To Our Shareholders:

We had an excellent year in 2019. We earned a record $2.0 billion* and our book value per share increased by 14.8% (adjusted for the $10 per share dividend) to $486 per share. Since we began in 1985, our book value per share has compounded at 19.3% (including dividends) annually, while our common stock price has compounded at 17.8% (including dividends) annually. And our insurance companies are in great shape and growing!

Here's how our insurance companies performed in 2019:

	Underwriting Profit (Loss)	Combined Ratio	Growth in Gross Premiums 2019 vs 2018	Growth in Gross Premiums Fourth quarter 2019 vs 2018
Northbridge	47	96%	15%	19%
Odyssey Group	90	97%	15%	25%
Crum & Forster	52	98%	22%	33%
Zenith	109	85%	(9)%	(7)%
Brit	51	97%	1%	(1)%
Allied World	58	98%	14%	21%
Fairfax Asia	6	97%	14%	27%
Other Insurance and Reinsurance	(18)	102%	(6)%	0%
Consolidated	395	97%	10%	17%

As you can see from the table, we had combined ratios well below 100% across our major worldwide insurance operations in 2019 while experiencing 10% growth in gross premiums written. Premium growth has accelerated, as you can see in the fourth quarter column in the table above. As shown below, premium growth accelerated as the year went on, principally due to rate increases:

First Quarter	Second Quarter	Third Quarter	Fourth Quarter
5%	7%	12%	17%

The large catastrophe losses in 2017/2018, low interest rates and social inflation (think judicial!) have caused badly needed rate increases across almost all lines (workers' compensation, Zenith's specialty, being an exception) and across many geographies. Our companies are expanding again! The 10% increase in gross premiums written in 2019, to $17 billion, was like adding another insurance company the size of Northbridge – without paying for it! As I said, we are focused on organic growth and the conditions in our industry are ripe for it!

Odyssey finished the year with $3.7 billion in gross premiums, up 15% over last year and 60% over 2016. It had a combined ratio of 93% over the last five and ten years with reserve redundancies each year. Zenith had a combined ratio of 85% but premiums declined as rates in workers' compensation continue to decrease. Since we purchased it in 2010, Zenith has had a cumulative combined ratio of 93%, with reserve redundancies in all but two years.

Allied World, with a combined ratio of 98% and gross premiums up 14% to $3.8 billion; Northbridge, with a combined ratio of 96% and gross premiums up 15%; and Crum & Forster, with a combined ratio of 98% and gross premiums up 22%, all had excellent years. Brit rebounded from two difficult years and posted a combined ratio of 97%, positioning itself for future growth and profitability in the London market that has been undergoing significant disruption. Fairfax Asia had a strong year, with a combined ratio of 97% and gross premiums up 14%. Including the Asian business at Allied World and Odyssey, we now write over $1 billion in premiums in the region.

We have some exceptional stories in our insurance businesses – sometimes buried in our large companies like Crum & Forster, Northbridge or Odyssey. To highlight just three:

* *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.*

Gary McGeddy runs the Accident & Health ("A&H") profit centre at Crum & Forster. The A&H business was extracted from TIG when we put it into runoff in 2002 and was one of the businesses that was in Fairmont that was then merged into Crum & Forster in 2006. Gary has run the business since 2000 when the A&H profit centre had gross premiums of $40 million. Gary has grown this business over 20 years to almost $1 billion in 2019 with a cumulative average combined ratio of 95%, with only one year above 100% (slightly). Outstanding results by Gary and the A&H team at Crum & Forster.

We began in 1985 in trucking insurance with $10 million in premium. Northbridge is now the largest writer of trucking insurance in Canada, with $300 million in gross premiums and a combined ratio of 97%. Over the years, Northbridge has established a number of trucking programs including a truck driver training institute, dedicated account professionals for safety management and a high risk driver program. It is a cyclical business and we have been a reliable insurance partner over the cycles where rates have moved between being very inadequate to adequate. We are expanding currently as rates are adequate.

Hudson, the insurance company within the Odyssey Group, began in 2001 from scratch. Under Chris Gallagher's outstanding leadership and Brian Young's guidance as CEO of Odyssey, it has expanded from $169 million in gross premiums in 2002, the year Chris joined us, to $1.7 billion in 2019, almost 45% of Odyssey Group's business. Hudson specializes in mid-market niches and since inception has made an underwriting profit in all but three years.

The table below shows you what constitutes "Other Insurance and Reinsurance" in the table on the previous page:

	Gross Premiums	**Underwriting Profit (Loss)**	**Combined Ratio**
Bryte (South Africa)	344	(3)	101%
Fairfax Latam	589	(40)	117%
– Argentina	202	(13)	113%
– Chile	225	(17)	145%
– Colombia	150	(7)	108%
– Uruguay	12	(0)	102%
Fairfax Brasil	208	2	97%
Fairfax Central and Eastern Europe			
– Colonnade	194	12	92%
– Ukraine	94	3	97%
– Polish Re	89	1	99%
Group Re	191	7	96%

Bryte is our South African business we acquired in 2016, run by Edwyn O'Neill. Since our acquisition, it has had a cumulative combined ratio of 100%, which we expect will be reduced over time.

Fairfax Latam is the business we acquired from AIG in 2017 and 2018. It consists of operations in Argentina, Chile, Colombia and Uruguay. Because of high inflation in Argentina and riots in Chile, Latam had a 117% combined ratio in 2019. Fabricio Campos and our Latam Presidents are working diligently to bring the combined ratio below 100%.

Fairfax Brasil is a great story of a company we started from scratch in 2009, when Jacques Bergman and Bruno Camargo joined us with a team of 29 insurance professionals. In the last four years, since Bruno became CEO, Fairfax Brasil has had a combined ratio every year below 100%, and since inception it has produced cumulative net earnings of $24 million, including cumulative losses of $42 million during its first six years. Fairfax Brasil earned $19 million after taxes last year, a 25% return on our equity capital invested. Another example that what counts is the long term!

Fairfax Central and Eastern Europe consists of Colonnade, ARX Ukraine, Universalna Ukraine and Polish Re. Since inception in 2016, Peter Csakvari has done an outstanding job at Colonnade, with a combined ratio below 100% since 2018, including a combined ratio of 92% in 2019. With the acquisitions of the two Ukrainian companies, run separately by their management teams (ARX by Andrey Peretyazhko and Universalna by Oleksiy Muzychko), we are the largest property and casualty insurer in Ukraine. We acquired both last year for $22 million at approximately book value for a 70% stake in both companies. We are very happy to be partnered with the European Bank for Reconstruction and Development ("EBRD") which owns the remaining 30%. Polish Re, with a combined ratio below 100% since 2014, had a good year with a combined ratio of 99% in 2019.

In 2014, we began a formal program of retaining a small proportion of the third party reinsurance purchased by our companies. This premium is included in our Group Re segment. Since this program began, we have retained $248 million in gross premiums and achieved a cumulative average combined ratio of 88%.

Not included in our gross premiums of $17 billion are the gross premiums of the following insurance companies which are equity-accounted. The 2019 results for these companies (on a 100% basis) are as follows:

	Underwriting Profit	**Combined Ratio**	**Gross Premiums**
Gulf Insurance Group (44% owned)	42	95%	1,297
Eurolife (50% owned)	11*	80%*	566**
Digit (45% owned)	(38)	124%	367

* *P&C operations only*

** *Includes life premiums*

Gulf Insurance Group ("GIG") is a wonderful partnership we entered into in 2010 with Kipco in Kuwait through its Chairman, Faisal Al-Ayyar. GIG, run by Khaled Saoud Al-Hasan, operates in 11 countries in the Middle East. In 2019 it wrote $1.3 billion in gross premiums and had a combined ratio of 95%. Since we acquired our interest, Gulf has had an average combined ratio of 95% and gross premiums have almost tripled.

Through the crisis in Greece, we acquired a gem in Eurolife, a Greek property and casualty and life insurance company that operates predominantly in Greece but also in Romania. Alex Sarrigeorgiou has run Eurolife since 2004, following Eurobank's decision to grow its insurance business, and we acquired it with OMERS as our partner in 2016. Since our initial 40% purchase of Eurolife in 2016 for €163 million, Eurolife has earned €347 million and paid dividends of €298 million and shareholders' equity has increased from €400 million to €720 million at the end of 2019 after the payment of dividends. This phenomenal performance was predominantly because Eurolife had a significant holding of Greek government bonds whose rates went from 8% to 1% during that time period while its non-life business had an average combined ratio of 72%. We currently own 50% and equity account for Eurolife but plan to buy the rest of OMERS' shares in 2020.

It was a big year for Kamesh Goyal and his team at Digit Insurance ("Digit"). As you might remember, Kamesh is building a fully digital company in India with the objective of making insurance simple to understand for its customers. After just two years of operation, Digit has accumulated a 1.2% market share in India and was awarded Asia's General Insurance Company of the Year in 2019. Digit wrote $367 million in gross premiums in 2019 and now has over 1,500 employees. Still in its start-up phase, its combined ratio was elevated at 124% but decreasing, and we expect it to achieve breakeven in the next 18 months.

Fairfax has invested $154 million in Digit through common and convertible preferred shares for a 45% ownership. Late in 2019, the company entered into a financing arrangement with three private equity firms, who agreed to purchase approximately 10% of the company for $91 million. This purchase, which closed in early 2020, values the entire company at $858 million, resulting in a $351 million mark to market gain that was included in our earnings in 2019. We are very excited about Digit's prospects in the future!

Together, GIG, Eurolife and Digit have $2.2 billion of gross premiums and an investment portfolio of $4.9 billion, which are not shown in our consolidated numbers.

You can see that Fairfax now has insurance operations across the world. In the main, our global platform has been built over the last five years as we expanded opportunistically into Allied World, Brit, Eastern Europe through Colonnade, Latin America, South Africa, Malaysia, Sri Lanka, Indonesia, Ukraine, Vietnam, Greece and India. It is a decentralized platform, with exceptional CEOs responsible for running their own companies with our Fairfax culture. We have no need to make further significant insurance acquisitions, as we focus on the long term performance of each of our companies. Through cooperation and working together, we expect to grow significantly through organic means over the long term. Scott Carmilani, who built and ran Allied World for about 20 years, is now contributing to Fairfax by using his experience and relationships to help our companies work together. We are looking forward to his contributions.

It is quite extraordinary how our insurance company results have improved since Andy Barnard began working with our Presidents in 2011. Since then, our consolidated combined ratio has averaged 98%, with only two years above 100% due to the Japanese earthquake and other catastrophes in 2011 and the hurricanes in 2017. So what has Andy done? First and foremost, he has brought his considerable experience to bear, helping our CEOs expand thoughtfully in the right places at the right times, while also encouraging the discipline so important to avoiding the big mistakes. He began initiatives, such as the Leadership Workshop and the inter-company Working Groups, that have become intrinsic aspects of our unique culture. He has facilitated inter-company management transfers that have effectively leveraged our talent and reinforced the profit center concept from Odyssey in all our insurance companies (we now have approximately 200 profit centres across our companies). Working closely with Peter Clarke, Chief Operating Officer of Fairfax, Andy is keeping a watchful eye on underwriting performance across all of our key units. He did all of this while being very respectful of our decentralized structure, with each of our Presidents responsible for their company's results. In our 2012 annual report, I quoted Andy's remark at our annual shareholders' meeting that his objective was to have Fairfax as well known for its insurance operations as it was for its investment prowess. He has certainly kept up his end of this bargain.

Recently, we have mentioned to you that we could achieve our target of a 15% annual return on our shareholders' equity by producing a 95% combined ratio in our insurance operations and earning a 7% return on our investment portfolio. In 2019, we achieved a 97% combined ratio and a 6.9% return on our investment portfolio, which would have produced a 15% return except that some unrealized foreign exchange losses, which go directly though book value, resulted in us coming in at 14.8%, just below our long term target.

The table below shows the percentage contribution by category to our investment return (the percentage is of our approximately $40 billion total investment portfolio):

Interest and dividends	880	2.2%
Share of profit of associates	170	0.4%
Net gains on equity exposures	1,573	3.9%
Net gains on bonds	110	0.3%
Other net gains	27	0.1%
	2,760	6.9%

Interest and dividend income increased to $880 million in 2019, a record, in spite of very low interest rates and in spite of not reaching for yield by taking credit risk or term risk. Our fixed income portfolio, which effectively comprises 70% of our investment portfolio, has a very short duration of approximately 1.5 years and on average is rated AA-. Very high quality and very short term to maturity – so rising interest rates would not impact our portfolio!

Share of profit of associates of $170 million includes our share of earnings from Eurolife ($155 million), Seaspan ($84 million) and IIFL Finance ($50 million). This is net of our share of losses of $74 million principally from APR Energy ($57 million) and from associates of our non-insurance consolidated investments ($45 million).

Net gains on equity exposures of $1,573 million comprises net realized gains of $771 million – including realized gains from ICICI Lombard ($311 million), Grivalia ($171 million), Seaspan ($85 million) and limited partnerships ($131 million) – and net unrealized gains of $802 million – including unrealized gains on Eurobank ($362 million), Digit ($351 million), CIB ($163 million) and Seaspan ($117 million) and unrealized losses on BlackBerry ($50 million) and Stelco ($45 million). Much of this was a rebound from 2018 declines in stock prices. Please see the Investments section of this letter for commentary on some of these situations.

Net gains on bonds of $110 million includes gains on corporate bonds of $49 million (inclusive of a loss on Exco bonds of $179 million) and on our remaining U.S. municipal bond holdings of $59 million.

Other net gains of $27 million includes many miscellaneous items including foreign exchange gains and losses and a gain of $34 million on the First Capital reserve indemnity. When we sold First Capital to Mitsui we guaranteed the reserves as of December 31, 2017 against any deficiencies. Of course, any redundancies belong to us! The $34 million is the redundancy to date – we hope to get more over the next four years. Many thanks to Mr. Athappan, who continues to run Fairfax Asia and MS First Capital very effectively.

Below is, once again, a table that shows, for successive periods over our 34 years of operations, the compound growth in our book value per share (including dividends paid) together with the average combined ratio and total return on investments:

	Compound Growth in Book Value per Share	Average Combined Ratio	Average Total Return on Investments
1986-1990	57.7%	106.7%	10.4%
1991-1995	21.2%	104.2%	9.7%
1996-2000	30.7%	114.4%	8.8%
2001-2005	(0.7)%	105.4%	8.6%
2006-2010	24.0%	99.9%	11.0%
2011-2016	2.1%	96.0%	2.3%
2017-2019	12.0%	99.8%	5.6%

Over the last 14 years, our insurance business has had a combined ratio less than 100%, but our investment returns in the 2011 – 2016 time period were very poor, because of a cautious approach to financial markets (hedging our common stocks) and a stock performance impacted by poor stock selection and "value investing" being out of favour. If we had not hedged, over the period 2011-2016 our average return on investments would have been 5.0% and the compound growth in book value would have been 7.1% – not exceptional, but better than what we achieved. Please see the Investment section of this letter for some commentary on value investing.

The good news is that in spite of some poor investment selection (think BlackBerry and Exco), we had a 14.8% growth in book value in 2019. We should be well poised to resume getting a 15% return over time – as we have in the past!

India

We last discussed our investments in India in my letter to shareholders in our 2017 annual report. Below is an update of the table which appeared in that letter:

Company	% Ownership	Cost of Investment	Market Value	% Change	Market Value (under management)[1]	Number of Employees	CEO
Fairfax India	**33.8**	**469**	**659**	**40%**	**1,951**		Chandran Ratnaswami
Bangalore International Airport	54.0	653	1,430	119%		1,300	Hari Marar
Sanmar Chemicals Group	42.9	199	413	108%		1,900	N. Sankar
IIFL Finance	26.5	–	166	n.a.		18,000	Sumit Bali
IIFL Wealth	13.9	191	191	0%		900	Karan Bhagat
IIFL Securities	26.5	91	49	– 47%		2,000	R. Venkataraman
CSB Bank	49.7	169	229	35%		3,200	C.V.R. Rajendran
NCML	89.5	188	135	– 28%		2,000	Siraj Chaudhry
Fairchem	48.8	74	127	71%		1,400	Nahoosh Jariwala + Mahesh Babani
Seven Islands Shipping	48.5	84	89	6%		70	Captain Thomas Pinto
Other		283	342	21%			
Thomas Cook	**66.9**	**253**	**222**	**– 12%**	**331**	**7,476**	Madhavan Menon
Sterling Resorts	100.0	140	90	– 36%		2,646	Ramesh Ramanathan
Digit	**45.3**	**154**	**604**	**292%**	**604**	**1,585**	Kamesh Goyal
Quess	**33.2**	**33**	**332**	**903%**	**332**	**385,000**	Ajit Isaac
Indian Government Bonds		**407**	**454**	**11%**	**454**		
Other		**327**	**398**	**22%**	**398**		
Total Investments in India		**1,643**	**2,669**	**62%**	**4,070**		

(1) Includes 100% of Fairfax India and Thomas Cook

In May 2019, Prime Minister Modi was re-elected to another five-year term with a larger majority than in the previous election in 2014. In a country of 1.3 billion people, this is a miracle! India is blessed to have a leader relentlessly focused on economic growth through business friendly policies. We believe that under Mr. Modi, India will be transformed as economic freedom permeates the country and Mr. Modi achieves his goal of a $5 trillion economy by the end of this term. We continue to believe India is the best country to invest in for the long term. Our investments are shown in the table on the previous page.

As you know, we began Fairfax India in December 2014. Since then, Fairfax India has made ten investments – all with great long term prospects in a country that is expected to have 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 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 34 million passengers, up 4% from 2018, despite the shutdown of Jet Airways, its second largest airline customer. In 2019 it commissioned a second runway, and phase one of the second terminal is expected to be completed in 2021, raising passenger capacity to 50 million. After the completion of phase 2 of terminal 2, BIAL's passenger capacity will increase to about 70 million by 2028. BIAL has also now finalized plans to increase capacity to over 90 million passengers by 2038 by building a third terminal. Capital expenditures of approximately $4.0 billion for these growth plans will all be funded internally and by debt (already approved by a syndicate of Indian banks). As a result of these growth plans and the finalization of the master plan to develop the 460 acres of land that BIAL can use for real estate development, the valuation of the 54% of BIAL that Fairfax India owns is now $1.4 billion, up by 119% from Fairfax India's cost. Also, Fairfax India signed definitive agreements with an investor whereby Fairfax India will transfer 43.6% of BIAL out of the 54% that it owns in BIAL to a wholly owned Indian holding company and the investor will pay about $135 million to acquire from Fairfax India an 11.5% interest on a fully diluted basis in the holding company. The transaction values 100% of BIAL at $2.7 billion.

Under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL, another important Fairfax India investment, has established a leading national financial services company serving over 3 million customers from 2,300 branches in India. You will recall that 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 believed that this was the best structure for its business and would further enhance value. In May 2019 IIFL Holdings, the company that Fairfax and Fairfax India had originally invested in, was, as planned, divided into three separate companies, IIFL Finance (the NBFC), IIFL Wealth (the wealth and asset management company) and IIFL Securities (the retail and institutional broker, financial products distribution and investment banking company). All of these companies are well established with excellent management teams and we expect each of them to do very well as independent listed companies under the IIFL brand umbrella.

Chandran's letter to shareholders in Fairfax India's annual report and the individual company websites give you a lot more information on each of Fairfax India's investee companies. As you can see, they had an outstanding year, many thanks to Chandran, Sumit who runs Fairbridge, Gopal and the Fairbridge team.

As you will recall, our first major acquisition in India 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 7,500 employees, a broad spectrum of services that include foreign exchange, corporate travel, leisure travel, insurance, visa and passport services and e-business. With the 2015 purchase of Kuoni's Indian travel business and then its 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. In 2019 Thomas Cook India purchased a 51% interest in Digiphoto Entertainment Imaging (''DEI''), which provides imaging solutions for the entertainment industry, giving Thomas Cook an opportunity to package DEI products with Thomas Cook Tours. Established in 2004, DEI has offices throughout the Far East, as well as in the Middle East, India and the U.S., and has a network of 120 entertainment partners.

Thomas Cook India invested $47 million in Quess in 2013, sold a 5.4% interest in 2017 for $97 million and retained a 49% interest. We have had a phenomenal run with Quess and because of Quess' great success, Thomas Cook India decided during 2018 to spin its holding in Quess out to its shareholders so that Quess could be run independently as a public company under the leadership of Ajit Isaac. The spinoff took place in December 2019 and Fairfax now directly owns 33% of Quess with a market value of $332 million. The cost of our investment was $33 million and we are carrying it on our books at $704 million as it was written up to its market value at the time of the announcement of its spinoff in early 2018. Today, Quess is India's leading integrated business services provider. With over 385,000 employees, it is now the largest domestic private sector employer in India. It has a pan-India presence with 65 offices across 34 cities, along with an overseas footprint in North America, South America, the Middle East and South East Asia. It serves over 2,600 customers across three platforms – Workforce Management, Operating Asset Management and Global Technology Solutions. Quess had good financial results in the nine months ended December 2019: net revenue grew 22% to $149 million and profit before tax grew 4% to $30 million.

In 2019 Mr. Athappan agreed to purchase a 49% stake in Paramount Health Services for $11 million through Fairfax Asia. Paramount is one of India's leading third party claim administrators specializing in the health business and is led by its founder and our partner Dr. Nayan Shah. The transaction is expected to close in the first half of 2020.

We sold our last remaining position in ICICI Lombard in 2019 for $729 million. As I mentioned to you in our 2017 annual report, we helped build the largest private property and casualty company in India with our name, Lombard, very much continuing in the future. It has been a very profitable investment for us and we wish the management team, led by Bhargav Dasgupta, much success in the future.

As shown in the previous table, we have $407 million invested in Indian government bonds with a yield of 8.7%, which we began purchasing in August 2014. Since then we have earned a return of 13.3% annually (in dollar terms 9.4% as the rupee has depreciated by 14% over that time period).

As we have done since 1991, we have reinvested a part of our profits in the communities we do business in across the world. In India, we thought we would share two initiatives with you. Through Madhavan and Thomas Cook's leadership, we have purchased and installed 500 dialysis machines in the poorest regions of India. We will soon add another 500 machines. Without these dialysis machines, the poorest people in India who experienced kidney failure faced certain death. We are very grateful to the Thomas Cook team for carrying out this initiative.

Through the leadership of Ajit Isaac, Chandran and others in the Fairfax family, we are funding a children's hospital in India over the next five years, which is being built by CMC Vellore (''CMC''). CMC was established by an American missionary, Ida Scudder, who began the college and hospital from scratch over 100 years ago. Today it is perhaps the best medical college in India and its graduates have one of the best reputations in the world. CMC treats about 3 million out-patients and 120,000 in-patients annually and has a long established culture of humanitarian care, providing subsidized or free care for those who cannot afford it. We are fortunate to have our famous SickKids hospital in Toronto, one of the best in the world, to help in this venture.

Both of these initiatives will be funded by our foundations in India and Canada, to which we contribute approximately 1-2% of our pre-tax profits annually.

We continue to be committed to buying back our shares over the next ten years at attractive prices, but rest assured that we will not buy back shares at the expense of our financial position or at the expense of taking advantage of a hard market in insurance. This is a balancing act, but even so, in the last 27 months we have purchased approximately 1.3 million shares for cancellation and to provide long term share incentives for our executives.

As we did last year, we show you our unconsolidated balance sheet so that you can better see where your money is invested:

Unconsolidated Balance Sheet[(1)]	**($ billions)**	**($ per share)**
Assets		
Northbridge	1.2	46
Odyssey Group	3.5	131
Crum & Forster	1.5	56
Zenith	0.9	32
Brit Insurance	1.5	54
Allied World	2.5	95
Fairfax Asia	1.0	36
Other Insurance and Reinsurance	0.9	35
Run-off	0.8	31
Insurance and Reinsurance Operations	13.8	516
Recipe	0.6	22
Thomas Cook India	0.3	10
Fairfax India	0.5	20
Fairfax Africa	0.3	11
Other Non-Insurance	0.4	14
Non-Insurance Operations	2.1	77
Total consolidated operations	15.9	593
Holding company cash and investments	1.1	41
Investments in associates	1.1	40
Other holding company assets	0.5	22
Total assets	18.6	696
Liabilities		
Accounts payable and other liabilities	0.2	6
Long term debt	4.1	154
	4.3	160
Shareholders' equity		
Common equity	13.0	486
Preferred stock	1.3	50
	14.3	536
	18.6	696

(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 you 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 $13.8 billion ($516 per share) invested in our insurance companies – our core business. This has been and will be the gift that keeps giving, as they provide us with a float, currently $22.4 billion, which does not cost us anything – in fact, in 2019 we were paid $395 million to keep the float – which is then invested worldwide. Our largest insurance companies are Odyssey Group, Allied World, Crum & Forster, Brit, Northbridge and Zenith, which account for 80% of the investment in our insurance companies. Our consolidated non-insurance businesses are significant and listed so that you can see them (and your investment per share in them) separately. The major consolidated non-insurance businesses are Recipe ($0.6 billion), Fairfax India ($0.5 billion), Thomas Cook India ($0.3 billion) and Fairfax Africa ($0.3).

We expect each of these non-insurance operations to generate a 15% return or better over the long term. So as a shareholder of Fairfax, you benefit from three sources of income: underwriting income, interest and dividend income and capital gains, and returns from our non-insurance businesses.

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
2019	+12	+1
1985-2019 (compound annual growth)	**+18.5**	**+16.6**

The table shows the change in book value in U.S. dollars and in 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. As you can see, it has not happened in the last four years but we expect it will happen again!

Insurance and Reinsurance Operations

	Combined Ratio			Change in Net Premiums Written(1)
	2019	2018	2017	2019 vs. 2018
Northbridge	96%	96%	99%	15.1%
Odyssey Group	97%	93%	97%	17.1%
Crum & Forster	98%	98%	100%	17.9%
Zenith	85%	83%	86%	(8.7)%
Brit	97%	105%	113%	(0.7)%
Allied World	98%	98%	157%(2)	6.3%
Fairfax Asia	97%	100%	88%	20.5%
Other Insurance and Reinsurance	102%	105%	110%	2.2%
Consolidated	97%	97%	107%	9.6%

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

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

In 2019, Northbridge produced another exemplary combined ratio of 96%, generating an underwriting profit of $47 million. Through a combination of new initiatives and a very robust rate environment, Silvy Wright and her team were able to grow their net premiums by 15%, exceeding last year's growth rate of 10%. Due largely to these strong rate increases, Northbridge's accident year combined ratio came in at its lowest level in many years. Favourable reserve development continued to benefit the Northbridge calendar year results, though to a lesser extent than in previous years. The commercial auto business has begun to produce rewarding results after years of challenge and intensive corrective actions. Heading into 2020, the future looks promising.

Odyssey Group, led by Brian Young, in 2019 contributed another year of strong underwriting profit. While its combined ratio climbed to 97%, it was still responsible for $90 million of underwriting profit, close to a quarter of the total for all of Fairfax. Compared to prior years, Odyssey's results were exposed to more volatility, as it cut back its purchase of retrocession protection. The Japanese typhoons in the second half of the year were a contributor to the higher combined ratio in 2019 versus 2018. After another year of strong growth, Odyssey's profile has continued to expand. The insurance business at Odyssey, done through its Hudson and Newline subsidiaries, now accounts for over half of gross premiums. With many areas in the industry experiencing favourable tail winds, Odyssey is well positioned to benefit from both margin and revenue expansion. Brian Young and company have built a well-oiled machine, and it is firing on all cylinders.

At Crum & Forster, Marc Adee has led a steady improvement in the company's combined ratio, coming in at 98% and generating $52 million of underwriting profit in 2019. The A&H division recorded another year of impressive growth and strong profits. The E&S division likewise expanded opportunistically where rates strengthened and produced a solid profit. During the year, initiatives to build significant businesses in both the Surety and Property fields had good success. We expect the year by year improvement in performance which Marc and his team have achieved will continue into 2020.

No story at Fairfax has been as remarkable over the last half dozen years as that of Zenith. In 2019, Zenith contributed over $100 million of underwriting profit, the largest amount of any of our six major companies, despite having the smallest premium base. It posted an 85% combined ratio, benefiting from continued reserve redundancies driven by its extraordinary claims management expertise. Alas, it appears the Workers Compensation field is becoming more and more competitive, and Zenith will be hard put to maintain this incredible performance. Rates are down across the country, and may head further south. Nevertheless, no company is better positioned to manage through challenging times than our Kari Van Gundy-led Zenith.

Brit, under Matthew Wilson's leadership, was 2019's comeback story. After two successive years of underwriting losses, Brit returned to profitability in 2019 with a 97% combined ratio. Brit continues to outperform its peers in the Lloyd's marketplace by a significant margin (about 5 combined ratio points), and we are very happy that, in 2019, that outperformance meant more profit rather than a lower loss! Focused on the future, Matthew, Mark Allan and their colleagues have been implementing innovative strategies designed to optimize Brit's status as a market leader, while mitigating the expense burden common to Lloyd's participants. In Lloyd's, the market tightening our other companies are experiencing is being magnified by the pressure being put on underperforming syndicates and classes of business. The prospects for expansion of Brit's underwriting margins in 2020 are very good!

Allied World improved its performance in 2019, coming in at a 98% combined ratio. With much of its insurance business focused on large, complex risks, Allied World stands to gain significantly from the hardening underway in the commercial property and casualty markets. The withdrawal and compression of capacity from major competitors for these types of risks, both in the property and liability classes, has been driving upward rate momentum. In 2019, Allied World underwent a successful transition in leadership, as Scott Carmilani passed the reins to Lou Iglesias. Lou, along with his senior colleagues John Bender and Wes Dupont, have the company poised to capitalize on the rapidly improving environment.

Outside of North America, performance in 2019 was mixed.

The Latin America operations, under the supervision of Fabricio Campos, generated a combined ratio of 117%. The surge in inflation in Argentina caused results to deteriorate at our local company, La Meridional, and the widespread riots and civil commotion in Chile added unexpected losses to the accounts of Southbridge in Santiago. In both countries, corrective measures are being implemented and we are hopeful that performance across the region will improve markedly in 2020.

Fairfax Brasil, under the steady hand of Bruno Camargo, again produced favourable results in 2019, with a combined ratio of 97%.

In South Africa, Bryte's combined ratio rose to 101%, largely due to two significant property losses.

Fairfax Asia, under the continued guidance of Mr. Athappan, his son Gobi, Sam Chan and Ravi Prabhakar, advanced in 2019 by growing premiums and reducing the overall combined ratio by 3 points to 97%. Each of the four companies that today comprise Fairfax Asia, in Malaysia, Indonesia, Sri Lanka and Hong Kong, produced combined ratios below 100%. The local teams in each of these countries, working with Mr. Athappan, Gobi, Sam and Ravi, are focused on driving the Fairfax Asia combined ratio to 95% and below.

By all measures, our top performing foreign operation in 2019 was Colonnade. Located in Luxembourg and run by Peter Csakvari, Colonnade produced an outstanding combined ratio of 92%. Writing business in Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria and the Ukraine, Colonnade has an extensive presence in Eastern and Central Europe. Separate from the Colonnade operations, we added two additional companies in Ukraine in 2019, which collectively also produced an underwriting profit for the year.

Working closely with Fabricio Campos and Peter Csakvari is Bijan Khosrowshahi. Bijan oversees the operations Fabricio and Peter are responsible for, and serves as well as Fairfax's point man at our Gulf Insurance Group partnership.

The tables that follow show you how our international operations (non-North American other than Brit) have grown in the last five and ten years. The top table is at the 100% level and the bottom table is Fairfax's share. The growth in the last five and ten years is despite the sale of First Capital and the restructuring of Advent, which eliminates them from the 2019 column although they are included in 2010 and 2015. We expect our international operations to continue to grow significantly because of the low insurance penetration in many of these countries.

	International Operations*			**Cumulative Growth**	
	2010	**2015**	**2019**	**5-year**	**10-year**
Gross Premiums Written	2,237	3,029	4,361	44%	95%
Shareholders' Equity	1,288	1,684	2,525	50%	96%
Investment Portfolio	3,109	4,402	6,830	55%	120%

* *100% level*

	International Operations*			Cumulative Growth	
	2010	**2015**	**2019**	**5-year**	**10-year**
Gross Premium Written	1,231	1,701	2,945	73%	139%
Shareholders' Equity	765	1,134	1,642	45%	115%
Investment Portfolio	1,876	2,580	4,094	59%	118%

* *Fairfax share*

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, 2019		
	Net Premiums Written	**Statutory Surplus**	**Net Premiums Written/Statutory Surplus**
Northbridge	Cdn 1,791.6	Cdn 1,321.1	1.4x
Odyssey Group	3,393.8	4,778.2	0.7x
Crum & Forster	2,331.5	1,406.0	1.7x
Zenith	720.8	531.8	1.4x
Brit	1,656.2	1,319.9	1.3x
Allied World	2,428.9	4,096.7	0.6x
Fairfax Asia	231.2	473.4	0.5x

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. As you know, our strategy, during the times when rates are rising, as they are currently, is to expand significantly in areas where margins are high.

The combined ratios of our companies which we have owned since 2010, and of our major companies acquired since then, are shown in the table below:

	2010 – 2019	
	Cumulative Net Premiums Written *($ billions)*	**Average Combined Ratio**
Northbridge	Cdn 12.3	98%
Odyssey Group	24.1	93%
Crum & Forster	15.3	101%(3)
Zenith(1)	6.9	93%
Brit(1)	7.3	102%
Allied World(1)	5.8	109%
Fairfax Asia(2)	2.5	88%
Total	74.2	98%

(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%.*

Since we began, we have written over $150 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 2009 onwards) for our companies which we have owned since 2009 (Zenith since 2010):

	2009 – 2018 Average Annual Reserve Redundancies
Northbridge	15.3%
Odyssey Group	13.4%
Crum & Forster	0.1%[3]
Zenith[1]	14.4%
Fairfax Asia[2]	18.1%

(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 2.3%

The table shows you how our reserves have developed for the ten accident years prior to 2019. 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 in the Annual Financial Supplement for the year ended December 31, 2019 which is available on our website *www.fairfax.ca*.

Our RiverStone run-off operations, led by Nick Bentley, continue to focus on our US legacy reserves, especially asbestos claims, which continue to produce adverse development. We benefit from the team's dedicated focus and best in class experience in settling these claims in a fair way to our policyholders. In the UK run-off operations, Nick and Luke Tanzer continue to successfully purchase run-off books now that their legacy reserves are behind them. Late in 2019 we announced a partnership with OMERS in which it would purchase a 40% interest in our UK run-off group RiverStone UK. OMERS' investment and its ability to work jointly with Luke and his team will provide RiverStone UK the opportunity to prudently leverage the business and pursue opportunistic acquisitions. At closing we will deconsolidate RiverStone UK and apply the equity method of accounting for our joint interest.

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%
2019	395	20,150	(2.0)%	1.8%
Weighted average last ten years			(1.0)%	2.5%
Fairfax weighted average financing differential last ten years: 3.5%				

Float is essentially the sum of loss reserves, including loss adjustment expense reserves, insurance contract payables, and unearned premium reserves, less insurance contract receivables, 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 one of Fairfax's biggest assets and could be the key reason for our success in the future. In 2019, our ''cost of float'' was a 2.0% benefit, as we made an underwriting profit. In the last ten years, our float has cost us nothing (in fact, it provided an average 1.0% benefit per year) – while during that time it cost the Government of Canada an average 2.5% per year to borrow for ten years.

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

Year	Insurance and Reinsurance								Total Insurance and Reinsurance	Run-off	Total
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other			
					($ billions)						
2015	1.6	4.2	2.7	1.3	2.7	–	0.5	0.9	13.9	3.3	17.2
2016	1.7	4.1	2.9	1.2	2.8	–	0.5	0.9	14.1	2.8	16.9
2017	1.8	4.5	2.9	1.2	3.1	5.5	0.2	1.2	20.4	2.5	22.9
2018	1.7	4.7	2.9	1.2	2.8	5.1	0.2	1.1	19.7	3.0	22.7
2019	1.9	5.1	3.0	1.1	3.0	5.1	0.3	1.1	20.6	1.8	22.4

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, notwithstanding the sale of First Capital in 2017 and European Run-off not being included in 2019 as it will soon be equity accounted.

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
2018	22,718	834
2019	22,379	834

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.

	2019	**2018**
Underwriting – insurance and reinsurance		
Northbridge	46.7	47.0
Odyssey Group	89.9	181.1
Crum & Forster	51.8	32.6
Zenith	108.8	140.2
Brit	51.1	(77.0)
Allied World	57.7	42.9
Fairfax Asia	6.4	0.4
Other	(17.9)	(48.9)
Underwriting profit	394.5	318.3
Interest and dividends – insurance and reinsurance	713.0	637.8
Operating income	1,107.5	956.1
Run-off (excluding net gains (losses) on investments)	(214.7)	(197.9)
Non-insurance operations	(2.4)	380.3
Interest expense	(472.0)	(347.1)
Corporate overhead and other	98.1	(182.2)
Pre-tax income before net gains (losses) on investments	516.5	609.2
Net realized gains on investments	611.8	1,174.9
Pre-tax income including net realized gains on investments	1,128.3	1,784.1
Net change in unrealized gains (losses) on investments	1,104.4	(922.0)
Pre-tax income	2,232.7	862.1
Income taxes and non-controlling interests	(228.6)	(486.1)
Net earnings	2,004.1	376.0

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 expense). Net realized gains and net change in unrealized gains (losses) are shown separately to help you understand the composition of our earnings. In 2019, after interest and dividend income, our insurance and reinsurance companies had operating income of $1.1 billion, due to higher interest and dividend income and improved underwriting profit. All in, after-tax income was $2.0 billion. Of our interest expense of $472.0 million, $268.4 million was from borrowings by our holding company and our insurance and reinsurance companies, while $135.8 million was from borrowings by our non-insurance companies, which are non-recourse to Fairfax, and $67.8 million was from our leases.

Corporate overhead and other of $98.1 million in income is because it includes investment management fees, holding company interest and dividends and holding company share of profit of associates, less corporate overhead, amortization of subsidiary companies' intangible assets and a loss on the repurchase of debt. 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 2019 and 2018:

	2019	2018
Holding company cash and investments (net of short sale and derivative obligations)	1,098.6	1,550.6
Borrowings – holding company	4,117.3	3,859.5
Borrowings – insurance and reinsurance companies	1,039.6	995.7
Total debt	5,156.9	4,855.2
Net debt	4,058.3	3,304.6
Common shareholders' equity	13,042.6	11,779.3
Preferred stock	1,335.5	1,335.5
Non-controlling interests(1)	1,519.8	1,437.1
Total equity	15,897.9	14,551.9
Net debt/total equity	25.5%	22.7%
Net debt/net total capital	20.3%	18.5%
Total debt/total capital	24.5%	25.0%
Interest coverage	9.8x	3.2x
Interest and preferred share dividend coverage	7.9x	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 2019, we had interest coverage of 9.8x.

We have a very strong financial position, with $1.1 billion in cash and investments at the holding company at the end of 2019 and no significant debt maturities until 2022 (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!

Investments

The table below updates our investment results for 2019 in the same format as last year. This table is very important as it shows that Fairfax's investment results have been consistently very good since inception, with the exception of the 2011 – 2016 time period, when we treaded water.

Period	Average investments	Interest & dividends	Share of profit (loss) of associates	Net gains (losses)	Total return on investments	
						% Return(1)
1986–1990	109	45	0	(1)	44	10.4
1991–1995	620	169	0	128	296	9.7
1996–2000	6,469	1,665	0	592	2,258	8.8
2001–2005	11,854	2,047	0	2,937	4,983	8.6
2006–2010	19,214	3,558	46	6,787	10,391	11.0
2011–2016	26,047	2,963	416	(85)	3,294	2.3
2017–2019	37,667	2,223	591	3,474	6,288	5.6
Cumulative from inception		12,669	1,054	13,833	27,555	8.0

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

As you can see, since inception we have made an 8% return on our investment portfolios. On a cumulative basis, we have earned more on realized and unrealized gains than on interest and dividend income. However, in the 2011 to 2016 time period, we had an average return of only 2.3% on investments because we had no net gains (actually an $85 million net loss) in spite of a significantly larger investment portfolio. This was a result of our hedging program, poor stock and bond selection and ''value investing'' being out of favour. In the last three years, particularly in 2019, we have come back some, but have some way to go before we reach historical results. We are working on it!

In 2019, we had $1.6 billion in realized and unrealized gains from our equity portfolios. I wanted to highlight some of our larger positions, as we did last year.

Early in 2019, Fokion Karavias (CEO of Eurobank) and George Chryssikos (CEO of Grivalia) came up with the idea of merging Grivalia into Eurobank, to strengthen the capital position of Eurobank, and accelerating its non-performing loan stock reduction through spinning out €7.5 billion of non-performing loans from the bank to its shareholders. We thought it was a brilliant idea but the process took time as it was subject to shareholder approval at Eurobank and Grivalia and regulatory approval from the ECB. As part of the same plan, Eurobank sold its non-performing loans management unit, FPS, to doValue S.p.A. (a public company listed in Italy) for €360 million. We expect all these transactions to close by March 31, 2020 and Eurobank to be well capitalized and on its way to earning 10% on its shareholders' equity in 2020. Last year, Greece had an election in which the business friendly party of Kyriakos Mitsotakis won a majority in the parliament. As the new Prime Minister, Kyriakos has the opportunity to transform Greece by encouraging foreign investment into the country and by being business friendly. Ten-year Greek government bonds, which peaked at a yield of 37% in 2012, came down to 10% in 2016 and are now trading below 1%. Recently, Greece did a 15-year bond issue at 1.9% and a 30-year issue at 2.5%. The animal spirits are coming back to Greece and we think the Greek economy and Greek companies will thrive. Eurobank should benefit!! Our cost of 1.2 billion shares of Eurobank after the Grivalia transaction is now 94¢ versus a book value of approximately 135¢ per share post the transaction. At year end, Eurobank was selling at 68% of book value and 6.5x normalized earnings. We still believe it will be a good investment for us.

Under the leadership of David Sokol as Chairman and Bing Chen as CEO and with the acquisition of APR Energy, we expect that the recently re-named Atlas Corp. (formerly Seaspan) will continue to be a significant driver of shareholder value over the long term. With the addition of APR, Atlas Corp. has become a holding company that we fully expect David and Bing will continue to build into a compounding machine (think Mid-American 2.0). We are very appreciative of the efforts of Chuck Ferry, APR's CEO, and John Campion, its founder, before him and we believe Chuck will do a tremendous job driving the business forward under David and Bing's leadership.

At year end, Atlas Corp. shares were selling at $14.21 per share, approximately 8.5x earnings, with a dividend yield of approximately 3.5%. Please remember that Mid-American, under David Sokol, compounded earnings at more than 20% over a 20-year period. Including the APR transaction, we have invested $760 million in common shares of Atlas Corp. (cost per share $7.57), and we hold 25 million warrants exercisable at $8.05 and $500 million of 5.5% debt.

We monetized APR in 2019 and we hope to monetize some of our remaining private companies with good results.

Recipe has a network of over 1,300 restaurants with total system sales in 2019 of approximately Cdn$3.5 billion and EBITDA of Cdn$216 million. The company continues to extend its brands outside restaurants to include grocery sales. Bill Gregson recently retired from the role of Chair at Recipe. On behalf of our shareholders we thank Bill for all of his efforts rejuvenating the company. Paul Rivett has taken over as Chair.

2019 was another difficult year for Fairfax Africa, with book value down $84.3 million from the previous year and a net loss of $61.2 million. The main drivers of the poor results were unrealized losses on investments in Atlas Mara and Consolidated Infrastructure Group. We remain positive about the prospects in Africa and our team is working hard with the portfolio companies and partners to maximize long-term value for shareholders. Please read the Fairfax Africa annual report where Mike Wilkerson gives you more details on Fairfax Africa's investments.

Last year I stated that Resolute has been a poor investment to date. I should have said, very poor!! Brad Martin chairs the Board at Resolute and he continues to work with management to find a path to increase shareholder value in a very tough environment for paper, pulp and lumber. Our net investment in Resolute is $745 million while the carrying value of our shares is approximately $200 million.

Our investment in the Davos craft spirit brands continues to do well. Davos is run by Andrew Chrisomalis and Blake Spahn and their leading partnership is with Ryan Reynolds in Aviation American Gin, which continues to exceed expectations. We are partners with David Sokol.

Propelled by its founder, Wade Barnes, Farmers Edge has continued to grow acres under contract and, along with it, predictable recurring revenue and cash flows. Bill McFarland has become the Chair of Farmers Edge and will continue to support Wade as he builds out this valuable precision agriculture platform.

Peak's Bauer brands are overseen by Ed Kinnaly and Easton brands by Dan Jelinek and Matt Arndt. Tony Palma recently retired as CEO at Easton. Tony worked very closely with the late Jim Easton, founder of Easton brands. We are very thankful for the turnaround that Tony oversaw and we wish him well in retirement.

Dexterra continues to provide industry-leading facilities management and operation solutions in Canada under the leadership of John MacCuish, its CEO. Bill McFarland is also Chair of Dexterra. The company continues to be the go-to service provider for 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, camps and catering and state-of-the-art healthcare infrastructure. The company is also one of the country's largest reforestation contractors and forest firefighters.

AGT is one of the largest suppliers of pulses in the world run by Murad Al-Katib, its CEO. AGT's exports of pulses has increased along with a resurgence in global demand, particularly in India, and continues to expand in its food retail business.

In our retail investments, Chad McKinnon and the teams at Golf Town and Sporting Life, supported by the founders, Dave and Patti Russell, continue to make strides to 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. We welcome Vic Bertrand as the new CEO of Toys "R" Us and Babies "R" Us. Vic was formerly the COO at Mega Brands (the Bertrand family business we previously supported) and he is working closely on retail initiatives with Chad.

CIB Bank, in Egypt, continues to perform spectacularly. In 2019, earnings were up 23% and the return on equity was 29.5%. CIB Bank has a low loan to deposit ratio of 43% and is very well capitalized, with a capital adequacy ratio of 26% and financial leverage of just 7.5x. Its ten-year return on equity is 27.5% and it is still selling at only 9x this year's estimated earnings. We own 7% of CIB and are very excited about its prospects under the leadership of Hisham Ezz Al Arab and Hussein Abaza.

Stelco had a difficult year in 2019 as its earnings dropped 90%. However, it has no debt, has the lowest cost steel production in North America and is selling at less than 5x normalized earnings. We continue to be very excited about its future under the leadership of Alan Kestenbaum, its CEO, and Chair Alan Goldberg. We own 13 million shares (14.6%) of Stelco at a cost of Cdn$20.27 per share.

We continue to support John Chen as he works diligently to make BlackBerry a growth company again. As I said last year, with the Cylance acquisition, John is working to become the most trusted AI-cybersecurity company. Still a work in progress!

Debt and Warrant Deals

Company	Principal	Coupon	Warrant Maturity	Warrant Strike Price per Share	Stock Price	Potential Ownership
				(local currency)		
Seaspan – 1st tranche	250	5.5%	Feb-2025	exercised	exercised	
Seaspan – 2nd tranche	250	5.5%	Jan-2026	exercised	exercised	
Seaspan – additional warrants			Jul-2025	$ 8.05	$14.21	42.3%
Chorus Aviation	154	6.0%	Dec-2024	8.25	8.09	13.1%
Mosaic Capital	115	5.7%	Jan-2024	8.81	5.50	61.6%
Altius Minerals	77	5.0%	Apr-2024	15.00	11.96	13.6%
Westaim	39	5.0%	Jun-2024	3.50	2.65	8.2%
	885	5.5%				

As shown in the table on the previous page, we have invested $885 million in debt and warrant deals, with an average yield of 5.5%. We will get an annual income of $49 million while we wait for the warrants to become valuable over time. In the case of Seaspan (now Atlas Corp.), we exercised our original warrants early and thereby invested $500 million in common shares at $6.50 per share while receiving an additional 25 million warrants as an incentive for this early exercise.

The table below shows you the amazing track records of the FAANG stocks (plus Microsoft) in the last ten years:

	2010	**2014**	**2019**	**10 year Compound Annual Growth Rate**
	($ billions, except stock prices)			
Alphabet (Google)				
Revenue	29	66	162	21%
Net income	9	14	34	18%
Cash and marketable securities	35	64	120	17%
Shareholders' equity	46	104	201	19%
Stock price	297	531	1,339	16%
Amazon				
Revenue	34	89	281	28%
Net income	1	−0.2	12	29%
Cash and marketable securities	9	17	55	24%
Shareholders' equity	7	11	62	28%
Stock price	180	310	1,848	30%
Apple				
Revenue	65	183	260	20%
Net income	14	40	55	21%
Cash and marketable securities	51	155	206	20%
Shareholders' equity	48	112	90	11%
Stock price	46	110	294	26%
Facebook				
Revenue	2	12	71	57%
Net income	1	3	18	55%
Cash and marketable securities	2	11	55	56%
Shareholders' equity	2	36	101	61%
Stock price		78	205	34%(1)
Microsoft				
Revenue	62	87	126	8%
Net income	19	22	39	10%
Cash and marketable securities	37	86	134	16%
Shareholders' equity	46	90	102	10%
Stock price	28	46	158	18%
Netflix				
Revenue	2	6	20	28%
Net income	0.2	0.3	1.9	32%
Cash and marketable securities	0.4	1.6	5.0	32%
Shareholders' equity	0.3	1.9	7.6	44%
Stock price	25	49	324	45%

(1) From IPO in 2012

As you can see in the table, the growth record is phenomenal. Revenue, net income, cash and marketable securities and shareholders' equity have grown at extraordinary rates. And last year was no different. Almost all of them grew at 15%-20% from the previous year! And we missed it completely! Shame on us for missing the most important trend in the US economy and reflected in the stock market.

Of course, the two most important questions now are will these trends continue and what are these companies selling at?

For some perspective on this phenomenon, we have to go back almost 50 years to the late 1960s and early 1970s when a group of stocks called the Nifty Fifty sold at extraordinary multiples. These companies included the established growth companies such as Coca-Cola, Pfizer, Merck and Anheuser-Busch, but also newer growth companies such as Polaroid, Avon and McDonald's. In 1972, these companies, on average, sold at a price earnings ratio of 42x versus 19x for the S&P500 – twice as expensive! Polaroid sold at 95x earnings, Avon Products at 61x, Xerox at 46x, Coca-Cola at 46x, Disney at 71x and Johnson & Johnson at 57x. Over the next ten years, many of these companies, such as Polaroid, did not survive; many had much lower growth rates (if any), and many such as Johnson & Johnson continued their growth record. In the 1974 stock market crash, when the S&P500 dropped 48% from its peak in 1973, many of these stocks dropped by over 70%. Almost none of them saw their 1972 highs for the next ten years.

Here's what the FAANG stocks (plus Microsoft) are selling at:

	Price/earnings ratio
Alphabet (Google)	27x
Amazon	79x
Apple	25x
Facebook	32x
Microsoft	31x
Netflix	76x

Will the history of the Nifty Fifty repeat itself with these stocks? Only time will tell – suffice to say that, in our experience, trees don't grow to the sky.

Value stocks, on the other hand, have suffered greatly in the last ten years as money has gravitated to the tech stocks through ETFs and index funds. These six tech stocks have a total market value of $5 trillion – almost 20% of the S&P500 index, and they have a market value in excess of the market capitalization of France and Germany combined. Amazon and Facebook alone had a market value at year end 2019 in excess of the S&P/TSX 60, which includes the five largest Canadian banks.

So when the correction happens (and it may be happening as we speak), we expect value stocks to provide better protection on the downside and the "renaissance of value", a term coined by Ben Graham in 1974, may well take place again.

I remind you again that in the 1999 – 2002 time period, when most worldwide stock indices dropped by 50% mainly because of the dot.com crash, our stock portfolios went up 100%.

Value will out again!

One further observation: The 1960s were a time period not unlike the present one, when interest rates were low and inflation seemed under control. All of this changed in the late 1960s, inflation began rising in the early 1970s (in fact, Nixon imposed wage and price controls in 1971!) and interest rates followed suit. With record low unemployment and continued growth in the U.S. economy, we may witness a similar occurrence in the next few years.

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 $100 billion notional amount in deflation hedges which still have 2.8 years to go and are now on our balance sheet at only $7 million.

Under the leadership of Wade Burton, the transition of the management of our investment portfolios to a younger group at Hamblin Watsa is going very well. Here's how we have delegated the investment management of some of our stock and bond portfolios across the world:

HWIC Professionals	**Geography**
Wade Burton and Lawrence Chin	United States/Canada
Yi Sang	Asia
Jamie Lowry and Ian Kelly	Europe
Jeff Ware	South America
Quinn McLean	Middle East and South Africa
Gopal Soundarajan	India
Reno Giancola	Canada

Wade has achieved outstanding results since he began managing portfolios for us in 2008. Over that period, up to June 2018, Wade had a 19.5% compound return on his stock portfolio. Since June 2018, Wade and Lawrence Chin, who joined us in 2016, have compounded a stock and bond portfolio at 9.8% annually. We are looking forward to Wade's increasing impact on Fairfax's investment portfolios over time.

Our team at Hambin Watsa also includes Wendy Teramoto, Peter Furlan, Paul Ianni and Davis Town, who all work with our portfolio managers. Roger Lace, Brian Bradstreet, Chandran Ratnaswami and I continue to manage the rest of the portfolio with much input from Wade and his team.

Miscellaneous

We maintained our dividend in 2019 at $10 per share. As I have mentioned to you before, we are focused on using our free cash flow, in excess of what we need for our business, to buy back stock so it is unlikely our dividend will be increased soon. Since we began paying dividends, we have paid cumulative dividends of $123 per share.

May 21, 2019 was the saddest day in our 34 years as we learned of the sudden passing of Dave Bonham. Dave was incredibly bright and disciplined as our CFO with a great sense of humour, quick wit and caring nature. He was a great CFO, colleague and friend and we will all miss him greatly.

Paul Rivett told me recently that for family reasons, he wanted to retire as President of Fairfax. It was with great sadness that I accepted his decision. For 17 years, Paul has given his all and has been instrumental in our success over that time. I have had the pleasure of working very closely with Paul all those years and I will miss him greatly. He retires with our gratitude and best wishes to him, his wife and his children in his retirement. Paul has agreed to continue as the Chair of certain Fairfax investees, including Fairfax Africa and Recipe. I and other Fairfax executive officers will be assuming Paul's other responsibilities.

One sad result of having wonderful employees who never leave once they join is that eventually they reach retirement age – that's the case with Ronald Schokking, who has been a Fairfax officer since 1989. Ronald has done a great job for us as Treasurer and in several financial roles, most importantly in developing and overseeing our international financial operations. Ronald will be retiring as an officer at the end of 2020, although he will continue to be available to us as a consultant. We are very appreciative of the skill with which he navigated his special areas, and wish him, his wife and his family the very best in his retirement.

Over our 34-year history, we have always operated at Fairfax with a small team which, with great integrity, team spirit and no egos, protects our company from unexpected downside risks and which takes advantage of opportunities when they arise. Our outstanding team of officers at Fairfax and Hamblin Watsa is further strengthened by Andy Barnard, Jonathan Godown and Bijan Khosrowshahi. This group has worked together for a long time – with trust and a long term focus.

We were pleased to announce in August that Jennifer Allen was appointed CFO of Fairfax. Jennifer has been with Fairfax for over 13 years, most recently serving as a Vice President of Fairfax and CFO of Fairfax India and Fairfax Africa. At the same time we were happy to announce that Amy Sherk, who has been with us for 16 years, was appointed CFO of Fairfax India and Fairfax Africa. Both have demonstrated the qualities we admire as officers of Fairfax. We are so fortunate to have this executive depth within our group.

Our employees are our most important asset and their health and well-being is critical to our long-term viability. Actively working to improve their health and well-being is not only the right thing to do, but it makes good business sense. We have had longstanding relationships with both The Cleveland Clinic and Johnson & Johnson, two world class health organizations, and we are fortunate to have them as partners in this initiative. The Cleveland Clinic has met with the senior management of our largest organizations to offer innovative solutions for employee wellness including assessments of current programs, executive physicals, virtual care and second opinions. These meetings have expanded to include our international operations so that our people, regardless of where they are in the world, can access world class healthcare when needed.

I am very happy to advise that Bill Weldon, who until his retirement in 2012 was the CEO of Johnson & Johnson, has enthusiastically agreed to join the Fairfax Board at this year's annual meeting. Bill has been a consultant to Fairfax, giving us the benefit of his experience in running a large, decentralized, highly principled company, so Bill and Fairfax are already familiar with each other, and mutually know that this will be a good fit.

After eight years on our Board, John Palmer determined not to stand for re-election. John has been a strong supporter of Fairfax over all these years and we have benefitted from his broad range of experience. We wish him and his wife well in his retirement.

One other Board matter: Tony Griffiths suggested to me that, to ease off a little, he would like to continue as a director but not as the Lead Director. I'm pleased to report that Bill McFarland has kindly agreed to assume the Lead Director role after the annual meeting.

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	12%	12%	13%	12%	14%

If an employee earning $40,000 had participated fully in this program since its inception, he or she would have accumulated 3,620 shares of Fairfax worth Cdn$2.2 million at the end of 2019. I am happy to say, we have many employees who have done exactly that!

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 2019, we donated $23 million, for a total of $216 million since we began. Over the 29 years since we began our donations program, our annual donations have gone up approximately 120 times at a compound rate of 18% per year. Allow me to highlight briefly just a few examples of our company donations:

The Northbridge Cares program, through donations and volunteer hours (2,500 in 2019) focuses on empowering, educating and supporting Canadian youth at risk to reach their potential by partnering with selected national organizations. In addition, under a community impact initiative launched last year, each of Northbridge's offices across Canada received funding for local charities chosen by employees.

The Odyssey Group Foundation continues to support charitable organizations focused on worldwide disaster relief, cancer research, education, healthcare and human services, while Odyssey's employee voting campaign directs funding to 92 charities around the world. In 2019, new grants were awarded to MD Anderson Cancer Center, Mt. Sinai Health System and the American Red Cross for Relief for Victims of Hurricane Dorian in the Bahamas.

Crum & Forster gives back to the communities where its employees live and work through service hours, corporate donations, matching gift programs and an employee-led charitable impact committee. In 2019, 400 employees participated in 20 community-based programs throughout the United States and personally donated to over 600 organizations, with an emphasis on healthcare and education.

Zenith in 2019, besides continuing its annual financial and employee volunteer support to many organizations, instituted its first annual Give Together Campaign, a weeklong event during which Zenith employees worked together, had fun and gave generously supporting Feeding America and Ronald McDonald House Charities. Zenith employees also created more than 5,000 hygiene kits that the American Red Cross distributed to military hospitals, medical facilities and homeless veterans.

Brit again in 2019 sent a cohort of volunteers for a week to help the development of the Soweto Academy in Kibera, Kenya and continued its support for Team BRIT, a team of disabled motor racing drivers, for Great Ormond Street Hospital, a world-leading children's hospital based in London, and for ten staff-nominated charities.

In 2019, Allied World supported many charities and community service projects with a primary focus on education, healthcare and the arts and culture, including continued support to the N.Y. Police and Fire Widows' & Children's Benefit Fund, the Citizens Committee for New York City (whose mission it is to improve the quality of life for lower-income New Yorkers) and the Spencer Educational Foundation. Globally, Allied World employees donated thousands of hours servicing the needs of their local communities.

RiverStone's unwavering commitment to the community in both the US and the UK continued in 2019 with donations to local food banks, many types of children's services, health and education services, and other organizations serving local needs, and meaningful donations to the charities that mattered most to its employees through its program of providing a 3:1 match on all eligible charitable contributions. In the US, RiverStone unveiled a new program allowing employees eight hours per year of paid time off while volunteering at charitable organizations.

We are looking forward to seeing you at our annual meeting in Toronto at 9:30 a.m. (Eastern time) on Thursday, April 16, 2020 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, Crum & Forster, Zenith, Brit, Allied World, RiverStone, Fairfax Asia (which now includes AMAG, Pacific Insurance, Falcon, BIC (our insurance operation in Vietnam), Fairfirst (our insurance operation in Sri Lanka) and Paramount Health Group), Bryte, Onlia, and the Gulf Insurance Group, along with Colonnade, which covers Central and Eastern Europe, and our Latin American operations which cover Colombia, Argentina, Uruguay and Chile. Digit, our online insurance company which is one of the fastest growing insurance companies in India, and 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, will also be there. 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 200 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 Foods, Altius Minerals, Peak Achievement, Rouge Media, Zoomermedia, Blue Ant Media, 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 our new acquisitions and 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.

The response was great, and all who went were very impressed. 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 continue to be an exceptional investment opportunity 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 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 beginning to carry out the exciting plans for the land surrounding the airport. BIAL is on the way to being one of the best airports in the world. Ajit Isaac from Quess, which is the largest private employer in India, will be at the meeting, as will Nirmal Jain from IIFL and Vijay Sankar from Sanmar Chemicals Group. Sterling Resorts, NCML, Saurashtra Freight, Fairchem, Privi Organics, Primary Real Estate, Quantum, Seven Islands Shipping and CSB 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 Easton and Bauer, which will showcase some of their latest equipment that makes them the leader in hockey equipment, with ice hockey being the number one sport in Canada.

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 ninth 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 will be Howard Marks, followed by Larry Culp, the CEO of General Electric. James Grant of Grant's Interest Rate Observer will be the morning keynote speaker.

This year Lawrence Cunningham, an author and a law professor at George Washington University, will be on hand with his bestselling book, The Best Executive Letters, containing letters from Warren Buffett, yours truly and other CEOs. He will have some copies that he will autograph for a donation to the Crohn's & Colitis Foundation in memory of my assistant, Jo Ann Butler.

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 16 at Roy Thomson Hall. Chandran Ratnaswami, Amy Sherk, 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 15 at 2:30 p.m. at the Royal York Hotel in Toronto. Fairfax Africa will also have a booth at our meeting, so stop by and say hello to Michael Wilkerson and Neil Holzapfel and learn about the exciting opportunities that are unfolding in Africa.

So as we have done for the last 34 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 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 6, 2020

V. P. Watsa

V. Prem Watsa
Chairman and Chief Executive Officer