To our Shareholders:

The world stopped in 2020. Literally! COVID-19 closed down the economies of more than 180 countries. Our employees all had to work from home – more than 15,000 employees across the world. With huge thanks to all our employees, I am happy to say all our employees, led by our outstanding presidents, responded with great enthusiasm to serve all our clients, keep our employees safe and help our communities at the same time – without missing a beat! Our culture and decentralized structure were put to a real life stress test and our presidents responded beautifully. At the holding company, in spite of the retirement of our President and the earlier passing of our Chief Financial Officer in 2019, our small team, led by the amazing performance of Peter Clarke our COO and Jenn Allen our CFO, also rose to the challenge. You can see why I feel our company is in great shape. We did not forget our responsibilities to those less fortunate than us as we made special donations of $4 million* across the world for COVID-19 relief, mainly to food banks.

In March, the S&P500 dropped 30% in 12 days. We absorbed the mark to market losses and thrived. We earned $218 million in 2020 and our book value per share increased by 0.6% (adjusted for the $10 per share dividend) to $478 per share. Our insurance companies had an outstanding year in 2020 and are growing significantly, while our investments more than overcame the March carnage by the end of 2020 and are continuing to perform well.

Since we began in 1985, our book value per share has compounded at 18.7% (including dividends) annually while our common stock price has compounded at 16.2% (including dividends) annually.

Here's how our insurance companies performed in 2020:

	Underwriting Profit (Loss)	Combined Ratio	COVID-19 Losses	Combined Ratio Excluding COVID-19 Losses	Change in Gross Premiums 2020 vs 2019
Northbridge	109	92%	3%	89%	14%
Odyssey Group	190	95%	4%	91%	15%
Crum & Forster	60	98%	2%	96%	10%
Zenith	52	92%	3%	89%	(10)%
Brit	(240)	114%	16%	98%	7%
Allied World	126	95%	4%	91%	22%
Fairfax Asia	7	97%	0%	97%	(4)%
Other Insurance and Reinsurance	6	100%	4%	96%	8%
Consolidated	309	98%	5%	93%	12%

In spite of our COVID-19 losses of $669 million or 5 percentage points, we had a combined ratio of 98%. Excluding COVID-19 losses, we had a combined ratio of 93%. Our COVID-19 losses were mainly from business interruption losses outside of North America and event cancellation losses, mainly from Brit – and more than 50% is in IBNR. All of our major insurance companies had combined ratios less than 100%, with the exception of Brit, and had significant growth in gross premiums – led by Allied World, Odyssey Group and Northbridge. Premium increases accelerated during the year, rising from 12% in the first quarter to 16% in the fourth quarter – mainly due to rate increases. After many years of a soft market, the property and casualty insurance industry is experiencing a hard market accentuated by COVID-19 losses, catastrophe exposures, social inflation and low interest rates. Interest rates were at record lows in 2020 – never seen before even in the depression of the 1930s!

In 2020, we had exceptional performance at Allied World with a combined ratio of 95% and a 22% growth in gross premiums, Odyssey Group with a combined ratio of 95% and a 15% growth in gross premiums and Northbridge with a combined ratio of 92% and a 14% growth in gross premiums. Zenith continued to have an excellent combined ratio of 92% but because of declining rates in workers' compensation, shrank by 10% during the year. Crum & Forster had a combined ratio of 98% and grew by 10%. Brit had a combined ratio of 114% (98% excluding COVID-19 insurance losses) and a 7% growth in gross premiums.

* *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.*

In May 2021, Odyssey will complete 25 years as a Fairfax company. Odyssey began the journey as Skandia under Jim Dowd: we acquired it in 1996 and changed its name to Odyssey. Andy Barnard joined us shortly after with a very young Brian Young. Andy ran Odyssey Group for 15 years and then passed it to Brian in 2011. Over 25 years, Odyssey Group has had only two CEOs. Its record is quite astounding! Here it is:

	1996	**2020**
Gross premiums	$215 million	$ 4.3 billion
Common equity	$290 million	$ 4.8 billion(1)
Investment portfolio	$ 1.1 billion	$10.3 billion

(1) Stand alone U.S. GAAP

We have great continuity at Odyssey Group as many executives and employees have been there for almost all this time. In 2020, Brian Young commissioned a book on the journey. It is a wonderful read. We will give a copy to all our shareholders at our in person annual meeting in 2022.

Late in 2020 we announced the sale of RiverStone Europe (owned 60% by us and 40% by OMERS) to CVC Capital Partners. RiverStone Europe is an industry leader in run-off insurance services, and CVC's scale and vision will give RiverStone Europe, under the continued leadership of Luke Tanzer and his management team, the opportunity to further grow the business. Nick Bentley and Luke are also very supportive of this transaction, based on their strong belief that it is the best way for RiverStone Europe to continue to grow and pursue run-off transactions. RiverStone Europe was born out of the acquisition of Sphere Drake Insurance Company. Due to performance issues, in 1999 it was put under the management of RiverStone. For the first ten years RiverStone Europe was kept busy with many of our own run-off portfolios including Sphere Drake Bermuda, Skandia UK, CTR and the Kingsmead Agency at Lloyd's. By 2008 they drove down the reserves and were down to only 53 staff and $100 million in capital. Instead of closing the operations we pivoted from internal run-off to third party acquisitions. They did their first deal in 2010 and have never looked back. They have completed over 20 transactions bringing in over $5 billion of assets and producing a great return on capital, which allowed us to sell the company at $1.35 billion. RiverStone Europe is a great story of success, first directly under the leadership of Nick Bentley and then for the last twelve years Luke Tanzer. We wish Luke and all employees at RiverStone Europe much success in the future.

Over 35 years, here's what we have developed in the insurance business worldwide:

Fairfax Worldwide Insurance Operations as at December 31, 2020

	Ownership	Country	Gross Premiums Written	% of Total	Combined Ratio	Investment Portfolio
Northbridge	100%	Canada	1,727	9%	92%	3,472
Odyssey Group	100%	United States	4,306	23%	95%	10,348
Crum & Forster	100%	United States	3,082	16%	98%	5,023
Allied World	71%	Bermuda	4,634	24%	95%	9,224
Zenith	100%	United States	662	4%	92%	1,616
North America			14,412	76%	95%	29,683
Brit	100%	United Kingdom	2,408	13%	114%	4,912
Falcon	100%	Hong Kong	101	1%	95%	198
Pacific	85%	Malaysia	124	1%	99%	176
AMAG	80%	Indonesia	127	1%	94%	192
Fairfirst	78%	Sri Lanka	68	0%	98%	53
Asia			421	2%	97%	620
Fairfax Brasil	100%	Brazil	238	1%	95%	214
La Meridional	100%	Argentina	181	1%	99%	92
SouthBridge	100%	Colombia	138	1%	100%	138
SouthBridge	100%	Uruguay	13	0%	100%	12
SouthBridge	100%	Chile	284	1%	95%	89
South America			855	5%	98%	544
Bryte	100%	South Africa	320	2%	109%	286
Colonnade	100%	Luxembourg	183	1%	93%	257
Polish Re	100%	Poland	114	1%	98%	211
Fairfax Ukraine	70%	Ukraine	144	1%	93%	90
Group Re	100%	Barbados	123	1%	100%	719
Other International			884	5%	100%	1,562
Other(1)						4,787
Consolidated Insurance Companies			**18,979**	**100%**	**98%**	**42,109**
Gulf Insurance	43%	Kuwait	1,449		93%	991
EuroLife	50%	Greece	512		76%(5)	3,685
BIC	35%	Vietnam	115		98%	183
Digit	49%(4)	India	405		114%	693
Falcon (Thailand)	41%	Thailand	81		94%	48
Non-consolidated Insurance Companies(2)			**2,562**		**97%**	**5,600**
Total(3)			**21,541**		**98%**	**47,709**

(1) Includes run-off and other investments in associates

(2) Based on 100% level

(3) Numbers may not add due to rounding.

(4) 74% upon conversion of securities, when permitted under recent budget

(5) Non-life business only

Everything included, we have $21.5 billion in gross premiums worldwide with an investment portfolio of $47.7 billion. You can see why we have said we are not planning to make any more significant acquisitions but are planning to grow organically. Our North American companies plus Brit account for 89% of all our consolidated premiums. All of the presidents of our insurance companies report to Andy Barnard and Peter Clarke as they have done for almost nine years now. We have a G7 (six insurance companies plus run-off) call every two weeks where problems (and opportunities) are discussed. Similarly, under the chairmanship of Bijan Khosrowshahi, we also have a G10 call that encompasses all the other insurance companies. These video calls work remarkably well! It is an effective way to generate cooperation among all our decentralized insurance companies.

As the table shows, our international operations outside the G7 companies total $4.7 billion in gross premiums (what Fairfax wrote in total in 2002, 17 years after we began) and $8.3 billion in investment portfolios. They are sizeable and encompass many parts of the world. In the main, these are very underpenetrated insurance markets and the growth potential long term for Fairfax is huge. As a group, the combined ratio in 2020 for these operations was 98%. All our operations had very good reserving, and they all had a combined ratio less than 100% except Bryte (because of COVID-19 business interruption losses) and Digit (which is still in start up mode but is growing at a very fast pace in India, beginning from scratch about three years ago). The recent budget in India will permit us to increase our ownership in Digit to 74%.

Here's how gross premiums per share have compounded since we began in 1985:

	Gross Premiums Written	
		$ per Share
1985	17	3
1990	81	15
1995	920	104
2000	3,722	284
2005	5,516	310
2010	5,361	263
2015	8,331	375
2020	18,979	725

Since inception, gross premiums per share have compounded at 17% per year since inception and 14% in the last five years. We expect significant growth in the next five years through organic growth.

Seneca Insurance, as part of Crum & Forster, had an outstanding year in 2020 with a combined ratio of 87% after a few tough years recently. Since we purchased it in 2001, Seneca has expanded from $143 million in gross premiums written in 2001 to $336 million in 2020 with an average combined ratio during that period of 93%. Outstanding results by Marc Wolin and his team!

Last year I talked about Gary McGeddy who runs the Accident & Health profit centre at Crum & Forster. Over the better part of twenty years, Gary and his team have grown this business to over $1 billion in 2020 (despite COVID-19 reducing premium from its travel and its student inbound medical business by $200 million). We expect the next $1 billion may come much quicker. Outstanding results by Gary and the team at Crum & Forster.

Last year we also mentioned we acquired a 70% stake in two Ukrainian companies for $22 million. In the first full year with us they did not disappoint, with gross premiums written of $144 million, a combined ratio of 93% and net earnings of $16 million. We continue to be the largest property and casualty insurer in Ukraine. A big thank you to Andrey Peretyazhko at ARX, Oleksiy Muzychko at Universalna and their entire teams.

Also worth mentioning is that our Latin American operations, which include companies in Argentina, Chile, Colombia and Uruguay, produced for the first time since we acquired them in 2017 a consolidated combined ratio below 100%. Each of the management teams has been laser focused on producing an underwriting profit, resulting in a reduction in their combined ratio from 120% in 2018 to 99% today. Congratulations to Bijan Khosrowshahi, Fabricio Campos, his team and each of the presidents – Juan Luis Campos in Argentina, Fabiana De Nicolo in Chile, Marta Lucia Pava in Colombia and Marcelo Lena in Uruguay.

Digit, under Kamesh Goyal's leadership, is continuing its outstanding growth record in its fiscal year ending March 31, 2021, with gross premiums expected to grow by 40% to $400 million. Its combined ratio is expected to drop to 113% and, including investment income, it should be profitable. Amazing performance for a start-up! Digit raised $18 million in 2020 at a valuation of $1.9 billion from some private equity investors. (In our books, Digit continues to be valued based on a 100% level of $900 million.) We are very excited about Digit's growth prospects in the years to come. Also, many of our insurance companies expect to benefit from Digit's technological and innovation leadership.

In 2020 Brit, in collaboration with Google cloud, launched Ki, a standalone business and the first fully digital and algorithmically-driven Lloyd's syndicate. Ki will aim to significantly reduce the amount of time and effort taken by brokers to place their follow-on capacity, creating greater efficiency, responsiveness and competitiveness. We partnered with Blackstone to provide $500 million of committed capital to fund the expansion of Ki. Ki began writing business in January 2021 and got off to a great start, writing $70 million of premium and on track to meet the full year 2021 plan of over $300 million. This is a very exciting new venture in the insuretech space and Matthew Wilson, Mark Allen and team have done an outstanding job getting this initiative up and running. Mark Allen has been appointed as CEO of Ki, and consequently will be stepping down as CFO of Brit.

The $19 billion gross premiums written of our consolidated insurance companies is generated through over 200 profit centres across the group. Each profit centre is focused on a unique set of customers, geographies or products that benefit through market leadership, product knowledge and the ability to provide excellent customer service. These profit centres also facilitate transparency when Andy and Peter monitor the insurance operations. Empowerment thrives at Fairfax!

Last year, I discussed our wonderful partnership which we entered into in 2010 with Kipco in Kuwait through its Vice Chairman Faisal Al-Ayyar. The performance of Gulf Insurance Group (''GIG''), run by Khaled Saoud Al Hasan, has been excellent, tripling gross premiums to $1.4 billion with a combined ratio of 95% since 2010. On November 30, 2020, the company announced the acquisition of AXA's operations in the Gulf region. This will add over $900 million in gross premiums written with a combined ratio running below 95%, providing GIG access to new markets in Oman and Qatar and increasing its operations in Saudi Arabia, Bahrain and the UAE. We are very excited about the tremendous long term opportunity this presents for GIG. We welcome Paul Adamson and the AXA Gulf Group employees to our partnership with Kipco.

In November, we announced the sale of Vault Insurance to a private equity group led by Scott Carmilani. Vault Insurance was founded in 2017 by Allied World and focused on serving the needs of the high net worth market. Scott, of course, was the founder of Allied World and helped build it into a leading worldwide insurance and reinsurance business. We thank Scott for all his contributions to the Fairfax insurance group and wish him much success with Vault Insurance.

2020 was the blackest of black swans. Without any warning, the world's economies closed. And our insurance subsidiaries were hit by COVID-19 losses of $669 million! At the same time, stock markets crashed in March 2020. As I said earlier, it was a real life stress test.

Because of cash and marketable securities in our holding company of about $1 billion, no debt maturities to speak of in the three years 2020 to 2022, unused credit lines of $2 billion and well capitalized insurance subsidiaries and major non-insurance subsidiaries, we absorbed the effects of the pandemic and thrived. Our focus has always been to have a very strong financial position to meet the unexpected problems that the world experiences – often, ones we have not witnessed before! We will be even stronger in the future as we intend to hold cash (excluding any marketable securities) in excess of $1 billion in our holding company and to maintain and strengthen the other safeguards discussed earlier.

Over the years, we have made common stock investments pursuant to which we have significant ownership positions in a number of individual names. Although the returns can be lumpy, these holdings have served us well over the years – especially on sale. The downside of larger ownership positions is that the accounting rules for these holdings are somewhat confusing (even for us!). What we find useful in clarifying the accounting positions is to separate these common stockholdings into three buckets. Generally, for positions where we hold less than a 20% economic interest and no control, we mark to market; where we have an economic interest of 20% or more but no control (these holdings are called associates), we equity account; and where we have control or an economic interest above 50%, we consolidate. I hope that the following detailed commentary will help to break through the difficulties of understanding the value of our investments resulting from the accounting rules and to provide a better understanding of the value of our investments.

Below is a table of our largest holdings in each of the above buckets. The table shows you for each bucket, as of December 31, 2020, the shares we own and the per share and total carrying values and market values of those shares. Currently, the total market value of these common stock holdings exceeds their total carrying value.

Common Stock Holdings

	Shares *(millions)*	Ownership	Carrying Value per Share ($)	Share Price ($)	Carrying Value	Market Value
Common Stocks – Mark to Market						
BlackBerry[1]	44.9	8%	6.63	6.63	298	298
Commercial International Bank	77.6	5%	3.75	3.75	290	290
Stelco	13.0	15%	17.76	17.76	231	231
Kennedy Wilson	12.9	9%	17.89	17.89	230	230
Leon's Furniture	7.2	9%	15.97	15.97	116	116
IIFL Wealth	4.1	5%	13.85	13.85	56	56
Micron Technology	0.7	0%	75.17	75.17	53	53
Mastercraft Boat Holdings	1.9	10%	24.83	24.83	46	46
Franklin Resources	1.0	0%	24.98	24.98	25	25
Alphabet	0.0	0%	1,750.82	1,750.82	24	24
Other					1,417	1,417
Common stocks					2,785	2,785
Limited partnerships					1,843	1,843
Total mark to market					4,628	4,628
Common Stocks – Equity Accounted (Associates)						
Eurobank Ergasias	1,129.9	31%	1.03	0.71	1,166	800
Atlas[2]	90.4	37%	9.96	10.83	900	979
Quess	47.6	32%	11.40	7.48	543	356
EXCO Resources	–	44%	–	–	238	238
Helios Fairfax Partners	35.3	32%	5.25	5.25	186	186
Peak Achievement	–	43%	–	–	140	172
Resolute Forest Products	24.8	31%	5.42	6.54	134	162
Kennedy Wilson Partnerships	–	–	–	–	124	124
Astarta	7.1	28%	9.20	7.03	65	50
IIFL Finance	28.4	7%	2.03	1.56	58	44
Other					207	192
Total Associates					3,761	3,303
Common Stocks – Consolidated						
Recipe	22.6	40%	21.51	12.96	486	293
Fairfax India	41.9	28%	9.66	9.60	405	402
Thomas Cook India	248.2	67%	0.86	0.64	214	160
Dexterra Group	31.8	49%	3.62	5.06	115	161
AGT Foods	–	58%	–	–	57	57
Other					109	109
Total Consolidated					1,386	1,182
Total Common Stock Holdings					**9,775**	**9,113**

(1) Excludes 48 million shares from convertible bonds
(2) Excludes 25 million Atlas warrants

In the table below, we reconcile our portfolio investments in the three buckets from the table of common stock holdings above and our other investments to the balance sheet in our consolidated financial statements.

	Common Stocks – Mark to Market	Common Stocks – Equity Accounted (Associates)	Common Stocks – Consolidated	Common Stocks in Equity Accounted Insurance Associates	Investments other than Common Stocks	Fairfax Balance Sheet
Holding company cash and investments	124	–	–	–	1,128	1,252
Portfolio investments:						
Subsidiary cash and short term investments	–	–	–	–	13,198	13,198
Bonds	–	–	–	–	15,735	15,735
Preferred stocks	–	–	–	–	605	605
Common stocks	4,504	–	95	–	–	4,599
Investments in associates	–	3,761	45	575	–	4,382
Investment in associates held for sale	–	–	–	730	–	730
Derivatives and other invested assets	–	–	–	–	812	812
Assets pledged for derivative obligations	–	–	–	–	196	196
Fairfax India cash and portfolio investments	–	–	1,740	–	112	1,852
Fairfax investment portfolio	4,504	3,761	1,880	1,305	30,658	42,109
Eliminate common stock positions from consolidated investments			(1,880)			
Carrying value of consolidated investments			1,386			
Total carrying value of common stock holdings	**4,628**	**3,761**	**1,386**			**9,775**

A few additional comments:

- We exclude common stocks in equity accounted insurance associates (such as Eurolife) from the preceding common stock holdings table as these are long term strategic assets that we have no plans on selling.
- With consolidated accounting we must include in our common equity portfolio any underlying common equity holdings or associates held by our consolidated investments (such as Recipe and Fairfax India). When we look at our common equity holdings we like to back these common stocks out of our total common stock holdings and instead add back in only our share of the consolidated investments that hold these underlying assets, as shown in the preceding common stock holdings table.
- The $1,740 million shown for Fairfax India comprises $412 million of mark to market common stocks (such as IIFL Wealth) and $1,328 million of equity accounted associates (such as Bangalore International Airport and Sanmar). The $1,852 million shown for Fairfax India includes the foregoing $1,740 million plus $112 million of cash and bonds.
- We began equity accounting RiverStone Barbados in 2020, so its investment portfolio is no longer consolidated. Within its investment portfolio are positions of many of the common stocks listed in the common stock holdings table above. For example, RiverStone Barbados owns 9.7 million shares of Fairfax India that are not included in the 41.9 million shares of Fairfax India we show in the common stock holdings table (combining both would give us 51.6 million shares or 34.5% ownership). The same can be said for a

number of other holdings such as Atlas, BlackBerry, Commercial International Bank and Recipe. As part of the sale of RiverStone Barbados to CVC, we have the opportunity to purchase these securities over the next two years, at December 31, 2019 prices.

- We equity account our 49% ownership in Digit, which is carried at $42 million; in addition, we have convertible preferred shares carried at $475 million – all at the valuation of Digit on a 100% basis of $900 million.

It is important to recognize that, because our common stock investments are shown on our balance sheet at the carrying values, for common stocks in both the second and third buckets it is only on sale that their market values will be reflected on our balance sheet. By showing the above tables to you on a regular basis, you can mark to market the great majority of our common stock positions – up and down! Additionally, remember, it is only in the long term that stock prices reflect underlying intrinsic values.

When you compare carrying values to market values at the end of 2020, the carrying values and market values are the same for common stocks that are marked to market, $458 million more for stocks equity accounted (associates) and $204 million more for stocks consolidated in our statements. The $9,775 million carrying value of the total portfolio of common stocks at the end of the year was $662 million more than the market value. Currently, the total market value exceeds the total carrying value.

An example will illustrate the valuation difference in the second bucket. Atlas (formerly Seaspan) was purchased by us in July 2018 at $6½ per share through the exercise of warrants which we acquired in February 2018. We exercised additional warrants in January 2019, sold APR Energy to Atlas in exchange for 18 million shares at $11.10 per share, and had our cumulative share of earnings of $209 million less dividends of $81 million, increasing our carrying value to $10 per share at the end of December 2020. At that time, Atlas was trading at $11 per share, resulting in an unrealized gain of $79 million which will only be reflected in our balance sheet at the time of sale, even though it is very much there at the end of 2020. Atlas is currently trading at about $13.75 per share.

In the third bucket, let's illustrate with Recipe, Fairfax India and Dexterra. These positions are fully consolidated into our financial statements – our balance sheet and income statement. Minority interests in our income statement and balance sheet reduce the earnings and common equity to our ownership percentage of these positions. Every quarter our balance sheet reflects our share of the common equity of these positions. At the end of 2020, Recipe, Fairfax India and Dexterra were carried in our balance sheet at $21.51 per share, $9.66 per share and $3.62 per share respectively versus market prices at that time of $12.96 per share, $9.60 per share and $5.06 per share respectively.

The table below shows the dollar and percentage contribution by category to our investment return (the percentage is of our approximately $41 billion average total investment portfolio):

Interest and dividends	769	1.9%
Share of loss of associates	(113)	(0.3)%
Net losses on equity exposures	(157)	(0.4)%
Net gains on bonds	460	1.1%
Other net gains	26	0.1%
	986	2.4%

In spite of not reaching for yield by taking credit risk or term risk, we had interest and dividend income of $769 million in 2020, down from $880 million in 2019. During the period from March to May 2020, when corporate bond spreads widened significantly, we added $3.9 billion in investment grade corporate bonds at a yield of 4.1% and term of 4 years. At the end of 2020, our fixed income portfolio, which effectively comprised 73% of our investment portfolio, had a very short duration of approximately 1.8 years and on average is rated AA−. As we said last year, we do not expect rising rates to materially impact our fixed income portfolio.

After the March/April crash in the stock market, we could not resist buying Exxon shares at a dividend yield of 10.5%, Canadian banks at an average yield of 6.1% and some other companies like Royal Dutch Shell, Alphabet, FedEx and Helmerich & Payne at very attractive prices. We sold approximately half of them in 2020 for a profit of $212 million or an average gain of 40% on our investment.

Share of loss of associates of $113 million includes our share of loss from Quess ($125 million, including a $98 million writedown), Astarta ($28 million), Farmers Edge ($22 million) and associates of our non-insurance consolidated investments Fairfax Africa ($74 million) and Fairfax India ($25 million). Offsetting this was our share of profit of Atlas ($116 million) and Peak Achievement ($34 million) and $11 million in net profit from all other associates. COVID-19 was a significant contributor to the losses at many of our associates during 2020 due to the global shutdown.

Net losses on equity exposures of $157 million comprises (a) net realized losses of $311 million, including realized losses on short equity exposure ($704 million), Fairfax Africa ($62 million) and Torstar ($52 million), and realized gains on BDT Capital Partners ($182 million), Royal Dutch Shell ($44 million), General Motors ($31 million), Alphabet ($27 million) and FedEx ($25 million); and (b) net change in unrealized gains of $154 million, including unrealized gains on Stelco ($118 million), Asian Value Investments ($63 million), BlackBerry convertible bonds ($142 million) and Bank of America ($49 million), and unrealized losses on Commercial International Bank ($149 million), Atlas warrants ($54 million) and Lumen Technologies ($55 million). Please see the Investment section of this letter for commentary on some of the above situations.

Net gains on bonds of $460 million includes net gains on corporate bonds of $474 million and net losses of $35 million on government bonds (inclusive of losses on treasury locks of $102 million). The majority of the gains on corporate bonds were from bonds purchased in the first and second quarters of 2020 when credit spreads widened.

Other net gains of $26 million includes many miscellaneous items, including foreign exchange gains.

Below is, once again, a table that shows, for successive periods over our 35 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%
2017-2020	9.0%	99.2%	4.8%

Over the last 15 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. I said in our 2019 annual report that we would not short stock market indices (like the S&P500) or common stocks of individual companies ever again, and our last remaining short position was closed out in 2020 (not soon enough, as it cost us $529 million in 2020).

India

As you know, we became very excited about India after Mr. Modi got elected in 2014 with a majority. Why? Mr. Modi had an outstanding record of growth as chief minister of Gujarat (population 65 million), with 10% real growth in GDP over 13 years and a very business-friendly policy. In his first term as prime minister, Mr. Modi concentrated on looking after the poorest of the poor in India. He set up more than 400 million bank accounts for the unbanked to eliminate frictional loss in monies transferred from the government to the poor. He made sure every household had electricity and cooking gas and he provided health insurance to the 500 million poorest citizens of India. In his second term and his most recent budget, Mr. Modi pivoted. His most recent budget was strongly growth-oriented and very business-friendly, yet fiscally responsible. The key initiatives in the budget include privatization of several government-owned companies, increased spending on infrastructure, an increased foreign direct investment limit in insurance of 74% and the creation of a bad bank to ease the bad loan crisis. He did not increase taxes. Mr. Modi has recently begun speaking about how private business was needed to increase employment and wealth. You have to create wealth before it can be distributed, he said. He questioned why government bureaucrats should run airlines or petrochemical facilities. No government since India got its independence in 1947 has had the courage to praise private enterprise. Mr. Modi did just that, for the first time – brazenly! We think India is set to boom like it never has before. This could be the transformational event we have been waiting for! Mr. Modi is opening up the Indian economy and giving Indians economic freedom. Very exciting!

The table below shows our investments in India and how they have performed up to December 31, 2020.

	Date of Initial Investment	Ownership	Cost	Fair Value at December 31, 2020	Compounded Annualized Return
Thomas Cook India	Aug 2012	66.9%	253	160	10.1%(1)
Fairfax India	Jan 2015	34.5%	469	495	1.4%
Digit	Feb 2017	49.0%	154	596	68.5%
Quess	Dec 2019	32.3%	335(2)	352	4.7%
Other			323	361	
			1,534	1,964	
Fairfax India's investments:					
Bangalore International Airport	Mar 2017	54.0%	653	1,396	23.8%
IIFL companies(3)	Dec 2015		306	382	9.2%
Sanmar Chemicals	Apr 2016	42.9%	199	339	16.9%
CSB Bank	Oct 2018	49.7%	170	214	13.7%
Privi Speciality	Aug 2016	48.8%	55	138	24.3%
Seven Islands	Mar 2019	48.5%	84	104	13.2%
NCML	Aug 2015	89.5%	188	101	– 12.4%
Fairchem Organics	Feb 2016	48.8%	19	55	23.5%
National Stock Exchange	Jul 2016	1.0%	27	73	29.0%
Saurashtra Freight	Feb 2017	51.0%	30	33	2.3%
Other			132	173	19.9%
			1,863	3,007	

(1) Includes dividends received ($11 million) and spinoff of Quess ($330 million)

(2) Cost shown for Quess represents its market value on December 5, 2019, the date it was spun off from Thomas Cook India.

(3) IIFL companies include IIFL Finance, IIFL Wealth, IIFL Securities and 5paisa.

The COVID-19 crisis shut the Indian economy down from March to May in 2020. Since restarting its economy in June, the Indian economy is back to pre-COVID-19 levels and with the recent budget, should grow at a rate in excess of 11% in 2021 to make up for the decline in 2020. All our companies survived the shutdown well because of excellent management and strong financial positions. Even Thomas Cook India, whose business virtually halted, managed within its own resources in 2020, though it will need some financing in 2021. Because of the lockdown in 2020, all the fair values, particularly publicly listed values, are down significantly. Early in 2021, stock prices rebounded significantly with Mr. Modi's business-friendly budget.

Since it began in 2014, Fairfax India has made ten investments (13 currently, as one has split into four listed entities) – 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. After one of its best ever years in 2019 when it served its highest ever number of 34 million passengers, BIAL hit a rather large air pocket in the form of the pandemic. Due to the shutdown of the airport to all passenger traffic from March 25 to May 25 and traffic only resuming very gradually since then, as a result of the pandemic and consequent lockdown imposed by the government of India, passengers served in 2020 declined significantly to 14 million passengers. Despite these extraordinary circumstances BIAL had a commendable year in 2020, turning what could have been significant problems into opportunities for changes that addressed both short term needs and longer term operational excellence. During the lockdown, the BIAL team opportunistically brought forward many maintenance projects such that future disruptions will be minimized. The considerable construction activity that was planned at BIAL to grow the capacity to over 90 million passengers by 2034 (financed from internal resources and low cost long term debt) was also temporarily delayed because of the non-availability of labour and materials caused by the pandemic. However, construction activity has now resumed and the delay will not compromise its plans to achieve the capacity as originally planned. Last year I mentioned that 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 was then $1.4 billion, up by 119% from Fairfax India's cost. Despite the disruptions caused by the pandemic, because BIAL's concession agreement provides for revenues and returns lost in one period to be recouped in the next, the long term valuation of BIAL remains unchanged. BIAL managed the pandemic lockdown within its own resources.

Also in 2019, Fairfax India signed definitive agreements with OMERS, the pension plan for Ontario's municipal employees, whereby Fairfax India will transfer 43.6% out of the 54% that it owns in BIAL to a wholly owned Indian holding company (Anchorage) and OMERS will pay about $130 million to acquire 11.5% of Anchorage from Fairfax India. This transaction values 100% of BIAL at $2.6 billion. We expect to close this transaction in March 2021 and begin soon after the process to list Anchorage on the Indian stock exchanges, possibly at a much higher valuation.

Under the exceptional leadership of Nirmal Jain and R. Venkataraman, IIFL, another important Fairfax India (and Fairfax Financial) investment, has established a leading national financial services company serving over 6 million customers from over 2,400 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 non-bank financial corporation), IIFL Wealth (the wealth and asset management company) and IIFL Securities (the retail and institutional broker, financial products distribution and investment banking company). Prior to this, 5paisa, which literally means ''5 cents'', was spun off from IIFL Holdings in 2017, and Fairfax and Fairfax India own a 36% equity interest in it. It is one of India's fastest growing technology-led financial services companies and offers an array of financial products and services through a digital platform and mobile application. 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.

On February 26, 2021 Fairfax India completed its maiden investment grade debt issue, selling $500 million of 7-year unsecured senior notes with a coupon of 5% – to repay most of its bank borrowings. A major accomplishment for Fairfax India!

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, Amy, Keir, Gopal, Sumit who runs Fairbridge, and the Fairbridge team.

As Chandran says in his letter to shareholders, Fairfax India has taken the opportunity over the last three years to buy back 5.6 million of its shares (3.6% of the total outstanding) for $64.1 million or an average price of $11.40 per share, including the 3.2 million shares it bought in 2020 for $28.9 million or an average price of $9.14 per share.

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 4,700 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. With the 2019 purchase of Digiphoto Entertainment Imaging (''DEI''), Thomas Cook has emerged as a complete travel solutions company. DEI provides imaging solutions for the entertainment industry, giving Thomas Cook India 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 130 entertainment partners.

Thomas Cook India had an especially difficult year since the travel industry was one of the most impacted during the pandemic. Its travel businesses declined by over 90% and its foreign exchange business declined by over 75% during 2020, resulting in a pre-tax loss of $56 million. It implemented extensive cost saving initiatives to mitigate its drop in revenue and extremely tight liquidity. Further, to alleviate this situation, it is planning to raise long term resources in order to sustain its operations when the business recovers in the future and to meet working capital requirements. After considering various options for raising capital, Thomas Cook India and its Board have proposed an issuance of up to $60 million of optionally convertible redeemable preference shares to Fairfax and we have agreed to provide this support, subject to shareholders' and all applicable regulatory approvals. As its business normalizes after the pandemic, we expect Thomas Cook India to emerge stronger and more efficient, generating superior returns.

Quess you will remember was spun out of Thomas Cook India in 2019, and had a better than expected outcome in 2020 despite the effects the pandemic had on its clients and overall economic activities. Revenue from operations declined only 1% to $1,449 million and profit before tax fell 20% to $34 million. Under the able leadership of Chairman and founder Ajit Isaac, aided by new CEO Suraj Moraje and a long serving senior management team, Quess has emerged stronger since the pandemic-induced lockdown, with more clients, better growth, a net cash financial position (after repaying most of its debt in 2020) and better free cash generation from its operations. Better times are ahead for Quess as we progress to the other side of the pandemic. Quess is India's leading integrated business services provider. With over 333,000 employees, it is now the largest domestic private sector employer in India. It has a pan-India presence, along with an overseas footprint in North America, South America, the Middle East and South East Asia. It serves over 3,000 customers across three platforms – workforce management, operating asset management and global technology solutions.

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 claims administrators specializing in the health business and is led by its founder, Dr. Nayan Shah. The transaction closed in October 2020. We welcome our partner Dr. Shah and his team to the Fairfax family.

Since 1991, we have reinvested a part of our profits in the communities we do business in across the world. In India we have two major initiatives in this regard. Through Madhavan Menon and Thomas Cook India'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 India team for carrying out this initiative. Under the leadership of Ajit Isaac, Chandran and others in the Fairfax family, we are also funding a children's hospital in India over the next five years, which is being built by CMC Vellore. Construction is expected to begin in 2022.

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

	2020	
Unconsolidated Balance Sheet(1)	**($ billions)**	**($ per share)**
Assets		
Northbridge	1.5	56
Odyssey Group	3.9	149
Crum & Forster	1.9	72
Zenith	0.9	33
Brit	2.0	76
Allied World	2.8	108
Fairfax Asia	1.0	39
Other Insurance and Reinsurance	0.9	36
Run-off	0.1	3
Insurance and Reinsurance Operations	15.0	572
Recipe	0.5	19
Thomas Cook India	0.2	8
Fairfax India	0.4	15
Other Non-Insurance	0.3	10
Non-Insurance Operations	1.4	52
Total consolidated operations	16.4	624
Holding company cash and investments	1.3	48
Investments in associates	1.7	68
Other holding company assets	0.6	23
Total assets	20.0	763
Liabilities		
Accounts payable and other liabilities	0.6	21
Long term debt	5.6	213
	6.2	234
Shareholders' equity		
Common equity	12.5	478
Preferred stock	1.3	51
	13.8	529
	20.0	763

(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 $15.0 billion ($572 per share) invested in our insurance companies – our core business. Our largest insurance companies – Northbridge, Odyssey Group, Crum & Forster, Zenith, Brit and Allied World – account for over 90% of this investment. Our insurance companies have been and will be the gift that keeps giving, as they provide us with a float, currently $22.7 billion, which does not cost us anything – in fact, in 2020 we were paid $309 million to keep the float – and which is then invested worldwide. By the way, our insurance companies are worth much more than the amount at which they are carried on our balance sheet – one reason why I think our stock is so undervalued.

Our consolidated non-insurance businesses (and your investment per share in them) are shown separately in the above table: they are significant, and again, are worth more than the amount at which they are carried on our balance sheet. As I said last year, we expect each of these non-insurance operations to generate a 15% annual return or better over the long term.

So as a shareholder of Fairfax, you benefit from four sources of income – underwriting income, interest and dividend income, income from our non-insurance businesses and capital gains.

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
2020	− 2	− 29
1985-2020 (compound annual growth)	**+17.9**	**+15.0**

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 book value has increased significantly and our stock price has gone up more: please note 1993, 1995, 1996, 1998, 2003, 2008 and 2014. As you can see, it has not happened in the last few years, but we expect it will happen again!

Throughout much of last year following the pandemic-induced market plunge, I made public statements to the effect that our belief was that Fairfax shares were trading in the market at a ridiculously cheap price. In the summer I backed that up by personally purchasing close to $150 million of shares. Additionally, following our value investing philosophy, since the latter part of 2020 Fairfax has purchased total return swaps with respect to 1.4 million subordinate voting shares of Fairfax with a total market value at the time of those agreements of $484.9 million ($344.45 per share). We think this will be a great investment for Fairfax, perhaps our best yet!

Here is how our stock price has done compared to the TSX and S&P500 (all including dividends):

	Fairfax (US$)	**TSX**	**S&P500**
5 years	(4.3)%	9.3%	15.2%
10 years	0.4%	5.8%	13.9%
15 years	8.2%	6.0%	9.9%
20 years	6.1%	6.2%	7.5%
35 years since inception	16.4%	8.1%	11.1%

Investment returns are very sensitive to end date values, so with a stock price of only $341 per share at the end of December 2020, our five and ten year and longer returns have been affected. We expect this to change as Fairfax begins to reflect intrinsic values again. Nothing that a $1,000 share price won't solve!

Insurance and Reinsurance Operations

	Combined Ratio			**Change in Net Premiums Written**
	2020	**2019**	**2018**	**2020 vs 2019**
Northbridge	92%	96%	96%	14.1%
Odyssey Group	95%	97%	93%	11.7%
Crum & Forster	98%	98%	98%	9.1%
Zenith	92%	85%	83%	(10.4%)
Brit	114%	97%	105%	7.2%
Allied World	95%	98%	98%	24.2%
Fairfax Asia	97%	97%	100%	(4.2%)
Other Insurance and Reinsurance	100%	102%	105%	3.1%
Consolidated	98%	97%	97%	11.0%

Note: Further detail is provided in the MD&A.

Northbridge had a very successful year in 2020 as continued improvement in the Canadian market drove its combined ratio down to 92%. Underwriting profit more than doubled over 2019, coming in at over $100 million. Silvy Wright and her team have done an exceptional job with their clients in the mid-market commercial segment. Northbridge's reputation for outstanding customer service, combined with rising rates, allowed it to once again grow its portfolio by double digits in 2020. The company has been well served by its prudent reserving practices, and 2020 was no exception as prior year releases once again benefited the combined ratio. It will be a challenge for Northbridge to improve upon 2020's performance in 2021, but the conditions are in place to make that a possibility.

Since 2016, Odyssey Group and Zenith have traded places each year for the lead position in underwriting profit generated. In 2020, it was Odyssey Group's turn at the top again, producing $190 million of positive underwriting result. Brian Young and his team racked up a 95% combined ratio, despite absorbing $140 million of COVID-19 provisions. With 35 discrete business units across its Odyssey Re, Hudson and Newline platforms, Odyssey Group has a highly diversified book of business. Its activity in critical segments, such as Directors and Officers Liability insurance, expanded dramatically in 2020. Odyssey Group's net premiums written grew almost 12% in 2020, after having grown over 17% in the prior year. With a solid reserve position and rates increasing across many fronts, Odyssey Group is poised to continue its growth of both the top and bottom lines.

At Crum & Forster, Marc Adee's team produced a combined ratio of 98%, generating an underwriting profit of $60 million. Drying up of the Travel Insurance market, due to COVID-19, subdued the overall growth rate from the double digit pace the company had been accustomed to. Nevertheless, Crum & Forster still managed to post a 9% expansion in net premiums written over the previous year. Within the Crum & Forster family, it was Seneca Insurance that led the way with an 87% combined ratio and an outsized contribution to the total result. The Accident and Health Group and the Excess and Surplus Lines Division also once again had very rewarding results. While the growing Surety Division was a positive contributor, the Property Division was disappointing after being stung by the frequency of storm activity in 2020.

Zenith continued its string of exceptional results in 2020, posting a combined ratio of 92% and contributing over $50 million of underwriting profit. The Workers' Compensation market in the United States has been very competitive over the last several years, and prices declined around 10% in 2020. As a consequence, Zenith's net premiums written declined again during the year. It is a testament to the strength of the Zenith franchise and to the specialized skills of its employees that the company was able to maintain strong levels of profitability in the face of such challenging conditions. Kari Van Gundy and her team launched several initiatives to provide relief to the Zenith expense ratio during this time of declining revenue, including the provision of services to third party players in the Workers' Compensation field. We expect rate decreases to moderate in 2021, and that Zenith will continue to be one of our most profitable companies.

Allied World, under the strong direction of Lou Iglesias, enjoyed its most rewarding year yet as a Fairfax company. Its combined ratio of 95% and underwriting profit of $126 million were easily its best performance since the acquisition. Our expectation that Allied World was well-positioned to benefit from the hardening market was fully vindicated in 2020, as it grew net premiums written by 24% during the year. The company has a strong and active presence in many of the hardest industry segments, such as Directors and Officers Liability, Excess Casualty and International Professional Liability insurance. These areas expanded rapidly in 2020, with rate increases often exceeding 50%. The momentum has continued into 2021 as Allied World moves forward with a full head of steam.

No company at Fairfax endured as challenging a year in 2020 as did Brit. COVID-19 struck particularly hard at Brit's results, leading to an elevated combined ratio of 114% and a substantial underwriting loss. As a significant player in the Contingency Event Cancellation business, a traditional specialty line in the Lloyd's market, Brit suffered a loss from the pandemic, as did all participants in that field. Absent COVID-19 losses, from the Event Cancellation business and other areas, Brit turned an underwriting profit in 2020. During the year, like our other companies, Matthew Wilson and his team expanded their business in segments showing the strongest upward rate action. In addition, as mentioned previously, Brit launched its Ki Syndicate, the first automated follow-on syndicate in the Lloyd's market.

Beyond our North American-focused companies, Fairfax's insurance companies enjoyed another year of progress.

Fairfax Asia produced $421 million of gross premiums written in 2020 and a combined ratio of 97%. As was true in previous years, each of the four operating companies in Fairfax Asia (Malaysia, Indonesia, Sri Lanka and Hong Kong) produced a combined ratio below 100%. Mr. Athappan continues to oversee Fairfax Asia from Singapore, ably assisted by Gobi Athappan and Ravi Prabhakar.

The largest of our international groups, measured by gross premiums written of $616 million, is Fairfax Latam, which comprises separate operations in Argentina, Chile, Colombia and Uruguay. As mentioned, Fairfax Latam cracked the 100% combined ratio for the first time in 2020 after several years of hard work reconfiguring the companies to operate with the Fairfax focus on underwriting profit. Great credit goes to Bijan Khosrowshahi, and Fabricio Campos and his colleagues at Fairfax Latam, as well as the management teams at each of the four operating companies.

Our top performing international operation continued to be Colonnade, led by Peter Csakvari, and operating in Poland, the Czech Republic, Slovakia, Hungary, Bulgaria, Romania and the Ukraine. In 2020, it achieved a combined ratio of 93%, one of the lowest in all of Fairfax, notwithstanding its premium volume decreasing due to the effects of COVID-19.

Bijan Khosrowshahi of Fairfax International and Jean Cloutier work closely with both Fabricio and Peter, and have been instrumental in the success of both these operations. In addition to this work, both are also key in our relationship with Gulf Insurance Group. As mentioned, with the pending acquisition by GIG of the AXA Gulf operations, this part of the world will become increasingly important to Fairfax.

Outside of the Colonnade operation, we now own two other companies in the Ukraine. The larger of the two, ARX, was also acquired from AXA. In 2020, it produced a combined ratio of 93%. Congratulations to Andrey Peretyazhko and his colleagues. Separately, Universalna, run by Oleksiy Muzychko, generated a 95% combined ratio in 2020.

In Brazil, Bruno Camargo led Fairfax Brasil to a record result with a combined ratio of 95% and its fifth year in a row with a combined ratio under 100%, with premiums doubling over this period.

Finally, our operation in South Africa, Bryte, had a difficult year after being adversely affected by COVID-19 losses. While Edwyn O'Neil and his team produced a combined ratio, excluding COVID-19 losses, of well below 100%, the reported result of 109% included significant losses from the pandemic. At $246 million in net premiums written, Bryte is (after Brit) our largest single company outside of North America.

In addition to the companies discussed above, all of which are consolidated in Fairfax's financial and underwriting results, we have, as mentioned earlier, significant holdings in various operations which are not consolidated. Chief among these is the aforementioned Gulf Insurance Group. With $1.4 billion in gross premiums written, and a combined ratio in the low 90s, GIG had another very successful year. In India, Digit continued to build out its capabilities, utilizing cutting edge technology to enhance its expansion in this rapidly growing market. Expected to reach $400 million in gross premiums written in less than four years, Digit, led by CEO Kamesh Goyal, is now producing a net bottom line profit, though not yet an underwriting profit. Finally, in Greece, Eurolife has been an extraordinary investment for Fairfax. Writing both Life and Property/Casualty lines, the company in 2020 generated over $500 million of gross premiums written and produced net income of $130 million. Led by Alex Sarrigeorgiou, Eurolife has a track record second to none in the Greek market.

The tables that follow show you how our international operations (non-North American other than Brit) have grown in the last five years. The top table is at the 100% level and the bottom table is Fairfax's share; both exclude First Capital and ICICI Lombard, which were sold during this time period. The growth in the last five years includes organic growth, the start-up of Digit and the acquisitions of Fairfax Latam, Eurolife, Bryte, Colonnade and Fairfax Ukraine. We expect our international operations to continue to grow significantly because of the low insurance penetration in many of these countries.

	International Operations		Compound Growth
Based on 100% level	**2015**	**2020**	**5-year**
Gross premiums written	1,292	4,722	30%
Shareholders' equity	1,125	3,320	24%
Investment portfolio	2,302	8,326	29%

	International Operations		Compound Growth
Fairfax's share	**2015**	**2020**	**5-year**
Gross premiums written	845	3,198	30%
Shareholders' equity	912	2,295	20%
Investment portfolio	1,767	5,291	25%

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, 2020		
	Net Premiums Written	**Statutory Surplus**	**Net Premiums Written/Statutory Surplus**
Northbridge	Cdn 2,065	Cdn 1,547	1.3x
Odyssey Group	3,790	4,901	0.8x
Crum & Forster	2,543	1,519	1.7x
Zenith	646	522	1.2x
Brit	1,776	1,593	1.1x
Allied World	3,018	4,428	0.7x
Fairfax Asia	222	501	0.4x

On average we are writing at about 1.0 times net premiums written to surplus. In the hard markets of 2002 – 2005 we wrote, on average, at 1.5 times. As you know, our strategy during 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 2011, and of our major companies acquired since then, are shown in the table below:

	2011 – 2020	
	Cumulative Net Premiums Written *($ billions)*	**Average Combined Ratio**
Northbridge	Cdn 13.3	97%
Odyssey Group	26.0	93%
Crum & Forster	17.1	100%
Zenith	7.1	92%
Brit(1)	9.1	104%
Allied World(1)	8.8	104%
Fairfax Asia(2)	2.5	88%
Total	83.9	97%

(1) 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.

Since we began in 1985, we have written over $175 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 2010 onwards) for our companies which we have owned since 2010:

	2010 – 2019 Average Annual Reserve Redundancies
Northbridge	13.0%
Odyssey Group	12.7%
Crum & Forster	0.9%
Zenith(1)	15.2%
Fairfax Asia(2)	18.2%

(1) Since acquisition on May 20, 2010

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

The table shows you how our reserves have developed for the ten accident years prior to 2020. 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, 2020 which is available on our website *www.fairfax.ca*.

At our RiverStone run-off operations, led by Nick Bentley, while not recently active in U.S. run-off acquisitions (other than some small very successful captive insurance deals), the team has been very busy focusing on our U.S. legacy reserves, especially asbestos claims. Although we needed to strengthen reserves again in 2020 (about half of the previous year), the team continues to deliver significant value and savings from its dedicated focus and best in class experience – I can assure you these reserves are in good hands. As mentioned previously, late in 2020 we announced the sale of our remaining interest in RiverStone's European business to CVC Capital Partners. Luke Tanzer and his entire team at RiverStone Europe had a very busy year, closing five run-off deals. They are excited to continue to expand in the very active UK run-off market, and again, we wish them all the best going forward.

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%
2020	309	21,668	(1.4)%	1.2%
Weighted average last ten years			(1.2)%	2.2%
Fairfax weighted average positive financing differential last ten years: 3.4%				

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 2020, our ''cost of float'' was a 1.4% benefit, as we made an underwriting profit. In the last ten years, our float has cost us nothing (in fact, it provided an average 1.2% benefit per year), while during that time it cost the Government of Canada an average 2.2% per year to borrow for ten years – an advantage for us over the Government of Canada of 3.4% per year.

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

	Insurance and Reinsurance										
Year	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Total Insurance and Reinsurance	Run-off	Total
					($ billions)						
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
2020	2.1	5.9	3.3	1.1	3.2	5.7	0.3	1.1	22.7	1.6	24.3

In the past five years our float has increased by an average of 7% annually, due partly to organic growth in net premiums written at Odyssey Group, Northbridge and Crum & Forster and to the acquisition of Allied World in 2017, notwithstanding the sale of First Capital in 2017 and European run-off in 2020.

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
2015	17,209	775
2019	22,379	834
2020	24,278	927

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.

	2020	2019
Underwriting – insurance and reinsurance		
Northbridge	108.8	46.7
Odyssey Group	189.9	89.9
Crum & Forster	60.1	51.8
Zenith	51.9	108.8
Brit	(240.3)	51.1
Allied World	126.0	57.7
Fairfax Asia	7.1	6.4
Other	5.5	(17.9)
Underwriting profit	309.0	394.5
Interest and dividends – insurance and reinsurance	606.8	713.0
Operating income	915.8	1,107.5
Run-off (excluding net gains (losses) on investments)	(194.6)	(214.7)
Non-insurance operations	(178.7)	(2.4)
Interest expense	(475.9)	(472.0)
Gain on deconsolidation of insurance subsidiary	117.1	–
Corporate overhead and other	(252.7)	98.1
Pre-tax income (loss) before net gains (losses) on investments	(69.0)	516.5
Net realized gains (losses) on investments	(750.5)	611.8
Pre-tax income (loss) including net realized gains (losses) on investments	(819.5)	1,128.3
Net change in unrealized gains (losses) on investments	1,063.6	1,104.4
Pre-tax income	244.1	2,232.7
Income taxes and non-controlling interests	(25.7)	(228.6)
Net earnings	218.4	2,004.1

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 (losses) and net change in unrealized gains (losses) are shown separately to help you understand the composition of our earnings. In 2020, after interest and dividend income, our insurance and reinsurance companies' operating income decreased to $916 million, due to lower interest and dividend income and slightly less underwriting profit. All in, after-tax earnings were $218 million. Of our interest expense of $476 million, $286 million was from borrowings by our holding company and our insurance and reinsurance companies, while $127 million was from borrowings by our non-insurance companies, which are non-recourse to Fairfax, and $63 million was from our leases.

Corporate overhead and other of $253 million includes investment management fees, holding company interest and dividends and holding company share of profit of associates, less corporate overhead and amortization of subsidiary companies' intangible assets. The increase in corporate overhead and other in 2020 primarily relates to losses on associate investments held at the holding company in 2020 of $48 million versus share of profit of $165 million in 2019 and investment management fees of $90 million in 2020 versus $197 million in 2019. 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 the debt of consolidated non-insurance companies that we do not own 100%, at the end of 2020 and 2019:

	2020	2019
Holding company cash and investments (net of derivative obligations)	1,229.4	975.2
Borrowings – holding company	5,580.6	4,117.3
Borrowings – insurance and reinsurance companies	1,033.4	1,039.6
Total debt	6,614.0	5,156.9
Net debt	5,384.6	4,181.7
Common shareholders' equity	12,521.1	13,042.6
Preferred stock	1,335.5	1,335.5
Non-controlling interests(1)	1,831.8	1,544.6
Total equity	15,688.4	15,922.7
Net debt/total equity	34.3%	26.3%
Net debt/net total capital	25.6%	20.8%
Interest coverage	3.3x	9.8x
Interest and preferred share dividend coverage	2.7x	7.9x
Total debt/total capital	29.7%	24.5%

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

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.

We have a strong financial position, with $1.2 billion in cash and investments at the holding company at the end of 2020. With the imminent closing of the sale of European run-off and the sale of 14% of Brit to OMERS, we expect to have $1.3 billion cash at the holding company, with our credit facility fully paid off and our debt to capital ratios approaching 2019 levels.

On February 24, 2021, through a bought deal with Scotiabank, Royal Bank and Bank of Montreal as book runners, we issued Cdn$850 million of 10-year unsecured senior notes with a coupon of 3.95%. On March 1, 2021, through BofA Securities, J.P. Morgan and Citigroup, we issued $600 million of 10-year unsecured senior notes with a coupon of 3⅜%. The proceeds will repay our 5.84% notes due 2022, our 4.5% notes due 2023 and other debt, leaving no maturities through 2023.

Investments

As I have said to you many times over the past 35 years, I think the most important determinant of long term success in any investment is good management, led by an outstanding CEO.

Years ago Phil Carret, in the book Classic Carret, said it best. Phil Carret in 1928 founded the Pioneer Fund, one of the very first mutual funds created in the United States. Phil, who ran the fund for 55 years with timeless value investing principles, outperformed the S&P 500 significantly.

Here's what Phil said:

"Good management is rare at best, it is difficult to appraise, and it is undoubtedly the single most important factor in security analysis."

"Find the company whose boss is heart and soul dedicated to profitable operation, and even more interested in the profits of five years hence than those of today! If he has sound business judgement, skill in selecting the other members of his team, the rare ability to inspire them to superior performance as well, the company's stock is worth investigation."

"There is no substitute for buying quality assets and allowing them to compound over the long-term. Patience can produce uncommon profits."

We are blessed to have many investments led by outstanding CEOs and management teams. Here they are from our large positions (including some included in "Other" in the table on page 10):

David Sokol and Bing Chen continue to do a tremendous job driving shareholder value, operational excellence and strengthening Atlas' leading positions. This was highlighted during the COVID-19 downturn when, despite many challenges, Atlas was able to maintain very high utilization and improve its credit profile. The container ship market, supported by strong demand and very low idle capacity, is undergoing a significant rebound. This has created an opportunity in the newbuild market, where Atlas has signed to build up to 31 large and modern ships for charters ranging from 5 to 18 years. These ships will increase its fleet capacity by approximately 45%. Atlas' best in class operations and balance sheet strength allowed it to take advantage of these opportunities. These new ships, the rebound in the container ship market and Atlas' ability to quickly take advantage of strategic opportunities should drive strong returns in the years to come. Outstanding performance by David, Bing and team!

Led by its outstanding CEO Alan Kestenbaum, Stelco, in spite of a very difficult year in 2020, upgraded and modernized its facilities increasing its capacity by 10%, negotiated a strategic long term iron ore pellet supply agreement (and an option to acquire 25% of the high quality, low cost Minntac Mine) and further enhanced Stelco's industry leading cost position. Given current steel prices, Stelco is well poised to do extremely well in 2021. It continues to be debt free. Its stock price went from Cdn$11 at the end of 2019 to Cdn$4 in March 2020 and ended the year at Cdn$23. And they say markets are efficient!

2020 was another disappointing year for Fairfax Africa with net losses of $207 million. To strengthen the platform, we merged Fairfax Africa and Helios Investment Partners to form Helios Fairfax Partners ("HFP"), forming the premier Africa-focused alternative investment manager, under the leadership of Tope Lawani and Babatunde Soyeye, the co-founders and managing partners of Helios Investment Partners, a private equity firm which they founded 15 years ago and which has had great success investing in Africa. Tope and Baba have assumed the roles of Co-Chief Executive Officers and directors of HFP. Fairfax continues to hold 32% of the equity and 53% of the votes of HFP. Together, Fairfax and Helios will be the ultimate controlling party of HFP. Going forward, investors in HFP will benefit from net management fee income, 25% of carry fee income from the past and half of carry fee income going forward from Helios' private equity funds. This flow through structure will bring a regular stream of earnings and cash flow for HFP in addition to appreciation potential of its cash and investments on the balance sheet. We are very excited about the future prospects for HFP in Africa under Tope and Baba's leadership. Please read HFP's annual letter to shareholders to learn more about the new strategy and exciting opportunities in Africa.

Eurobank has an excellent management team led by CEO Fokion Karavias, and at his side is Vice Chairman George Chryssikos. Fokion has been with the bank since 1997, knows it inside out and has developed into a fine CEO since he began in 2015. Fokion and George have worked well together over fifteen years in a variety of roles. With Fokion in charge and George being very supportive, Eurobank is in an excellent position to take advantage of the post-pandemic flourishing of the Greek economy. In 2020, Eurobank completed the large securitisation transaction that was the main driver in reducing its Non-Performing Exposure ratio during the year from 30% to 15%, the lowest among Greek banks. Greece has perhaps the best government in Europe, as it is business-friendly and committed to supporting entrepreneurs to drive growth in the Greek economy. Bond investors have taken notice of the progress in Greece, driving yields on 10-year government debt below 1%. We are optimistic about the prospects for growth in the Greek economy and we think Eurobank will be a major beneficiary of that growth.

Recipe was one of our investments hardest hit by COVID-19 and the related closures of its network of over 1,300 restaurants across Canada. Despite a 30% drop in 2020 system sales to approximately Cdn$2.4 billion, Recipe managed to generate EBITDA of approximately Cdn$114 million and positive free cash flow of Cdn$31 million. We are thankful for the perseverance and tenacity of Frank Hennessey and the entire Recipe team, especially the front line workers, and the resiliency of Recipe's diversified businesses such as its grocery retail business that increased sales by 23%.

The development of Dexterra's business was dramatically reshaped by the reverse takeover in May 2020 of Horizon North. Dexterra, now a listed public company and led by John MacCuish, has a vision to build a Canadian support services champion. Its activities include a comprehensive range of facilities management, workforce accommodations, and forestry and modular build capabilities, including being a leader in social housing projects. Dexterra has publicly stated that it is on course in the next few years for Cdn$1 billion in revenue and Cdn$100 million in EBITDA.

Farmers Edge, which aims to disrupt the global agriculture ecosystem, just recently completed a very successful IPO. CEO Wade Barnes and his management team are digitizing the farm and providing data-driven insights to farmers along with developing a portfolio of products to disrupt large agriculture verticals including crop insurance, the carbon offset market and other financial services. The company expects strong growth in acres, revenue and EBITDA over the upcoming years. We have nurtured Farmers Edge since 2015 and over the years invested Cdn$376 million. At the IPO value, our investment is worth Cdn$425 million but due to Farmers Edge's losses over the years, it is carried on our balance sheet at only Cdn$303 million. Farmers Edge will be debt free with cash of Cdn$100 million and positive free cash flow next year.

Fairfax acquired a controlling stake in Boat Rocker Media in 2015 and to date has invested Cdn$110 million. Under the leadership of co-founders David Fortier and Ivan Schneeberg and CEO John Young, the business has grown revenue from Cdn$70 million in 2015 to an expected Cdn$700 million in 2021. Once a Canadian-focused production company with notable hits such as Orphan Black and Being Erica, Boat Rocker is now global with 85% of revenue from outside Canada. Several well executed acquisitions over the past three years yielded a growing Talent Management business, one of the largest animation studios in North America and a blossoming Hollywood-based production studio. The demand for quality content continues to grow at unprecedented levels. Boat Rocker is in the process of doing an IPO, which will provide the business with capital to grow organically and by acquisition. Fairfax will not be selling any of its shares in the IPO.

In the past few years, John Chen has taken BlackBerry into two high growth markets:

1. BlackBerry has entered into an exclusive partnership with Amazon on a connected vehicle data platform providing artificial intelligence/machine learning-based analytics on all in-vehicle sensors networks. BlackBerry's QNX subsidiary deals with all the major automobile manufacturers in the world and has 175 million connected cars using the QNX system.

2. BlackBerry has completed the integration of Cylance and its BlackBerry end point management platform (UEM), and is now ready to tackle the cybersecurity and threat detection/prevention world, a market which is entirely compatible with BlackBerry's heritage and capabilities.

We continue to back John, as we extended the maturity of $323 million of our convertible debentures acquired in 2013 to 2023 with a reduced conversion price of $6 per share.

Global demand for healthy food fueled by population growth, changing consumer attitudes and rising incomes in emerging markets, particularly Asia, are providing excellent business fundamentals for our investment in AGT, a global food champion. Murad Al-Katib and his team are true innovators in developing and supplying plant-based and staple foods to retail, food service and the consumer products sector in over 100 countries around the world. AGT, acquired in 2019, delivered a strong performance in 2020, including 20% growth and record EBITDA.

In 2016 we invested $50 million into Davos Brands (a spirit company) for a 36% interest alongside David Sokol. In September 2020 the company was sold to Diageo: our cash proceeds were $59 million and we are eligible to receive additional consideration of up to $36 million, contingent on the brand performance over the next ten years. We hope to see these additional proceeds in the future. We wish Andrew Chrysomallis, Blake Spahn and the entire Davos management team the very best in the future.

Fairfax continues to jointly own Peak Achievement with our partner, Sagard Holdings led by Paul Desmarais III. Peak's core assets are Bauer, the leading hockey brand, and Easton, the number three manufacturing player in baseball. During 2020 Peak merged Easton with Rawlings, the clear number one manufacturer in baseball. The transaction resulted in $65 million cash paid to Peak, while retaining a 28% stake in Rawlings. Peak is now partnered with Rawlings' controlling shareholder, Seidler Equity Partners. Fairfax recognized a $15 million gain on the sale of Easton which closed just before year end. We are excited about the opportunities at Peak, driven by Ed Kinnaly and his team to focus on the core hockey business.

Fairfax has invested Cdn$74 million for its current 71% stake in the combined business of Golf Town and Sporting Life. Chad McKinnon and his team had an outstanding year. They manoeuvred through COVID-19 lockdowns and maximized results at Golf Town when the stores reopened while also making steady progress in re-aligning the Sporting Life franchise. Both Golf Town and Sporting Life have counter-seasonal aspects which help with working capital management and the combination of the two businesses has resulted in meaningful cost synergies. Also, Bill Gregson, former CEO of Recipe and The Brick, is now a consultant to Fairfax and brings significant retail expertise to our investments in Toys R Us, Ashleys and Kitchen Stuff Plus. He has been instrumental as we look to maximize the return from our various retail investments.

Commercial International Bank, in Egypt, continued to plow ahead despite the impact of COVID-19. Pre-provision profits grew more than 13%, NPLs are three times covered and the bank's capital adequacy ratio is among the highest in the world at 31%! Despite this, the shares are trading at 8 times earnings which is the lowest since the Arab Spring. Hisham Ezz El Arab retired after an unbelievable run at the bank for over 20 years. Under his management book value and earnings per share compounded by over 20% per annum and the bank did not raise capital once! We wish Hisham the best in his retirement. Hisham has left the bank in good hands with Hussein Abaza, who has been with the bank for 30 years, at the helm.

Resolute Forest Products purchased three sawmills in the southeastern United States in early 2020, which turned out to be very good timing. During the pandemic demand for lumber has been strong, causing the price to spike to historic highs. Resolute's share price rose from a low of $1.15 in March to recently trading above $9.50. In 2020 Resolute allocated capital to shareholders by repurchasing 6.9 million shares, or 8% of outstanding, at an average price of $4.28 per share. 2021 looks like a promising year for Resolute as lumber prices remain high, pulp prices show signs of strengthening and Resolute's tissue business continues to develop. Yves Laflamme, Resolute's CEO, announced his retirement after a very successful 40-year career at Resolute. We thank Yves for his contribution to Resolute and wish him the best in his retirement. Resolute has appointed Remi Lalonde as its new CEO. Remi has great experience from being Resolute's CFO but also has operating experience from managing Resolute's Thunder Bay pulp mill. We look forward to Remi's leadership at Resolute. Remi has strengthened the leadership team by hiring Hugues Simon as President of Wood Products and Sylvain Girard as CFO.

We have invested in BDT Capital Partners since its inception in 2009. Founded by Byron Trott, formerly of Goldman Sachs, BDT provides family and founder-led businesses with long term capital, has raised over $18 billion across its investment funds and manages more than $6 billion of co-investments from its global limited partner investor base. We have invested $647 million, have received cash distributions of $550 million and have a remaining year end market value of $631 million. This is an outstanding return over the long term, and we are looking forward to continuing our partnership going forward. A big thank you to Byron and the BDT team for these outstanding results.

We have an outstanding partnership with Kennedy Wilson, led by its founder and CEO Bill McMorrow and Bill's partners, Mary Ricks and Matt Windisch. Since we met them in 2010 we have invested $1,130 million in real estate, received cash proceeds of $1,054 million and still have real estate worth about $582 million. Our average annual realized return on completed projects is approximately 20%. We also own 9% of the company.

More recently we have been investing with Kennedy Wilson in first mortgage loans secured by high-quality real estate in the western United States, Ireland and the United Kingdom with a loan to value ratio of less than 60%. At the end of 2020 we had committed to mortgage loans of approximately $1.5 billion at an average yield of 5% and an average maturity of four years. We are very grateful to Bill and his team for a very profitable and enjoyable relationship.

Our preferred share and warrant investment in Altius Minerals continues to bear fruit. Led by founder Brian Dalton, Altius has built its mineral royalty business from scratch over the past 20 plus years and now has a market capitalization in excess of Cdn$600 million. In recent years, through an Altius subsidiary, Brian has successfully developed a royalty model for renewable energy projects which has been recently validated by a co-investment from Apollo and an IPO. The IPO values Altius' interest in the renewable royalty subsidiary at approximately Cdn$172 million which is in excess of 2 times the cost of Altius' investment. Although Altius' revenues were hard hit by the COVID-19 crisis in early 2020, the company is benefiting from the current substantial recovery in prices for commodities such as copper, iron ore and potash, as well as the growing interest in renewable energy and ESG-focused investments.

There were many business winners and losers created from the disruption caused by the pandemic. One interesting "win" happened at our investee Blue Ant Media led by Michael McMillan, the former CEO of Alliance Atlantis, which was looking for opportunities in the fast evolving media landscape. Blue Ant purchased a Los Angeles-based gaming company called Omnia Media, and in 2020 merged Omnia with Enthusiast Gaming, a TSX-listed gaming company, receiving as consideration mainly shares of Enthusiast priced at Cdn$1.65. Enthusiast shares have recently been trading above Cdn$8, a win-win for Blue Ant and Enthusiast.

Fairfax owns 44% of Exco, a U.S. oil and gas producer. Despite weak energy prices in 2020, Exco generated $128 million in EBITDA and $36 million in free cash flow. Net debt fell to $145 million (1.1 times EBITDA). Led by

Chairman John Wilder and CEO Hal Hickey, Exco achieved these results through high field level productivity and company-wide cost control. In December, Exco recorded its 73rd month without a lost time incident. Exco's Chairman, John Wilder, is a great partner. We are well served by his leadership.

Fairfax invested Cdn$200 million in debt yielding 6% per annum and warrants which yield Fairfax an implied ownership of 13% in Chorus Aviation, which operates Air Canada's Jazz regional airline business. Air Canada has a 9.6% stake in Chorus. There is no question that COVID-19 has been catastrophic for the airline industry. That said, Joe Randell and his team have done an outstanding job managing the cost structure of Jazz with its partner, Air Canada. Chorus is still being paid its fixed fee under the Air Canada contract. In addition, Chorus is currently seeing very exciting opportunities in the leasing space as all airlines, including the majors, look to move planes off their balance sheet. While our warrants are currently well out of the money (strike price Cdn$8.25 per share), we are confident the business of Chorus and its partner Air Canada will swiftly recover when travel once again resumes.

In 2017 Fairfax invested Cdn$100 million in preferred shares yielding 6% per annum, Cdn$50 million in senior secured debentures yielding 5% per annum and 17 million warrants of Mosaic, implying a fully diluted ownership of 61%. Chairman John Mackay and CEO Mark Gardhouse have done an outstanding job building a portfolio of established businesses in niche markets across western Canada and Ontario. Since our investment, Mosaic has generated approximately Cdn$70 million in free cash flow and in the very difficult 2020 year managed its western Canada businesses well.

We have some wonderful CEOs who run our Indian businesses which we have described earlier.

Last year at this time, it looked like the long drought in value investing was coming to an end. For the decade ended December 2019, value-oriented stocks had the worst ever relative decade versus growth stocks (particularly tech stocks) over the last 100 years. And then COVID-19 hit, and the NASDAQ went up 44% in 2020. The divergence in 2020 was the worst ever in a single year as the spread between growth and value indices averaged between 20 and 30 percentage points. Jeremy Grantham documents this well in his article "Waiting for the Last Dance". IPOs (including SPACs) in 2020 were back to the records set in 1999.

Current market conditions remind me of the phrase "Renaissance of Value", the title of a talk Ben Graham gave in 1974 after the demise of the Nifty Fifty – the growth stocks in the late 1960s and early 1970s that sold at P/Es of 50 - 100 times and higher – before they crashed in 1974, after which most never saw their 1972 highs for the next 15+ years. As Ben predicted, value stocks did extremely well over the next two decades.

More recently, we had the dot.com boom which peaked in 1999/2000. Many of you will remember Microsoft selling at $60 per share or 170x earnings in December 1999. A year later, in spite of record earnings, Microsoft was down 65%. It took Microsoft 16 years before it saw $60 again. Today, Microsoft sells at more than $234 (40 times earnings) as earnings have increased 16 times since 1999.

Cisco peaked on March 27, 2000 at $80 per share at 181 times earnings. One year later, it was down 80%. Today, 20 years later, Cisco still sells at $45 per share (16 times earnings), never having seen $80 again. This, in spite of earnings today being 6 times what they were in 1999.

Which brings us to the current period. Just recently, the FAANG stocks accounted for 25% of the S&P500 – never before have five stocks dominated the S&P500 index to that extent. Technology now accounts for about 40% of the S&P500 – a record only last seen in the dot.com era (37%).

Zoom had a market value of $130 billion – yes, $130 billion, with revenues of $2.7 billion. Shopify has a market cap in excess of Royal Bank even though Royal Bank earns more money annually than Shopify has revenue. Peloton has a market cap of $40 billion, Pinterest of $50 billion – companies which recently have gone public! And bitcoin hit $53,000 – a market value of $1 trillion – and I thought it was expensive at $19,000 in 2017. Massive speculation! And I can go on and on! As in the past, this will end - and it will not be pretty!

In March 2020, because of COVID-19, the whole world was shut down – more than 180 countries closed their economies, something that has never happened before! Because of testing, therapies and more recently, very effective vaccines, the world can see normalcy returning. This is the environment in which value stocks will thrive. We feel our best investing days are ahead of us.

Inflation and interest rates have been going down from the early 1980s – we may well have forgotten that they can go up, sometimes quickly and significantly. 10-year treasury rates have gone up from a historical low of 0.5% in 2020 to 1.5% recently. With high savings rates and significant pent up demand combined with U.S. President Biden's potential $1.9 trillion fiscal stimulus plan, we may see inflation and interest rates rise significantly. As I write this to you, commodity prices, especially copper, have gone up almost to decade highs. From current levels, a 100 basis point increase in rates for a 10-year treasury bond and a 30-year treasury bond results in a 9% and 22% decrease in the price of those bonds. These are very significant risks that we have reduced by having an average bond maturity of less than five years. For bond investors: caveat emptor!

Our team at Hamblin Watsa, under Wade Burton, had an excellent year in 2020. Shown below again are each of the portfolio managers, their years of service with Fairfax and their geographic areas of investment responsibility.

Hamblin Watsa Professionals	**Years at Fairfax**	**Geography**
Wade Burton and Lawrence Chin	12	United States and Canada
Reno Giancola	2	Canada
Jamie Lowry and Ian Kelly	5	Europe
Quinn McLean	10	Middle East and South Africa
Yi Sang	15	Asia
Gopal Soundarajan	17	India
Jeff Ware	11	South America

Wade and Lawrence had an excellent year in 2020 managing $1.5 billion in invested assets. They did so well that we will give them another $1.5 billion to manage in 2021. At that rate, they will soon be managing the whole portfolio! (No clapping please!)

All of our other portfolio managers also had excellent results in 2020, as we pursue our value-oriented philosophy across the world.

Our team at Hamblin 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 2020 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 $133 per share.

We have now operated Fairfax for 35 years with a very small team of exceptional officers who have great integrity, team spirit and no egos and are focused on protecting our company from unexpected downside risks and taking advantage of opportunities when they arise. On average, our Fairfax officers have been with Fairfax for 22 years. 2020 was a real life test as we all had to work from home and be responsible for our decentralized operations all over the world. Our small team did not miss a beat and performed admirably. As President Reagan said, "Anything is possible, if you don't care who gets the credit." Our company is built on trust with a long term focus.

As the COVID-19 pandemic hit in March/April 2020, we had a meeting with our presidents saying clearly that we wanted no layoffs in any of our insurance operations due to COVID-19 reasons – and we didn't. We have a responsibility for looking after our employees – and I must say, with much gratitude to our presidents, we met it!!

Also during the year, there were major demonstrations in the U.S. following George Floyd's death. While Fairfax and all our companies have been a great place to work, where we do not tolerate or condone any form of racism or discrimination, we still know that it has not been eradicated in society, even to this day! After events in the summer unfolded, many injustices in our society came to light. In Canada, Wes Hall wrote an article in the Globe and Mail saying, "When I look in the mirror, I see George Floyd." It resonated with me and I went and met Wes, who immigrated to Canada from Jamaica and founded a very successful business here. I decided it was time to step up to the plate and do something about it, so I joined him as he founded the Black North Initiative in Toronto to end systemic racism in Canada. To date 439 companies in Canada have signed the pledge to end systemic racism, a remarkable achievement in a short span of time, but our work has just begun!

I personally spoke to members of the Black community at our companies and established the Black Initiative Action Committee to look at how we could increase the participation of minorities in our company and grow opportunities at senior levels of management, including at the Board and officer level. Craig Pinnock, the CFO of Northbridge, is leading the charge with a representative from each of our six other major insurance companies. While there is much to be done, we are making headway and Fairfax should be a leading example of how one company at a time can make a difference.

As you know, we are building Fairfax for the next 100 years (long after I am gone, I think!!). Recently, I came across two books on long lived companies: ''The Living Company, Habits for Survival in a Turbulent Business Environment'' by Arie de Geus, and ''Lessons from Century Club Companies, Managing for Long Term Success'' by Vicki Tenhaken. They both make the point that companies that have survived for over 100 years have four characteristics:

1. They are sensitive to the business environment, so that they always provide outstanding customer service.
2. They have a strong culture - a strong sense of identity that encompasses not only the employees but also the community and everyone they deal with. Managers are chosen from the inside and considered stewards of the enterprise.
3. They are decentralized, refraining from centralized control.
4. They are conservatively financed, recognizing the advantage of having spare cash in the kitty.

Fairfax has many of these characteristics and we continue to build our company for the future.

As an aside, in the last 35 years we have written cumulative premiums of $175 billion, we are paying annual salaries and benefits to our employees all over the world of $1.8 billion, we have made cumulative donations of $239 million since we began our donations program in 1991 and yes, over the last 35 years we have paid cumulative taxes of $3.1 billion. When countries are business-friendly, I have found they succeed mightily. We are a small microcosm of what business does worldwide.

Last year, I mentioned that Bill McFarland had become the Lead Director of our Board and also Chair of our audit committee. Bill is doing an outstanding job for us and we benefit greatly from his advice.

We welcome David Johnston back to our Board after he spent seven years as Governor General of Canada and three years as our global advisor. David left our Board in 2010 to become Governor General of Canada. He was the best ambassador Canada ever had. Previously in his storied career, David has been President and Vice-Chancellor of the University of Waterloo and Principal and Vice-Chancellor of McGill University.

Since the inception of Fairfax in 1985, we have always been focused on a few things – the way we operate, the way we treat each other and the way we help our communities. Our management team and Board ensure that honesty and integrity are never compromised and that full disclosure is provided to all stakeholders. More than three decades and many acquisitions later, we now have 15,000 employees around the world thriving in our decentralized environment. I am pleased to say we have recently posted our first Environmental, Social, Governance (ESG) report on our website www.fairfax.ca where we demonstrate our practice of ''doing good by doing well''.

The health and well-being of our people is very important to us. They are our most important asset! I am happy to report that our companies responded extremely well to the health challenges created by COVID-19 during 2020. Our wonderful human resources professionals, led by their CEOs and supported by the fantastic team at Cleveland Clinic Canada, are working together to provide our people with the help, guidance and support they need through this difficult time. Daily updates, educational programs, wellness initiatives and webinars, second opinions and more are available across the group.

Our donations program continues to thrive across the communities all over the world where we do business. This year, in addition to our normal giving, we also donated $4 million to help with pandemic efforts in the areas most vulnerable within the countries where we do business. Our employees are all pitching in and having ''fun'', helping people less fortunate. In 2020, we donated $23 million, for a total of $239 million since we began our donations program in 1991. Over the 30 years since we began our donations program, our annual donations have gone up approximately 130 times at a compound rate of 18% per year. Allow me to highlight briefly just a few examples of our company donations:

Brit, through a charitable gift from Fairfax, donated £100,000 to become the founder donor to the Captain Tom Foundation, supporting health service across the UK. At the height of the pandemic, Brit also donated £10,000 to each of Childline, Compudopt, Refuge and The Silverline, directly supporting the most vulnerable in society, protecting against child abuse and domestic abuse, assisting the elderly in isolation and assisting children living in poverty. Brit continues to support its flagship initiative, the Soweto Academy, a school situated in the largest slum in Africa. In 2020, it donated $74,000 to provide additional services, equipment and PPE, so the Academy could continue its vital work, providing a safe haven from abuse and an education to help this generation escape the cycle of poverty.

The Northbridge Cares program focuses on empowering, educating and supporting Canadian youth at risk to reach their potential by partnering with six national organizations. In 2020, additional corporate donations were made to support youth impacted by the pandemic and by racial injustice. In addition, $3 million has been pledged to support Canadian small businesses to help ease the financial challenges faced as a result of the pandemic.

As a part of its philanthropy efforts, Zenith supports two organizations that tirelessly help young people from challenging or at-risk backgrounds. Thrive Scholars is a national organization that provides scholarships and mentoring programs designed for high-achieving low-income students of color before and throughout college. Visible Men Academy in Florida delivers high-quality academic, character and social education to meet the specific needs of at-risk elementary school boys. With support from Fairfax, Zenith also made donations specifically for COVID-19 relief efforts to Thrive Scholars to assist students displaced as a result of the closing of their colleges, and to two food banks in communities where it does business: Central California Food Bank in Fresno, California and All Faiths Food Bank in Sarasota, Florida.

Crum & Forster, believing that corporate social responsibility is at the heart of doing good business, helps a diverse group of charitable organizations through financial support and community service and engagement. In 2020, through corporate donations, matching gift programs and the employee-led Charitable Impact Committee, Crum & Forster donated $1.5 million, primarily to communities affected by COVID-19 where the economic impact of the pandemic hit the hardest. With the support of a charitable gift from Fairfax, Crum & Forster gave $200,000 to 13 food banks across the United States in the communities where its employees live and work. Additionally, donations were made to educational programs, organizations serving youth and many other programs affected by the disruption and financial uncertainty created by the pandemic.

The Odyssey Group Foundation supported numerous charitable organizations focused on worldwide disaster relief, cancer research, education and health and human services. In 2020, the Odyssey Group Foundation also donated over $1 million to support 70 global charities that were deeply impacted by COVID-19. In addition, the funds provided by Fairfax allowed them to direct $200,000 to Dr. Florian Krammer's COVID-19 antibody research at Mount Sinai Hospital in New York City.

In 2020, Allied World supported several charities and community service projects with a primary focus on education, healthcare and the arts, including continued support to the N.Y. Police and Fire Widows' & Children's Benefit Fund, the St. Baldrick's Foundation, Lincoln Center for the Performing Arts and the Spencer Educational Foundation. During this unusual year, it also supported Johns Hopkins Center for Health Security and Invisible Hands Deliver in order to aid in their COVID-19 related work.

RiverStone U.S. and UK quickly responded to COVID-19 pandemic-related community needs, collectively providing more than 5,400 meals to local hospitals and making monetary donations to numerous COVID-19 relief efforts. They contributed to organizations on the front lines of COVID-19 response, including local food banks and first responders. Additionally, RiverStone U.S. supported multiple community organizations and outreach efforts providing education, supporting veterans and helping with hunger abatement programs. RiverStone UK continued its ongoing commitment to support worthy local causes, contributing to organizations providing support services for sick children and those with disabilities, end of life care, mental health services, care for the homeless and Parkinson's disease research. RiverStone U.S. and UK continued their 3:1 charitable contribution plan, triple matching employee donations to the charities that matter most to them.

Through its subsidiaries, Fairfax Latam deployed a multitude of charitable initiatives aiming to assist communities impacted by the pandemic. Some of the benefited institutions were the Red Cross in Argentina; Fundación Las Rosas in Chile, which provides care of the most vulnerable and helpless elderly; Fundación Corazón Verde in Colombia, which aims to improve the quality of life of widows and orphans of the National Police; and Providencia in Uruguay, which provides education for low-income children. Fairfax Latam's employees participated in selecting institutions and contributing along with their companies.

Our operating companies in central and eastern Europe (Colonnade, ARX and Universalna) have been always supportive of their local communities, assisting, through voluntary activities and financial donations, various foundations focusing on children and parents without shelter, food banks, kindergartens and school renovations. In 2020, those companies increased their support and assisted hospitals and medical facilities involved in handling the pandemic with personal protection equipment.

Bryte Cares, which raised money through voluntary employee salary sacrifices and one-off donations which were matched by Bryte, as well as a generous donation by Fairfax, supported seven small tourist towns across South Africa with donations of food parcels to hundreds of families whose livelihoods were affected by the lockdown restrictions. Several schools in these communities were also provided with personal protective equipment. Bryte Cares also assisted 70 of its own employees whose families were affected by the pandemic by partnering with the Maharishi Institute to provide grocery store vouchers and support for other financial needs.

Fairfax Asia, through its operating companies and its employees, supported the fight against COVID-19 by funding the air ventilation system at the Infectious Disease Hospital in Sri Lanka, collaborating with a philanthropic institution in Indonesia to install antiseptic body chambers and hand wash stations in high COVID-19-prone zones and transporting and distributing personal protective equipment and food packs to front line workers and local communities where its employees live and work.

Last year, due to the pandemic, our annual meeting was held virtually, but I thought that in 2021 we would see you all once again in person. Unfortunately, given the situation that we still find ourselves in and for the safety of you and all our employees, we will be going virtual once again! I am however optimistic that with many new vaccines being administered around the world, we will return to normalcy and in 2022 will once again welcome you in person in Toronto.

The Fairfax Leadership Workshop continues to grow and develop our leaders of tomorrow. In 2020 we had to take a break as we were not able to have an in-person workshop, but we have identified many worthy candidates and will hold our next in-person workshop as soon as conditions permit.

This year we could not do our investor trip to India, but we will definitely look at resurrecting it as I believe that India, although hit by the pandemic like the rest of the world, is poised to make an historic comeback under the leadership of Prime Minister Modi, who has just released a very business-friendly budget. He is following through on his commitments towards privatization and asset monetization, making it clear that the government is pulling itself out of industry. We are well positioned to significantly grow our footprint and we would like to take you there so that you can see it for yourselves. More to come.

George Athanassakos, who runs a Value Investing Conference the day before our meeting that many of you have attended in the past, will do so again this year, albeit virtually. He unfortunately had to cancel last year's conference but has maintained all the excellent speakers for this year. 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 featured keynote speaker will be Howard Marks.

Similarly to last year, Fairfax India (of which many of you are also shareholders) will hold its annual meeting virtually at 2:00 p.m. on April 15. Details will be posted on the Fairfax India website.

Helios Fairfax Partners will hold its shareholders' meeting virtually on Wednesday, April 14 at 2:30 p.m. Details will be posted on its website.

So as we have done for the last 35 years, we look forward to you joining us (even though only virtually) for our shareholders' meeting where we will answer all your questions, and we look forward to 2022 when we expect to once again welcome all of you in person in Toronto. We are truly blessed to have long term loyal shareholders and I look forward to the opportunity of meeting you personally once again.

March 5, 2021

V. P. Watsa

V. Prem Watsa
Chairman and Chief Executive Officer