



Fairfax Financial Holdings Limited

**Annual Financial Supplement
December 31, 2017**

Readers of this Annual Financial Supplement are advised to read it in conjunction with the Annual Report for the year ended December 31, 2017. Additional information relating to the company, including its Annual Information Form and Annual Report, can be found on SEDAR at www.sedar.com. Additional information can also be accessed from the company's website www.fairfax.ca.

Provision for Losses and Loss Adjustment Expenses

Claims provisions are established by the company's primary insurance companies by the case method as claims are initially reported. The provisions are subsequently adjusted as additional information on the estimated ultimate amount of a claim becomes known during the course of its settlement. The company's reinsurance companies rely on initial and subsequent claims reports received from ceding companies to establish estimates of provision for claims. In determining the provision to cover the estimated ultimate liability for all of the company's insurance and reinsurance obligations, a provision is also made for management's calculation of factors affecting the future development of claims including incurred but not reported claims based on the volume of business currently in force, the historical experience on claims and potential changes, such as changes in the underlying book of business, in law and in cost factors.

As time passes, more information about the claims becomes known and provision estimates are consequently adjusted upward or downward. Because of the various elements of estimation encompassed in this process and the time it takes to settle many of the more substantial claims, several years may be required before a meaningful comparison of actual losses to the original estimates of provision for claims can be developed.

The development of the provision for claims is often measured as the difference between estimates of reserves as of the initial year-end and the re-estimated liability at each subsequent year-end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the reserves required for claims still open or claims still unreported. Favourable development (or redundancies) means that subsequent reserve estimates are lower than originally indicated, while unfavourable development (or deficiencies) means that the original reserve estimates were lower than subsequently indicated. The net favourable reserve development in the two tables that follow excludes the loss reserve development of a subsidiary in the year it is acquired. In the second table below, a subsidiary's provision for claims balance at December 31 in the year of acquisition is included in the line 'Provision for claims of companies acquired during the year at December 31', whereas the net favourable reserve development as set out in the Sources of Net Earnings section in Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2017 and the Consolidated Financial Statements for the year ended December 31, 2017 includes the loss reserve development of a subsidiary from its acquisition date.

	Favourable/(Unfavourable)	
	2017⁽¹⁾	2016⁽²⁾
Insurance and Reinsurance		
Northbridge	93.5	112.8
OdysseyRe	288.1	266.5
Crum & Forster	10.2	8.3
Zenith National	76.4	101.0
Brit	9.5	53.5
Fairfax Asia	53.1	50.7
Other	36.3	60.4
Operating companies	<u>567.1</u>	<u>653.2</u>
Runoff	<u>(112.5)</u>	<u>(79.5)</u>
	<u>454.6</u>	<u>573.7</u>

(1) Excludes net unfavourable development of companies acquired in 2017 - Allied World (\$71.9), Fairfax Latam (\$6.7) and Prudential Assurance Malaysia (\$0.8). Also excluded in 2017 is net favourable development on the CTR Life business (\$4.0).

(2) Excludes net favourable development of companies acquired in 2016 - Fairfirst Insurance (\$1.4).

Changes in provision for losses and loss adjustment expenses recorded on the consolidated balance sheets and the related impact on unpaid claims and allocated loss adjustment expenses for the years ended December 31 were as shown in the following table:

Reconciliation of Provision for Claims - Consolidated

	2017	2016	2015	2014	2013
Provision for claims at January 1 - net	16,289.4	16,596.3	14,378.2	14,981.6	15,075.8
Foreign exchange effect of change in provision for claims	463.3	(103.7)	(559.3)	(496.2)	(128.0)
Provision for claims occurring:					
In the current year	6,192.9	5,286.9	4,307.0	4,166.2	4,151.2
In the prior years	(454.6)	(573.7)	(467.5)	(374.4)	(476.0)
Paid on claims during the year related to:					
The current year	(1,691.3)	(1,304.5)	(1,055.3)	(1,076.7)	(1,050.8)
The prior years	(3,876.8)	(3,695.2)	(2,688.4)	(2,822.7)	(3,068.7)
Provision for claims of companies acquired during the year at December 31	5,725.0	83.3	2,681.6	0.4	478.1
Divestiture of subsidiary	(235.5)	—	—	—	—
Provision for claims at December 31 before the undernoted CTR Life ⁽¹⁾	22,412.4	16,289.4	16,596.3	14,378.2	14,981.6
CTR Life ⁽¹⁾	8.7	12.8	14.2	15.2	17.9
Provision for claims at December 31 - net	22,421.1	16,302.2	16,610.5	14,393.4	14,999.5
Reinsurers' share of provision for claims at December 31	6,189.7	3,179.6	3,205.9	3,355.7	4,213.3
Provision for claims at December 31 - gross	28,610.8	19,481.8	19,816.4	17,749.1	19,212.8

(1) *Guaranteed minimum death benefit retrocessional business written by Compagnie Transcontinentale de Réassurance ("CTR Life"), a wholly owned subsidiary of the company that was transferred to Wentworth and placed into run-off in 2002.*

The foreign exchange effect of change in provision for claims principally related to the impact in 2017 of the strengthening of the the Canadian dollar, British pound and the euro relative to the U.S. dollar (principally at OdysseyRe, Northbridge, Brit and Run-off). In general, the company manages foreign currency risk on claims liabilities by investing in financial instruments and other assets denominated in the same currency as the liabilities to which they relate.

The tables that follow show the reserve reconciliation and the reserve development of Northbridge, OdysseyRe, Crum & Forster, Zenith National, Fairfax Asia, Insurance and Reinsurance - Other (comprised of Group Re, Bryte Insurance, Advent, Fairfax Latin America and Fairfax Central and Eastern Europe) and Runoff's net provision for claims. Because business is written in multiple geographic locations and currencies, there will necessarily be some distortions caused by foreign currency fluctuations. Northbridge tables are presented in Canadian dollars and OdysseyRe, Crum & Forster, Zenith National, Fairfax Asia, Insurance and Reinsurance - Other and Runoff tables are presented in U.S. dollars.

The company endeavours to establish adequate provisions for losses and loss adjustment expenses at the original valuation date, with the objective of achieving net favourable prior period reserve development at subsequent valuation dates. The reserves will always be subject to upward or downward development in the future and future development could be significantly different from the past due to many unknown factors.

The tables that follow show calendar year claims reserve development; in any year when there is a redundancy or reserve strengthening related to a prior year, the amount of the change in favourable (unfavourable) development reflected for that prior year is also reflected in the favourable (unfavourable) development for each year thereafter.

The accident year claims reserve development tables that follow for Northbridge, OdysseyRe, Crum & Forster and Zenith National show the development of the provision for losses and loss adjustment expenses by accident year commencing in 2007, with the re-estimated amount of each accident year's reserve development shown in subsequent years up to December 31, 2017. All claims are attributed back to the year of loss, regardless of when they were reported or adjusted. For example, accident year 2009 represents all claims with a date of loss between January 1, 2009 and December 31, 2009. The initial reserves set up at the end of the accident year are re-evaluated over time to determine their redundancy or deficiency based on actual payments in full or partial settlements of claims, plus current estimates of the reserves for claims still open or claims still unreported.

Northbridge

The following table shows for Northbridge the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. The favourable or unfavourable development from prior years has been credited or charged to each year's earnings.

Reconciliation of Provision for Claims - Northbridge

	2017	2016	2015	2014	2013
	<i>(In Cdn\$ except as indicated)</i>				
Provision for claims and LAE at January 1	1,936.1	1,950.8	1,982.4	2,016.9	2,077.2
Transfer to U.S. Runoff ⁽¹⁾	—	—	—	—	(3.6)
Incurred losses on claims and LAE					
Provision for current accident year's claims	985.8	861.3	754.6	751.7	789.8
Foreign exchange effect on claims	(7.9)	(4.4)	20.9	8.6	7.1
Decrease in provision for prior accident years' claims	(121.3)	(149.2)	(119.9)	(121.7)	(158.6)
Total incurred losses on claims and LAE	856.6	707.7	655.6	638.6	638.3
Payments for losses on claims and LAE					
Payments on current accident year's claims	(433.0)	(360.4)	(315.5)	(304.7)	(300.9)
Payments on prior accident years' claims	(402.9)	(362.0)	(371.7)	(368.4)	(394.1)
Total payments for losses on claims and LAE	(835.9)	(722.4)	(687.2)	(673.1)	(695.0)
Provision for claims and LAE at December 31	1,956.8	1,936.1	1,950.8	1,982.4	2,016.9
Exchange rate	0.7981	0.7457	0.7199	0.8634	0.9412
Provision for claims and LAE at December 31 converted to U.S. dollars	1,561.8	1,443.7	1,404.4	1,711.6	1,898.3

(1) Commonwealth Insurance Company of America was transferred to TIG Insurance, a wholly owned insurance subsidiary of U.S. Runoff effective January 1, 2013.

The following table shows for Northbridge the original provision for losses and LAE at each calendar year-end commencing in 2007, the subsequent cumulative payments made on account of these years and the subsequent re-estimated amount of these reserves.

Northbridge's Calendar Year Claims Reserve Development

As at December 31	Calendar year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In Cdn\$)										
Provision for claims including LAE	1,696.0	1,931.8	1,973.3	1,994.3	2,030.7	2,077.2	2,016.9	1,982.4	1,950.8	1,936.1	1,956.8
Cumulative payments as of:											
One year later	383.0	483.0	472.7	413.5	383.2	397.7	368.4	371.7	362.0	402.9	
Two years later	656.0	796.8	759.9	670.7	655.1	633.8	600.8	600.4	581.4		
Three years later	887.0	1,027.6	965.9	894.4	844.1	821.4	773.9	770.4			
Four years later	1,056.8	1,183.1	1,132.6	1,040.9	990.8	946.9	901.5				
Five years later	1,156.2	1,304.8	1,246.4	1,147.6	1,083.3	1,035.6					
Six years later	1,229.7	1,383.9	1,327.2	1,210.3	1,146.8						
Seven years later	1,286.0	1,438.4	1,371.8	1,252.6							
Eight years later	1,318.6	1,474.2	1,404.0								
Nine years later	1,342.3	1,499.8									
Ten years later	1,359.9										
Reserves re-estimated as of:											
One year later	1,674.0	1,883.8	1,965.8	1,957.1	1,967.1	1,925.1	1,903.0	1,881.2	1,796.8	1,807.8	
Two years later	1,635.1	1,901.2	1,962.0	1,914.4	1,861.7	1,822.3	1,794.6	1,724.8	1,669.9		
Three years later	1,635.1	1,901.5	1,917.7	1,810.2	1,776.7	1,728.2	1,651.3	1,604.2			
Four years later	1,634.3	1,865.8	1,827.0	1,742.8	1,701.1	1,619.0	1,543.7				
Five years later	1,612.1	1,794.1	1,780.7	1,692.0	1,627.7	1,529.8					
Six years later	1,563.5	1,779.6	1,754.7	1,639.9	1,556.0						
Seven years later	1,568.4	1,771.4	1,716.2	1,584.2							
Eight years later	1,578.6	1,753.2	1,679.2								
Nine years later	1,564.4	1,730.3									
Ten years later	1,553.0										
Favourable (unfavourable) development	143.0	201.5	294.1	410.1	474.7	547.4	473.2	378.2	280.9	128.3	

The net favourable prior year reserve development in 2017 of Cdn\$128.3 reflected in the "Northbridge's Calendar Year Claims Reserve Development" table preceding this paragraph was comprised of net favourable reserve development of Cdn\$121.3 and net favourable foreign currency movements of Cdn\$7.0 related to the translation of U.S. dollar-denominated claims reserves (principally from the technical risks and transportation segments). The net favourable prior year reserve development in 2017 of Cdn\$128.3 reflected net favourable emergence on commercial liability, commercial automobile and personal automobile claims reserves, primarily at Northbridge General, specifically in respect of accident years 2006 through 2016. The strengthening of the Canadian dollar relative to the U.S. dollar reduced Northbridge's claims reserves in 2017 (expressed in Canadian dollars) by Cdn\$7.0 related to prior years' reserves and Cdn\$0.9 related to the current year's reserves, representing a total decrease of Cdn\$7.9.

The following table is derived from the "Northbridge's Calendar Year Claims Reserve Development" table above. It summarizes the effect of re-estimating prior year loss reserves by accident year.

Northbridge's Accident Year Claims Reserve Development

As at December 31	Accident year										
	2007 & Prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In Cdn\$)										
End of first year	1,696.1	640.8	572.4	501.2	487.1	493.3	489.6	447.8	441.4	501.3	551.9
One year later	1,674.1	631.7	547.6	467.9	466.2	446.5	478.4	454.9	443.7	499.9	
Two years later	1,635.2	649.1	543.4	469.4	465.0	428.8	464.1	441.9	437.4		
Three years later	1,635.1	650.3	534.9	455.9	447.4	410.3	429.9	428.8			
Four years later	1,634.3	636.8	515.9	434.8	422.6	374.5	411.6				
Five years later	1,612.1	613.7	484.0	410.0	401.3	357.0					
Six years later	1,563.5	594.3	466.3	396.5	385.3						
Seven years later	1,568.4	575.9	446.0	377.8							
Eight years later	1,578.6	571.8	431.8								
Nine years later	1,564.4	560.4									
Ten years later	1,553.0										
Favourable (unfavourable) development	8.4%	12.5%	24.6%	24.6%	20.9%	27.6%	15.9%	4.2%	0.9%	0.3%	

Accident years 2014 to 2016 experienced net favourable development from personal automobile lines. Accident years 2013 and prior experienced net favourable emergence across most lines of business and operating segments.

OdysseyRe

The following table shows for OdysseyRe the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. The favourable or unfavourable development from prior years has been credited or charged to each year's earnings.

Reconciliation of Provision for Claims - OdysseyRe

	2017	2016	2015	2014	2013
Provision for claims and LAE at January 1	4,238.3	4,319.6	4,589.1	4,812.8	4,842.7
Incurred losses on claims and LAE					
Provision for current accident year's claims	1,826.6	1,443.3	1,421.0	1,473.1	1,524.3
Foreign exchange effect on claims	168.2	(27.6)	(141.5)	(186.2)	9.9
Decrease in provision for prior accident years' claims	(288.1)	(266.5)	(233.3)	(189.1)	(214.7)
Total incurred losses on claims and LAE	1,706.7	1,149.2	1,046.2	1,097.8	1,319.5
Payments for losses on claims and LAE					
Payments on current accident year's claims	(375.3)	(269.6)	(277.6)	(311.4)	(283.3)
Payments on prior accident years' claims	(914.8)	(960.9)	(1,038.1)	(1,010.1)	(1,066.1)
Total payments for losses on claims and LAE	(1,290.1)	(1,230.5)	(1,315.7)	(1,321.5)	(1,349.4)
Provision for claims and LAE at December 31	4,654.9	4,238.3	4,319.6	4,589.1	4,812.8

The following table shows for OdysseyRe the original provision for losses and LAE at each calendar year-end commencing in 2007, the subsequent cumulative payments made on account of these years and the subsequent re-estimated amount of these reserves.

OdysseyRe's Calendar Year Claims Reserve Development

As at December 31	Calendar year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Provision for claims including LAE	4,475.6	4,560.3	4,666.3	4,857.2	4,789.5	4,842.7	4,812.8	4,589.1	4,319.6	4,238.3	4,654.9
Cumulative payments as of:											
One year later	1,016.0	1,024.2	988.2	1,403.0	1,132.4	1,066.1	1,010.1	1,038.1	960.9	914.8	
Two years later	1,646.5	1,676.1	2,006.8	2,053.7	1,760.2	1,642.9	1,601.7	1,625.2	1,454.8		
Three years later	2,123.5	2,567.1	2,484.3	2,482.0	2,152.9	2,040.8	2,004.8	1,960.1			
Four years later	2,887.8	2,942.5	2,823.6	2,766.9	2,437.9	2,330.3	2,237.2				
Five years later	3,164.1	3,206.4	3,046.0	2,971.7	2,649.5	2,488.9					
Six years later	3,360.3	3,376.6	3,194.9	3,136.1	2,758.5						
Seven years later	3,488.6	3,486.9	3,327.8	3,209.2							
Eight years later	3,566.8	3,596.1	3,372.3								
Nine years later	3,664.4	3,621.2									
Ten years later	3,677.6										
Reserves re-estimated as of:											
One year later	4,465.5	4,549.0	4,662.7	4,805.8	4,637.5	4,628.0	4,623.7	4,355.8	4,053.1	3,950.2	
Two years later	4,499.0	4,567.7	4,650.4	4,726.6	4,500.3	4,439.1	4,399.4	4,118.9	3,783.6		
Three years later	4,537.8	4,561.3	4,606.6	4,674.1	4,357.3	4,262.3	4,212.2	3,905.2			
Four years later	4,534.5	4,548.7	4,591.2	4,566.5	4,207.7	4,138.7	4,025.7				
Five years later	4,522.9	4,535.0	4,489.4	4,437.3	4,127.3	4,002.1					
Six years later	4,516.0	4,460.5	4,398.4	4,377.0	4,030.7						
Seven years later	4,464.0	4,404.1	4,353.6	4,312.9							
Eight years later	4,426.8	4,372.2	4,309.0								
Nine years later	4,404.5	4,340.8									
Ten years later	4,392.2										
Favourable (unfavourable) development	83.4	219.5	357.3	544.3	758.8	840.6	787.1	683.9	536.0	288.1	

OdysseyRe experienced net favourable prior year reserve development of \$288.1 in 2017, attributable to net favourable emergence on its non-U.S. reinsurance (\$135.3), U.S. reinsurance (\$75.8), U.S. insurance (\$56.1) and non-U.S. insurance (\$20.9) segments primarily related to both property and casualty claims reserves.

The following table is derived from the “OdysseyRe's Calendar Year Claims Reserve Development” table above. It summarizes the effect of re-estimating prior year loss reserves by accident year.

OdysseyRe's Accident Year Claims Reserve Development

As at December 31	Accident Year										
	2007 & Prior	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
End of first year	4,475.6	1,110.8	1,141.5	1,182.7	1,386.7	1,337.6	1,251.0	975.5	1,001.9	1,146.1	1,619.5
One year later	4,465.5	1,066.1	1,119.2	1,143.6	1,313.9	1,260.1	1,250.7	966.4	972.3	1,127.5	
Two years later	4,498.9	1,045.9	1,113.3	1,108.2	1,229.2	1,214.2	1,203.2	916.8	916.5		
Three years later	4,537.8	1,042.8	1,082.1	1,071.1	1,193.8	1,187.0	1,139.5	889.6			
Four years later	4,534.5	1,041.8	1,080.3	1,065.4	1,173.4	1,143.9	1,089.6				
Five years later	4,522.9	1,035.0	1,053.1	1,027.1	1,153.3	1,103.9					
Six years later	4,516.0	1,012.5	1,018.5	1,011.6	1,120.8						
Seven years later	4,464.0	993.3	1,005.5	992.1							
Eight years later	4,426.8	983.7	992.4								
Nine years later	4,404.5	964.6									
Ten years later	4,392.2										
Favourable (unfavourable) development	1.9%	13.2%	13.1%	16.1%	19.2%	17.5%	12.9%	8.8%	8.5%	1.6%	

Improvements in competitive conditions and the economic environment beginning in 2001 resulted in a continued downward trend on re-estimated reserves for accident years 2007 through 2011. Initial loss estimates for those accident years did not fully anticipate the improvements in market and economic conditions achieved since the early 2000s. Accident years 2011 through 2016 benefited from net favourable emergence on catastrophe and other short tail lines claims reserves.

Crum & Forster

The following table shows for the Crum & Forster operations the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. First Mercury was included in Crum & Forster beginning in 2011. For the years prior to 2006, Crum & Forster included Fairmont (the business of which was assumed by Crum & Forster effective January 1, 2006 subsequent to the transfer of the Fairmont entities to U.S. Runoff). The favourable or unfavourable development from prior years has been credited or charged to each year's earnings.

Reconciliation of Provision for Claims - Crum & Forster

	2017	2016	2015	2014	2013
Provision for claims and LAE at January 1	2,539.5	2,438.2	2,005.1	1,941.8	1,933.1
Incurring losses on claims and LAE					
Provision for current accident year's claims	1,209.7	1,136.1	975.7	874.0	884.0
Increase (decrease) in provision for prior accident years' claims	(10.2)	(8.3)	—	—	8.3
Total incurred losses on claims and LAE	1,199.5	1,127.8	975.7	874.0	892.3
Payments for losses on claims and LAE					
Payments on current accident year's claims	(344.1)	(294.7)	(231.3)	(218.7)	(196.6)
Payments on prior accident years' claims	(806.1)	(731.8)	(311.3)	(592.0)	(618.4)
Total payments for losses on claims and LAE	(1,150.2)	(1,026.5)	(542.6)	(810.7)	(815.0)
Provision for claims and LAE at December 31 before the undernoted	2,588.8	2,539.5	2,438.2	2,005.1	2,010.4
Transfers to Runoff ⁽¹⁾	—	—	—	—	(68.6)
Provision for claims and LAE at December 31	2,588.8	2,539.5	2,438.2	2,005.1	1,941.8

(1) U.S. Runoff assumed the liability for Crum & Forster's discontinued New York construction contractors' business in 2013.

The following table shows for Crum & Forster the original provision for losses and LAE at each calendar year-end commencing in 2007, the subsequent cumulative payments made on account of these years and the subsequent re-estimated amounts of these reserves.

Crum & Forster Calendar Year Claims Reserve Development

As at December 31	Calendar year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Provision for claims including LAE	1,668.9	2,038.3	1,789.4	1,624.2	1,742.1	1,933.1	1,941.8	2,005.1	2,438.2	2,539.5	2,588.8
Cumulative payments as of:											
One year later	264.1	632.9	565.4	838.2	570.1	681.5	592.0	311.3	731.8	806.1	
Two years later	649.0	1,048.7	1,258.8	1,129.6	1,037.9	1,108.2	713.8	807.8	1,247.8		
Three years later	971.2	1,670.9	1,492.4	1,323.7	1,336.8	1,109.2	1,073.0	1,190.3			
Four years later	1,524.3	1,847.5	1,628.0	1,447.0	1,228.6	1,365.2	1,347.2				
Five years later	1,647.2	1,936.6	1,715.3	1,221.0	1,400.4	1,560.2					
Six years later	1,706.0	2,007.0	1,466.3	1,308.2	1,541.5						
Seven years later	1,760.2	1,739.0	1,533.8	1,383.8							
Eight years later	1,480.0	1,794.1	1,592.2								
Nine years later	1,525.0	1,843.9									
Ten years later	1,568.2										
Reserves re-estimated as of:											
One year later	1,727.9	2,013.3	1,800.7	1,661.5	1,796.0	1,941.4	1,941.8	2,005.1	2,430.0	2,529.3	
Two years later	1,692.3	2,015.5	1,833.4	1,662.8	1,830.5	1,990.5	1,930.7	1,998.4	2,415.2		
Three years later	1,711.8	2,063.1	1,836.7	1,639.1	1,876.4	1,996.6	1,950.5	1,996.1			
Four years later	1,754.7	2,062.4	1,819.3	1,630.0	1,884.4	2,027.7	1,946.6				
Five years later	1,755.5	2,041.5	1,812.0	1,637.4	1,916.6	2,036.6					
Six years later	1,735.0	2,036.6	1,821.3	1,645.0	1,923.3						
Seven years later	1,737.1	2,046.0	1,825.7	1,653.8							
Eight years later	1,745.7	2,050.7	1,829.5								
Nine years later	1,751.6	2,053.9									
Ten years later	1,752.4										
Favourable (unfavourable) development	(83.5)	(15.6)	(40.1)	(29.6)	(181.2)	(103.5)	(4.8)	9.0	23.0	10.2	

Crum & Forster experienced net favourable prior year development of \$10.2 in 2017 principally related to excess and surplus lines loss reserves, partially offset by net adverse development on commercial transportation loss reserves.

The following table is derived from the “Crum & Forster Calendar Year Claims Reserve Development” table above. It summarizes the effect of re-estimating prior year loss reserves by accident year.

Crum & Forster Accident Year Claims Reserve Development

As at December 31	2007 & Prior	Accident year									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
End of first year	1,759.1	642.1	514.9	497.9	546.1	707.1	682.0	655.3	744.3	841.4	865.6
One year later	1,818.1	652.7	524.0	502.4	577.7	681.0	632.9	666.4	742.9	845.9	
Two years later	1,782.5	635.4	509.2	520.1	602.0	684.2	615.6	639.8	730.4		
Three years later	1,802.1	640.1	525.8	540.5	634.7	682.2	604.3	641.4			
Four years later	1,844.9	640.2	534.4	544.3	623.5	681.2	591.5				
Five years later	1,832.8	639.3	538.4	542.6	623.7	683.4					
Six years later	1,814.9	634.1	539.1	551.0	618.0						
Seven years later	1,825.4	638.4	542.8	556.4							
Eight years later	1,841.5	641.2	544.1								
Nine years later	1,858.4	644.0									
Ten years later	1,861.2										
Favourable (unfavourable) development	(5.8)%	(0.3)%	(5.7)%	(11.7)%	(13.2)%	3.4%	13.3%	2.1%	1.9%	(0.5)%	

Accident year 2016 experienced net unfavourable emergence principally related to group accident and health and commercial auto liability. Accident years 2012 through 2015 experienced net favourable emergence on general liability, workers’ compensation and group accident and health claims reserves. Accident years 2008 through 2011 experienced net adverse emergence principally related to unfavourable trends on workers’ compensation claims reserves and general liability claims reserves at First Mercury.

Accident years 2007 and prior experienced net adverse emergence principally related to the effects of increased frequency and severity on casualty claims reserves and included strengthening of asbestos, environmental and latent claims reserves through December 2011.

Zenith National

The following table shows for Zenith National the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. The favourable or unfavourable development from prior years has been credited or charged to each year's earnings.

Reconciliation of Provision for Claims - Zenith National

	2017	2016	2015	2014	2013
Provision for claims and LAE at January 1	1,153.1	1,181.6	1,160.7	1,166.2	1,125.2
Incurred losses on claims and LAE					
Provision for current accident year's claims	478.0	459.3	449.0	449.0	455.3
Increase (decrease) in provision for prior accident years' claims	(76.4)	(101.0)	(89.6)	(72.6)	(36.0)
Total incurred losses on claims and LAE	401.6	358.3	359.4	376.4	419.3
Payments for losses on claims and LAE					
Payments on current accident year's claims	(138.1)	(125.8)	(113.8)	(112.3)	(105.5)
Payments on prior accident years' claims	(269.5)	(261.0)	(224.7)	(269.6)	(272.8)
Total payments for losses on claims and LAE	(407.6)	(386.8)	(338.5)	(381.9)	(378.3)
Provision for claims and LAE at December 31	1,147.1	1,153.1	1,181.6	1,160.7	1,166.2

The following table shows for Zenith National the original provision for losses and LAE at each calendar year-end commencing in 2010, the subsequent cumulative payments made on account of these years and the subsequent re-estimated amounts of these reserves.

Zenith National Calendar Year Claims Reserve Development

As at December 31	Calendar year							
	2010	2011	2012	2013	2014	2015	2016	2017
Provision for claims including LAE	964.3	1,034.4	1,125.2	1,166.2	1,160.7	1,181.6	1,153.1	1,147.1
Cumulative payments as of:								
One year later	246.3	261.1	272.8	269.6	224.7	261.0	269.5	
Two years later	407.3	426.7	431.3	389.6	372.6	413.4		
Three years later	516.9	527.9	492.8	483.7	466.5			
Four years later	588.1	560.3	554.4	544.4				
Five years later	604.6	602.9	595.9					
Six years later	637.3	632.8						
Seven years later	659.4							
Reserves re-estimated as of:								
One year later	988.8	1,032.9	1,089.2	1,093.6	1,071.1	1,080.6	1,076.7	
Two years later	1,001.8	1,037.4	1,051.9	1,039.2	1,001.7	1,030.4		
Three years later	1,006.1	1,018.0	1,013.9	992.1	966.2			
Four years later	996.4	990.2	978.2	967.6				
Five years later	975.3	964.2	960.8					
Six years later	954.8	949.1						
Seven years later	940.9							
Favourable (unfavourable) development	23.4	85.3	164.4	198.6	194.5	151.2	76.4	

Zenith National experienced net favourable prior year development of \$76.4 in 2017 primarily related to accident year 2013 to 2016 workers' compensation claims reserves.

The following table is derived from the “Zenith National Calendar Year Claims Reserve Development” table above. It summarizes the effect of re-estimating prior year loss reserves by accident year.

Zenith National Accident Year Claims Reserve Development

As at December 31	Accident year							
	2010 & Prior	2011	2012	2013	2014	2015	2016	2017
End of first year	964.3	291.9	353.4	349.7	336.8	335.2	333.5	339.7
One year later	988.8	277.4	312.9	314.4	301.6	303.5	307.4	
Two years later	1,001.8	277.6	295.0	298.0	279.2	288.8		
Three years later	1,006.1	267.8	284.8	286.7	268.2			
Four years later	996.4	261.2	275.0	279.6				
Five years later	975.3	255.7	272.9					
Six years later	954.8	254.4						
Seven years later	940.9							
Favourable (unfavourable) development	2.4%	12.8%	22.8%	20.0%	20.4%	13.8%	7.8%	

All accident years have experienced net favourable emergence principally related to favourable trends on workers’ compensation claims reserves.

Fairfax Asia

The following table shows for Fairfax Asia the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. The favourable or unfavourable development from prior years has been credited or charged to each year’s earnings.

Reconciliation of Provision for Claims - Fairfax Asia

	2017	2016	2015	2014	2013
Provision for claims and LAE at January 1	395.0	396.3	372.6	360.0	318.8
Incurred losses on claims and LAE					
Provision for current accident year's claims	263.5	241.0	207.3	221.3	205.7
Foreign exchange effect on claims	23.7	(6.4)	(24.2)	(15.1)	(10.1)
Decrease in provision for prior accident years' claims	(53.1)	(50.7)	(35.5)	(20.6)	(16.7)
Total incurred losses on claims and LAE	234.1	183.9	147.6	185.6	178.9
Payments for losses on claims and LAE					
Payments on current accident year's claims	(115.7)	(93.2)	(59.7)	(63.1)	(49.4)
Payments on prior accident years' claims	(103.6)	(107.9)	(96.1)	(110.3)	(88.3)
Total payments for losses on claims and LAE	(219.3)	(201.1)	(155.8)	(173.4)	(137.7)
Insurance subsidiaries acquired during the year ⁽¹⁾	1.5	15.9	31.9	0.4	—
Divestiture of subsidiary ⁽²⁾	(235.5)	—	—	—	—
Provision for claims and LAE at December 31	175.8	395.0	396.3	372.6	360.0

(1) Prudential Assurance Malaysia in 2017, AMAG and Fairfirst in 2016, MCIS Insurance Berhad and Union Assurance General Limited in 2015 and Fairfax Indonesia in 2014.

(2) First Capital in 2017

The following table shows for Fairfax Asia the original provision for losses and LAE at each calendar year-end commencing in 2007, the subsequent cumulative payments made on account of these years and the subsequent re-estimated amount of these reserves. The following Asian Insurance subsidiaries' reserves are included from the respective years in which such subsidiaries were acquired:

	Year acquired
Falcon Insurance	1998
Winterthur (Asia) (now part of First Capital Insurance)	2001
First Capital Insurance (sold in 2017)	2004
Pacific Insurance	2011
Fairfax Indonesia (now part of AMAG)	2014
Union Assurance (now part of Fairfirst Insurance)	2015
MCIS (now part of Pacific Insurance)	2015
AMAG	2016
Fairfirst Insurance	2016
Prudential Assurance Malaysia (now part of Pacific Insurance)	2017

Fairfax Asia's Calendar Year Claims Reserve Development

As at December 31	Calendar year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Provision for claims including LAE	91.0	113.2	138.7	203.0	266.0	318.8	360.0	372.6	396.3	395.0	175.8
Cumulative payments as of:											
One year later	30.9	41.0	44.6	62.2	82.1	88.3	110.3	96.1	107.9	103.6	
Two years later	49.8	56.5	65.2	92.4	120.0	135.3	157.7	132.0	141.4		
Three years later	55.8	62.8	75.7	106.3	142.9	164.7	178.6	147.6			
Four years later	58.0	66.2	80.5	115.7	160.7	176.8	184.3				
Five years later	59.1	67.7	83.2	123.0	166.4	176.7					
Six years later	59.9	68.5	86.3	124.9	162.8						
Seven years later	59.9	68.8	87.2	119.2							
Eight years later	59.9	69.2	80.5								
Nine years later	59.8	62.2									
Ten years later	52.6										
Reserves re-estimated as of:											
One year later	94.9	106.0	136.3	185.0	260.2	293.8	330.3	318.4	345.5	361.5	
Two years later	84.7	100.2	124.5	177.9	240.6	275.5	287.9	274.9	300.8		
Three years later	79.5	93.2	118.4	165.8	226.8	248.5	258.5	241.2			
Four years later	75.4	89.2	110.1	161.7	212.2	230.6	235.3				
Five years later	71.8	83.9	108.0	153.8	200.4	216.9					
Six years later	69.3	82.7	104.0	146.8	192.7						
Seven years later	68.5	80.5	99.9	141.2							
Eight years later	67.4	77.5	95.3								
Nine years later	65.1	73.6									
Ten years later	61.6										
Favourable (unfavourable) development	29.4	39.6	43.4	61.8	73.3	101.9	124.7	131.4	95.5	33.5	

The net favourable prior year reserve development in 2017 of \$33.5 reflected in the "Fairfax Asia's Calendar Year Claims Reserve Development" table preceding this paragraph was comprised of net favourable reserve development of \$53.1, partially offset by net unfavourable foreign currency movements of \$19.6 related to the translation of non-U.S. dollar-denominated claims reserves. The net favourable prior year reserve development in 2017 of \$53.1 reflected net favourable emergence on commercial automobile, health, marine and property loss reserves. Principally as a result of the strengthening of the Singapore dollar relative to the U.S. dollar in 2017, Fairfax Asia's claims reserves (expressed in U.S. dollars) increased by \$19.6 related to prior years' reserves and \$4.1 related to the current year's reserves representing a total increase of \$23.7.

Insurance and Reinsurance - Other

The following table shows for Insurance and Reinsurance - Other the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. The favourable or unfavourable development from prior years has been credited or charged to each year's earnings.

Reconciliation of Provision for Claims - Insurance and Reinsurance - Other

	2017	2016	2015	2014	2013
Provision for claims and LAE at January 1	828.4	796.9	877.1	966.6	1,046.5
Incurred losses on claims and LAE					
Provision for current accident year's claims	524.4	289.7	297.0	276.0	297.6
Foreign exchange effect on claims	49.5	(0.5)	(72.5)	(58.7)	(20.8)
Decrease in provision for prior accident years' claims	(36.3)	(60.4)	(68.3)	(53.2)	(26.9)
Total incurred losses on claims and LAE	537.6	228.8	156.2	164.1	249.9
Payments for losses on claims and LAE					
Payments on current accident year's claims	(217.1)	(77.0)	(63.1)	(49.1)	(67.5)
Payments on prior accident years' claims	(230.6)	(187.7)	(174.8)	(204.5)	(262.3)
Total payments for losses on claims and LAE	(447.7)	(264.7)	(237.9)	(253.6)	(329.8)
Insurance subsidiaries acquired during the year ⁽¹⁾	142.5	67.4	1.5	—	—
Provision for claims and LAE at December 31 excluding CTR Life	1,060.8	828.4	796.9	877.1	966.6
CTR Life ⁽²⁾	8.7	12.8	14.2	15.2	17.9
Provision for claims and LAE at December 31	1,069.5	841.2	811.1	892.3	984.5

(1) *Fairfax Latam and an increase in Fairfax Brasil's motor pool share in 2017, Bryte Insurance and an increase in Fairfax Brasil's motor pool share in 2016, Colonnade Ukraine in 2015.*

(2) *Guaranteed minimum death benefit retrocessional business written by Compagnie Transcontinentale de Réassurance ("CTR Life"), a wholly owned subsidiary of the company that was transferred to Wentworth and placed into run-off in 2002.*

The following table shows for the Insurance and Reinsurance - Other reporting segment (comprised only of Group Re prior to 2008) the original provision for losses and LAE at each calendar year-end commencing in 2007, the subsequent cumulative payments made on account of these years and the subsequent re-estimated amount of these reserves.

Insurance and Reinsurance - Other's Calendar Year Claims Reserve Development⁽¹⁾

As at December 31	Calendar Year										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Provisions for claims including LAE	456.5	742.0	1,004.1	1,024.4	995.5	1,046.5	966.6	877.1	796.9	828.4	1,060.8
Cumulative payments as of:											
One year later	93.0	197.7	240.5	278.8	261.7	262.3	204.5	174.8	187.7	230.6	
Two years later	160.5	262.5	421.8	395.6	437.9	403.6	322.6	274.5	293.8		
Three years later	238.7	401.0	503.7	507.4	535.8	481.3	388.4	344.6			
Four years later	304.3	461.2	578.5	570.1	595.0	529.5	444.2				
Five years later	331.0	517.7	624.9	609.7	630.7	572.5					
Six years later	362.5	546.1	650.3	634.4	665.1						
Seven years later	377.7	560.6	668.9	665.6							
Eight years later	387.7	571.8	688.9								
Nine years later	394.8	589.8									
Ten years later	404.3										
Reserves re-estimated as of:											
One year later	383.8	833.5	989.2	966.2	1,016.9	996.6	866.8	745.8	737.7	828.5	
Two years later	454.1	833.0	939.8	993.1	986.9	915.5	772.8	701.2	734.0		
Three years later	484.2	787.6	959.0	966.9	941.9	848.4	736.9	706.2			
Four years later	477.6	801.9	946.5	929.8	886.0	820.5	748.9				
Five years later	492.8	785.9	915.0	891.1	860.4	837.1					
Six years later	473.3	759.5	882.8	876.9	873.4						
Seven years later	466.4	736.5	876.6	879.4							
Eight years later	453.3	730.0	877.6								
Nine years later	453.5	724.1									
Ten years later	449.7										
Favourable (unfavourable) development	6.8	17.9	126.5	145.0	122.1	209.4	217.7	170.9	62.9	(0.1)	

(1) The table above has been restated to reflect the transfer of nSpire Re's Group Re business to Runoff effective January 1, 2008.

The net unfavourable prior year reserve development in 2017 of \$0.1 reflected in the "Insurance and Reinsurance - Other's Calendar Year Claims Reserve Development" table preceding this paragraph was comprised of net favourable reserve development of \$36.3, more than offset by net unfavourable foreign currency movements of \$36.4 related to the translation of non-U.S. dollar-denominated claims reserves (principally the translation of the Polish zloty-denominated claims reserves at Polish Re). The net favourable prior year reserve development in 2017 of \$36.3 was principally comprised of net favourable emergence at Group Re (property and liability loss reserves), partially offset by net adverse development at Fairfax CEE (liability loss reserves at Polish Re). The claims reserves of Insurance and Reinsurance - Other (expressed in U.S. dollars) increased by \$49.5 (principally as a result of the strengthening of the Polish Zloty relative to the U.S. dollar) and was comprised of \$36.4 unfavourable impact related to prior years' reserves and \$13.1 unfavourable impact related to the current year's reserves.

Runoff

The following table shows for the Runoff operations the provision for losses and LAE as originally and as currently estimated for the years 2013 through 2017. The favourable or unfavourable development from prior years has been credited or charged to each year's earnings.

Reconciliation of Provision for Claims - Runoff

	2017	2016	2015	2014	2013
Provision for claims and LAE at January 1	3,026.3	3,474.1	3,693.8	3,843.9	3,744.6
Transfers to Runoff at January 1 ⁽¹⁾	—	—	—	—	3.6
Incurred losses on claims and LAE					
Provision for current accident year's claims	12.9	156.7	366.1	192.1	17.4
Foreign exchange effect on claims	52.0	(45.1)	(62.9)	(75.5)	7.3
Increase (decrease) in provision for prior accident years' claims	112.5	79.5	53.1	71.3	(36.0)
Total incurred losses on claims and LAE	177.4	191.1	356.3	187.9	(11.3)
Payments for losses on claims and LAE					
Payments on current accident year's claims	—	(10.8)	(26.1)	(35.4)	(61.5)
Payments on prior accident years' claims	(568.2)	(628.1)	(552.4)	(302.6)	(378.2)
Total payments for losses on claims and LAE	(568.2)	(638.9)	(578.5)	(338.0)	(439.7)
Provision for claims and LAE at December 31 before the undernoted	2,635.5	3,026.3	3,471.6	3,693.8	3,297.2
Transferred from Crum & Forster at December 31 ⁽²⁾	—	—	—	—	68.6
Runoff subsidiaries acquired during the year ⁽³⁾	—	—	2.5	—	478.1
Provision for claims and LAE at December 31	2,635.5	3,026.3	3,474.1	3,693.8	3,843.9

(1) Transfer to Runoff of Northbridge's Commonwealth Insurance Company of America business in 2013.

(2) Runoff assumed liability for Crum & Forster's discontinued New York construction contractors' business in 2013.

(3) Comprised of two Canadian branches of AXA (which were already in runoff) in 2015, American Safety and Eagle Star in 2013.

Runoff experienced net unfavourable development of prior years' reserves in 2017 of \$112.5, primarily reflecting net unfavourable prior year reserve development of \$145.9 at U.S. Runoff, partially offset by net favourable prior year reserve development of \$33.4 at European Runoff. Net unfavourable prior year reserve development of \$145.9 at U.S. Runoff was principally comprised of \$182.5 related to APH exposures assumed primarily from Crum & Forster and in the legacy portfolio of Clearwater Insurance, partially offset by \$39.0 of net favourable prior year reserve development at TIG Insurance related to workers' compensation loss reserves. Net favourable prior year reserve development of \$33.4 at European Run-off principally related to the World Trade Center aviation market settlement.