To Our Shareholders:

We would have had an excellent year in 2018 but a collapse in stock prices in the fourth quarter, which was reflected immediately through mark to market accounting, resulted in our producing net income of only $376 million[(1)]. Our book value per share decreased by 1.5% (adjusted for the $10 per share dividend paid) to $432 per share because of unrealized foreign exchange losses of $236 million. Since we began in 1985, our book value per share has compounded at 18.7% annually while our common stock price has compounded at 17.1% annually. Our growth in book value has stalled recently but we have our foot on the accelerator!

Here's how our insurance companies performed in 2018:

	Underwriting Profit (Loss)	Combined Ratio	Catastrophe Losses	Combined Ratio Excluding Cat Losses
Northbridge	47	95.8%	1.7%	94.1%
Odyssey Group	181	93.4%	9.1%	84.3%
Crum & Forster	33	98.3%	1.4%	96.9%
Zenith	140	82.6%	0.1%	82.5%
Brit	(77)	105.2%	14.2%	91.0%
Allied World	43	98.1%	9.8%	88.3%
Fairfax Asia	–	99.8%	–	99.8%
Other Insurance and Reinsurance	(49)	104.6%	2.0%	102.6%
Consolidated	318	97.3%	6.5%	90.8%

As I reminded you last year, ours is a risk business. After record catastrophe losses of $130 billion in 2017, our industry experienced $90 billion in catastrophes in 2018, among the top four years for catastrophe losses in history. Catastrophe losses cost us 6.5% of net premiums earned in 2018. The table below shows you our 2018 losses from the major catastrophes:

California wildfires	233
Hurricane Michael	138
Typhoon Jebi	102
Hurricane Florence	69
Other	210
Total catastrophe losses	752
As % of net premiums earned	6.5%

Even with these catastrophe losses, our insurance operations had another outstanding year with a consolidated combined ratio of 97.3%. Zenith continued to lead the group with a combined ratio of 82.6% and a cumulative combined ratio of 94.4% since we acquired it in 2010. Special mention should be made of Northbridge, which had a combined ratio of 95.8% (95.6% in the last five years), and Allied World is getting back towards its true potential with a combined ratio of 98.1%. Odyssey Group again "shot the lights out" with a combined ratio of 93.4% and gross premium growth of 20%. Odyssey has had a combined ratio of 93.1% over the past ten years. Fairfax has averaged a combined ratio of 97.0% over the past ten years and cumulatively a 100% combined ratio since inception 33 years ago. This means we have generated approximately $20 billion of float at essentially no cost since we began. And as you will see, our reserves are in great shape. Our insurance operations are truly outstanding and overseen by Andy Barnard, we have a great group of Presidents running our insurance companies. The best is yet to come!

Last year we mentioned to you that we would achieve our target of a 15% return on our shareholders' equity if we earned 7% on our investment portfolio and our insurance operations produced a combined ratio of 95%. In 2018, we earned only 3.1% on our investment portfolio. What happened?

(1) *Amounts in this letter are in U.S. dollars unless specified otherwise. Numbers in the tables in this letter are in U.S. dollars and $ millions except as otherwise indicated.*

The table below shows you our investment returns[1] by category of investments (the percentage is the percent of our approximately $39 billion total investment portfolio):

Interest and dividends	784	2.0%
Share of profits of associates	221	0.6%
Net gains (losses) on equity exposure	394	1.0%
Net gains (losses) on bonds	8	0.0%
Net gains (losses) on other	(181)	(0.5)%
	1,226	3.1%[1]

(1) Investment returns include share of profit (loss) of associates and exclude changes in net unrealized gains (losses) of associates.

To achieve a 7% return on our investment portfolio, we expect our equities, using a value oriented approach, to be major contributors. However in 2018, because of the fourth quarter drop in stock prices (and asset values generally), even with our gain on Quess which will be spun out of Thomas Cook India in 2019, our equities produced only a 1% return on our investment portfolio. More detail below, but you can see why stock prices only make sense in the long term. Our interest and dividend income of $784 million was up from $559 million in 2017 as we moved from cash to 2 – 3 year treasuries and high quality corporate bonds – but we did not reach for yield! Our net losses on other consisted mainly of unrealized foreign exchange losses.

Let me show you what happened in 2018 to the stock price of some of our major equity holdings (reflecting primarily adverse fluctuations in the fourth quarter):

	Price per share *(local currency)*		
	December 31, 2017	**December 31, 2018**	**% change**
Common Stocks			
BlackBerry	11.17	7.11	(36.3)
Eurobank	0.85	0.54	(36.5)
CIB (Egypt)	61.88	59.26	(4.2)
Stelco	22.89	15.06	(34.2)
Kennedy Wilson	17.35	18.17	4.7
Associates and Consolidated Equities			
Fairfax India	15.00	13.13	(12.5)
Fairfax Africa	14.16	8.11	(42.7)
Thomas Cook	256.35	234.20	(8.6)
Quess	1,154.15	660.3	(42.8)
IIFL	667.55	504.20	(24.5)
Grivalia	9.20	8.36	(9.1)
Seaspan	6.75	7.83	16.0
Resolute	11.05	7.93	(28.2)
Recipe	25.96	26.17	0.8

Some dramatic drops! Of course, gains or losses in the market price of our associates and consolidated equities do not flow through our financial statements, but the unrealized $1.2 billion gain at the end of 2017 in the stock prices of our associates and consolidated equities had all but disappeared at the end of 2018.

We expect the mark to market declines to reverse ultimately (they have already reversed about half the decline as of today). Let me give you an update on each of the above holdings:

BlackBerry. Since we acquired our position about six years ago, much has changed at BlackBerry, all skillfully orchestrated by the only constant, John Chen, its CEO. Recently, he has acquired Cylance for $1.4 billion (leaving $800 million in cash in the holding company), which uses artificial intelligence to provide cybersecurity protection for desktops, servers, etc. It has 3,500 customers, including more than 20% of the Fortune 500. BlackBerry, of course, is the gold standard for mobile security, and together with Cylance it can provide one stop shopping for all the cybersecurity needs of large enterprises, particularly banks, governments and transportation companies. Recently, John Chen said that "with the acquisition of Cylance, BlackBerry took a giant step forward toward our goal of being the world's largest and most trusted AI-cybersecurity company. Securing endpoints and the data that flows between them is absolutely critical in today's hyperconnected world. By adding Cylance's technology to our arsenal of cybersecurity solutions we will help enterprises intelligently connect, protect and build secure endpoints that users can trust." With Cylance, BlackBerry will be a growth company again, and its focus on security and communication could lead it to become an iconic company again. And, of course, it has QNX which is a leader in autonomous cars. BlackBerry is on the move! On a fully converted basis we own 95 million shares at a net cost of $12.30 per share.

Eurobank. In 2018, Fokion Karavias (CEO of Eurobank) and George Chryssikos (CEO of Grivalia) came up with a bold scheme to put Eurobank's non-performing loan problems behind it. By dividending out €7 billion of non-performing loans to Eurobank shareholders in a structured transaction and merging with Grivalia for shares, Eurobank will become the strongest and best capitalized bank in Greece. The transaction should be completed in 2019 and the bank expects earnings in 2020 to be 15 Euro cents per share. With a stock price of 62 Euro cents and a book value of approximately €1.50 per share, you can see why we are excited about its prospects. After the merger, Fairfax will own approximately 32% of Eurobank with a cost of 94 Euro cents per share. We expect to do very well over time on our Eurobank investment under Fokion and George's leadership.

CIB (Egypt). As I have mentioned to you previously, CIB is one of the world's best banks, with an unmatched 20-year track record. Its average annual return on equity over that period is 25+%, earnings per share have compounded annually by an average 21% and the stock at year end was selling at 10x earnings. We purchased CIB in 2014 at 22 Egyptian pounds, while its market price today is 70 Egyptian pounds, up 220% from our cost. However, in U.S. dollars, because of the Egyptian pound's 50% devaluation in 2016, CIB is up only 30%. We own 7% of CIB and are very excited about its prospects under the leadership of Hisham Ezz Al-Arab and Hussein Abaza.

Stelco. We purchased 12.2 million shares (13.7%) of Stelco in 2018 at Cdn$20.50 per share. Stelco had come out of bankruptcy in 2017, led by private equity firm Lindsay Goldberg. Alan Kestenbaum was the CEO of Stelco (and now continues as Executive Chairman) with an outstanding track record of success. With Alan Goldberg on the Board (Lindsay Goldberg controls 46.4% of Stelco through its ownership interest in Bedrock Industries, its partnership vehicle with Alan Kestenbaum), we expect Stelco to do very well over the long term. Stelco has no debt, is the lowest cost steel producer in North America and is selling at less than 5x earnings. We are happy to be partners with the two Alans!

Kennedy Wilson. We have had an excellent relationship with Kennedy Wilson, its CEO Bill McMorrow and Bill's partners, Mary Ricks and Matt Windisch, since we met them in 2010. We own 9.2% of the company. In 2018, Kennedy Wilson sold three of our joint venture properties in Dublin for a gain of $74 million, an average annual return of 21% on our original investment, and returned $107 million of the proceeds to Fairfax. Since inception in 2010, we have invested $855 million with Kennedy Wilson, received cash proceeds of $858 million and still have real estate worth about $351 million. Our average annual realized return since inception was 21%. We continue to acquire properties through Bill, Mary and Matt with the purchase of one office building on 26 acres in Denver, Colorado for $85 million with a cash on cash yield of 6.7%; three office buildings outside Portland, Oregon for $29 million with a cash on cash yield of 6.2%; and nine office buildings on 67 acres outside Los Angeles, California for $163 million with a cash on cash yield of 7.5%. These Class A office buildings are anchored by investment grade tenants in strong and growing markets and were available at quite significant discounts to replacement cost.

Fairfax India. As you know, we began Fairfax India in December 2014. Since then, Fairfax India has made nine investments – all with great long term prospects in a country that has the fastest growth in the free world! The crown jewel in Fairfax India is the Bangalore International Airport (BIAL) run by Hari Marar, who aims to make BIAL one of the best airports in the world. BIAL is the third largest airport in India, but it is the second fastest growing airport in the world and recently was the first airport ever to win best customer service for both arrivals and departures awarded by the Airports Council International. Last year, the airport served 32 million passengers, up 29% from 2017. It is adding a second runway and second terminal, to be completed by 2019 and 2021 respectively – capital expenditures of approximately $2.0 billion will all be internally funded – and when these are completed, BIAL expects to serve 65 million passengers annually. I have no doubt that BIAL will soon need a third runway and terminal!!

The table below shows you the investments in Fairfax India:

Company	% Ownership	Cost of Investment	Market Value	% Change	Number of Employees	CEO
Fairfax India	33.7%	469	658	40%		Chandran Ratnaswami
IIFL	26.5%	257	613	139%	20,000	Nirmal Jain
NCML	89.5%	174	165	(5)%	2,700	Sanjay Kaul
Sanmar		300	610	103%	2,100	N. Sankar
BIAL	54.0%	653	704	8%	1,200	Hari Marar
Fairchem	48.8%	74	97	31%	1,400	Nahoosh Jariwala/ Mahesh Babani
Catholic Syrian Bank	36.4%	89	93	5%	3,100	C.V.R. Rajendran
Other		355	379	7%		

Please read the Fairfax India annual report where Chandran Ratnaswami provides more details on Fairfax India's investments. The intrinsic value of Fairfax India is significantly higher than the current stock price.

You will recall that our Fairbridge subsidiary in India researches and advises on our investments in India. During 2018 Harsha Raghavan, who ably led Fairbridge since its inception, decided to start his own company, and we wish him well in his new endeavours. Sumit Maheshwari, who was Harsha's second-in-command, has seamlessly assumed the leadership of Fairbridge.

Fairfax Africa. We began Fairfax Africa two years ago and Fairfax Africa has made six significant investments since the IPO, deploying (or committing to deploy) $469 million or 95% of its proceeds. 2018 was a difficult year, with book value down 6.0% from the previous year and a net loss of $60.6 million. The main drivers of the poor results were unrealized losses on its investment in Atlas Mara and unrealized currency losses due to the weakening of the South African rand. We are still very excited about the prospects in Africa, especially under the leadership of Mike Wilkerson and Neil Holzapfel, working closely with Paul Rivett.

Please read the Fairfax Africa annual report where Mike and Paul give you more details on Fairfax Africa's investments. The intrinsic value continues to build in Fairfax Africa and is much higher than the current stock price.

Thomas Cook India. Our first major acquisition in India, in 2012, was the purchase of a 77% interest (later reduced to 67%) in Thomas Cook India led by Madhavan Menon. Thomas Cook, first set up in India in 1881, is the leading integrated travel and travel-related financial services company in India, offering, through its about 6,000 employees, a broad spectrum of services that include foreign exchange, corporate travel, leisure travel, insurance, visa and passport services and e-business. Through Thomas Cook India, we purchased Quess, founded and run by Ajit Isaac, and Sterling Resorts, run by Ramesh Ramanathan. Thomas Cook India dominates the foreign exchange and high-end travel business in India. Through the purchase of Kuoni's Indian travel business, and then its international operations all over the world, Thomas Cook India is today one of the largest high-end travel service provider networks headquartered in the Asia-Pacific region. It had an excellent year in 2018, growing revenue over the previous year by 17% and profit before tax and extraordinary items by 35% to $10 million, and generating free cash flow of $14.4 million.

Quess. We have had a phenomenal run since we acquired our interest in Quess in 2013. Thomas Cook India invested $47 million in Quess in 2013, sold a 5.4% interest last year for $97 million and retains a 49% interest, which is currently worth over $700 million even after a significant drop in its stock price in 2018. Because of Quess' great success, Thomas Cook India decided during 2018 to spin its holding in Quess out to its shareholders so that Quess can be run independently as a public company under the leadership of Ajit Isaac. Today, Quess is India's leading integrated business services provider. With nearly 300,000 employees, the company has a pan-India presence with 65 offices across 34 cities, along with an overseas footprint in North America, the Middle East and South East Asia. It serves over 1,900 customers across three platforms – Workforce Management, Asset Management and Technology Solutions. Quess had outstanding financial results in the nine months ended December 2018: net revenue grew 36% to $156 million and profit before tax grew 10% to $40 million.

IIFL. Under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL has established a leading, well-established national financial services company serving over 4 million customers from 1,900 branches in India. It also has an international presence with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London, Mauritius and Toronto. Through its subsidiaries, it offers a wide array of services including loans and mortgages, asset and wealth management and capital market related activities such as financial products distribution, investment banking, institutional equities and realty services. Over the past five years, IIFL has grown book value per share by 20% annually and earnings per share by 25% annually, yet its shares still trade at only 11x expected earnings. In 2018, IIFL announced its intention to divide its three business groups into three separate companies, with each to be listed on the Indian stock exchanges, as IIFL believes that this is the best structure for its business and will further enhance value. We are very excited about the prospects of IIFL going forward.

Seaspan. Under the leadership of David Sokol as Non-Executive Chairman and Bing Chen as CEO, we expect Seaspan to be a phenomenal success over the long term. Seaspan provides many of the world's major shipping lines with creative outsourcing alternatives to vessel ownership by offering long term leases on large, modern containerships combined with industry leading ship management services. Seaspan's fleet consists of 112 containerships representing a total capacity of more than 900,000 Twenty-Foot Equivalent Units (TEU), with an average age of approximately six years and average remaining lease period of approximately four years, on a TEU weighted basis.

The shares are currently selling at 6.3x earnings, with a dividend yield of 5.7%. David Sokol has a long history at Mid-American where he compounded earnings at more than 20% over a 20-year period. We have invested $1 billion in Seaspan – $500 million in shares at $6½ per share and $500 million in 5.5% bonds. We also have seven-year warrants for 25 million shares at $8.05 per share.

Resolute. We have invested $791 million in Resolute and received a special dividend of $46 million, for a net investment cost of $745 million. Our initial investment was a convertible bond purchased in 2008 for $347 million. We invested an additional $131 million prior to Resolute entering into creditor protection and most of the remainder during the period from December 2010 to 2013. Subsequent to write-downs and our share of profits and losses over time, at December 31, 2018 we held our 30.4 million Resolute shares in our books at $300 million ($9.87 per share). The current fair market value of these shares is $244 million ($8.03 per share). You can see that Resolute has been a very poor investment to date!

Recipe. Known formerly as Cara, Recipe has a network of 1,370 restaurants with total system sales in 2018 of approximately Cdn$3.5 billion and EBITDA of Cdn$220 million. Over the last five years Recipe has grown system sales by 26% annually and EBITDA by 46% annually. Recipe has a broad range of well known brands including Swiss Chalet, Kelseys, Harvey's, The Keg and St-Hubert, to name a few. We have invested Cdn$348 million into Recipe and the current market value is Cdn$732 million. The company continues to extend its brands outside restaurants to include grocery sales. Frank Hennessey is now overseeing the company as CEO and Bill Gregson has moved to Executive Chairman.

Our common stock holdings in the above-described publicly listed companies constitute most of our publicly listed equity investments. In the main, the prospects for these companies are excellent and should provide us attractive returns in the future. However, since the great financial crash in 2008/2009, value investing has not done well. In the last ten years, "value stocks" have outperformed "growth stocks" in only one year – 2016. This is contrary to the long history of excellent long term performance of value investing. Technology stocks as represented by the FAANGs and the mindless purchase of ETFs and index funds have been major causes for the poor performance of long term value investing. We think this may be about to change. While the indices may not do well in the next five years, we think this is a "stock pickers" market and our brand of value investing will again come to the fore!

Of course, as you know, we have also purchased many private companies. Let me comment on the major private companies we own:

APR Energy. APR, based in Jacksonville, Florida is the world's largest provider of fast track mobile turbine power. Founded by John Campion in 2004, APR has installed and operated over 5GW of power plants, ranging from 15MW to 360MW in size, and has grown its fleet to 1.9GW. APR's proposition is speed of execution and reliability of power. At one point during the recent crisis in Puerto Rico, APR was the only large scale source of power on the island, with full deployment in just over 30 days. Fairfax led the take private of APR in January 2016, investing a total of $340 million at a valuation of 0.5x net tangible assets. Since Q1 2016, APR's fleet utilization has increased from 44% to 74% and net debt has been reduced from $600 million to $360 million. The sustainability of earnings has also improved, with 56% of fiscal 2019 budgeted EBITDA driven by a 350MW contract in Argentina and a 360MW contract in Bangladesh (these are both five-year contracts). Going forward APR will continue to position itself as a specialty turbine fast track power company.

Farmers Edge. Farmers Edge was founded in 2005 by Wade Barnes in Winnipeg, Manitoba as a project-based consulting company providing value added agronomy services for large scale farmers. The business has since evolved into one of the leading SaaS (software as a service) farm management platforms with 24 million acres under management as of December 2018, with an anticipated increase to 40 million acres by the end of 2019. Key services offered under the Farmers Edge platform include: 1) One of the highest density of weather stations in North America. Farmers can have alerts sent to their phones, even at 4am, if there is to be frost on one of their farms. Important, as there is only one harvest! 2) Daily satellite imagery to track crop health via tablet, phone or PC. 3) Brand-agnostic telematics enabling passive data collection. 4) Soil sampling and variable rate fertilizer application, which allows farms to increase yields with less overall fertilizer application. Four-year customer contracts provide Farmers Edge with predictable recurring revenue and cash flows. Fairfax made a $95 million equity investment in March 2017 and has since provided additional funding of $64 million in the form of debentures plus warrants, based on an implied valuation of 4x projected December 2019 base business EBITDA.

Davos. In addition to our restaurant businesses, our investment in the Davos craft spirit brands, brought to us by our good friend David Sokol, continues to do exceptionally well. Davos is run by Andrew Chrisomalis and Blake Spahn and its brands include TYKU Sake, Aviation American Gin, Sombra Mezcal and Astral Tequila. The partnership with Ryan Reynolds in Aviation American Gin has exceeded our expectations in every way and the business is on course to continue doubling.

Peak Achievement *(known formerly as Performance Sports)***.** Peak's Bauer and Easton brands are overseen by Ed Kinnaly and Tony Palma and continue to perform well. Both businesses have continued their growth progression since our purchase several years ago.

In 2018, we monetized one of our private investments. You will remember that we took Arbor Memorial private at Cdn$32 per share in 2012 with the Scanlan family. Recently, David Scanlan came to us and said his family would like to own Arbor completely. So in October 2018 we sold our equity interest in Arbor to the Scanlan family at Cdn$152 per share – a rate of return of 34% and a realized gain of Cdn$186 million. Of course, the gain is magnified if you consider we first purchased 42% of Arbor in 2001 at Cdn$8.81 per share. We wish the Scanlan family much success in the future.

We expect to monetize some of our remaining investments in private companies with similar results!

I am happy to report that we also made two significant private company investments in 2018/2019 – Dexterra and AGT. Dexterra, led by John MacCuish as CEO, is the new name for Carillion Canada which went into bankruptcy because of the bankruptcy of its parent in the U.K. Dexterra provides industry-leading facilities management and operation solutions across Canada, including maintenance solutions for over 50 million sq. ft. of high-quality infrastructure. This includes some of the country's largest airports, premier retail and commercial properties, corporate campuses, research and education facilities, large industrial sites, defence and public assets and state-of-the-art healthcare infrastructure. The company is also one of the country's largest reforestation contractors – planting over 40 million trees annually, it annually completes 4,400 hectares of forest thinning/brushing and 1,200 hectares of site preparation – it employs hundreds of firefighters, with an emphasis on Indigenous communities, and for the last 30 years it has been supplying and operating full-service remote workforce services. We were able to buy Dexterra at about 5x free cash flow.

AGT, led by Murad Al-Katib as CEO and Hüseyin Arslan as Executive Chairman, is one of the largest suppliers of pulses in the world. With over 2,000 employees, AGT exports pulses (mainly lentils, peas and beans) to over 120 countries around the world. We are helping Murad and Hüseyin take the company private at Cdn$18 per share. The shareholders of AGT have recently approved the deal. We are very excited to be partners with Murad and Hüseyin and expect them to build a very significant company in the global agricultural sector over the long term.

In 2015 Brit purchased 50% of Ambridge Partners, one of the world's leading managing general agencies of transactional insurance products, and agreed to purchase the remaining 50% in 2019. Brit has worked with Ambridge for 14 years and has a wonderful relationship with its founders and principals, Jess Pryor and Jeff Cowhey. Over the last ten years Ambridge has produced an average combined ratio of 94%.

In December Brit purchased a significant share of Sutton Special Risk, a managing general underwriter and premier provider of accident and health, life, and sports and entertainment insurance. Brit has had a 16 year relationship with Sutton, which has produced an average combined ratio for Brit over the last ten years of 92%. Sutton will continue to be run independently. A big welcome to Greg Sutton and his team.

Late in 2018 we were very pleased to announce Onlia, a joint venture between Fairfax (through Northbridge) and Achmea B.V. (the largest insurance group of the Netherlands). Onlia will offer innovative digital auto insurance and a mobile app in Canada. Onlia is committed to making Canadian roads the world's safest and as a champion for safety, Onlia's vision is to create a safer world that rethinks the role of insurance. Onlia began selling its first policies late in 2018. We are pleased to be partners with Willem Van Duin from Achmea and welcome Pieter Louter and the rest of his team from Onlia.

In our retail brands, 2018 marked the beginning of the partnership between Sporting Life, founded by David and Patti Russell, and Golf Town, overseen by Chad McKinnon. It is early days but the team believes that it will be stronger together with the benefit of reduced seasonality and the implementation of best practices for continued profitable growth and building a long term winning culture.

New to our retail holdings is Toys ''R'' Us and Babies ''R'' Us. We purchased these businesses out of bankruptcy for less than the value of their real estate holdings but they have a Canada-wide platform with approximately Cdn$850 million in revenue and a dedicated team led by Melanie Teed-Murch finding new ways to grow their business through creating experiences and connections with kids and parents across Canada.

The Boat Rocker team continued to grow its business with sales now exceeding Cdn$145 million and an unblemished profitability record since inception 12 years ago.

Rouge Media continued its profitable expansion in the out-of-home media space, growing particularly in U.S. colleges.

Pethealth continued to grow its business, recently acquiring the Chameleon platform and expanding its relationships with animal shelters across the U.S. and Canada.

Fairfax, with its wonderful culture and a close-knit, responsive group of talented and hardworking officers and investment professionals, has a major advantage in identifying and closing these opportunities. We are a wonderful home for outstanding entrepreneurs because we run a very decentralized operation, leaving our Presidents free to run their companies unfettered by Head Office!

In the past, to protect our equity exposures in uncertain times, we shorted indices (mainly the S&P500 and Russell 2000) and a few common stocks. After much thought and discussion, it became clear to me that shorting is dangerous, very short term in nature and anathema to long term value investing. As I mentioned to you in last year's annual report, shorting has cost us, cumulatively, net of our gains on common stock, approximately $2 billion! This will not be repeated! In the future, we may use options with a potential finite loss to hedge our equity exposure, but we will never again indulge anew in shorting with uncapped exposure. Your Chairman continues to learn – slowly!!

As you all know, Fairfax is being run for the long term, long after I am gone! The company is not for sale but is focused on providing shareholders with a great long term return on capital. Underpinning our success and our huge competitive edge is the fair and friendly culture we have developed at Fairfax, backed by our guiding principles (included, as always, in this annual report). Our culture is why companies are attracted to Fairfax and why people want to join our company. We saw our culture in action in 2018 when we faced a problem at Advent, one of the four syndicates we had at Lloyd's of London. Lloyd's in 2018 decided to react to its unsatisfactory 2017 performance by restricting growth of its syndicates in spite of overall profitability! For 2019, Lloyd's will write premiums perhaps down 5% from 2018 levels. This restriction in growth particularly impacted Advent as it planned to reduce its expense ratio with disciplined growth. Nigel Fitzgerald reluctantly came to the conclusion that he would have to close the syndicate and renew its profitable books of business with our other three Lloyd's syndicates. The leaders of our three other Lloyd's syndicates, Brit, Newline (Odyssey Group) and Allied World UK, as well as RiverStone, came together and were able to offer employment to almost all Advent's people (and retain almost all the books of business) in our fair and friendly way. Advent has merged with RiverStone's run-off syndicate in London and will be ready to provide its services to other syndicates at Lloyd's. A round of applause for Nigel, Matthew Wilson (Brit), Brian Young and Carl Overy (Odyssey Group), Scott Carmilani and Ed Moresco (Allied World) and Nick Bentley and Luke Tanzer (RiverStone)! This is how we want to treat our employees – the Fairfax way!

Our small team at Fairfax, with no egos and a team approach, led by Paul Rivett, continues to do an extraordinary job running an enterprise with companies that operate in over 100 countries all over the world. Our secret is decentralization! Our operating companies have an outstanding group of leaders who run their companies – insurance and non-insurance – in an entrepreneurial way! Speaking of entrepreneurs, I should highlight our Digit Insurance begun by Kamesh Goyal in India. From a standing start, Kamesh has built a fully digital (paperless) company with the objective of making insurance simple to understand for its customers. The company now employs almost 850 people in all regions of India and will write approximately $165 million in gross premium by March 31, 2019. We expect the company to break even on an underwriting basis in the next few years as it grows to write $500 million annually in premiums. In building the company from scratch, Kamesh and his team have developed some terrific product and technology platforms that may be useful to Fairfax outside of India.

I mentioned to you last year that we are focused on buying back our shares over the next ten years as and when we get the opportunity to do so at attractive prices. Henry Singleton from Teledyne was our hero as he reduced shares outstanding from approximately 88 million to 12 million over about 15 years. We began that process by buying back 1.1 million shares since we began in the fourth quarter of 2017 up until early 2019 – about half for cancellation and half for various long term incentive plans we have across our company. This was after we increased our ownership of Brit to 89% from 73% while having the funds ready to increase our ownership of Eurolife from 50% to 80% in August 2019.

As our company gets larger, we are always looking for ways to help you understand Fairfax better. Please note the unconsolidated balance sheet shown below that shows you where your money is invested:

Unconsolidated Balance Sheet(1)	**($ billions)**	**($ per share)**
Assets		
Northbridge	1.1	41
Odyssey Group	2.8	103
Crum & Forster	1.3	48
Zenith	0.8	30
Brit Insurance	1.2	45
Allied World	2.4	88
Fairfax Asia	0.5	19
Other Insurance and Reinsurance	0.9	34
Run-off	0.5	18
Insurance and Reinsurance Operations	11.6	426
Restaurant and Retail	0.7	26
Thomas Cook India	0.9	34
Fairfax India	0.5	19
Fairfax Africa	0.4	13
Other Non-Insurance	0.7	26
Non-insurance Operations	3.2	118
Total consolidated operations	14.8	544
Holding company cash and investments	1.6	57
Other holding company assets	0.7	27
Total assets	17.1	628
Liabilities		
Accounts payable and other liabilities	0.1	5
Long term debt	3.9	142
	4.0	147
Shareholders' equity		
Common equity	11.8	432
Preferred stock	1.3	49
	13.1	481
	17.1	628

(1) *Equity shown for the Insurance and Reinsurance Operations excludes minority interests, investments in other consolidated operations, investments at the holding company and intercompany debt.*

The table shows our insurance companies, which are decentralized and separately capitalized, with our consolidated non-insurance companies shown separately even though some of them may be held in our insurance companies' investment portfolios.

As you can see, we have $11.6 billion ($426 per share) invested in our insurance companies (of which the largest are Odyssey Group and Allied World) and $3.2 billion ($118 per share) in our consolidated non-insurance operations. The insurance companies generate over $15 billion in gross premiums annually and we have a consolidated investment portfolio of $39 billion. Underwriting profit and total investment income generate the return from these businesses. Our consolidated non-insurance businesses are significant and listed so that you can see them (and your investment per share in them) separately. We expect each of them to grow long term at 15% or better. So as a shareholder, you benefit from three sources of income: underwriting income, investment income including capital gains, and returns from our non-insurance businesses.

Another way of looking at our company!

Below we update the table on our intrinsic value and stock price. As discussed in previous annual reports, we use book value as a first measure of intrinsic value.

	INTRINSIC VALUE % Change in US$ Book Value per Share	**STOCK PRICE % Change in Cdn$ Price per Share**
1986	+180	+292
1987	+48	− 3
1988	+31	+21
1989	+27	+25
1990	+41	− 41
1991	+24	+93
1992	+1	+18
1993	+42	+145
1994	+18	+9
1995	+25	+46
1996	+63	+196
1997	+36	+10
1998	+30	+69
1999	+38	− 55
2000	− 5	− 7
2001	− 21	− 28
2002	+7	− 26
2003	+31	+87
2004	− 1	− 11
2005	− 16	− 17
2006	+9	+38
2007	+53	+24
2008	+21	+36
2009	+33	+5
2010	+2	–
2011	− 3	+7
2012	+4	− 18
2013	− 10	+18
2014	+16	+44
2015	+2	+8
2016	− 9	− 1
2017	+22	+3
2018	− 4	− 10
1985-2018 (compound annual growth)	**+18.7**	**+17.1**

The table shows the change in book value in U.S. dollars and our stock price in Canadian dollars. As I have said before, we think our intrinsic value far exceeds our book value. As shown in the table, there have been many years when our stock price has gone up significantly as that intrinsic value is recognized in the marketplace. We are focused on performing to make that happen again!

Insurance and Reinsurance Operations

The table below shows the recent combined ratios and the 2018 change in net premiums written of our insurance and reinsurance operations:

	Combined Ratio			Change in Net Premiums Written(1)
	2018	2017	2016	2018
Northbridge	95.8%	99.1%	94.9%	10.2%
Odyssey Group	93.4%	97.4%	88.7%	16.1%
Crum & Forster	98.3%	99.8%	98.2%	6.1%
Zenith	82.6%	85.6%	79.7%	(5.8)%
Brit	105.2%	113.1%	97.9%	9.0%
Allied World	98.1%	157.0%(2)	–	–
Fairfax Asia	99.8%	88.4%	86.4%	(4.7)%
Other Insurance and Reinsurance	104.6%	110.2%	93.7%	6.9%
Consolidated	97.3%	106.6%	92.5%	8.7%

(1) Further detail is provided in the MD&A

(2) For the period since its acquisition on July 6, 2017

Led by Silvy Wright, Northbridge posted a very satisfactory combined ratio of 95.8% in 2018. Once again, net premium grew by double digits, fueled by a combination of new initiatives and strong rate increases. And, as has been the case in prior years under Silvy's management, Northbridge's results have been favorably impacted by strong positive reserve development. The Canadian marketplace has been challenging, and many companies have consequently recently been engaging in corrective actions. While Northbridge has sustained positive underwriting results over the recent past, it should now also benefit from these more favorable conditions. With rates continuing to rise, especially in the commercial auto space (a long-standing Northbridge specialty), we are optimistic about the trend for future performance.

In 2018, OdysseyRe changed its name to the Odyssey Group, to recognize that its premium volume is now derived almost evenly from its insurance activities and its traditional reinsurance operations. While its name changed, its terrific industry outperformance did not. Brian Young and the Odyssey team produced a 93.4% combined ratio and, at over $180 million, well over half the combined Fairfax underwriting profit in 2018. With its highly diversified portfolio and proven underwriting skills, Odyssey was able to generate strong profitable growth to keep its momentum going. It is worth noting that, over the last ten years, Odyssey has posted a combined ratio of 93.1%, contributing underwriting profits of $1.5 billion notwithstanding the spate of severe catastrophe losses.

At Crum & Forster, Marc Adee and team kept results on a steady track, posting a 98.3% combined ratio. Performing well were the Commercial, Excess/Surplus Lines and Accident/Health divisions. In addition, a growing portfolio of profitable Surety business helped the bottom line, although legacy Commercial Auto and various Program business were costly for Crum in 2018. In the Commercial Auto space, which is currently undergoing considerable turmoil, we are quite excited about emerging opportunities for Crum's new DMC operation, led by Joe DeVito and his highly experienced team. Several other new initiatives are underway in 2019, which Marc expects to bear fruit and bring improvement to Crum's underwriting results.

Zenith had another truly exceptional year. Under Kari Van Gundy, Zenith recorded an 82.6% combined ratio for 2018, continuing its string of outstanding underwriting results. From the difficult years at the beginning of the decade, loss trends have been remarkably benign. Combining these favorable conditions with underwriting discipline and outstanding claims expertise has been a rewarding recipe. While the industry at large has enjoyed success in Workers Compensation, Zenith has maintained its relative outperformance and enjoyed richer success. Of course, little lasts forever, and the rating environment has become fiercely competitive once again. Kari and team are focused on maintaining their advantages, and keeping Zenith one or more steps ahead of the pack.

Brit had a difficult year in 2018. Its results were adversely impacted by natural catastrophes and large losses, as well as the relatively high expense ratio associated with the Lloyd's market. Matthew Wilson and his colleagues have implemented a variety of strategies to relieve net costs, and have exited several classes of business that have been problematic. In 2019, Brit will complete its purchase of the Ambridge group, one of the premier underwriters of

Transaction Insurance covering Reps and Warranties. Ambridge has had an outstanding track record and is expected to continue that performance for Brit's benefit. Having produced a combined ratio above 100% for the second straight year at 105.2%, Matthew and team are keenly focused on returning Brit to the black in 2019. Helped by an improved pricing environment, we are confident they will do so.

Allied World, led by Scott Carmilani, returned to the black in 2018 with a combined ratio of 98.1%. Through three quarters, the Allied team was tracking toward a 95% ratio for the year, but the storms and fires in the fourth quarter knocked it slightly off course. Rates in the Allied World sectors of activity are also seeing good upward momentum. Vault, Allied World's entry in the High Valued Homeowners space, gained good traction in 2018, and is expected to keep growing smartly in 2019. With its deep pool of underwriting talent, experienced leadership and strong broker relationships, Allied World is poised to deliver meaningful underwriting income in the years ahead.

Bryte, our South African company, produced a 96.7% combined ratio in 2018, a nice improvement over the slight underwriting loss it recorded in 2017. Despite some challenging economic conditions, Edwyn O'Neill and team have navigated Bryte with a steady hand, achieving growth and implementing measures which should result in even better performance in the future.

Colonnade, our company in Luxembourg, had a successful year in 2018, recording a combined ratio of 97.6%. Peter Csakvari provides exceptional leadership to this group, which operates through branches in Poland, the Czech Republic, Slovakia, Hungary, Romania and Bulgaria, as well as through a separate company in Ukraine. During 2018, we placed our regional reinsurance company, Polish Re, under the Colonnade management umbrella. Jacek Kugacz and his colleagues at Polish Re will now enjoy the benefit of being part of a larger group with extensive operations in Central and Eastern Europe.

In Latin America, we continue to like our prospects with the group of four companies we acquired from AIG over the last several years. As premiums continue to ramp up and expense levels adjust to their proper run rate, we expect that those companies in Argentina, Chile, Colombia and Uruguay will see their respective combined ratios drop below 100%. Additional challenge has been encountered in Argentina, with the return of elevated inflation and its deleterious effect on loss reserves. All in all, Juan Luis Campos (Argentina), Fabiana De Nicolo (Chile), Martha Lucia Pava (Colombia) and Marcelo Lena (Uruguay), overseen very ably by Fabricio Campos and his team in Miami, are confident of their prospects and prepared to contribute to our underwriting success.

Bijan Khosrowshahi works closely in an oversight role with Peter Csakvari and Fabricio Campos, and is also closely involved with our partners in Kuwait, who operate the Gulf Insurance Group throughout the Middle East.

In Brazil, Bruno Camargo continues to provide effective leadership for Fairfax Brasil. In 2018, Bruno and team once again were one of the few companies producing an underwriting profit in the challenging Brazilian market, posting a 97.9% combined ratio. We are hopeful that the Brazilian economy, having emerged from a deep recession, will provide a boost to Bruno's results in 2019.

Fairfax Asia produced a combined ratio of 99.8% in 2018. Losses from the motor line in Malaysia were offset by profits in Indonesia, resulting in a breakeven outcome for the year. Fairfax Asia also includes controlled companies in Hong Kong (Falcon) and Sri Lanka (Fairfirst), which produced high nineties combineds. Fairfax Asia continues to be led by Mr. Athappan, an outstanding leader, ably assisted by his son Gobi, Sam Chan and Ravi Prabhakar.

The table below shows you our international operations at December 31, 2018:

	Fairfax Ownership	Combined Ratio	Gross Premiums Written	Shareholders' Equity	Investment Portfolio
Consolidated					
Fairfax Latam	100%	119.6%	614	125	277
Bryte Insurance (South Africa)	100%	96.7%	353	143	227
Fairfax Brasil	100%	97.9%	145	69	177
Colonnade (Central and Eastern Europe)	100%	97.6%	198	86	167
Pacific Insurance (Malaysia)	85%	103.7%	144	108	168
AMAG (Indonesia)	80%	89.2%	120	216	98
Polish Re	100%	98.8%	69	90	206
Falcon Insurance (Hong Kong)	100%	99.4%	51	72	132
Fairfirst Insurance (Sri Lanka)	78%	98.8%	71	33	34
			1,765	**942**	**1,486**
Non-consolidated					
Gulf Insurance (Middle East)	43%	97.6%	1,111	294	782
Eurolife (Greece)	50%	70.8%[(2)]	512	509	3,089
Alltrust Insurance (China)[(1)]	15%	102.6%	984	331	841
BIC (Vietnam)[(1)]	35%	105.1%	95	95	145
Digit (India)	45%	165.1%	106	75	154
Falcon Insurance (Thailand)	41%	97.7%	61	17	34
			2,869	**1,321**	**5,045**
Total International Operations			**4,634**	**2,263**	**6,531**

(1) As at and for the 12 months ended September 30, 2018

(2) Non-life only

The high combined ratio in Latin America derives primarily from the 124.4% combined ratio in Argentina which reflects the hyperinflation in that country (inflation rates hit 48% in 2018). Fortunately, interest rates are very high also (40% for short term rates), so we will likely be profitable in 2019. The high combined ratio at Digit is primarily due to start-up expenses as it scales up its operations.

All of our major companies are well capitalized, as shown in the table below (further detail is provided in the MD&A):

	As at and for the Year Ended December 31, 2018		
	Net Premiums Written	**Statutory Surplus**	**Net Premiums Written/Statutory Surplus**
Northbridge	Cdn 1,520.5	Cdn 1,257.1	1.2x
Odyssey Group	2,897.8	4,190.0	0.7x
Crum & Forster	1,977.8	1,317.6	1.5x
Zenith	789.2	541.1	1.5x
Brit	1,668.6	1,085.0	1.5x
Allied World	2,368.8	2,817.3	0.8x
Fairfax Asia	191.9	447.1	0.4x

On average we are writing at about 1.0 times net premiums written to surplus. In the hard markets of 2002 – 2005 we wrote, on average, at 1.5 times. We have unused capacity currently and our strategy during the times of soft pricing is to be patient and stand ready for any hard markets to come.

The combined ratios of our companies which we have owned since 2008, and of our major companies acquired since then, are shown in the table below:

	2009 – 2018	
	Cumulative Net Premiums Written *($ billions)*	**Average Combined Ratio**
Northbridge	Cdn 11.5	99.3%
Odyssey Group	22.6	93.1%
Crum & Forster	13.7	101.6%(3)
Zenith(1)	6.2	94.4%
Brit(1)	5.5	103.9%
Allied World(1)	3.4	116.4%
Fairfax Asia(2)	2.4	86.6%
Total	65.1	98.0%

(1) Zenith since acquisition on May 20, 2010, Brit since acquisition on June 5, 2015, Allied World since acquisition on July 6, 2017

(2) Fairfax Asia included First Capital until December 28, 2017

(3) The average combined ratio for Crum & Forster for the last five years was 98.7%

Since we began, we have written over $140 billion in gross premiums, with a combined ratio of approximately 100%.

The table below shows the average annual reserve redundancies for the past ten years (business written from 2008 onwards) for our companies which we have owned since 2008 (Zenith since 2010):

	2008 – 2017 Average Annual Reserve Redundancies
Northbridge	15.5%
Odyssey Group	13.5%
Crum & Forster	(0.2)%(3)
Zenith(1)	16.2%
Fairfax Asia(2)	17.2%

(1) Since acquisition on May 20, 2010

(2) Fairfax Asia included First Capital until December 28, 2017

(3) The average annual reserve redundancy for Crum & Forster for the last five years was 4.0%

The table shows you how our reserves have developed for the ten accident years prior to 2018. We are very pleased with this reserving record but given the inherent uncertainty in setting reserves in the property casualty business, we continue to be focused on being conservative in our reserving process. More on our reserves in the MD&A and the Annual Financial Supplement for the year ended December 31, 2018 available on our website www.fairfax.ca.

Our run-off operations led by Nick Bentley continue to explore run-off acquisitions with a very disciplined approach. Although the market continues to be very soft in North America, Run-off took advantage of a number of good opportunities in Europe, closing or soon to be closing four third party transactions, adding $1.2 billion of net reserves to Fairfax's balance sheet. On three of those transactions, Nick Bentley and Luke Tanzer worked closely with our partner Mitsui Sumitomo and we expect these will be mutually beneficial. Nick and team continue to do great work and make progress on many initiatives to change the future of asbestos claims but we continued to experience adverse development this year due to a number of large claim settlements (which we hope will reduce volatility in the future) and to dealing with the legal expenses of fighting frivolous claims. Run-off had an operating loss of $198 million in 2018, principally reflecting adverse development on asbestos reserves from our legacy business and depressed investment income, partially offset by gains from current run-off transactions. We believe we have one of the finest run-off teams in the industry and it continues to be a valuable asset for Fairfax.

We have updated the float table that we show you each year for our insurance and reinsurance companies:

Year	Underwriting Profit	Average Float	Cost (Benefit) of Float	Average Long Term Canada Treasury Bond Yield
1986	3	22	(11.6)%	9.6%
2009	7	9,429	(0.1)%	3.9%
2018	318	19,825	(1.6)%	2.4%
Weighted average last ten years			(0.7)%	2.7%
Fairfax weighted average financing differential last ten years: 3.4%				

Float is essentially the sum of loss reserves, including loss adjustment expense reserves, and unearned premium reserves, less accounts receivable, reinsurance recoverables and deferred premium acquisition costs. Our long term goal is to increase the float at no cost, by achieving combined ratios consistently at or below 100%. This, combined with our ability to invest the float well, is why we feel we can achieve our long term objective of compounding book value per share by 15% per annum. This no cost float is perhaps Fairfax's biggest asset and is the single biggest reason for our success in the future. In 2018, our ''cost of float'' was a 1.6% benefit, as we made an underwriting profit. In the last ten years, our float has cost us nothing (in fact, it provided an average 0.7% benefit per year) – significantly less than the average 2.7% that it cost the Government of Canada to borrow for ten years.

The table below shows you the breakdown of our year-end float for the past five years:

	Insurance and Reinsurance										
Year	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Total Insurance and Reinsurance	Run-off	Total
					($ billions)						
2014	1.9	4.5	2.6	1.2	–	–	0.5	0.9	11.6	3.5	15.1
2015	1.6	4.2	2.6	1.2	2.7	–	0.6	0.8	13.7	3.4	17.1
2016	1.7	4.0	2.7	1.2	2.8	–	0.6	0.8	13.8	2.9	16.7
2017	1.8	4.4	2.9	1.2	3.1	5.4	0.2	1.2	20.2	2.5	22.7
2018	1.7	4.6	2.9	1.1	2.8	5.1	0.2	1.1	19.5	3.0	22.5

In the past five years our float has increased by 49%, due partly to organic growth in net premiums written at Odyssey Group and Crum & Forster, but due principally to the acquisition of Brit and Allied World.

Of course, our float and float per share have grown tremendously since we began in 1985, as the table below shows. This has been one of the key reasons for our success in the past and will continue to be a key reason in the future.

	Total Float	Float per Share
1985	13	$2 ½
1990	164	30
1995	653	74
2000	5,877	449
2005	8,757	492
2010	13,110	641
2017	22,730	819
2018	22,500	826

Our float increased to $826 per share, a 1% increase from 2017.

The table below shows the sources of our net earnings. This table, like various others in this letter, is set out in a format which we have consistently used and we believe assists you in understanding Fairfax.

	2018	**2017**
Underwriting – insurance and reinsurance		
Northbridge	47.0	9.0
Odyssey Group	181.1	60.0
Crum & Forster	32.6	3.2
Zenith	140.2	117.2
Brit	(77.0)	(201.9)
Allied World	42.9	(586.6)
Fairfax Asia	0.4	38.2
Other	(48.9)	(80.6)
Underwriting profit (loss)	318.3	(641.5)
Interest and dividends – insurance and reinsurance	637.8	425.8
Operating income (loss)	956.1	(215.7)
Run-off (excluding net gains (losses) on investments)	(197.9)	(184.6)
Non-insurance operations	380.3	212.1
Interest expense	(347.1)	(331.2)
Corporate overhead and other	(182.2)	56.5
Pre-tax income (loss) before net gains (losses) on investments	609.2	(462.9)
Net realized gains on investments	1,174.9	1,742.0
Pre-tax income including net realized gains on investments	1,784.1	1,279.1
Net change in unrealized gains (losses) on investments	(922.0)	744.1
Pre-tax income	862.1	2,023.2
Income taxes and non-controlling interests	(486.1)	(282.6)
Net earnings	376.0	1,740.6

The table shows the results from our insurance and reinsurance (underwriting and interest and dividends), run-off and non-insurance operations (which shows the pre-tax income (loss) before interest). Net realized gains and net change in unrealized gains (losses) are shown separately to help you understand the composition of our earnings. In 2018, after interest and dividend income, our insurance and reinsurance companies had operating income of $956.1 million due to higher interest and dividend income and lower catastrophe losses year over year. Excluding unrealized losses, our pre-tax income was $1.8 billion. All in, after-tax income was $376.0 million. Of our interest expense of $347.1 million, $253.0 million was from borrowings by our holding company and our insurance and reinsurance companies, while $94.1 million was from borrowings by our non-insurance companies, which are non-recourse to Fairfax. Corporate overhead and other includes net corporate expense of $14.0 million, amortization of subsidiary companies' intangible assets of $109.3 million and a loss on the repurchase of debt of $58.9 million. We continue to focus on keeping holding company expenses low. (See more detail in the MD&A.)

Financial Position

The following table shows our financial position, excluding consolidated non-insurance companies, at the end of 2018:

Holding company cash and investments (net of short sale and derivative obligations)	1,550.6
Borrowings – holding company	3,859.5
Borrowings – insurance and reinsurance companies	995.7
Total debt	4,855.2
Net debt	3,304.6
Common shareholders' equity	11,779.3
Preferred stock	1,335.5
Non-controlling interests	1,437.1(1)
Total equity	14,551.9
Net debt/total equity	22.7%
Net debt/net total capital	18.5%
Total debt/total capital	25.0%
Interest coverage	3.2x
Interest and preferred share dividend distribution coverage	2.6x

(1) Excludes consolidated non-insurance companies' minority interests

As we did last year, we show you our financial position excluding the debt of non-insurance companies that we do not own 100%. When we have a controlling interest in a company (for example, Recipe or Thomas Cook India), we are required to consolidate that company's financial statements into our own financial statements even though we do not guarantee the debt – and quite often it is an investment in a public company. Excluding non-insurance company debt, our debt/capital ratios are excellent and for 2018, we had interest coverage of 3.2x.

We have a very strong financial position, with $1.6 billion in cash and marketable securities at the holding company at the end of 2018 and no debt maturities until 2021 (we intend to continue to refinance near term maturities). In 2018, for the first time ever we issued euro debt – €750 million at 2.75% for 10 years. The proceeds were used to reduce near term maturities and hedge against our euro equity holdings. We now have access to the bond markets in Canada, the United States and Europe! Our financial position is rock solid, much better than our ratings would suggest!

Investments

Earlier, we have shown you that we will achieve a 15% return on our shareholders' equity if (with a 95% combined ratio) we make a 7% return on our investment portfolio. The table below shows our investment results since inception:

Period	Average investments	Interest & dividends	Net gains(1)	Total return on investments	
					% Return(2)
1986-1993	201	105	58	163	10.6
1994-1998	2,613	706	626	1,332	10.1
1999-2003	10,696	2,272	2,047	4,319	7.9
2004-2008	16,058	2,976	5,849	8,825	10.4
2009-2013	23,460	2,916	1,834	4,750	4.4
2014-2018	30,949	2,814	1,859	4,673	3.1
Cumulative from inception		11,789	12,273	24,062	8.0

(1) Realized and unrealized gains as per MD&A

(2) Simple average of the total return on average investments for each year

Since we began, we have had a return of 8.0% on investments in spite of the poor results for the last five years. Please note that since inception we have earned cumulative net gains of $12 billion, which is more than the cumulative interest and dividend income we have earned since inception. In the past, as many of you will painfully remember, it took a long time for our insurance companies to consistently generate underwriting profits, so quite a bit of our net gains was dissipated as we took corrective action on our insurance operations. This is now behind us. Also, please remember that our investment portfolios were much smaller in the past. Today, our portfolios are $39 billion. All our investment income – interest, dividends and net gains – will now flow to our shareholders. The best is yet to come!

The transition of the management of our investment portfolios to a younger group at Hamblin Watsa led by Wade Burton, which I reported to you last year, is working very well. Wade is ably exercising his role as President of Hamblin Watsa, and during the year he made some excellent additions to his team – Ian Kelly (working in the U.K.), Wendy Teramoto (working in New York) and Davies Town. Roger Lace, Brian Bradstreet and I continue to provide guidance.

The focus on quarterly growth accentuated by quarterly conference calls has made the current stock market hypersensitive to short term results. It appears that most participants in the market are focused on forecasting the daily weather patterns whereas we like focusing on the seasons. We know winter will end (about time in Toronto!) and spring will come, followed by summer. We just do not know the exact date and we may get some spring snowfalls! But just as seasons repeat, we expect our style of value investing will again come to the fore and will again be very profitable for our shareholders.

U.S. economic growth continues to be strong, encouraged by the pro-business policies of the new administration. In fact, earnings per share for the S&P 500 increased 22% in 2018 to $152. Once the trade issues are resolved, with China and then Europe, we think the U.S. economy may have a long runway ahead as it makes up for its eight year sub-par performance prior to 2017. And in this stock picker's market, as I have described earlier, there are many stocks to invest in for the long term.

The country that we continue to be very excited about is India. The sleeping giant has been waking up with the pro-business policies of Prime Minister Modi. If he wins the coming election, which we think he will, India also will have a long runway of strong economic growth. We are well positioned to invest large sums of money in that country.

Finally, Greece is also well on its way to recovery from the depression it has gone through. In 2018, it was again able to access the bond market and on March 5, 2019 it issued a 10 year bond (at 3.9%) for the first time in nine years.

The table below lists the negotiated investments in debt and warrants that we have made in the past two and a half years:

Debt and warrant deals

Company	Principal	Coupon	Warrant Maturity	Warrant Strike Price per Share	Current Stock Price	Potential Ownership
				(local currency)		
Seaspan – 1st tranche	250	5.5%	Feb-2025	$ 6.50	$ 8.74	
Seaspan – 2nd tranche	250	5.5%	Jan-2026	6.50	8.74	
Seaspan – additional warrants*			Jul-2025	8.05	8.74	42.5%
Chorus Aviation	146	6.0%	Dec-2024	8.25	7.34	14.7%
AGT Foods	139	5.4%	Aug-2024	33.25	17.79	19.7%
Mosaic Capital	110	5.7%	Jan-2024	8.81	4.49	61.6%
Altius Minerals	73	5.0%	Dec-2024	15.00	12.90	13.4%
Westaim	37	5.0%	Dec-2024	3.50	2.50	8.2%
	1,005	5.5%				

* *Awarded additional warrants as incentive to exercise 1st and 2nd tranche warrants early*

We have invested $1 billion with an average yield of 5.5% in these debt and warrant deals. We will get an annual income of $55 million while we wait for the warrants to become valuable over time. In the case of Seaspan, we exercised our original warrants early and thereby invested $500 million in common shares at $6½ per share. In the case of AGT, we will be using our existing investment in AGT to help the founders take AGT private. We expect to do more of these deals with U.S. and Canadian companies who want capital from a friendly, supportive, long term shareholder.

I mentioned bitcoin last year as one of the obvious speculations in the marketplace. Bitcoin went from $500 in 2015 to $19,000 in 2017 and was trading recently at about $3,800. The round trip to $500 is not yet complete! Yes, tulips don't grow to the sky!

With more robust economic growth, it is very likely that inflation rates and long term treasury rates have bottomed and are going up. While inflation has not moved up significantly, Grant's Interest Rate Observer (Nov. 17, 2017) reminds us that things can change very quickly as they did in the late 60s. From a year on year change of 1.09% in January 1965, the CPI inflation index moved up sharply to 6.42% by February 1970, after a period not unlike today of almost no inflation.

There continue to be many risks in the world today, including world trade, China or a blow-up in the junk bond market. As we have said before, to protect us against these risks, we continue to retain $114 billion notional amount in deflation hedges which still have 3½ years to go and are now on our balance sheet at only $25 million.

As mentioned earlier, the unrealized gain of $1.2 billion as of December 31, 2017 in the market price of our associates and consolidated equities, which does not flow through our financial statements, had all but disappeared at the end of 2018 due to the significant decline in their stock prices in the fourth quarter. Some of it has come back in the first two months of 2019, and we expect the declines to reverse ultimately.

Our common stock portfolio, which reflects our long term value oriented investment philosophy, is broken down by country as follows (at market value at year end):

Canada	978.9
United States	1,466.7
Other	3,092.9
Total	5,538.5

We continue to like the long term prospects of our common stock holdings, which include names like General Motors and General Electric. We think General Electric will benefit greatly from its new CEO Larry Culp.

Miscellaneous

We maintained our dividend in 2018 at $10 per share. As I have mentioned to you before, we are focused on using our free cash flow to buy back stock so it is unlikely our dividend will be increased soon. A 15% return on equity implies earnings of approximately $2 billion, so paying approximately $300 million in dividends would leave us with $1.7 billion for stock buybacks and tuck-in acquisitions. Since we began paying dividends, we have paid cumulative dividends of $113 per share.

As I have mentioned to you countless times over the past 33 years, our company benefits from a small head office team, now led by Paul Rivett, which with great integrity, team spirit and no egos, protects us from unexpected downside risks and takes advantage of opportunities when they arise. Recently, Paul Rivett took over from me on our conference calls and on the day of our most recent call, the stock price went up $25!! Our fantastic team of officers includes David Bonham, Peter Clarke, Jean Cloutier, Vinodh Loganadhan, Brad Martin, Rick Salsberg, Ronald Schokking and John Varnell. Last year, Jenn Allen, who has been with us for 13 years and is the CFO of Fairfax India and Fairfax Africa, joined this group. Also, in 2019 Peter Clarke was appointed COO of Fairfax. Peter's first job was with us, and he has been with us for more than 20 years. Peter is exactly what a Fairfax officer should be – really smart, extremely hardworking and as team-oriented a person as you have ever met, with no ego. Peter, reporting to Paul Rivett, works with Andy Barnard helping to oversee insurance and with Wade Burton helping to oversee investments. The glue that keeps our company together is trust and a long term focus.

We are very focused on looking after our employees as they provide outstanding service to our customers. Bill Weldon of Johnson & Johnson fame, who we are fortunate to have as a consultant, told us of the objective they had many years ago of having one of the healthiest workforces in the world. Over more than two decades, they have achieved this objective. We were very inspired by this initiative and our Jonathan Godown is leading the charge to begin to provide this health initiative for all our insurance company employees across the world.

Last year, David Johnston retired from being Governor General of Canada after an outstanding seven years representing our country to the world. We were honoured that he decided to be our Global Advisor and we benefit greatly from his perspective. Recently, David wrote a very thoughtful book entitled ''Trust'' which we distributed to all our employees in North America. I highly recommend it to all of you. David has generously made 125 autographed copies available for you: Sanjeev Parsad will hand out the book for a donation of your choosing, and all the money collected will go to the Crohn's and Colitis Foundation in memory of my assistant Jo Ann Butler. Sanjeev has raised a little over Cdn$200,000 to date. Hats off to Sanjeev for spearheading this valiant effort.

Alan Horn, who has been on our Board for over ten years, has decided to retire as of June 30, 2019. Alan, with his wealth of experience and attention to detail, did an outstanding job for us as a director and as Chair of our Audit Committee – and he was a delight to work with! We will miss him, and we wish him and his wife, Ruth, much happiness in all they decide to do.

As of July 1, 2019 Bill McFarland will join our Board and will become Chair of our Audit Committee. Bill retired as CEO of PwC Canada in June 2018, and many years ago, while at PwC, he was the partner on our account. Bill knows our company well and we expect to benefit greatly from his knowledge and experience.

Late last year, Mark Cloutier resigned from our company to take another CEO job in our industry. Mark was instrumental in our purchase of Brit Insurance and also of Bryte, our South African subsidiary. Mark was Chairman of both companies and provided great succession with Matthew Wilson at Brit and Edwyn O'Neill at Bryte. We wish Mark great success in his future endeavours, unless he is competing with us!!

We continue to encourage all our employees to be owners of our company through our employee share ownership plan, under which our employees' share purchases by way of payroll deduction are supplemented by contributions by their employer. It is an excellent plan and employees have had great returns over the long term, as shown below:

	Compound Annual Return				
	5 Years	**10 Years**	**15 Years**	**20 Years**	**Since Inception**
Employee Share Ownership Plan	14%	13%	14%	12%	15%

If an employee earning Cdn$40,000 had participated fully in this program since its inception, he or she would have accumulated 3,534 shares of Fairfax worth Cdn$2.1 million at the end of 2018. I am happy to say, we have many employees who have done exactly that!

Last year, 12 years since we began our lawsuit against a number of hedge funds and others, we settled with Morgan Keegan for $20 million and were awarded a jury verdict of $10.9 million against certain other defendants. We are continuing to pursue our claims against the remaining defendants by appealing against previous court decisions. And late in the year, the AMF (the securities regulatory authority in the Province of Quebec) closed its investigation regarding a securities law matter with respect to which we had always maintained that there was no reasonable basis for any legal proceedings.

Our donations program continues to thrive across the communities all over the world where we do business. Our employees are all pitching in and having ''fun'', helping people less fortunate. In 2018, we donated $19 million, for a total of $196 million since we began. In 2017, we donated $20 million to our charitable foundation, which will allow us to help communities all over the world over the long term. Over the 28 years since we began our donations program, our annual donations have gone up approximately 110 times at a compound rate of 18% per year. Here are a few examples of our company donations that I would like to highlight:

The *Northbridge Cares* program at Northbridge focuses on empowering, educating and supporting Canadian youth at risk to reach their potential. Northbridge has connected with six organizations that directly benefit this cause – Pathways to Education, DAREarts, SickKids, Jack.org, United Way and Tree Canada. Together, Northbridge and its employees have donated over $1.5 million and 2,500 volunteer hours to support these impactful organizations.

Odyssey Group continued its good works throughout 2018 by supporting numerous charitable organizations focused on worldwide disaster relief, cancer research and education, as well as health and human services. Its long term giving partners include Americares, Stamford Hospital, Institut Pasteur, The Actuarial Foundation, the St. John's School of Risk Management and the Prostate Cancer Foundation, through which the Kelsey Dickson Team Science Courage Research Award was established to fund extensive research into immunotherapy drugs for Merkel Cell

Carcinoma. As a result of this research, the one-year survival rate for Merkel Cell Carcinoma has increased from 5% to 50%!

During 2018 Brit supported ten charities chosen by its employees, which for 2018 were Watsan, the London Air Ambulance, Kidney Research UK, the Spinal Injuries Association, Parkinsons UK, Muscular Dystrophy UK, Whittington Babies, the Rob Stephenson Trust, Concerns of Police Survivors and the Ronald McDonald House of Charities, and through volunteering activity Brit continued its support for the Soweto Academy, a school in a slum in Nairobi, Kenya. Brit has also become title sponsor for Team BRIT, a team of disabled motor racing drivers, thereby allowing them to launch a racing academy intended to result in disabled drivers competing on a level playing field with able bodied drivers. In addition, Brit promotes staff involvement in the community by granting every employee two additional days of paid leave a year to volunteer their time at a registered local charity.

Allied World supported a new charity this year – Camp Southern Ground, which provides summer camp experiences for children of military families. The company continues to support two NYC-based charities – the N.Y. Police and Fire Widows' & Children's Benefit Fund and the Citizens Committee for New York City, whose mission is to improve the quality of life for low-income New Yorkers via various community projects. Additional donations went to Make-A-Wish Foundation, National Wildlife Federation and Cleveland Clinic as well as St. Baldrick's, a children's cancer research foundation.

Involvement in the community and helping those in need is fundamental to Crum & Forster, which believes in volunteering and making an impact. Donations, as well as other forms of corporate giving, are tailored to support the communities important to its offices and employees. Donations go to hospitals, medical research, education and numerous programs that help women and children, a large portion of which is directed by C&F Cares, its program matching employee donations, and the Charitable Impact Committee, that makes grants to organizations in need, with recipients chosen by employees. In addition, employees turn out in force every year for various fundraising races and events – for example, by running the Verizon 5k to support the Jersey Battered Women's Shelter and preparing food and serving it at the Community Soup Kitchen. Helping young people achieve their educational dreams is also a huge priority for Crum & Forster, whether through funding scholarships or providing internships for college students at many of the company's locations around the country.

In addition to monetary contributions and volunteer days, RiverStone's 2018 community-based philanthropy efforts focused on sustaining charitable programs that drive local impact. In the U.S., RiverStone continued its decades-long relationship with community food banks in Manchester, New Hampshire; Atlanta, Georgia and San Diego, California. RiverStone also supported Veterans Count, an Easter Seals program, and City Year, which supports at-risk students through peer mentoring programs.

RiverStone UK continued its ongoing commitment to worthy causes including mental health care, domestic abuse support, cancer care and research, and Alzheimer's research and awareness. In addition to company-sponsored contributions, RiverStone UK continued its triple-match charitable contribution plan, triple matching almost £12,000 from employee donations for a total of £47,000.

With support from Fairfax, Zenith contributed $500,000 to the relief efforts related to the 2018 wildfires which had devastating impacts on many in communities in which it does business. In addition, a number of Zenith's employees volunteered in the search and relief efforts.

We are looking forward to seeing you at our annual meeting in Toronto at 9:30 a.m. (Eastern time) on Thursday, April 11, 2019 at Roy Thomson Hall. As in the past few years, we will have booths (the number keeps growing each year) which will provide information and allow you the opportunity to interact with the Presidents and senior members of our insurance companies, such as Northbridge, Odyssey Group, Allied World, Crum & Forster, Zenith, Brit, Bryte, RiverStone, Fairfax Asia (which now includes AMAG, Pacific Insurance, Falcon, BIC (our insurance operation in Vietnam) and Fairfirst (our insurance operation in Sri Lanka)), and our partners in the Middle East, the Gulf Insurance Group, along with Colonnade which covers Central and Eastern Europe, our Latin American operations and Digit, our insurance company that is one of the fastest growing online insurance companies in India. For the first time we will have Fairfax Worldwide, which will help provide us the ability to collaborate across the Fairfax group of companies to seamlessly and reliably issue locally admitted insurance policies. For the continually increasing number of pet lovers, Sean Smith and his team at Pethealth will be on hand to help you insure your favorite pet: stop by the Pethealth booth and take advantage of some special offers that Sean has for you. To give you ample time to visit all our booths, the doors to Roy Thomson Hall will open at 8:00 a.m.

The Fairfax Leadership Workshop continues to grow and develop our leaders of tomorrow. We now have about 175 individuals who have attended the program. Many have moved on to senior leadership roles and some are running our companies. You will recognize them by the special pins they wear that even I do not get. You will see them at the various insurance company booths, so stop by and speak to them. In addition, the booths will showcase some of our non-insurance company investments, including some you have known previously, such as William Ashley, Sporting Life, Quess, Golf Town, Boat Rocker Media, AGT, Altius, Peak Achievement, Rouge Media and Blue Ant Media, and some new ones like Davos Brands and Toys "R" Us. Our innovation lab that we started in Waterloo, for which we created our FairVentures company, continues to grow and support innovation at all our companies, so please stop by and visit its booth where Dave Kruis, who runs the FairVentures innovation lab, will be happy to let you know some of the creative solutions that they are working on for our companies.

Like last year, after our meeting we will have Recipe, which now includes The Keg, and McEwan's, led by celebrity chef Mark McEwan, tantalize your taste buds with some of their delicious offerings from their various restaurants. I reiterate that we are now the third largest restaurant company in Canada: you cannot go too far before you come across one of our restaurants in either the fast food or fine dining space, and we are continuing to strategically add to our collection.

Madhavan Menon from Thomas Cook India will again offer you a discount to take your family for a trip of a lifetime to India, so this year he expects to see many of you visit him and sign up. Everyone who has gone has come back with glowing reports and having done it myself, I can vouch for it.

Last year at our shareholders' meeting I told you about the investor trip to India that we were planning on offering our shareholders so that they could see for themselves firsthand the transformation and opportunities that India has to offer. The trip was to give our shareholders a chance to take in some sightseeing and to experience the culture, the people and the cuisine, while exposing them to some of the companies that we have invested in and giving them the chance to interact with the Presidents who run those companies.

We had an overwhelming response and finally had to limit the numbers once we had 45 people sign up. Madhavan Menon, Dipak Deva and his group, of course with help from our Vinodh Loganadhan, did an outstanding job; from all the feedback we received, our shareholders had a memorable trip giving them a deeper understanding of why we think India is going to be an exceptional investment destination in the years to come. Madhavan will be offering this trip again in the future, so stay tuned.

We will also have Hari Marar who runs the Bangalore International Airport on hand and you can hear from him all the exciting things that he has planned in the year ahead, such as adding a second runway and developing the land surrounding the airport. It promises to be one of the best airports in the world. Ajit Isaac from Quess will be there, as will Nirmal Jain from IIFL and Vijay Sankar from Sanmar. Sterling Resorts, NCML, Saurashtra Freight, Fairchem, Privi, Quantum and Catholic Syrian Bank will round out the investments that we have in India, each represented by its CEO. I guarantee that after you speak to them, you will be as excited as I am regarding our investments in India.

Also, stop by Golf Town, where you can improve your putting in a three-hole contest, with the winner getting a prize: you might find many of our Presidents and directors there as well, practising their putting! We also have Bauer, which will showcase some of its latest equipment that makes them the leader in hockey equipment, with ice hockey being the number one sport in Canada. Bauer also outfits many of our Toronto Maple Leafs stars!

Altogether, this is a fantastic opportunity for you to learn more about our companies, as well as to get some discounts for shopping at William Ashley, Toys "R" Us, Sporting Life and Golf Town and for dining at Recipe and The Keg.

As in the past, highlighted will be two excellent programs that we support: The Ben Graham Centre for Value Investing with George Athanassakos at the Ivey School of Business, and the Actuarial Program at the University of Waterloo – both among the best in North America! This year the staff at the University of Waterloo booth will again include co-op students working at our companies. I encourage you to speak to them: I assure you that you will be impressed. Many of you have hired, and will want to continue to hire, a few more at your own companies: the University will have someone on hand to let you know how you can go about doing so. George will also have many of his MBA students on hand, so speak to them: you may want to hire them as well. George runs a Value Investing Conference the day before our meeting. This will be its eighth year and in case you have not attended, please check the website for details *(www.bengrahaminvesting.ca)*. I highly recommend it – it is well worth your time to attend. Many who have attended have mentioned to me that it is one of the best of its kind, and this year's lineup of speakers is outstanding! This year's luncheon keynote speaker, Lawrence Cunningham, will have his book for sale in the foyer and may autograph a copy for you.

Similarly to last year, Fairfax India (of which many of you are also shareholders) will hold its annual meeting at 2:00 p.m. on April 11 at Roy Thomson Hall. Chandran Ratnaswami, Jenn Allen, John Varnell, Sumit Maheshwari and the CEOs of many of Fairfax India's investees will be on hand to answer any questions you may have. As noted above, Fairfax India will also showcase the companies in its portfolio at the booths in the foyer, so stop by and visit them and hear firsthand about all the wonderful things taking place in India and the vast potential that lies ahead there.

Fairfax Africa will hold its second shareholders' meeting on Wednesday, April 10 at 2:30 p.m. at the Ritz Carlton Hotel in Toronto. Fairfax Africa will also have a booth at our meeting, so stop by and say hello to Michael Wilkerson and his partner Neil Holzapfel and learn about the exciting opportunities in Africa.

So as we have done for the last 33 years, we look forward to meeting you, our shareholders, and answering all your questions, as well as getting you to meet our dedicated directors and the fine men and women who work at and run our companies. I personally am inspired each and every time that I meet all of you, and when I hear your stories I want to work twice as hard to make a return for you in the long term.

We are truly blessed to have the loyal shareholders that we have, and I look forward to seeing you at our shareholders' meeting in April.

March 8, 2019

V. P. Watsa

V. Prem Watsa
Chairman and Chief Executive Officer