b>1,676.0</b>	1,532.2	<b>3,288.1</b>	2,969.9
Interest and dividends	<b>147.1</b>	120.1	<b>261.3</b>	210.6
Share of profit of associates	<b>116.9</b>	0.8	<b>147.7</b>	43.4
Net gains (losses) on investments	<b>(661.2)</b>	409.0	<b>(484.7)</b>	1,415.1
Other revenue	<b>490.2</b>	345.4	<b>944.5</b>	651.0
	<b>1,769.0</b>	2,407.5	<b>4,156.9</b>	5,290.0
<b>Expenses</b>				
Losses on claims, gross	<b>1,153.8</b>	1,126.1	<b>2,314.1</b>	2,219.3
Losses on claims ceded to reinsurers	<b>(165.0)</b>	(161.9)	<b>(326.5)</b>	(378.9)
Losses on claims, net	<b>988.8</b>	964.2	<b>1,987.6</b>	1,840.4
Operating expenses	<b>346.8</b>	301.7	<b>667.8</b>	601.8
Commissions, net	<b>283.7</b>	239.7	<b>526.9</b>	479.5
Interest expense	<b>56.8</b>	51.0	<b>108.3</b>	100.8
Other expenses	<b>465.8</b>	327.7	<b>908.3</b>	625.0
	<b>2,141.9</b>	1,884.3	<b>4,198.9</b>	3,647.5
<b>Earnings (loss) before income taxes</b>	<b>(372.9)</b>	523.2	<b>(42.0)</b>	1,642.5
Provision for (recovery of) income taxes	<b>(194.3)</b>	156.8	<b>(99.5)</b>	491.1
<b>Net earnings (loss)</b>	<b>(178.6)</b>	366.4	<b>57.5</b>	1,151.4
<b>Attributable to:</b>				
Shareholders of Fairfax	<b>(185.7)</b>	363.7	<b>39.5</b>	1,148.3
Non-controlling interests	<b>7.1</b>	2.7	<b>18.0</b>	3.1
	<b>(178.6)</b>	366.4	<b>57.5</b>	1,151.4
<b>Net earnings (loss) per share</b>	<b>\$ (8.87)</b>	\$ 16.47	<b>\$ 0.73</b>	\$ 52.82
<b>Net earnings (loss) per diluted share</b>	<b>\$ (8.87)</b>	\$ 16.15	<b>\$ 0.71</b>	\$ 51.84
<b>Cash dividends paid per share</b>	<b>\$ —</b>	\$ —	<b>\$ 10.00</b>	\$ 10.00
<b>Shares outstanding (000) (weighted average)</b>	<b>22,265</b>	21,186	<b>21,889</b>	21,189

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the three and six months ended June 30, 2015 and 2014

(unaudited - US\$ millions)

	Second quarter		First six months	
	2015	2014	2015	2014
<b>Net earnings (loss)</b>	<b>(178.6)</b>	366.4	<b>57.5</b>	1,151.4
<b>Other comprehensive income (loss), net of income taxes</b>				
<b>Items that may be subsequently reclassified to net earnings</b>				
Change in unrealized foreign currency translation gains (losses) on foreign operations	27.2	89.0	(161.8)	46.4
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	(17.4)	(50.0)	95.1	3.6
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	15.2	(6.2)	(20.4)	0.3
	<b>25.0</b>	32.8	<b>(87.1)</b>	50.3
<b>Items that will not be subsequently reclassified to net earnings</b>				
Share of gains (losses) on defined benefit plans of associates	3.2	4.5	1.0	63.9
Change in gains (losses) on defined benefit plans	(3.9)	(1.3)	(3.9)	(1.3)
	<b>(0.7)</b>	3.2	<b>(2.9)</b>	62.6
<b>Other comprehensive income (loss), net of income taxes</b>	<b>24.3</b>	36.0	<b>(90.0)</b>	112.9
<b>Comprehensive income (loss)</b>	<b>(154.3)</b>	402.4	<b>(32.5)</b>	1,264.3
<b>Attributable to:</b>				
Shareholders of Fairfax	<b>(150.2)</b>	399.8	<b>(32.3)</b>	1,260.3
Non-controlling interests	<b>(4.1)</b>	2.6	<b>(0.2)</b>	4.0
	<b>(154.3)</b>	402.4	<b>(32.5)</b>	1,264.3

## SEGMENTED INFORMATION

(unaudited - US\$ millions)

Net premiums written and net premiums earned by the insurance and reinsurance operations (excluding Runoff) in the second quarters and first six months of 2015 and 2014 were:

### Net Premiums Written

	Second quarter		First six months	
	2015	2014	2015	2014
Insurance and Reinsurance - Northbridge	277.4	292.4	458.7	485.1
OdysseyRe	554.0	673.8	1,117.4	1,246.3
Crum & Forster	411.5	346.8	789.5	684.5
Zenith National	164.4	151.2	474.2	440.8
Brit Insurance <sup>(1)</sup>	151.2	—	151.2	—
Fairfax Asia	80.2	69.2	156.1	172.4
Insurance and Reinsurance - Other	118.1	103.0	292.8	218.8
Insurance and reinsurance operations	<u>1,756.8</u>	<u>1,636.4</u>	<u>3,439.9</u>	<u>3,247.9</u>

### Net Premiums Earned

	Second quarter		First six months	
	2015	2014	2015	2014
Insurance and Reinsurance - Northbridge	225.0	233.7	437.8	459.7
OdysseyRe	592.3	619.8	1,130.4	1,142.5
Crum & Forster	365.9	322.0	701.4	637.6
Zenith National	186.7	175.9	365.6	342.1
Brit Insurance <sup>(1)</sup>	125.7	—	125.7	—
Fairfax Asia	78.8	68.7	147.1	144.1
Insurance and Reinsurance - Other	104.1	94.1	233.6	190.9
Insurance and reinsurance operations	<u>1,678.5</u>	<u>1,514.2</u>	<u>3,141.6</u>	<u>2,916.9</u>

Combined ratios of the insurance and reinsurance operations (excluding Runoff) in the second quarters and first six months of 2015 and 2014 were:

	Second quarter		First six months	
	2015	2014	2015	2014
Insurance and Reinsurance - Northbridge	94.5%	95.3%	95.7%	97.5%
OdysseyRe	88.1%	88.6%	88.6%	87.3%
Crum & Forster	97.2%	98.8%	97.9%	99.3%
Zenith National	88.4%	89.8%	83.1%	90.2%
Brit Insurance <sup>(1)</sup>	95.9%	—	95.9%	—
Fairfax Asia	89.6%	93.4%	90.2%	93.6%
Insurance and Reinsurance - Other	92.3%	97.8%	91.7%	97.7%
Insurance and reinsurance operations	<u>91.9%</u>	<u>92.7%</u>	<u>91.6%</u>	<u>92.8%</u>

(1) Brit is included in the company's financial reporting with effect from June 5, 2015.