FAIRFAX
FINANCIAL HOLDINGS LIMITED

Condensed Consolidated Financial Statements

for the fourth quarter and full year

2012 and 2011

(unaudited)

CONSOLIDATED BALANCE SHEETS
as at December 31, 2012 and December 31, 2011
(unaudited - US$ millions)

	Notes	December 31, 2012	December 31, 2011
Assets			
Holding company cash and investments (including assets pledged for short sale and derivative obligations – $140.2; December 31, 2011 – $249.0)	5, 19	**1,169.2**	1,026.7
Insurance contract receivables		**1,945.4**	1,735.4
		3,114.6	2,762.1
Portfolio investments			
Subsidiary cash and short term investments	5, 19	**6,960.1**	6,199.2
Bonds (cost $9,428.9; December 31, 2011 – $9,515.4)	5	**10,803.6**	10,835.2
Preferred stocks (cost $618.7; December 31, 2011 – $555.6)	5	**605.1**	563.3
Common stocks (cost $4,066.3; December 31, 2011 – $3,867.3)	5	**4,399.1**	3,663.1
Investments in associates (fair value $1,782.4; December 31, 2011 – $1,271.8)	5, 6	**1,355.3**	924.3
Derivatives and other invested assets (cost $524.0; December 31, 2011 – $511.4)	5, 7	**181.0**	394.6
Assets pledged for short sale and derivative obligations (cost $791.1; December 31, 2011 – $810.1)	5, 7	**859.0**	886.3
		25,163.2	23,466.0
Deferred premium acquisition costs		**463.1**	415.9
Recoverable from reinsurers (including recoverables on paid losses – $311.0; December 31, 2011 – $313.2)	9	**5,290.8**	4,198.1
Deferred income taxes		**623.5**	628.2
Goodwill and intangible assets		**1,301.1**	1,115.2
Other assets		**984.9**	821.4
		36,941.2	33,406.9
Liabilities			
Subsidiary indebtedness	10	**52.1**	1.0
Accounts payable and accrued liabilities		**1,877.7**	1,656.2
Income taxes payable		**70.5**	21.4
Short sale and derivative obligations (including at the holding company – $41.2; December 31, 2011 – $63.9)	5, 7	**238.2**	170.2
Funds withheld payable to reinsurers		**439.7**	412.6
		2,678.2	2,261.4
Insurance contract liabilities	8	**22,376.2**	19,719.5
Long term debt	10	**2,996.5**	3,017.5
		25,372.7	22,737.0
Equity	11		
Common shareholders' equity		**7,654.7**	7,427.9
Preferred stock		**1,166.4**	934.7
Shareholders' equity attributable to shareholders of Fairfax		**8,821.1**	8,362.6
Non-controlling interests		**69.2**	45.9
Total equity		**8,890.3**	8,408.5
		36,941.2	33,406.9

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS

for the three and twelve months ended December 31, 2012 and 2011
(unaudited - US$ millions except per share amounts)

	Notes	Fourth quarter 2012	Fourth quarter 2011	Year ended December 31, 2012	Year ended December 31, 2011
Revenue					
Gross premiums written	17	**1,899.9**	1,533.5	**7,398.3**	6,743.5
Net premiums written	17	**1,597.8**	1,287.4	**6,194.1**	5,607.9
Net premiums earned	17	**1,765.5**	1,395.5	**6,084.9**	5,426.9
Interest and dividends		**73.3**	162.1	**409.3**	705.3
Share of profit (loss) of associates		**20.0**	(9.9)	**15.0**	1.8
Net gains (losses) on investments	5	**635.6**	(914.9)	**642.6**	691.2
Other revenue	25	**269.8**	190.8	**871.0**	649.8
		2,764.2	823.6	**8,022.8**	7,475.0
Expenses					
Losses on claims, gross	8	**1,806.5**	1,515.0	**5,265.5**	5,541.4
Less ceded losses on claims	9	**(443.5)**	(237.8)	**(1,022.9)**	(956.1)
Losses on claims, net	18	**1,363.0**	1,277.2	**4,242.6**	4,585.3
Operating expenses	18	**305.3**	260.2	**1,120.3**	1,148.3
Commissions, net	9	**255.3**	217.4	**925.4**	795.4
Interest expense		**52.2**	52.2	**208.2**	214.0
Other expenses	18	**283.2**	186.1	**869.5**	740.7
		2,259.0	1,993.1	**7,366.0**	7,483.7
Earnings (loss) before income taxes		**505.2**	(1,169.5)	**656.8**	(8.7)
Provision for (recovery of) income taxes	13	**97.1**	(398.7)	**116.1**	(56.5)
Net earnings (loss)		**408.1**	(770.8)	**540.7**	47.8
Attributable to:					
Shareholders of Fairfax		**404.1**	(771.5)	**532.4**	45.1
Non-controlling interests		**4.0**	0.7	**8.3**	2.7
		408.1	(770.8)	**540.7**	47.8
Net earnings (loss) per share	12	**$ 19.14**	$ (38.47)	**$ 23.22**	$ (0.31)
Net earnings (loss) per diluted share	12	**$ 18.90**	$ (38.47)	**$ 22.94**	$ (0.31)
Cash dividends paid per share	11	**$ —**	$ —	**$ 10.00**	$ 10.00
Shares outstanding (000) (weighted average)	12	**20,287**	20,381	**20,327**	20,405

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the three and twelve months ended December 31, 2012 and 2011
(unaudited – US$ millions)

	Notes	Fourth quarter 2012	Fourth quarter 2011	Year ended December 31, 2012	Year ended December 31, 2011
Net earnings (loss)		**408.1**	(770.8)	**540.7**	47.8
Other comprehensive income (loss), net of income taxes					
Change in unrealized foreign currency translation gains (losses) on foreign operations(1)		**(25.0)**	61.7	**59.2**	(40.8)
Change in gains and (losses) on hedge of net investment in foreign subsidiary(2)	7	**16.4**	(24.1)	**(20.4)**	33.2
Share of other comprehensive income (loss) of associates(3)		**(7.4)**	(10.6)	**(21.0)**	(7.5)
Change in gains and (losses) on defined benefit plans(4)		**(19.4)**	(22.0)	**(22.9)**	(22.6)
Other comprehensive income (loss), net of income taxes		**(35.4)**	5.0	**(5.1)**	(37.7)
Comprehensive income (loss)		**372.7**	(765.8)	**535.6**	10.1
Attributable to:					
Shareholders of Fairfax		**368.2**	(766.6)	**527.6**	8.0
Non-controlling interests		**4.5**	0.8	**8.0**	2.1
		372.7	(765.8)	**535.6**	10.1

(1) Net of income tax recovery of $3.7 (2011 – income tax expense of $11.7) and $3.4 (2011 - income tax expense of $9.0) for the fourth quarter and year ended December 31, 2012, respectively.
(2) Net of income tax recovery of nil (2011 – nil) and nil (2011 - nil) for the fourth quarter and year ended December 31, 2012, respectively.
(3) Net of income tax expense of $0.9 (2011 – $0.8) and $1.7 (2011 - income tax recovery of $0.8) for the fourth quarter and year ended December 31, 2012, respectively.
(4) Net of income tax recovery of $4.6 (2011 – $9.0) and $6.9 (2011 - $9.0) for the fourth quarter and year ended December 31, 2012, respectively.

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the years ended December 31, 2012 and 2011
(unaudited - US$ millions)

	Subordinate voting shares	Multiple voting shares	Treasury shares (at cost)	Share-based payments	Retained earnings	Accumulated other comprehensive income	Common shareholders' equity	Preferred shares	Equity attributable to shareholders of Fairfax	Non-controlling interests	Total equity
Balance as of January 1, 2012	**3,243.3**	**3.8**	**(72.7)**	**12.9**	**4,153.8**	**86.8**	**7,427.9**	**934.7**	**8,362.6**	**45.9**	**8,408.5**
Net earnings (loss) for the year	**—**	**—**	**—**	**—**	**532.4**	**—**	**532.4**	**—**	**532.4**	**8.3**	**540.7**
Other comprehensive income (loss), net of income taxes:											
Change in unrealized foreign currency translation gains (losses) on foreign operations	**—**	**—**	**—**	**—**	**—**	**58.5**	**58.5**	**—**	**58.5**	**0.7**	**59.2**
Change in gains and (losses) on hedge of net investment in foreign subsidiary	**—**	**—**	**—**	**—**	**—**	**(20.4)**	**(20.4)**	**—**	**(20.4)**	**—**	**(20.4)**
Share of other comprehensive income (loss) of associates	**—**	**—**	**—**	**—**	**(10.9)**	**(10.1)**	**(21.0)**	**—**	**(21.0)**	**—**	**(21.0)**
Change in gains and (losses) on defined benefit plans	**—**	**—**	**—**	**—**	**(21.9)**	**—**	**(21.9)**	**—**	**(21.9)**	**(1.0)**	**(22.9)**
Issuance of shares	**—**	**—**	**2.2**	**(2.7)**	**—**	**—**	**(0.5)**	**231.7**	**231.2**	**—**	**231.2**
Purchases and amortization	**—**	**—**	**(50.6)**	**16.6**	**—**	**—**	**(34.0)**	**—**	**(34.0)**	**—**	**(34.0)**
Common share dividends	**—**	**—**	**—**	**—**	**(205.8)**	**—**	**(205.8)**	**—**	**(205.8)**	**(6.7)**	**(212.5)**
Preferred share dividends	**—**	**—**	**—**	**—**	**(60.5)**	**—**	**(60.5)**	**—**	**(60.5)**	**—**	**(60.5)**
Net changes in capitalization (note 15)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**22.0**	**22.0**
Balance as of December 31, 2012	**3,243.3**	**3.8**	**(121.1)**	**26.8**	**4,387.1**	**114.8**	**7,654.7**	**1,166.4**	**8,821.1**	**69.2**	**8,890.3**

	Subordinate voting shares	Multiple voting shares	Treasury shares (at cost)	Share-based payments	Retained earnings	Accumulated other comprehensive income	Common shareholders' equity	Preferred shares	Equity attributable to shareholders of Fairfax	Non-controlling interests	Total equity
Balance as of January 1, 2011	3,247.5	3.8	(52.4)	3.2	4,394.4	101.4	7,697.9	934.7	8,632.6	41.3	8,673.9
Net earnings (loss) for the year	—	—	—	—	45.1	—	45.1	—	45.1	2.7	47.8
Other comprehensive income (loss), net of income taxes:											
Change in unrealized foreign currency translation gains (losses) on foreign operations	—	—	—	—	—	(40.3)	(40.3)	—	(40.3)	(0.5)	(40.8)
Change in gains and (losses) on hedge of net investment in foreign subsidiary	—	—	—	—	—	33.2	33.2	—	33.2	—	33.2
Share of other comprehensive income (loss) of associates	—	—	—	—	—	(7.5)	(7.5)	—	(7.5)	—	(7.5)
Change in gains and (losses) on defined benefit plans	—	—	—	—	(22.5)	—	(22.5)	—	(22.5)	(0.1)	(22.6)
Issuance of shares	—	—	5.7	(1.6)	—	—	4.1	—	4.1	—	4.1
Purchases and amortization	(4.2)	—	(26.0)	11.3	—	—	(18.9)	—	(18.9)	—	(18.9)
Excess over stated value of common shares purchased for cancellation	—	—	—	—	(5.8)	—	(5.8)	—	(5.8)	—	(5.8)
Common share dividends	—	—	—	—	(205.9)	—	(205.9)	—	(205.9)	—	(205.9)
Preferred share dividends	—	—	—	—	(51.5)	—	(51.5)	—	(51.5)	—	(51.5)
Net changes in capitalization	—	—	—	—	—	—	—	—	—	2.5	2.5
Balance as of December 31, 2011	3,243.3	3.8	(72.7)	12.9	4,153.8	86.8	7,427.9	934.7	8,362.6	45.9	8,408.5

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and twelve months ended December 31, 2012 and 2011
(unaudited - US$ millions)

		Fourth quarter		Year ended December 31,	
	Notes	**2012**	2011	**2012**	2011
Operating activities					
Net earnings (loss)		**408.1**	(770.8)	**540.7**	47.8
Amortization of premises and equipment and intangible assets		**21.1**	15.5	**71.0**	59.5
Net bond discount amortization		**(11.6)**	(23.0)	**(48.9)**	(69.7)
Amortization of share-based payment awards		**5.0**	4.0	**16.6**	11.3
Share of (profit) loss of associates		**(20.0)**	9.9	**(15.0)**	(1.8)
Deferred income taxes	13	**41.9**	(280.3)	**17.9**	(128.1)
Net (gains) losses on investments	5	**(635.6)**	914.9	**(642.6)**	(691.2)
Excess of fair value of net assets acquired over purchase price	15	**(6.8)**	—	**(6.8)**	—
Loss on repurchase of long term debt	10	**39.8**	—	**40.6**	104.2
Net (purchases) sales of securities classified as at FVTPL	19	**(207.8)**	147.6	**1,105.7**	(1,254.7)
Changes in operating assets and liabilities	19	**163.6**	55.2	**236.5**	701.2
Cash provided by (used in) operating activities		**(202.3)**	73.0	**1,315.7**	(1,221.5)
Investing activities					
Net (purchases) sales of investments in associates	6, 15	**208.7**	(52.6)	**114.6**	(130.5)
Net purchases of premises and equipment and intangible assets		**(29.8)**	(11.5)	**(71.5)**	(42.2)
Net purchases of subsidiaries, net of cash acquired and bank overdraft assumed	15	**(142.9)**	(29.8)	**(334.4)**	276.5
Cash provided by (used in) investing activities		**36.0**	(93.9)	**(291.3)**	103.8
Financing activities					
Subsidiary indebtedness:	10				
Issuances		**20.8**	1.0	**60.5**	10.5
Repayment		**(20.5)**	(2.3)	**(40.4)**	(52.4)
Long term debt:	10				
Issuances		**204.3**	—	**204.3**	906.2
Issuance costs		**(1.3)**	—	**(1.3)**	(6.7)
Repayment		**(200.9)**	(1.6)	**(296.5)**	(762.3)
Subordinate voting shares:	11				
Repurchases		**—**	—	**—**	(10.0)
Preferred shares:	11				
Issuances		**—**	—	**239.1**	—
Issuance costs		**—**	—	**(7.4)**	—
Purchase of subordinate voting shares for treasury	11	**(30.9)**	(8.1)	**(50.6)**	(26.0)
Common share dividends	11	**—**	—	**(205.8)**	(205.9)
Preferred share dividends	11	**(15.9)**	(12.6)	**(60.5)**	(51.5)
Dividends paid to non-controlling interests		**—**	—	**(6.7)**	—
Cash provided by (used in) financing activities		**(44.4)**	(23.6)	**(165.3)**	(198.1)
Increase (decrease) in cash, cash equivalents and bank overdrafts		**(210.7)**	(44.5)	**859.1**	(1,315.8)
Cash, cash equivalents and bank overdrafts – beginning of year		**3,044.9**	1,962.7	**1,910.0**	3,275.1
Foreign currency translation		**(18.9)**	(8.2)	**46.2**	(49.3)
Cash, cash equivalents and bank overdrafts – end of year	19	**2,815.3**	1,910.0	**2,815.3**	1,910.0

See accompanying notes.

Index to Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements
for the three and twelve months ended December 31, 2012 and 2011
(unaudited – in US$ and $ millions except per share amounts and as otherwise indicated)

1. Business Operations

Fairfax Financial Holdings Limited ("the company" or "Fairfax") is a financial services holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. The holding company is federally incorporated and domiciled in Ontario, Canada.

2. Basis of Presentation

These condensed consolidated financial statements of the company include financial information as at December 31, 2012, the company's year-end, and for the three months and year ended December 31, 2012. While these condensed consolidated financial statements are not interim financial statements as defined by International Accounting Standard 34 *Interim Financial Reporting*, management has prepared these condensed consolidated financial statements using the recognition, measurement, presentation and disclosure principles of this standard. These condensed consolidated financial statements do not represent the annual financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These condensed consolidated financial statements also do not represent annual financial statements or interim financial reports required under securities regulatory requirements. Accordingly, certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB have been omitted or condensed. The company expects to issue its audited annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB on March 8, 2013.

These condensed consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB. Where IFRS does not contain clear guidance governing the accounting treatment of certain transactions including those that are specific to insurance products, IFRS requires judgment in developing and applying an accounting policy, which may include reference to another comprehensive body of accounting principles. In these cases, the company considers the hierarchy of guidance in International Accounting Standard 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and may refer to accounting principles generally accepted in the United States ("U.S. GAAP"). The condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and as at fair value through profit and loss ("FVTPL") financial assets and liabilities that have been measured at fair value.

These condensed consolidated financial statements were approved for issue by the company's Board of Directors on February 14, 2013.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the presentation of these condensed consolidated financial statements are as set out in the company's annual consolidated financial statements for the year ended December 31, 2011, prepared in accordance with IFRS as issued by the IASB. Those policies and methods of computation have been consistently applied to all periods presented unless otherwise stated.

New accounting pronouncements

New standards and amendments, that have been issued by the IASB and are not yet effective for the fiscal year beginning January 1, 2012, are summarized in the company's annual consolidated financial statements for the year ended December 31, 2011.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's condensed consolidated financial statements, management has made a number of estimates and judgments which are consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2011. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. Cash and Investments

Holding company cash and investments, portfolio investments and short sale and derivative obligations are classified as at FVTPL, except for investments in associates and other invested assets which are classified as other, and are shown in the table below:

	December 31, 2012	December 31, 2011
Holding company:		
Cash and cash equivalents (note 19)	**212.9**	43.5
Short term investments	**426.5**	244.0
Short term investments pledged for short sale and derivative obligations	**140.2**	249.0
Bonds	**115.9**	188.1
Preferred stocks	**46.3**	45.0
Common stocks	**170.1**	166.4
Derivatives (note 7)	**57.3**	90.7
	1,169.2	1,026.7
Short sale and derivative obligations (note 7)	**(41.2)**	(63.9)
	1,128.0	962.8
Portfolio investments:		
Cash and cash equivalents (note 19)	**2,728.6**	1,995.0
Short term investments	**4,231.5**	4,204.2
Bonds	**10,803.6**	10,835.2
Preferred stocks	**605.1**	563.3
Common stocks	**4,399.1**	3,663.1
Investments in associates (note 6)	**1,355.3**	924.3
Derivatives (note 7)	**149.7**	364.4
Other invested assets	**31.3**	30.2
	24,304.2	22,579.7
Assets pledged for short sale and derivative obligations:		
Cash and cash equivalents (note 19)	**51.1**	6.2
Short term investments	**307.1**	132.5
Bonds	**500.8**	747.6
	859.0	886.3
	25,163.2	23,466.0
Short sale and derivative obligations (note 7)	**(197.0)**	(106.3)
	24,966.2	23,359.7

Common stocks included investments in limited partnerships with a carrying value of $468.6 at December 31, 2012 ($321.2 at December 31, 2011).

Restricted cash and cash equivalents at December 31, 2012 of $172.1 ($134.7 at December 31, 2011) were comprised primarily of amounts required to be maintained on deposit with various regulatory authorities to support the subsidiaries' insurance and reinsurance operations. Restricted cash and cash equivalents are included in the consolidated balance sheets in holding company cash and investments, or in subsidiary cash and short term investments and assets pledged for short sale and derivative obligations in portfolio investments.

Fixed Income Maturity Profile

Bonds are summarized by the earliest contractual maturity date in the table below. Actual maturities may differ from maturities shown below due to the existence of call and put features. At December 31, 2012, bonds containing call and put features represented approximately $6,332.7 and $77.5 respectively ($6,032.3 and $1,069.9 at December 31, 2011, respectively) of the total fair value of bonds in the table below.

	December 31, 2012		December 31, 2011	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**849.5**	**1,008.2**	442.5	413.7
Due after 1 year through 5 years	**2,625.8**	**2,984.3**	2,288.5	2,505.0
Due after 5 years through 10 years	**2,828.3**	**3,409.4**	3,884.5	4,446.4
Due after 10 years	**3,685.8**	**4,018.4**	3,751.0	4,405.8
	9,989.4	**11,420.3**	10,366.5	11,770.9

Fair Value Disclosures

The company's use of quoted market prices (Level 1), valuation models using observable market information as inputs (Level 2) and valuation models without observable market information as inputs (Level 3) in the valuation of securities and derivative contracts by type of issuer was as follows:

	December 31, 2012				December 31, 2011			
	Total fair value asset (liability)	**Quoted prices (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	Total fair value asset (liability)	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	**2,992.6**	**2,992.6**	**—**	**—**	2,044.7	2,044.7	—	—
Short term investments:								
Canadian provincials	**1,375.1**	**1,375.1**	**—**	**—**	408.9	408.9	—	—
U.S. treasury	**3,137.6**	**3,137.6**	**—**	**—**	4,071.0	4,071.0	—	—
Other government	**508.3**	**468.3**	**40.0**	**—**	288.0	267.4	20.6	—
Corporate and other	**84.3**	**—**	**84.3**	**—**	61.8	—	61.8	—
	5,105.3	**4,981.0**	**124.3**	**—**	4,829.7	4,747.3	82.4	—
Bonds:								
Canadian government	**21.1**	**—**	**21.1**	**—**	21.1	—	21.1	—
Canadian provincials	**133.4**	**—**	**133.4**	**—**	1,038.7	—	1,038.7	—
U.S. treasury	**1,520.8**	**—**	**1,520.8**	**—**	2,082.3	—	2,082.3	—
U.S. states and municipalities	**6,867.8**	**—**	**6,867.8**	**—**	6,201.5	—	6,201.5	—
Other government	**1,204.1**	**—**	**1,204.1**	**—**	934.7	—	934.7	—
Corporate and other	**1,673.1**	**—**	**1,554.0**	**119.1**	1,492.6	—	1,432.6	60.0
	11,420.3	**—**	**11,301.2**	**119.1**	11,770.9	—	11,710.9	60.0
Preferred stocks:								
Canadian	**142.1**	**—**	**87.5**	**54.6**	105.5	—	103.5	2.0
U.S.	**461.6**	**—**	**426.2**	**35.4**	457.3	—	451.0	6.3
Other	**47.7**	**—**	**47.7**	**—**	45.5	—	45.5	—
	651.4	**—**	**561.4**	**90.0**	608.3	—	600.0	8.3
Common stocks:								
Canadian	**1,064.1**	**1,022.5**	**16.5**	**25.1**	711.8	673.3	13.7	24.8
U.S.	**1,748.8**	**1,395.4**	**35.3**	**318.1**	1,785.0	1,507.6	33.8	243.6
Other	**1,756.3**	**1,121.7**	**365.7**	**268.9**	1,332.7	886.1	290.6	156.0
	4,569.2	**3,539.6**	**417.5**	**612.1**	3,829.5	3,067.0	338.1	424.4
Derivatives and other invested assets[(1)]	**215.0**	**—**	**99.2**	**115.8**	462.3	—	254.1	208.2
Short sale and derivative obligations	**(238.2)**	**—**	**(238.2)**	**—**	(170.2)	—	(170.2)	—
Holding company cash and investments and portfolio investments measured at fair value	**24,715.6**	**11,513.2**	**12,265.4**	**937.0**	23,375.2	9,859.0	12,815.3	700.9
	100.0%	**46.6%**	**49.6%**	**3.8%**	100.0%	42.2%	54.8%	3.0%

(1) Excluded from these totals are certain real estate investments of $23.3 ($23.0 at December 31, 2011) which are carried at cost less any accumulated amortization and impairment.

During the full years of 2012 and 2011, there were no significant transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy.

Included in Level 3 are investments in CPI-linked derivatives, certain private placement debt securities and common and preferred shares. CPI-linked derivatives are classified within holding company cash and investments, or in derivatives and other invested assets in portfolio investments on the consolidated balance sheets and are valued using broker-dealer quotes which management has determined utilize market observable inputs except for the inflation volatility input which is not market observable. Private placement debt securities are classified within holding company cash and investments and bonds on the consolidated balance sheets and are valued using industry accepted discounted cash flow and option pricing models that incorporate certain inputs that are not market observable; specifically share price volatility (for convertible securities) and credit spreads of the issuer. Common shares are classified within holding company cash and investments and common stocks on the consolidated balance sheets and include common shares of private companies as well as investments in certain private equity funds and limited partnerships. These investments are valued by third party fund companies using observable inputs where available and unobservable inputs, in conjunction with industry accepted valuation models, where required. In some instances, the private equity funds and limited partnerships may require at least three months of notice to liquidate.

A summary of changes in the fair values of Level 3 financial assets measured at fair value on a recurring basis for the years ended December 31 follows:

	2012					2011				
	Bonds	**Preferred stocks**	**Common stocks**	**Derivatives and other invested assets**	**Total**	Bonds	Preferred stocks	Common stocks	Derivatives and other invested assets	Total
Balance - January 1	**60.0**	**8.3**	**424.4**	**208.2**	**700.9**	61.9	0.3	294.6	328.6	685.4
Total net realized and unrealized gains (losses) included in net gains (losses) on investments	**(2.6)**	**(5.1)**	**68.6**	**(126.8)**	**(65.9)**	(1.2)	—	38.5	(243.0)	(205.7)
Purchases	**90.0**	**86.8**	**194.8**	**34.4**	**406.0**	15.0	8.0	146.8	122.6	292.4
Sales	**(28.3)**	**—**	**(75.7)**	**—**	**(104.0)**	(15.7)	—	(55.5)	—	(71.2)
Balance - December 31	**119.1**	**90.0**	**612.1**	**115.8**	**937.0**	60.0	8.3	424.4	208.2	700.9

Purchases of $406.0 of investments classified as Level 3 within the fair value hierarchy during the full year of 2012 were primarily comprised of private common stock, limited partnerships and preferred shares. Purchases of $86.8 of preferred shares related to preferred shares received pursuant to the Arbor Memorial exchange and Cunningham Lindsey transactions described in note 6. Total net realized and unrealized losses of $65.9 during the full year of 2012 were primarily comprised of $126.8 of net unrealized losses recognized on CPI-linked derivative contracts.

Purchases of $292.4 of investments classified as Level 3 within the fair value hierarchy during the full year of 2011 were primarily comprised of limited partnerships and CPI-linked derivative contracts. Total net realized and unrealized losses of $205.7 during the full year of 2011 were primarily comprised of $243.0 of net unrealized losses recognized on CPI-linked derivative contracts.

Net gains (losses) on investments

	Fourth quarter					
	2012			2011		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses) on investments**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Net gains (losses) on investments:						
Bonds	**179.4**	**45.3**	**224.7**	331.7	(402.2)	(70.5)
Preferred stocks	**0.4**	**(21.7)**	**(21.3)**	—	67.5	67.5
Common stocks	**(94.0)**	**507.2**	**413.2**	6.6	(149.5)	(142.9)
	85.8	**530.8**	**616.6**	338.3	(484.2)	(145.9)
Derivatives:						
Common stock and equity index short positions	**(39.4)** [(1)]	**(94.5)**	**(133.9)**	(293.2) [(1)]	(486.1)	(779.3)
Common stock and equity index long positions	**(33.5)** [(1)]	**10.8**	**(22.7)**	76.9 [(1)]	6.8	83.7
Credit default swaps	**(9.0)**	**1.1**	**(7.9)**	—	(19.2)	(19.2)
Equity warrants	**—**	**11.5**	**11.5**	(0.8)	3.5	2.7
CPI-linked contracts	**—**	**(29.9)**	**(29.9)**	—	0.1	0.1
Other	**14.8**	**11.6**	**26.4**	0.1	(0.3)	(0.2)
	(67.1)	**(89.4)**	**(156.5)**	(217.0)	(495.2)	(712.2)
Foreign currency gains (losses) on:						
Investing activities	**(1.2)**	**25.2**	**24.0**	0.6	(69.4)	(68.8)
Underwriting activities	**(2.8)**	**—**	**(2.8)**	(23.1)	—	(23.1)
Foreign currency contracts	**(10.1)**	**(5.1)**	**(15.2)**	24.1	(5.1)	19.0
	(14.1)	**20.1**	**6.0**	1.6	(74.5)	(72.9)
Gain on disposition of associate	**167.0** [(2)]	**—**	**167.0**	7.0 [(3)]	—	7.0
Other	**0.1**	**2.4**	**2.5**	10.6	(1.5)	9.1
Net gains (losses) on investments	**171.7**	**463.9**	**635.6**	140.5	(1,055.4)	(914.9)

(1) Amounts include net gains (losses) on total return swaps where the counterparties are required to cash-settle on a quarterly basis the market value movement since the previous quarterly or monthly reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.

(2) On December 10, 2012, the company sold all of its ownership interest in Cunningham Lindsey for net cash proceeds of $270.6 and recognized a net gain on investment of $167.0 (including amounts previously recorded in accumulated other comprehensive income). Subsequent to the closing of this transaction, the company invested $34.4 in preferred shares of Cunningham Lindsey to become a 9.1% minority shareholder. The shares are classified within preferred stocks on the consolidated balance sheet.

(3) On December 30, 2011, the company sold all of its interest in Polskie Towarzystwo Ubezpieczen S.A. ("PTU"), received cash consideration of $10.1 (34.7 million Polish zloty) and recorded net gains on investments of $7.0.

	Year ended December 31,					
	2012			2011		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses) on investments**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Net gains (losses) on investments:						
Bonds	**629.0**	**285.8**	**914.8**	467.7	834.5	1,302.2
Preferred stocks	**1.0**	**(37.5)**	**(36.5)**	0.9	(8.0)	(7.1)
Common stocks	**133.9**	**563.7**	**697.6**	491.6	(1,266.4)	(774.8)
	763.9	**812.0**	**1,575.9**	960.2	(439.9)	520.3
Derivatives:						
Common stock and equity index short positions	**(837.6)** [1]	**(153.9)**	**(991.5)**	293.2 [1]	120.7	413.9
Common stock and equity index long positions	**13.5** [1]	**34.0**	**47.5**	(22.6) [1]	(39.2)	(61.8)
Credit default swaps	**(21.6)**	**(26.7)**	**(48.3)**	21.9	(11.8)	10.1
Equity warrants	**—**	**12.3**	**12.3**	161.9	(143.4)	18.5
CPI-linked contracts	**—**	**(129.2)**	**(129.2)**	—	(233.9)	(233.9)
Other	**85.3**	**(33.6)**	**51.7**	(11.1)	50.4	39.3
	(760.4)	**(297.1)**	**(1,057.5)**	443.3	(257.2)	186.1
Foreign currency gains (losses) on:						
Investing activities	**(70.1)**	**10.1**	**(60.0)**	(30.7)	(19.8)	(50.5)
Underwriting activities	**3.2**	**—**	**3.2**	(46.5)	—	(46.5)
Foreign currency contracts	**22.2**	**(41.6)**	**(19.4)**	12.7	49.9	62.6
	(44.7)	**(31.5)**	**(76.2)**	(64.5)	30.1	(34.4)
Gain on disposition of associate	**196.8** [2]	**—**	**196.8**	7.0 [3]	—	7.0
Other	**2.3**	**1.3**	**3.6**	13.0	(0.8)	12.2
Net gains (losses) on investments	**157.9**	**484.7**	**642.6**	1,359.0	(667.8)	691.2

(1) Amounts include net gains (losses) on total return swaps where the counterparties are required to cash-settle on a quarterly basis the market value movement since the previous quarterly or monthly reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.

(2) On April 13, 2012, the company sold all of its ownership interest in Fibrek to Resolute for net cash proceeds of $18.5 (Cdn$18.4) and Resolute common shares with a fair value of $12.8 (Cdn$12.7) and recognized a net gain on investment of $29.8 (including amounts previously recorded in accumulated other comprehensive income).

On December 10, 2012, the company sold all of its ownership interest in Cunningham Lindsey for net cash proceeds of $270.6 and recognized a net gain on investment of $167.0 (including amounts previously recorded in accumulated other comprehensive income). Subsequent to the closing of this transaction, the company invested $34.4 in preferred shares of Cunningham Lindsey to become a 9.1% minority shareholder. The shares are classified within preferred stocks on the consolidated balance sheet.

(3) On December 30, 2011, the company sold all of its ownership interest in Polskie Towarzystwo Ubezpieczen S.A. ("PTU"), received cash proceeds of $10.1 (34.7 million Polish zloty) and recorded a net gain on investment of $7.0.

6. Investments in Associates

Investments in associates recorded using the equity method of accounting, the company's ownership interests, their fair values and carrying values were as follows:

	December 31, 2012			December 31, 2011		
	Ownership Percentage	**Fair value**	**Carrying value**	Ownership Percentage	Fair value	Carrying value
Portfolio investments						
Investments in associates:						
Resolute Forest Products Inc. ("Resolute")[(1)(10)]	**25.6%**	**326.2**	**280.6**	18.0%	—	—
Gulf Insurance Company ("Gulf Insurance")	**41.4%**	**258.3**	**217.9**	41.4%	255.1	214.5
ICICI Lombard General Insurance Company Limited ("ICICI Lombard")	**26.0%**	**223.9**	**75.3**	26.0%	230.4	67.1
The Brick Ltd. ("The Brick")[(2)]	**33.7%**	**220.1**	**108.5**	33.8%	123.9	106.9
Thai Re Public Company Limited ("Thai Re")[(3)(10)]	**23.2%**	**132.7**	**59.3**	2.0%	—	—
Eurobank Properties REIC ("Eurobank Properties")[(4)(10)]	**18.0%**	**69.8**	**66.6**	3.7%	—	—
Arbor Memorial Services Inc. ("Arbor Memorial")[(5)(10)]	**39.5%**	**47.0**	**47.0**	—	—	—
MEGA Brands Inc. ("MEGA Brands")[(6)]	**21.9%**	**34.9**	**43.3**	19.9%	26.3	36.7
Singapore Reinsurance Corporation Limited ("Singapore Re")	**27.0%**	**34.7**	**36.3**	26.8%	36.2	33.8
Imvescor Restaurant Group Inc. ("Imvescor")[(7)]	**23.6%**	**9.3**	**7.3**	13.6%	4.1	3.1
Falcon Insurance PLC ("Falcon Thailand")	**40.5%**	**7.2**	**7.2**	40.5%	6.0	6.0
Cunningham Lindsey Group Limited (“Cunningham Lindsey”)[(8)]	—	—	—	43.2%	230.3	104.2
Fibrek Inc. ("Fibrek")[(9)]	—	—	—	25.8%	32.1	27.4
Partnerships, trusts and other[(11)]	—	**418.3**	**406.0**	—	327.4	324.6
		1,782.4	**1,355.3**		1,271.8	924.3

(1) In the fourth quarter of 2012, the company increased its ownership interest in Resolute from 19.5% to 25.6% following the receipt of common shares distributed pursuant to the bankruptcy proceedings of certain predecessor companies of Resolute (where the company was a holder of unsecured debt obligations) and through the purchase of Resolute common shares on the open market.

(2) On November 11, 2012, the company entered into an agreement to sell all of its ownership interest in The Brick to Leon's Furniture Limited (a Canadian furniture retailer) for net proceeds of approximately Cdn$221 (Cdn$5.40 per common share). The transaction is expected close in the first quarter of 2013 subject to regulatory approval.

(3) On March 19, 2012, the company increased its ownership interest in Thai Re from 2.0% to 23.2% through participation in a Thai Re rights offering and in a private placement of newly issued common shares for aggregate cash purchase consideration of $77.0 (2.4 billion Thai Baht).

(4) On August 21, 2012, the company increased its ownership interest in Eurobank Properties from 3.8% to 18.0% through the purchase of common shares of Eurobank Properties for cash consideration of $50.3.

(5) On November 26, 2012, the company (and other third party investors) entered into an arrangement with Arbor Memorial to exchange the company's existing non-voting common share investment in Arbor Memorial for a combination of newly issued voting common shares, preferred shares and cash consideration. Subsequent to the transaction, the company owned 39.5% of the newly issued Arbor Memorial voting common shares.

(6) On September 14, 2012, the company increased its ownership interest in MEGA Brands from 19.9% to 21.9% through the acquisition of additional common shares of MEGA Brands for cash purchase consideration of $2.9 (Cdn$2.8).

(7) In the second and third quarters of 2012, the company increased its ownership interest in Imvescor from 13.6% to 23.6% through the acquisition on the open market of Imvescor common shares for cash purchase consideration of $3.7 (Cdn$3.5). After considering potential dilution, the company's ownership of Imvescor at December 31, 2012 was 45.0% (assuming the company exercised its Imvescor common share purchase warrants and assuming no other warrants were exercised).

(8) On December 10, 2012, the company sold all of its ownership interest in Cunningham Lindsey for net cash proceeds of $270.6 and recognized a net gain on investment of $167.0 (including amounts previously recorded in accumulated other comprehensive income). Subsequent to the closing of this transaction, the company invested $34.4 in preferred shares of Cunningham Lindsey to become a 9.1% minority shareholder.

(9) On April 13, 2012, the company sold all of its ownership interest in Fibrek to Resolute for net cash proceeds of $18.5 (Cdn$18.4) and Resolute common shares with a fair value of $12.8 (Cdn$12.7) and recognized a net gain on investment of $29.8 (including amounts previously recorded in accumulated other comprehensive income).

(10) During 2012, the company determined that it had obtained significant influence over the following investees and commenced recording those investments using the equity method of accounting on a prospective basis (the date significant influence was achieved is identified in parenthesis): Thai Re (March 19, 2012), Eurobank Properties (August 21, 2012), Resolute (November 7, 2012), and Arbor Memorial (November 26, 2012). At the respective dates significant influence was obtained for Resolute and Eurobank Properties, the company determined that for each associate, the fair value of identifiable net assets approximated carrying value. Goodwill of $31.9 was recognized in the carrying value of Arbor Memorial at the date significant influence was obtained.

(11) During 2012, the company made net investments of $71.9 (2011 - $155.5) in partnerships, trusts and other.

The company's strategic investment of $107.9 at December 31, 2012 ($87.9 at December 31, 2011) in 15.0% of Alltrust Insurance Company of China Ltd. ("Alltrust") is classified as at FVTPL within common stocks on the consolidated balance sheets. During the first quarter of 2012, the company contributed an additional $18.9 to Alltrust through its participation in a rights offering.

7. Short Sale and Derivative Transactions

The following table summarizes the notional amount and fair value of the company's derivative financial instruments:

	December 31, 2012				December 31, 2011			
			Fair value				Fair value	
	Cost	**Notional amount**	**Assets**	**Liabilities**	Cost	Notional amount	Assets	Liabilities
Equity derivatives:								
Equity index total return swaps – short positions	**—**	**6,235.5**	**19.6**	**136.0**	—	5,517.6	25.8	59.6
Equity total return swaps – short positions	**—**	**1,433.0**	**4.1**	**55.1**	—	1,617.6	68.8	47.7
Equity total return swaps – long positions	**—**	**1,021.8**	**3.5**	**16.4**	—	1,363.5	2.4	49.2
Warrants	**19.3**	**68.5**	**36.0**	**—**	11.7	44.6	15.9	—
Credit derivatives:								
Credit default swaps	**43.2**	**1,898.7**	**1.7**	**—**	66.8	3,059.6	49.8	—
Warrants	**2.7**	**90.0**	**1.3**	**—**	24.3	340.2	50.0	—
CPI-linked derivative contracts	**454.1**	**48,436.0**	**115.8**	**—**	421.1	46,518.0	208.2	—
Foreign exchange forward contracts	**—**	**—**	**3.8**	**20.6**	—	—	32.9	8.2
Other derivative contracts	**—**	**—**	**21.2**	**10.1**	—	—	1.3	5.5
Total			**207.0**	**238.2**			455.1	170.2

The company is exposed to significant market risk through its investing activities. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. The company's derivative contracts, with limited exceptions, are used for the purpose of managing these risks. Derivative contracts entered into by the company are considered economic hedges and are not designated as hedges for financial reporting purposes.

Equity contracts

The company has economically hedged its equity and equity-related holdings (comprised of common stocks, convertible preferred stocks, convertible bonds, certain investments in associates and equity-related derivatives) against a potential decline in equity markets by way of short positions effected through equity and equity index total return swaps, including short positions in certain equity indexes and individual equities as set out in the table below. The company's economic equity hedges are structured to provide a return which is inverse to changes in the fair values of the equity indexes and certain individual equities. During the fourth quarter of 2012, the company closed $391.1 ($394.2 in the full year of 2012) of original notional amount of short positions in certain individual equities to reduce its economic equity hedges as a proportion of its equity and equity-related holdings. In the future, the company may manage its net exposure to its equity and equity-related holdings by closing out a portion of its equity hedges or by increasing its equity exposure if attractive opportunities become available. At December 31, 2012, equity hedges with a net notional amount of $7,668.5 ($7,135.2 at December 31, 2011) represented 100.6% (104.6% at December 31, 2011) of the company's equity and equity-related holdings of $7,626.5 ($6,822.7 at December 31, 2011). During the fourth quarter and full year of 2012, the company paid net cash of $39.4 and $837.6, respectively (paid net cash of $293.2 in the fourth quarter of 2011 and received net cash of $293.2 in the full year of 2011) in connection with the reset provisions of its short equity and equity index total return swaps. Refer to note 16 for a tabular analysis followed by a discussion of the company's hedges of equity price risk and the related basis risk.

	December 31, 2012				December 31, 2011			
Underlying short equity and equity index total return swaps	**Units**	**Original notional amount**[(1)]	**Weighted average index value**	**Index value at period end**	Units	Original notional amount[(1)]	Weighted average index value	Index value at period end
Russell 2000	**52,881,400**	**3,501.9**	**662.22**	**849.35**	52,881,400	3,501.9	662.22	740.92
S&P 500	**10,532,558**	**1,117.3**	**1,060.84**	**1,426.19**	12,120,558	1,299.3	1,071.96	1,257.60
S&P/TSX 60	**13,044,000**	**206.1**	**641.12**	**713.72**	—	—	—	680.87
Other equity indices	**—**	**140.0**	**—**	**—**	—	140.0	—	—
Individual equities	**—**	**1,231.3**	**—**	**—**	—	1,597.3	—	—

(1) The aggregate notional amounts on the dates that the short positions were first initiated.

As at December 31, 2012, the company had entered into long equity total return swaps on individual equities for investment purposes with an original notional amount of $975.8 ($1,280.0 at December 31, 2011). The company paid net cash of $33.5 during the fourth quarter of 2012 and received net cash of $13.5 during the full year of 2012 (received net cash of $76.9 during the fourth quarter of 2011 and paid net cash of $22.6 during the full year of 2011) in connection with the reset provisions of the company's long equity total return swaps (excluding the impact of collateral requirements).

At December 31, 2012, the fair value of the collateral deposited for the benefit of derivative counterparties included in holding company cash and investments, or in assets pledged for short sale and derivative obligations was $999.2 ($1,135.3 at December 31, 2011), comprised of collateral of $847.5 ($962.6 at December 31, 2011) required to be deposited to enter into such derivative contracts (principally related to total return swaps) and net collateral of $151.7 ($172.7 at December 31, 2011) securing amounts owed to counterparties to the company's derivative contracts arising in respect of changes in the fair values of those derivative contracts since the most recent reset date.

Equity warrants were acquired in conjunction with the company's investment in debt securities of various Canadian companies. At December 31, 2012, the warrants have expiration dates ranging from 2 years to 10 years (2 years to 5 years at December 31, 2011).

Credit contracts

Since 2003, the company's investments have included credit default swaps referenced to various issuers in the financial services industry as an economic hedge of certain financial and systemic risks. The company's holdings of credit default swaps declined substantially from 2008 to 2010 through sales and contract expirations, so effective January 1, 2011, the company no longer considered its credit default swaps to be an economic hedge of its financial assets. At December 31, 2012, the company's remaining credit default swaps have a weighted average life of less than one year (1.3 years at December 31, 2011) and a notional amount and fair value of $1,898.7 ($3,059.6 at December 31, 2011) and $1.7 ($49.8 at December 31, 2011) respectively.

The company previously held various bond warrants which provided the company an option to purchase certain long dated corporate bonds. During the full year of 2012, the company exercised or sold substantially all its bond warrants and recognized a net realized gain on investment of $60.9 (full year of 2011 - $8.4).

CPI-linked derivative contracts

The company has purchased derivative contracts referenced to consumer price indices ("CPI") in the geographic regions in which it operates which serve as an economic hedge against the potential adverse financial impact on the company of decreasing price levels. At December 31, 2012, these contracts have a remaining weighted average life of 7.7 years (8.6 years at December 31, 2011) and a notional amount and fair value as shown in the table below. In the event of a sale, expiration or early settlement of any of these contracts, the company would receive the fair value of that contract on the date of the transaction. The company's maximum potential loss on any contract is limited to the original cost of that contract. The following table summarizes the notional amounts and weighted average strike prices of CPI indices underlying the company's CPI-linked derivative contracts:

	December 31, 2012				December 31, 2011			
	Notional Amount		**Weighted average strike price**	**Index value at period end**	Notional Amount		Weighted average strike price	Index value at period end
Underlying CPI Index	**Original currency**	**U.S. dollars**			Original currency	U.S. dollars		
United States	**19,625.0**	**19,625.0**	**223.98**	**229.60**	18,175.0	18,175.0	216.95	225.67
United Kingdom	**550.0**	**894.1**	**216.01**	**246.80**	550.0	854.8	216.01	239.40
European Union	**20,425.0**	**26,928.1**	**109.74**	**116.39**	20,425.0	26,514.6	109.74	113.91
France	**750.0**	**988.8**	**120.09**	**125.02**	750.0	973.6	120.09	123.51
		48,436.0				46,518.0		

During the fourth quarter of 2012, the company paid additional premiums of $8.1 ($28.3 during the full year of 2012) to increase the strike price on certain of its U.S. CPI-linked derivative contracts. As a result, the weighted average strike price of the U.S. CPI-linked derivative contracts increased from 216.95 at December 31, 2011 to 223.98 at December 31, 2012. During the fourth quarter and full year of 2012, the company purchased $1,450.0 and $1,450.0 (fourth quarter and full year of 2011 - nil and $13,596.7) notional amount of CPI-linked derivative contracts at a cost of $6.1 and $6.1 (fourth quarter and full year of 2011 - nil and $122.6) and recorded net mark-to-market losses of $29.9 and $129.2 (fourth quarter and full year of 2011 - net mark-to-market gains of $0.1 and net mark-to-market losses of $233.9) respectively on positions remaining open at the end of the period.

Foreign exchange forward contracts

A significant portion of the company's business is conducted in currencies other than the U.S. dollar. The company is also exposed to currency rate fluctuations through its equity accounted investments and its net investment in subsidiaries that have a functional currency other than the U.S. dollar. Long and short foreign exchange forward contracts primarily denominated in the euro, the British pound sterling and the Canadian dollar are used to manage certain foreign currency exposures arising from foreign currency denominated transactions. The contracts have an average term to maturity of less than one year and may be renewed at market rates.

Counterparty risk

The company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its derivative contracts. The fair value of the collateral deposited for the benefit of the company at December 31, 2012 consisted of cash of $22.1 ($50.5 at December 31, 2011) and government securities of $38.3 ($156.8 at December 31, 2011). The company has recognized the cash collateral within subsidiary cash and short term investments and recognized a corresponding liability within accounts payable and accrued liabilities. The company had not exercised its right to sell or repledge collateral at December 31, 2012. The company's exposure to counterparty risk and the manner in which the company manages counterparty risk are discussed further in note 16.

Hedge of net investment in Northbridge

The company has designated the carrying value of Cdn$1,275.0 principal amount of its Canadian dollar denominated unsecured senior notes with a fair value of $1,424.4 (principal amount of Cdn$1,075.0 with a fair value of $1,114.6 at December 31, 2011) as a hedge of its net investment in Northbridge for financial reporting purposes. In the fourth quarter and full year of 2012, the company recognized pre-tax gains of $16.4 and pre-tax losses of $20.4 (fourth quarter and full year of 2011 - pre-tax losses of $24.1 and pre-tax gains of $33.2), respectively, related to foreign currency movements on the unsecured senior notes in change in gains and losses on hedge of net investment in foreign subsidiary in the consolidated statements of comprehensive income.

8. Insurance Contract Liabilities

	Gross		Ceded		Net	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Provision for unearned premiums	**2,727.4**	2,487.3	**427.4**	388.1	**2,300.0**	2,099.2
Provision for losses and loss adjustment expenses	**19,648.8**	17,232.2	**4,552.4**	3,496.8	**15,096.4**	13,735.4
Total insurance contract liabilities	**22,376.2**	19,719.5	**4,979.8**	3,884.9	**17,396.4**	15,834.6

Provision for unearned premiums

The following changes have occurred in the provision for unearned premiums for the years ended December 31:

	2012	2011
Provision for unearned premiums – January 1	**2,487.3**	2,120.9
Gross premiums written	**7,398.3**	6,743.5
Less: premiums earned	**(7,294.8)**	(6,541.4)
Acquisitions of subsidiaries	**101.4**	206.9
Foreign exchange effect and other	**35.2**	(42.6)
Provision for unearned premiums - December 31	**2,727.4**	2,487.3

Provision for losses and loss adjustment expenses

The following changes have occurred in the provision for losses and loss adjustment expenses for the years ended December 31:

	2012	2011
Provision for losses and loss adjustment expenses – January 1	**17,232.2**	16,049.3
Increase (decrease) in estimated losses and expenses for claims occurring in the prior years	**14.0**	(52.7)
Losses and expense for claims occurring in the current year	**5,251.5**	5,594.1
Paid on claims occurring during:		
the current year	**(1,106.5)**	(1,427.5)
the prior years	**(3,698.1)**	(3,539.1)
Acquisitions of subsidiaries and reinsurance-to-close transactions	**1,802.9**	769.3
Foreign exchange effect and other	**152.8**	(161.2)
Provision for losses and loss adjustment expenses – December 31	**19,648.8**	17,232.2

9. Reinsurance

Reinsurers' share of insurance contract liabilities is comprised as follows:

	December 31, 2012	December 31, 2011
Reinsurers' share of unearned premiums	**427.4**	388.1
Reinsurers' share of provision for losses and loss adjustment expenses	**5,133.3**	4,105.5
Provision for uncollectible reinsurance	**(269.9)**	(295.5)
	5,290.8	4,198.1

The company makes specific provisions against reinsurance recoverables from reinsurers considered to be in financial difficulty. In addition, the company records an allowance based upon its analysis of historical recoveries, the level of allowance already in place and management's judgment on future collectability. The provision for uncollectible reinsurance at December 31, 2012 was $269.9 ($295.5 at December 31, 2011).

Changes in the reinsurers' share of paid losses, unpaid losses, unearned premiums and provision for uncollectible balances for the years ended December 31 were as follows:

	Paid Losses	**Unpaid Losses**	**Unearned Premiums**	**Provision**	**Net Recoverable**
Balance – January 1, 2012	**500.9**	**3,604.6**	**388.1**	**(295.5)**	**4,198.1**
Reinsurers' share of losses paid to insureds	**837.7**	**(837.7)**	**—**	**—**	**—**
Reinsurance recoveries received	**(897.3)**	**—**	**—**	**—**	**(897.3)**
Reinsurers' share of losses or premiums earned	**—**	**1,030.3**	**(1,211.3)**	**—**	**(181.0)**
Premiums ceded to reinsurers	**—**	**—**	**1,204.2**	**—**	**1,204.2**
Change in provision, recovery or write-off of impaired balances	**(30.6)**	**(3.9)**	**—**	**26.2**	**(8.3)**
Acquisitions of subsidiaries and reinsurance-to-close transactions	**52.6**	**838.0**	**42.3**	**—**	**932.9**
Foreign exchange effect and other	**6.3**	**32.4**	**4.1**	**(0.6)**	**42.2**
Balance – December 31, 2012	**469.6**	**4,663.7**	**427.4**	**(269.9)**	**5,290.8**

	Paid Losses	Unpaid Losses	Unearned Premiums	Provision	Net Recoverable
Balance – January 1, 2011	458.0	3,368.1	279.8	(348.9)	3,757.0
Reinsurers' share of losses paid to insureds	944.4	(944.4)	—	—	—
Reinsurance recoveries received	(902.7)	—	—	—	(902.7)
Reinsurers' share of losses or premiums earned	—	911.9	(1,121.4)	—	(209.5)
Premiums ceded to reinsurers	—	—	1,143.4	—	1,143.4
Change in provision, recovery or write-off of impaired balances	(25.6)	(5.8)	—	52.7	21.3
Acquisitions of subsidiaries and reinsurance-to-close transactions	29.8	290.6	95.3	—	415.7
Foreign exchange effect and other	(3.0)	(15.8)	(9.0)	0.7	(27.1)
Balance – December 31, 2011	500.9	3,604.6	388.1	(295.5)	4,198.1

Reinsurers' share of provision for losses and loss adjustment expenses at December 31, 2012 includes $311.0 ($313.2 at December 31, 2011) of paid losses net of provisions.

Included in commissions, net is commission income from reinsurance contracts of $72.7 and $239.5 for the fourth quarter and full year of 2012 (fourth quarter and full year of 2011 - $62.1 and $226.1), respectively.

10. Subsidiary Indebtedness, Long Term Debt and Credit Facilities

	December 31, 2012			December 31, 2011		
	Principal	**Carrying value(1)**	**Fair value(2)**	Principal	Carrying value(1)	Fair value(2)
Subsidiary indebtedness	**52.2**	**52.1**	**52.1**	1.0	1.0	1.0
Long term debt – holding company borrowings	**2,396.1**	**2,377.7**	**2,622.7**	2,462.8	2,394.6	2,453.2
Long term debt – subsidiary company borrowings	**624.0**	**618.8**	**629.9**	630.1	622.9	628.2
	3,072.3	**3,048.6**	**3,304.7**	3,093.9	3,018.5	3,082.4

(1) Principal net of unamortized issue costs and discounts.

(2) Based principally on market prices, where available, or discounted cash flow models.

Subsequent to December 31, 2012

On January 21, 2013, the company completed a public debt offering of Cdn$250.0 principal amount of a re-opening of its unsecured senior notes due 2022 at an issue price of $103.854 (an effective yield of 5.33%) for net proceeds after discount, commissions and expenses of $259.9 (Cdn$258.1). Commissions and expenses of $1.5 (Cdn$1.5) will be included as part of the carrying value of the debt. An aggregate principal amount of Cdn$450.0 of such senior notes remained outstanding after giving effect to this offering. The company has designated these senior notes as a hedge of a portion of its net investment in Northbridge.

On January 22, 2013, the company repurchased for cash $12.2 principal amount of its unsecured senior notes due 2017 for cash consideration of $12.6. On March 11, 2013, the company will redeem the remaining $36.2 outstanding principal amount of its unsecured senior notes due 2017.

Year ended December 31, 2012

On October 19, 2012, the company's runoff subsidiary, TIG Insurance Company ("TIG"), repaid for $200.0 of cash the $160.2 carrying value of its loan note issued in connection with its acquisition of General Fidelity Insurance Company in August 2010. The transaction was accounted for as an extinguishment of debt. Accordingly, other expenses included a one-time charge of $39.8 recognized on the repurchase of long-term debt (principally the release of $41.3 of unamortized issue costs and discounts).

On October 15, 2012, the company completed a public debt offering of Cdn$200.0 principal amount of 5.84% unsecured senior notes due October 14, 2022 at an issue price of $99.963 for net proceeds after discount, commissions and expenses of $203.0 (Cdn$198.6). Commissions and expenses of $1.3 (Cdn$1.3) were included as part of the carrying value of the debt. The notes are redeemable at the company's option, in whole or in part, at any time at a price equal to the greater of par and a redemption price based on the then current yield of a Government of Canada bond with a term to maturity equal to the remaining term to October 14, 2022. The company has designated these senior notes as a hedge of a portion of its net investment in Northbridge.

On May 15, 2012, Crum & Forster redeemed for $6.4 of cash the $6.2 principal amount of its unsecured senior notes due 2017.

On April 26, 2012, the company repaid the $86.3 principal amount of its unsecured senior notes upon maturity.

Year ended December 31, 2011

First Mercury

The company acquired First Mercury on February 9, 2011, pursuant to the transaction described in note 15. At the acquisition date, the company's consolidated balance sheet included the $67.0 carrying value of trust preferred securities issued by First Mercury Capital Trust I, II, III and IV (statutory business trust subsidiaries of First Mercury) in long term debt.

On May 15, 2011, First Mercury redeemed for cash all $8.2 principal amount of its outstanding Trust I trust preferred securities due April 2034 for cash consideration of $8.7.

On May 24, 2011, First Mercury redeemed for cash all $12.4 principal amount of its outstanding Trust II trust preferred securities due May 2034 for cash consideration of $13.1.

On May 27, 2011, First Mercury repurchased for cash $5.0 principal amount of its outstanding Trust IV trust preferred securities due 2037 for cash consideration of $4.9.

Debt and Tender Offerings

On May 9, 2011, the company completed a private placement debt offering of $500.0 principal amount of 5.80% unsecured senior notes due May 15, 2021 at an issue price of $99.646 for net proceeds after discount, commissions and expenses of $493.9. Commissions and expenses of $4.3 were included as part of the carrying value of the debt. The notes are redeemable at the company's option, in whole or in part, at any time at a price equal to the greater of: (a) 100% of the principal amount to be redeemed; or (b) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semi-annual basis at the treasury rate plus 50 basis points, together, in each case, with accrued interest thereon to the date of redemption.

On May 25, 2011, the company completed a public debt offering of Cdn$400.0 principal amount of 6.40% unsecured senior notes due May 25, 2021 at an issue price of $99.592 for net proceeds after discount, commissions and expenses of $405.6 (Cdn$396.0). Commissions and expenses of $2.4 (Cdn$2.4) were included as part of the carrying value of the debt. The notes are redeemable at the company's option, in whole or in part, at any time at the greater of a specified redemption price based upon the then current yield of a Government of Canada bond with a term to maturity equal to the remaining term to May 25, 2021 and par, together, in each case, with accrued and unpaid interest to the date fixed for redemption. The company has designated these senior notes as a hedge of a portion of its net investment in Northbridge.

Pursuant to the tender offer as amended on May 20, 2011 (the “Amended Tender Offer”), the net proceeds of the debt offerings described above were used to purchase for cash the following debt during May and June of 2011:

	Principal amount	Cash consideration
Fairfax unsecured senior notes due 2012 (“Fairfax 2012 notes”)	71.0	75.6
Fairfax unsecured senior notes due 2017 (“Fairfax 2017 notes”)	227.2	252.9
Crum & Forster unsecured senior notes due 2017	323.8	357.8
OdysseyRe unsecured senior notes due 2013 (“OdysseyRe 2013 notes”)	35.9	40.8
Total	657.9	727.1

Unsecured senior notes repurchased in connection with the Amended Tender Offer were accounted for as an extinguishment of debt. Accordingly, other expenses during the year ended December 31, 2011 included a one-time charge of $104.2 recognized on the repurchase of long-term debt (including the release of $35.0 of unamortized issue costs and discounts and other transaction costs incurred in connection with the Amended Tender

Offer). The principal amount of $657.9 in the table above, is net of $7.0, $23.3 and $6.2 aggregate principal amounts of Fairfax 2017, Fairfax 2012, and OdysseyRe 2013 unsecured senior notes, respectively, which were owned in Zenith National's investment portfolio prior to being acquired by Fairfax and tendered to the Amended Tender Offer by Zenith National. Similarly, the $727.1 of cash consideration in the table above is net of $39.7 of total consideration paid to Zenith National in connection with the Amended Tender Offer. The notes tendered by Zenith National were eliminated within Fairfax's consolidated financial reporting since the acquisition date of Zenith National.

Credit Facilities

On December 18, 2012, Fairfax extended the term of its $300.0 unsecured revolving credit facility (the "credit facility") with a syndicate of lenders. Based on the revised term of four years, the credit facility will expire on December 31, 2016. As of December 31, 2012, no amounts had been drawn on the credit facility.

On July 13, 2012, OdysseyRe's $100.0 credit facility which was maintained with a syndicate of lenders expired and was not renewed. No obligations or balances remained outstanding under the expired credit facility as at December 31, 2012.

On January 31, 2012, Ridley entered into a three-year revolving credit agreement replacing its previous credit facility. Ridley may borrow the lesser of $50.0 or a calculated amount based on the level of eligible trade accounts receivable and inventory. The credit agreement is secured by first-ranking general security agreements covering substantially all of Ridley's assets.

11. Total Equity

Equity attributable to shareholders of Fairfax

Common stock

The number of shares outstanding was as follows:

	2012	2011
Subordinate voting shares – January 1	**19,627,026**	19,706,477
Purchases for cancellation	**—**	(25,700)
Net treasury shares acquired	**(130,385)**	(53,751)
Subordinate voting shares – December 31	**19,496,641**	19,627,026
Multiple voting shares – beginning and end of year	**1,548,000**	1,548,000
Interest in shares held through ownership interest in shareholder – beginning and end of year	**(799,230)**	(799,230)
Common stock effectively outstanding – December 31	**20,245,411**	20,375,796

Capital transactions

Year ended December 31, 2012

On March 21, 2012, the company issued 9,500,000 cumulative five-year rate reset preferred shares, Series K for Cdn$25.00 per share, resulting in net proceeds after commissions and expenses of $231.7 (Cdn$230.1). Commissions and expenses of $7.4 were charged to preferred stock. The Series K preferred shares have a dividend rate of 5.00% per annum and are redeemable by the company on March 31, 2017, and on each subsequent five-year anniversary date at Cdn$25.00 per share. Holders of unredeemed Series K preferred shares will have the right, at their option, to convert their shares into floating rate cumulative preferred shares Series L on March 31, 2017, and on each subsequent five-year anniversary date. The Series L preferred shares (of which none are currently issued) will have a dividend rate equal to the three-month Government of Canada Treasury Bill yield current on March 31, 2017, or any subsequent five-year anniversary, plus 3.51%.

Repurchase of shares

During the year ended December 31, 2012, the company did not repurchase for cancellation any subordinate voting shares under the terms of normal course issuer bids. During the year ended December 31, 2011, the company repurchased for cancellation 25,700 subordinate voting shares for a net cost of $10.0, of which $5.8 was charged to retained earnings. The company also acquires its own subordinate voting shares on the open market for its share-based payment awards.

Dividends

Dividends paid by the company on its outstanding multiple voting and subordinate voting shares were as follows:

Date of declaration	Date of record	Date of payment	Dividend per share	Total cash payment
January 4, 2013	January 22, 2013	January 29, 2013	$10.00	$205.5
January 4, 2012	January 19, 2012	January 26, 2012	$10.00	$205.8
January 5, 2011	January 19, 2011	January 26, 2011	$10.00	$205.9

Accumulated other comprehensive income (loss)

The balances related to each component of accumulated other comprehensive income (loss) attributable to shareholders of Fairfax were as follows:

	December 31, 2012			December 31, 2011		
	Pre-tax amount	**Income tax (expense) recovery**	**After-tax amount**	Pre-tax amount	Income tax (expense) recovery	After-tax amount
Share of accumulated other comprehensive income (loss) of associates	**(0.5)**	**(4.3)**	**(4.8)**	7.2	(1.9)	5.3
Currency translation account	**136.6**	**(17.0)**	**119.6**	101.9	(20.4)	81.5
	136.1	**(21.3)**	**114.8**	109.1	(22.3)	86.8

12. Earnings per Share

Net earnings (loss) per share is calculated in the following table based upon the weighted average common shares outstanding:

	Fourth quarter		**Year ended December 31,**	
	2012	2011	**2012**	2011
Net earnings (loss) attributable to shareholders of Fairfax	**404.1**	(771.5)	**532.4**	45.1
Preferred share dividends	**(15.9)**	(12.6)	**(60.5)**	(51.5)
Net earnings (loss) attributable to common shareholders – basic and diluted	**388.2**	(784.1)	**471.9**	(6.4)
Weighted average common shares outstanding – basic	**20,286,966**	20,380,569	**20,326,688**	20,405,427
Share-based payment awards	**254,613**	—	**240,178**	—
Weighted average common shares outstanding – diluted	**20,541,579**	20,380,569	**20,566,866**	20,405,427
Net earnings (loss) per common share – basic	**$ 19.14**	$ (38.47)	**$ 23.22**	$ (0.31)
Net earnings (loss) per common share – diluted	**$ 18.90**	$ (38.47)	**$ 22.94**	$ (0.31)

Share-based payment awards of 193,098 and 175,299 were not included in the calculation of net loss per diluted common share in the fourth quarter of 2011 and the year ended December 31, 2011, respectively, as the inclusion of the awards would be anti-dilutive.

13. Income Taxes

The company's provision for (recovery of) income taxes for the fourth quarters and years ended December 31 is as follows:

	Fourth quarter		**Year ended December 31,**	
	2012	2011	**2012**	2011
Current income tax:				
Current year expense	**35.7**	(119.9)	**90.9**	63.1
Adjustments to prior years' income taxes	**19.5**	1.5	**7.3**	8.5
	55.2	(118.4)	**98.2**	71.6
Deferred income tax:				
Origination and reversal of temporary differences	**55.3**	(276.0)	**(2.5)**	(123.3)
Adjustments to prior years' deferred income taxes	**(16.9)**	1.3	**7.9**	(6.4)
Other	**3.5**	(5.6)	**12.5**	1.6
	41.9	(280.3)	**17.9**	(128.1)
Provision for (recovery of) income taxes	**97.1**	(398.7)	**116.1**	(56.5)

A reconciliation of income tax calculated at the Canadian statutory income tax rate to the income tax provision (recovery) at the effective tax rate in the consolidated financial statements in the fourth quarters and years ended December 31 is summarized in the following table:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	**133.8**	(330.3)	**174.0**	(2.4)
Non-taxable investment income	**(22.1)**	(22.6)	**(96.1)**	(79.7)
Tax rate differential on income and losses incurred outside Canada	**(46.8)**	(30.4)	**(73.3)**	22.6
Change in unrecorded tax benefit of losses	**6.3**	(9.4)	**65.6**	(24.3)
Foreign exchange	**1.3**	(13.6)	**1.5**	5.8
Change in tax rate for deferred income taxes	**(0.5)**	(1.2)	**(2.8)**	4.8
Provision (recovery) relating to prior years	**1.0**	2.9	**15.3**	2.5
Non-deductible loss on extinguishment of long term debt	**17.6**	—	**17.6**	—
Other including permanent differences	**6.5**	5.9	**14.3**	14.2
Provision for (recovery of) income taxes	**97.1**	(398.7)	**116.1**	(56.5)

The effective income tax rates of of 19.2% and 17.7% in the fourth quarter and full year of 2012, respectively, differed from the company's Canadian statutory income tax rate of 26.5% primarily as a result of non-taxable investment income (including dividend income, interest on bond investments in U.S. states and municipalities and capital gains only 50% taxable in Canada) and income or losses earned or incurred in jurisdictions where the corporate income tax rate is different from the company's Canadian statutory income tax rate, partially offset by the recognition of the benefit of previously unrecorded accumulated income tax losses. In the fourth quarter and full year of 2012, the company recorded a loss related to the repayment of the TIG Note which is not deductible for tax purposes.

The effective income tax rate of 34.1% in the fourth quarter of 2011 differed from the company's Canadian statutory income tax rate of 28.3% primarily as a result of the effect of losses incurred in jurisdictions where the corporate income tax rate differed from the company's Canadian statutory income tax rate, the effect of non-taxable investment income in the U.S. tax group (including dividend income and interest on bond investments in U.S. states and municipalities) and the recognition of the benefit of previously unrecorded accumulated income tax losses. The $56.5 recovery of income taxes in the full year of 2011 differed from the income tax recovery that would be determined by applying the company's Canadian statutory income tax rate of 28.3% to the loss before income taxes of $8.7 primarily as a result of the effect of non-taxable investment income in the U.S. tax group (including dividend income and interest on bond investments in U.S. states and municipalities) and the recognition of the benefit of previously unrecorded accumulated income tax losses, partially offset by the effect of income earned in jurisdictions where the corporate income tax rate differed from the company's Canadian statutory income tax rate.

14. Contingencies and Commitments

Lawsuits

(a) On July 25, 2011, a lawsuit seeking class action status was filed in the United States District Court for the Southern District of New York against Fairfax, certain of its current and former directors and officers, OdysseyRe and Fairfax's auditors. The plaintiff sought to represent a class of all purchasers of securities of Fairfax listed or registered on a U.S. exchange between May 21, 2003 and March 22, 2006, inclusive. The complaint alleged that the defendants violated U.S. federal securities laws by making material misstatements or failing to disclose certain material information regarding, among other things, Fairfax's and OdysseyRe's assets, earnings, losses, financial condition, and internal financial controls. The defendants' motions to dismiss the lawsuit were granted by the Court, with prejudice ("with prejudice" means that the plaintiff does not have the right to file a further amended complaint). Although the plaintiff initially appealed the dismissal of its lawsuit to the United States Court of Appeals, it subsequently agreed to its voluntary dismissal of the appeal with prejudice ("with prejudice" means that the plaintiff cannot revive that appeal in the future), and the Appeals Court consequently made an order confirming that dismissal. As a result, this lawsuit has been finally dismissed.

(b) On July 26, 2006, Fairfax filed a lawsuit seeking $6 billion in damages from a number of defendants who, the complaint (as subsequently amended) alleges, participated in a stock market manipulation scheme involving Fairfax shares. The complaint, filed in Superior Court, Morris County, New Jersey, alleges violations of various state laws, including the New Jersey Racketeer Influenced and Corrupt Organizations Act, pursuant to which treble damages may be available. On September 12, 2012, before trial, and consequently without having heard or made any determination on the facts, the Court dismissed the lawsuit on legal grounds. In October 2012, Fairfax filed an appeal of this dismissal, as it believes that the legal basis for the dismissal is incorrect. The ultimate outcome of any litigation is uncertain. The financial effects, if any, of this lawsuit cannot be practicably determined at this time, and the company's condensed consolidated financial statements include no anticipated recovery from the lawsuit.

15. Acquisitions and Divestitures

Year ended December 31, 2012

Disposition of Cunningham Lindsay Group Limited

On December 10, 2012, the company sold all of its ownership interest in Cunningham Lindsey for net cash proceeds of $270.6 and recognized a net gain on investment of $167.0 (including amounts previously recorded in accumulated other comprehensive income). Subsequent to the closing of this transaction, the company invested $34.4 in preferred shares of Cunningham Lindsey to become a 9.1% minority shareholder.

Acquisition of Brit Insurance Limited

On October 12, 2012, the company's runoff subsidiary, RiverStone Holdings Limited, completed the acquisition of 100% of the outstanding shares of Brit Insurance Limited ("Brit Insurance") for cash purchase consideration of $335.1 (208.3 British pound sterling). The Brit Insurance purchase price was primarily financed internally by the company's runoff subsidiaries. The assets and liabilities and results of operations of Brit Insurance were consolidated within the company's financial reporting in the Runoff reporting segment. Brit Insurance is located in London, England and wrote U.K. domestic and international insurance and reinsurance business prior to being placed into runoff early in 2012. Effective October 15, 2012, Brit Insurance was renamed RiverStone Insurance Limited ("RiverStone Insurance"). The preliminary determination of the identifiable assets acquired and liabilities assumed in connection with the acquisition of RiverStone Insurance is summarized in the table following the next three paragraphs.

Acquisition of Thomas Cook (India) Limited

During the third quarter of 2012, the company acquired an 87.1% interest in Thomas Cook (India) Limited ("Thomas Cook India") for aggregate cash purchase consideration of $172.7 pursuant to the following transactions: On August 14, 2012, the company acquired 76.7% of the common shares of Thomas Cook India from its U.K. based parent company Thomas Cook Group plc, for cash purchase consideration of $146.6. The company acquired an additional 10.4% of the common shares of Thomas Cook India for cash purchase consideration of $26.1 pursuant to a tender offer to purchase the shares of the minority shareholders of Thomas Cook India as stipulated by securities regulations in India. Those securities regulations also require the company to reduce its interest in Thomas Cook India to less than 75% by August 2013. The assets and liabilities and results of operations of Thomas Cook India were consolidated within the company's financial reporting in the Other reporting segment. Thomas Cook India is the largest integrated travel and travel related financial services company in India, offering a broad range of services that include foreign exchange, corporate and leisure travel and insurance. The preliminary determination of the identifiable assets acquired and liabilities assumed in connection with the acquisition of Thomas Cook India is summarized in the table following the next two paragraphs.

Additional investment in Thai Reinsurance Public Company Limited

During the first quarter of 2012, the company increased its ownership interest in Thai Reinsurance Public Company Limited ("Thai Re"), from 2.0% to 23.2% through participation in a Thai Re rights offering and a private placement of newly issued common shares for aggregate cash purchase consideration of $77.0 (2.4 billion Thai Baht). Accordingly, on March 19, 2012, the company determined that it had obtained significant influence over Thai Re and commenced recording its investment in the common shares of Thai Re using the equity method of accounting on a prospective basis. Thai Re is headquartered in Bangkok, Thailand and provides reinsurance coverage for property, casualty, engineering, marine and life customers primarily in Thailand.

Acquisition of Prime Restaurants Inc.

On January 10, 2012, the company completed the acquisition of 100% of the issued and outstanding common shares of Prime Restaurants Inc. ("Prime Restaurants") for a cash payment per share of $7.46 (Cdn$7.50 per common and restricted share plus funding of a special dividend payment of Cdn $0.08 per share made by Prime Restaurants to its common shareholders), representing an aggregate cash purchase consideration of $68.5 (Cdn$69.6). Subsequent to the acquisition, certain key executives of Prime Restaurants invested a portion of the proceeds each received from the transaction (an aggregate amount of $11.8 (Cdn$11.9)) into common shares of that company, reducing Fairfax's net cash outflow to $56.7 (Cdn$57.7) and its ownership from 100% to 81.7%. The assets and liabilities and results of operations of Prime Restaurants are included in the company's financial reporting in the Other reporting segment. Prime Restaurants franchises, owns and operates a network of casual dining restaurants and pubs in Canada.

The identifiable assets acquired and liabilities assumed in connection with the acquisitions described above are summarized in the table below.

	RiverStone Insurance	Thomas Cook India	Prime Restaurants
Acquisition date	October 12, 2012	August 14, 2012	January 10, 2012
Percentage of common shares acquired	100.0%	87.1%	81.7%
Assets:			
Insurance contract receivables	140.6	—	—
Portfolio investments[1]	1,308.2	40.8	5.3
Recoverable from reinsurers	883.4	—	—
Deferred income taxes	8.3	—	6.6
Goodwill and intangible assets	—	118.2	64.0
Other assets	29.2	138.3	8.7
	2,369.7	297.3	84.6
Liabilities:			
Subsidiary indebtedness[2]	—	28.8	3.1
Accounts payable and accrued liabilities	194.1	78.4	12.1
Income taxes payable	—	1.4	—
Funds withheld payable to reinsurers	—	—	—
Insurance contract liabilities	1,833.7	—	—
Deferred income taxes	—	7.4	—
	2,027.8	116.0	15.2
Non-controlling interests	—	8.6	12.7
Purchase consideration	335.1	172.7	56.7
	2,362.9	297.3	84.6
Excess of fair value of net assets acquired over purchase consideration	6.8	—	—

(1) Included in the carrying value of the acquired portfolio investments of RiverStone Insurance, Thomas Cook India and Prime Restaurants were $195.8, $38.3 and $5.3, respectively, of subsidiary cash and cash equivalents.

(2) Included in the carrying value of the assumed subsidiary indebtedness of Thomas Cook India was $5.7 of bank overdraft.

Year ended December 31, 2011

Acquisition of Sporting Life Inc.

On December 22, 2011, the company completed the acquisition of 75.0% of the outstanding common shares of Sporting Life Inc. ("Sporting Life") for total cash consideration of $30.8 (Cdn$31.5 million) and recorded assets acquired of $53.1 (including goodwill of $24.1), liabilities assumed of $20.0 and non-controlling interests of $2.3. Sporting Life is a Canadian retailer of sporting goods and sports apparel. Identifiable assets acquired and liabilities assumed in connection with the acquisition of Sporting Life are summarized in the table following the next three paragraphs.

Acquisition of William Ashley China Corporation

On August 16, 2011, the company completed the acquisition of all of the assets and assumed certain liabilities associated with the businesses currently carried on by William Ashley China Corporation ("William Ashley"). The assets and liabilities and results of operations of William Ashley are included in the company's financial reporting in the Other reporting segment. William Ashley is a prestige retailer of exclusive tableware and gifts in Canada. Identifiable assets acquired and liabilities assumed in connection with the acquisition of William Ashley are summarized in the table following the next two paragraphs.

Acquisition of The Pacific Insurance Berhad

On March 24, 2011, the company completed the acquisition of all of the outstanding common shares of The Pacific Insurance Berhad ("Pacific Insurance") for aggregate cash purchase consideration of $71.5 (216.5 million Malaysian ringgit). The assets and liabilities and results of operations of Pacific Insurance are included in the company's financial reporting in the Insurance - Fairfax Asia reporting segment. Pacific Insurance underwrites all classes of general insurance and medical insurance in Malaysia. Identifiable assets acquired and liabilities assumed in connection with the acquisition of Pacific Insurance are summarized in the table following the next paragraph.

Acquisition of First Mercury Financial Corporation

On February 9, 2011, the company completed the acquisition of all of the outstanding common shares of First Mercury Financial Corporation ("First Mercury") for $16.50 per common share in cash, representing an aggregate purchase consideration of $294.3. The assets and liabilities and results of operations of First Mercury have been included in the company's financial reporting in the Insurance - U.S. reporting segment. First Mercury underwrites insurance products and services primarily to specialty commercial insurance markets, focusing on niche and underserved segments. The identifiable assets acquired and liabilities assumed are summarized in the table below.

	Pacific Insurance	First Mercury	Other(1)
Acquisition date	March 24, 2011	February 9, 2011	—
Percentage of common shares acquired	100%	100%	—
Assets:			
Insurance contract receivables	7.3	46.9	—
Portfolio investments(2)	80.2	822.3	1.0
Recoverable from reinsurers	26.1	377.4	—
Deferred income taxes	0.1	9.2	0.1
Intangible assets	—	54.7	0.4
Goodwill	25.5	79.5	24.1
Other assets	10.9	68.9	52.1
	150.1	1,458.9	77.7
Liabilities:			
Subsidiary indebtedness(3)	—	29.7	—
Accounts payable and accrued liabilities	9.5	73.8	43.0
Income taxes payable	—	—	1.6
Short sale and derivative obligations	—	2.9	—
Funds withheld payable to reinsurers	—	83.8	—
Insurance contract liabilities	69.1	907.4	—
Long term debt	—	67.0	—
	78.6	1,164.6	44.6
Non-controlling interests	—	—	2.3
Purchase consideration	71.5	294.3	30.8
	150.1	1,458.9	77.7

(1) Includes the acquisition on December 22, 2011 of 75% of the outstanding common shares of Sporting Life and the assumption on August 16, 2011 of all of the assets and certain of the liabilities associated with the businesses of William Ashley. The assets and liabilities and results of operations of Sporting Life and William Ashley are included in the company's financial reporting in the Other reporting segment.

(2) Included in the carrying value of the acquired portfolio investments of Pacific Insurance, First Mercury and Sporting Life were $22.0, $650.1 and $1.0, respectively, of subsidiary cash and cash equivalents.

(3) Subsequent to the acquisition, First Mercury repaid its subsidiary indebtedness for cash consideration of $29.7.

16. Financial Risk Management

Overview

The primary goals of the company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheet from events that have the potential to materially impair its financial strength. The company's exposure to potential loss from its insurance and reinsurance operations and investment activities primarily relates to underwriting risk, credit risk, liquidity risk and various market risks. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at December 31, 2012 compared to those identified at December 31, 2011 and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2011, except as discussed below.

Underwriting Risk

Underwriting risk is the risk that the total cost of claims, claims adjustment expenses and premium acquisition expenses will exceed premiums received and can arise as a result of numerous factors, including pricing risk, reserving risk and catastrophe risk. There were no significant changes to the company's exposure to underwriting risk or the framework used to monitor, evaluate and manage underwriting risk at December 31, 2012 compared to December 31, 2011.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company. Credit risk arises predominantly with respect to cash and short term investments, investments in debt instruments, insurance contract receivables, recoverable from reinsurers and receivable from counterparties to derivative contracts (primarily total return swaps and CPI-linked derivatives). There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at December 31, 2012 compared to December 31, 2011.

Investments in Debt Instruments

The company's risk management strategy for debt instruments is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one corporate issuer. While the company reviews third party credit ratings, it also carries out its own analysis and does not delegate the credit decision to rating agencies. The company endeavours to limit credit exposure by imposing fixed income portfolio limits on individual corporate issuers and limits based on credit quality and may, from time to time, initiate positions in certain types of derivatives to further mitigate credit risk exposure.

The composition of the company's fixed income portfolio classified according to the higher of each security's respective S&P and Moody's issuer credit rating is presented in the table that follows:

	December 31, 2012		December 31, 2011	
Issuer Credit Rating	**Carrying value**	**%**	Carrying value	%
AAA/Aaa	**2,711.5**	**23.7**	2,955.5	25.1
AA/Aa	**5,266.5**	**46.1**	5,408.0	45.9
A/A	**2,069.1**	**18.1**	1,822.6	15.5
BBB/Baa	**282.7**	**2.5**	349.3	3.0
BB/Ba	**53.3**	**0.5**	75.5	0.6
B/B	**448.8**	**3.9**	125.6	1.1
Lower than B/B and unrated	**588.4**	**5.2**	1,034.4	8.8
Total	**11,420.3**	**100.0**	11,770.9	100.0

Counterparties to Derivative Contracts

Counterparty risk arises from the company's derivative contracts primarily in three ways: first, a counterparty may be unable to honour its obligation under a derivative contract and there may not be sufficient collateral pledged in favour of the company to support that obligation; second, collateral deposited by the company to a counterparty as a prerequisite for entering into certain derivative contracts (also known as initial margin) may be at risk should the counterparty face financial difficulty; and third, excess collateral pledged in favour of a counterparty may be at risk should the counterparty face financial difficulty (counterparties may hold excess collateral as a result of the timing of the settlement of the amount of collateral required to be pledged based on the fair value of a derivative contract).

The company endeavours to limit counterparty risk through the terms of agreements negotiated with the counterparties to its derivative contracts. Pursuant to these agreements, counterparties are contractually required to deposit eligible collateral in collateral accounts (subject to certain minimum thresholds) for the benefit of the company depending on the then current fair value of the derivative contracts, calculated on a daily basis. The company's exposure to risk associated with providing initial margin is mitigated where possible through the use of segregated third party custodian accounts whereby counterparties are permitted to take control of the collateral only in the event of default by the company.

Agreements negotiated with counterparties provide for a single net settlement of all financial instruments covered by the agreement in the event of default by the counterparty, thereby permitting obligations owed by the company to a counterparty to be offset to the extent of the aggregate amount receivable by the company from that counterparty (the "net settlement arrangements"). The following table sets out the company's exposure to credit risk related to the counterparties to its derivative contracts:

	December 31, 2012	December 31, 2011
Total derivative assets(1)	**169.7**	389.2
Impact of net settlement arrangements	**(79.2)**	(101.0)
Fair value of collateral deposited for the benefit of the company(2)	**(56.5)**	(141.6)
Excess collateral pledged by the company in favour of counterparties	**38.5**	129.7
Initial margin not held in segregated third party custodian accounts	**93.1**	80.6
Net derivative counterparty exposure after net settlement and collateral arrangements	**165.6**	356.9

(1) Excludes exchange traded instruments comprised principally of equity and credit warrants which are not subject to counterparty risk.

(2) Net of $3.9 ($65.7 at December 31, 2011) of excess collateral pledged by counterparties.

The fair value of the collateral deposited for the benefit of the company at December 31, 2012 consisted of cash of $22.1 ($50.5 at December 31, 2011) and government securities of $38.3 ($156.8 at December 31, 2011). The company had not exercised its right to sell or repledge collateral at December 31, 2012.

Recoverable from Reinsurers

Credit exposure on the company's recoverable from reinsurers balance existed at December 31, 2012 to the extent that any reinsurer may not be able or willing to reimburse the company under the terms of the relevant reinsurance arrangements. The company has a process to regularly assess the creditworthiness of reinsurers with whom it transacts business. Internal guidelines generally require reinsurers to have strong A.M. Best ratings and maintain capital and surplus exceeding $500.0. Where contractually provided for, the company has collateral for outstanding balances in the form of cash, letters of credit, guarantees or assets held in trust accounts. This collateral may be drawn on when amounts remain unpaid beyond contractually specified time periods on an individual reinsurer basis.

Changes that occurred in the provision for uncollectible reinsurance during the period are disclosed in note 9.

Liquidity Risk

Liquidity risk is the potential for loss if the company is unable to meet financial commitments in a timely manner at reasonable costs as they fall due. It is the company's policy to ensure that sufficient liquid assets are available to meet financial commitments, including liabilities to policyholders and debt holders, dividends on preferred shares and investment commitments. Cash flow analysis is performed on an ongoing basis at both the holding company and subsidiary company level to ensure that future cash needs are met or exceeded by cash flows generated from the ongoing operations.

The liquidity requirements of the holding company principally relate to interest and corporate overhead expenses, preferred share dividends, income tax payments and certain derivative obligations (described below). The holding company's known significant commitments for 2013 consist of the payment of the $205.5 dividend on common shares ($10.00 per share paid January 2013), interest and corporate overhead expenses, preferred share dividends, income tax payments and potential cash outflows related to derivative contracts (described below). On January 21, 2013, the company received net proceeds of $259.9 (Cdn$258.1) from the issuance of Cdn$250.0 principal amount of its unsecured senior notes due 2022 pursuant to a re-opening of those notes. The company intends to use these proceeds to fund the repayment upon maturity of $182.9 principal amount of OdysseyRe's unsecured senior notes due November 1, 2013, repurchase $12.2 principal amount of its unsecured senior notes due 2017 and redeem on March 11, 2013 the remaining $36.2 outstanding principal amount of its unsecured senior notes due 2017.

The company believes that holding company cash and investments, net of holding company short sale and derivative obligations, provide adequate liquidity to meet the holding company's known obligations in 2013. In addition to these resources, the holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries, investment income on its holdings of cash and investments, and dividends from its insurance and reinsurance subsidiaries. To further augment its liquidity, the holding company can draw upon its $300.0 unsecured revolving credit facility.

The liquidity requirements of the insurance and reinsurance subsidiaries principally relate to the liabilities associated with underwriting, operating costs and expenses, the payment of dividends to the holding company, contributions to their subsidiaries, payment of principal and interest on their outstanding debt obligations, income tax payments and certain derivative obligations (described below). Liabilities associated with underwriting include the payment of claims and direct commissions. Historically, the insurance and reinsurance subsidiaries have used cash inflows from operating activities (primarily the collection of premiums and reinsurance commissions) and investment activities (primarily repayments of principal, sales of investment securities and investment income) to fund their liquidity requirements. The insurance and reinsurance subsidiaries may also receive cash inflows from financing activities (primarily distributions received from their subsidiaries).

The company's insurance and reinsurance subsidiaries (and the holding company on a consolidated basis) focus on the stress that could be placed on liquidity requirements as a result of severe disruption or volatility in the capital markets or extreme catastrophe activity or the combination of both. The insurance and reinsurance subsidiaries maintain investment strategies intended to provide adequate funds to pay claims or withstand disruption or volatility in the capital markets without forced sales of investments. The insurance and reinsurance subsidiaries hold highly liquid, high quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated claim payments, operating expenses and commitments related to investments. At December 31, 2012, total insurance and reinsurance portfolio investments net of short sale and derivative obligations was $25.0 billion. These portfolio investments may include investments in inactively traded corporate debentures, preferred stocks, common stocks and limited partnership interests that are relatively illiquid. At December 31, 2012, these asset classes represented approximately 7.5% (6.4% at December 31, 2011) of the carrying value of the insurance and reinsurance subsidiaries' portfolio investments.

The insurance and reinsurance subsidiaries and the holding company may experience cash inflows or outflows (which at times could be significant) related to their derivative contracts, including collateral requirements and cash settlements of market value movements of total return swaps which have occurred since the most recent reset date. During the fourth quarter and full year of 2012, the insurance and reinsurance subsidiaries paid net cash of $14.4 and $603.6, respectively (paid net cash of $190.8 in the fourth quarter of 2011 and received net cash of $173.3 in the full year of 2011) with respect to long and short equity and equity index total return swap derivative contracts (excluding the impact of collateral requirements). During the fourth quarter and full year of 2012, the holding company paid net cash of $58.5 and $220.5, respectively (paid net cash of $25.5 in the fourth quarter of 2011 and received net cash of $97.3 in the full year of 2011) with respect to long and short equity and equity index total return swap derivative contracts (excluding the impact of collateral requirements).

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of currency risk, interest rate risk and other price risk. The company is exposed to market risk principally in its investing activities but also in its underwriting activities to the extent that those activities expose the company to foreign currency risk. The company's investment portfolios are managed with a long term, value-oriented investment philosophy emphasizing downside protection. The company has policies to limit and monitor its individual issuer exposures and aggregate equity exposure. Aggregate exposure to single issuers and total equity positions are monitored at the subsidiary level and in aggregate at the company level. The following is a discussion of the company's primary market risk exposures and how those exposures are currently managed.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As interest rates rise, the fair value of fixed income investments decline and, conversely, as interest rates decline, the fair value of fixed income investments rise. In each case, the longer the maturity of the financial instrument, the greater the consequence of the change in interest rates. The company's interest rate risk management strategy is to position its fixed income securities portfolio based on its view of future interest rates and the yield curve, balanced with liquidity requirements. The company may reposition the portfolio in response to changes in the interest rate environment. At December 31, 2012, the company's investment portfolio included $11.4 billion of fixed income securities (measured at fair value) which are subject to interest rate risk. Since December 31, 2011, the company's exposure to interest rate risk has decreased, primarily as a result of the sale of long-dated government bonds (U.S. treasury and Canadian provincial bonds) where the proceeds were retained in cash or reinvested into short term investments with minimal exposure to interest rate risk. The impact of these sales of bonds on the company's total fixed income securities portfolio was partially offset by the acquisition of RiverStone Insurance which increased the company's holdings of fixed income investments on a year-over-year basis. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at December 31, 2012 compared to December 31, 2011.

The table below displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings calculated on an after-tax basis.

	December 31, 2012			December 31, 2011		
Change in Interest Rates	**Fair value of fixed income portfolio**	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**	Fair value of fixed income portfolio	Hypothetical $ change effect on net earnings	Hypothetical % change in fair value
200 basis point increase	**9,766.7**	**(1,132.0)**	**(14.5)**	9,492.1	(1,536.0)	(19.4)
100 basis point increase	**10,522.5**	**(595.1)**	**(7.6)**	10,597.7	(794.0)	(10.0)
No change	**11,420.3**	**—**	**—**	11,770.9	—	–
100 basis point decrease	**12,493.2**	**735.7**	**9.4**	13,127.7	922.8	11.5
200 basis point decrease	**13,803.7**	**1,635.3**	**20.9**	14,769.9	2,039.6	25.5

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the level and composition of fixed income security assets at the indicated date, and should not be relied on as indicative of future results. Certain shortcomings are inherent in the method of analysis presented in the computation of the prospective fair value of fixed rate instruments. Actual values may differ from the projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities; such variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The changes to the company's exposure to equity price risk through its equity and equity-related holdings at December 31, 2012 compared to December 31, 2011 are described below.

The company has economically hedged its equity and equity-related holdings (comprised of common stocks, convertible preferred stocks, convertible bonds, certain investments in associates and equity-related derivatives) against a potential decline in equity markets by way of short positions effected through equity and equity index total return swaps, including short positions in certain individual equities and the Russell 2000 index, the S&P 500 index, the S&P/TSX 60 index and other equity indexes (the "indexes"). The company's economic equity hedges are structured to provide a return which is inverse to changes in the fair values of the indexes and certain individual equities. In the fourth quarter of 2012, the company's equity and equity-related holdings after equity hedges produced a net gain of $454.3 ($113.2 in the full year of 2012) compared to a net loss of $733.3 in the fourth quarter of 2011 ($378.9 in the full year of 2011). At December 31, 2012, equity hedges with a notional amount of $7,668.5 ($7,135.2 at December 31, 2011) represented 100.6% (104.6% at December 31, 2011) of the company's equity and equity-related holdings of $7,626.5 ($6,822.7 at December 31, 2011).

During the fourth quarter of 2012, the company closed $391.1 ($394.2 in the full year of 2012) of original notional amount of short positions in certain individual equities to reduce its economic equity hedges as a proportion of its equity and equity-related holdings. In the future, the company may manage its net exposure to its equity and equity related holdings by closing out a portion of its equity hedges or by increasing its equity exposure if attractive opportunities become available. The company expects that there may be periods when the notional amount of the equity hedges may exceed or be deficient relative to the company's equity price risk exposure. This situation may arise due to the timing of opportunities for the company to exit and enter hedges at attractive prices, as a result of a decision by the company to hedge an amount less than the company's full equity exposure or as a result of any non-correlated performance of the equity hedges relative to the equity and equity-related holdings.

One risk of a hedging strategy (sometimes referred to as basis risk) is the risk that offsetting investments in a hedging strategy will not experience perfectly correlated opposite changes in fair value, creating the potential for gains or losses. The company's risk management objective when selecting a hedging instrument (including its equity index total return swaps) is to economically protect capital over potentially long periods of time and especially during periods of market turbulence. The company regularly monitors the effectiveness of its equity hedging program on a prospective and retrospective basis. Based on its historical observation, the company believes that its hedges of its equity and equity-related holdings will be effective in the medium to long term and especially in the event of a significant market correction. However, due to the lack of a perfect correlation between the hedged items and the hedging items, combined with other market uncertainties, it is not possible to predict the future impact of the company's hedging program related to equity risk.

The following table summarizes the effect of the equity hedges and the equity and equity-related holdings on the company's historical financial position and results of operations as of and for the fourth quarters and years ended December 31, 2012 and 2011:

	December 31, 2012		**Quarter ended December 31, 2012**	**Year ended December 31, 2012**	December 31, 2011		Quarter ended December 31, 2011	Year ended December 31, 2011
	Exposure/ Notional amount	**Carrying value**	**Net earnings (pre-tax)**	**Net earnings (pre-tax)**	Exposure/ Notional amount	Carrying value	Net earnings (pre-tax)	Net earnings (pre-tax)
Equity exposures:								
Common stocks	**4,569.2**	**4,569.2**	**413.2**	**697.6**	3,829.5	3,829.5	(142.9)	(774.8)
Preferred stocks – convertible	**415.0**	**415.0**	**(20.8)**	**(36.2)**	450.9	450.9	67.1	(5.2)
Bonds – convertible	**426.4**	**426.4**	**40.0**	**186.7**	384.1	384.1	28.4	23.5
Investments in associates[1]	**1,125.6**	**959.3**	**167.0**	**196.8**	750.1	608.9	7.0	7.0
Derivatives and other invested assets:								
Equity total return swaps – long positions	**1,021.8**	**(12.9)**	**(15.9)**	**61.5**	1,363.5	(46.8)	83.7	(61.8)
Equity warrants	**68.5**	**36.0**	**11.5**	**12.3**	44.6	15.9	2.7	18.5
Total equity and equity related holdings	**7,626.5**	**6,393.0**	**595.0**	**1,118.7**	6,822.7	5,242.5	46.0	(792.8)
Hedging instruments:								
Derivatives and other invested assets:								
Equity total return swaps – short positions	**(1,433.0)**	**(51.0)**	**(101.3)**	**(192.1)**	(1,617.6)	21.1	(120.2)	153.2
Equity index total return swaps – short positions	**(6,235.5)**	**(116.4)**	**(32.6)**	**(799.4)**	(5,517.6)	(33.8)	(659.1)	260.7
Equity index total return swaps – long positions (Russell 2000)	**—**	**—**	**(6.8)**	**(14.0)**	—	—	—	—
	(7,668.5)	**(167.4)**	**(140.7)**	**(1,005.5)**	(7,135.2)	(12.7)	(779.3)	413.9
Net exposure (short) and financial effects	**(42.0)**		**454.3**	**113.2**	(312.5)		(733.3)	(378.9)

(1) Excludes the company's investments in Gulf Insurance, ICICI Lombard, Singapore Re, Thai Re and Falcon Thailand which the company considers to be long term strategic holdings.

Risk of Decreasing Price Levels

The risk of decreases in the general price level of goods and services is the potential for a negative impact on the consolidated balance sheet (including the company's equity and equity-related holdings and fixed income investments in non-sovereign debt) and/or consolidated statement of earnings. Among their effects on the economy, decreasing price levels typically result in decreased consumption, restriction of credit, shrinking output and investment and numerous bankruptcies.

The company has purchased derivative contracts referenced to the CPI in the geographic regions in which it operates, which serve as an economic hedge against the potential adverse financial impact on the company of decreasing price levels. At December 31, 2012, these contracts have a remaining weighted average life of 7.7 years (8.6 years at December 31, 2011), a notional amount of $48,436.0 ($46,518.0 at December 31, 2011) and a fair value of $115.8 ($208.2 at December 31, 2011). As the average remaining life of a contract declines, the fair value of the contract (excluding the impact of CPI changes) will generally decline. The company's maximum potential loss on any contract is limited to the original cost of that contract.

During the fourth quarter of 2012, the company paid additional premiums of $8.1 ($28.3 during the full year of 2012) to increase the strike price on certain of its U.S. CPI-linked derivative contracts. As a result, the weighted average strike price of the U.S. CPI-linked derivative contracts increased from 216.95 at December 31, 2011 to 223.98 at December 31, 2012. During the fourth quarter and full year of 2012, the company purchased $1,450.0

and $1,450.0 (fourth quarter and full year of 2011 - nil and $13,596.7) notional amount of CPI-linked derivative contracts at a cost of $6.1 and $6.1 (fourth quarter and full year of 2011 - nil and $122.6) and recorded net mark-to-market losses of $29.9 and $129.2 (fourth quarter and full year of 2011 - net mark-to-market gains of $0.1 and net mark-to-market losses of $233.9) respectively on positions remaining open at the end of the period.

The CPI-linked derivative contracts are extremely volatile with the result that their market value and their liquidity may vary dramatically either up or down in short periods and their ultimate value will therefore only be known upon their disposition or settlement. The company's purchase of these derivative contracts is consistent with its capital management framework designed to protect its capital in the long term. Due to the uncertainty of the market conditions which may exist many years into the future, it is not possible to predict the future impact of this aspect of the company's risk management program.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on earnings and equity when measured in a company's functional currency. The company is exposed to foreign currency risk through transactions conducted in currencies other than the U.S. dollar, and also through its investments in associates and net investment in subsidiaries that have a functional currency other than the U.S. dollar. Long and short foreign exchange forward contracts primarily denominated in the euro, the British pound sterling and the Canadian dollar are used to manage foreign currency exposure on foreign currency denominated transactions. Foreign currency denominated liabilities may be used to manage the company's foreign currency exposures to net investments in foreign operations having a functional currency other than the U.S. dollar. Notwithstanding that the company's exposure to the British pound sterling and the Indian rupee increased following the acquisition of RiverStone Insurance (purchase price of $335.1) and Thomas Cook India (total purchase price of $172.7), respectively, the company's exposure to foreign currency risk was not significantly different at December 31, 2012, compared to December 31, 2011.

At December 31, 2012, the company had outstanding Cdn$1,237.5 (Cdn$1,000.0 at December 31, 2011) of stated capital of cumulative five-year rate reset preferred shares. Although not eligible to be designated as a hedge for financial reporting purposes, the company considers a portion of the stated capital of these preferred shares as an additional economic hedge of its net investment in Northbridge, as described in note 7.

Capital Management

The company's capital management framework is designed to protect, in the following order, its policyholders, its bondholders and its preferred shareholders and then finally to optimize returns to common shareholders. Effective capital management includes measures designed to maintain capital above minimum regulatory levels, above levels required to satisfy issuer credit ratings and financial strength ratings requirements, and above internally determined and calculated risk management levels. Total capital at December 31, 2012, comprising total debt, shareholders' equity attributable to shareholders of Fairfax and non-controlling interests was $11,938.9 compared to $11,427.0 at December 31, 2011. The company manages its capital based on the following financial measurements and ratios:

	December 31, 2012	December 31, 2011
Holding company cash and investments (net of short sale and derivative obligations)	**1,128.0**	962.8
Holding company debt	**2,220.2**	2,080.6
Subsidiary debt	**670.9**	623.9
Other long term obligations – holding company	**157.5**	314.0
Total debt	**3,048.6**	3,018.5
Net debt	**1,920.6**	2,055.7
Common shareholders' equity	**7,654.7**	7,427.9
Preferred stock	**1,166.4**	934.7
Non-controlling interests	**69.2**	45.9
Total equity	**8,890.3**	8,408.5
Net debt/total equity	**21.6%**	24.4%
Net debt/net total capital(1)	**17.8%**	19.6%
Total debt/total capital(2)	**25.5%**	26.4%
Interest coverage(3)	**4.2x**	1.0x
Interest and preferred share dividend distribution coverage(4)	**3.0x**	0.7x

(1) Net total capital is calculated by the company as the sum of total equity and net debt.

(2) Total capital is calculated by the company as the sum of total equity and total debt.

(3) Interest coverage is calculated by the company as the sum of earnings (loss) before income taxes and interest expense divided by interest expense.

(4) Interest and preferred share dividend distribution coverage is calculated by the company as the sum of earnings (loss) before income taxes and interest expense divided by interest expense and preferred share dividend distributions adjusted to a before tax equivalent at the company's Canadian statutory income tax rate.

17. Segmented Information

The company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance, conducted on a primary and reinsurance basis, and runoff operations. The company identifies its operating segments by operating company consistent with its management structure. The company has aggregated certain of these operating segments into reporting segments as subsequently described. The accounting policies of the reporting segments are the same as those described in note 3. Transfer prices for inter-segment transactions are set at arm's length. Geographic premiums are determined based on the domicile of the various subsidiaries and where the primary underlying risk of the business resides.

Insurance

Northbridge - Northbridge is a national commercial property and casualty insurer in Canada providing property and casualty insurance products through its Northbridge Insurance and Federated subsidiaries, primarily in the Canadian market. Effective January 1, 2012, Northbridge combined three of its subsidiaries, Lombard Insurance, Markel Insurance and Commonwealth Insurance, to operate under a single brand, Northbridge Insurance.

U.S. Insurance - This reporting segment is comprised of Crum & Forster and Zenith National. Crum & Forster is a national commercial property and casualty insurance company in the United States writing a broad range of commercial coverages. Its subsidiaries, Seneca Insurance and First Mercury, provide property and casualty insurance to small businesses and certain specialty coverages. Zenith National is primarily engaged in the workers' compensation insurance business in the United States.

Fairfax Asia - Included in the Fairfax Asia reporting segment are the company's operations that underwrite insurance and reinsurance coverages in Singapore (First Capital), Hong Kong (Falcon) and in Malaysia since March 24, 2011, following the acquisition of Pacific Insurance pursuant to the transaction described in note 15. Fairfax Asia also includes the company's equity accounted interest in Mumbai-based ICICI Lombard (26.0%) and Thailand-based Falcon Thailand (40.5%).

Reinsurance

OdysseyRe - OdysseyRe underwrites reinsurance, providing a full range of property and casualty products on a worldwide basis, and underwrites specialty insurance, primarily in the United States and in the United Kingdom, both directly and through the Lloyd's of London marketplace.

Insurance and Reinsurance - Other

This reporting segment is comprised of Group Re, Advent, Polish Re and Fairfax Brasil. Group Re participates in the reinsurance of Fairfax's subsidiaries by quota share or through participation in those subsidiaries' third party reinsurance programs on the same terms as third party reinsurers through CRC Re and Wentworth. Group Re also writes third party business. Advent is a reinsurance and insurance company, operating through Syndicate 780 at Lloyd's, focused on specialty property reinsurance and insurance risks. Effective January 1, 2012, the company's runoff Syndicate 3500 (managed by RiverStone Managing Agency Limited (UK)) accepted the reinsurance-to-close of all of the net insurance liabilities of Advent's runoff Syndicate 3330. Pursuant to this transaction, Syndicate 3330 transferred $62.2 of cash, investments and other net assets to Syndicate 3500 and Syndicate 3500 assumed $62.2 of the net loss reserves from Syndicate 3300. In its assessment of the operating results of the Advent and Runoff reporting segments, the company's management does not consider the initial effects of this intercompany transaction and accordingly, the tables which set out the operating results of Advent and Runoff do not give effect to the reinsurance-to-close premiums and incurred losses which would have been ceded by Advent and assumed by Runoff and reflected in their respective standalone statements of earnings. Polish Re is a Polish reinsurance company. Fairfax Brasil writes commercial property and casualty insurance in Brazil.

Runoff

The Runoff reporting segment comprises RiverStone (UK), nSpire Re (including the runoff of nSpire Re's Group Re participation) and the U.S. runoff company formed on the merger of TIG and International Insurance Company combined with Old Lyme, Fairmont, GFIC and Clearwater. The U.K. and international runoff operations of RiverStone (UK) had reinsured their reinsurance portfolios to nSpire Re to provide consolidated investment and liquidity management services. As a result of the progress made by RiverStone in managing and reducing the claims reserves of RiverStone (UK), this reinsurance arrangement with nSpire Re was commuted effective January 1, 2012. During the second quarter of 2012, the remaining reinsurance contracts between nSpire Re and other Fairfax affiliates were novated to Wentworth (reported within the Group Re operating segment of the Insurance and Reinsurance - Other reporting segment). The Group Re operating segment received $17.7 of cash and investments as consideration for the assumption of net loss reserves of $17.7. The aforementioned commutations and novations undertaken in connection with the voluntary liquidation of nSpire Re did not have any effect on the consolidated financial reporting of the company. In addition to accepting the reinsurance-to-close of all of the net insurance liabilities of Advent's runoff Syndicate 3330 as described above, effective January 1, 2012, the company's runoff Syndicate 3500 received consideration of $14.6 of cash, investments and other net assets as consideration for the assumption of all of the net loss reserves ($14.6) of third party Syndicate 535 and Syndicate 1204. On October 12, 2012, Riverstone Holdings Limited acquired 100% of the outstanding shares of Brit Insurance which was renamed Riverstone Insurance Limited (pursuant to the transaction described in note 15). Riverstone Insurance is located in London, England and wrote U.K. domestic and international insurance and reinsurance business prior to being placed into runoff early in 2012. Effective December 21, 2012, RiverStone (UK) reinsured the runoff portfolio of the Eagle Star group of companies and received a premium of $183.5 as consideration for the assumption of $130.9 of net loss reserves and recognized $52.6 as a gain in the consolidated statement of earnings. The net loss reserves assumed were primarily comprised of London market and U.S. casualty business related to the 1990 and prior accident years.

Other

The Other reporting segment is comprised of Ridley, William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India. Ridley is engaged in the animal nutrition business and operates in the U.S. and Canada. William Ashley (acquired on August 16, 2011) is a prestige retailer of exclusive tableware and gifts in Canada. Sporting Life (acquired on December 22, 2011) is a Canadian retailer of sporting goods and sports apparel. Prime Restaurants (acquired on January 10, 2012, pursuant to the transaction described in note 15) franchises, owns and operates a network of casual dining restaurants and pubs in Canada. Thomas Cook India (acquired on August 14, 2012, pursuant to the transaction described in note 15) is an integrated travel and travel related financial services company in India offering a broad range of services that include foreign exchange, corporate and leisure travel and insurance.

Corporate and Other

Corporate and Other includes the parent entity (Fairfax Financial Holdings Limited), its subsidiary intermediate holding companies, Hamblin Watsa, an investment management company and MFXchange, a technology company.

Pre-tax Income (Loss) by Reporting Segment

An analysis of pre-tax income (loss) by reporting segment for the fourth quarters and years ended December 31 is presented below:

Quarter ended December 31, 2012

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written(1)											
External	298.2	481.2	146.6	645.8	106.9	1,678.7	—	—	—	—	1,678.7
Intercompany	0.2	1.7	0.1	2.4	28.9	33.3	—	—	—	(33.3)	—
	298.4	482.9	146.7	648.2	135.8	1,712.0	—	—	—	(33.3)	1,678.7
Net premiums written(1)	243.0	408.1	59.2	573.8	114.6	1,398.7	—	—	—	—	1,398.7
Net premiums earned(1)											
External	261.4	485.5	66.7	612.6	125.1	1,551.3	—	—	—	—	1,551.3
Intercompany	(21.1)	(1.4)	(4.5)	1.0	25.9	(0.1)	—	—	—	—	(0.1)
	240.3	484.1	62.2	613.6	151.0	1,551.2	—	—	—	—	1,551.2
Underwriting expenses	(273.2)	(593.6)	(52.5)	(579.3)	(165.7)	(1,664.3)	—	—	—	—	(1,664.3)
Underwriting profit (loss)	(32.9)	(109.5)	9.7	34.3	(14.7)	(113.1)	—	—	—	—	(113.1)
Interest income	3.6	5.2	3.1	28.2	4.9	45.0	15.4	—	(7.2)	—	53.2
Dividends	6.5	5.4	0.6	6.1	1.4	20.0	3.7	—	2.9	—	26.6
Investment expenses	(4.4)	(5.1)	(0.6)	(15.9)	(6.9)	(32.9)	(5.9)	—	(0.7)	33.0	(6.5)
Interest and dividends	5.7	5.5	3.1	18.4	(0.6)	32.1	13.2	—	(5.0)	33.0	73.3
Share of profit of associates	2.9	0.3	8.9	3.8	—	15.9	1.6	0.2	2.3	—	20.0
Other											
Revenue(2)	—	—	—	—	—	—	221.1	263.0	33.0	(33.0)	484.1
Expenses	—	—	—	—	—	—	(215.5)	(243.4)	—	—	(458.9)
	—	—	—	—	—	—	5.6	19.6	33.0	(33.0)	25.2
Operating income (loss) before:	(24.3)	(103.7)	21.7	56.5	(15.3)	(65.1)	20.4	19.8	30.3	—	5.4
Net gains (losses) on investments	60.3	97.0	3.6	210.8	200.1	571.8	64.9	3.7	(4.8)	—	635.6
Loss on repurchase of long term debt(3)	—	—	—	—	—	—	(39.8)	—	—	—	(39.8)
Interest expense	—	(1.3)	—	(6.9)	(1.1)	(9.3)	(0.5)	(1.2)	(41.2)	—	(52.2)
Corporate overhead and other	(11.6)	(5.3)	—	(7.5)	(0.2)	(24.6)	—	—	(19.2)	—	(43.8)
Pre-tax income (loss)	24.4	(13.3)	25.3	252.9	183.5	472.8	45.0	22.3	(34.9)	—	505.2
Income taxes											(97.1)
Net earnings											408.1
Attributable to:											
Shareholders of Fairfax											404.1
Non-controlling interests											4.0
											408.1

(1) Excludes $221.2, $199.1 and $214.3 of Runoff's gross premiums written, net premiums written and net premiums earned, respectively.

(2) The Runoff segment revenue included $6.8 of the excess of net assets acquired over the purchase price related to the acquisition of RiverStone Insurance (included in other revenue in the consolidated statements of earnings) as described in note 15.

(3) Loss on repurchase of long term debt of $39.8 related to the repayment of the loan note issued by TIG in connection with its acquisition of General Fidelity and is included in other expenses in the consolidated statement of earnings.

Quarter ended December 31, 2011

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written[(1)]											
External	321.8	478.2	112.2	528.1	93.8	1,534.1	—	—	—	—	1,534.1
Intercompany	0.2	3.9	(0.3)	4.1	29.8	37.7	—	—	—	(37.7)	—
	322.0	482.1	111.9	532.2	123.6	1,571.8	—	—	—	(37.7)	1,534.1
Net premiums written[(1)]	257.7	408.0	50.5	477.2	93.4	1,286.8	—	—	—	—	1,286.8
Net premiums earned[(1)]											
External	279.6	404.8	57.7	532.7	114.2	1,389.0	—	—	—	—	1,389.0
Intercompany	(21.2)	10.1	(2.7)	4.3	15.0	5.5	—	—	—	—	5.5
	258.4	414.9	55.0	537.0	129.2	1,394.5	—	—	—	—	1,394.5
Underwriting expenses	(263.5)	(515.4)	(49.0)	(659.0)	(200.4)	(1,687.3)	—	—	—	—	(1,687.3)
Underwriting profit (loss)	(5.1)	(100.5)	6.0	(122.0)	(71.2)	(292.8)	—	—	—	—	(292.8)
Interest income	17.1	27.5	4.9	59.1	11.5	120.1	26.1	—	(6.3)	—	139.9
Dividends	7.6	5.5	0.5	6.0	(0.8)	18.8	4.2	—	2.9	—	25.9
Investment expenses	(2.9)	(4.5)	(0.2)	(1.2)	(2.4)	(11.2)	(3.0)	—	(1.3)	11.8	(3.7)
Interest and dividends	21.8	28.5	5.2	63.9	8.3	127.7	27.3	—	(4.7)	11.8	162.1
Share of profit (loss) of associates	1.3	2.0	(27.4)	5.3	2.3	(16.5)	0.4	—	6.2	—	(9.9)
Other											
Revenue	—	—	—	—	—	—	1.0	190.8	11.8	(11.8)	191.8
Expenses	—	—	—	—	—	—	(27.5)	(186.1)	—	—	(213.6)
	—	—	—	—	—	—	(26.5)	4.7	11.8	(11.8)	(21.8)
Operating income (loss) before:	18.0	(70.0)	(16.2)	(52.8)	(60.6)	(181.6)	1.2	4.7	13.3	—	(162.4)
Net losses on investments	(153.3)	(213.4)	(25.6)	(344.0)	(2.3)	(738.6)	(14.5)	—	(161.8)	—	(914.9)
Interest expense	—	(1.7)	—	(6.8)	(1.1)	(9.6)	(2.3)	(0.1)	(40.2)	—	(52.2)
Corporate overhead and other	(7.4)	(2.4)	(2.3)	(4.1)	—	(16.2)	—	—	(23.8)	—	(40.0)
Pre-tax income (loss)	(142.7)	(287.5)	(44.1)	(407.7)	(64.0)	(946.0)	(15.6)	4.6	(212.5)	—	(1,169.5)
Income taxes											398.7
Net earnings (loss)											(770.8)
Attributable to:											
Shareholders of Fairfax											(771.5)
Non-controlling interests											0.7
											(770.8)

(1) Excludes $0.6, $0.6 and $1.0 of Runoff's gross premiums written (returned), net premiums written and net premiums earned, respectively.

Year ended December 31, 2012

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	**U.S.**	**Fairfax Asia**	**OdysseyRe**	**Other**	**Ongoing operations**	**Runoff**	**Other**	**Corporate and Other**	**Eliminations and adjustments**	**Consolidated**
Gross premiums written[1]											
External	1,192.6	2,159.4	515.5	2,760.9	548.7	7,177.1	—	—	—	—	7,177.1
Intercompany	1.7	3.8	(0.3)	12.3	102.9	120.4	—	—	—	(120.4)	—
	1,194.3	2,163.2	515.2	2,773.2	651.6	7,297.5	—	—	—	(120.4)	7,177.1
Net premiums written[1]	948.7	1,872.8	240.6	2,402.3	530.6	5,995.0	—	—	—	—	5,995.0
Net premiums earned[1]											
External	1,078.5	1,811.1	244.5	2,306.9	417.7	5,858.7	—	—	—	—	5,858.7
Intercompany	(86.3)	0.5	(13.1)	8.4	96.6	6.1	—	—	—	—	6.1
	992.2	1,811.6	231.4	2,315.3	514.3	5,864.8	—	—	—	—	5,864.8
Underwriting expenses	(1,049.2)	(2,017.9)	(201.3)	(2,048.7)	(536.1)	(5,853.2)	—	—	—	—	(5,853.2)
Underwriting profit (loss)	(57.0)	(206.3)	30.1	266.6	(21.8)	11.6	—	—	—	—	11.6
Interest income	36.2	54.7	18.3	146.1	27.9	283.2	74.0	—	(30.7)	—	326.5
Dividends	19.1	24.0	5.4	31.0	7.1	86.6	13.0	—	9.4	—	109.0
Investment expenses	(13.5)	(20.8)	(2.5)	(35.2)	(14.0)	(86.0)	(14.3)	—	(2.7)	76.8	(26.2)
Interest and dividends	41.8	57.9	21.2	141.9	21.0	283.8	72.7	—	(24.0)	76.8	409.3
Share of profit (loss) of associates	(0.3)	(8.3)	15.0	(14.4)	16.6	8.6	(7.6)	0.2	13.8	—	15.0
Other											
Revenue[2]	—	—	—	—	—	—	226.9	864.2	76.8	(76.8)	1,091.1
Expenses	—	—	—	—	—	—	(276.5)	(828.9)	—	—	(1,105.4)
	—	—	—	—	—	—	(49.6)	35.3	76.8	(76.8)	(14.3)
Operating income (loss) before:	(15.5)	(156.7)	66.3	394.1	15.8	304.0	15.5	35.5	66.6	—	421.6
Net gains (losses) on investments	(63.1)	147.3	0.3	267.2	235.6	587.3	215.8	3.7	(164.2)	—	642.6
Loss on repurchase of long term debt[3]	—	(0.8)	—	—	—	(0.8)	(39.8)	—	—	—	(40.6)
Interest expense	—	(5.7)	—	(27.7)	(4.5)	(37.9)	(7.5)	(2.2)	(160.6)	—	(208.2)
Corporate overhead and other	(17.2)	(23.2)	—	(23.1)	(0.4)	(63.9)	—	—	(94.7)	—	(158.6)
Pre-tax income (loss)	(95.8)	(39.1)	66.6	610.5	246.5	788.7	184.0	37.0	(352.9)	—	656.8
Income taxes											(116.1)
Net earnings											540.7
Attributable to:											
Shareholders of Fairfax											532.4
Non-controlling interests											8.3
											540.7

(1) Excludes 221.2, 199.1 and $220.1 of Runoff's gross premiums written, net premiums written and net premiums earned, respectively.

(2) The Runoff segment revenue included $6.8 of the excess of net assets acquired over the purchase price related to the acquisition of RiverStone Insurance (included in other revenue in the consolidated statements of earnings) as described in note 15.

(3) Loss on repurchase of long term debt of $40.6 related to the repurchase of Crum & Forster unsecured senior notes ($0.8) and the repayment of the loan note issued by TIG in connection with its acquisition of General Fidelity ($39.8) and is included in other expenses in the consolidated statement of earnings.

Year ended December 31, 2011

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written[1]											
External	1,320.6	1,859.0	451.2	2,405.6	584.6	6,621.0	—	—	—	—	6,621.0
Intercompany	2.1	5.1	0.5	15.1	61.7	84.5	—	—	—	(84.0)	0.5
	1,322.7	1,864.1	451.7	2,420.7	646.3	6,705.5	—	—	—	(84.0)	6,621.5
Net premiums written[1]	1,098.5	1,601.1	213.7	2,089.7	484.6	5,487.6	—	—	—	—	5,487.6
Net premiums earned[1]											
External	1,160.2	1,502.0	213.7	2,001.0	412.4	5,289.3	—	—	—	—	5,289.3
Intercompany	(88.0)	2.6	(9.6)	13.7	92.5	11.2	—	—	—	—	11.2
	1,072.2	1,504.6	204.1	2,014.7	504.9	5,300.5	—	—	—	—	5,300.5
Underwriting expenses	(1,102.4)	(1,720.5)	(169.7)	(2,350.7)	(711.6)	(6,054.9)	—	—	—	—	(6,054.9)
Underwriting profit (loss)	(30.2)	(215.9)	34.4	(336.0)	(206.7)	(754.4)	—	—	—	—	(754.4)
Interest income	83.2	113.4	18.0	245.5	49.1	509.2	109.4	—	(13.3)	—	605.3
Dividends	25.6	27.3	5.8	35.8	3.6	98.1	12.0	—	9.9	—	120.0
Investment expenses	(11.4)	(19.9)	(1.9)	(33.6)	(7.3)	(74.1)	(14.9)	—	(4.0)	73.0	(20.0)
Interest and dividends	97.4	120.8	21.9	247.7	45.4	533.2	106.5	—	(7.4)	73.0	705.3
Share of profit (loss) of associates	2.8	4.1	(35.6)	11.4	2.0	(15.3)	3.4	—	13.7	—	1.8
Other											
Revenue	—	—	—	—	—	—	126.4	649.8	73.0	(73.0)	776.2
Expenses	—	—	—	—	—	—	(263.9)	(636.5)	—	—	(900.4)
	—	—	—	—	—	—	(137.5)	13.3	73.0	(73.0)	(124.2)
Operating income (loss) before:	70.0	(91.0)	20.7	(76.9)	(159.3)	(236.5)	(27.6)	13.3	79.3	—	(171.5)
Net gains (losses) on investments	(162.0)	218.1	(15.6)	142.0	22.1	204.6	388.1	—	98.5	—	691.2
Loss on repurchase of long term debt[2]	—	(56.5)	—	(6.1)	—	(62.6)	—	—	(41.6)	—	(104.2)
Interest expense	—	(18.3)	—	(28.9)	(4.5)	(51.7)	(8.9)	(0.7)	(152.7)	—	(214.0)
Corporate overhead and other	(38.4)	(27.9)	(5.6)	(18.4)	(4.7)	(95.0)	—	—	(115.2)	—	(210.2)
Pre-tax income (loss)	(130.4)	24.4	(0.5)	11.7	(146.4)	(241.2)	351.6	12.6	(131.7)	—	(8.7)
Income taxes											56.5
Net earnings											47.8
Attributable to:											
Shareholders of Fairfax											45.1
Non-controlling interests											2.7
											47.8

(1) Excludes $122.0, $120.3 and $126.4 of Runoff's gross premiums written, net premiums written and net premiums earned, respectively.

(2) Loss on repurchase of long term debt of $104.2 related to the repurchase of Crum & Forster, OdysseyRe and Fairfax unsecured senior notes and is included in other expenses in the consolidated statement of earnings.

A reconciliation of total revenue of the reporting segments to the company's consolidated revenue for the fourth quarters and years ended December 31 is shown below:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Revenue of reporting segments:				
Net premiums earned	**1,551.2**	1,394.5	**5,864.8**	5,300.5
Interest and dividends	**73.3**	162.1	**409.3**	705.3
Share of profit (loss) of associates	**20.0**	(9.9)	**15.0**	1.8
Net gains (losses) on investments	**635.6**	(914.9)	**642.6**	691.2
Other revenue per reportable segment	**484.1**	191.8	**1,091.1**	776.2
Total consolidated revenues	**2,764.2**	823.6	**8,022.8**	7,475.0

18. Expenses

Losses on claims, net, operating expenses and other expenses for the fourth quarters and years ended December 31 are comprised of the following:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Losses and loss adjustment expenses	**1,318.8**	1,228.1	**4,050.4**	4,387.8
Salaries and employee benefit expenses	**237.7**	210.4	**935.8**	895.5
Other reporting segment cost of inventories	**163.0**	146.6	**580.3**	499.6
Audit, legal and tax professional fees	**36.6**	31.0	**135.5**	135.6
Premium taxes	**29.0**	22.9	**100.9**	93.4
Restructuring costs	**10.2**	8.0	**12.4**	29.2
Depreciation, amortization and impairment charges	**21.1**	15.6	**71.0**	59.5
Operating lease costs	**16.0**	14.6	**65.5**	57.4
Loss on repurchase of long term debt	**39.8**	—	**40.6**	104.2
Information technology costs	**13.3**	16.3	**65.9**	67.5
Other	**66.0**	30.0	**174.1**	144.6
	1,951.5	1,723.5	**6,232.4**	6,474.3

19. Supplementary Cash Flow Information

Cash and cash equivalents are included in the consolidated balance sheets as follows:

	December 31, 2012	December 31, 2011
Holding company cash and investments:		
Cash and balances with banks	**99.9**	39.6
Treasury bills and other eligible bills	**113.0**	3.9
	212.9	43.5
Subsidiary cash and short term investments:		
Cash and balances with banks	**1,381.4**	908.3
Treasury bills and other eligible bills	**1,175.1**	952.0
	2,556.5	1,860.3
Subsidiary assets pledged for short sale and derivative obligations:		
Cash and balances with banks	**4.8**	6.2
Treasury bills and other eligible bills	**46.3**	—
	51.1	6.2
Deduct: Subsidiary indebtedness - bank overdrafts	**(5.2)**	—
Cash, cash equivalents and bank overdrafts included in the consolidated statements of cash flows	**2,815.3**	1,910.0
Subsidiary cash and cash equivalents - restricted [(1)]		
Cash and balances with banks	**50.6**	48.3
Treasury bills and other eligible bills	**121.5**	86.4
	172.1	134.7
Add: Subsidiary indebtedness - bank overdrafts	**5.2**	—
Cash and cash equivalents included in the consolidated balance sheets	**2,992.6**	2,044.7

(1) Cash and cash equivalents as presented in the consolidated statements of cash flows excludes balances that are restricted.

Details of certain cash flows included in the consolidated statements of cash flows for the fourth quarters and years ended December 31 are as follows:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
(a) Net (purchases) sales of securities classified as at FVTPL				
Short term investments	**(192.3)**	(1,924.9)	**(232.7)**	(4,098.7)
Bonds	**370.3**	2,371.5	**2,536.2**	2,574.6
Preferred stocks	**(31.7)**	4.9	**(28.9)**	6.4
Common stocks	**(257.2)**	(129.4)	**(367.6)**	(2.6)
Net derivatives and short sales	**(96.9)**	(174.5)	**(801.3)**	265.6
	(207.8)	147.6	**1,105.7**	(1,254.7)
(b) Changes in operating assets and liabilities				
Net increase in restricted cash and cash equivalents	**(61.1)**	(36.0)	**(34.6)**	(36.0)
Provision for losses and loss adjustment expenses	**276.1**	159.9	**256.2**	347.6
Provision for unearned premiums	**(209.5)**	(140.1)	**102.3**	197.8
Insurance contract receivables	**343.4**	25.2	**130.1**	(220.7)
Recoverable from reinsurers	**(34.2)**	71.1	**(92.5)**	5.9
Other receivables	**7.4**	(4.5)	**(19.9)**	(13.6)
Funds withheld payable to reinsurers	**9.2**	(13.6)	**20.8**	(13.8)
Accounts payable and accrued liabilities	**(298.2)**	14.2	**(170.4)**	260.3
Income taxes payable	**12.8**	(26.3)	**57.2**	(11.8)
Other	**117.7**	5.3	**(12.7)**	185.5
	163.6	55.2	**236.5**	701.2
(c) Net interest and dividends received				
Interest and dividends received	**132.7**	210.5	**621.0**	843.1
Interest paid	**(69.4)**	(69.6)	**(187.8)**	(194.4)
	63.3	140.9	**433.2**	648.7
(d) Net income taxes (paid) refund received	**(18.5)**	68.9	**(69.2)**	82.4
(e) Dividends paid				
Common share dividends paid	**—**	—	**(205.8)**	(205.9)
Preferred share dividends paid	**(15.9)**	(12.6)	**(60.5)**	(51.5)
Dividends paid to non-controlling interests	**—**	—	**(6.7)**	—
	(15.9)	(12.6)	**(273.0)**	(257.4)

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations

Notes to Management's Discussion and Analysis of Financial Condition and Results of Operations

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the condensed consolidated financial statements for the three months and year ended December 31, 2012, and the MD&A contained in the company's 2011 Annual Report.

(2) The combined ratio is the traditional measure of underwriting results of property and casualty companies. A non-GAAP measure, the combined ratio is calculated by the company as the sum of the loss ratio (claims losses and loss adjustment expenses expressed as a percentage of net premiums earned) and the expense ratio (commissions, premium acquisition costs and other underwriting expenses expressed as a percentage of net premiums earned). Other non-GAAP measures used by the company include the commission expense ratio (commissions expressed as a percentage of net premiums earned) and the accident year combined ratio (calculated in the same manner as the combined ratio but excluding the net favourable or adverse development of reserves established for claims that occurred in previous accident years).

(3) Interest and dividends in this MD&A is derived from the consolidated statement of earnings prepared in accordance with IFRS as issued by the IASB and is comprised of the sum of interest and dividends and share of profit (loss) of associates.

(4) The company's long equity total return swaps allow the company to receive the total return on a notional amount of an equity index or individual equity security (including dividends and capital gains or losses) in exchange for the payment of a floating rate of interest on the notional amount. Conversely, short equity total return swaps allow the company to pay the total return on a notional amount of an equity index or individual equity security in exchange for the receipt of a floating rate of interest on the notional amount. Throughout this MD&A, the term "total return swap expense" refers to the net dividends and interest paid or received related to the company's long and short equity and equity index total return swaps.

(5) Additional GAAP measures included in the Capital Resources and Management section of this MD&A include: net debt divided by total equity, net debt divided by net total capital and total debt divided by total capital. The company also calculates an interest coverage ratio and an interest and preferred share dividend distribution coverage ratio as a measure of its ability to service its debt and pay dividends to its preferred shareholders.

(6) References in this MD&A to the company's insurance and reinsurance operations do not include its runoff operations.

Business Developments

Acquisitions and divestitures

Year ended December 31, 2012

On December 10, 2012, the company sold all of its ownership interest in Cunningham Lindsey for net cash proceeds of $270.6 and recognized a net gain on investment of $167.0 (including amounts previously recorded in accumulated other comprehensive income). Subsequent to the closing of this transaction, the company invested $34.4 in preferred shares of Cunningham Lindsey to become a 9.1% minority shareholder.

On November 28, 2012, Ridley Inc. ("Ridley") acquired the assets and certain liabilities of Stockade Brands Inc. (a manufacturer of animal feed products) for $5.7. On November 30, 2012, Ridley and Masterfeeds Inc. contributed the net assets of their respective Canadian feed businesses to a newly formed limited partnership (Masterfeeds LP). The net assets contributed by Ridley were valued at $25.4 for which Ridley received a 30% interest in Masterfeeds LP. The company records its investment in Masterfeeds LP using the equity method of accounting.

On October 12, 2012, the company's runoff subsidiary, RiverStone Holdings Limited, completed the acquisition of 100% of the outstanding shares of Brit Insurance Limited ("Brit Insurance") for cash purchase consideration of $335.1 (208.3 British pound sterling). The assets and liabilities and results of operations of Brit Insurance were consolidated within the company's financial reporting in the Runoff reporting segment. Brit Insurance is located in London, England and wrote U.K. domestic and international insurance and reinsurance business prior to being placed into runoff early in 2012. Effective October 15, 2012, Brit Insurance was renamed RiverStone Insurance Limited.

On August 14, 2012, the company acquired an 87.1% interest in Thomas Cook (India) Limited ("Thomas Cook India") for cash purchase consideration of $172.7. The assets and liabilities and results of operations of Thomas Cook India were consolidated within the company's financial reporting in the Other reporting segment. Thomas Cook India is the largest integrated travel and travel related financial services company in India, offering a broad range of services that include foreign exchange, corporate and leisure travel and insurance.

On March 19, 2012, the company completed the acquisition of 21.2% of the issued and outstanding shares of Thai Reinsurance Public Company Limited ("Thai Re"), for aggregate cash consideration of approximately $77.0, increasing the company's ownership interest to 23.2%. Subsequent to making its investment, the company determined that it had obtained significant influence over Thai Re and commenced recording its investment in the common shares of Thai Re using the equity method of accounting on a prospective basis. Thai Re is headquartered in Bangkok, Thailand and provides reinsurance coverage for property, casualty, engineering, marine and life customers primarily in Thailand.

On January 10, 2012, the company completed the acquisition of 81.7% of the issued and outstanding common shares of Prime Restaurants Inc. ("Prime Restaurants") for aggregate net cash consideration of $56.7 (Cdn$57.7). The assets and liabilities and results of operations of Prime Restaurants since acquisition were consolidated within the company's financial reporting in the Other reporting segment. Prime Restaurants franchises, owns and operates a network of casual dining restaurants and pubs in Canada.

Year ended December 31, 2011

On December 22, 2011, the company completed the acquisition of 75.0% of the outstanding common shares of Sporting Life Inc. ("Sporting Life"). Sporting Life is a Canadian retailer of sporting goods and sports apparel. The results of operations of Sporting Life since acquisition are included in the Other reporting segment.

On August 16, 2011, the company completed the acquisition of all of the assets and assumed certain liabilities associated with the businesses carried on by William Ashley China Corporation and its affiliates ("William Ashley"). William Ashley is a prestige retailer of exclusive tableware and gifts in Canada. The results of operations of William Ashley since acquisition are included in the Other reporting segment.

On March 24, 2011, the company completed the acquisition of The Pacific Insurance Berhad ("Pacific Insurance"). Pacific Insurance underwrites all classes of general insurance and medical insurance in Malaysia. The results of operations of Pacific Insurance since acquisition are included in the Insurance - Fairfax Asia reporting segment.

On February 9, 2011, the company completed the acquisition of all of the outstanding common shares of First Mercury Financial Corporation ("First Mercury") including Valiant Insurance Group ("Valiant Insurance"), a wholly-owned subsidiary of First Mercury. First Mercury underwrites specialty insurance products, principally on an excess and surplus lines basis, focusing on niche and underserved segments. The results of operations of First Mercury since acquisition were consolidated within the Crum & Forster operating segment. As of July 1, 2011, the company has presented the results of operations of Valiant Insurance (total equity of $33.1 at December 31, 2012) in the Runoff reporting segment following the transfer of ownership of Valiant Insurance from Crum & Forster to TIG Group.

Sources of Revenue

Revenues reflected in the consolidated financial statements in the fourth quarters and years ended December 31, 2012 and 2011 are shown in the table that follows. Other revenue comprises the revenue earned by Ridley, William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India since their respective acquisition dates.

	Fourth quarter		**Year ended December 31,**	
	2012	2011	**2012**	2011
Net premiums earned				
Insurance - Canada (Northbridge)	**240.3**	258.4	**992.2**	1,072.2
- U.S. (Crum & Forster and Zenith National)	**484.1**	414.9	**1,811.6**	1,504.6
- Asia (Fairfax Asia)	**62.2**	55.0	**231.4**	204.1
Reinsurance - OdysseyRe	**613.6**	537.0	**2,315.3**	2,014.7
Insurance and Reinsurance - Other	**151.0**	129.2	**514.3**	504.9
Runoff	**214.3**	1.0	**220.1**	126.4
	1,765.5	1,395.5	**6,084.9**	5,426.9
Interest and dividends	**93.3**	152.2	**424.3**	707.1
Net gains (losses) on investments	**635.6**	(914.9)	**642.6**	691.2
Other revenue	**269.8**	190.8	**871.0**	649.8
	2,764.2	823.6	**8,022.8**	7,475.0

Revenue in the fourth quarter of 2012 of $2,764.2 ($8,022.8 in the full year of 2012) increased significantly from revenue in the fourth quarter of 2011 of $823.6 ($7,475.0 in the full year of 2011), reflecting growth in net premiums earned by the company's insurance and reinsurance operations and Runoff and increased other revenue, partially offset by lower interest and dividend income. Net gains on investments were significantly higher on a year-over-year basis in the fourth quarter of 2012 and modestly lower in the full year of 2012 relative to the full year of 2011.

The growth in net premiums earned by the company's insurance and reinsurance operations of 11.2% in the fourth quarter of 2012 was principally due to year-over-year increases in net premiums earned by OdysseyRe ($76.6, 14.3%), Crum & Forster ($44.2, 15.7%), Zenith National ($25.0, 18.7%), Insurance and Reinsurance – Other ($21.8, 16.9%) and Fairfax Asia ($7.2, 13.1%), partially offset by a decrease at Northbridge ($18.1, 7.0% including the favourable effect of foreign currency translation). Net premiums earned by Runoff in the fourth quarter of 2012 included non-recurring net premiums earned in connection with the Eagle Star reinsurance transaction ($183.5) and the consolidation of the net premiums earned by RiverStone Insurance ($30.1). These two transactions are described in the Runoff section of this MD&A. The growth in net premiums earned by the company's insurance and reinsurance operations of 10.6% in the full year of 2012 was principally due to the consolidation of the net premiums earned by First Mercury and

Pacific Insurance (year-over-year increases of $122.8 and $13.6, respectively) and the year-over-year increases in net premiums earned by OdysseyRe ($300.6, 14.9%), Zenith National ($101.2, 20.4%), Crum & Forster ($83.0, 10.3% excluding the impact of the consolidation of First Mercury), Fairfax Asia ($13.7, 7.9% excluding the impact of the consolidation of Pacific Insurance) and Insurance and Reinsurance – Other ($9.4, 1.9%), partially offset by a decrease at Northbridge ($80.0, 7.5% including the unfavourable effect of foreign currency translation). Net premiums earned by Runoff in the full year of 2012 was impacted by the same factors which affected net premiums earned in the fourth quarter of 2012 and included $119.6 of non-recurring net premiums earned in connection with the reinsurance-to-close of Syndicate 376 in the full year of 2011.

The year-over-year decrease in interest and dividend income and the impact of net gains (losses) on investments on the fourth quarters and years ended December 31, 2012 and 2011, are described below.

Other revenue in the fourth quarter and full year of 2012 was $269.8 and $871.0, respectively, compared to other revenue in the fourth quarter and full year of 2011 of $190.8 and $649.8, respectively. Other revenue attributable to Ridley was $180.4 and $670.8 in the fourth quarter and full year of 2012 ($177.3 and $635.0 in the fourth quarter and full year of 2011), respectively, with the balance comprised of the revenue of William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India since their respective acquisition dates and also included the $6.8 excess of fair value of net assets acquired over purchase price related to the acquisition of RiverStone Insurance.

Despite the ongoing challenging market conditions within the global insurance and reinsurance industry, including continued price competition (especially in casualty lines), excess capacity and the impact of the economy on insured customers, the company's insurance and reinsurance operations achieved growth in gross premiums written and net premiums written in the fourth quarter and full year of 2012 as shown in the following table. Gross premiums written and net premiums written by the company's insurance and reinsurance operations increased by 8.9% and 8.7%, respectively, in the fourth quarter of 2012 compared to the fourth quarter of 2011. Prior to giving effect to the acquisitions of First Mercury and Pacific Insurance, gross premiums written and net premiums written by the company's insurance and reinsurance operations increased by 7.5% and 7.4%, respectively, in the full year of 2012 compared to the full year of 2011.

	Quarter ended December 31, 2012			Quarter ended December 31, 2011		
	Gross premiums written	**Net premiums written**	**Net premiums earned**	Gross premiums written	Net premiums written	Net premiums earned
Insurance and reinsurance operations - as reported	**1,712.0**	**1,398.7**	**1,551.2**	1,571.8	1,286.8	1,394.5
Percentage change (year-over-year)	**8.9%**	**8.7%**	**11.2%**			

	Year ended December 31, 2012			Year ended December 31, 2011		
	Gross premiums written	**Net premiums written**	**Net premiums earned**	Gross premiums written	Net premiums written	Net premiums earned
Insurance and reinsurance operations - as reported	**7,297.5**	**5,995.0**	**5,864.8**	6,705.5	5,487.6	5,300.5
First Mercury	**(407.8)**	**(351.2)**	**(328.2)**	(306.0)	(237.8)	(205.4)
Pacific Insurance	**(67.9)**	**(43.8)**	**(44.0)**	(51.9)	(34.9)	(30.4)
Insurance and reinsurance operations - as adjusted	**6,821.8**	**5,600.0**	**5,492.6**	6,347.6	5,214.9	5,064.7
Percentage change (year-over-year)	**7.5%**	**7.4%**	**8.4%**			

The tables which follow present net premiums written by the company's insurance and reinsurance operations in the fourth quarters and years ended December 31, 2012 and 2011 ("as reported") and, in order to better compare the results of 2012 and 2011, the same excluding First Mercury and Pacific Insurance which were acquired during the first quarter of 2011, Northbridge after giving effect as of January 1, 2011 to the sale of the renewal rights to its U.S. property business to OdysseyRe, OdysseyRe after giving effect as of January 1, 2011, to the purchase of the renewal rights to Northbridge's U.S. property business and the non-recurring portfolio transfer of unearned premium from Group Re to Northbridge ($42.3) in the first quarter of 2011 ("as adjusted"). The transfer of the renewal rights to Northbridge's U.S. property business to OdysseyRe is described in the Northbridge section of this MD&A. The non-recurring portfolio transfer of unearned premium from Group Re to Northbridge decreased premiums ceded to reinsurers at Northbridge, decreased net premiums written at Group Re and had no impact on consolidated net premiums written. The "as adjusted" table shows year-over-year increases in net premiums written of 8.7% and 7.4% in the fourth quarter and full year of 2012 respectively.

Net premiums written - as reported

		Fourth quarter			Year ended December 31,		
		2012	2011	**% change year-over-year**	**2012**	2011	**% change year-over-year**
Insurance	- Canada (Northbridge)	**243.0**	257.7	(5.7)	**948.7**	1,098.5	(13.6)
	- U.S. (Crum & Forster and Zenith National)	**408.1**	408.0	—	**1,872.8**	1,601.1	17.0
	- Asia (Fairfax Asia)	**59.2**	50.5	17.2	**240.6**	213.7	12.6
Reinsurance - OdysseyRe		**573.8**	477.2	20.2	**2,402.3**	2,089.7	15.0
Insurance and Reinsurance - Other		**114.6**	93.4	22.7	**530.6**	484.6	9.5
Insurance and reinsurance operations		**1,398.7**	1,286.8	8.7	**5,995.0**	5,487.6	9.2

Net premiums written - as adjusted

		Fourth quarter			Year ended December 31,		
		2012	2011	**% change year-over-year**	**2012**	2011	**% change year-over-year**
Insurance	- Canada (Northbridge)	**235.5**	249.3	(5.5)	**940.9**	1,013.4	(7.2)
	- U.S. (Crum & Forster and Zenith National)	**408.1**	408.0	—	**1,521.6**	1,363.3	11.6
	- Asia (Fairfax Asia)	**59.2**	50.5	17.2	**196.8**	178.8	10.1
Reinsurance - OdysseyRe		**581.3**	485.6	19.7	**2,410.1**	2,132.5	13.0
Insurance and Reinsurance - Other		**114.6**	93.4	22.7	**530.6**	526.9	0.7
Insurance and reinsurance operations		**1,398.7**	1,286.8	8.7	**5,600.0**	5,214.9	7.4

Northbridge’s net premiums written decreased by 5.5% (8.5% in Canadian dollar terms) in the fourth quarter of 2012 compared to the fourth quarter of 2011 primarily as a result of lower retentions of existing business, partially offset by the favourable effect of foreign currency translation, modest increases in pricing and new business in certain segments. Net premiums written by U.S. Insurance were flat in the fourth quarter of 2012 compared to the fourth quarter of 2011, comprised of a 5.7% increase at Zenith National offset by a 1.9% decrease at Crum & Forster. The increase in net premiums written by Zenith National reflected premium rate increases, strong renewal retention and the ability to write new business. The decrease in net premiums written by Crum & Forster reflected decreased standard lines net premiums written, consistent with Crum & Forster's shift in strategy from standard lines to specialty lines of business, partially offset by modest growth in specialty lines of business. Net premiums written by Fairfax Asia increased by 17.2% in the fourth quarter of 2012 primarily as a result of increased writings of property and engineering lines of business at First Capital. OdysseyRe’s net premiums written increased by 19.7% in the fourth quarter of 2012 compared to the fourth quarter of 2011 primarily as a result of two new property quota share reinsurance contracts with underlying insured risks located in Florida and Brazil, growth in the U.S. crop line of business and a year-over-year increase in reinstatement premiums received related to catastrophe activity. Net premiums written by the Insurance and Reinsurance – Other reporting segment increased by 22.7% in the fourth quarter of 2012 compared to the fourth quarter of 2011 primarily as a result of growth in net premiums written by Advent, Group Re and Polish Re, partially offset by marginally lower net premiums written by Fairfax Brasil.

Northbridge’s net premiums written decreased by 7.2% (6.1% in Canadian dollar terms) in the full year of 2012 compared to the full year of 2011, primarily reflecting the same factors which affected net premiums written in the fourth quarter of 2012. Net premiums written by U.S. Insurance increased by 11.6% in the full year of 2012 compared to the full year of 2011, comprised of increases of 7.5% and 18.2% at Crum & Forster and Zenith National respectively. The increase in net premiums written by Crum & Forster in the full year of 2012 principally reflected increases in both specialty and standard lines of business. Net premiums written by Fairfax Asia increased by 10.1% in the full year of 2012. The increase in net premiums written by Zenith National and Fairfax Asia in the full year of 2012 compared to the full year of 2011 primarily reflected the same factors which affected net premiums written in the fourth quarter of 2012. Net premiums written by the Insurance and Reinsurance - Other reporting segment increased by 0.7% in the full year of 2012 compared to the full year of 2011, comprised of increased net premiums written by Fairfax Brasil and Polish Re, partially offset by lower net premiums written by Advent and Group Re.

Consolidated interest and dividend income of $73.3 in the fourth quarter of 2012 decreased from $162.1 in the fourth quarter of 2011 and decreased to $409.3 in the full year of 2012 from $705.3 in the full year of 2011. The decreases primarily reflected the combined effects of sales during 2011 and 2012 of higher yielding government bonds (principally U.S. treasury and Canadian government bonds), the proceeds of which were reinvested into lower yielding cash and short term investments and common stocks. Total return swap expense was also higher in 2012 compared to 2011 ($69.8 and $42.6 in the fourth quarters of 2012 and 2011, respectively and $204.9 and $140.3 in the full years of 2012 and 2011, respectively) due to increased dividends payable (primarily the dividend payable on the Russell 2000 exchange traded fund) and higher average notional amounts of short positions effected through total return swaps on a year-over-year basis.

The share of profit of associates was $20.0 in the fourth quarter of 2012 (which included the company's $7.3 share of the profit of ICICI Lombard) compared to the share of loss of associates of $9.9 in the fourth quarter of 2011 (which included the company's $26.3 share of the net loss of ICICI Lombard). The share of profit of associates of $15.0 in the full year of 2012 compared to the share of profit of associates of $1.8 in the full year of 2011. The share of profit of associates in the full year of 2012 included the company’s $18.8 share of the net loss of Fibrek (principally comprised of an impairment charge), $22.0 share of the net loss of Thai Re (principally comprised of net reserve strengthening related to the Thailand floods) and

$12.9 share of the profit of ICICI Lombard. The company's share of profit of associates in the full year of 2011 included the company's $36.1 share of the net loss of ICICI Lombard. The net earnings of ICICI Lombard in 2011 were adversely affected by reserve strengthening related to its mandatory pro-rata participation in the Indian commercial vehicle insurance pool, partially offset by net mark-to-market gains on the ICICI Lombard investment portfolio.

Net gains (losses) on investments in the fourth quarters and years ended December 31, 2012 and 2011 were comprised as shown in the following table:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks	**413.2**	(142.9)	**697.6**	(774.8)
Preferred stocks - convertible	**(20.8)**	67.1	**(36.2)**	(5.2)
Bonds - convertible	**40.0**	28.4	**186.7**	23.5
Gain on disposition of associate	**167.0**	7.0	**196.8**	7.0
Other equity derivatives	**(4.4)**	86.4	**73.8**	(43.3)
Equity and equity-related holdings	**595.0**	46.0	**1,118.7**	(792.8)
Equity hedges	**(140.7)**	(779.3)	**(1,005.5)**	413.9
Equity and equity-related holdings after equity hedges	**454.3**	(733.3)	**113.2**	(378.9)
Bonds	**184.7**	(98.9)	**728.1**	1,278.7
Preferred stocks	**(0.5)**	0.4	**(0.3)**	(1.9)
CPI-linked derivatives	**(29.9)**	0.1	**(129.2)**	(233.9)
Other derivatives	**18.5**	(19.4)	**3.4**	49.4
Foreign currency	**6.0**	(72.9)	**(76.2)**	(34.4)
Other	**2.5**	9.1	**3.6**	12.2
Net gains (losses) on investments	**635.6**	(914.9)	**642.6**	691.2
Net gains (losses) on bonds is comprised as follows:				
Government bonds	**47.6**	(146.2)	**92.7**	753.1
U.S. states and municipalities	**121.6**	30.6	**552.7**	642.7
Corporate and other	**15.5**	16.7	**82.7**	(117.1)
	184.7	(98.9)	**728.1**	1,278.7

The company uses short equity and equity index total return swaps to economically hedge equity price risk associated with its equity and equity-related holdings. The company's economic equity hedges are structured to provide a return which is inverse to changes in the fair values of the Russell 2000 index, the S&P 500 index, the S&P/TSX 60 index, other equity indices and certain individual equity securities. The company's equity and equity-related holdings after hedges produced a net gain of $454.3 in the fourth quarter of 2012 (net gain of $113.2 in the full year of 2012) compared to a net loss of $733.3 in the fourth quarter of 2011 (net loss of $378.9 in the full year of 2011). At December 31, 2012, equity hedges with a notional amount of $7,668.5 ($7,135.2 at December 31, 2011) represented 100.6% (104.6% at December 31, 2011) of the company's equity and equity-related holdings of $7,626.5 ($6,822.7 at December 31, 2011). Refer to note 16 (Financial Risk Management) under the heading of Market Price Fluctuations in the company's condensed consolidated financial statements for the three and twelve months ended December 31, 2012, for a tabular analysis followed by a discussion of the company's hedges of equity price risk and the related basis risk and to the tabular analysis in the Investments section of this MD&A for further details about the components of net gains (losses) on investments. The gain on disposition of associate of $167.0 in the fourth quarter of 2012 reflected the the sale of the company's investment in Cunningham Lindsey. In the full year of 2012, gain on disposition of associate also reflected a $29.8 gain recognized on the sale of Fibrek.

Net gains on bonds of $184.7 and $728.1 in the fourth quarter and full year of 2012 (net loss of $98.9 and net gain of $1,278.7 in the fourth quarter and full year of 2011), respectively, were primarily comprised of a combination of realized and net mark-to-market gains on U.S. state and municipal government bonds, realized gains on U.S. government bonds and net mark-to-market gains on other government bonds.

The company's CPI-linked derivative contracts produced unrealized losses of $29.9 and $129.2 in the fourth quarter and full year of 2012 (an unrealized gain of $0.1 and an unrealized loss of $233.9 in the fourth quarter and full year of 2011), respectively. The unrealized losses on the CPI-linked derivative contracts were primarily a result of increases in the values of the CPI indices underlying those contracts (those contracts are structured to benefit the company during periods of decreasing CPI index values).

Sources of Net Earnings

The following table presents the combined ratios and underwriting and operating results for each of the insurance and reinsurance operations and, as applicable, for runoff operations, as well as the earnings contributions from the Other reporting segment for the fourth quarters and years ended December 31, 2012 and 2011. In that table, interest and dividends and net gains (losses) on investments in the condensed consolidated statements of earnings are broken out separately as they relate to the insurance and reinsurance operating results, and included in Runoff and Corporate overhead and other as they relate to those segments.

	Fourth quarter		Year ended December 31,	
Combined ratios	**2012**	2011	**2012**	2011
Insurance - Canada (Northbridge)	**113.7%**	101.9%	**105.7%**	102.8%
- U.S. (Crum & Forster and Zenith National)	**122.6%**	124.2%	**111.4%**	114.3%
- Asia (Fairfax Asia)	**84.4%**	89.2%	**87.0%**	83.2%
Reinsurance - OdysseyRe	**94.4%**	122.7%	**88.5%**	116.7%
Reinsurance and Insurance - Other	**109.8%**	155.1%	**104.3%**	140.9%
Consolidated	**107.3%**	121.0%	**99.8%**	114.2%
Sources of net earnings				
Underwriting				
Insurance - Canada (Northbridge)	**(32.9)**	(5.1)	**(57.0)**	(30.2)
- U.S. (Crum & Forster and Zenith National)	**(109.5)**	(100.5)	**(206.3)**	(215.9)
- Asia (Fairfax Asia)	**9.7**	6.0	**30.1**	34.4
Reinsurance - OdysseyRe	**34.3**	(122.0)	**266.6**	(336.0)
Reinsurance and Insurance - Other	**(14.7)**	(71.2)	**(21.8)**	(206.7)
Underwriting profit (loss)	**(113.1)**	(292.8)	**11.6**	(754.4)
Interest and dividends - insurance and reinsurance	**48.0**	111.2	**292.4**	517.9
Operating income (loss)	**(65.1)**	(181.6)	**304.0**	(236.5)
Net gains (losses) on investments - insurance and reinsurance	**571.8**	(738.6)	**587.3**	204.6
Loss on repurchase of long term debt	**(39.8)**	—	**(40.6)**	(104.2)
Runoff	**85.3**	(13.3)	**231.3**	360.5
Other	**23.5**	4.7	**39.2**	13.3
Interest expense	**(52.2)**	(52.2)	**(208.2)**	(214.0)
Corporate overhead and other	**(18.3)**	(188.5)	**(256.2)**	(32.4)
Pre-tax income (loss)	**505.2**	(1,169.5)	**656.8**	(8.7)
Income taxes	**(97.1)**	398.7	**(116.1)**	56.5
Net earnings (loss)	**408.1**	(770.8)	**540.7**	47.8
Attributable to:				
Shareholders of Fairfax	**404.1**	(771.5)	**532.4**	45.1
Non-controlling interests	**4.0**	0.7	**8.3**	2.7
	408.1	(770.8)	**540.7**	47.8
Net earnings (loss) per share	**$ 19.14**	$ (38.47)	**$ 23.22**	$ (0.31)
Net earnings (loss) per diluted share	**$ 18.90**	$ (38.47)	**$ 22.94**	$ (0.31)
Cash dividends paid per share	**$ —**	$ —	**$ 10.00**	$ 10.00

The company's insurance and reinsurance operations reported an underwriting loss of $113.1 and an underwriting profit of $11.6 and combined ratios of 107.3% and 99.8% in the fourth quarter and full year of 2012, respectively, compared to underwriting losses of $292.8 and $754.4 and combined ratios of 121.0% and 114.2% in the fourth quarter and full year of 2011, respectively. The following table presents the components of the company's combined ratios for the fourth quarters and years ended December 31, 2012 and 2011:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Underwriting profit (loss)	**(113.1)**	(292.8)	**11.6**	(754.4)
Loss & LAE - accident year	**82.5 %**	92.9 %	**72.2 %**	84.8 %
Commissions	**15.7 %**	15.6 %	**15.6 %**	15.0 %
Underwriting expense	**14.8 %**	14.8 %	**15.0 %**	16.1 %
Combined ratio - accident year	**113.0 %**	123.3 %	**102.8 %**	115.9 %
Net favourable development	**(5.7)%**	(2.3)%	**(3.0)%**	(1.7)%
Combined ratio - calendar year	**107.3 %**	121.0 %	**99.8 %**	114.2 %

The substantial reduction in catastrophe losses and increased net favourable development of prior years' reserves contributed to the significant improvement in the underwriting performance of the company's insurance and reinsurance operations in the fourth quarter and full year of 2012 compared to the same periods in the prior year. Current period catastrophe losses (net of reinstatement premiums) reflected in the underwriting profit (loss) of the company in the fourth quarters and years ended December 31, 2012 and 2011, were comprised as follows:

	Fourth quarter					Year ended December 31,				
	2012		2011			**2012**		2011		
	Catastrophe losses[1]	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact		**Catastrophe losses[1]**	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact	
Hurricane Sandy	**261.2**	**16.9**	—	—		**261.2**	**4.5**	—	—	
Japan earthquake and tsunami	—	—	104.6	7.5		—	—	470.2	8.8	
Thailand floods	—	—	201.7	14.4		—	—	201.7	3.8	
New Zealand (Christchurch) earthquake	—	—	8.2	0.6		—	—	62.8	1.2	
U.S. tornados	—	—	5.0	0.3		—	—	70.0	1.3	
Hurricane Irene	—	—	1.3	0.1		—	—	31.3	0.6	
Other	**15.8**	**1.0**	39.1	2.9		**148.6**	**2.5**	184.8	3.6	
	277.0	**17.9**	359.9	25.8	points	**409.8**	**7.0**	1,020.8	19.3	points

(1) Net of reinstatement premiums.

The underwriting results of the company's insurance and reinsurance operations in the fourth quarter of 2012 included 5.7 combined ratio points ($88.7) of net favourable development of prior years' reserves primarily at OdysseyRe ($122.0), Fairfax Asia ($10.9) and Northbridge ($9.9), partially offset by net adverse development at Crum & Forster ($49.0) and Polish Re ($14.3). The underwriting results of the company's insurance and reinsurance operations in the fourth quarter of 2011 included 2.3 combined ratio points ($32.5) of net favourable development of prior years' reserves principally at OdysseyRe ($44.0), Advent ($19.4) and Fairfax Asia ($10.7), partially offset by net adverse development at Crum & Forster ($36.9) and Zenith National ($9.1). The underwriting results of the company's insurance and reinsurance operations in the full year of 2012 included 3.0 combined ratio points ($177.4) of net favourable development of prior years' reserves primarily at OdysseyRe ($152.0), Northbridge ($60.8), Advent ($24.5) and Fairfax Asia ($16.4), partially offset by net adverse development at Crum & Forster ($54.0) and Polish Re ($18.8). The underwriting results of the company's insurance and reinsurance operations in the full year of 2011 included 1.7 combined ratio points ($89.4) of net favourable development of prior years' reserves principally at OdysseyRe ($51.4), Northbridge ($39.6), Advent ($38.9) and Fairfax Asia ($20.4), partially offset by net adverse development at Crum & Forster ($37.3) and Zenith National ($24.5).

The company's insurance and reinsurance operations reported expense ratios of 14.8% and 15.0% in the fourth quarter and full year of of 2012, respectively, compared to expense ratios of 14.8% and 16.1% in the fourth quarter and full year of 2011, respectively. The expense ratios in the fourth quarter and full year of of 2012 benefited from increases in net premiums earned of 11.2% and 10.6%, respectively, partially offset by increased operating expenses (increases of 11.0% and 3.1% in the fourth quarter and full year of of 2012, respectively). Increased operating expenses of the insurance and reinsurance operations in the fourth quarter of 2012 primarily reflected a non-recurring sales tax adjustment (Northbridge), increased operating expenses at First Capital commensurate with its growth (Fairfax Asia) and increased personnel and infrastructure-related expenses (OdysseyRe). Operating expenses in the full year of 2012 also reflected a year-over-year increase resulting from the consolidation of the operating expenses of First Mercury and Pacific Insurance and the benefit recognized in the full year of 2011 from the curtailment of certain post retirement benefits (Northbridge), partially offset by lower IT and other miscellaneous expenses (Northbridge). The commission expense ratios of 15.7% and 15.6% in the fourth quarter and full year of of 2012, respectively, increased modestly relative to the commission expense ratios of 15.6% and 15.0% in the fourth quarter and full year of 2011, respectively, primarily due to a shift in the mix of premiums written towards business carrying higher commissions (principally at Northbridge, Crum & Forster and OdysseyRe).

Operating expenses in the consolidated statements of earnings include only the operating expenses of the company's insurance and reinsurance and runoff operations and corporate overhead. Operating expenses of $305.3 in the fourth quarter of 2012 increased from $260.2 in the fourth quarter of 2011 primarily as a result of the factors described in the preceding paragraph which affected the operating expenses of the insurance and reinsurance operations and also included increased operating expenses at Runoff (primarily incremental operating expenses related to the acquisition and reinsurance transactions undertaken by Runoff during 2011 and 2012). Operating expenses of $1,120.3 in the full year of 2012 decreased from $1,148.3 in the full year of 2011 primarily as a result decreased holding company and subsidiary holding companies corporate overhead (refer to the Corporate Overhead and Other section of this MD&A for further details related to corporate overhead) and decreased operating expenses at Runoff (primarily related to the release of a provision following the favourable resolution of a dispute with a taxation authority related to value added tax), partially offset by the factors described in the preceding paragraph which affected the operating expenses of the insurance and reinsurance operations in the full year of 2012.

Other expenses of $283.2 and $869.5 in the fourth quarter and full year of 2012, respectively, and $186.1 and $740.7 in the fourth quarter and full year of 2011, respectively, comprise the operating and other costs of Ridley, William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India since their respective acquisition dates. In addition, other expenses in the fourth quarter of 2012 included a net loss of $39.8 related to the repayment of the TIG Note. Other expenses in the full year of 2012 also included a net loss of $0.8 related to the repurchase of Crum & Forster unsecured senior notes. Other expenses in the full year of 2011 included a net loss of $104.2 related to the repurchase of Fairfax, Crum & Forster and OdysseyRe unsecured senior notes.

The company reported net earnings attributable to shareholders of Fairfax of $404.1 ($19.14 per basic and $18.90 per diluted share) in the fourth quarter of 2012 compared to a net loss attributable to shareholders of Fairfax of $771.5 ($38.47 per basic and diluted share) in the fourth quarter of 2011. The year-over-year increase in net earnings attributable to shareholders of Fairfax was primarily due to a significant increase in net gains on investments, a year-over-year improvement in underwriting results (reflecting lower current period catastrophe losses and increased net favourable development of prior years' reserves) and an increase in Runoff operating income, partially offset by the higher provision for income taxes, decreased interest and dividend income and the loss on the repayment of the TIG Note. In the full year of 2012, the company reported net earnings attributable to shareholders of Fairfax of $532.4 ($23.22 per basic and $22.94 per diluted share) compared to net earnings attributable to shareholders of Fairfax of $45.1 ($0.31 net loss per basic and diluted share) in the full year of 2011. The year-over-year increase in net earnings attributable to shareholders of Fairfax was primarily due a year-over-year improvement in underwriting results (reflecting lower current period catastrophe losses and increased net favourable development of prior years' reserves), lower holding company and subsidiary company corporate overhead expenses and the decreased loss on repurchase of long term debt, partially offset by lower net gains on investments, decreased interest and dividend income and the higher provision for income taxes.

Common shareholders’ equity increased in the full year of 2012, primarily as a result of net earnings attributable to shareholders of Fairfax ($532.4) and the effect of increased accumulated other comprehensive income (an increase of $28.0 primarily related to foreign currency translation), partially offset by the company’s payments of dividends on its common and preferred shares ($266.3), the recognition of actuarial losses on its defined benefit plans (including those of its associates) in retained earnings ($32.8) and the net repurchase of subordinate voting shares for treasury ($48.4). Common shareholders’ equity at December 31, 2012,was $7,654.7 or $378.10 per basic share compared to $364.55 per basic share at December 31, 2011, representing an increase per basic share in the full year of 2012 of 3.7% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2012, or an increase of 6.5% adjusted to include that dividend).

Net Earnings by Reporting Segment

The company's sources of net earnings shown by reporting segment are set out below for the fourth quarters and years ended December 31, 2012 and 2011. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the group, primarily to OdysseyRe and Group Re.

Quarter ended December 31, 2012

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Inter-company	Corporate and other	Consolidated
Gross premiums written	298.4	482.9	146.7	648.2	135.8	1,712.0	221.2	—	(33.3)	—	1,899.9
Net premiums written	243.0	408.1	59.2	573.8	114.6	1,398.7	199.1	—	—	—	1,597.8
Net premiums earned	240.3	484.1	62.2	613.6	151.0	1,551.2	214.3	—	—	—	1,765.5
Underwriting profit (loss)	(32.9)	(109.5)	9.7	34.3	(14.7)	(113.1)	—	—	—	—	(113.1)
Interest and dividends	8.6	5.8	12.0	22.2	(0.6)	48.0	—	—	—	—	48.0
Operating income (loss) before:	(24.3)	(103.7)	21.7	56.5	(15.3)	(65.1)	—	—	—	—	(65.1)
Net gains on investments	60.3	97.0	3.6	210.8	200.1	571.8	64.9	—	—	—	636.7
Loss on repurchase of long term debt	—	—	—	—	—	—	(39.8)	—	—	—	(39.8)
Runoff	—	—	—	—	—	—	20.4	—	—	—	20.4
Other	—	—	—	—	—	—	—	23.5	—	—	23.5
Interest expense	—	(1.3)	—	(6.9)	(1.1)	(9.3)	(0.5)	(1.2)	—	(41.2)	(52.2)
Corporate overhead and other	(11.6)	(5.3)	—	(7.5)	(0.2)	(24.6)	—	—	—	6.3	(18.3)
Pre-tax income (loss)	24.4	(13.3)	25.3	252.9	183.5	472.8	45.0	22.3	—	(34.9)	505.2
Income taxes											(97.1)
Net earnings											408.1

Attributable to:	
Shareholders of Fairfax	404.1
Non-controlling interests	4.0
	408.1

Quarter ended December 31, 2011

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Inter-company	Corporate and other	Consolidated
Gross premiums written	322.0	482.1	111.9	532.2	123.6	1,571.8	(0.6)	—	(37.7)	—	1,533.5
Net premiums written	257.7	408.0	50.5	477.2	93.4	1,286.8	0.6	—	—	—	1,287.4
Net premiums earned	258.4	414.9	55.0	537.0	129.2	1,394.5	1.0	—	—	—	1,395.5
Underwriting profit (loss)	(5.1)	(100.5)	6.0	(122.0)	(71.2)	(292.8)	—	—	—	—	(292.8)
Interest and dividends	23.1	30.5	(22.2)	69.2	10.6	111.2	—	—	—	—	111.2
Operating income (loss) before:	18.0	(70.0)	(16.2)	(52.8)	(60.6)	(181.6)	—	—	—	—	(181.6)
Net losses on investments	(153.3)	(213.4)	(25.6)	(344.0)	(2.3)	(738.6)	(14.5)	—	—	—	(753.1)
Runoff	—	—	—	—	—	—	1.2	—	—	—	1.2
Other	—	—	—	—	—	—	—	4.7	—	—	4.7
Interest expense	—	(1.7)	—	(6.8)	(1.1)	(9.6)	(2.3)	(0.1)	—	(40.2)	(52.2)
Corporate overhead and other	(7.4)	(2.4)	(2.3)	(4.1)	—	(16.2)	—	—	—	(172.3)	(188.5)
Pre-tax income (loss)	(142.7)	(287.5)	(44.1)	(407.7)	(64.0)	(946.0)	(15.6)	4.6	—	(212.5)	(1,169.5)
Income taxes											398.7
Net loss											(770.8)
Attributable to:											
Shareholders of Fairfax											(771.5)
Non-controlling interests											0.7
											(770.8)

Year ended December 31, 2012

	Insurance			**Reinsurance**	**Insurance and Reinsurance**						
	Northbridge	**U.S.**	**Fairfax Asia**	**OdysseyRe**	**Other**	**Ongoing operations**	**Runoff**	**Other**	**Inter-company**	**Corporate and other**	**Consolidated**
Gross premiums written	**1,194.3**	**2,163.2**	**515.2**	**2,773.2**	**651.6**	**7,297.5**	**221.2**	**—**	**(120.4)**	**—**	**7,398.3**
Net premiums written	**948.7**	**1,872.8**	**240.6**	**2,402.3**	**530.6**	**5,995.0**	**199.1**	**—**	**—**	**—**	**6,194.1**
Net premiums earned	**992.2**	**1,811.6**	**231.4**	**2,315.3**	**514.3**	**5,864.8**	**220.1**	**—**	**—**	**—**	**6,084.9**
Underwriting profit (loss)	**(57.0)**	**(206.3)**	**30.1**	**266.6**	**(21.8)**	**11.6**	**—**	**—**	**—**	**—**	**11.6**
Interest and dividends	**41.5**	**49.6**	**36.2**	**127.5**	**37.6**	**292.4**	**—**	**—**	**—**	**—**	**292.4**
Operating income (loss) before:	**(15.5)**	**(156.7)**	**66.3**	**394.1**	**15.8**	**304.0**	**—**	**—**	**—**	**—**	**304.0**
Net gains (losses) on investments	**(63.1)**	**147.3**	**0.3**	**267.2**	**235.6**	**587.3**	**215.8**	**—**	**—**	**—**	**803.1**
Loss on repurchase of long term debt	**—**	**(0.8)**	**—**	**—**	**—**	**(0.8)**	**(39.8)**	**—**	**—**	**—**	**(40.6)**
Runoff	**—**	**—**	**—**	**—**	**—**	**—**	**15.5**	**—**	**—**	**—**	**15.5**
Other	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**39.2**	**—**	**—**	**39.2**
Interest expense	**—**	**(5.7)**	**—**	**(27.7)**	**(4.5)**	**(37.9)**	**(7.5)**	**(2.2)**	**—**	**(160.6)**	**(208.2)**
Corporate overhead and other	**(17.2)**	**(23.2)**	**—**	**(23.1)**	**(0.4)**	**(63.9)**	**—**	**—**	**—**	**(192.3)**	**(256.2)**
Pre-tax income (loss)	**(95.8)**	**(39.1)**	**66.6**	**610.5**	**246.5**	**788.7**	**184.0**	**37.0**	**—**	**(352.9)**	**656.8**
Income taxes											**(116.1)**
Net earnings											**540.7**
Attributable to:											
Shareholders of Fairfax											**532.4**
Non-controlling interests											**8.3**
											540.7

Year ended December 31, 2011

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Inter-company	Corporate and other	Consolidated
Gross premiums written	1,322.7	1,864.1	451.7	2,420.7	646.3	6,705.5	122.0	—	(84.0)	—	6,743.5
Net premiums written	1,098.5	1,601.1	213.7	2,089.7	484.6	5,487.6	120.3	—	—	—	5,607.9
Net premiums earned	1,072.2	1,504.6	204.1	2,014.7	504.9	5,300.5	126.4	—	—	—	5,426.9
Underwriting profit (loss)	(30.2)	(215.9)	34.4	(336.0)	(206.7)	(754.4)	—	—	—	—	(754.4)
Interest and dividends	100.2	124.9	(13.7)	259.1	47.4	517.9	—	—	—	—	517.9
Operating income (loss) before:	70.0	(91.0)	20.7	(76.9)	(159.3)	(236.5)	—	—	—	—	(236.5)
Net gains (losses) on investments	(162.0)	218.1	(15.6)	142.0	22.1	204.6	388.1	—	—	—	592.7
Loss on repurchase of long term debt	—	(56.5)	—	(6.1)	—	(62.6)	—	—	—	(41.6)	(104.2)
Runoff	—	—	—	—	—	—	(27.6)	—	—	—	(27.6)
Other	—	—	—	—	—	—	—	13.3	—	—	13.3
Interest expense	—	(18.3)	—	(28.9)	(4.5)	(51.7)	(8.9)	(0.7)	—	(152.7)	(214.0)
Corporate overhead and other	(38.4)	(27.9)	(5.6)	(18.4)	(4.7)	(95.0)	—	—	—	62.6	(32.4)
Pre-tax income (loss)	(130.4)	24.4	(0.5)	11.7	(146.4)	(241.2)	351.6	12.6	—	(131.7)	(8.7)
Income taxes											56.5
Net earnings											47.8
Attributable to:											
Shareholders of Fairfax											45.1
Non-controlling interests											2.7
											47.8

Components of Net Earnings

Underwriting and Operating Income

Set out and discussed below are the underwriting and operating results of Fairfax's insurance and reinsurance operations, Runoff and Other by reporting segment for the fourth quarters and years ended December 31, 2012 and 2011.

Canadian Insurance - Northbridge[1]

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Underwriting profit (loss)	**(32.9)**	(5.1)	**(57.0)**	(30.2)
Loss & LAE - accident year	**79.4 %**	67.3 %	**76.1 %**	72.3 %
Commissions	**15.1 %**	15.7 %	**15.0 %**	14.5 %
Underwriting expenses	**23.3 %**	19.3 %	**20.7 %**	19.7 %
Combined ratio - accident year	**117.8 %**	102.3 %	**111.8 %**	106.5 %
Net favourable development	**(4.1)%**	(0.4)%	**(6.1)%**	(3.7)%
Combined ratio - calendar year	**113.7 %**	101.9 %	**105.7 %**	102.8 %
Gross premiums written	**298.4**	322.0	**1,194.3**	1,322.7
Net premiums written	**243.0**	257.7	**948.7**	1,098.5
Net premiums earned	**240.3**	258.4	**992.2**	1,072.2
Underwriting profit (loss)	**(32.9)**	(5.1)	**(57.0)**	(30.2)
Interest and dividends	**8.6**	23.1	**41.5**	100.2
Operating income (loss)	**(24.3)**	18.0	**(15.5)**	70.0
Net gains (losses) on investments	**60.3**	(153.3)	**(63.1)**	(162.0)
Pre-tax income (loss) before interest and other	**36.0**	(135.3)	**(78.6)**	(92.0)

(1) The results differ from the standalone results of Northbridge primarily due to purchase accounting adjustments related to the privatization of Northbridge in 2009.

Effective January 1, 2012, Northbridge combined three of its subsidiaries, Lombard Insurance, Markel Insurance and Commonwealth Insurance, to operate under a single brand, Northbridge Insurance. Effective March 1, 2012, these subsidiaries changed their names to Northbridge General, Northbridge Commercial and Northbridge Indemnity, respectively. This new brand is comprised of Northbridge's broker small-to-medium account, transportation and large account segments and is intended to leverage the scale and diversity of its operations as one company. Federated Insurance continues to operate as the company's captive agency distribution arm and Zenith continues to operate its direct personal lines business.

To sharpen its focus on its core Canadian lines of business, Northbridge transferred the renewal rights of its U.S. property business to Hudson Insurance Company ("Hudson"), a wholly-owned subsidiary of OdysseyRe effective May 1, 2012 (the "renewal rights transfer"). Northbridge entered into a service agreement with Hudson to provide certain operational resources in support of that business and Northbridge will continue to service insurance policies that were in-force at the date of transfer. Effective January 1, 2013, Northbridge sold its U.S. subsidiary, Commonwealth Insurance Company of America, (principally comprising Northbridge's U.S. property claims liabilities related to policies written prior to May 1, 2012 which were retained by Northbridge subsequent to the renewal rights transfer) to TIG Insurance Company.

The underwriting results of Northbridge in the fourth quarter of 2012 reflected the impact of increased catastrophe losses, an unfavourable Ontario court decision involving one of Northbridge's competitors which is expected to affect the broader industry and the competitive conditions in the Canadian commercial lines insurance market which remain challenging, partially offset by increased net favourable development of prior years' reserves. Northbridge reported an underwriting loss of $32.9 and a combined ratio of 113.7% in the fourth quarter of 2012, compared to an underwriting loss of $5.1 and a combined ratio of 101.9% in the fourth quarter of 2011. Current period catastrophe losses, almost all of which related to the impact of Hurricane Sandy on the remaining U.S. property exposure of Northbridge Indemnity, added 10.1 combined ratio points ($24.1 inclusive of $4.1 of reinstatement premiums payable) to Northbridge's combined ratio in the fourth quarter of 2012 compared to 1.6 combined ratio points ($4.1) of current period catastrophe losses included in the combined ratio in the fourth quarter of 2011 (primarily related to Hurricane Irene which affected the U.S. and Canadian east coast). Net favourable development of prior years' reserves in the fourth quarter of 2012 of $9.9 (4.1 combined ratio points) largely reflected better than expected emergence across most accident years and lines of business, partially offset by net strengthening of prior years' reserves following an Ontario court decision involving one of Northbridge's competitors which is expected to increase future expected loss costs on accident benefit coverages. Net favourable development of prior years' reserves in the fourth quarter of 2011 of $1.0 (0.4 of a combined ratio point), primarily reflected net favourable development across various accident years at Northbridge Indemnity, Northbridge Commercial and Federated, largely offset by net adverse development of prior years' reserves at Northbridge General.

The underwriting results of Northbridge in the full year of 2012 reflected an increase in current period non-catastrophe related large losses, increased current period catastrophe losses and the competitive conditions in the Canadian commercial lines insurance market which remain challenging, partially offset by increased net favourable development of prior years' reserves and reduced underwriting expenses. Northbridge reported an underwriting loss of $57.0 and combined ratio of 105.7% in the full year of 2012, compared to an underwriting loss of $30.2 and a combined ratio of 102.8% in the full year of 2011. Northbridge's underwriting results included an increase in non-catastrophe related large losses relative to the full year of 2011 and also included current period catastrophe losses which added 4.0 combined ratio points ($39.0 inclusive of $4.1 of reinstatement premiums payable) to the combined ratio in the full year of 2012, primarily related to the impact of Hurricane Sandy on the remaining U.S. property exposure of Northbridge Indemnity and to storms in Alberta, Ontario and Quebec, compared to 2.6 combined ratio points ($28.2) of current period catastrophe losses included in the combined ratio in full year of 2011, primarily related to the Slave Lake fire in Alberta, U.S. weather-related events and various Ontario and Quebec storms. Net favourable development of prior years' reserves of $60.8 (6.1 combined ratio points) and $39.6 (3.7 combined ratio points) in the full years of 2012 and 2011, respectively, reflected many of the same factors that caused the net favourable emergence in the fourth quarters of 2012 and 2011 as described above.

Northbridge's expense ratio (excluding commissions) of 23.3% in the fourth quarter of 2012 increased year-over-year compared to the expense ratio of 19.3% in the fourth quarter of 2011 primarily as a result of lower net premiums earned and increased operating expenses of 9.2% (in Canadian dollar terms) principally as a result of a harmonized sales tax ("HST") applied to reinsurance premiums ceded to foreign affiliated reinsurers (the industry generally considered such premiums to be exempt from HST in prior years). Northbridge's commission expense ratio of 15.1% in the fourth quarter of 2012 decreased from 15.7% in the fourth quarter of 2011 primarily due to a non-recurring adjustment to deferred policy acquisition costs (the "DPAC adjustment") recognized in the fourth quarter of 2011.

Northbridge's expense ratio (excluding commissions) of 20.7% in the full year of 2012 increased year-over-year compared to the expense ratio of 19.7% in the full year of 2011 primarily as a result of lower net premiums earned and the unfavourable impact of the HST, partially offset by a decrease in operating expenses of 2.0% (in Canadian dollar terms). Operating expenses were lower largely due to decreased IT and other miscellaneous expenses, partially offset by the benefit recognized in 2011 from the curtailment of certain post retirement benefits. For the full year of 2012, Northbridge's commission expense ratio of 15.0% increased from 14.5% in the full year of 2011 primarily as a result of a shift in the mix of business written to more business carrying higher commissions, partially offset by the impact of the DPAC adjustment in the full year of 2011.

Prior to giving effect to the impacts of the unfavourable Ontario court decision, Hurricane Sandy (impacting Northbridge's recently exited U.S. property business) and the portion of the HST applicable to prior periods, Northbridge would have reported combined ratios of 95.3% and 101.3% in the fourth quarter and full year of 2012, respectively.

In order to better compare Northbridge's gross premiums written, net premiums written and net premiums earned in 2012 and 2011, the premiums presented in the following table are expressed in Canadian dollars, give effect to the renewal rights transfer as of January 1, 2011, and exclude the effects of the unearned premium portfolio transfer in 2011 (effective January 1, 2011, Northbridge reduced its participation on a quota share reinsurance contract with Group Re from 20% to 10% which resulted in the return to Northbridge of $42.3 of unearned premium which had previously been ceded to Group Re).

	Cdn$ Fourth quarter		Cdn$ Year ended December 31,	
	2012	2011	**2012**	2011
Gross premiums written	**296.0**	309.2	**1,172.3**	1,218.3
Net premiums written	**233.5**	255.2	**940.5**	1,001.3
Net premiums earned	**241.0**	254.0	**971.7**	1,022.8

Lower retentions of existing business, partially mitigated by modest increases in pricing and new business in certain segments, resulted in a decline of 4.3% in gross premiums written in the fourth quarter of 2012 compared to the fourth quarter of 2011. Competitive pressures were especially evident in Northbridge's transportation and logistics and large accounts segments, while its retail personal lines segment declined due to decisions by Northbridge to exit from certain unprofitable segments. Net premiums written by Northbridge in the fourth quarter of 2012 decreased by 8.5% compared to the fourth quarter of 2011 consistent with the decrease in gross premiums written and also reflected a small increase in premiums ceded to reinsurers, principally related to fronted risks. Gross premiums written and net premiums written in the full year of 2012 declined by 3.8% and 6.1% compared to the full year of 2011, as a result of many of the same factors which decreased premiums in the fourth quarter of 2012.

The significant year-over-year improvement in net gains on investments (as set out in the table below), partially offset by the year-over-year decline in underwriting profitability and decreased interest and dividend income (principally related to sales during 2011 and the first quarter of 2012 of higher yielding government and corporate bonds and preferred stocks where the proceeds were reinvested into lower yielding cash and short term investments and common stocks), produced pre-tax income before interest and other of $36.0 in the fourth quarter of 2012 (a pre-tax loss of $78.6 in the full year of 2012) compared to a pre-tax loss before interest and other of $135.3 in the fourth quarter of 2011 ($92.0 in the full year of 2011).

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**55.4**	(32.1)	**60.1**	(215.6)
Equity hedges	**(17.2)**	(111.1)	**(137.3)**	41.7
Bonds	**22.8**	6.5	**73.9**	50.8
Preferred stocks	**(1.1)**	11.9	**(11.7)**	(5.9)
CPI-linked derivatives	**(12.8)**	0.9	**(35.1)**	(50.0)
Foreign currency	**12.1**	(26.8)	**(20.3)**	20.4
Other	**1.1**	(2.6)	**7.3**	(3.4)
Net gains (losses) on investments	**60.3**	(153.3)	**(63.1)**	(162.0)

Northbridge's cash resources, excluding the impact of foreign currency translation, decreased by $481.6 in the fourth quarter of 2012 compared to an increase of $229.9 in the fourth quarter of 2011 and increased by $45.6 in the full year of 2012 compared to $230.5 in the full year of 2011. Cash used in operating activities of $42.0 in the fourth quarter of 2012 compared to $44.5 in the fourth quarter of 2011 (excluding operating cash flow activity related to securities recorded as at FVTPL) with the year-over-year improvement primarily attributable to a decrease in claims paid in the fourth quarter of 2012. Cash provided by operating activities of $23.4 in the full year of 2012 compared to cash provided by operating activities of $139.2 in the full year of 2011 (excluding operating cash flow activity related to securities recorded as at FVTPL) with the year-over-year decrease primarily attributable to a non-recurring receipt of $42.3 of cash in connection with the unearned premium portfolio transfer in the first quarter of 2011, as well as a decrease in amounts collected from reinsurers, premiums received and cash collateral deposited for the benefit of Northbridge by counterparties to its derivative contracts, partially offset by decreased claims paid.

U.S. Insurance — Crum & Forster and Zenith National [(1)]

	Fourth quarter					
	2012			2011		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Underwriting profit (loss)	**(87.4)**	**(22.1)**	**(109.5)**	(57.3)	(43.2)	(100.5)
Loss & LAE - accident year	**82.2%**	**78.7 %**	**81.1%**	77.3%	83.1%	79.1%
Commissions	**12.9%**	**9.9 %**	**11.9%**	11.7%	10.1%	11.2%
Underwriting expenses	**16.7%**	**26.1 %**	**19.7%**	18.3%	32.3%	22.8%
Combined ratio - accident year	**111.8%**	**114.7 %**	**112.7%**	107.3%	125.5%	113.1%
Net adverse (favourable) development	**15.0%**	**(0.7)%**	**9.9%**	13.1%	6.8%	11.1%
Combined ratio - calendar year	**126.8%**	**114.0 %**	**122.6%**	120.4%	132.3%	124.2%
Gross premiums written	**369.1**	**113.8**	**482.9**	375.3	106.8	482.1
Net premiums written	**297.7**	**110.4**	**408.1**	303.6	104.4	408.0
Net premiums earned	**325.6**	**158.5**	**484.1**	281.4	133.5	414.9
Underwriting profit (loss)	**(87.4)**	**(22.1)**	**(109.5)**	(57.3)	(43.2)	(100.5)
Interest and dividends	**1.1**	**4.7**	**5.8**	19.0	11.5	30.5
Operating income (loss)	**(86.3)**	**(17.4)**	**(103.7)**	(38.3)	(31.7)	(70.0)
Net gains (losses) on investments	**75.6**	**21.4**	**97.0**	(176.1)	(37.3)	(213.4)
Pre-tax income (loss) before interest and other	**(10.7)**	**4.0**	**(6.7)**	(214.4)	(69.0)	(283.4)

	Year ended December 31,					
	2012			2011		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Underwriting profit (loss)	**(113.2)**	**(93.1)**	**(206.3)**	(79.7)	(136.2)	(215.9)
Loss & LAE - accident year	**73.1%**	**77.9 %**	**74.7%**	71.6%	78.0%	73.7%
Commissions	**13.0%**	**9.8 %**	**11.9%**	12.3%	10.1%	11.5%
Underwriting expenses	**18.8%**	**28.2 %**	**21.9%**	20.3%	34.5%	25.0%
Combined ratio - accident year	**104.9%**	**115.9 %**	**108.5%**	104.2%	122.6%	110.2%
Net adverse (favourable) development	**4.4%**	**(0.3)%**	**2.9%**	3.7%	4.9%	4.1%
Combined ratio - calendar year	**109.3%**	**115.6 %**	**111.4%**	107.9%	127.5%	114.3%
Gross premiums written	**1,529.7**	**633.5**	**2,163.2**	1,327.7	536.4	1,864.1
Net premiums written	**1,253.4**	**619.4**	**1,872.8**	1,076.9	524.2	1,601.1
Net premiums earned	**1,214.6**	**597.0**	**1,811.6**	1,008.8	495.8	1,504.6
Underwriting profit (loss)	**(113.2)**	**(93.1)**	**(206.3)**	(79.7)	(136.2)	(215.9)
Interest and dividends	**28.1**	**21.5**	**49.6**	76.8	48.1	124.9
Operating income (loss)	**(85.1)**	**(71.6)**	**(156.7)**	(2.9)	(88.1)	(91.0)
Net gains on investments	**126.2**	**21.1**	**147.3**	40.5	177.6	218.1
Loss on repurchase of long term debt	**(0.8)**	**—**	**(0.8)**	(56.5)	—	(56.5)
Pre-tax income (loss) before interest and other	**40.3**	**(50.5)**	**(10.2)**	(18.9)	89.5	70.6

(1) These results differ from those published by Zenith National primarily due to differences between IFRS and U.S. GAAP, intercompany investment transactions and acquisition accounting adjustments recorded by Fairfax related to the acquisition of Zenith National in 2010.

On December 31, 2011, Crum & Forster effectively reinsured 100% of its net latent exposures through the cession to Runoff (Clearwater Insurance) of substantially all of its liabilities for asbestos, environmental and other latent claims arising from policies with effective dates on or prior to December 31, 1998, exclusive of workers' compensation and surety related liabilities. Pursuant to this transaction, Crum & Forster transferred net insurance liabilities of $334.5 to Runoff and Runoff received $334.5 of cash and investments as consideration from Crum & Forster for assuming those liabilities. The transfer of these latent claims to Runoff is expected to significantly reduce the volatility of the operating income of Crum & Forster in future periods and may reduce interest and dividend income earned as a result of the transfer of cash and investments to Runoff.

On February 9, 2011, the company completed the acquisition of all of the outstanding common shares of First Mercury and commenced consolidating the assets, liabilities and results of operations of First Mercury since acquisition within the Crum & Forster operating segment. First Mercury underwrites specialty commercial insurance products, principally on an excess and surplus lines basis, focusing on niche and underserved segments. As of July 1, 2011, the company has presented the assets, liabilities and results of operations of Valiant Insurance Company ("Valiant Insurance"), a wholly-owned subsidiary of First Mercury, in the Runoff reporting segment following the transfer of ownership of Valiant Insurance from Crum & Forster to TIG Group. Subsequent to July 1, 2011, the insurance business of Valiant Insurance was carried on by Crum & Forster with the pre-July 1, 2011, business written by Valiant Insurance placed into runoff under the supervision of RiverStone management. Periods prior to July 1, 2011, have not been restated as the impact was not significant.

Crum & Forster

Crum & Forster reported underwriting losses of $87.4 and $113.2 and combined ratios of 126.8% and 109.3% in the fourth quarter and full year of 2012, respectively, compared to underwriting losses of $57.3 and $79.7 and combined ratios of 120.4% and 107.9% in the fourth quarter and full year of 2011, respectively. Crum & Forster's underwriting results in the fourth quarter and full year of 2012 included 15.0 combined ratio points ($49.0) and 4.4 combined ratio points ($54.0), respectively, of net adverse development of prior years' reserves, primarily due to net unfavourable development of general liability and workers' compensation reserves, partially offset by net favourable emergence in the reserves of other lines of business. Crum & Forster's underwriting results in the fourth quarter and full year of 2011 included 13.1 combined ratio points ($36.9) and 3.7 combined ratio points ($37.3), respectively, of net adverse development of prior years' reserves, primarily due to net unfavourable development of workers' compensation and latent liability reserves, partially offset by a reduction in the provision for uncollectible reinsurance. Current period catastrophe losses of $21.1 (6.5 combined ratio points) in the fourth quarter of 2012, related to the impact of Hurricane Sandy on the northeast and southeast U.S. compared to the nominal impact of current period catastrophe losses in the fourth quarter of 2011. Current period catastrophe losses of $28.7 (2.4 combined ratio points) in the full year of 2012, primarily related to the impact of Hurricane Sandy and tornadoes and flooding in the midwest, central and southeast U.S., compared to current period catastrophe losses of $9.9 (0.9 combined ratio points) in the full year of 2011, primarily related to the impact of the U.S. tornadoes and Hurricane Irene on the U.S. northeast and the impact of the Japan earthquake and tsunami and second New Zealand (Christchurch) earthquake on First Mercury.

Crum & Forster's expense ratios (excluding commissions) in the fourth quarter and full year of 2012 (16.7% and 18.8%, respectively) improved relative to the fourth quarter and full year of 2011 (18.3% and 20.3%, respectively) primarily as a result of increased net premiums earned (year-over-year increases of 15.7% and 20.4% in the fourth quarter and full year of 2012, respectively). Crum & Forster's commission expense ratios in the fourth quarter and full year of 2012 (12.9% and 13.0%, respectively) increased compared to the fourth quarter and full year of 2011 (11.7% and 12.3%, respectively) reflecting increased writings of other specialty lines of business where commission rates are higher than on standard lines of business.

The decrease in gross premiums written of 1.7% ($369.1 in the fourth quarter of 2012 compared to $375.3 in the fourth quarter of 2011) primarily reflected decreased writings of standard lines gross premiums written of $11.0, primarily due to Crum & Forster's shift in strategy from standard lines to specialty lines of business and the impact of unfavourable market conditions. Specialty lines gross premiums written in the fourth quarter of 2012 increased by $4.8 on a year-over-year basis, primarily due to increased writings of petroleum lines of business (Fairmont Specialty division), environmental lines of business (Environmental Casualty division) and property lines of business (Seneca division), partially offset by decreased writings of excess and surplus casualty lines of business (CoverXSpecialty division). Net premiums written in the fourth quarter of 2012 decreased by 1.9% consistent with the decrease in gross premiums written. The increase in net premiums earned of 15.7% in the fourth quarter of 2012, relative to the fourth quarter of 2011, reflected the growth in net premiums written in prior periods.

The increase in gross premiums written of 15.2% ($1,529.7 in the full year of 2012 compared to $1,327.7 in the full year of 2011) primarily reflected growth of $188.5 in specialty lines of business, including the benefit of approximately $61 of gross premiums written produced by First Mercury's managing general agency business (in the prior year this business was primarily produced on behalf of insurance carriers outside of the Fairfax group) and also reflected increased writings of excess and surplus casualty lines of business (CoverXSpecialty division), property lines of business (Seneca division) and accident and health lines of business (Fairmont Specialty division). The increase in standard lines gross premiums written principally related to excess and umbrella lines of business. Net premiums written in the full year of 2012 increased by 16.4% consistent with the increase in gross premiums written. The increase in net premiums earned of 20.4% in the full year of 2012, relative to the full year of 2011, reflected the growth in net premiums written in prior periods. Crum & Forster's gross premiums written in the full years of 2012 and 2011 included $407.8 and $306.0, respectively, of incremental gross premiums written as a result of the acquisition of First Mercury.

Interest and dividend income of $1.1 and $28.1 in the fourth quarter and full year of 2012, respectively, decreased from $19.0 and $76.8 in the fourth quarter and full year of 2011, respectively, with the decrease primarily due to lower investment income earned as a result of sales during 2012 of higher yielding bonds (municipal bonds were sold to affiliates of Fairfax and government and corporate bonds were sold to third parties) and common stocks where the proceeds were reinvested into lower yielding cash and short term investments, the lower average investment portfolio year-over-year as a result of the transfer of investments to Runoff in connection with the reinsurance transaction discussed above and increased total return swap expense. Crum & Forster's interest and dividend income in the full year of 2012 also included its share of an impairment charge of an associate. The year-over-year increase in net gains on investments (as set out in the table below), partially offset by an increased underwriting loss and lower interest and dividend income, produced a pre-tax loss before interest and other of $10.7 in the fourth quarter of 2012 compared to a pre-tax loss before interest and other of $214.4 in the fourth quarter of 2011. The combination of increased net gains on investments (as set out in the table below) and the decreased loss on the repurchase of long term debt (described below), partially offset by lower interest and dividend income and an increased underwriting loss, produced pre-tax income before interest and other of $40.3 in the full year of 2012 compared to a pre-tax loss before interest and other of $18.9 in the full year of 2011.

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**67.2**	(2.2)	**161.2**	(196.6)
Equity hedges	**(11.7)**	(172.8)	**(177.5)**	69.7
Bonds	**28.9**	(7.8)	**169.9**	195.5
Preferred stocks	**(2.6)**	9.0	**(0.8)**	(0.1)
CPI-linked derivatives	**(1.8)**	0.1	**(18.3)**	(39.0)
Credit default swaps	**(1.7)**	(3.7)	**(8.0)**	9.5
Other	**(2.7)**	1.3	**(0.3)**	1.5
Net gains (losses) on investments	**75.6**	(176.1)	**126.2**	40.5

Crum & Forster's cash resources, excluding the impact of foreign currency translation, increased by $25.2 in the fourth quarter of 2012 compared to a decrease of $20.4 in the fourth quarter of 2011. Cash provided by operating activities was $20.1 in the fourth quarter of 2012 compared to cash provided by operating activities of $55.8 in the fourth quarter of 2011 (excluding operating cash flow activity related to securities recorded as at FVTPL) with the year-over-year decrease primarily attributable to lower net investment income received and higher income taxes paid.

Crum & Forster's cash resources, excluding the impact of foreign currency translation, decreased by $48.5 in the full year of 2012 compared to a decrease of $152.6 in the full year of 2011. Cash provided by operating activities was $116.7 in the full year of 2012 compared to cash used in operating activities of $15.4 in the full year of 2011 (excluding operating cash flow activity related to securities recorded as at FVTPL) with the year-over-year improvement primarily attributable to higher net premium collections, partially offset by lower net investment income received, higher net paid losses and higher operating expenses.

Zenith National

Zenith National reported underwriting losses of $22.1 and $93.1 and combined ratios of 114.0% and 115.6% in the fourth quarter and full year of 2012, respectively, compared to underwriting losses of $43.2 and $136.2 and combined ratios of 132.3% and 127.5% in the fourth quarter and full year of 2011, respectively. Net premiums earned in the fourth quarter and full year of 2012 of $158.5 and $597.0, respectively, increased from $133.5 and $495.8 in the fourth quarter and full year of 2011, respectively, reflecting premium rate increases, strong renewal retention and the ability to write new business. The improvement in Zenith National's combined ratios in the fourth quarter and full year of 2012 reflected decreases in Zenith National's expense ratios (excluding commissions) of 6.2 and 6.3 percentage points, respectively, as a result of the 18.7% and 20.4% increase in net premiums earned in those respective periods and an absence of any net adverse development of prior years' loss reserves in 2012 which added 6.8 and 4.9 combined ratio points ($9.1 and $24.5) in the fourth quarter and full year of 2011, respectively.

Interest and dividend income of $4.7 in the fourth quarter of 2012 decreased from $11.5 in the fourth quarter of 2011 and decreased to $21.5 in the full year of 2012 from $48.1 in the full year of 2011. The decreases reflect the sale of higher-yielding long-term U.S. government bonds in the fourth quarter of 2011 and the second quarter of 2012 with reinvestment in lower-yielding short-term investments and equity securities. In addition, losses incurred in connection with a limited partnership investment and total return swap expense (acquired as an economic hedge of equity investments), further reduced investment income in 2012. The combination of increased net gains on investments (as set out in the table below) and the decreased underwriting loss year-over-year, partially offset by decreased interest and dividend income, produced pre-tax income before interest and other of $4.0 in the fourth quarter of 2012 compared to a pre-tax loss before interest and other of $69.0 in the fourth quarter of 2011. The combination of the significant decrease in net gains on investments (as set out in the table below) and decreased interest and dividend income, partially offset by the decreased underwriting loss year-over-year, produced a pre-tax loss before interest and other of $50.5 in the full year of 2012 compared to pre-tax income before interest and other of $89.5 in the full year of 2011.

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks, limited partnerships and equity derivatives (excluding equity hedges)	**26.5**	(18.0)	**15.5**	(35.4)
Equity hedges	**(3.8)**	(11.6)	**(26.2)**	9.7
Bonds	**1.0**	(7.5)	**34.7**	206.0
Preferred stocks	**(0.4)**	(0.5)	**6.5**	(2.8)
CPI-linked derivatives	**(2.7)**	(0.5)	**(11.2)**	(0.5)
Other	**0.8**	0.8	**1.8**	0.6
Net gains (losses) on investments	**21.4**	(37.3)	**21.1**	177.6

At December 31, 2012, Zenith National had cash and cash equivalents of $28.8 ($16.7 at December 31, 2011). Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) was $4.1 and $36.7 in the fourth quarter and full year of 2012, respectively, compared to cash used in operating activities of $5.9 in the fourth quarter of 2011 and cash provided by operating activities of $5.0 in the full year of 2011. The improvement in cash provided by operating activities in 2012 compared to the respective period in 2011 was primarily as a result of increased premium collections, which more than offset the reduced investment income received. Zenith National received $24.0 from the commutation of a reinsurance agreement, recorded as cash provided by operating activities in 2011.

Zenith National paid dividends to Fairfax and its affiliates of $100.0 in the full year of 2012 ($40.0 in the full year of 2011).

Fairfax Asia

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Underwriting profit	**9.7**	6.0	**30.1**	34.4
Loss & LAE - accident year	**83.6 %**	93.7 %	**78.8 %**	81.6 %
Commissions	**3.1 %**	3.9 %	**2.5 %**	2.3 %
Underwriting expenses	**15.2 %**	11.0 %	**12.8 %**	9.3 %
Combined ratio - accident year	**101.9 %**	108.6 %	**94.1 %**	93.2 %
Net favourable development	**(17.5)%**	(19.4)%	**(7.1)%**	(10.0)%
Combined ratio - calendar year	**84.4 %**	89.2 %	**87.0 %**	83.2 %
Gross premiums written	**146.7**	111.9	**515.2**	451.7
Net premiums written	**59.2**	50.5	**240.6**	213.7
Net premiums earned	**62.2**	55.0	**231.4**	204.1
Underwriting profit	**9.7**	6.0	**30.1**	34.4
Interest and dividends	**12.0**	(22.2)	**36.2**	(13.7)
Operating income (loss)	**21.7**	(16.2)	**66.3**	20.7
Net gains (losses) on investments	**3.6**	(25.6)	**0.3**	(15.6)
Pre-tax income (loss) before interest and other	**25.3**	(41.8)	**66.6**	5.1

On March 24, 2011, the company completed the acquisition of all of the outstanding common shares of Pacific Insurance and commenced consolidating the assets, liabilities and results of operations of Pacific Insurance since acquisition within the Insurance – Fairfax Asia reporting segment. Pacific Insurance underwrites all classes of general insurance and medical insurance in Malaysia.

Underwriting results for Fairfax Asia in the fourth quarter of 2012 featured an underwriting profit of $9.7 and a combined ratio of 84.4%, compared to an underwriting profit of $6.0 and a combined ratio of 89.2% in the fourth quarter of 2011. The combined ratios in the fourth quarter of 2012 for First Capital, Falcon and Pacific Insurance were 83.6%, 93.5% and 69.3% (fourth quarter of 2011 – 83.7%, 98.3% and 94.7%), respectively. The underwriting results in the fourth quarter of 2012 included 17.5 combined ratio points ($10.9) of net favourable development of prior years' reserves (primarily at First Capital, attributable to commercial automobile, marine hull, property and workers' compensation loss reserves), compared to 19.4 combined ratio points ($10.7) of net favourable development of prior years' reserves in the fourth quarter of 2011 (primarily at First Capital, attributable to marine hull, commercial automobile and workers' compensation loss reserves). During the fourth quarter of 2012, gross premiums written, net premiums written and net premiums earned increased by 31.1%, 17.2% and 13.1%, respectively, primarily as a result of increased writings of property and engineering lines of business at First Capital. The increase in net premiums written was less than the increase in gross premiums written due to the growth at First Capital in the fourth quarter of 2012 where the premium retention ratio is significantly lower than the premium retention ratio at Falcon and Pacific Insurance. Fairfax Asia's expense ratio (excluding commissions) of 15.2% in the fourth quarter of 2012, increased year-over-year compared to the expense ratio of 11.0% in the fourth quarter of 2011, primarily due to increased compensation expense at First Capital consistent with its growth, partially offset by a 13.1% increase in net premiums earned.

Underwriting results for Fairfax Asia in the full year of 2012 featured an underwriting profit of $30.1 and a combined ratio of 87.0%, compared to an underwriting profit of $34.4 and a combined ratio of 83.2% in the full year of 2011. The combined ratios in the full year of 2012 for First Capital, Falcon and Pacific Insurance were 79.0%, 98.4% and 90.8% (full year of 2011 – 73.2%, 99.7% and 95.3%), respectively. The underwriting results in the full year of 2012, included 7.1 combined ratio points ($16.4) of net favourable development of prior years' reserves (primarily at First Capital attributable to commercial automobile, marine hull and workers' compensation loss reserves, partially offset by net adverse development on property loss reserves related to the Thailand floods which occurred in 2011), compared to 10.0 combined ratio points ($20.4) of net favourable development of prior years' reserves in the full year of 2011 (primarily at First Capital attributable to commercial automobile, marine hull and workers' compensation loss reserves). During the full year of 2012, gross premiums written, net premiums written and net premiums earned increased by 14.1%, 12.6% and 13.4%, respectively, primarily as a result of the year-over-year impact of the consolidation of Pacific Insurance and increased writings of property and engineering lines of business at First Capital. Fairfax Asia's expense ratio (excluding commissions) of 12.8% in the full year of 2012 increased year-over-year compared to the expense ratio of 9.3% in the full year of 2011, primarily due to increased compensation expense at First Capital consistent with its growth, partially offset by a 13.4% increase in net premiums earned.

Interest and dividend income increased to $12.0 in the fourth quarter of 2012 ($36.2 in the full year of 2012) compared to interest and dividend expense of $22.2 in the fourth quarter of 2011 (interest and dividend expense of $13.7 in the full year of 2011). Interest and dividend income in the fourth quarter and full year of 2012 included Fairfax Asia's share of the profit of ICICI Lombard of $7.3 and $12.9, respectively, compared to the share of the loss of ICICI Lombard of $26.3 and $36.1 in the fourth quarter and full year of 2011, respectively. The profit of ICICI Lombard in 2011 was adversely affected by reserve strengthening related to its mandatory pro-rata participation in the Indian commercial vehicle insurance pool, partially offset by net mark-to-market gains on the ICICI Lombard investment portfolio. Fairfax Asia's interest and dividend income, excluding its share of the profit and loss of associates, decreased to $3.1 in the fourth quarter of 2012 from $5.2 in the fourth quarter of 2011, reflecting lower interest and dividends earned and increased total return swap expense. Fairfax Asia's interest and dividend income, excluding its share of the profit and loss of associates, decreased modestly to $21.2 in the full year of 2012 from $21.9 in the full year of 2011, reflecting increased total return swap expense and increased investment management and administration fees, partially offset by increased interest and dividends earned on a larger average investment portfolio as a result of the consolidation of Pacific Insurance.

The year-over-year improvement in the performance of investments (as set out in the table below), increased interest and dividend income and increased underwriting profit, produced pre-tax income before interest and other of $25.3 in the fourth quarter of 2012 compared to a pre-tax loss before interest and other of $41.8 in the fourth quarter of 2011. The year-over-year improvement in the performance of investments (as set out in the table below) and increased interest and dividend income, partially offset by decreased underwriting profit, produced pre-tax income before interest and other of $66.6 in the full year of 2012 compared to pre-tax income of $5.1 in the full year of 2011.

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**2.5**	(5.9)	**12.9**	(16.2)
Equity hedges	**(1.3)**	(16.0)	**(16.4)**	8.3
Bonds	**3.9**	(5.8)	**17.3**	(12.9)
Preferred stocks	**(0.4)**	2.9	**(2.5)**	1.2
Foreign currency	**(1.1)**	(0.9)	**(10.9)**	3.8
Other	**—**	0.1	**(0.1)**	0.2
Net gains (losses) on investments	**3.6**	(25.6)	**0.3**	(15.6)

During 2011, Fairfax invested an additional $86.1 in Fairfax Asia (primarily $85.0 in the first quarter of 2011 to fund the acquisition of Pacific Insurance ($71.5) and the participation in an ICICI Lombard rights offering ($19.8)).

Reinsurance - OdysseyRe[1]

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Underwriting profit (loss)	**34.3**	(122.0)	**266.6**	(336.0)
Loss & LAE - accident year	**86.2 %**	105.2 %	**67.7 %**	92.6 %
Commissions	**19.5 %**	18.7 %	**19.0 %**	17.4 %
Underwriting expenses	**8.6 %**	7.0 %	**8.4 %**	9.3 %
Combined ratio - accident year	**114.3 %**	130.9 %	**95.1 %**	119.3 %
Net favourable development	**(19.9)%**	(8.2)%	**(6.6)%**	(2.6)%
Combined ratio - calendar year	**94.4 %**	122.7 %	**88.5 %**	116.7 %
Gross premiums written	**648.2**	532.2	**2,773.2**	2,420.7
Net premiums written	**573.8**	477.2	**2,402.3**	2,089.7
Net premiums earned	**613.6**	537.0	**2,315.3**	2,014.7
Underwriting profit (loss)	**34.3**	(122.0)	**266.6**	(336.0)
Interest and dividends	**22.2**	69.2	**127.5**	259.1
Operating income (loss)	**56.5**	(52.8)	**394.1**	(76.9)
Net gains (losses) on investments	**210.8**	(344.0)	**267.2**	142.0
Loss on repurchase of long term debt	**—**	—	**—**	(6.1)
Pre-tax income (loss) before interest and other	**267.3**	(396.8)	**661.3**	59.0

(1) These results differ from those published by Odyssey Re Holdings Corp. primarily due to differences between IFRS and U.S. GAAP and purchase accounting adjustments (principally goodwill and intangible assets) recorded by Fairfax related to the privatization of OdysseyRe in 2009.

The substantial reduction in catastrophe losses (as set out in the table below) and increased net favourable development of prior years' reserves contributed to the significant improvement in the underwriting performance of OdysseyRe, producing underwriting profits of $34.3 and $266.6 and combined ratios of 94.4% and 88.5% in the fourth quarter and full year of 2012, respectively, compared to underwriting losses of $122.0 and $336.0 and combined ratios of 122.7% and 116.7% in the fourth quarter and full year of 2011, respectively. OdysseyRe's combined ratios in the fourth quarter and full year of 2012 benefited from 19.9 and 6.6 combined ratio points ($122.0 and $152.0), respectively, of net favourable development of prior years' reserves, primarily related to net favourable emergence on prior years' catastrophe losses (principally the Japan earthquake and tsunami, Chilean earthquake, Thailand floods and Hurricane Irene) and casualty and property loss reserves in the U.S. and Europe. OdysseyRe's combined ratios in the fourth quarter and full year of 2011 included 8.2 and 2.6 combined ratio points ($44.0 and $51.4), respectively, of net favourable development of prior years' reserves, principally related to net favourable emergence on prior years' catastrophe, healthcare and financial products loss reserves.

OdysseyRe's expense ratio (excluding commissions) of 8.6% in the fourth quarter of 2012 compared to 7.0% in the fourth quarter of 2011 and increased primarily as a result of higher personnel costs and infrastructure-related expenses, partially offset by the year-over-year increase in net premiums earned in the fourth quarter of 2012 of 14.3%. OdysseyRe's expense ratio (excluding commissions) of 8.4% in the full year of 2012 compared to 9.3% in the full year of 2011 and decreased primarily as a result of the year-over-year increase in net premiums earned of 14.9% in the full year of 2012, partially offset by higher personnel costs and infrastructure-related expenses. OdysseyRe's commission expense ratio of 19.5% in the fourth quarter of 2012, increased from 18.7% in the fourth quarter of 2011, primarily as a result of two new property quota share reinsurance contracts (discussed below), partially offset by increased reinstatement premiums earned during the fourth quarter of 2012 (which do not attract commissions). OdysseyRe's commission expense ratio of 19.0% in the full year of 2012, increased from 17.4% in the full year of 2011, primarily as a result of the two new property quota share reinsurance contracts and decreased reinstatement premiums earned during the full year of 2012 (which do not attract commissions).

Current period catastrophe losses (net of reinstatement premiums) reflected in the underwriting results of OdysseyRe in the fourth quarters and years ended December 31, 2012 and 2011, respectively, were comprised as follows:

	Fourth quarter				Year ended December 31,				
	2012		2011		**2012**		2011		
	Catastrophe losses[1]	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact	**Catastrophe losses[1]**	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact	
Hurricane Sandy	**175.0**	**29.0**	—	—	**175.0**	**7.7**	—	—	
Hurricane Isaac	—	—	—	—	**10.0**	**0.4**	—	—	
Italy earthquake	—	—	—	—	**10.3**	**0.4**	—	—	
Japan earthquake and tsunami	—	—	95.0	17.6	—	—	381.1	18.9	
Thailand floods	—	—	150.0	27.9	—	—	150.0	7.4	
New Zealand (Christchurch) earthquake	—	—	2.3	0.4	—	—	28.1	1.4	
U.S. tornados	—	—	2.4	0.4	—	—	26.3	1.3	
Hurricane Irene	—	—	0.7	0.1	—	—	17.9	0.9	
Other	**10.5**	**1.7**	31.1	6.3	**87.9**	**3.9**	131.4	6.8	
	185.5	**30.7 points**	281.5	52.7 points	**283.2**	**12.4 points**	734.8	36.7 points	

(1) Net of reinstatement premiums.

Gross premiums written in the fourth quarter of 2012 increased by 21.8% primarily as a result of two new property quota share reinsurance contracts with underlying insured risks located in Florida and Brazil, growth in the U.S. crop line of business and a year-over-year increase in reinstatement premiums received related to catastrophe activity. Gross premiums written in the full year of 2012 increased by 14.6%, primarily as a result of the two new property quota share reinsurance contracts, growth in U.S. crop and umbrella lines of business and also benefited from the transfer of renewal rights from Northbridge's U.S. property line of business to OdysseyRe (described in the Northbridge section of this MD&A), partially offset by planned decreases in U.S. healthcare and casualty lines of business and lower reinstatement premiums received on a year-over-year basis. The two new quota share reinsurance contracts contributed $72.0 and $308.9 to gross premiums written in the fourth quarter and full year of 2012, respectively.

Net premiums written increased by 20.2% and 15.0% in the fourth quarter and full year of 2012, respectively, consistent with the growth in gross premiums written. The increase in net premiums earned of 14.3% in the fourth quarter of 2012 was somewhat lower than the growth in net premiums written of 20.2%, primarily due to the lag in timing between the writing of net premiums and when those premiums are reflected as earned into income. Net premiums earned in the full year of 2012 included a one-time adjustment of $49.5 to reflect the earning into income of certain U.S. Insurance lines of business to the end of the period (previously, these lines of business were earned into income on a two month lag). The effect of this adjustment on underwriting profit was not significant. Excluding this one-time adjustment, net premiums earned in the full year of 2012 increased by 12.5%, reflecting the growth in net premiums earned on the Florida quota share reinsurance contract ($136.9), growth in the crop line of business ($21.0) and increased writings of property catastrophe reinsurance.

Interest and dividend income of $22.2 in the fourth quarter of 2012 decreased from $69.2 in the fourth quarter of 2011 primarily reflecting lower investment income earned as a result of sales in late 2011 and early 2012 of higher yielding government and corporate bonds, where the proceeds were reinvested into lower yielding cash and short term investments and common stocks, increased investment management and administration fees and increased total return swap expense. Interest and dividend income of $127.5 in the full year of 2012 decreased from $259.1 in the full year of 2011 primarily reflecting lower investment income earned as described above, increased total return swap expense and also included OdysseyRe's share of an impairment charge recorded by an associate.

The significant increase in net gains on investments (as set out in the table below) and the substantial improvement in underwriting profitability, partially offset by decreased interest and dividend income, produced pre-tax income before interest and other of $267.3 in the fourth quarter of 2012, compared to a pre-tax loss before interest and other of $396.8 in the fourth quarter of 2011. The substantial improvement in underwriting profitability, the significant increase in net gains on investments (as set out in the table below) and the decreased loss on the repurchase of long term debt (described below), partially offset by decreased interest and dividend income, produced pre-tax income before interest and other of $661.3 in the full year of 2012 compared to pre-tax income before interest and other of $59.0 in the full year of 2011.

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**142.4**	5.9	**306.5**	(251.1)
Equity hedges	**(22.7)**	(276.9)	**(298.1)**	151.2
Bonds	**104.8**	(61.2)	**362.4**	416.7
Preferred stocks	**(9.0)**	29.4	**(9.5)**	(0.6)
CPI-linked derivatives	**(10.6)**	(0.1)	**(56.9)**	(120.0)
Foreign currency	**6.9**	(41.0)	**(31.5)**	(52.7)
Other	**(1.0)**	(0.1)	**(5.7)**	(1.5)
Net gains (losses) on investments	**210.8**	(344.0)	**267.2**	142.0

OdysseyRe's cash resources, excluding the impact of foreign currency translation, increased by $53.8 in the fourth quarter of 2012 compared to a decrease of $85.0 in the fourth quarter of 2011 and increased by $202.9 in the full year of 2012 compared to a decrease of $559.1 in the full year of 2011. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) was $121.0 in the fourth quarter of 2012 ($263.8 in the full year of 2012) compared to cash used in operating activities of $44.0 in the fourth quarter of 2011 (cash provided by operating activities of $163.8 in the full year of 2011) with the year-over-year increases primarily attributable to increased premiums collected and reduced catastrophe loss payments, partially offset by reduced net investment income received.

In the fourth quarter of 2012, OdysseyRe redeemed $45.0 of its common shares owned by a subsidiary of Crum & Forster.

During the second quarter of 2011, Fairfax paid down $47.9 on the outstanding balance of its revolving line of credit with OdysseyRe to fund OdysseyRe's repurchase of $42.2 aggregate principal amount of its unsecured senior notes due in 2013 (inclusive of $6.3 principal amount owned by Zenith National).

Insurance and Reinsurance - Other

For the quarters ended December 31, 2012 and 2011

	Fourth quarter 2012					
	Group Re	**Advent**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**
Underwriting profit (loss)	**4.3**	**(4.7)**	**(8.9)**	**(5.4)**	**—**	**(14.7)**
Loss & LAE - accident year	**72.9 %**	**82.2 %**	**75.4%**	**91.9%**	**—**	**77.6%**
Commissions	**21.7 %**	**25.1 %**	**0.7%**	**5.5%**	**—**	**18.0%**
Underwriting expenses	**0.8 %**	**15.8 %**	**4.6%**	**64.5%**	**—**	**10.0%**
Combined ratio - accident year	**95.4 %**	**123.1 %**	**80.7%**	**161.9%**	**—**	**105.6%**
Net adverse (favourable) development	**(2.1)%**	**(13.9)%**	**50.8%**	**4.7%**	**—**	**4.2%**
Combined ratio - calendar year	**93.3 %**	**109.2 %**	**131.5%**	**166.6%**	**—**	**109.8%**
Gross premiums written	**56.1**	**27.9**	**27.8**	**29.6**	**(5.6)**	**135.8**
Net premiums written	**54.3**	**24.1**	**24.8**	**11.4**	**—**	**114.6**
Net premiums earned	**63.3**	**51.2**	**28.3**	**8.2**	**—**	**151.0**
Underwriting profit (loss)	**4.3**	**(4.7)**	**(8.9)**	**(5.4)**	**—**	**(14.7)**
Interest and dividends	**(3.6)**	**2.0**	**1.7**	**(0.7)**	**—**	**(0.6)**
Operating income (loss)	**0.7**	**(2.7)**	**(7.2)**	**(6.1)**	**—**	**(15.3)**
Net gains on investments	**174.7**	**17.2**	**4.6**	**3.6**	**—**	**200.1**
Pre-tax income (loss) before interest and other	**175.4**	**14.5**	**(2.6)**	**(2.5)**	**—**	**184.8**

	Fourth quarter 2011					
	Group Re	Advent	Polish Re	Fairfax Brasil	Inter-company	Total
Underwriting profit (loss)	(40.0)	(28.4)	0.2	(3.0)	—	(71.2)
Loss & LAE - accident year	155.1 %	159.7 %	67.4%	73.3 %	—	136.9 %
Commissions	22.3 %	25.3 %	18.6%	(0.8)%	—	21.8 %
Underwriting expenses	0.8 %	27.0 %	8.4%	102.4 %	—	14.1 %
Combined ratio - accident year	178.2 %	212.0 %	94.4%	174.9 %	—	172.8 %
Net adverse (favourable) development	(8.1)%	(45.6)%	4.9%	(0.1)%	—	(17.7)%
Combined ratio - calendar year	170.1 %	166.4 %	99.3%	174.8 %	—	155.1 %
Gross premiums written	46.2	27.4	24.1	33.6	(7.7)	123.6
Net premiums written	44.2	15.5	21.5	12.2	—	93.4
Net premiums earned	57.1	42.6	25.4	4.1	—	129.2
Underwriting profit (loss)	(40.0)	(28.4)	0.2	(3.0)	—	(71.2)
Interest and dividends	4.6	4.5	0.6	0.9	—	10.6
Operating income (loss)	(35.4)	(23.9)	0.8	(2.1)	—	(60.6)
Net gains (losses) on investments	(1.9)	(8.7)	5.8	2.5	—	(2.3)
Pre-tax income (loss) before interest and other	(37.3)	(32.6)	6.6	0.4	—	(62.9)

For the years ended December 31, 2012 and 2011

	Year ended December 31,					
	2012					
	Group Re	**Advent**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**
Underwriting profit (loss)	**11.2**	**(3.1)**	**(14.0)**	**(15.9)**	**—**	**(21.8)**
Loss & LAE - accident year	**68.2%**	**76.7 %**	**77.4%**	**86.4%**	**—**	**74.0 %**
Commissions	**23.0%**	**23.3 %**	**12.2%**	**2.0%**	**—**	**19.8 %**
Underwriting expenses	**1.4%**	**15.2 %**	**5.1%**	**56.8%**	**—**	**10.6 %**
Combined ratio - accident year	**92.6%**	**115.2 %**	**94.7%**	**145.2%**	**—**	**104.4 %**
Net adverse (favourable) development	**2.1%**	**(13.5)%**	**20.6%**	**2.2%**	**—**	**(0.1)%**
Combined ratio - calendar year	**94.7%**	**101.7 %**	**115.3%**	**147.4%**	**—**	**104.3 %**
Gross premiums written	**210.6**	**250.4**	**115.5**	**113.8**	**(38.7)**	**651.6**
Net premiums written	**206.6**	**187.3**	**95.0**	**41.7**	**—**	**530.6**
Net premiums earned	**207.6**	**181.8**	**91.3**	**33.6**	**—**	**514.3**
Underwriting profit (loss)	**11.2**	**(3.1)**	**(14.0)**	**(15.9)**	**—**	**(21.8)**
Interest and dividends	**21.6**	**10.2**	**7.2**	**(1.4)**	**—**	**37.6**
Operating income (loss)	**32.8**	**7.1**	**(6.8)**	**(17.3)**	**—**	**15.8**
Net gains on investments	**197.5**	**18.7**	**10.3**	**9.1**	**—**	**235.6**
Pre-tax income (loss) before interest and other	**230.3**	**25.8**	**3.5**	**(8.2)**	**—**	**251.4**

	Year ended December 31,					
	2011					
	Group Re	Advent	Polish Re	Fairfax Brasil	Inter-company	Total
Underwriting profit (loss)	(88.2)	(100.7)	(7.3)	(10.5)	—	(206.7)
Loss & LAE - accident year	118.7 %	131.3 %	73.3%	82.8 %	—	115.2 %
Commissions	23.2 %	23.4 %	19.2%	(7.9)%	—	21.9 %
Underwriting expenses	1.6 %	19.0 %	7.9%	120.1 %	—	11.7 %
Combined ratio - accident year	143.5 %	173.7 %	100.4%	195.0 %	—	148.8 %
Net adverse (favourable) development	(3.7)%	(20.5)%	8.4%	2.6 %	—	(7.9)%
Combined ratio - calendar year	139.8 %	153.2 %	108.8%	197.6 %	—	140.9 %
Gross premiums written	184.5	326.1	105.2	102.8	(72.3)	646.3
Net premiums written	180.7	193.9	87.7	22.3	—	484.6
Net premiums earned	221.7	189.3	83.1	10.8	—	504.9
Underwriting profit (loss)	(88.2)	(100.7)	(7.3)	(10.5)	—	(206.7)
Interest and dividends	23.4	18.1	4.0	1.9	—	47.4
Operating loss	(64.8)	(82.6)	(3.3)	(8.6)	—	(159.3)
Net gains (losses) on investments	(45.9)	55.8	9.3	2.9	—	22.1
Pre-tax income (loss) before interest and other	(110.7)	(26.8)	6.0	(5.7)	—	(137.2)

Effective January 1, 2012, the company's runoff Syndicate 3500 (managed by RiverStone Managing Agency Limited (UK)) accepted the reinsurance-to-close of all of the net insurance liabilities of Advent's runoff Syndicate 3330. Refer to the Runoff section of this MD&A for a description of this transaction which has not been reflected in the table above. Had this reinsurance-to-close transaction been reflected in the table above, net premiums written and net premiums earned would have decreased by $62.2 and ceded losses on claims would have increased by $62.2 with the result that Advent's underwriting profit would be unchanged in the full year of 2012. The transfer of the net insurance liabilities of Syndicate 3330 to Runoff is consistent with the company's strategy of gradually consolidating all of its runoff operations under the supervision of RiverStone management.

The decrease in current period catastrophe losses, partially offset by the year-over-year decrease in net favourable development of prior years' reserves contributed to the significant improvement in the underwriting performance of the Insurance and Reinsurance – Other segment on a relative basis, producing an underwriting loss of $14.7 and a combined ratio of 109.8% in the fourth quarter of 2012, compared to an underwriting loss of $71.2 and a combined ratio of 155.1% in the fourth quarter of 2011 and an underwriting loss of $21.8 and a combined ratio of 104.3% in the full year of 2012, compared to an underwriting loss of $206.7 and a combined ratio of 140.9% in the full year of 2011.

The combined ratios in the fourth quarter and full year of 2012 included 31.0 combined ratio points ($46.3) and 11.5 combined ratio points ($58.9) of current period catastrophe losses (net of reinstatement premiums), respectively. Hurricane Sandy (net of reinstatement premiums) accounted for 27.2 combined ratio points ($40.7) and 7.9 combined ratio points ($40.7) in the fourth quarter and full year of 2012, respectively. The combined ratio in the fourth quarter of 2011 included 56.8 combined ratio points ($73.9) of current period catastrophe losses (net of reinstatement premiums) primarily related to the Thailand floods (39.3 combined ratio points ($51.5)). The combined ratio in the full year of 2011 included 49.1 combined ratio points ($247.7) of current period catastrophe losses (net of reinstatement premiums) primarily related to the Japan earthquake and tsunami (16.9 combined ratio points ($87.1)), Thailand floods (10.0 combined ratio points ($51.5)), New Zealand (Christchurch) earthquake (6.9 combined ratio points ($34.5)) and the U.S. tornadoes (5.7 combined ratio points ($32.5)).

The underwriting results in the fourth quarter of 2012 included 4.2 combined ratio points ($6.3) of net adverse development of prior years' reserves (principally comprised of net adverse development at Polish Re related to its commercial automobile loss reserves, partially offset by net favourable development at Advent related to its discontinued commercial property binder business loss reserves) compared to 17.7 combined ratio points ($22.8) of net favourable development of prior years' reserves in the fourth quarter of 2011 (principally at Advent related to net favourable development of its World Trade Center loss reserves). The underwriting results in the full year of 2012 included 0.1 of a combined ratio point ($0.6) of net favourable development of prior years' reserves (principally comprised of net favourable development at Advent related to its discontinued commercial property binder business and open market property insurance loss reserves, partially offset by net adverse development at Polish Re related to its commercial automobile loss reserves) compared to 7.9 combined ratio points ($39.7) of net favourable development of prior years' reserves in 2011 (principally at Advent related to net favourable development across most lines of business and at Group Re related to reserve releases across a number of cedants, partially offset by net adverse development at Polish Re in its commercial automobile loss reserves).

Gross premiums written increased by $12.2 or 9.9% in the fourth quarter of 2012 compared to the fourth quarter of 2011, primarily reflecting growth in third party catastrophe reinsurance and retrocessional business that reflected improving terms and conditions (Group Re) and increased writings of commercial property reinsurance (Polish Re), partially offset by lower assumed gross premiums written in connection with the Northbridge quota share agreement (Group Re) and the unfavourable effect of foreign currency translation (Fairfax Brasil). Net premiums written increased by $21.2 or 22.7% in the fourth quarter of 2012 compared to the fourth quarter of 2011, reflecting many of the same factors which affected gross premiums written and also included decreased usage of reinsurance at Fairfax Brasil in the fourth quarter of 2012. Net premiums earned increased by $21.8 or 16.9% in the fourth quarter of 2012 compared to the fourth quarter of 2011, reflecting many of the same factors which affected net premiums written and also reflected increased net premiums earned by Fairfax Brasil consistent with the growth in its net premiums written in prior periods.

Gross premiums written increased by $5.3 or 0.8% in the full year of 2012 compared to the full year of 2011. Excluding the unearned premium portfolio transfer of $42.3 (as described in the Northbridge section of this MD&A) which suppressed the gross premiums written (and net premiums written) of Group Re in 2011, gross premiums written by the Insurance and Reinsurance – Other segment in the full year of 2012 decreased by $37.0 or 5.4% compared to the full year of 2011, primarily reflecting the non-renewal of certain classes of business where terms and conditions were considered inadequate (Advent), lower reinstatement premiums received in the full year of 2012 as a result of reduced catastrophe losses year-over-year (Advent) and premium adjustments of $11.8 recognized in the second quarter of 2012 to reflect revisions to lower estimates of reinstatement premiums receivable in respect of the 2010 and 2011 catastrophe events (Advent), partially offset by many of the same factors described above which affected gross premiums written in the fourth quarter of 2012 and also reflected growth across most lines of business, partially offset by the non-renewal in 2012 of a significant commercial property account (Fairfax Brasil). Excluding the impact of the unearned premium portfolio transfer, net premiums written increased by $3.7 or 0.7% in the full year of 2012 compared to the full year of 2011, reflecting many of the same factors which affected gross premiums written and also included a reduction in third party excess of loss reinsurance purchased (Advent), decreased usage of reinsurance (Fairfax Brasil) and lower reinstatement premiums paid in the full year of 2012 as a result of reduced catastrophe losses year-over-year (Advent). Net premiums earned increased by $9.4 or 1.9% in the full year of 2012, consistent with the increase in net premiums written.

Interest and dividend expense of $0.6 in the fourth quarter of 2012 compared to interest and dividend income of $10.6 in the fourth quarter of 2011, with the decrease primarily related to increased investment management and administration fees, decreased share of the profit of associates year-over-year, increased total return swap expense and decreased interest and dividend income (principally reflecting decreased holdings on a year-over-year basis of higher yielding government bonds where the proceeds from sales were reinvested into lower yielding cash and short term investments). Interest and dividend income of $37.6 in the full year of 2012 compared to $47.4 in full year of 2011, with the decrease principally reflecting decreased holdings on a year-over-year basis of higher yielding government bonds where the proceeds from sales were reinvested into lower yielding cash and short term investments, increased investment management and administration fees and increased total return swap expense, partially offset by Group Re's share of the profit of an associate which it acquired from Fairfax during the first quarter of 2012. The gain on disposition of associate as set out in the table below reflects a net gain of $167.0 related to the sale of the company's investment in Cunningham Lindsey.

The significant year-over-year increase in net gains on investments (as set out in the table below) and the year-over-year improvement in underwriting profitability, partially offset by decreased interest and dividend income, produced pre-tax income before interest and other of $184.8 in the fourth quarter of 2012 ($251.4 in the full year of 2012) compared to a pre-tax loss before interest and other of $62.9 in the fourth quarter of 2011 ($137.2 in the full year of 2011).

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**16.8**	(5.4)	**37.3**	(60.7)
Equity hedges	**(2.7)**	(0.3)	**(21.9)**	1.9
Bonds	**24.4**	(5.9)	**61.4**	79.9
Preferred stocks	**(0.8)**	2.0	**1.3**	(0.8)
CPI-linked derivatives	**(2.4)**	(0.6)	**(3.8)**	(9.8)
Foreign currency	**0.8**	(1.7)	**(1.4)**	(0.5)
Gain on disposition of associate	**167.0**	7.0	**167.0**	7.0
Other	**(3.0)**	2.6	**(4.3)**	5.1
Net gains (losses) on investments	**200.1**	(2.3)	**235.6**	22.1

During the full year of 2012, Fairfax made capital contributions of $43.9, $22.9, $22.4 and $11.0 to Wentworth, CRC Re, Fairfax Brasil and Advent, respectively (full year of 2011 - $20.0, nil, $10.0 and $24.0, respectively). The capital contribution to CRC Re of $22.9 was net of $77.1 of dividends paid to Fairfax. During the full year of 2012, Wentworth paid a cash dividend of $120.0 (full year of 2011 - nil).

Runoff

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Gross premiums written	**221.2**	(0.6)	**221.2**	122.0
Net premiums written	**199.1**	0.6	**199.1**	120.3
Net premiums earned	**214.3**	1.0	**220.1**	126.4
Losses on claims	**(170.4)**	(13.9)	**(181.4)**	(178.0)
Operating expenses	**(45.1)**	(13.6)	**(95.1)**	(85.9)
Interest and dividends	**14.8**	27.7	**65.1**	109.9
Operating income (loss)	**13.6**	1.2	**8.7**	(27.6)
Net gains (losses) on investments	**64.9**	(14.5)	**215.8**	388.1
Loss on repurchase of long term debt	**(39.8)**	—	**(39.8)**	—
	38.7	(13.3)	**184.7**	360.5
Excess of fair value of net assets acquired over purchase price	**6.8**	—	**6.8**	—
Pre-tax income (loss) before interest and other	**45.5**	(13.3)	**191.5**	360.5

On December 21, 2012, RiverStone (UK) entered into an agreement to reinsure the runoff portfolio of the Eagle Star group of companies currently under the ownership of the Zurich group (the "Eagle Star reinsurance transaction") and comprised primarily of London market and U.S. casualty business related to accident years 1990 and prior. In 2013, RiverStone (UK) expects to complete a Part VII transfer of this business pursuant to the Financial Services and Markets Act 2000 in the United Kingdom to formally transfer the net loss reserves by way of a court sanctioned novation. RiverStone (UK) received a premium of $183.5 ($149.3 in cash with the balance of $34.2 receivable prior to the completion of the Part VII transfer) as consideration for the assumption of $130.9 of net loss reserves and recognized a gain of $52.6 in operating income. The value of the net loss reserves assumed reflected the best estimate of RiverStone (UK) based on its in-depth review as part of its due diligence.

On October 12, 2012, the company's UK runoff subsidiary, RiverStone Holdings Limited, completed the acquisition of 100% of the outstanding shares of Brit Insurance Limited ("Brit Insurance") for cash purchase consideration of $335.1 (208.3 British pound sterling). The Brit Insurance purchase price was primarily financed internally by the company's runoff subsidiaries. At the date of acquisition, the fair values of the portfolio investments (including cash and short term investments), insurance contract liabilities and recoverable from reinsurers of Brit Insurance were $1,308.2, $1,833.7 and $883.4, respectively. The assets and liabilities and results of operations of Brit Insurance were consolidated within the company's financial reporting in the Runoff reporting segment. Brit Insurance is located in London, England and wrote U.K. domestic and international insurance and reinsurance business prior to being placed into runoff early in 2012. Effective October 15, 2012, Brit Insurance was renamed RiverStone Insurance Limited ("RiverStone Insurance"). Runoff's operating income in the fourth quarter and full year of 2012 includes the $1.5 impact of policies in-force at RiverStone Insurance on the date of acquisition which will runoff under the supervision of RiverStone (UK) comprised as follows: net premiums earned ($30.1), losses on claims ($18.1) and operating expenses ($10.5).

During 2012, the company undertook several steps as part of a plan to wind up the operations of nSpire Re (the "voluntary liquidation"). In the first quarter of 2012, all of the reinsurance contracts between nSpire Re and RiverStone (UK) were commuted (with no impact on the Runoff segment or the company's consolidated financial reporting) and the remaining reinsurance contracts between nSpire Re and other Fairfax affiliates were novated to Wentworth Insurance Company Ltd. (reported within the Group Re operating segment of the Insurance and Reinsurance - Other reporting segment) during the second quarter of 2012. The Group Re operating segment received $17.7 of cash and investments as consideration for the assumption of net loss reserves of $17.7. These novations did not impact the company's consolidated financial reporting, however, in its segmented financial reporting, the company recorded this transaction as a loss portfolio transfer with the assets acquired and liabilities assumed by Group Re recognized as direct increases to the respective line items on the Group Re segment balance sheet. The Group Re and Runoff segment statements of earnings were unaffected by these novations.

Effective January 1, 2012, the company's runoff Syndicate 3500 (managed by RiverStone Managing Agency Limited (UK)) accepted the reinsurance-to-close of all of the net insurance liabilities of Advent's runoff Syndicate 3330. This reinsurance-to-close transaction resulted in the receipt by Syndicate 3500 of $49.5 of cash and investments and $12.7 of other net assets (primarily consisting of net insurance contract receivables) as consideration for the assumption of net loss reserves of $62.2. In its assessment of the performance of Advent and Runoff, the company's management does not consider the initial effects of this reinsurance-to-close transaction between related parties and accordingly, the tables which set out the operating results of Advent and Runoff do not give effect to this transaction. Had this reinsurance-to-close transaction been reflected in the tables above, gross premiums written, net premiums written and net premiums earned would have increased by $62.2 and losses on claims would have increased by $62.2 with Runoff's operating income remaining unchanged in the fourth quarter and full year of 2012.

Effective January 1, 2012, all of the net insurance liabilities of Syndicate 535 and Syndicate 1204 were novated to Syndicate 3500 resulting in the receipt by Syndicate 3500 of $9.6 of cash and investments and $5.0 of other net assets as consideration for the assumption of net loss reserves of $14.6. Syndicate 535 and Syndicate 1204 are Lloyd's syndicates that were unrelated to Fairfax and its affiliates prior to the transaction. In its consolidated financial reporting, the company recorded this transaction as a loss portfolio transfer with the assets acquired and liabilities assumed recognized as direct increases to the respective line items on the Runoff segment balance sheet (and the consolidated balance sheet). The Runoff segment statement of earnings (and the consolidated statement of earnings) were unaffected by this transaction.

On December 31, 2011, Crum & Forster effectively reinsured 100% of its net latent exposures through the cession to Runoff (Clearwater Insurance) of substantially all of its liabilities for asbestos, environmental and other latent claims arising from policies with effective dates on or prior to December 31, 1998, exclusive of workers' compensation and surety related liabilities. Pursuant to this transaction, Crum & Forster transferred net insurance liabilities of $334.5 to Runoff and Runoff received $334.5 of cash and investments as consideration from Crum & Forster for assuming those liabilities. The company accounted for this transaction in its consolidated financial reporting in the same manner as set out above in connection with the reinsurance-to-close by Runoff of the net insurance liabilities of Advent's runoff Syndicate 3330.

On July 1, 2011, the company reclassified the assets, liabilities and results of operations of Valiant Insurance, a wholly-owned subsidiary of First Mercury, from the U.S. Insurance reporting segment to the Runoff reporting segment following the transfer of ownership of Valiant Insurance from Crum & Forster to the TIG Group. Periods prior to July 1, 2011, have not been restated as the impact was not significant.

On January 1, 2011, Syndicate 3500 accepted the reinsurance-to-close of all of the net insurance liabilities of Syndicate 376. This reinsurance-to-close transaction resulted in the receipt by Syndicate 3500 of $114.8 of cash and investments and $4.8 of other assets as consideration (reported as premiums in the table above) for the assumption of net loss reserves of $119.6 (reported as losses on claims in the table above). Prior to January 1, 2011, Syndicate 376 was unrelated to Fairfax and its affiliates.

The Runoff segment pre-tax income before interest increased to $45.5 in the fourth quarter of 2012 compared to a pre-tax loss of $13.3 in the fourth quarter of 2011, primarily as a result of increased net gains on investments (as set out in the table below), the year-over-year improvement in operating profitability (operating income of $13.6 in the fourth quarter of 2012 compared to operating income of $1.2 in the fourth quarter of 2011) and the $6.8 excess of fair value of net assets acquired over purchase price related to the acquisition of RiverStone Insurance, partially offset by the loss on repurchase of long term debt (described below). Excluding the impact of the Eagle Star reinsurance transaction and the runoff of the insurance policies of RiverStone Insurance (each described above), the Runoff segment would have reported an operating loss of $40.5 in the fourth quarter of 2012 compared to an operating income of $1.2 in the fourth quarter of 2011, with the year-over-year decrease in profitability primarily due to increased losses on claims, decreased interest and dividends, increased operating expenses and decreased net premiums earned.

The Runoff segment pre-tax income before interest decreased to $191.5 in the full year of 2012 compared to pre-tax income of $360.5 in the full year of 2011, primarily as a result of lower net gains on investments (as set out in the table below) and the loss on repurchase of long term debt (described below), partially offset by a year-over-year improvement in operating profitability (operating income of $8.7 in the full year of 2012 compared to an operating loss of $27.6 in the full year of 2011) and the $6.8 excess of fair value of net assets acquired over purchase price related to the acquisition of RiverStone Insurance. Excluding the impact of the Eagle Star reinsurance transaction and the runoff of the insurance policies of RiverStone Insurance (each described above), the Runoff segment would have reported an operating loss of $45.4 in the full year of 2012 compared to an operating loss of $27.6 in the full year of 2011, with the year-over-year decrease in profitability primarily due to decreased interest and dividends and decreased net premiums earned, partially offset by decreased losses on claims and decreased operating expenses.

In order to better compare the net premiums earned, losses on claims and operating expenses of Runoff's underlying business, the discussion that follows excludes from the fourth quarter and full year of 2012 the impact of the Eagle Star reinsurance transaction and the runoff of the insurance policies of RiverStone Insurance, and excludes from the full year of 2011 the initial impact of the reinsurance-to-close of Syndicate 376.

Losses on claims of $21.4 in the fourth quarter of 2012 principally reflected net strengthening of prior years' loss reserves in U.S. Runoff, primarily at TIG ($67.8 principally related to workers' compensation and asbestos loss reserves) and Clearwater Insurance ($42.9 principally related to strengthening of loss reserves for asbestos, environmental and other latent claims assumed from Crum & Forster and asbestos loss reserves in its legacy portfolio), partially offset by net favourable emergence at General Fidelity ($75.0 on construction defect and marine loss reserves). Losses on claims of $13.9 in the fourth quarter of 2011, primarily reflected net adverse development of prior years' loss reserves of $81.2 in U.S. Runoff (principally related to net strengthening of workers' compensation and asbestos loss reserves), partially offset by net favourable development of prior years' loss reserves of $67.3 in European Runoff (primarily related to net favourable emergence of $58.5 across all lines of business and an $8.8 decrease in the provision for uncollectible reinsurance recoverable balance). The increase in operating expenses ($34.6 in the fourth quarter of 2012 compared to $13.6 in the fourth quarter of 2011) primarily reflected incremental operating costs related to certain of the acquisition and reinsurance transactions undertaken by Runoff during 2011 and 2012, partially offset by lower operating expenses at nSpire Re as a result of the voluntary liquidation.

Losses on claims of $32.4 in the full year of 2012 principally reflected net strengthening of prior years' loss reserves in U.S. Runoff, primarily at TIG ($96.1 principally related to workers' compensation and asbestos loss reserves) and Clearwater Insurance ($88.8 principally related to strengthening of loss reserves for asbestos, environmental and other latent claims assumed from Crum & Forster and asbestos loss reserves in its legacy portfolio), partially offset by net favourable emergence at General Fidelity ($70.4 principally related to construction defect and marine loss reserves) and at European Runoff ($81.1 primarily related to favourable emergence across all lines of business). Losses on claims of $58.4 in the full year of 2011 primarily reflected net adverse development of prior years' loss reserves of $126.2 in U.S. Runoff (principally related to net strengthening of workers' compensation and asbestos loss reserves), partially offset by net favourable development of $67.8 of prior years' loss reserves in European Runoff (primarily related to net favourable emergence of $59.0 across all lines of business and an $8.8 decrease in the provision for uncollectible reinsurance recoverable balance). The decrease in operating expenses ($84.6 in the full year of 2012 compared to $85.9 in the full year of 2011) primarily reflected the release of a provision following the resolution in favour of the company of a dispute with a European taxation authority related to value added taxes, partially offset by the same factors which increased operating expenses in the fourth quarter of 2012.

The decrease in interest and dividend income from $27.7 in the fourth quarter of 2011 ($109.9 in in the full year of 2011) to $14.8 in the fourth quarter of 2012 ($65.1 in the full year of 2012) primarily related to the increased share of losses of associates, increased total return swap expense and lower investment income earned as a result of sales during 2011 of higher yielding bonds, primarily U.S. treasury bonds, where the proceeds were reinvested into lower yielding cash and short term investments and common stocks, partially offset by increased interest and dividends earned on a higher average investment portfolio on a year-over-year basis as a result of the acquisition and reinsurance transactions undertaken by Runoff during 2011 and 2012.

	Fourth quarter		**Year ended December 31,**	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**75.2**	(11.2)	**165.1**	(3.6)
Equity hedges	**(26.3)**	(30.5)	**(88.5)**	12.9
Bonds	**30.7**	27.8	**158.6**	393.8
Preferred stocks	**(2.4)**	1.6	**(5.9)**	0.3
CPI-linked and other derivatives	**(0.1)**	0.3	**(3.7)**	(14.6)
Credit default swaps	**(0.4)**	(3.7)	**(5.2)**	—
Foreign currency	**(12.2)**	(3.1)	**(8.5)**	(4.5)
Other	**0.4**	4.3	**3.9**	3.8
Net gains (losses) on investments	**64.9**	(14.5)	**215.8**	388.1

On October 18, 2012, TIG Insurance repaid for $200.0 of cash the $160.2 carrying value of a loan note issued by TIG Insurance in connection with its acquisition of General Fidelity in August 2010 and recognized a one-time charge of $39.8 in other expense related to the extinguishment.

Runoff paid cash dividends of $177.6 (2011 – $125.0) and dividends-in-kind (marketable securities) of $126.2 (2011 – nil) to Fairfax during 2012.

Other ***(1)***

	Fourth quarter		**Year ended December 31,**	
	2012	2011	**2012**	2011
Revenue(2)	**266.9**	190.8	**868.1**	649.8
Expenses	**(243.4)**	(186.1)	**(828.9)**	(636.5)
Pre-tax income before interest and other	**23.5**	4.7	**39.2**	13.3
Interest expense	**(1.2)**	(0.1)	**(2.2)**	(0.7)
Pre-tax income	**22.3**	4.6	**37.0**	12.6

(1) These results differ from those published by Ridley Inc. primarily due to purchase accounting adjustments related to the acquisition of Ridley and the inclusion of the results of operations of William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India.

(2) Revenue includes the interest and dividend income and net gains on investments of the Other reporting segment.

The Other reporting segment is comprised of the results of operations of Ridley, William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India. Ridley is one of North America's leading animal nutrition companies and operates in the U.S. and Canada. William Ashley (a prestige retailer of exclusive tableware and gifts in Canada), Sporting Life (a Canadian retailer of sporting goods and sports apparel), Prime Restaurants (franchises, owns and operates a network of casual dining restaurants and pubs in Canada) and Thomas Cook India (an integrated travel and travel related financial services company in India) were included in the Other reporting segment since their respective acquisition dates of August 16, 2011, December 22, 2011, January 10, 2012 and August 14, 2012, pursuant to the transactions described in note 15 (Acquisitions and Divestitures) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012, and note 23 (Acquisitions and Divestitures) to the consolidated financial statements for the year ended December 31, 2011, in the company's 2011 Annual Report. On November 28, 2012, Ridley acquired the assets and certain liabilities of Stockade Brands Inc. (a manufacturer of animal feed products) for $5.7. On November 30, 2012, Ridley and Masterfeeds Inc. contributed the net assets of their respective Canadian feed businesses to a newly formed limited partnership (Masterfeeds LP). The net assets contributed by Ridley were valued at $25.4 for which Ridley received a 30% interest in Masterfeeds LP.

Ridley's revenue and expenses fluctuate with changes in raw material prices. Ridley's revenues in the fourth quarter and full year of 2012 of $180.4 and $670.8, respectively, compared with revenues of $177.3 and $635.0 in the fourth quarter and full year of 2011, respectively. The year-over-year increase in revenue was primarily the result of higher raw material prices. The remaining revenue and expenses included in the Other reporting segment was comprised of the revenue and expenses of William Ashley, Sporting Life, Prime Restaurants and Thomas Cook India.

Interest and Dividends and Net Gains (Losses) on Investments

An analysis of interest and dividend income and net gains (losses) on investments is presented in the Investments section of this MD&A.

Interest Expense

Consolidated interest expense of $52.2 and $208.2 in the fourth quarter and full year of 2012, respectively, compared to consolidated interest expense of $52.2 and $214.0 in the fourth quarter and full year of 2011, respectively. Interest expense in the fourth quarter of 2012 remained flat following the repayment of the TIG Note (originally issued by TIG in respect of its acquisition of General Fidelity in August 2010) and lower interest expense due to the repayment on maturity of $86.3 principal amount of Fairfax unsecured senior notes due April 26, 2012, partially offset by interest expense incurred following the issuance of Cdn$200.0 principal amount of Fairfax unsecured senior notes in October 2012 and on the debt assumed with respect to the acquisition of Thomas Cook India. In addition to the factors which affected interest expense in the fourth quarter of 2012, the decrease in interest expense in the full year of 2012 also reflected repurchases during 2011 of $298.2, $323.8 and $35.9 principal amounts of Fairfax, Crum & Forster and OdysseyRe unsecured senior notes, respectively, partially offset by the issuances during 2011 of $500.0 and Cdn$400.0 principal amounts of Fairfax unsecured senior notes. Consolidated interest expense is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Fairfax	**41.2**	40.2	**160.6**	152.7
Crum & Forster	**0.5**	0.9	**2.4**	15.0
Zenith National	**0.8**	0.8	**3.3**	3.3
OdysseyRe	**6.9**	6.8	**27.7**	28.9
Advent	**1.1**	1.1	**4.5**	4.5
Runoff (TIG)	**0.5**	2.3	**7.5**	8.9
Other	**1.2**	0.1	**2.2**	0.7
	52.2	52.2	**208.2**	214.0

Corporate Overhead and Other

Corporate overhead and other consists of the expenses of all of the group holding companies, net of the company's investment management and administration fees and the investment income, including net investment gains and losses, earned on holding company cash and investments, and is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Fairfax corporate overhead	**19.2**	23.8	**94.7**	115.2
Subsidiary holding companies' corporate overhead	**24.6**	16.2	**63.9**	95.0
Holding company interest and dividends	**2.7**	(1.5)	**10.2**	(6.3)
Holding company net (gains) losses on investments	**4.8**	161.8	**164.2**	(98.5)
Investment management and administration fees	**(33.0)**	(11.8)	**(76.8)**	(73.0)
	18.3	188.5	**256.2**	32.4

Fairfax corporate overhead expense in the fourth quarter and full year of 2012 of $19.2 and $94.7, respectively, decreased from $23.8 and $115.2 in the fourth quarter and full year of 2011, respectively, primarily due to lower legal expenses. Subsidiary holding companies' corporate overhead expense in the fourth quarter of 2012 of $24.6 increased from $16.2 in the fourth quarter of 2011 primarily due to restructuring costs (principally severance costs at Northbridge) and an increase in charitable donations year-over-year. Subsidiary holding companies' corporate overhead expense in the full year of 2012 of $63.9 decreased from $95.0 in the full year of 2011 primarily due to non-recurring personnel costs incurred in the full year of 2011 at Northbridge, Zenith National and Advent and restructuring costs at Northbridge (related in part to the rebranding of three of its operating subsidiaries under Northbridge Insurance) and at Crum & Forster (related to the integration of First Mercury).

Total return swap expense is reported as a component of interest and dividend income. Prior to giving effect to the impact of total return swap expense, interest and dividends earned on holding company cash and investments of $5.3 and $28.1 in the fourth quarter and full year of 2012, respectively, decreased from $13.2 and $45.3 in the fourth quarter and full year of 2011, respectively, primarily as a result of decreased holdings year-over-year of a high-yielding corporate debt security and long term U.S. treasury bonds and decreased share of profit of associates. Total return swap expense decreased to $8.0 and $38.3 in the fourth quarter and full year of 2012, respectively, from $11.7 and $39.0 in the fourth quarter and full year of 2011, respectively, primarily as a result of a decrease in the average notional amount of short equity and equity index total return swaps year-over-year, partially offset by increases in the dividends payable by Fairfax on the reference securities underlying several of the company's short equity and equity index total return swaps.

Net gains and losses on investments at the holding company were comprised as shown in the table below. Investment management and administration fees in the fourth quarter and full year of 2012 were $33.0 and $76.8, respectively (compared to $11.8 and $73.0 in the fourth quarter and full year of 2011, respectively). The year-over-year increase in investment management and administration fees in the fourth quarter of 2012 primarily related to higher investment management fees accrued based on the timing of the recognition of realized gains. The investment management and administration fees in the full year of 2012 also reflected adjustments to the fees payable in respect of the prior year.

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Common stocks and equity derivatives (excluding equity hedges)	**22.8**	12.4	**12.8**	(38.9)
Equity hedges	**(55.0)**	(160.2)	**(239.6)**	118.5
Bonds	**9.5**	(14.8)	**70.3**	16.5
Preferred stocks	**(4.6)**	11.4	**(13.9)**	1.7
Foreign currency	**0.9**	(0.2)	**(4.4)**	(0.9)
Other	**21.6**	(10.4)	**10.6**	1.6
Net gains (losses) on investments	**(4.8)**	(161.8)	**(164.2)**	98.5

Income Taxes

The effective income tax rates of 19.2% and 17.7% in the fourth quarter and full year of 2012, respectively, differed from the company's Canadian statutory income tax rate of 26.5% primarily as a result of non-taxable investment income (including dividend income, interest on bond investments in U.S. states and municipalities and capital gains only 50% taxable in Canada) and income or losses earned or incurred in jurisdictions where the corporate income tax rate is different from the company's Canadian statutory income tax rate, partially offset by the recognition of the benefit of previously unrecorded accumulated income tax losses. In the fourth quarter and full year of 2012, the company recorded a loss related to the repayment of the TIG Note which is not deductible for tax purposes.

The effective income tax rate of 34.1% in the fourth quarter of 2011 differed from the company's Canadian statutory income tax rate of 28.3% primarily as a result of the effect of losses incurred in jurisdictions where the corporate income tax rate differed from the company's Canadian statutory income tax rate, the effect of non-taxable investment income in the U.S. tax group (including dividend income and interest on bond investments in U.S. states and municipalities) and the recognition of the benefit of previously unrecorded accumulated income tax losses. The $56.5 recovery of income taxes in the full year of 2011 differed from the income tax recovery that would be determined by applying the company's Canadian statutory income tax rate of 28.3% to the loss before income taxes of $8.7 primarily as a result of the effect of non-taxable investment income in the U.S. tax group (including dividend income and interest on bond investments in U.S. states and municipalities) and the recognition of the benefit of previously unrecorded accumulated income tax losses, partially offset by the effect of income earned in jurisdictions where the corporate income tax rate differed from the company's Canadian statutory income tax rate.

Non-controlling Interests

The attribution of net earnings (loss) to the non-controlling interests is comprised of the following:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Ridley	**1.7**	1.0	**4.2**	2.1
Fairfax Asia	**0.5**	(0.3)	**1.7**	0.6
Prime Restaurants	**0.3**	—	**1.3**	—
Sporting Life	**1.4**	—	**0.8**	—
Thomas Cook India	**0.1**	—	**0.3**	—
	4.0	0.7	**8.3**	2.7

Non-controlling interest of $4.0 and $8.3 in the fourth quarter and full year of 2012, respectively, increased compared to non-controlling interest of $0.7 and $2.7 in the fourth quarter and full year of 2011, respectively, primarily due to the acquisition of Prime Restaurants, Sporting Life and Thomas Cook India, as described in note 15 (Acquisitions and Divestitures) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012.

Components of Consolidated Balance Sheets

Consolidated Balance Sheet Summary

The company's balance sheet was significantly impacted by the consolidation of the assets and liabilities of RiverStone Insurance acquired by Runoff in the fourth quarter of 2012. The acquisitions of Thomas Cook India and Prime Restaurants had a very modest impact on the consolidated balance sheet. Please refer to note 15 (Acquisitions and Divestitures) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012 for additional details related to these acquisitions.

Holding company cash and investments increased to $1,169.2 ($1,128.0 net of $41.2 of holding company short sale and derivative obligations) at December 31, 2012 compared to $1,026.7 at December 31, 2011 ($962.8 net of $63.9 of holding company short sale and derivative obligations). Significant cash movements at the Fairfax holding company level during 2012 are as set out in the Financial Condition section of this MD&A under the heading of Liquidity.

Insurance contract receivables increased by $210.0 to $1,945.4 at December 31, 2012 from $1,735.4 at December 31, 2011 primarily as a result of larger year-over-year premiums receivable balances at Runoff and OdysseyRe, partially offset by lower year-over-year premium receivable balances at Advent and Northbridge. Increased premiums receivable at Runoff primarily related to the consolidation of RiverStone Insurance and the Eagle Star reinsurance transaction. Movements in the the premium receivable balances at the remainder of the operating companies are generally consistent with changes in those operating companies' premium volumes.

Portfolio investments comprise investments carried at fair value and equity accounted investments (at December 31, 2012 the latter primarily included the company's investments in Resolute, Gulf Insurance, ICICI Lombard, The Brick, Thai Re and other partnerships and trusts), the aggregate carrying value of which was $25,163.2 at December 31, 2012 ($24,966.2 net of subsidiary short sale and derivative obligations) compared to an aggregate carrying value at December 31, 2011 of $23,466.0 ($23,359.7 net of subsidiary short sale and derivative obligations). The net $1,606.5 increase in the aggregate carrying value of portfolio investments at December 31, 2012 compared to December 31, 2011 (net of subsidiary short sale and derivative obligations), primarily reflected the consolidation of the portfolio investments of RiverStone Insurance ($1,236.3 at December 31, 2012), net unrealized appreciation of bonds (principally related to bonds issued by U.S. states and municipalities and corporate and other bonds) and equity and equity-related holdings, the favourable impact of foreign currency translation, the realized gain recognized on the sale of Cunningham Lindsey and net cash provided by operating activities, partially offset by net cash paid in connection with the reset provisions of the company's long and short equity and equity index total return swap derivative contracts and the payment of dividends to Fairfax.

Major movements in portfolio investments in 2012 included the following: subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) increased by $980.4 primarily reflecting the consolidation of the cash and short term investments of RiverStone Insurance ($223.5 at December 31, 2012), the reinvestment of the proceeds on the sale of government bonds into cash and short term investments, net cash proceeds received on the sale of Cunningham Lindsey and net cash provided by operating activities, partially offset by net cash paid in connection with the reset provisions of the company's long and short equity and equity index total return swaps ($603.6 in the full year of 2012), the payment of cash dividends to Fairfax ($733.5 in the full year of 2012), cash used to acquire common stock and certain limited partnership investments, cash used to acquire RiverStone Insurance ($335.1), the repayment of the TIG Note ($200.0) and net cash used to acquire Thomas Cook India.

Bonds (including bonds pledged for short sale derivative obligations) decreased by $278.4 primarily reflecting the sale of U.S. and U.K. treasury and Canadian government bonds, partially offset by net unrealized appreciation (principally related to bonds issued by U.S. states and municipalities and corporate and other bonds) and the consolidation of the bond portfolio of RiverStone Insurance ($835.7 at December 31, 2012). Common stocks increased by $736.0 primarily reflecting net unrealized appreciation, net purchases of common stocks and limited partnerships and the consolidation of the common stock portfolio of RiverStone Insurance ($153.3 at December 31, 2012), partially offset by the reclassification of Resolute and Arbor Memorial from common stocks to investments in associates. The increase of $431.0 related to investments in associates primarily reflected the reclassification of Resolute and Arbor Memorial from common stocks to investment in associates following the determination that such investments were subject to significant influence by the company, the acquisition of Eurobank Properties, Thai Re and net investments in limited partnerships, partially offset by the sale of Cunningham Lindsey and Fibrek as described in note 6 (Investments in Associates) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012. Derivatives and other invested assets net of short sale and derivative obligations decreased by $304.3 principally as a result of net unrealized depreciation related to CPI-linked derivatives, decreased investment in credit related warrants (such warrants were exercised during the second quarter of 2012) and increased net liabilities payable to counterparties to the company's long and short equity and equity index total return swaps (excluding the impact of collateral requirements).

Recoverable from reinsurers increased by $1,092.7 to $5,290.8 at December 31, 2012 from $4,198.1 at December 31, 2011 reflecting the impact of certain transactions at Runoff (principally the consolidation of RiverStone Insurance and the Syndicate 535 and Syndicate 1204 novation transactions) and increased business volumes at Fairfax Asia, Crum & Forster and Fairfax Brasil, partially offset by collections made in connection with the 2011 ceded catastrophe losses and the continued progress by Runoff as a result of normal cession and collection activity.

Deferred income taxes represent amounts expected to be recovered in future years. The deferred income tax asset decreased by $4.7 to $623.5 at December 31, 2012 from $628.2 at December 31, 2011 with the change primarily attributable to increased operating loss carryovers in the U.S., partially offset by increased temporary differences related to net unrealized appreciation of investments during 2012.

Goodwill and intangible assets increased by $185.9 to $1,301.1 at December 31, 2012 from $1,115.2 at December 31, 2011 primarily as a result of the acquisitions of Prime Restaurants and Thomas Cook India which increased goodwill and intangible assets by $64.0 and $118.2, respectively, as described in note 15 (Acquisitions and Divestitures) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012.

Other assets increased by $163.5 to $984.9 at December 31, 2012 from $821.4 at December 31, 2011 primarily as a result of increased income taxes refundable, the consolidation of the other assets of Prime Restaurants and Thomas Cook India and an increase in receivables for securities sold but not yet settled, partially offset by decreased accrued interest and dividends. Income taxes refundable increased by $24.7 to $109.9 at December 31, 2012 from $85.2 at December 31, 2011 primarily as a result of operating losses incurred in 2012, principally at Northbridge.

Provision for losses and loss adjustment expenses increased by $2,416.6 to $19,648.8 at December 31, 2012 from $17,232.2 at December 31, 2011 reflecting the impact of certain transactions at Runoff (principally the consolidation of RiverStone Insurance, the Eagle Star reinsurance transaction and the Syndicate 535 and Syndicate 1204 novation transactions), increased provision for losses and loss adjustment expenses at Crum & Forster, Zenith National, OdysseyRe, Fairfax Asia and Fairfax Brasil (commensurate with increased business volumes at those operating companies) and the strengthening of the Canadian dollar relative to the U.S. dollar which increased the provision for losses and loss adjustment expenses at Northbridge, partially offset by payments made in connection with the 2011 catastrophe losses and the continued progress by Runoff in settling its remaining claims.

Non-controlling interests increased by $23.3 to $69.2 at December 31, 2012 from $45.9 at December 31, 2011 principally as a result of the acquisition of Prime Restaurants and Thomas Cook India and net earnings attributable to non-controlling interests, partially offset by dividends paid to non-controlling interests by Ridley. The non-controlling interests balance at December 31, 2012 and December 31, 2011 primarily related to Ridley.

Investments

Net Gains (Losses) on Investments

Net gains (losses) on investments in the fourth quarters and years ended December 31, 2012 and 2011 were comprised as shown in the following table:

	Fourth quarter					
	2012			2011		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses) on investments**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Common Stocks	**(94.0)**	**507.2**	**413.2**	6.6	(149.5)	(142.9)
Preferred stocks - convertible	**—**	**(20.8)**	**(20.8)**	—	67.1	67.1
Bonds - convertible	**3.3**	**36.7**	**40.0**	—	28.4	28.4
Gain on disposition of associate	**167.0**	**—**	**167.0**	7.0	—	7.0
Other equity derivatives(1) (2)	**76.7**	**(81.1)**	**(4.4)**	(0.8)	87.2	86.4
Equity and equity-related holdings	**153.0**	**442.0**	**595.0**	12.8	33.2	46.0
Equity hedges(2)	**13.5**	**(154.2)**	**(140.7)**	—	(779.3)	(779.3)
Equity and equity-related holdings after equity hedges	**166.5**	**287.8**	**454.3**	12.8	(746.1)	(733.3)
Bonds	**176.1**	**8.6**	**184.7**	331.7	(430.6)	(98.9)
Preferred stocks	**0.4**	**(0.9)**	**(0.5)**	—	0.4	0.4
CPI-linked derivatives	**—**	**(29.9)**	**(29.9)**	—	0.1	0.1
Other derivatives	**5.8**	**12.7**	**18.5**	0.1	(19.5)	(19.4)
Foreign currency	**(14.1)**	**20.1**	**6.0**	1.6	(74.5)	(72.9)
Other	**0.1**	**2.4**	**2.5**	10.6	(1.5)	9.1
Net gains (losses) on investments	**334.8**	**300.8**	**635.6**	356.8	(1,271.7)	(914.9)
Net gains (losses) on bonds is comprised as follows:						
Government bonds	**100.3**	**(52.7)**	**47.6**	331.5	(477.7)	(146.2)
U.S. states and municipalities	**120.8**	**0.8**	**121.6**	0.2	30.4	30.6
Corporate and other	**(45.0)**	**60.5**	**15.5**	—	16.7	16.7
	176.1	**8.6**	**184.7**	331.7	(430.6)	(98.9)

(1) Other equity derivatives include equity total return swaps-long positions and equity warrants.

(2) Gains and losses on long and short equity and equity index total return swaps that are regularly renewed as part of the company's long term risk management objectives are presented within net change in unrealized gains (losses).

	Year ended December 31,					
	2012			2011		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses) on investments**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Common Stocks	**133.9**	**563.7**	**697.6**	491.6	(1,266.4)	(774.8)
Preferred stocks - convertible	**—**	**(36.2)**	**(36.2)**	—	(5.2)	(5.2)
Bonds - convertible	**62.7**	**124.0**	**186.7**	43.1	(19.6)	23.5
Gain on disposition of associate	**196.8**	**—**	**196.8**	7.0	—	7.0
Other equity derivatives(1) (2)	**76.7**	**(2.9)**	**73.8**	161.9	(205.2)	(43.3)
Equity and equity-related holdings	**470.1**	**648.6**	**1,118.7**	703.6	(1,496.4)	(792.8)
Equity hedges(2)	**6.3**	**(1,011.8)**	**(1,005.5)**	—	413.9	413.9
Equity and equity-related holdings after equity hedges	**476.4**	**(363.2)**	**113.2**	703.6	(1,082.5)	(378.9)
Bonds	**566.3**	**161.8**	**728.1**	424.6	854.1	1,278.7
Preferred stocks	**1.0**	**(1.3)**	**(0.3)**	0.9	(2.8)	(1.9)
CPI-linked derivatives	**—**	**(129.2)**	**(129.2)**	—	(233.9)	(233.9)
Other derivatives	**63.7**	**(60.3)**	**3.4**	10.8	38.6	49.4
Foreign currency	**(44.7)**	**(31.5)**	**(76.2)**	(64.5)	30.1	(34.4)
Other	**2.3**	**1.3**	**3.6**	13.0	(0.8)	12.2
Net gains (losses) on investments	**1,065.0**	**(422.4)**	**642.6**	1,088.4	(397.2)	691.2
Net gains (losses) on bonds is comprised as follows:						
Government bonds	**421.3**	**(328.6)**	**92.7**	354.6	398.5	753.1
U.S. states and municipalities	**149.7**	**403.0**	**552.7**	(2.0)	644.7	642.7
Corporate and other	**(4.7)**	**87.4**	**82.7**	72.0	(189.1)	(117.1)
	566.3	**161.8**	**728.1**	424.6	854.1	1,278.7

(1) Other equity derivatives include equity total return swaps-long positions and equity warrants.

(2) Gains and losses on long and short equity and equity index total return swaps that are regularly renewed as part of the company's long term risk management objectives are presented within net change in unrealized gains (losses).

Equity and equity related holdings: The company has economically hedged its equity and equity-related holdings (comprised of common stocks, convertible preferred stocks, convertible bonds, certain investments in associates and equity-related derivatives) against a potential decline in equity markets by way of short positions effected through equity and equity index total return swaps, including short positions in certain equity indexes and individual equities as set out in the table below. The company’s economic equity hedges are structured to provide a return which is inverse to changes in the fair values of the equity indexes and certain individual equities. The company's equity and equity-related holdings after hedges produced a net gain of $454.3 in the fourth quarter of 2012 (net gain of $113.2 in the full year of 2012) compared to a net loss of $733.3 in the fourth quarter of 2011 (net loss of $378.9 in the full year of 2011). At December 31, 2012 equity hedges with a notional amount of $7,668.5 ($7,135.2 at December 31, 2011) represented 100.6% (104.6% at December 31, 2011) of the company’s equity and equity-related holdings of $7,626.5 ($6,822.7 at December 31, 2011). The gain on disposition of associate of $167.0 in the fourth quarter of 2012 reflected the sale of the company's investment in Cunningham Lindsey. In the full year of 2012, the gain on disposition of associate also reflected a $29.8 gain recognized on the sale of Fibrek.

During the fourth quarter of 2012 the company closed $391.1 ($394.2 in the full year of 2012) of original notional amount of short positions in certain individual equities to reduce its economic equity hedges as a proportion of its equity and equity-related holdings. In the future, the company may manage its net exposure to its equity and equity-related holdings by closing out a portion of its equity hedges or by increasing its equity exposure if attractive opportunities become available. The company expects that there may be periods when the notional amount of the equity hedges may exceed or be deficient relative to the company’s equity price risk exposure. This situation may arise due to the timing of opportunities for the company to exit and enter hedges at attractive prices, as a result of a decision by the company to hedge an amount less than the company’s full equity exposure or as a result of any non-correlated performance of the equity hedges relative to the equity and equity-related holdings.The company’s risk management objective is for the equity hedges to be reasonably effective in protecting that proportion of the company’s equity and equity-related holdings to which the hedges relate should a significant correction in the market occur. However, due to the lack of a perfect correlation between the hedged items and the hedging items, combined with other market uncertainties, it is not possible to predict the future impact of the company’s hedging program related to equity risk. Refer to note 16 (Financial Risk Management) under the heading of Market Price Fluctuations in the company’s condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012 for a tabular analysis followed by a discussion of the company’s hedges of equity price risk and the related basis risk.

Underlying short equity and equity index total return swaps	December 31, 2012 Units	Original notional amount[(1)]	Weighted average index value	Index value at period end	December 31, 2011 Units	Original notional amount[(1)]	Weighted average index value	Index value at period end
Russell 2000	**52,881,400**	**3,501.9**	**662.22**	**849.35**	52,881,400	3,501.9	662.22	740.92
S&P 500	**10,532,558**	**1,117.3**	**1,060.84**	**1,426.19**	12,120,558	1,299.3	1,071.96	1,257.60
S&P/TSX 60	**13,044,000**	**206.1**	**641.12**	**713.72**	—	—	—	680.87
Other equity indices	—	**140.0**	—	—	—	140.0	—	—
Individual equities	—	**1,231.3**	—	—	—	1,597.3	—	—

(1) The aggregate notional amounts on the dates that the short positions were first initiated.

Bonds: Net gains on bonds of $184.7 and $728.1 in the fourth quarter and full year of 2012 (net loss of $98.9 and net gain of $1,278.7 in the fourth quarter and full year of 2011), respectively, were primarily comprised of a combination of realized and net mark-to-market gains on U.S. state and municipal government bonds, realized gains on U.S. government bonds and net-mark-to-market gains on other government bonds.

CPI-linked derivatives: The company has purchased derivative contracts referenced to consumer price indices ("CPI") in the geographic regions in which it operates which serve as an economic hedge against the potential adverse financial impact on the company of decreasing price levels. At December 31, 2012, these contracts have a remaining weighted average life of 7.7 years (8.6 years at December 31, 2011), a notional amount of $48.4 billion ($46.5 billion at December 31, 2011) and a fair value of $115.8 ($208.2 at December 31, 2011). The company's CPI-linked derivative contracts produced unrealized losses of $29.9 and $129.2 in the fourth quarter and full year of 2012 (an unrealized gain of $0.1 and an unrealized loss of $233.9 in the fourth quarter and full year of 2011), respectively. The unrealized losses in the fourth quarter and full year of 2012 were primarily as a result of increases in the values of the CPI indices underlying those contracts (those contracts are structured to benefit the company during periods of decreasing CPI index values). Refer to the analysis in note 7 (Short Sale and Derivative Transactions) under the heading of CPI-linked derivative contracts in the company's condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012 for a discussion of the company's economic hedge against the potential adverse financial impact on the company of decreasing price levels.

Interest and Dividends

Consolidated interest and dividend income of $73.3 in the fourth quarter of 2012 decreased from $162.1 in the fourth quarter of 2011 and decreased to $409.3 in the full year of 2012 from $705.3 in the full year of 2011. The decreases primarily reflected the combined effects of sales during 2011 and 2012 of higher yielding government bonds (principally U.S. treasury and Canadian government bonds), the proceeds of which were reinvested into lower yielding cash and short term investments and common stocks. Total return swap expense was also higher in 2012 compared to 2011 ($69.8 and $42.6 in the fourth quarters of 2012 and 2011, respectively and $204.9 and $140.3 in the full years of 2012 and 2011, respectively) due to increased dividends payable (primarily the dividend payable on the Russell 2000 exchange traded fund) and higher average notional amounts of short positions effected through total return swaps on a year-over-year basis.

The share of profit of associates was $20.0 in the fourth quarter of 2012 (which included the company's $7.3 share of the profit of ICICI Lombard) compared to the share of loss of associates of $9.9 in the fourth quarter of 2011 (which included the company's $26.3 share of the net loss of ICICI Lombard).The share of profit of associates of $15.0 in the full year of 2012 compared to the share of profit of associates of $1.8 in the full year of 2011. The share of profit of associates in the full year of 2012 included the company's $18.8 share of the net loss of Fibrek (principally comprised of an impairment charge), $22.0 share of the net loss of Thai Re (principally comprised of net reserve strengthening related to the Thailand floods) and $12.9 share of the profit of ICICI Lombard. The company's share of profit of associates in the full year of 2011 included the company's $36.1 share of the net loss of ICICI Lombard. The net earnings of ICICI Lombard in 2011 were adversely affected by reserve strengthening related to its mandatory pro-rata participation in the Indian commercial vehicle insurance pool, partially offset by net mark-to-market gains on the ICICI Lombard investment portfolio.

Financial Risk Management

The primary goals of the company's risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheet from events that have the potential to materially impair its financial strength. The company's exposure to potential loss from its insurance and reinsurance operations and investment activities primarily relates to underwriting risk, credit risk, liquidity risk and various market risks. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk tolerances with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at December 31, 2012 compared to those identified at December 31, 2011 and disclosed in the company's 2011 Annual Report other than as outlined in note 16 (Financial Risk Management) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012.

Financial Condition

Capital Resources and Management

The company manages its capital based on the following financial measurements and ratios:

	December 31, 2012	December 31, 2011
Holding company cash and investments (net of short sale and derivative obligations)	**1,128.0**	962.8
Holding company debt	**2,220.2**	2,080.6
Subsidiary debt	**670.9**	623.9
Other long term obligations – holding company	**157.5**	314.0
Total debt	**3,048.6**	3,018.5
Net debt	**1,920.6**	2,055.7
Common shareholders' equity	**7,654.7**	7,427.9
Preferred stock	**1,166.4**	934.7
Non-controlling interests	**69.2**	45.9
Total equity	**8,890.3**	8,408.5
Net debt/total equity	**21.6%**	24.4%
Net debt/net total capital(1)	**17.8%**	19.6%
Total debt/total capital(2)	**25.5%**	26.4%
Interest coverage(3)	**4.2x**	1.0x
Interest and preferred share dividend distribution coverage(4)	**3.0x**	0.7x

(1) Net total capital is calculated by the company as the sum of total equity and net debt.

(2) Total capital is calculated by the company as the sum of total equity and total debt.

(3) Interest coverage is calculated by the company as the sum of earnings (loss) before income taxes and interest expense divided by interest expense.

(4) Interest and preferred share dividend distribution coverage is calculated by the company as the sum of earnings (loss) before income taxes and interest expense divided by interest expense and preferred share dividend distributions adjusted to a before tax equivalent at the company's Canadian statutory income tax rate.

Holding company debt (including other long term obligations) at December 31, 2012 decreased by $16.9 to $2,377.7 from $2,394.6 at December 31, 2011 primarily reflecting the repayment of the TIG Note, the repayment on maturity of $86.3 principal amount of Fairfax unsecured senior notes due April 26, 2012, partially offset by the issuance of Cdn$200.0 principal amount of Fairfax unsecured senior notes due October 14, 2022 and the foreign currency translation effect of the strengthening of the Canadian dollar relative to the U.S. dollar.

Subsidiary debt at December 31, 2012 increased by $47.0 to $670.9 from $623.9 at December 31, 2011 primarily reflecting the consolidation of the subsidiary indebtedness of Prime Restaurants ($2.7) and Thomas Cook India ($36.6) and increased subsidiary indebtedness of Ridley ($11.8), partially offset by the redemption by Crum & Forster of $6.2 principal amount of its unsecured senior notes due May 2017.

Common shareholders' equity at December 31, 2012 increased by $226.8 to $7,654.7 from $7,427.9 at December 31, 2011 primarily as a result of net earnings attributable to shareholders of Fairfax ($532.4) and the effect of increased accumulated other comprehensive income (an increase of $28.0 primarily related to foreign currency translation), partially offset by the company's payments of dividends on its common and preferred shares ($266.3), the recognition of actuarial losses on its defined benefit plans (including those of its associates) in retained earnings ($32.8) and the net repurchase of subordinate voting shares for treasury ($48.4).

The changes in holding company debt, subsidiary debt and common shareholders' equity affected the company's leverage ratios as follows: the consolidated net debt/net total capital ratio decreased to 17.8% at December 31, 2012 from 19.6% at December 31, 2011 as a result of a decrease in net debt and an increase in net total capital. The decrease in net debt was due to an increase in holding company cash and investments and a modest increase in total debt. The increase in net total capital was due to the issuance of Series K preferred shares in the first quarter of 2012, increased non-controlling interests and increased common shareholders' equity, partially offset by decreased net debt. The consolidated total debt/total capital ratio decreased to 25.5% at December 31, 2012 from 26.4% at December 31, 2011 primarily as a result of increased total capital due to the issuance of Series K preferred shares in the first quarter of 2012, increased non-controlling interests, increased common shareholders' equity and a modest increase in total debt.

The company believes that cash and investments net of short sale and derivative obligations at December 31, 2012 of $1,128.0 ($962.8 at December 31, 2011) provide adequate liquidity to meet the holding company's known obligations in 2013 and for the foreseeable future. The company's known obligations in 2013 and the sources of liquidity available to the holding company are described below under the heading of Liquidity.

Liquidity

Holding company cash and investments at December 31, 2012 totaled $1,169.2 ($1,128.0 net of $41.2 of holding company short sale and derivative obligations) compared to $1,026.7 at December 31, 2011 ($962.8 net of $63.9 of holding company short sale and derivative obligations). Significant cash movements at the Fairfax holding company level during the year ended December 31, 2012 (excluding $233.0 of intra-group repayments and capital contributions) included the following outflows – the payment of $266.3 of common and preferred share dividends, the payment of $220.5 of net cash with respect to the reset provisions of long and short equity and equity index total return swaps (excluding the impact of collateral requirements), the payment of $144.8 of interest on long term debt, the repayment upon maturity of $86.3 principal amount of Fairfax unsecured senior notes, the net payment of $56.7 (Cdn$57.7) in respect of the company's acquisition of Prime Restaurants and the participation in the rights offering of Alltrust Insurance of $18.9. Significant inflows during 2012 included the following – net proceeds of $203.0 (Cdn$198.6) from the issuance of Cdn$200.0 principal amount of 5.84% unsecured senior notes due October 14, 2022, the net proceeds of $231.7 (Cdn$230.1) from the issuance of Cdn$237.5 par value Series K preferred shares, $859.7 of dividends from subsidiaries (Runoff ($303.8), OdysseyRe ($200.0), Wentworth ($120.0), Zenith National ($91.8), CRC Re ($77.1), Crum & Forster ($63.0) and Ridley ($4.0)) and a $20.9 corporate income tax refund. The carrying values of holding company investments vary with changes in the fair values of those securities.

The company believes that holding company cash and investments, net of holding company short sale and derivative obligations at December 31, 2012 of $1,128.0 ($962.8 at December 31, 2011) provide adequate liquidity to meet the holding company's known obligations in 2013. The holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries, investment income on its holdings of cash and investments, and dividends from its insurance and reinsurance subsidiaries. To further augment its liquidity, the holding company can draw upon its $300.0 unsecured revolving credit facility (for further details related to the credit facility, refer to note 10 (Subsidiary Indebtedness, Long Term Debt and Credit Facilities)) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012. The holding company's known significant commitments for 2013 consist of the payment of the $205.5 dividend on common shares ($10.00 per share paid January 2013), interest and corporate overhead expenses, preferred share dividends, income tax payments and potential cash outflows related to derivative contracts (described below). On January 21, 2013, the company received net proceeds of $259.9 (Cdn$258.1) from the issuance of Cdn$250.0 principal amount of its unsecured senior notes due 2022 pursuant to a re-opening of those notes. The company intends to use these proceeds to fund the repayment upon maturity of $182.9 principal amount of OdysseyRe's unsecured senior notes due November 1, 2013, repurchase $12.2 principal amount of its unsecured senior notes due 2017 and redeem on March 11, 2013 the remaining $36.2 outstanding principal amount of its unsecured senior notes due 2017.

The holding company may experience cash inflows or outflows (which at times could be significant) related to its derivative contracts, including collateral requirements and cash settlements of market value movements of total return swaps which have occurred since the most recent reset date. During the fourth quarter and full year of 2012, the holding company paid net cash of $58.5 and $220.5, respectively (paid net cash of $25.5 and received net cash of $97.3 in the fourth quarter and full year of 2011, respectively) with respect to long and short equity and equity index total return swaps (excluding the impact of collateral requirements). The holding company typically funds any such obligations from holding company cash and investments and its additional sources of liquidity discussed above.

During 2012 subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) increased by $980.4 primarily reflecting the consolidation of the cash and short term investments of RiverStone Insurance ($223.5 at December 31, 2012), the reinvestment of the proceeds on the sale of government bonds into cash and short term investments, net cash proceeds received on the sale of Cunningham Lindsey and net cash provided by operating activities, partially offset by net cash paid in connection with the reset provisions of the company's long and short equity and equity index total return swaps ($603.6 in the full year of 2012), the payment of cash dividends to Fairfax ($733.5 in the full year of 2012), cash used to acquire common stock and certain limited partnership investments, cash used to acquire RiverStone Insurance ($335.1), the repayment of the TIG Note ($200.0) and net cash used to acquire Thomas Cook India. The insurance and reinsurance subsidiaries may experience cash inflows or outflows (which at times could be significant) related to their derivative contracts including collateral requirements and cash settlements of market value movements of total return swaps which have occurred since the most recent reset date. During the fourth quarter and full year of 2012, the insurance and reinsurance subsidiaries paid net cash of $14.4 and $603.6, respectively (paid net cash of $190.8 and received net cash of $173.3 in the fourth quarter and full year of 2011, respectively) with respect to long and short equity and equity index total return swaps (excluding the impact of collateral requirements). The insurance and reinsurance subsidiaries typically fund any such obligations from cash provided by operating activities. In addition, obligations incurred on short equity and equity index total return swaps may be funded from sales of equity-related investments, the market values of which will generally vary inversely with the market values of the short equity and equity index total return swaps.

The following table presents major components of cash flow for the fourth quarters and years ended December 31, 2012 and 2011:

	Fourth quarter		Year ended December 31,	
	2012	2011	**2012**	2011
Operating activities				
Cash provided by (used in) operating activities before the undernoted	**5.5**	(74.6)	**210.0**	33.2
Net (purchases) sales of securities classified as at FVTPL	**(207.8)**	147.6	**1,105.7**	(1,254.7)
Investing activities				
Net (purchases) sales of investments in associates	**208.7**	(52.6)	**114.6**	(130.5)
Net purchase of subsidiaries, net of cash acquired and bank overdraft assumed	**(142.9)**	(29.8)	**(334.4)**	276.5
Net purchases of premises and equipment and intangible assets	**(29.8)**	(11.5)	**(71.5)**	(42.2)
Financing activities				
Net (repayment) issuances of subsidiary indebtedness	**0.3**	(1.3)	**20.1**	(41.9)
Issuance of holding company debt	**203.0**	—	**203.0**	899.5
Repurchase of holding company and subsidiary debt and securities	**(200.9)**	(1.6)	**(296.5)**	(762.3)
Issuance of preferred shares	**—**	—	**231.7**	—
Common and preferred share dividends paid	**(15.9)**	(12.6)	**(266.3)**	(257.4)
Dividends paid to non-controlling interests	**—**	—	**(6.7)**	—
Other cash used in financing activities	**(30.9)**	(8.1)	**(50.6)**	(36.0)
Increase (decrease) in cash, cash equivalents and bank overdrafts during the period	**(210.7)**	(44.5)	**859.1**	(1,315.8)

Cash provided by operating activities excluding cash used to purchase securities classified as at FVTPL increased to $5.5 in the fourth quarter of 2012 compared to cash used in operating activities of $74.6 in the fourth quarter of 2011 primarily as a result of higher premium collections, partially offset by increased income taxes paid. Net purchases of securities classified as at FVTPL of $207.8 in the fourth quarter of 2012 mainly reflected the net purchases of common stocks and short term investments and net cash paid with respect to the reset provisions of total return swaps, partially offset by net sales of bonds. Net sales of securities classified as at FVTPL of $147.6 in the fourth quarter of 2011 primarily reflected the net sales of bonds, partially offset by net purchases of short term investments and net cash paid with respect to total return swaps.

Net sales of investments in associates of $208.7 in the fourth quarter of 2012 (net purchases of $52.6 in the fourth quarter of 2011) primarily reflected the proceeds received on sale of Cunningham Lindsey, partially offset by net purchases of limited partnerships. Net purchases of subsidiaries, net of cash acquired and bank overdraft assumed in the fourth quarter of 2012 primarily related to net cash of $139.3 used by Runoff to acquire RiverStone Insurance compared to net purchases of subsidiaries, net of cash acquired in the fourth quarter of 2011 of $29.8 used to acquire a 75.0% interest in Sporting Life.

Issuance of holding company debt in the fourth quarter of 2012 of $203.0 (Cdn$198.6) reflected net proceeds from the issuance of Cdn$200.0 principal amount of 5.84% unsecured senior notes due 2022. Repurchase of holding company and subsidiary debt and securities of $200.9 primarily reflected the repayment of the TIG Note ($200.0). The company paid preferred share dividends in the fourth quarter of 2012 of $15.9 (fourth quarter of 2011 - $12.6). Other cash used in financing activities in the fourth quarter of 2012 of $30.9 (fourth quarter of 2011 - $8.1) related to subordinate voting shares purchased for treasury.

Cash provided by operating activities excluding cash used to purchase securities classified as at FVTPL increased to $210.0 in the full year of 2012 from $33.2 in the full year of 2011, primarily as a result of higher premium collections, partially offset by lower interest and dividend income received and increased income taxes paid. Net sales of securities classified as at FVTPL of $1,105.7 in the full year of 2012 mainly reflected net sales of U.S. and U.K. treasury and Canadian government bonds, partially offset by net cash paid with respect to the reset provisions of total return swaps and net purchases of common stocks and short term investments. Net purchases of securities classified as at FVTPL of $1,254.7 in the full year of 2011 primarily reflected net purchases of short term investments, partially offset by net sales of bonds and net cash received with respect to the reset provisions of total return swaps.

Net sales of investments in associates in the full year of 2012 of $114.6 primarily reflected the proceeds received on the sale of Cunningham Lindsey and Fibrek, partially offset by purchases of minority shareholdings in Thai Re and Eurobank Properties and net purchases of limited partnerships. Net purchases of associates in the full year of 2011 of $130.5 primarily related to the participation in an ICICI Lombard rights offering and net purchases of limited partnerships. Net purchases of subsidiaries, net of cash acquired and bank overdraft assumed of $334.4 in the full year of 2012 primarily related to net cash of $140.1, $139.3 and $51.4 used to acquire an 87.1% interest in Thomas Cook India, a 100% interest in RiverStone Insurance and an 81.7% interest in Prime Restaurants, respectively. Net purchases of subsidiaries, net of cash acquired in 2011 of $276.5 included net cash acquired of $355.8 with respect to the acquisition of First Mercury, partially offset by net cash of $49.5 and $29.8 used to acquire Pacific Insurance and a 75.0% interest in Sporting Life, respectively.

Net issuances of subsidiary indebtedness of $20.1 in the full year of 2012 primarily related to the increased indebtedness of Ridley and Thomas Cook India. Issuance of holding company debt of $203.0 (Cdn$198.6) in the full year of 2012 reflected net proceeds from the issuance of Cdn$200.0 principal amount of 5.84% unsecured senior notes due 2022. Repurchase of holding company and subsidiary debt and securities of $296.5 primarily reflected the repayment of the TIG Note ($200.0), the repayment on maturity of Fairfax unsecured senior notes ($86.3) and the redemption by Crum & Forster of its unsecured senior notes due 2017 ($6.4). In the full year of 2012, the company issued Cdn$237.5 par value of Series K preferred shares for net proceeds of $231.7, paid common share dividends of $205.8 (full year of 2011 - $205.9) and preferred share dividends of $60.5 (full year of 2011 -

$51.5) and paid dividends to non-controlling interests of $6.7 (full year of 2011 - nil). Other cash used in financing activities of $50.6 in the full year of 2012 related to subordinate voting shares purchased for treasury. Net repayment of subsidiary indebtedness of $41.9 in the full year of 2011 principally related to subsidiary indebtedness repaid by First Mercury ($29.7). In the full year of 2011, issuance of holding company debt of $899.5 reflected the issuance of $500.0 principal amount of 5.80% unsecured senior notes due 2021 for net proceeds of $493.9 and the issuance of Cdn$400.0 principal amount of 6.40% unsecured senior notes due 2021 for net proceeds of $405.6 (Cdn$396.0). In the full year of 2011, repurchase of holding company and subsidiary debt and securities of $762.3 primarily reflected the payment to repurchase Fairfax, Crum & Forster and OdysseyRe unsecured senior notes ($727.1), and cash consideration to redeem First Mercury's trust preferred securities ($26.7). Other cash used in financing activities of $36.0 in the full year of 2011 principally related to subordinate voting shares purchased for treasury ($26.0) and the repurchase for cancellation of subordinate voting shares ($10.0).

Contractual Obligations

The following table provides a payment schedule of the company's significant current and future obligations (holding company and subsidiaries) as at December 31, 2012:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Provision for losses and loss adjustment expenses	4,576.0	5,099.1	3,172.1	6,801.6	19,648.8
Long term debt obligations - principal	235.8	217.8	57.7	2,508.8	3,020.1
Long term debt obligations - interest	198.2	361.3	330.7	706.6	1,596.8
Operating leases - obligations	68.4	109.3	71.4	128.3	377.4
	5,078.4	5,787.5	3,631.9	10,145.3	24,643.1

For further detail on the maturity profile of the company's financial liabilities, please see “Liquidity Risk” in note 24 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2011, in the company's 2011 Annual Report.

Book Value Per Share

Common shareholders’ equity at December 31, 2012 was $7,654.7 or $378.10 per basic share (excluding the unrecorded $427.1 excess of fair value over the carrying value of investments in associates) compared to $364.55 per basic share (excluding the unrecorded $347.5 excess of fair value over the carrying value of investments in associates) at December 31, 2011 representing an increase per basic share in 2012 of 3.7% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2012, or an increase of 6.5% adjusted to include that dividend). During 2012, the number of basic shares decreased as a result of the repurchase of 130,385 subordinate voting shares for treasury (for use in the company’s share-based payment awards). At December 31, 2012, there were 20,245,411 common shares effectively outstanding.

Lawsuit Seeking Class Action Status

During the fourth quarter of 2012, the proposed class action commenced in July 2011 against Fairfax and others, as described in note 14 (Contingencies and Commitments) to the condensed consolidated financial statements for the three months and year ended December 31, 2012, was dismissed, with no payment and without the possibility of further appeal or amendment.

Accounting and Disclosure Matters

Critical Accounting Estimates and Judgments

Please refer to note 4 (Critical Accounting Estimates and Judgments) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2012.

Future Accounting Changes

Many IFRS are currently undergoing modification or are yet to be issued for the first time. Future standards expected to have a significant impact on the company’s consolidated financial reporting are described in the Accounting and Disclosure Matters section contained in the MD&A of the company’s 2011 Annual Report. New standards and amendments that have been issued but are not yet effective are described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2011 in the company’s 2011 Annual Report.

Comparative Quarterly Data (unaudited)

	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Revenue	**2,764.2**	1,891.6	1,742.5	1,624.5	823.6	3,322.9	1,755.0	1,573.5
Net earnings (loss)	**408.1**	37.0	95.5	0.1	(770.8)	974.5	83.6	(239.5)
Net earnings (loss) attributable to shareholders of Fairfax	**404.1**	34.6	95.0	(1.3)	(771.5)	973.9	83.3	(240.6)
Net earnings (loss) per share	**$ 19.14**	$ 0.91	$ 3.90	$ (0.69)	$ (38.47)	$ 47.17	$ 3.43	$ (12.42)
Net earnings (loss) per diluted share	**$ 18.90**	$ 0.90	$ 3.85	$ (0.69)	$ (38.47)	$ 46.73	$ 3.40	$ (12.42)

Operating results at the company's insurance and reinsurance operations continue to be affected by a difficult competitive environment. Individual quarterly results have been (and may in the future be) affected by losses from significant natural or other catastrophes as in 2011, by reserve releases and strengthenings and by settlements or commutations, the occurrence of which are not predictable, and have been (and are expected to continue to be) significantly impacted by net gains or losses on investments, the timing of which are not predictable.

Forward-Looking Statements

Certain statements contained herein may constitute forward-looking statements and are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fairfax to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: a reduction in net earnings if our loss reserves are insufficient; underwriting losses on the risks we insure that are higher or lower than expected; the occurrence of catastrophic events with a frequency or severity exceeding our estimates; changes in market variables, including interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect our investment portfolio; the cycles of the insurance market and general economic conditions, which can substantially influence our and our competitors' premium rates and capacity to write new business; insufficient reserves for asbestos, environmental and other latent claims; exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements; exposure to credit risk in the event our insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to us or failure by our insureds to reimburse us for deductibles that are paid by us on their behalf; risks associated with implementing our business strategies; the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated by us; the inability of our subsidiaries to maintain financial or claims paying ability ratings; risks associated with our use of derivative instruments; the failure of our hedging methods to achieve their desired risk management objective; a decrease in the level of demand for insurance or reinsurance products, or increased competition in the insurance industry; the failure of any of the loss limitation methods we employ; the impact of emerging claim and coverage issues; our inability to access cash of our subsidiaries; our inability to obtain required levels of capital on favourable terms, if at all; loss of key employees; our inability to obtain reinsurance coverage in sufficient amounts, at reasonable prices or on terms that adequately protect us; the passage of legislation subjecting our businesses to additional supervision or regulation, including additional tax regulation, in the United States, Canada or other jurisdictions in which we operate; risks associated with government investigations of, and litigation and negative publicity related to, insurance industry practice or any other conduct; risks associated with political and other developments in foreign jurisdictions in which we operate; risks associated with legal or regulatory proceedings; failures or security breaches of our computer and data processing systems; the influence exercisable by our significant shareholder; adverse fluctuations in foreign currency exchange rates; our dependence on independent brokers over whom we exercise little control; an impairment in the carrying value of our goodwill and indefinite-lived intangible assets; our failure to realize deferred income tax assets; and assessments and shared market mechanisms which may adversely affect our U.S. insurance subsidiaries. Additional risks and uncertainties are described in our most recently issued Annual Report which is available at www.fairfax.ca and in our Supplemental and Base Shelf Prospectus (under "Risk Factors") filed with the securities regulatory authorities in Canada, which is available on SEDAR at www.sedar.com. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements.

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