FAIRFAX
FINANCIAL HOLDINGS LIMITED

Condensed Consolidated Financial Statements

for the fourth quarter and full year

2013 and 2012

(unaudited)

CONSOLIDATED BALANCE SHEETS
as at December 31, 2013 and December 31, 2012
(unaudited - US$ millions)

	Notes	December 31, 2013	December 31, 2012
Assets			
Holding company cash and investments (including assets pledged for short sale and derivative obligations – $124.4; December 31, 2012 – $140.2)	5, 20	**1,296.7**	1,169.2
Insurance contract receivables		**2,017.0**	1,945.4
		3,313.7	3,114.6
Portfolio investments			
Subsidiary cash and short term investments	5, 20	**7,445.7**	6,960.1
Bonds (cost $9,190.0; December 31, 2012 – $9,428.9)	5	**9,550.5**	10,803.6
Preferred stocks (cost $565.1; December 31, 2012 – $618.7)	5	**541.8**	605.1
Common stocks (cost $3,305.5; December 31, 2012 – $4,066.3)	5	**3,835.7**	4,399.1
Investments in associates (fair value $1,815.0; December 31, 2012 – $1,782.4)	5, 6	**1,432.5**	1,355.3
Derivatives and other invested assets (cost $667.8; December 31, 2012 – $524.0)	5, 7	**224.2**	181.0
Assets pledged for short sale and derivative obligations (cost $829.3; December 31, 2012 – $791.1)	5, 7	**802.9**	859.0
		23,833.3	25,163.2
Deferred premium acquisition costs		**462.4**	463.1
Recoverable from reinsurers (including recoverables on paid losses – $353.3; December 31, 2012 – $311.0)	10	**4,974.7**	5,290.8
Deferred income taxes		**1,015.0**	607.6
Goodwill and intangible assets		**1,311.8**	1,321.2
Other assets		**1,047.9**	984.9
		35,958.8	36,945.4
Liabilities			
Subsidiary indebtedness	11	**25.8**	52.1
Accounts payable and accrued liabilities		**1,800.4**	1,877.7
Income taxes payable		**80.1**	70.5
Short sale and derivative obligations (including at the holding company – $55.1; December 31, 2012 – $41.2)	5, 7	**268.4**	238.2
Funds withheld payable to reinsurers		**461.2**	439.7
		2,635.9	2,678.2
Insurance contract liabilities	8	**21,893.7**	22,376.2
Long term debt	11	**2,968.7**	2,996.5
		24,862.4	25,372.7
Equity	12		
Common shareholders' equity		**7,186.7**	7,654.7
Preferred stock		**1,166.4**	1,166.4
Shareholders' equity attributable to shareholders of Fairfax		**8,353.1**	8,821.1
Non-controlling interests		**107.4**	73.4
Total equity		**8,460.5**	8,894.5
		35,958.8	36,945.4

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS
for the three and twelve months ended December 31, 2013 and 2012
(unaudited - US$ millions except per share amounts)

	Notes	Fourth quarter 2013	Fourth quarter 2012	Year ended December 31, 2013	Year ended December 31, 2012
Revenue					
Gross premiums written	18	**1,675.6**	1,899.9	**7,227.1**	7,398.3
Net premiums written	18	**1,430.7**	1,597.7	**6,036.2**	6,194.1
Gross premiums earned		**1,856.7**	2,110.0	**7,294.0**	7,294.8
Premiums ceded to reinsurers		**(282.5)**	(344.6)	**(1,216.7)**	(1,209.9)
Net premiums earned	18	**1,574.2**	1,765.4	**6,077.3**	6,084.9
Interest and dividends		**104.1**	73.4	**376.9**	409.3
Share of profit of associates		**30.4**	20.0	**96.7**	15.0
Net gains (losses) on investments	5	**(329.1)**	635.6	**(1,564.0)**	642.6
Other revenue	18	**304.1**	269.8	**958.0**	871.0
		1,683.7	2,764.2	**5,944.9**	8,022.8
Expenses					
Losses on claims, gross	8	**1,046.9**	1,806.5	**4,615.6**	5,265.5
Losses on claims ceded to reinsurers		**(216.3)**	(443.6)	**(945.3)**	(1,022.9)
Losses on claims, net	19	**830.6**	1,362.9	**3,670.3**	4,242.6
Operating expenses	19	**298.9**	308.9	**1,185.0**	1,132.1
Commissions, net	10	**248.2**	253.8	**969.2**	920.0
Interest expense		**51.3**	52.2	**211.2**	208.2
Other expenses	19	**280.1**	283.5	**910.3**	870.9
		1,709.1	2,261.3	**6,946.0**	7,373.8
Earnings (loss) before income taxes		**(25.4)**	502.9	**(1,001.1)**	649.0
Provision for (recovery of) income taxes	14	**(23.6)**	96.5	**(436.6)**	114.0
Net earnings (loss)		**(1.8)**	406.4	**(564.5)**	535.0
Attributable to:					
Shareholders of Fairfax		**(5.5)**	402.4	**(573.4)**	526.9
Non-controlling interests		**3.7**	4.0	**8.9**	8.1
		(1.8)	406.4	**(564.5)**	535.0
Net earnings (loss) per share	13	**$ (0.98)**	$ 19.05	**$ (31.15)**	$ 22.95
Net earnings (loss) per diluted share	13	**$ (0.98)**	$ 18.82	**$ (31.15)**	$ 22.68
Cash dividends paid per share		**$ —**	$ —	**$ 10.00**	$ 10.00
Shares outstanding (000) (weighted average)	13	**20,729**	20,287	**20,360**	20,327

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three and twelve months ended December 31, 2013 and 2012
(unaudited – US$ millions)

	Notes	Fourth quarter		Year ended December 31,	
		2013	2012	**2013**	2012
Net earnings (loss)		**(1.8)**	406.4	**(564.5)**	535.0
Other comprehensive income (loss), net of income taxes	12				
Items that may be subsequently reclassified to net earnings					
Change in unrealized foreign currency translation gains (losses) on foreign operations		**(50.5)**	(25.0)	**(164.4)**	59.2
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	7	**48.3**	16.4	**96.9**	(20.4)
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans		**4.5**	(7.3)	**(12.9)**	(10.1)
		2.3	(15.9)	**(80.4)**	28.7
Items that will not be subsequently reclassified to net earnings					
Share of gains (losses) on defined benefit plans of associates		**3.9**	(0.1)	**8.9**	(10.9)
Change in gains (losses) on defined benefit plans		**30.4**	(13.7)	**31.3**	(17.2)
		34.3	(13.8)	**40.2**	(28.1)
Other comprehensive income (loss), net of income taxes		**36.6**	(29.7)	**(40.2)**	0.6
Comprehensive income (loss)		**34.8**	376.7	**(604.7)**	535.6
Attributable to:					
Shareholders of Fairfax		**31.0**	372.0	**(607.1)**	527.6
Non-controlling interests		**3.8**	4.7	**2.4**	8.0
		34.8	376.7	**(604.7)**	535.6

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2013 and 2012
(unaudited - US$ millions)

	Subordinate voting shares	Multiple voting shares	Treasury shares (at cost)	Share-based payments and other reserves	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, 2013	**3,243.3**	**3.8**	**(121.1)**	**26.8**	**4,389.8**	**112.1**	**7,654.7**	**1,166.4**	**8,821.1**	**73.4**	**8,894.5**
Net earnings (loss) for the period	**—**	**—**	**—**	**—**	**(573.4)**	**—**	**(573.4)**	**—**	**(573.4)**	**8.9**	**(564.5)**
Other comprehensive income (loss), net of income taxes:											
Change in unrealized foreign currency translation gains (losses) on foreign operations	**—**	**—**	**—**	**—**	**—**	**(157.7)**	**(157.7)**	**—**	**(157.7)**	**(6.7)**	**(164.4)**
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	**—**	**—**	**—**	**—**	**—**	**96.9**	**96.9**	**—**	**96.9**	**—**	**96.9**
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	**—**	**—**	**—**	**—**	**—**	**(12.9)**	**(12.9)**	**—**	**(12.9)**	**—**	**(12.9)**
Share of gains (losses) on defined benefit plans of associates	**—**	**—**	**—**	**—**	**—**	**8.9**	**8.9**	**—**	**8.9**	**—**	**8.9**
Change in gains (losses) on defined benefit plans	**—**	**—**	**—**	**—**	**—**	**31.1**	**31.1**	**—**	**31.1**	**0.2**	**31.3**
Issuance of shares	**399.5**	**—**	**6.8**	**(7.1)**	**—**	**—**	**399.2**	**—**	**399.2**	**—**	**399.2**
Purchases and amortization	**—**	**—**	**(25.7)**	**21.9**	**—**	**—**	**(3.8)**	**—**	**(3.8)**	**—**	**(3.8)**
Common share dividends	**—**	**—**	**—**	**—**	**(205.5)**	**—**	**(205.5)**	**—**	**(205.5)**	**(6.4)**	**(211.9)**
Preferred share dividends	**—**	**—**	**—**	**—**	**(60.8)**	**—**	**(60.8)**	**—**	**(60.8)**	**—**	**(60.8)**
Net changes in capitalization (notes 6 and 16)	**—**	**—**	**—**	**8.9**	**1.1**	**—**	**10.0**	**—**	**10.0**	**38.0**	**48.0**
Balance as of December 31, 2013	**3,642.8**	**3.8**	**(140.0)**	**50.5**	**3,551.2**	**78.4**	**7,186.7**	**1,166.4**	**8,353.1**	**107.4**	**8,460.5**
Balance as of January 1, 2012	3,243.3	3.8	(72.7)	12.9	4,138.2	102.4	7,427.9	934.7	8,362.6	45.9	8,408.5
Net earnings for the period	—	—	—	—	526.9	—	526.9	—	526.9	8.1	535.0
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 (losses) on hedge of net investment in Canadian subsidiaries	—	—	—	—	—	(20.4)	(20.4)	—	(20.4)	—	(20.4)
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	—	—	—	—	—	(10.1)	(10.1)	—	(10.1)	—	(10.1)
Share of gains (losses) on defined benefit plans of associates	—	—	—	—	—	(10.9)	(10.9)	—	(10.9)	—	(10.9)
Change in gains (losses) on defined benefit plans	—	—	—	—	—	(16.4)	(16.4)	—	(16.4)	(0.8)	(17.2)
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 16)	—	—	—	—	—	—	—	—	—	26.2	26.2
Other (note 16)	—	—	—	—	(9.0)	9.0	—	—	—	—	—
Balance as of December 31, 2012	3,243.3	3.8	(121.1)	26.8	4,389.8	112.1	7,654.7	1,166.4	8,821.1	73.4	8,894.5

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and twelve months ended December 31, 2013 and 2012
(unaudited - US$ millions)

		Fourth quarter		Year ended December 31,	
	Notes	**2013**	2012	**2013**	2012
Operating activities					
Net earnings (loss)		**(1.8)**	406.4	**(564.5)**	535.0
Depreciation, amortization and impairment charges		**20.0**	21.1	**104.3**	71.0
Net bond discount amortization		**6.2**	(11.6)	**(22.1)**	(48.9)
Amortization of share-based payment awards		**6.1**	5.0	**21.9**	16.6
Share of profit of associates		**(30.4)**	(20.0)	**(96.7)**	(15.0)
Deferred income taxes	14	**(50.2)**	41.3	**(431.8)**	15.8
Net (gains) losses on investments	5	**329.1**	(635.6)	**1,564.0**	(642.6)
Excess of fair value of net assets acquired over purchase price	16	**—**	(6.8)	**—**	(6.8)
Loss on repurchase of long term debt	11	**—**	39.8	**3.4**	40.6
Net (purchases) sales of securities classified as at FVTPL	20	**(18.7)**	(207.8)	**895.7**	1,105.7
Changes in operating assets and liabilities	20	**(252.3)**	165.9	**(766.9)**	244.3
Cash provided by (used in) operating activities		**8.0**	(202.3)	**707.3**	1,315.7
Investing activities					
Sales of investments in associates and joint ventures	6	**29.1**	302.7	**211.9**	338.8
Purchases of investments in associates and joint ventures	6, 16	**(1.5)**	(94.0)	**(86.1)**	(224.2)
Net purchases of premises and equipment and intangible assets		**(11.9)**	(29.8)	**(48.1)**	(71.5)
Net purchases of subsidiaries, net of cash acquired	16	**211.6**	(142.9)	**136.3**	(334.4)
Cash provided by (used in) investing activities		**227.3**	36.0	**214.0**	(291.3)
Financing activities					
Subsidiary indebtedness:	11				
Issuances		**16.3**	20.8	**51.1**	60.5
Repayment		**(36.5)**	(20.5)	**(82.1)**	(40.4)
Long term debt:	11				
Issuances		**—**	204.3	**279.7**	204.3
Issuance costs		**—**	(1.3)	**(1.6)**	(1.3)
Repayment		**(197.3)**	(200.9)	**(251.2)**	(296.5)
Subordinate voting shares:	12				
Issuances		**412.8**	—	**412.8**	—
Issuance costs		**(13.3)**	—	**(13.3)**	—
Preferred shares:	12				
Issuances		**—**	—	**—**	239.1
Issuance costs		**—**	—	**—**	(7.4)
Purchase of subordinate voting shares for treasury		**(14.0)**	(30.9)	**(25.7)**	(50.6)
Subsidiary common shares:	16				
Issuances to non-controlling interests		**—**	—	**34.0**	—
Issuance costs		**—**	—	**(1.1)**	—
Common share dividends		**—**	—	**(205.5)**	(205.8)
Preferred share dividends		**(14.8)**	(15.9)	**(60.8)**	(60.5)
Dividends paid to non-controlling interests		**—**	—	**(6.4)**	(6.7)
Cash provided by (used in) financing activities		**153.2**	(44.4)	**129.9**	(165.3)
Increase (decrease) in cash, cash equivalents and bank overdrafts		**388.5**	(210.7)	**1,051.2**	859.1
Cash, cash equivalents and bank overdrafts – beginning of period		**3,396.9**	3,044.9	**2,815.3**	1,910.0
Foreign currency translation		**(27.2)**	(18.9)	**(108.3)**	46.2
Cash, cash equivalents and bank overdrafts – end of period	20	**3,758.2**	2,815.3	**3,758.2**	2,815.3

See accompanying notes.

Index to Notes to Condensed Consolidated Financial Statements

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, 2013, the company's year-end, and for the fourth quarter and year ended December 31, 2013. 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 7, 2014.

These condensed consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the year ended December 31, 2012, 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 13, 2014.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these condensed consolidated financial statements are as set out in the company's annual consolidated financial statements for the year ended December 31, 2012, prepared in accordance with IFRS as issued by the IASB. Those policies and methods of computation have been consistently applied to all periods presented except as described below.

Changes in accounting policies

The company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were adopted in accordance with the applicable transitional provisions of each new or revised standard.

Amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1")
The amendments to IAS 1 change the presentation of items in the consolidated statement of comprehensive income. The amendments require the components of other comprehensive income to be presented in two separate groups, based on whether or not the components may be recycled to the consolidated statement of earnings in the future. The company retrospectively adopted these presentation changes on January 1, 2013, which did not result in any measurement adjustments to other comprehensive income or comprehensive income.

Amendments to IAS 19 *Employee Benefits* ("IAS 19")
The amendments to IAS 19 require changes to the recognition and measurement of defined benefit pension and post retirement benefit expense and to the disclosures for all employee benefits. The net defined benefit liability (asset) is required to be recognized on the consolidated balance sheet without any deferral of actuarial gains and losses and past service costs as previously permitted. Past service costs are recognized in the consolidated statement of earnings when incurred. Expected returns on plan assets are no longer included in the determination of defined benefit expense. Instead, defined benefit expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Remeasurements consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in asset limitation amounts are recognized in other comprehensive income. All remeasurements recognized in other comprehensive income are subsequently included in accumulated other comprehensive income and cannot be recycled to the consolidated statement of earnings in the future, but are reclassified to retained earnings upon settlement of the plan or disposal of the related associate or subsidiary.

The company adopted the amendments to IAS 19 retrospectively which had no impact on total equity as at January 1, 2012 and December 31, 2012, nor was there any impact on net cash flows for the year ended December 31, 2012. The adjustments for each financial statement line item affected are presented below.

Adjustments within common shareholders' equity on the consolidated balance sheets

	Increase (decrease)	
	December 31, 2012	**January 1, 2012**
Retained earnings	2.7	(15.6)
Accumulated other comprehensive income	(2.7)	15.6

Adjustments to consolidated statements of earnings

	December 31, 2012	
	Fourth quarter	**Year ended**
Net earnings before adoption of accounting change	408.1	540.7
Impact on net earnings of adoption of accounting change:		
Operating expenses - increase	(2.0)	(6.4)
Other expenses - increase	(0.3)	(1.4)
Provision for income taxes - decrease	0.6	2.1
	(1.7)	(5.7)
Net earnings after adoption of accounting change	406.4	535.0
Attributable to:		
Shareholders of Fairfax	402.4	526.9
Non-controlling interests	4.0	8.1
	406.4	535.0

Adjustments to consolidated statements of comprehensive income

	December 31, 2012	
	Fourth quarter	**Year ended**
Comprehensive income before adoption of accounting change	372.7	535.6
Impact on net earnings of adoption of accounting change	(1.7)	(5.7)
Impact on other comprehensive income of adoption of accounting change:		
Change in gains (losses) on defined benefit plans, net of income taxes	5.7	5.7
Comprehensive income after adoption of accounting change	376.7	535.6
Attributable to:		
Shareholders of Fairfax	372.0	527.6
Non-controlling interests	4.7	8.0
	376.7	535.6

IFRS 13 *Fair Value Measurement* ("IFRS 13")

IFRS 13 provides a single comprehensive framework for measuring fair value. IFRS 13 applies to IFRS that require or permit fair value measurement, but does not address when to measure fair value or require additional use of fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The new standard requires disclosures similar to those in IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"), but applies to substantially all assets and liabilities measured at fair value, whereas IFRS 7 applies only to financial assets and liabilities measured at fair value. The company adopted IFRS 13 prospectively on January 1, 2013. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the company to measure fair value and did not result in any measurement adjustments as at January 1, 2013. However, certain interim disclosures under IAS 34 *Interim Financial Reporting* related to the fair value of financial instruments have been expanded.

IFRS 10 *Consolidated Financial Statements* ("IFRS 10")

IFRS 10 introduces a single consolidation model that uses the same criteria to determine control for entities of all types, irrespective of whether the investee is controlled by voting rights or other contractual arrangements. Under IFRS 10, an investee is consolidated only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The principle that a consolidated entity presents a parent and its subsidiaries as a single entity remains unchanged, as do the mechanics of consolidation. IFRS 10 supersedes the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation -*

Special Purpose Entities. The company assessed its subsidiaries and investees on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any changes within its consolidated financial reporting.

IFRS 11 *Joint Arrangements* ("IFRS 11")
IFRS 11 establishes principles for financial reporting by parties to a joint arrangement, and only differentiates between joint operations and joint ventures. The option to apply proportionate consolidation when accounting for joint ventures has been removed and equity accounting is now applied in accordance with IAS 28 *Investments in Associates and Joint Ventures*. IFRS 11 supersedes existing guidance under IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non Monetary Contributions by Venturers*. The company assessed its investments in associates and joint arrangements on January 1, 2013 and determined that the adoption of IFRS 11 did not result in any measurement changes within its consolidated financial reporting.

IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28")
IAS 28 has been amended to be consistent with the changes to accounting for joint arrangements in IFRS 11. The amended standard prescribes the accounting for investments in associates and provides guidance on the application of the equity method when accounting for investments in associates and joint ventures. Retrospective adoption of the amended standard on January 1, 2013 did not result in any measurement changes within the company's consolidated financial reporting.

IFRS 12 *Disclosure of Interests in Other Entities ("IFRS 12")*
IFRS 12 sets out the disclosure requirements under IFRS 10, IFRS 11 and IAS 28. The enhanced disclosures in IFRS 12 are intended to help financial statement readers evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Adoption of IFRS 12 resulted in more extensive disclosures within the consolidated financial statements.

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, 2012. 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, 2013	December 31, 2012
Holding company:		
Cash and cash equivalents (note 20)	**214.4**	212.9
Short term investments	**185.9**	426.5
Short term investments pledged for short sale and derivative obligations	**107.8**	140.2
Bonds	**240.4**	115.9
Bonds pledged for short sale and derivative obligations	**16.6**	—
Preferred stocks	**223.0**	46.3
Common stocks	**264.9**	170.1
Derivatives (note 7)	**43.7**	57.3
	1,296.7	1,169.2
Short sale and derivative obligations (note 7)	**(55.1)**	(41.2)
	1,241.6	1,128.0
Portfolio investments:		
Cash and cash equivalents (note 20)	**3,878.4**	2,728.6
Short term investments	**3,567.3**	4,231.5
Bonds	**9,550.5**	10,803.6
Preferred stocks	**541.8**	605.1
Common stocks	**3,835.7**	4,399.1
Investments in associates (note 6)	**1,432.5**	1,355.3
Derivatives (note 7)	**193.1**	149.7
Other invested assets	**31.1**	31.3
	23,030.4	24,304.2
Assets pledged for short sale and derivative obligations:		
Cash and cash equivalents (note 20)	**11.8**	51.1
Short term investments	**45.8**	307.1
Bonds	**745.3**	500.8
	802.9	859.0
	23,833.3	25,163.2
Short sale and derivative obligations (note 7)	**(213.3)**	(197.0)
	23,620.0	24,966.2

Common stocks included investments in limited partnerships with a carrying value of $816.4 at December 31, 2013 ($468.6 at December 31, 2012).

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, 2013 bonds containing call and put features represented approximately $5,990.1 and $60.3 respectively ($6,332.7 and $77.5 at December 31, 2012 respectively) of the total fair value of bonds in the table below.

	December 31, 2013		December 31, 2012	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**962.7**	**998.2**	849.5	1,008.2
Due after 1 year through 5 years	**4,565.7**	**5,081.4**	2,625.8	2,984.3
Due after 5 years through 10 years	**518.2**	**527.3**	2,828.3	3,409.4
Due after 10 years	**4,203.1**	**3,945.9**	3,685.8	4,018.4
	10,249.7	**10,552.8**	9,989.4	11,420.3

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 recurring valuation of securities and derivative contracts by type of issuer was as follows:

	December 31, 2013				December 31, 2012			
	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	**4,104.6**	**4,104.6**	**—**	**—**	2,992.6	2,992.6	—	—
Short term investments:								
Canadian provincials	**405.0**	**405.0**	**—**	**—**	1,375.1	1,375.1	—	—
U.S. treasury	**3,147.6**	**3,147.6**	**—**	**—**	3,137.6	3,137.6	—	—
Other government	**281.6**	**281.6**	**—**	**—**	508.3	468.3	40.0	—
Corporate and other	**72.6**	**—**	**72.6**	**—**	84.3	—	84.3	—
	3,906.8	**3,834.2**	**72.6**	**—**	5,105.3	4,981.0	124.3	—
Bonds:								
Canadian government	**18.3**	**—**	**18.3**	**—**	21.1	—	21.1	—
Canadian provincials	**164.7**	**—**	**164.7**	**—**	133.4	—	133.4	—
U.S. treasury	**1,669.6**	**—**	**1,669.6**	**—**	1,520.8	—	1,520.8	—
U.S. states and municipalities	**6,227.7**	**—**	**6,227.7**	**—**	6,867.8	—	6,867.8	—
Other government	**1,067.3**	**—**	**1,067.3**	**—**	1,204.1	—	1,204.1	—
Corporate and other	**1,405.2**	**—**	**967.6**	**437.6**	1,673.1	—	1,554.0	119.1
	10,552.8	**—**	**10,115.2**	**437.6**	11,420.3	—	11,301.2	119.1
Preferred stocks:								
Canadian	**242.3**	**—**	**78.9**	**163.4**	142.1	—	87.5	54.6
U.S.	**490.7**	**—**	**471.1**	**19.6**	461.6	—	426.2	35.4
Other	**31.8**	**—**	**31.8**	**—**	47.7	—	47.7	—
	764.8	**—**	**581.8**	**183.0**	651.4	—	561.4	90.0
Common stocks:								
Canadian	**678.1**	**643.7**	**7.2**	**27.2**	1,064.1	1,022.5	16.5	25.1
U.S.	**814.6**	**402.1**	**28.2**	**384.3**	1,748.8	1,395.4	35.3	318.1
Other	**2,607.9**	**1,672.2**	**370.6**	**565.1**	1,756.3	1,121.7	365.7	268.9
	4,100.6	**2,718.0**	**406.0**	**976.6**	4,569.2	3,539.6	417.5	612.1
Derivatives and other invested assets[(1)]	**244.8**	**1.7**	**96.6**	**146.5**	215.0	—	99.2	115.8
Short sale and derivative obligations	**(268.4)**	**—**	**(268.4)**	**—**	(238.2)	—	(238.2)	—
Holding company cash and investments and portfolio investments measured at fair value	**23,406.0**	**10,658.5**	**11,003.8**	**1,743.7**	24,715.6	11,513.2	12,265.4	937.0
	100.0%	**45.5%**	**47.0%**	**7.5%**	100.0%	46.6%	49.6%	3.8%
Investments in associates (note 6)[(2)]	**1,815.0**	**806.5**	**35.2**	**973.3**	1,782.4	831.0	30.2	921.2

(1) Excluded from these totals are certain real estate investments at December 31, 2013 of $23.1 ($23.3 at December 31, 2012) which are carried at cost less any accumulated amortization and impairment.

(2) The carrying value of investments in associates is determined under the equity method of accounting and the related fair value is presented separately in the table above.

There were no changes to the valuation techniques used compared to those described in the Summary of Significant Accounting Policies in the company's annual consolidated financial statements for the year ended December 31, 2012.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the full years of 2013 and 2012 there were no significant transfers of financial instruments between Level 1 and Level 2 in the fair value hierarchy and there were no transfers of financial instruments in or out of Level 3 as a result of changes in the observability of valuation inputs.

Included in Level 3 are investments in CPI-linked derivatives, certain private placement debt securities and equity warrants, common and preferred shares of private companies. 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 models that incorporate the credit spreads of the issuers, an input which is not market observable. Limited partnerships, private equity funds and private company common shares are classified within holding company cash and investments and common stocks on the consolidated balance sheets.

These investments are primarily valued using net asset value statements provided by the respective third party fund managers and general partners. The fair values in those statements are determined using quoted prices of the underlying assets, and to a lesser extent, observable inputs where available and unobservable inputs, in conjunction with industry accepted valuation models, where required. In some instances, private equity funds and limited partnerships are classified as Level 3 because they may require at least three months of notice to liquidate. Reasonably possible changes in the value of unobservable inputs would not significantly change the fair value of investments classified as Level 3 in the fair value hierarchy.

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:

	2013						
	Private placement debt securities	**Private company preferred shares**	**Limited partnerships**	**Private equity funds**	**Private company common shares**	**CPI-linked derivatives and Warrants**	**Total**
Balance - January 1	**119.1**	**90.0**	**314.7**	**122.1**	**175.3**	**115.8**	**937.0**
Total net realized and unrealized gains (losses) included in net gains (losses) on investments	**4.0**	**(23.2)**	**37.1**	**25.2**	**(5.3)**	**(108.3)**	**(70.5)**
Purchases	**356.2**	**116.2**	**358.9**	**22.7**	**8.9**	**139.0**	**1,001.9**
Sales	**(41.7)**	**—**	**(18.0)**	**(57.8)**	**(7.2)**	**—**	**(124.7)**
Balance - December 31	**437.6**	**183.0**	**692.7**	**112.2**	**171.7**	**146.5**	**1,743.7**

	2012						
	Private placement debt securities	Private company preferred shares	Limited partnerships	Private equity funds	Private company common shares	CPI-linked derivatives	Total
Balance - January 1	60.0	8.3	193.3	106.1	125.0	208.2	700.9
Total net realized and unrealized gains (losses) included in net gains (losses) on investments	(2.6)	(5.1)	62.5	6.8	(0.7)	(126.8)	(65.9)
Purchases	90.0	86.8	102.0	41.8	51.0	34.4	406.0
Sales	(28.3)	—	(43.1)	(32.6)	—	—	(104.0)
Balance - December 31	119.1	90.0	314.7	122.1	175.3	115.8	937.0

The company employs dedicated personnel responsible for the valuation of the company's investment portfolio. Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the company for reasonableness. The company's Chief Financial Officer oversees the valuation function and regularly reviews valuation processes and results, including at each quarterly reporting period. Significant valuation matters, particularly those requiring extensive judgment, are communicated to the company's Audit Committee.

Net gains (losses) on investments

	Fourth quarter					
	2013			2012		
	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	**143.6**	**(247.8)**	**(104.2)**	179.4	45.3	224.7
Preferred stocks	**—**	**43.9**	**43.9**	0.4	(21.7)	(21.3)
Common stocks	**281.1**	**(42.3)**	**238.8**	(94.0)	507.2	413.2
	424.7	**(246.2)**	**178.5**	85.8	530.8	616.6
Derivatives:						
Common stock and equity index short positions[1]	**(502.7)**	**(69.9)**	**(572.6)**	(39.4)	(94.5)	(133.9)
Common stock and equity index long positions[1]	**24.6**	**32.7**	**57.3**	(33.5)	10.8	(22.7)
Credit default swaps	**—**	**(0.9)**	**(0.9)**	(9.0)	1.1	(7.9)
Equity and equity call options	**—**	**1.7**	**1.7**	—	—	—
Equity warrants	**—**	**0.3**	**0.3**	—	11.5	11.5
CPI-linked contracts	**—**	**(14.4)**	**(14.4)**	—	(29.9)	(29.9)
Other	**2.3**	**15.3**	**17.6**	14.8	11.6	26.4
	(475.8)	**(35.2)**	**(511.0)**	(67.1)	(89.4)	(156.5)
Foreign currency gains (losses) on:						
Investing activities	**11.2**	**12.6**	**23.8**	(1.2)	25.2	24.0
Underwriting activities	**8.5**	**—**	**8.5**	(2.8)	—	(2.8)
Foreign currency contracts	**(3.7)**	**(15.8)**	**(19.5)**	(10.1)	(5.1)	(15.2)
	16.0	**(3.2)**	**12.8**	(14.1)	20.1	6.0
Gain on disposition of associate[2]	**—**	**—**	**—**	167.0	—	167.0
Other	**(9.3)**	**(0.1)**	**(9.4)**	0.1	2.4	2.5
Net gains (losses) on investments	**(44.4)**	**(284.7)**	**(329.1)**	171.7	463.9	635.6

	Year ended December 31,					
	2013			2012		
	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	**219.5**	**(1,151.1)**	**(931.6)**	629.0	285.8	914.8
Preferred stocks	**(1.2)**	**46.9**	**45.7**	1.0	(37.5)	(36.5)
Common stocks	**684.1**	**257.1**	**941.2**	133.9	563.7	697.6
	902.4	**(847.1)**	**55.3**	763.9	812.0	1,575.9
Derivatives:						
Common stock and equity index short positions[1]	**(1,956.2)**	**(25.8)**	**(1,982.0)**	(837.6)	(153.9)	(991.5)
Common stock and equity index long positions[1]	**273.0**	**20.9**	**293.9**	13.5	34.0	47.5
Credit default swaps	**(30.3)**	**28.7**	**(1.6)**	(21.6)	(26.7)	(48.3)
Equity and equity call options	**—**	**1.7**	**1.7**	—	—	—
Equity warrants[2]	**32.4**	**(16.4)**	**16.0**	—	12.3	12.3
CPI-linked contracts	**—**	**(126.9)**	**(126.9)**	—	(129.2)	(129.2)
Other	**32.4**	**(37.8)**	**(5.4)**	85.3	(33.6)	51.7
	(1,648.7)	**(155.6)**	**(1,804.3)**	(760.4)	(297.1)	(1,057.5)
Foreign currency gains (losses) on:						
Investing activities	**(5.7)**	**75.0**	**69.3**	(70.1)	10.1	(60.0)
Underwriting activities	**15.8**	**—**	**15.8**	3.2	—	3.2
Foreign currency contracts	**(13.8)**	**(8.9)**	**(22.7)**	22.2	(41.6)	(19.4)
	(3.7)	**66.1**	**62.4**	(44.7)	(31.5)	(76.2)
Gain on disposition of associates[2]	**130.2**	**—**	**130.2**	196.8	—	196.8
Other	**(7.7)**	**0.1**	**(7.6)**	2.3	1.3	3.6
Net gains (losses) on investments	**(627.5)**	**(936.5)**	**(1,564.0)**	157.9	484.7	642.6

(1) Amounts recorded in net realized gains (losses) include net gains (losses) on total return swaps where the counterparties are required to cash-settle on a quarterly or monthly 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 16, 2013 the company sold all of its investments in Imvescor common shares and equity warrants for total proceeds of $25.7 (Cdn$26.1) and recognized net realized gains of $6.2 on common shares (including amounts previously recorded in accumulated other comprehensive income) and $7.7 on equity warrants.

On March 28, 2013 the company sold all of its ownership interest in The Brick for net proceeds of $217.7 (Cdn$221.2) and recognized a net gain on investment of $111.9 (including amounts previously recorded in accumulated other comprehensive income). Net proceeds consisted of cash and convertible debentures issued by Leon's Furniture Limited.

On January 18, 2013 the company sold all of its ownership interest in a private company for net cash proceeds of $14.0 and recognized a net gain on investment of $12.1.

On December 10, 2012 the company sold all of its ownership interest in Cunningham Lindsey Group Limited for net proceeds of $270.6 and recognized a net gain on investment of $167.0 (including amounts previously recorded in accumulated other comprehensive income).

On April 13, 2012, the company sold all of its interest in Fibrek Inc. to Resolute and received cash consideration 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).

6. Investments in Associates

The following summarizes the company's investments in associates:

	December 31, 2013			December 31, 2012		
	Ownership Percentage	**Fair value**	**Carrying value**	Ownership Percentage	Fair value	Carrying value
Portfolio investments - Investments in associates						
Insurance and Reinsurance companies (long term strategic holdings)						
ICICI Lombard General Insurance Company Limited ("ICICI Lombard")[1]	**26.0 %**	**261.0**	**80.1**	26.0 %	223.9	75.3
Gulf Insurance Company ("Gulf Insurance")	**41.4 %**	**242.3**	**216.0**	41.4 %	258.3	217.9
Thai Re Public Company Limited ("Thai Re")[2]	**23.8 %**	**96.5**	**49.9**	23.2 %	132.7	59.3
Singapore Reinsurance Corporation Limited ("Singapore Re")	**27.1 %**	**33.7**	**37.0**	27.0 %	34.7	36.3
Falcon Insurance PLC ("Falcon Thailand")	**40.5 %**	**7.6**	**7.6**	40.5 %	7.2	7.2
		641.1	**390.6**		656.8	396.0
Non-insurance companies						
Resolute Forest Products Inc. ("Resolute")[3]	**30.5 %**	**462.1**	**391.4**	25.6 %	326.2	280.6
Eurobank Properties REIC ("Eurobank Properties")	**18.3 %**	**122.0**	**73.0**	18.0 %	69.8	66.6
MEGA Brands Inc. ("MEGA Brands")[4]	**27.4 %**	**89.1**	**88.2**	21.9 %	34.9	43.3
Arbor Memorial Services Inc. ("Arbor Memorial")	**41.8 %**	**62.1**	**50.1**	39.5 %	47.0	47.0
The Brick Ltd. ("The Brick")[5]	—	—	—	33.7 %	220.1	108.5
Imvescor Restaurant Group Inc. ("Imvescor")[6]	—	—	—	23.6 %	9.3	7.3
KWF Real Estate Ventures Limited Partnerships ("KWF LPs")[7]	—	**351.4**	**351.4**	—	324.0	324.0
Partnerships, trusts and other[8]	—	**87.2**	**87.8**	—	94.3	82.0
Cara Operations Limited ("Cara")[9]	—	—	—	—	—	—
		1,173.9	**1,041.9**		1,125.6	959.3
Investments in associates		**1,815.0**	**1,432.5**		1,782.4	1,355.3

(1) During the first quarter of 2013 the company participated in ICICI Lombard's rights offering and paid $4.8 to maintain its 26.0% ownership interest.

(2) During the third quarter of 2013 Thai Re sold a minority share of a wholly owned subsidiary to unrelated third parties and recognized a net gain in equity. The company recorded its $8.9 share of the after-tax net gain directly in equity.

(3) The company increased its ownership interest in Resolute from 25.6% at December 31, 2012 to 30.5% at December 31, 2013 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.

(4) On March 26, 2013 the company converted all of its MEGA Brands warrants into 2,699,400 common shares for cash purchase consideration of $26.4 (Cdn$26.8), increasing its ownership to 28.1% from 21.9%. Warrants exercised by other investors during the second quarter of 2013 diluted the company's ownership to 27.4%.

(5) On March 28, 2013 the company sold all of its ownership interest in The Brick for net proceeds of Cdn$221.2 (Cdn$5.40 per common share) and recognized a net gain on investment of $111.9 (including amounts previously recorded in accumulated other comprehensive income). Net proceeds consisted of cash and convertible debentures issued by Leon's Furniture Limited.

(6) On April 16, 2013 the company sold all of its investments in Imvescor common shares and equity warrants for total proceeds of $25.7 (Cdn$26.1) and recognized net realized gains of $6.2 on common shares (including amounts previously recorded in accumulated other comprehensive income) and $7.7 on equity warrants.

(7) The KWF LPs are partnerships formed between the company and Kennedy-Wilson, Inc. and its affiliates to invest in U.S. and international real estate properties. These partnerships are considered joint ventures under IFRS 11 and are accounted for using the equity method.

(8) On January 18, 2013 the company sold all of its ownership interest in a private company for net proceeds of $14.0 and recognized a net gain on investment of $12.1.

(9) The company determined that it had obtained significant influence over Cara effective October 31, 2013 but as the company did not hold any Cara common shares, the equity method of accounting could not be applied. See note 16 for details.

The company's strategic investment of $108.6 at December 31, 2013 ($107.9 at December 31, 2012) in 15.0% of Alltrust Insurance Company of China Ltd. ("Alltrust") is classified as at FVTPL within common stocks on the consolidated balance sheets.

7. Short Sales and Derivatives

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

	December 31, 2013				December 31, 2012			
			Fair value				Fair value	
	Cost	**Notional amount**	**Assets**	**Liabilities**	Cost	Notional amount	Assets	Liabilities
Equity derivatives:								
Equity index total return swaps – short positions	**—**	**4,583.0**	**2.5**	**123.8**	—	6,235.5	19.6	136.0
Equity total return swaps – short positions	**—**	**1,744.4**	**15.4**	**84.8**	—	1,433.0	4.1	55.1
Equity total return swaps – long positions	**—**	**263.5**	**15.4**	**7.5**	—	1,021.8	3.5	16.4
Equity call options	**—**	**13.0**	**1.7**	**—**	—	—	—	—
Warrants	**15.6**	**150.5**	**15.4**	**—**	19.3	68.5	36.0	—
Credit derivatives:								
Credit default swaps	**9.2**	**908.4**	**0.1**	**—**	43.2	1,898.7	1.7	—
Warrants	**2.7**	**90.0**	**0.1**	**—**	2.7	90.0	1.3	—
CPI-linked derivative contracts	**545.8**	**82,866.9**	**131.7**	**—**	454.1	48,436.0	115.8	—
Foreign exchange forward contracts	**—**	**—**	**15.6**	**42.8**	—	—	3.8	20.6
Other derivative contracts	**—**	**—**	**38.9**	**9.5**	—	—	21.2	10.1
Total			**236.8**	**268.4**			207.0	238.2

The company is exposed to significant market risk (comprised of foreign currency risk, interest rate risk and other price risk) through its investing activities. Derivative contracts entered into by the company, with limited exceptions, 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, non-insurance 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 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. At December 31, 2013 equity hedges with a net notional amount of $6,327.4 ($7,668.5 at December 31, 2012) represented 98.2% (101.0% at December 31, 2012) of the company's equity and equity-related holdings of $6,442.6 ($7,594.0 at December 31, 2012). The company's equity and equity-related holdings after equity hedges produced net losses of $235.2 in the fourth quarter of 2013 ($536.9 in the full year of 2013) compared to net gains of $454.3 in the fourth quarter of 2012 ($113.2 in the full year of 2012).

As a result of the significant appreciation of certain of its equity and equity-related holdings, the company reduced its direct equity exposure through net sales of common stocks and convertible bonds for net proceeds of $750.5 and $1,385.9 in the fourth quarter and full year of 2013 respectively, and reduced the notional amount of its long positions in individual equities effected through total return swaps by $1,031.3 in the fourth quarter and full year of 2013. The company also closed out a portion of its Russell 2000 and all of its S&P 500 equity index total return swaps and certain short positions in individual equities, with notional amounts of $1,959.5 and $3,254.1 in the fourth quarter and full year of 2013 respectively. By undertaking the transactions described above the company reduced its direct equity exposure and rebalanced its equity hedge ratio to approximately 100% at December 31, 2013, after giving consideration to net gains recognized on its equity and equity-related holdings and net losses incurred on its equity hedging instruments.

During the fourth quarter and full year of 2013 the company paid net cash of $502.7 and $1,956.2 respectively (paid net cash of $39.4 and $837.6 during the fourth quarter and full year of 2012 respectively) in connection with the reset provisions of its short equity and equity index total return swaps (excluding the impact of collateral requirements). The company funded these payments through sales of common stocks and convertible bonds as described in the preceding paragraph.

Refer to note 17 for a tabular analysis followed by a discussion of the company's hedges of equity price risk and the related basis risk.

	December 31, 2013				December 31, 2012			
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	**37,424,319**	**2,477.2**	**661.92**	**1,163.64**	52,881,400	3,501.9	662.22	849.35
S&P 500	**—**	**—**	**—**	**—**	10,532,558	1,117.3	1,060.84	1,426.19
S&P/TSX 60	**13,044,000**	**206.1**	**641.12**	**783.75**	13,044,000	206.1	641.12	713.72
Other equity indices	**—**	**140.0**	**—**	**—**	—	140.0	—	—
Individual equities	**—**	**1,481.8**	**—**	**—**	—	1,231.3	—	—

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

As at December 31, 2013 the company had entered into long equity total return swaps on individual equities for investment purposes with an original notional amount of $267.8 ($975.8 at December 31, 2012). During the fourth quarter and full year of 2013 the company received net cash of $24.6 and $273.0 respectively (paid net cash of $33.5 and received net cash of $13.5 during the fourth quarter and full year of 2012 respectively) in connection with the reset provisions of its long equity total return swaps (excluding the impact of collateral requirements).

At December 31, 2013 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 $927.3 ($999.2 at December 31, 2012), comprised of collateral of $723.2 ($847.5 at December 31, 2012) required to be deposited to enter into such derivative contracts (principally related to total return swaps) and $204.1 ($151.7 at December 31, 2012) 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, 2013 the warrants have expiration dates ranging from 2 years to 9 years (2 years to 10 years at December 31, 2012).

Credit contracts

At December 31, 2013 the company's remaining credit default swaps have a weighted average life of less than one year (less than one year at December 31, 2012) and a notional amount and fair value of $908.4 and $0.1 respectively ($1,898.7 and $1.7 respectively at December 31, 2012).

CPI-linked derivative contracts

The company has purchased derivative contracts referenced to consumer price indexes ("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, 2013 these contracts have a remaining weighted average life of 7.5 years (7.7 years at December 31, 2012) and a notional amount and fair value as shown in the table above. 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 indexes underlying the company's CPI-linked derivative contracts:

	December 31, 2013				December 31, 2012			
	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	**34,375.0**	**34,375.0**	**230.43**	**233.05**	19,625.0	19,625.0	223.98	229.60
United Kingdom	**3,300.0**	**5,465.7**	**243.82**	**253.40**	550.0	894.1	216.01	246.80
European Union	**28,475.0**	**39,236.9**	**109.85**	**117.28**	20,425.0	26,928.1	109.74	116.39
France	**2,750.0**	**3,789.3**	**124.85**	**125.82**	750.0	988.8	120.09	125.02
		82,866.9				48,436.0		

During the fourth quarter and full year of 2013 the company purchased notional amounts of $650.0 and $32,327.7 respectively ($1,450.0 in each of the fourth quarter and full year of 2012 respectively) of CPI-linked derivative contracts at a cost of $1.8 and $99.8 respectively ($6.1 in each of the fourth quarter and full year of 2012 respectively). The company also paid additional premiums of $5.1 and $24.0 in the fourth quarter and full year of 2013 respectively ($8.1 and $28.3 in the fourth quarter and full year of 2012 respectively) to increase the strike price of its CPI-linked derivative contracts (primarily its U.S. CPI-linked derivatives). These transactions increased the weighted average strike price of the U.S. CPI-linked derivative contracts from 223.98 at December 31, 2012 to 230.43 at December 31, 2013. The company's CPI-linked derivative contracts produced unrealized losses of $14.4 and $126.9 in the fourth quarter and full year of 2013 respectively ($29.9 and $129.2 in the fourth quarter and full year of 2012 respectively).

Foreign exchange forward contracts

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, 2013 consisted of cash and government securities of $25.3 and $25.1 respectively ($22.1 and $38.3 respectively at December 31, 2012). 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, 2013. The company's exposure to counterparty risk and the manner in which the company manages counterparty risk are discussed further in note 17.

Hedge of net investment in Canadian subsidiaries

The company has designated the carrying value of Cdn$1,525.0 principal amount of its Canadian dollar denominated unsecured senior notes with a fair value of $1,544.4 (principal amount of Cdn$1,275.0 with a fair value of $1,424.4 at December 31, 2012) as a hedge of its net investment in its Canadian subsidiaries for financial reporting purposes. During the fourth quarter and full year of 2013 the company recognized pre-tax gains of $48.3 and $96.9 respectively (pre-tax gains of $16.4 and and pre-tax losses of $20.4 in the fourth quarter and full year of 2012 respectively) related to foreign currency movements on the unsecured senior notes in change in gains (losses) on hedge of net investment in Canadian subsidiaries in the consolidated statements of comprehensive income.

8. Insurance Contract Liabilities

	December 31, 2013			December 31, 2012		
	Gross	**Ceded**	**Net**	Gross	Ceded	Net
Provision for unearned premiums	**2,680.9**	**408.1**	**2,272.8**	2,727.4	427.4	2,300.0
Provision for losses and loss adjustment expenses	**19,212.8**	**4,213.3**	**14,999.5**	19,648.8	4,552.4	15,096.4
Total insurance contract liabilities	**21,893.7**	**4,621.4**	**17,272.3**	22,376.2	4,979.8	17,396.4

Provision for losses and loss adjustment expenses

Changes in the provision for losses and loss adjustment expenses for the years ended December 31 were as follows:

	2013	2012
Provision for losses and loss adjustment expenses – January 1	**19,648.8**	17,232.2
Increase (decrease) in estimated losses and expenses for claims occurring in the prior years	**(470.3)**	14.0
Losses and expenses for claims occurring in the current year	**5,085.9**	5,251.5
Paid on claims occurring during:		
the current year	**(1,212.8)**	(1,106.5)
the prior years	**(4,358.7)**	(3,698.1)
Acquisitions of subsidiaries and reinsurance-to-close transactions	**690.3**	1,802.9
Foreign exchange effect and other	**(170.4)**	152.8
Provision for losses and loss adjustment expenses – December 31	**19,212.8**	19,648.8

9. Significant Commutation

On March 29, 2013 TIG Insurance Company ("TIG Insurance") entered into an agreement to commute a recoverable from a reinsurer with a carrying value of $85.4 for total consideration of $118.5 (principally cash consideration of $115.8). The gain of $33.1 on the commutation is recorded in ceded losses on claims in the consolidated statement of earnings for the year ended December 31, 2013.

10. Reinsurance

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

	December 31, 2013			December 31, 2012		
	Gross recoverable from reinsurers	**Provision for uncollectible reinsurance**	**Recoverable from reinsurers**	Gross recoverable from reinsurers	Provision for uncollectible reinsurance	Recoverable from reinsurers
Provision for losses and loss adjustment expenses	**4,276.8**	**(63.5)**	**4,213.3**	4,663.7	(111.3)	4,552.4
Reinsurers' share of paid losses	**518.6**	**(165.3)**	**353.3**	469.6	(158.6)	311.0
Provision for unearned premiums	**408.1**	**—**	**408.1**	427.4	—	427.4
	5,203.5	**(228.8)**	**4,974.7**	5,560.7	(269.9)	5,290.8

Included in commissions, net in the consolidated statement of earnings for the fourth quarter and full year of 2013 is commission income earned on premiums ceded to reinsurers of $63.1 and $243.7 respectively ($72.7 and $239.5 for the fourth quarter and full year of 2012 respectively).

11. Subsidiary Indebtedness and Long Term Debt

	December 31, 2013			December 31, 2012		
	Principal	**Carrying value(1)**	**Fair value(2)**	Principal	Carrying value(1)	Fair value(2)
Subsidiary indebtedness - non-insurance companies	**25.8**	**25.8**	**25.8**	52.2	52.1	52.1
Long term debt:						
Holding company borrowings	**2,498.3**	**2,491.0**	**2,659.1**	2,396.1	2,377.7	2,622.7
Insurance and reinsurance companies	**462.7**	**459.5**	**464.3**	623.5	618.3	629.4
Non-insurance companies	**18.4**	**18.2**	**18.2**	0.5	0.5	0.5
Total long term debt	**2,979.4**	**2,968.7**	**3,141.6**	3,020.1	2,996.5	3,252.6

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

(2) Based principally on quoted market prices with the remainder based on discounted cash flow models using market observable inputs (Levels 1 and 2 respectively in the fair value hierarchy).

Year ended December 31, 2013

On November 1, 2013 OdysseyRe repaid the $182.9 principal amount of its unsecured senior notes upon maturity.

On October 3, 2013 pursuant to the acquisition of American Safety Insurance Holdings, Ltd. ("American Safety") described in note 16, the company assumed the $35.5 carrying value of trust preferred securities issued by American Safety Capital Trust I, II, and III (statutory business trust subsidiaries of American Safety). On November 25, 2013 and December 31, 2013 American Safety redeemed all $8.0 and $5.0 principal amounts of its outstanding Trust I and Trust II preferred securities for cash consideration of $8.2 and $5.2 respectively.

On April 15, 2013 Thomas Cook India issued $18.3 (1.0 billion Indian rupees) principal amount of 10.52% debentures due 2018 at par value for net proceeds after commissions and expenses of $18.2 (993.1 million Indian rupees). Commissions and expenses of $0.1 (6.9 million Indian rupees) were included as part of the carrying value of the debt. The debentures are repayable in equal annual instalments of $6.1 (333.3 million Indian rupees) in each of 2016, 2017 and 2018.

On January 22, 2013 the company repurchased $12.2 principal amount of its unsecured senior notes due 2017 for cash consideration of $12.6. On March 11, 2013 the company redeemed the remaining $36.2 principal amount outstanding of its unsecured senior notes due 2017 for cash consideration of $37.7 and recorded a loss on repurchase of long term debt of $3.4 (inclusive of $1.5 of unamortized issue costs). The loss is reflected in other expenses in the consolidated statement of earnings.

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

Year ended December 31, 2012

On October 19, 2012, the company's runoff subsidiary, TIG Insurance, 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 its Canadian subsidiaries.

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

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

12. Total Equity

Equity attributable to shareholders of Fairfax

Common stock

The number of shares outstanding was as follows:

	2013	2012
Subordinate voting shares – January 1	**19,496,641**	19,627,026
Issuances during the year	**1,000,000**	—
Purchases for cancellation	**(36)**	—
Net treasury shares acquired	**(45,373)**	(130,385)
Subordinate voting shares – December 31	**20,451,232**	19,496,641
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	**21,200,002**	20,245,411

Capital transactions

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 of $231.7 (Cdn$230.1) after commissions and expenses of $7.4 (Cdn$7.4).

Issuance and repurchase of shares

On November 15, 2013 the company issued 1,000,000 subordinate voting shares at a price of Cdn$431.00 per share, resulting in net proceeds of $399.5 (Cdn$417.1) after commissions and expenses of $13.3 (Cdn$13.9).

During the years ended December 31, 2013 and 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, 2013 the company repurchased 36 shares (2012 - nil) for cancellation from former employees.

Accumulated other comprehensive income (loss)

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

	December 31, 2013			December 31, 2012		
	Pre-tax amount	**Income tax (expense) recovery**	**After-tax amount**	Pre-tax amount	Income tax (expense) recovery	After-tax amount
Items that may be subsequently reclassified to net earnings						
Currency translation account	**66.0**	**(7.2)**	**58.8**	136.6	(17.0)	119.6
Share of accumulated other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	**(15.8)**	**(1.9)**	**(17.7)**	(0.5)	(4.3)	(4.8)
	50.2	**(9.1)**	**41.1**	136.1	(21.3)	114.8
Items that will not be subsequently reclassified to net earnings						
Share of gains (losses) on defined benefit plans of associates	**12.5**	**(3.6)**	**8.9**	—	—	—
Gains (losses) on defined benefit plans	**36.2**	**(7.8)**	**28.4**	(9.2)	6.5	(2.7)
	48.7	**(11.4)**	**37.3**	(9.2)	6.5	(2.7)
Accumulated other comprehensive income (loss) attributable to shareholders of Fairfax	**98.9**	**(20.5)**	**78.4**	126.9	(14.8)	112.1

Other comprehensive income (loss)

The amounts related to each component of consolidated other comprehensive income (loss) for the fourth quarters and years ended December 31, 2013 and 2012 were as follows:

	Fourth quarter					
	2013			2012		
	Pre-tax amount	**Income tax (expense) recovery**	**After-tax amount**	Pre-tax amount	Income tax (expense) recovery	After-tax amount
Items that may be subsequently reclassified to net earnings						
Change in unrealized foreign currency translation gains (losses) on foreign operations	**(53.1)**	**2.6**	**(50.5)**	(28.7)	3.7	(25.0)
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	**48.3**	**—**	**48.3**	16.4	—	16.4
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	**5.4**	**(0.9)**	**4.5**	(6.5)	(0.8)	(7.3)
	0.6	**1.7**	**2.3**	(18.8)	2.9	(15.9)
Items that will not be subsequently reclassified to net earnings						
Share of gains (losses) on defined benefit plans of associates	**5.4**	**(1.5)**	**3.9**	—	(0.1)	(0.1)
Change in gains (losses) on defined benefit plans	**44.3**	**(13.9)**	**30.4**	(16.1)	2.4	(13.7)
	49.7	**(15.4)**	**34.3**	(16.1)	2.3	(13.8)
Other comprehensive income (loss)	**50.3**	**(13.7)**	**36.6**	(34.9)	5.2	(29.7)

	Year ended December 31,					
	2013			2012		
	Pre-tax amount	**Income tax (expense) recovery**	**After-tax amount**	Pre-tax amount	Income tax (expense) recovery	After-tax amount
Items that may be subsequently reclassified to net earnings						
Change in unrealized foreign currency translation gains (losses) on foreign operations	**(174.2)**	**9.8**	**(164.4)**	55.8	3.4	59.2
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	**96.9**	**—**	**96.9**	(20.4)	—	(20.4)
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	**(15.3)**	**2.4**	**(12.9)**	(7.7)	(2.4)	(10.1)
	(92.6)	**12.2**	**(80.4)**	27.7	1.0	28.7
Items that will not be subsequently reclassified to net earnings						
Share of gains (losses) on defined benefit plans of associates	**12.5**	**(3.6)**	**8.9**	(11.6)	0.7	(10.9)
Change in gains (losses) on defined benefit plans	**45.8**	**(14.5)**	**31.3**	(21.9)	4.7	(17.2)
	58.3	**(18.1)**	**40.2**	(33.5)	5.4	(28.1)
Other comprehensive income (loss)	**(34.3)**	**(5.9)**	**(40.2)**	(5.8)	6.4	0.6

13. 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,	
	2013	2012	**2013**	2012
Net earnings (loss) attributable to shareholders of Fairfax	**(5.5)**	402.4	**(573.4)**	526.9
Preferred share dividends	**(14.8)**	(15.9)	**(60.8)**	(60.5)
Net earnings (loss) attributable to common shareholders – basic and diluted	**(20.3)**	386.5	**(634.2)**	466.4
Weighted average common shares outstanding – basic	**20,728,636**	20,286,966	**20,360,251**	20,326,688
Share-based payment awards(1)	**—**	254,613	**—**	240,178
Weighted average common shares outstanding – diluted	**20,728,636**	20,541,579	**20,360,251**	20,566,866
Net earnings (loss) per common share – basic	**$ (0.98)**	$ 19.05	**$ (31.15)**	$ 22.95
Net earnings (loss) per common share – diluted	**$ (0.98)**	$ 18.82	**$ (31.15)**	$ 22.68

(1) For the fourth quarter and year ended December 31, 2013 anti-dilutive share-based payment awards of 322,468 and 313,898 respectively were excluded in the calculation of net loss per diluted common share.

14. Income Taxes

The company's provision for (recovery of) income taxes for the fourth quarters and years ended December 31, 2013 and 2012 is summarized in the following table:

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Current income tax				
Current year expense	**32.2**	35.7	**30.2**	90.9
Adjustments to prior years' income taxes	**(5.6)**	19.5	**(35.0)**	7.3
	26.6	55.2	**(4.8)**	98.2
Deferred income tax				
Origination and reversal of temporary differences	**(65.7)**	54.7	**(512.4)**	(4.6)
Adjustments to prior years' deferred income taxes	**14.0**	(16.9)	**77.2**	7.9
Other	**1.5**	3.5	**3.4**	12.5
	(50.2)	41.3	**(431.8)**	15.8
Provision for (recovery of) income taxes	**(23.6)**	96.5	**(436.6)**	114.0

A significant portion of the company's earnings (loss) before income taxes is incurred outside of Canada. The statutory income tax rates for jurisdictions outside of Canada generally differ from the Canadian statutory income tax rate (and may be significantly higher or lower). The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes in the fourth quarters and years ended December 31, 2013 and 2012 are summarized in the following tables:

	Fourth quarter							
	2013				2012			
	Canada	**U.S.[(1)]**	**Other**	**Total**	Canada	U.S.[(1)]	Other	Total
Earnings (loss) before income taxes	**(63.2)**	**(75.9)**	**113.7**	**(25.4)**	3.3	205.1	294.5	502.9
Provision for (recovery of) income taxes	**5.0**	**(53.9)**	**25.3**	**(23.6)**	24.2	66.2	6.1	96.5
Net earnings (loss)	**(68.2)**	**(22.0)**	**88.4**	**(1.8)**	(20.9)	138.9	288.4	406.4

	Year ended December 31,							
	2013				2012			
	Canada	**U.S.[(1)]**	**Other**	**Total**	Canada	U.S.[(1)]	Other	Total
Earnings (loss) before income taxes	**(114.6)**	**(1,061.5)**	**175.0**	**(1,001.1)**	(363.3)	446.7	565.6	649.0
Provision for (recovery of) income taxes	**(8.7)**	**(464.3)**	**36.4**	**(436.6)**	(10.4)	85.8	38.6	114.0
Net earnings (loss)	**(105.9)**	**(597.2)**	**138.6**	**(564.5)**	(352.9)	360.9	527.0	535.0

(1) Principally comprised of the U.S. Insurance and Reinsurance reporting segments (notwithstanding that certain operations of OdysseyRe conduct business outside of the U.S.), U.S. Runoff and other associated holding company results.

Pre-tax profitability in Canada, the U.S. and Other generally decreased in the fourth quarter and full year of 2013 compared to the fourth quarter and full year of 2012, primarily reflecting net unrealized investment losses on bonds and equity hedges, partially offset by improvements in underwriting profitability year-over-year. Pre-tax profitability in Canada increased in the full year of 2013 compared to the full year of 2012, primarily due to lower investment losses year-over-year at the Canadian holding companies.

Reconciliations of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision for (recovery of) income taxes at the effective tax rate in the consolidated financial statements for the fourth quarters and years ended December 31, 2013 and 2012 are summarized in the following table:

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Canadian statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	**(6.7)**	133.3	**(265.3)**	172.0
Non-taxable investment income	**(42.4)**	(38.1)	**(166.4)**	(155.5)
Tax rate differential on income and losses incurred outside Canada	**(19.9)**	(30.7)	**(125.0)**	(14.0)
Change in unrecorded tax benefit of losses and temporary differences	**48.1**	6.2	**107.7**	65.7
Foreign exchange	**6.8**	1.3	**18.9**	1.5
Change in tax rate for deferred income taxes	**(1.6)**	(0.5)	**2.6**	(2.8)
Provision (recovery) relating to prior years	**(9.0)**	1.0	**(25.2)**	15.3
Non-deductible loss on extinguishment of long term debt	**—**	17.6	**—**	17.6
Other including permanent differences	**1.1**	6.4	**16.1**	14.2
Provision for (recovery of) income taxes	**(23.6)**	96.5	**(436.6)**	114.0

Non-taxable investment income is principally comprised of dividend income, non-taxable interest income and the 50% of net capital gains which are not taxable in Canada.

The tax rate differential on income and losses incurred outside Canada of $19.9 and $125.0 in the fourth quarter and full year of 2013 respectively, principally reflected significant pre-tax net unrealized investment losses on bonds and equity hedges in the U.S., where the statutory income tax rate is significantly higher than the Canadian statutory income tax rate. The tax rate differential on income and losses incurred outside Canada of $30.7 and $14.0 in the fourth quarter and full year of 2012 respectively, principally reflected the gain recognized on the sale of Cunningham Lindsey (included in Other in the table above setting out the company's earnings (loss) before income taxes by jurisdiction) which was taxed at a rate significantly lower than the Canadian statutory income tax rate, partially offset by pre-tax earnings in the U.S. where the statutory income tax rate is significantly higher than the Canadian statutory income tax rate.

The change in unrecorded tax benefit of losses and temporary differences was primarily comprised as follows: During the fourth quarter and full year of 2013, the company did not record deferred tax assets in Canada of $34.5 and $45.8 respectively ($27.4 and $106.0 in the fourth quarter and full year of 2012 respectively) because the related pre-tax losses did not meet the applicable recognition criteria under IFRS. During the fourth quarter and full year of 2013, the company de-recognized nil and $50.0 respectively of U.S. foreign tax credits which had been recorded as deferred tax assets in prior years, after determining that it was no longer probable that those tax credits could be utilized prior to expiration. European runoff (included in Other in the table above setting out the company's earnings (loss) before income taxes by jurisdiction) utilized previously unrecorded deferred tax assets of $19.7 and $50.2 in the fourth quarter and full year of 2012 respectively.

The provision (recovery) relating to prior years in the fourth quarter and full year of 2013 decreased by $10.0 and $40.5 respectively on a year-over-year basis, primarily due to the release of provisions following the completion of Canadian and U.S. federal and state income tax audits.

The non-deductible loss on extinguishment of long term debt in the fourth quarter and full year of 2012 related to the loss recorded on the repayment of the TIG Note, which was not deductible for tax purposes.

15. Contingencies and Commitments

Lawsuits

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. By the end of 2013, the briefs of all parties in connection with this appeal had been filed. 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.

16. Acquisitions and Divestitures

Subsequent to December 31, 2013

Acquisition of Keg Restaurants Limited

On February 4, 2014 the company completed the acquisition of 51.0% of the outstanding common shares of Keg Restaurants Limited ("The Keg") for cash purchase consideration of $76.7 (Cdn$85.0). The assets and liabilities and results of operations of The Keg will be consolidated in the Other reporting segment. The Keg franchises, owns and operates a network of premium dining restaurants across Canada and in select locations in the United States.

Year ended December 31, 2013

Disposition of Prime Restaurants Inc.

On October 31, 2013 the company contributed its 81.7% interest in Prime Restaurants Inc. ("Prime Restaurants") to Cara Operations Limited ("Cara") in exchange for Cara preferred shares and equity warrants with a combined fair value of $54.5 (Cdn$56.9). Subsequently, the company determined that it no longer controlled Prime Restaurants and de-consolidated Prime Restaurants from its financial reporting effective October 31, 2013, resulting in the recognition of a loss on disposition of $4.2 (Cdn$4.4) in the fourth quarter and full year of 2013. In addition, the company made a cash contribution of $95.9 (Cdn$100.0) to Cara in exchange for Cara preferred shares, subordinated debt and equity warrants. The company's investment in Cara equity warrants represents potential voting interests of approximately 39.4% (equity warrants currently exercisable) and 48.5% (inclusive of equity warrants exercisable in two years) assuming all holders of Cara convertible securities (including those owned by the company) exercised their options to convert. The company determined that it had obtained significant influence over Cara effective October 31, 2013 but as the company did not hold any Cara common shares, the equity method of accounting could not be applied. The Cara preferred shares, subordinated debt and equity warrants are recorded as at FVTPL investments in holding company cash and investments and portfolio investments on the consolidated balance sheet.

Acquisition of American Safety Insurance Holdings, Ltd.

On October 3, 2013 the company acquired all of the outstanding common shares of American Safety Insurance Holdings, Ltd. ("American Safety") for $30.25 per share in cash, representing aggregate purchase consideration of $317.1. On October 8, 2013 the company sold American Safety's Bermuda-based reinsurance subsidiary ("AS Re") to an unrelated third party for net proceeds of $52.5. The renewal rights to certain lines of business formerly written by American Safety were assumed by Crum & Forster and Hudson representing estimated annual gross premiums written of $103. The remainder of American Safety's lines of business which did not meet Fairfax's underwriting criteria were placed into runoff under the supervision of the RiverStone group. The purchase consideration for this acquisition was financed internally by the company's runoff subsidiaries, Crum & Forster and Hudson and was partially defrayed by the proceeds received on the sale of AS Re ($52.5) and the receipt of a post-acquisition dividend of excess capital paid by American Safety ($123.7). The fair values of the portfolio investments (including cash and short term investments), insurance contract liabilities and recoverable from reinsurers of American Safety that were ultimately retained and consolidated by the Runoff reporting segment were approximately $642, $652 and $220 respectively, after giving effect to the post-acquisition transactions described in the preceding sentence. The determination of the fair value of assets and liabilities (summarized in the table following the next three paragraphs) is preliminary and may be revised when estimates and assumptions and the valuations of assets and liabilities are finalized within twelve months of the acquisition date. Goodwill and intangible assets was comprised of $34.4 of goodwill and $24.5 of renewal rights. American Safety, a Bermuda-based holding company, underwrote specialty risks through its U.S.-based program administrator, American Safety Insurance Services, Inc., and its U.S. insurance and Bermuda reinsurance companies.

Acquisition of Hartville Group, Inc.

On July 3, 2013 Crum & Forster acquired a 100% interest in Hartville Group, Inc. ("Hartville") for cash purchase consideration of $34.0. The assets and liabilities and results of operations of Hartville were consolidated in the U.S. Insurance reporting segment. The determination of the fair value of assets and liabilities (summarized in the table following the next two paragraphs) is preliminary and may be revised when estimates and assumptions and the valuations of assets and liabilities are finalized within twelve months of the acquisition date. Goodwill and intangible assets was comprised of $21.2 of goodwill and a $7.0 operating license. Hartville markets and administers pet health insurance plans (including enrollment, claims, billing and customer service) and produces approximately $40 in gross premiums written annually.

Acquisition of IKYA Human Capital Solutions Private Limited

On May 14, 2013 Thomas Cook (India) Limited ("Thomas Cook India") acquired a 77.3% interest in IKYA Human Capital Solutions Private Limited ("IKYA") for purchase consideration of $46.8 (2,563.2 million Indian rupees). The assets and liabilities and results of operations of IKYA were consolidated in the Other reporting segment. The determination of the fair value of assets and liabilities (summarized in the table following the next paragraph) is preliminary and may be revised when estimates and assumptions and the valuations of assets and liabilities are finalized within twelve months of the acquisition date. Goodwill and intangible assets was comprised of $27.6 of goodwill, $14.2 of customer relationships, $10.6 of brand names and $0.2 of computer software. The identifiable assets acquired and liabilities assumed represented Fairfax's 58.0% economic interest in IKYA as a result of acquiring IKYA through 75.0%-owned Thomas Cook India. IKYA provides specialized human resources services to leading corporate clients in India.

Private Placement of Thomas Cook India Common Shares

On May 7, 2013 Thomas Cook India completed a private placement of 34,379,606 newly issued common shares at 53.50 Indian rupees per share to qualified institutional buyers (other than existing shareholders of Thomas Cook India) and received net proceeds of $32.9 (1,780.5 million Indian rupees) after expenses. The proceeds were used to partially finance the acquisition of IKYA as described in the preceding paragraph. This transaction reduced the company's ownership of Thomas Cook India from 87.1% at December 31, 2012 to 75.0%, thereby satisfying securities regulations in India stipulating that the company reduce its ownership interest in Thomas Cook India to 75.0% or less by August 2013.

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

	American Safety	**Hartville**	**IKYA**
Acquisition date	October 3, 2013	July 3, 2013	May 14, 2013
Percentage of common shares acquired	100.0%	100.0%	58.0% (1)
Assets:			
Insurance contract receivables	21.5	11.9	—
Portfolio investments(2)	765.9	4.9	2.1
Recoverable from reinsurers	220.0	—	—
Deferred income taxes	3.8	—	—
Goodwill and intangible assets	58.9	28.2	52.6
Asset held for sale(3)	52.5	—	—
Other assets	10.8	0.9	52.5
	1,133.4	45.9	107.2
Liabilities:			
Subsidiary indebtedness	—	—	8.0
Accounts payable and accrued liabilities	69.7	3.8	31.0
Deferred income taxes	—	—	7.5
Funds withheld payable to reinsurers	58.9	—	—
Insurance contract liabilities	652.2	8.1	—
Long term debt(4)	35.5	—	—
	816.3	11.9	46.5
Non-controlling interests	—	—	13.9
Purchase consideration	317.1	34.0	46.8
	1,133.4	45.9	107.2

(1) Fairfax's 58.0% economic interest in IKYA as a result of acquiring a 77.3% interest in IKYA through 75.0%-owned Thomas Cook India.

(2) Included in the carrying value of the acquired portfolio investments of American Safety, Hartville and IKYA were $485.7, $4.9 and $2.1 respectively of subsidiary cash and cash equivalents.

(3) Asset held for sale was comprised of the fair value of the net assets of American Safety's Bermuda-based reinsurance subsidiary sold to an unrelated third party on October 8, 2013 for net proceeds of $52.5.

(4) Subsequent to the acquisition American Safety repaid $13.0 principal amount of its trust preferred securities for cash consideration of $13.4 as described in note 11.

Year ended December 31, 2012

Disposition of Cunningham Lindsey Group Limited

On December 10, 2012 the company sold all of its ownership interest in Cunningham Lindsey Group Limited ("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). Defined benefit plan amounts related to Cunningham Lindsey were reclassified from accumulated other comprehensive income to retained earnings. 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 UK runoff subsidiary, RiverStone Holdings Limited, completed the acquisition of a 100% interest in Brit Insurance Limited (renamed RiverStone Insurance Limited ("RiverStone Insurance") on October 15, 2012) for cash purchase consideration of $335.1 (208.3 British pound sterling). The purchase consideration for this acquisition was primarily financed internally by the company's runoff subsidiaries. The assets and liabilities and results of operations of RiverStone Insurance were consolidated within the Runoff reporting segment. 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. 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

In 2012 the company acquired an 87.1% interest in Thomas Cook India for cash purchase consideration of $172.7 (9,626 million Indian rupees) 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 was then required to make a tender offer to purchase the shares of the minority shareholders of Thomas Cook India pursuant to securities regulations in India. The tender offer resulted in the acquisition of an additional 10.4% of the common shares of Thomas Cook India for cash purchase consideration of $26.1. The assets and liabilities and results of operations of Thomas Cook India were consolidated within 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 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. Goodwill and intangible assets was comprised of $87.2 of goodwill, $48.0 of operating licenses and $2.8 of computer software.

Additional investment in Thai Reinsurance Public Company Limited

On March 19, 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 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 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 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 Prime Restaurants, reducing Fairfax's net cash outflow to $56.7 (Cdn$57.7) and its ownership interest from 100% to 81.7%. The assets and liabilities and results of operations of Prime Restaurants were consolidated within the Other reporting segment. Goodwill and intangible assets was comprised of $64.0 of trademarks. 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 contracts receivable	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	—	138.0	64.0
Other assets	29.2	138.3	8.7
	2,369.7	317.1	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	—
Insurance contract liabilities	1,833.7	—	—
Deferred income taxes	—	23.0	—
	2,027.8	131.6	15.2
Non-controlling interests	—	12.8	12.7
Purchase consideration	335.1	172.7	56.7
	2,362.9	317.1	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 was $195.8, $38.3 and $5.3 respectively, of subsidiary unrestricted 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.

17. 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 (which necessarily factors in climate change considerations), 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, 2013 compared to those identified at December 31, 2012, and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2012, 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, 2013 compared to December 31, 2012.

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 or the framework used to monitor, evaluate and manage credit risk at December 31, 2013 compared to December 31, 2012.

Investments in Debt Instruments

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, 2013			December 31, 2012		
Issuer Credit Rating	**Amortized Cost**	**Carrying value**	**%**	Amortized Cost	Carrying value	%
AAA/Aaa	**2,693.0**	**2,533.8**	**24.0**	2,487.4	2,711.5	23.7
AA/Aa	**3,994.5**	**4,472.8**	**42.4**	4,201.5	5,069.6	44.4
A/A	**2,135.8**	**2,247.8**	**21.3**	1,893.3	2,266.0	19.8
BBB/Baa	**169.9**	**177.4**	**1.7**	237.9	282.7	2.5
BB/Ba	**34.9**	**44.6**	**0.4**	38.9	53.3	0.5
B/B	**447.3**	**294.5**	**2.8**	557.9	448.8	3.9
Lower than B/B and unrated	**774.3**	**781.9**	**7.4**	572.5	588.4	5.2
Total	**10,249.7**	**10,552.8**	**100.0**	9,989.4	11,420.3	100.0

Counterparties to Derivative Contracts

Counterparty risk refers to the risk that a counterparty to the company's derivative contracts may not fulfill its obligations under the contract. 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, assuming all such counterparties are simultaneously in default:

	December 31, 2013	December 31, 2012
Total derivative assets[1]	**219.6**	169.7
Impact of net settlement arrangements	**(136.1)**	(79.2)
Fair value of collateral deposited for the benefit of the company[2]	**(47.4)**	(56.5)
Excess collateral pledged by the company in favour of counterparties	**123.1**	38.5
Initial margin not held in segregated third party custodian accounts	**60.0**	93.1
Net derivative counterparty exposure after net settlement and collateral arrangements	**219.2**	165.6

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

(2) Net of $3.0 ($3.9 at December 31, 2012) of excess collateral pledged by counterparties.

The fair value of the collateral deposited for the benefit of the company at December 31, 2013 consisted of cash and government securities of $25.3 and $25.1 respectively ($22.1 and $38.3 respectively at December 31, 2012). The company had not exercised its right to sell or repledge collateral at December 31, 2013.

Recoverable from Reinsurers

Credit exposure on the company's recoverable from reinsurers balance existed at December 31, 2013 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 provision for uncollectible reinsurance is disclosed in note 10.

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. The liquidity requirements of the holding company for 2014 principally relate to payment of the $215.7 dividend on common shares ($10.00 per share paid January 2014), interest and corporate overhead expenses, preferred share dividends, income tax payments and potential cash outflows related to derivative contracts (described below). 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 2014. 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). The insurance and reinsurance subsidiaries use 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).

During the fourth quarter and full year of 2013 the insurance and reinsurance subsidiaries paid net cash of $407.8 and $1,615.4 respectively (paid net cash of $14.4 and $603.6 in the fourth quarter and full year of 2012 respectively) in connection with 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 2013 the holding company paid net cash of $70.3 and $67.8 respectively (paid net cash of $58.5 and $220.5 in the fourth quarter and full year of 2012 respectively) in connection with long and short equity and equity index total return swap derivative contracts (excluding the impact of collateral requirements). The company funded these payments through sales of common stocks and convertible bonds which had appreciated significantly.

Market Risk

Market risk, comprised of foreign currency risk, interest rate risk and other price risk, is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. 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.

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. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at December 31, 2013 compared to December 31, 2012.

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, 2013			December 31, 2012		
	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
Change in Interest Rates						
200 basis point increase	**8,684.2**	**(1,275.5)**	**(17.7)**	9,766.7	(1,132.0)	(14.5)
100 basis point increase	**9,611.7**	**(643.2)**	**(8.9)**	10,522.5	(595.1)	(7.6)
No change	**10,552.8**	**—**	**—**	11,420.3	—	–
100 basis point decrease	**11,550.0**	**684.9**	**9.4**	12,493.2	735.7	9.4
200 basis point decrease	**12,721.0**	**1,488.5**	**20.5**	13,803.7	1,635.3	20.9

Certain shortcomings are inherent in the method of analysis presented above. 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 securities at the indicated date, and should not be relied on as indicative of future results. 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 foreign currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or other factors affecting all similar financial instruments in the market. Changes to the company's exposure to equity price risk through its equity and equity-related holdings at December 31, 2013 compared to December 31, 2012 are described below.

The company holds significant investments in equities and equity-related securities. The market value and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over the long term or on disposition. The company has economically hedged its equity and equity-related holdings (comprised of common stocks, convertible preferred stocks, convertible bonds, non-insurance 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 and full year of 2013 the company's equity and equity-related holdings after equity hedges produced net losses of $235.2 and $536.9 respectively compared to net gains of $454.3 and $113.2 in the fourth quarter and full year of 2012 respectively. At December 31, 2013 equity hedges with a notional amount of $6,327.4 ($7,668.5 at December 31, 2012) represented 98.2% (101.0% at December 31, 2012) of the company's equity and equity-related holdings of $6,442.6 ($7,594.0 at December 31, 2012). In the fourth quarter and full year of 2013, the impact of basis risk was pronounced compared to prior periods as the performance of the company's equity and equity-related holdings lagged the performance of the economic equity hedges used to protect those holdings despite the notional amount of the company's equity hedges being closely matched to the fair value of the company's equity and equity-related holdings, primarily as a result of the increase in the Russell 2000 index (the index underlying a significant proportion of the company's short positions) being meaningfully greater than the gain in the company's equity and equity-related holdings. As a result of the significant appreciation of certain of its equity and equity-related holdings, the company reduced its direct equity exposure through net sales of common stocks and convertible bonds for net proceeds of $750.5 and $1,385.9 in the fourth quarter and full year of 2013 respectively, and reduced the notional amount of its long positions in individual equities effected through total return swaps by $1,031.3 in the fourth quarter and full year of 2013. The company also closed out a portion of its Russell 2000 and all of its S&P 500 equity index total return swaps and certain short positions in individual equities, with notional amounts of $1,959.5 and $3,254.1 in the fourth quarter and full year of 2013 respectively. By undertaking the transactions described above the company reduced its direct equity exposure and rebalanced its equity hedge ratio to approximately 100% at December 31, 2013, after giving consideration to net gains recognized on its equity and equity-related holdings and net losses incurred on its equity hedging instruments.

One risk of a hedging strategy (sometimes referred to as basis risk) is the risk that the fair value or cash flows of derivative instruments designated as economic hedges will not experience changes in exactly the opposite directions from those of the underlying hedged exposure. This imperfect correlation between the derivative instrument and underlying hedged exposure creates the potential for excess gains or losses in a hedging strategy. In the context of the company's equity hedges, 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 as a result of the timing of opportunities to exit and enter hedges at attractive prices, decisions by the company to hedge an amount less than the company's full equity exposure or, on a temporary basis, as a result of non-correlated performance of the equity hedges relative to the equity and equity-related holdings (basis risk).

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 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 financial position as at December 31, 2013 and December 31, 2012 and results of operations for the fourth quarters and years ended December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012		**Quarter ended December 31, 2013**	Quarter ended December 31, 2012	**Year ended December 31, 2013**	Year ended December 31, 2012
	Exposure/ Notional amount	**Carrying value**	Exposure/ Notional amount	Carrying value	**Net earnings (pre-tax)**	Net earnings (pre-tax)	**Net earnings (pre-tax)**	Net earnings (pre-tax)
Equity exposures:								
Common stocks	**4,100.6**	**4,100.6**	4,569.2	4,569.2	**238.8**	413.2	**941.2**	697.6
Preferred stocks – convertible	**479.0**	**479.0**	415.0	415.0	**42.1**	(20.8)	**64.7**	(36.2)
Bonds – convertible	**408.5**	**408.5**	426.4	426.4	**(2.8)**	40.0	**(2.6)**	186.7
Investments in associates[(1)]	**1,173.9**	**1,041.9**	1,125.6	959.3	**—**	167.0	**130.2**	196.8
Derivatives and other invested assets:								
Equity total return swaps – long positions	**263.5**	**7.9**	1,021.8	(12.9)	**57.3**	(15.9)	**293.9**	61.5
Equity and equity call options	**1.7**	**1.7**	—	—	**1.7**	—	**1.7**	—
Equity warrants	**15.4**	**15.4**	36.0	36.0	**0.3**	11.5	**16.0**	12.3
Total equity and equity related holdings	**6,442.6**	**6,055.0**	7,594.0	6,393.0	**337.4**	595.0	**1,445.1**	1,118.7
Hedging instruments:								
Derivatives and other invested assets:								
Equity total return swaps – short positions	**(1,744.4)**	**(69.4)**	(1,433.0)	(51.0)	**(129.3)**	(101.3)	**(110.5)**	(192.1)
Equity index total return swaps – short positions	**(4,583.0)**	**(121.3)**	(6,235.5)	(116.4)	**(443.3)**	(32.6)	**(1,871.5)**	(799.4)
Equity index total return swaps – long positions (Russell 2000)	**—**	**—**	—	—	**—**	(6.8)	**—**	(14.0)
	(6,327.4)	**(190.7)**	(7,668.5)	(167.4)	**(572.6)**	(140.7)	**(1,982.0)**	(1,005.5)
Net (short) exposure and financial effects	**115.2**		(74.5)		**(235.2)**	454.3	**(536.9)**	113.2

(1) Excludes the company's insurance and reinsurance investments in associates which are considered long term strategic holdings. See note 6 for details.

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. Holdings of CPI-linked derivative contracts and the activity for the period are disclosed in note 7.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset or liability 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. The company's exposure to foreign currency risk was not significantly different at December 31, 2013 compared to December 31, 2012.

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, 2013, comprising total debt, shareholders' equity attributable to shareholders of Fairfax and non-controlling interests, was $11,455.0 compared to $11,943.1 at December 31, 2012. The company manages its capital based on the following financial measurements and ratios:

	December 31, 2013	December 31, 2012
Holding company cash and investments (net of short sale and derivative obligations)	**1,241.6**	1,128.0
Long term debt – holding company borrowings	**2,491.0**	2,377.7
Long term debt – insurance and reinsurance companies	**459.5**	618.3
Subsidiary indebtedness - non-insurance companies	**25.8**	52.1
Long term debt – non-insurance companies	**18.2**	0.5
Total debt	**2,994.5**	3,048.6
Net debt	**1,752.9**	1,920.6
Common shareholders' equity	**7,186.7**	7,654.7
Preferred stock	**1,166.4**	1,166.4
Non-controlling interests	**107.4**	73.4
Total equity	**8,460.5**	8,894.5
Net debt/total equity	**20.7%**	21.6%
Net debt/net total capital(1)	**17.2%**	17.8%
Total debt/total capital(2)	**26.1%**	25.5%
Interest coverage(3)	**n/a**	4.2x
Interest and preferred share dividend distribution coverage(4)	**n/a**	3.0x

(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.

18. 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.

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.

U.S. Insurance - U.S. Insurance 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 - Fairfax Asia includes the company's operations that underwrite insurance and reinsurance coverages in Singapore (First Capital), Hong Kong (Falcon) and Malaysia (Pacific Insurance). Fairfax Asia also includes the company's equity accounted interests 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

Insurance and Reinsurance - Other is comprised of Group Re, Advent, Polish Re and Fairfax Brasil. Group Re primarily constitutes the participation of CRC Re and Wentworth (both based in Barbados) 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. 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. Polish Re underwrites reinsurance in Central and Eastern Europe. Fairfax Brasil writes commercial property and casualty insurance in Brazil.

Runoff

The Runoff reporting segment comprises RiverStone (UK), RiverStone Insurance (since October 12, 2012) and the U.S. runoff company formed on the merger of TIG Insurance and International Insurance Company combined with Old Lyme, Fairmont, General Fidelity, Clearwater, Commonwealth Insurance Company of America (since January 1, 2013) and American Safety (since October 3, 2013).

Other

The Other reporting segment is comprised of Ridley, William Ashley, Sporting Life, Prime Restaurants, Thomas Cook India and IKYA (since May 14, 2013). Ridley is engaged in the animal nutrition business in the U.S. and Canada. William Ashley is a prestige retailer of exclusive tableware and gifts in Canada. Sporting Life is a Canadian retailer of sporting goods and sports apparel. Prime Restaurants (acquired on January 10, 2012) franchises, owns and operates a network of casual dining restaurants and pubs primarily in Canada. The assets and liabilities of Prime Restaurants were de-consolidated from the company's financial reporting effective October 31, 2013 following the sale of Prime Restaurants to Cara pursuant to the transaction described in note 16. Thomas Cook India (acquired on August 14, 2012 pursuant to the transaction described in note 16) 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. IKYA (acquired by Thomas Cook India on May 14, 2013 pursuant to the transaction described in note 16) provides specialized human resources services to leading corporate clients in India.

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)

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, 2013

	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											
External	289.2	528.9	134.3	594.5	93.4	1,640.3	35.3	—	—	—	1,675.6
Intercompany	0.8	0.1	0.4	8.6	18.7	28.6	—	—	—	(28.6)	—
	290.0	529.0	134.7	603.1	112.1	1,668.9	35.3	—	—	(28.6)	1,675.6
Net premiums written	262.4	446.8	66.5	541.0	84.1	1,400.8	29.9	—	—	—	1,430.7
Net premiums earned											
External	251.3	504.0	80.2	582.4	105.1	1,523.0	51.2	—	—	—	1,574.2
Intercompany	(1.2)	(2.4)	(6.1)	2.8	7.8	0.9	(0.9)	—	—	—	—
	250.1	501.6	74.1	585.2	112.9	1,523.9	50.3	—	—	—	1,574.2
Underwriting expenses	(226.1)	(500.8)	(65.2)	(463.1)	(103.3)	(1,358.5)	29.9	—	—	—	(1,328.6)
Underwriting profit	24.0	0.8	8.9	122.1	9.6	165.4	80.2	—	—	—	245.6
Interest income	6.0	19.3	5.8	38.3	5.7	75.1	17.5	—	(3.2)	—	89.4
Dividends	6.6	2.3	0.3	5.4	0.5	15.1	2.6	—	3.2	—	20.9
Investment expenses	(3.5)	(4.0)	(0.8)	(6.8)	(4.6)	(19.7)	(4.3)	—	(0.6)	18.4	(6.2)
Interest and dividends	9.1	17.6	5.3	36.9	1.6	70.5	15.8	—	(0.6)	18.4	104.1
Share of profit (loss) of associates	6.0	0.6	(4.7)	25.8	0.9	28.6	(5.0)	0.4	6.4	—	30.4
Other											
Revenue	—	—	—	—	—	—	—	304.1	—	—	304.1
Expenses	—	—	—	—	—	—	—	(280.1)	—	—	(280.1)
	—	—	—	—	—	—	—	24.0	—	—	24.0
Operating income	39.1	19.0	9.5	184.8	12.1	264.5	91.0	24.4	5.8	18.4	404.1
Net gains (losses) on investments	(15.6)	(85.2)	5.4	(136.8)	1.1	(231.1)	(64.2)	—	(33.8)	—	(329.1)
Interest expense	—	(1.2)	—	(4.4)	(1.1)	(6.7)	(0.4)	(1.3)	(42.9)	—	(51.3)
Corporate overhead	(1.5)	(8.6)	—	(6.1)	—	(16.2)	—	—	(14.5)	(18.4)	(49.1)
Pre-tax income (loss)	22.0	(76.0)	14.9	37.5	12.1	10.5	26.4	23.1	(85.4)	—	(25.4)
Income taxes											23.6
Net loss											(1.8)
Attributable to:											
Shareholders of Fairfax											(5.5)
Non-controlling interests											3.7
											(1.8)

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											
External	298.2	481.2	146.6	645.8	106.9	1,678.7	221.2	—	—	—	1,899.9
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	221.2	—	—	(33.3)	1,899.9
Net premiums written	243.0	408.1	59.2	573.8	114.5	1,398.6	199.1	—	—	—	1,597.7
Net premiums earned											
External	261.4	485.5	66.7	612.6	125.0	1,551.2	214.2	—	—	—	1,765.4
Intercompany	(21.1)	(1.4)	(4.5)	1.0	25.9	(0.1)	0.1	—	—	—	—
	240.3	484.1	62.2	613.6	150.9	1,551.1	214.3	—	—	—	1,765.4
Underwriting expenses	(274.6)	(593.6)	(52.5)	(579.5)	(165.7)	(1,665.9)	(215.9)	—	—	—	(1,881.8)
Underwriting profit (loss)	(34.3)	(109.5)	9.7	34.1	(14.8)	(114.8)	(1.6)	—	—	—	(116.4)
Interest income	3.6	5.2	3.1	28.2	5.0	45.1	15.4	—	(7.2)	—	53.3
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	(0.5)	32.2	13.2	—	(5.0)	33.0	73.4
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[1]	—	—	—	—	—	—	6.8	263.0	—	—	269.8
Expenses	—	—	—	—	—	—	—	(243.7)	—	—	(243.7)
	—	—	—	—	—	—	6.8	19.3	—	—	26.1
Operating income (loss)	(25.7)	(103.7)	21.7	56.3	(15.3)	(66.7)	20.0	19.5	(2.7)	33.0	3.1
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[2]	—	—	—	—	—	—	(39.8)	—	—	—	(39.8)
Interest expense	—	(1.3)	—	(6.9)	(1.1)	(9.3)	(0.5)	(1.2)	(41.2)	—	(52.2)
Corporate overhead	(11.6)	(5.3)	—	(7.5)	(0.2)	(24.6)	—	—	13.8	(33.0)	(43.8)
Pre-tax income (loss)	23.0	(13.3)	25.3	252.7	183.5	471.2	44.6	22.0	(34.9)	—	502.9
Income taxes											(96.5)
Net earnings											406.4
Attributable to:											
Shareholders of Fairfax											402.4
Non-controlling interests											4.0
											406.4

(1) 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 16.

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

Year ended December 31, 2013

	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											
External	1,147.6	2,278.0	530.0	2,700.1	535.1	7,190.8	36.3	—	—	—	7,227.1
Intercompany	2.4	0.5	0.2	15.4	3.4	21.9	—	—	—	(21.9)	—
	1,150.0	2,278.5	530.2	2,715.5	538.5	7,212.7	36.3	—	—	(21.9)	7,227.1
Net premiums written	1,031.4	1,933.2	257.4	2,376.9	406.9	6,005.8	30.4	—	—	—	6,036.2
Net premiums earned											
External	997.8	1,942.0	274.9	2,370.7	407.6	5,993.0	84.3	—	—	—	6,077.3
Intercompany	(7.6)	(7.2)	(18.7)	2.9	31.9	1.3	(1.3)	—	—	—	—
	990.2	1,934.8	256.2	2,373.6	439.5	5,994.3	83.0	—	—	—	6,077.3
Underwriting expenses	(972.0)	(1,939.9)	(224.2)	(1,993.7)	(424.5)	(5,554.3)	(71.7)	—	—	—	(5,626.0)
Underwriting profit (loss)	18.2	(5.1)	32.0	379.9	15.0	440.0	11.3	—	—	—	451.3
Interest income	19.3	62.9	20.9	144.2	19.7	267.0	67.2	—	(27.4)	—	306.8
Dividends	16.2	15.4	5.9	32.1	5.6	75.2	12.1	—	8.0	—	95.3
Investment expenses	(19.4)	(18.5)	(2.8)	(37.9)	(13.7)	(92.3)	(17.5)	—	(3.7)	88.3	(25.2)
Interest and dividends	16.1	59.8	24.0	138.4	11.6	249.9	61.8	—	(23.1)	88.3	376.9
Share of profit of associates	11.0	0.8	12.7	53.3	2.5	80.3	4.2	0.8	11.4	—	96.7
Other											
Revenue	—	—	—	—	—	—	—	958.0	—	—	958.0
Expenses	—	—	—	—	—	—	—	(906.9)	—	—	(906.9)
	—	—	—	—	—	—	—	51.1	—	—	51.1
Operating income (loss)	45.3	55.5	68.7	571.6	29.1	770.2	77.3	51.9	(11.7)	88.3	976.0
Net gains (losses) on investments	(55.5)	(445.0)	(23.8)	(816.5)	18.8	(1,322.0)	(306.5)	—	64.5	—	(1,564.0)
Loss on repurchase of long term debt[1]	—	—	—	—	—	—	—	—	(3.4)	—	(3.4)
Interest expense	—	(4.8)	—	(24.8)	(4.3)	(33.9)	(0.4)	(4.6)	(172.3)	—	(211.2)
Corporate overhead	(37.2)	(36.6)	(0.1)	(22.0)	(0.1)	(96.0)	—	—	(14.2)	(88.3)	(198.5)
Pre-tax income (loss)	(47.4)	(430.9)	44.8	(291.7)	43.5	(681.7)	(229.6)	47.3	(137.1)	—	(1,001.1)
Income taxes											436.6
Net loss											(564.5)
Attributable to:											
Shareholders of Fairfax											(573.4)
Non-controlling interests											8.9
											(564.5)

(1) Loss on repurchase of long term debt of $3.4 related to the repurchase by Fairfax of its unsecured senior notes due 2017. This amount is included in other expenses in the consolidated statement of earnings.

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											
External	1,192.6	2,159.4	515.5	2,760.9	548.7	7,177.1	221.2	—	—	—	7,398.3
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	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											
External	1,078.5	1,811.1	244.5	2,306.9	417.7	5,858.7	226.2	—	—	—	6,084.9
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	220.1	—	—	—	6,084.9
Underwriting expenses	(1,053.9)	(2,017.9)	(201.3)	(2,049.5)	(536.1)	(5,858.7)	(277.4)	—	—	—	(6,136.1)
Underwriting profit (loss)	(61.7)	(206.3)	30.1	265.8	(21.8)	6.1	(57.3)	—	—	—	(51.2)
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(1)	—	—	—	—	—	—	6.8	864.2	—	—	871.0
Expenses	—	—	—	—	—	—	—	(830.3)	—	—	(830.3)
	—	—	—	—	—	—	6.8	33.9	—	—	40.7
Operating income (loss)	(20.2)	(156.7)	66.3	393.3	15.8	298.5	14.6	34.1	(10.2)	76.8	413.8
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(2)	—	(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	(17.2)	(23.2)	—	(23.1)	(0.4)	(63.9)	—	—	(17.9)	(76.8)	(158.6)
Pre-tax income (loss)	(100.5)	(39.1)	66.6	609.7	246.5	783.2	183.1	35.6	(352.9)	—	649.0
Income taxes											(114.0)
Net earnings											535.0
Attributable to:											
Shareholders of Fairfax											526.9
Non-controlling interests											8.1
											535.0

(1) 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 16.

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

Segment Assets and Liabilities

An analysis of assets and liabilities by reporting segment is shown below:

	Segment Assets		Segment Liabilities	
	December 31, 2013	December 31, 2012	**December 31, 2013**	December 31, 2012
Insurance - Canada (Northbridge)	**4,988.4**	5,436.6	**3,508.5**	3,882.4
- U.S. (Crum & Forster and Zenith National)	**8,482.6**	8,445.2	**6,283.6**	6,064.7
- Asia (Fairfax Asia)	**1,795.0**	1,676.7	**1,185.0**	1,146.4
Reinsurance - OdysseyRe	**11,141.8**	11,380.6	**7,332.5**	7,599.7
Insurance and Reinsurance - Other	**2,265.0**	2,428.2	**1,563.5**	1,654.8
Ongoing operations	**28,672.8**	29,367.3	**19,873.1**	20,348.0
Runoff	**7,476.9**	8,000.5	**5,879.1**	6,226.6
Other	**682.9**	682.3	**321.3**	277.7
Corporate and other and eliminations and adjustments	**(873.8)**	(1,104.7)	**1,424.8**	1,198.6
Consolidated	**35,958.8**	36,945.4	**27,498.3**	28,050.9

19. Expenses

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

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Losses and loss adjustment expenses	**782.2**	1,318.8	**3,467.5**	4,050.4
Salaries and employee benefit expenses	**263.4**	240.0	**1,010.1**	943.6
Other reporting segment cost of inventories	**201.1**	163.0	**623.2**	580.3
Audit, legal and tax professional fees	**19.9**	36.6	**93.0**	135.5
Premium taxes	**20.4**	29.0	**93.8**	100.9
Information technology costs	**19.6**	13.3	**78.1**	65.9
Operating lease costs	**17.2**	16.0	**66.2**	65.5
Depreciation, amortization and impairment charges	**20.0**	21.1	**104.3**	71.0
Loss on repurchase of long term debt	**—**	39.8	**3.4**	40.6
Restructuring costs	**0.2**	10.2	**12.9**	12.4
Administrative expense and other	**65.6**	67.5	**213.1**	179.5
	1,409.6	1,955.3	**5,765.6**	6,245.6

20. Supplementary Cash Flow Information

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

	December 31, 2013	December 31, 2012
Holding company cash and investments:		
Cash and balances with banks	**157.2**	99.9
Treasury bills and other eligible bills	**57.2**	113.0
	214.4	212.9
Subsidiary cash and short term investments:		
Cash and balances with banks	**1,786.7**	1,432.0
Treasury bills and other eligible bills	**2,091.7**	1,296.6
	3,878.4	2,728.6
Subsidiary assets pledged for short sale and derivative obligations:		
Cash and balances with banks	**—**	4.8
Treasury bills and other eligible bills	**11.8**	46.3
	11.8	51.1
Subsidiary indebtedness - bank overdrafts	**(6.0)**	(5.2)
Cash, cash equivalents and bank overdrafts included in the consolidated balance sheets	**4,098.6**	2,987.4
Less: Subsidiary cash and cash equivalents - restricted[1]		
Cash and balances with banks	**96.7**	50.6
Treasury bills and other eligible bills	**243.7**	121.5
	340.4	172.1
Cash, cash equivalents and bank overdrafts included in the consolidated statements of cash flows	**3,758.2**	2,815.3

(1) Cash, cash equivalents and bank overdrafts as presented in the consolidated statements of cash flows excludes balances that are restricted. Restricted cash and cash equivalents are comprised primarily of amounts required to be maintained on deposit with various regulatory authorities to support the subsidiaries' insurance and reinsurance operations.

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,	
	2013	2012	**2013**	2012
(a) Net (purchases) sales of securities classified as at FVTPL				
Short term investments	**(465.1)**	(192.3)	**1,159.1**	(232.7)
Bonds	**(153.5)**	370.3	**8.7**	2,536.2
Preferred stocks	**(66.9)**	(31.7)	**(34.6)**	(28.9)
Common stocks	**1,151.7**	(257.2)	**1,585.6**	(367.6)
Net derivatives and short sales	**(484.9)**	(96.9)	**(1,823.1)**	(801.3)
	(18.7)	(207.8)	**895.7**	1,105.7
(b) Changes in operating assets and liabilities				
Net (increase) decrease in restricted cash and cash equivalents	**27.9**	(61.1)	**(168.5)**	(34.6)
Provision for losses and loss adjustment expenses	**(368.4)**	276.1	**(855.3)**	256.2
Provision for unearned premiums	**(180.3)**	(209.5)	**(67.6)**	102.3
Insurance contract receivables	**75.1**	343.4	**(57.2)**	130.1
Recoverable from reinsurers	**183.9**	(34.2)	**481.0**	(92.5)
Other receivables	**22.5**	7.4	**0.9**	(19.9)
Funds withheld payable to reinsurers	**(13.4)**	9.2	**(34.4)**	20.8
Accounts payable and accrued liabilities	**(65.9)**	(295.9)	**(84.5)**	(162.6)
Income taxes payable	**25.0**	12.8	**9.8**	57.2
Other	**41.3**	117.7	**8.9**	(12.7)
	(252.3)	165.9	**(766.9)**	244.3
(c) Net interest and dividends received				
Interest and dividends received	**145.5**	132.7	**547.7**	621.0
Interest paid	**(75.9)**	(69.4)	**(199.7)**	(187.8)
	69.6	63.3	**348.0**	433.2
(d) Net income taxes (paid) refund received	**(2.8)**	(18.5)	**19.9**	(69.2)
(e) Dividends paid				
Common share dividends paid	**—**	—	**(205.5)**	(205.8)
Preferred share dividends paid	**(14.8)**	(15.9)	**(60.8)**	(60.5)
Dividends paid to non-controlling interests	**—**	—	**(6.4)**	(6.7)
	(14.8)	(15.9)	**(272.7)**	(273.0)

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 fourth quarter and year ended December 31, 2013 and the notes to the MD&A contained in the company's 2012 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. "Consolidated interest and dividend income" in this MD&A refers to interest and dividends as presented in the consolidated statement of earnings.

(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 respectively.

(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

Subsequent to December 31, 2013

On February 4, 2014 the company completed the acquisition of 51.0% of the outstanding common shares of Keg Restaurants Limited ("The Keg") for cash purchase consideration of $76.7 (Cdn$85.0). The assets and liabilities and results of operations of The Keg will be consolidated in the Other reporting segment. The Keg franchises, owns and operates a network of premium dining restaurants across Canada and in select locations in the United States.

Year ended December 31, 2013

On October 31, 2013 the company contributed its 81.7% interest in Prime Restaurants Inc. ("Prime Restaurants") to Cara Operations Limited ("Cara") in exchange for Cara preferred shares and equity warrants with a combined fair value of $54.5 (Cdn$56.9). Subsequently, the company determined that it no longer controlled Prime Restaurants and de-consolidated Prime Restaurants from its financial reporting effective October 31, 2013, resulting in the recognition of a loss on disposition of $4.2 (Cdn$4.4) in the fourth quarter and full year of 2013. The company determined that it had obtained significant influence over Cara effective October 31, 2013 but as the company did not hold any Cara common shares, the equity method of accounting could not be applied. The Cara preferred shares, subordinated debt and equity warrants are recorded as at FVTPL investments in holding company cash and investments and portfolio investments on the consolidated balance sheet.

On October 3, 2013 the company acquired all of the outstanding common shares of American Safety Insurance Holdings, Ltd. ("American Safety") for $30.25 per share in cash, representing aggregate purchase consideration of $317.1. On October 8, 2013 the company sold American Safety's Bermuda-based reinsurance subsidiary ("AS Re") to an unrelated third party for net proceeds of $52.5. The renewal rights to certain lines of business formerly written by American Safety were assumed by Crum & Forster and Hudson representing estimated annual gross premiums written of $103. The remainder of American Safety's lines of business which did not meet Fairfax's underwriting criteria were placed into runoff under the supervision of the RiverStone group. The purchase consideration for this acquisition was financed internally by the company's runoff subsidiaries, Crum & Forster and Hudson and was partially defrayed by the proceeds received on the sale of AS Re ($52.5) and the receipt of a post-acquisition dividend of excess capital paid by American Safety ($123.7). The fair values of the portfolio investments (including cash and short term investments), insurance contract liabilities and recoverable from reinsurers of American Safety that were ultimately retained and consolidated by the Runoff reporting segment were approximately $642, $652 and $220 respectively, after giving effect to the post-acquisition transactions described in the preceding sentence. American Safety, a Bermuda-based holding company, underwrote specialty risks through its U.S.-based program administrator, American Safety Insurance Services, Inc., and its U.S. insurance and Bermuda reinsurance companies.

On July 3, 2013 Crum & Forster acquired a 100% interest in Hartville Group, Inc. ("Hartville") for cash purchase consideration of $34.0. The assets and liabilities and results of operations of Hartville were consolidated in the U.S. Insurance reporting segment. Hartville markets and administers pet health insurance plans (including enrollment, claims, billing and customer service) and produces approximately $40 in gross premiums written annually.

On May 14, 2013 Thomas Cook (India) Limited (“Thomas Cook India”) acquired a 77.3% interest in IKYA Human Capital Solutions Private Limited (“IKYA”) for purchase consideration of $46.8 (2,563.2 million Indian rupees). Thomas Cook India partially financed the acquisition of IKYA through a private placement of its common shares to qualified institutional buyers (other than existing shareholders of Thomas Cook India). As a result of the share issuance, the company's interest in Thomas Cook India was reduced from 87.1% at December 31, 2012 to 75.0%. The assets and liabilities and results of operations of IKYA were consolidated in the Other reporting segment. IKYA provides specialized human resources services to leading corporate clients in India.

Year ended December 31, 2012

On December 10, 2012 the company sold all of its ownership interest in Cunningham Lindsey Group Limited ("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). 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). Ridley received a 30% interest in Masterfeeds LP for the net assets contributed. The company records its investment in Masterfeeds LP using the equity method of accounting.

On October 12, 2012 the company's UK runoff subsidiary, RiverStone Holdings Limited, completed the acquisition of a 100% interest in Brit Insurance Limited (renamed RiverStone Insurance Limited ("RiverStone Insurance") on October 15, 2012) for cash purchase consideration of $335.1 (208.3 British pound sterling). The assets and liabilities and results of operations of RiverStone Insurance were consolidated in the Runoff reporting segment. 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.

On August 14, 2012 the company acquired an 87.1% interest in Thomas Cook India for cash purchase consideration of $172.7 (9,626 million Indian rupees). The assets and liabilities and results of operations of Thomas Cook India were consolidated 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 outstanding common shares of Thai Reinsurance Public Company Limited (“Thai Re”) for cash purchase consideration of $77.0 (2.4 billion Thai baht), 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 net cash purchase 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.

Sources of Revenue

Revenues reflected in the consolidated financial statements for the fourth quarters and years ended December 31 are shown in the table that follows. Other revenue comprises the revenue earned by Ridley, William Ashley, Sporting Life, Prime Restaurants (acquired on January 10, 2012 and subsequently sold on October 31, 2013), Thomas Cook India (acquired on August 14, 2012) and IKYA (acquired on May 14, 2013).

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Net premiums earned				
Insurance - Canada (Northbridge)	**250.1**	240.3	**990.2**	992.2
- U.S. (Crum & Forster and Zenith National)	**501.6**	484.1	**1,934.8**	1,811.6
- Asia (Fairfax Asia)	**74.1**	62.2	**256.2**	231.4
Reinsurance - OdysseyRe	**585.2**	613.6	**2,373.6**	2,315.3
Insurance and Reinsurance - Other	**112.9**	150.9	**439.5**	514.3
Runoff	**50.3**	214.3	**83.0**	220.1
	1,574.2	1,765.4	**6,077.3**	6,084.9
Interest and dividends	**134.5**	93.4	**473.6**	424.3
Net gains (losses) on investments	**(329.1)**	635.6	**(1,564.0)**	642.6
Other revenue	**304.1**	269.8	**958.0**	871.0
	1,683.7	2,764.2	**5,944.9**	8,022.8

Revenue of $1,683.7 in the fourth quarter of 2013 ($5,944.9 in the full year of 2013) decreased from $2,764.2 in the fourth quarter of 2012 ($8,022.8 in the full year of 2012) reflecting significant net losses on investments (principally comprised of mostly net unrealized losses on the company's equity and equity-related holdings after hedges ($235.2 and $536.9 in the fourth quarter and full year of 2013 respectively) and net unrealized losses on bonds ($104.2 and $994.9 in the fourth quarter and full year of 2013 respectively)). Lower revenue in the fourth quarter and full year of 2013 compared to the same periods in 2012 also reflected decreased net premiums earned, partially offset by increased interest and dividend income and other revenue.

The decrease in net premiums earned by the company's insurance and reinsurance operations in the fourth quarter of 2013 principally reflected quarter-over-quarter decreases at Insurance and Reinsurance – Other ($38.0, 25.2%), OdysseyRe ($28.4, 4.6%) and Crum & Forster ($4.1, 1.3%), partially offset by increases at Zenith National ($21.6, 13.6%), Fairfax Asia ($11.9, 19.1%) and Northbridge ($9.8, 4.1% including the unfavourable effect of foreign currency translation). The increase in net premiums earned by the company’s insurance and reinsurance operations in the full year of 2013 principally reflected year-over-year increases at Zenith National ($76.8, 12.9%), OdysseyRe ($58.3, 2.5%), Crum & Forster ($46.4, 3.8%) and Fairfax Asia ($24.8, 10.7%), partially offset by decreases at Insurance and Reinsurance – Other ($74.8, 14.5%) and Northbridge ($2.0, 0.2% including the unfavourable effect of foreign currency translation). Net premiums earned at Runoff decreased from $214.3 in the fourth quarter of 2012 ($220.1 in the full year of 2012) to $50.3 in the fourth quarter of 2013 ($83.0 in the full year of 2013) primarily as a result of $183.5 of non-recurring net premiums earned in connection with the Eaglestar reinsurance transaction in the fourth quarter and full year of 2012.

The year-over-year changes in interest and dividend income and net gains (losses) on investments in the fourth quarters and years ended December 31, 2013 and 2012, are described below.

Other revenue in the fourth quarter and full year of 2013 increased to $304.1 and $958.0 respectively, from $269.8 and $871.0 in the fourth quarter and full year of 2012 respectively. The increases principally reflected the consolidation of the revenue of IKYA (acquired on May 14, 2013) and Thomas Cook India (acquired on August 14, 2012) and higher revenue at Sporting Life, partially offset by decreased revenue following the the divestiture by Ridley of its Canadian feed business (described in the Components of Net Earnings section of this MD&A under the heading Other) and lower revenue following the de-consolidation of Prime Restaurants.

In order to better compare 2013 and 2012, the table which follows presents net premiums written by the company's insurance and reinsurance operations in the fourth quarters and years ended December 31, 2013 and 2012 after adjusting for the one-time impact on January 1, 2013 of an intercompany unearned premium portfolio transfer of net premiums written from Group Re to Northbridge (described in the Components of Net Earnings section of this MD&A under the heading Canadian Insurance - Northbridge).

	Fourth quarter			Year ended December 31,		
	2013	2012	**% change year-over-year**	**2013**	2012	**% change year-over-year**
Insurance - Canada (Northbridge)	**262.4**	243.0	8.0	**992.3**	948.7	4.6
- U.S. (Crum & Forster and Zenith National)	**446.8**	408.1	9.5	**1,933.2**	1,872.8	3.2
- Asia (Fairfax Asia)	**66.5**	59.2	12.3	**257.4**	240.6	7.0
Reinsurance - OdysseyRe	**541.0**	573.8	(5.7)	**2,376.9**	2,402.3	(1.1) (1)
Insurance and Reinsurance - Other	**84.1**	114.5	(26.6)	**446.0**	530.6	(15.9)
Insurance and reinsurance operations	**1,400.8**	1,398.6	0.2	**6,005.8**	5,995.0	0.2 (1)

(1) Net premiums written by the Reinsurance - OdysseyRe segment and by the company's total insurance and reinsurance operations increased by 5.8% and 2.9% respectively, prior to giving effect to the unearned premium portfolio transfers described in the components of Net Earnings section of this MD&A under the heading Reinsurance - OdysseyRe.

Northbridge's net premiums written increased by 8.0% and 4.6% in the fourth quarter and full year of 2013 respectively (increased 14.2% and 7.8% in Canadian dollar terms in the fourth quarter and full year of 2013 respectively). The year-over-year increase in net premiums written (expressed in Canadian dollar terms) reflected increased writings at Northbridge Insurance (higher premium retention following the termination on January 1, 2013 of a quota share reinsurance contract with Group Re) and increased writings at Federated Insurance.

Net premiums written by U.S. Insurance increased by 9.5% in the fourth quarter of 2013 (increased 3.2% in the full year of 2013). Zenith National's net premiums written increased by 14.0% in the fourth quarter of 2013 (13.1% increase in the full year of 2013) primarily reflecting premium rate increases. Crum & Forster's net premiums written increased by 7.8% in the fourth quarter of 2013 reflecting increases in specialty lines business (primarily accident and health), partially offset by lower standard lines business (due to the re-underwriting of workers' compensation business which was completed in the fourth quarter of 2013). Crum & Forster's net premiums written decreased 1.6% in the full year of 2013 reflecting decreased standard lines business (which was more pronounced through the first three quarters of 2013) and changes in the mix of specialty lines business (principally reflecting targeted non-renewal of unprofitable excess and surplus casualty business, partially offset by increases in accident and health and environmental casualty business).

Net premiums written by Fairfax Asia increased by 12.3% in the fourth quarter of 2013 (increased 7.0% in the full year of 2013) reflecting increased writings of commercial automobile business. The full year of 2013 also reflected increased writings of engineering and liability lines of business, partially offset by a reduction in writings of the marine hull line of business.

OdysseyRe's net premiums written decreased by 5.7% in the fourth quarter of 2013 reflecting lower writings of property catastrophe (primarily reflecting the reduction in OdysseyRe's participation on the Florida property quota share reinsurance contract) and casualty business (principally at Newline Insurance), partially offset by increases across most lines of business at the U.S. Insurance division. OdysseyRe's net premiums written decreased by 1.1% in full year of 2013 inclusive of certain one-time unearned premium portfolio transfers at the inception date and first renewal date of the Florida property quota share reinsurance contract (described in the Components of Net Earnings section of this MD&A under the heading Reinsurance - OdysseyRe). Prior to giving effect to these unearned premium portfolio transfers, OdysseyRe's net premiums written increased by 5.8% in the full year of 2013, reflecting increased writings of U.S. crop insurance and the contribution of the Florida property quota share reinsurance contract throughout the full year of 2013 compared to only seven months (June to December) in the full year of 2012, partially offset by many of the same factors which decreased net premiums written in the fourth quarter of 2013.

Net premiums written by the Insurance and Reinsurance – Other reporting segment decreased by 26.6% in the fourth quarter of 2013 (decreased 15.9% in the full year of 2013) reflecting the impact on Group Re of the termination of the intercompany quota share reinsurance contract with Northbridge (specifically, the decrease in quota share participation from 10% in 2012 to nil in 2013) and the non-renewal of certain classes of business where terms and conditions were considered inadequate at Advent and Polish Re, partially offset by growth at Fairfax Brasil.

Consolidated interest and dividend income of $73.4 in the fourth quarter of 2012 increased to $104.1 in the fourth quarter of 2013 reflecting lower total return swap expense, partially offset by lower investment income earned. Consolidated interest and dividend income of $409.3 in the full year of 2012 decreased to $376.9 in the full year of 2013 reflecting lower investment income earned, partially offset by lower total return swap expense. Lower investment income in the fourth quarter and full year of 2013 principally reflected sales of higher yielding government and corporate bonds during 2012 and 2013 and sales of dividend paying common stocks during 2013, the proceeds of which were reinvested into lower yielding cash and short term investments. The decrease in total return swap expense from $69.8 in the fourth quarter of 2012 ($204.9 in the full year of 2012) to $31.6 in the fourth quarter of 2013 ($167.9 in the full year of 2013) primarily reflected terminations of equity index total return swaps and certain short positions ($1,959.5 and $3,254.1 notional amounts in the fourth quarter and full year of 2013 respectively) commensurate with sales of equity and equity-related holdings. In addition, the dividend rates payable by the company on its equity index total return swaps were lower in the fourth quarter of 2013 as several companies included in the Russell 2000 and S&P 500 indexes accelerated the payment of dividends planned for 2013 into the fourth quarter of 2012.

The share of profit of associates of $30.4 and $96.7 in the fourth quarter and full year of 2013 respectively, increased significantly compared to the share of profit of associates of $20.0 and $15.0 in the fourth quarter and full year of 2012 respectively. The improvement in the fourth quarter of 2013 primarily reflected the company's share of profit of Resolute (recorded on the equity method of accounting effective from December 2012) and increased limited partnership investment income on a year-over-year basis, partially offset by the share of loss of Thai Re which increased from $1.0 in the fourth quarter of 2012 to $25.9 in the fourth quarter of 2013 (principally comprised of net reserve strengthening related to the Thailand floods). The share of profit of associates in the full year of 2012 included an $18.8 share of the net loss of Fibrek (principally comprised of an impairment charge recorded by Fibrek) and a $22.0 share of the net loss of Thai Re (principally comprised of net reserve strengthening related to the Thailand floods).

Upon initial application of the equity method of accounting to its investment in Resolute, Fairfax was required to determine its proportionate share of the fair value of Resolute's assets and liabilities at that date. Differences between fair value and Resolute's carrying value were identified (collectively, fair value adjustments) primarily with respect to Resolute's fixed assets, deferred income tax assets and pension benefit obligations. These fair value adjustments have been and will be recognized in Fairfax's share of profit (loss) of Resolute in any period to the extent that in that period Resolute adjusts the carrying value of those particular assets and liabilities. As a result, Fairfax's share of profit (loss) of Resolute will in any such period differ, potentially significantly, from what would be determined by applying Fairfax's ownership percentage of Resolute to Resolute's reported net earnings (loss). For example, Resolute's reduction of its deferred income tax asset in its quarter ended September 30, 2013 had no impact on Fairfax's share of profit of associates in the full year of 2013 as Fairfax's carrying value of Resolute on initial application of the equity method of accounting had already identified such reduction as a fair value adjustment.

Net gains (losses) on investments in the fourth quarters and years ended December 31, of 2013 and 2012 were comprised as shown in the following table:

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Common stocks	**238.8**	413.2	**941.2**	697.6
Preferred stocks - convertible	**42.1**	(20.8)	**64.7**	(36.2)
Bonds - convertible	**(2.8)**	40.0	**(2.6)**	186.7
Gain on disposition of associates[(1)]	**—**	167.0	**130.2**	196.8
Other equity derivatives	**59.3**	(4.4)	**311.6**	73.8
Equity and equity-related holdings	**337.4**	595.0	**1,445.1**	1,118.7
Equity hedges	**(572.6)**	(140.7)	**(1,982.0)**	(1,005.5)
Equity and equity-related holdings after equity hedges	**(235.2)**	454.3	**(536.9)**	113.2
Bonds	**(101.4)**	184.7	**(929.0)**	728.1
Preferred stocks	**1.8**	(0.5)	**(19.0)**	(0.3)
CPI-linked derivatives	**(14.4)**	(29.9)	**(126.9)**	(129.2)
Other derivatives	**16.7**	18.5	**(7.0)**	3.4
Foreign currency	**12.8**	6.0	**62.4**	(76.2)
Other	**(9.4)**	2.5	**(7.6)**	3.6
Net gains (losses) on investments	**(329.1)**	635.6	**(1,564.0)**	642.6
Net gains (losses) on bonds is comprised as follows:				
Government bonds	**(57.1)**	47.6	**(267.6)**	92.7
U.S. states and municipalities	**(41.9)**	121.6	**(637.3)**	552.7
Corporate and other	**(2.4)**	15.5	**(24.1)**	82.7
	(101.4)	184.7	**(929.0)**	728.1

(1) The gain on disposition of associates of $130.2 in the full year of 2013 reflected the sales in the first quarter of 2013 of the company's investment in The Brick ($111.9) and a private company ($12.1) and the sale in the second quarter of 2013 of the company's investment in Imvescor ($6.2). The gain on disposition of associates of $196.8 in the full year of 2012 reflected the sale in the fourth quarter of 2012 of the company's investment in Cunningham Lindsey ($167.0) and the sale in the second quarter of 2012 of the company's investment in Fibrek ($29.8).

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 indexes and certain individual equity securities. In the fourth quarter and full year of 2013, the impact of basis risk was pronounced compared to prior periods as the performance of the company's equity and equity-related holdings lagged the performance of the economic equity hedges used to protect those holdings despite the notional amount of the company's equity hedges being closely matched to the fair value of the company's equity and equity-related holdings, primarily as a result of the increase in the Russell 2000 index (the index underlying a significant proportion of the company's short positions) being meaningfully greater than the gain in the company's equity and equity-related holdings.

As a result of the significant appreciation of certain of its equity and equity-related holdings, the company reduced its direct equity exposure through net sales of common stocks and convertible bonds for net proceeds of $750.5 and $1,385.9 in the fourth quarter and full year of 2013 respectively, and reduced the notional amount of its long positions in individual equities effected through total return swaps by $1,031.3 in the fourth quarter and full year of 2013. The company also closed out a portion of its Russell 2000 and all of its S&P 500 equity index total return swaps and certain short positions in individual equities, with notional amounts of $1,959.5 and $3,254.1 in the fourth quarter and full year of 2013 respectively. By undertaking the transactions described above the company reduced its direct equity exposure and rebalanced its equity hedge ratio to approximately 100% at December 31, 2013, after giving consideration to net gains recognized on its equity and equity-related holdings and net losses incurred on its equity hedging instruments.

The company's equity and equity-related holdings after equity hedges produced net losses of $235.2 in the fourth quarter of 2013 (net losses of $536.9 in the full year of 2013) compared to net gains of $454.3 in the fourth quarter of 2012 (net gains of $113.2 in the full year of 2012). At December 31, 2013 equity hedges with a notional amount of $6,327.4 ($7,668.5 at December 31, 2012) represented 98.2% (101.0% at December 31, 2012) of the company's equity and equity-related holdings of $6,442.6 ($7,594.0 at December 31, 2012).

Refer to note 17 (Financial Risk Management) under the heading Market Price Fluctuations in the company's condensed consolidated financial statements for the fourth quarter and year ended December 31, 2013, 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.

Net losses on bonds of $101.4 and $929.0 in the fourth quarter and full year of 2013 respectively, were primarily comprised of net mark-to-market losses on U.S. treasury bonds ($80.2 and $309.7 respectively), U.S. state bonds ($29.8 and $287.6 respectively) and bonds issued by U.S. municipalities ($15.1 and $344.5 respectively). The company recorded net gains on bonds of $184.7 and $728.1 in the fourth quarter and full year of 2012 respectively.

The company's CPI-linked derivative contracts produced unrealized losses of $14.4 and $126.9 in the fourth quarter and full year of 2013 respectively, compared to unrealized losses of $29.9 and $129.2 in the fourth quarter and full year of 2012. Unrealized losses on CPI-linked derivative contracts typically reflect increases in the values of the CPI indexes underlying those contracts during the periods presented (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, 2013 and 2012. In that table, interest and dividends and net gains (losses) on investments in the condensed consolidated statements of earnings are presented separately as they relate to the insurance and reinsurance operating segments, and included in Runoff, Corporate overhead and other and Other as they relate to those segments.

	Fourth quarter		Year ended December 31,	
Combined ratios	**2013**	2012	**2013**	2012
Insurance - Canada (Northbridge)	**90.4%**	114.3%	**98.2%**	106.2%
- U.S. (Crum & Forster and Zenith National)	**99.8%**	122.6%	**100.3%**	111.4%
- Asia (Fairfax Asia)	**88.0%**	84.4%	**87.5%**	87.0%
Reinsurance - OdysseyRe	**79.1%**	94.4%	**84.0%**	88.5%
Insurance and Reinsurance - Other	**91.5%**	109.8%	**96.6%**	104.3%
Consolidated	**89.1%**	107.4%	**92.7%**	99.9%
Sources of net earnings				
Underwriting				
Insurance - Canada (Northbridge)	**24.0**	(34.3)	**18.2**	(61.7)
- U.S. (Crum & Forster and Zenith National)	**0.8**	(109.5)	**(5.1)**	(206.3)
- Asia (Fairfax Asia)	**8.9**	9.7	**32.0**	30.1
Reinsurance - OdysseyRe	**122.1**	34.1	**379.9**	265.8
Insurance and Reinsurance - Other	**9.6**	(14.8)	**15.0**	(21.8)
Underwriting profit (loss)	**165.4**	(114.8)	**440.0**	6.1
Interest and dividends - insurance and reinsurance	**99.1**	48.1	**330.2**	292.4
Operating income (loss)	**264.5**	(66.7)	**770.2**	298.5
Net gains (losses) on investments - insurance and reinsurance	**(231.1)**	571.8	**(1,322.0)**	587.3
Loss on repurchase of long term debt	**—**	(39.8)	**(3.4)**	(40.6)
Runoff	**26.8**	84.9	**(229.2)**	230.4
Other reporting segment	**24.4**	23.2	**51.9**	37.8
Interest expense	**(51.3)**	(52.2)	**(211.2)**	(208.2)
Corporate overhead and other	**(58.7)**	(18.3)	**(57.4)**	(256.2)
Pre-tax income (loss)	**(25.4)**	502.9	**(1,001.1)**	649.0
Income taxes	**23.6**	(96.5)	**436.6**	(114.0)
Net earnings (loss)	**(1.8)**	406.4	**(564.5)**	535.0
Attributable to:				
Shareholders of Fairfax	**(5.5)**	402.4	**(573.4)**	526.9
Non-controlling interests	**3.7**	4.0	**8.9**	8.1
	(1.8)	406.4	**(564.5)**	535.0
Net earnings (loss) per share	**$ (0.98)**	$ 19.05	**$ (31.15)**	$ 22.95
Net earnings (loss) per diluted share	**$ (0.98)**	$ 18.82	**$ (31.15)**	$ 22.68
Cash dividends paid per share	**$ —**	$ —	**$ 10.00**	$ 10.00

The company's insurance and reinsurance operations produced significant underwriting profits of $165.4 and $440.0 (combined ratios of 89.1% and 92.7%) in the fourth quarter and full year of 2013 respectively, compared to an underwriting loss of $114.8 (combined ratio of 107.4%) and an underwriting profit of $6.1 (combined ratio of 99.9%) in the fourth quarter and full year of 2012 respectively. The increase in underwriting profit in the fourth quarter and full year of 2013 compared to the same periods in 2012 reflected the pre-tax impact of increased net favourable prior year reserve development. The fourth quarter and full year of 2013 also benefited from lower current period catastrophe losses year-over-year (as set out in the table below).

Catastrophe losses added 4.7 and 4.8 combined ratio points ($71.1 and $289.3) to the combined ratios in the fourth quarter and full year of 2013 respectively. Catastrophe losses added 17.9 and 7.0 combined ratio points ($277.0 and $409.8) to the combined ratios in the fourth quarter and full year of 2012 respectively. Catastrophe losses were comprised as set out in the following table:

	Fourth quarter				**Year ended December 31,**			
	2013		2012		**2013**		2012	
	Catastrophe losses(1)	**Combined ratio impact**	Catastrophe losses(1)	Combined ratio impact	**Catastrophe losses(1)**	**Combined ratio impact**	Catastrophe losses(1)	Combined ratio impact
Alberta floods	**(0.4)**	**—**	—	—	**66.3**	**1.1**	—	—
Toronto floods	**1.8**	**0.1**	—	—	**29.5**	**0.5**	—	—
Germany hail storms	**9.8**	**0.6**	—	—	**27.0**	**0.5**	—	—
Typhoon Fitow	**25.8**	**1.7**	—	—	**25.8**	**0.4**	—	—
Central Europe floods	**(9.0)**	**(0.6)**	—	—	**19.7**	**0.3**	—	—
Hurricane Sandy	**—**	**—**	261.2	16.9	**—**	**—**	261.2	4.5
Other	**43.1**	**2.9**	15.8	1.0	**121.0**	**2.0**	148.6	2.5
	71.1	**4.7 points**	277.0	17.9 points	**289.3**	**4.8 points**	409.8	7.0 points

(1) Net of reinstatement premiums.

The following table presents the components of the company's combined ratios for the fourth quarters and years ended December 31, 2013 and 2012:

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Underwriting profit (loss)	**165.4**	(114.8)	**440.0**	6.1
Loss & LAE - accident year	**71.4 %**	82.5 %	**68.9 %**	72.2 %
Commissions	**16.1 %**	15.7 %	**16.1 %**	15.6 %
Underwriting expense	**15.5 %**	14.9 %	**15.0 %**	15.1 %
Combined ratio - accident year	**103.0 %**	113.1 %	**100.0 %**	102.9 %
Net favourable development	**(13.9)%**	(5.7)%	**(7.3)%**	(3.0)%
Combined ratio - calendar year	**89.1 %**	107.4 %	**92.7 %**	99.9 %

Net favourable development of $211.9 (13.9 combined ratio points) and $440.0 (7.3 combined ratio points) in the fourth quarter and full year of 2013 respectively and $88.7 (5.7 combined ratio points) and $177.4 (3.0 combined ratio points) in the fourth quarter and full year of 2012 respectively was comprised as follows:

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Insurance - Canada (Northbridge)	**(46.4)**	(9.9)	**(154.0)**	(60.8)
- U.S. (Crum & Forster and Zenith National)	**(9.6)**	47.8	**(27.7)**	52.5
- Asia (Fairfax Asia)	**(10.9)**	(10.9)	**(16.7)**	(16.4)
Reinsurance - OdysseyRe	**(134.4)**	(122.0)	**(214.7)**	(152.0)
Insurance and Reinsurance - Other	**(10.6)**	6.3	**(26.9)**	(0.7)
Insurance and reinsurance operations	**(211.9)**	(88.7)	**(440.0)**	(177.4)

The increase in the commission expense ratios of the company's insurance and reinsurance operations from 15.7% and 15.6% in the fourth quarter and full year of 2012 respectively, to 16.1% and 16.1% in the fourth quarter and full year of 2013 respectively, was primarily due to a shift in the mix of gross premiums written towards business carrying higher commission rates (principally at OdysseyRe).

The underwriting expense ratios of the company's insurance and reinsurance operations were 15.5% and 15.0% in the fourth quarter and full year of 2013 respectively, compared to 14.9% and 15.1% in the fourth quarter and full year of 2012 respectively. The higher underwriting expense ratio in the fourth quarter of 2013 reflected increased underwriting expenses of 1.6% and decreased net premiums earned of 1.8%. The lower underwriting expense ratio in the full year of 2013 reflected increased net premiums earned of 2.2%, partially offset by increased underwriting expenses of 0.7%. The increase in underwriting expenses in the fourth quarter and full year of 2013 primarily reflected increased compensation expense, partially offset by lower premium taxes resulting from a change in business mix and decreased legal expenses. Underwriting expenses in the fourth quarter and full year of 2012 also reflected the non-recurring benefit from the release of reserves for uncollectible balances related to structured settlements at Crum & Forster.

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 $298.9 in the fourth quarter of 2013 decreased from $308.9 in the fourth quarter of 2012 reflecting decreased subsidiary holding companies' corporate overhead and lower operating expenses at Runoff, partially offset by increased Fairfax corporate overhead and increased underwriting expenses of the insurance and reinsurance operations (described above). Subsidiary holding companies' corporate overhead decreased reflecting lower restructuring costs at Northbridge on a year-over-year basis (Northbridge incurred certain one-time severance costs in the fourth quarter of 2012) in the fourth quarter of 2012 that did not recur in the fourth quarter of 2013. Operating expenses at Runoff decreased primarily as a result of integration of RiverStone Insurance and Eaglestar runoff portfolio during 2013 which resulted in significantly lower operating costs in the fourth quarter of 2013 on a quarter-over-quarter basis. Fairfax corporate overhead increased primarily as a result of higher acquisition related expenses.

Consolidated operating expenses of $1,132.1 in the full year of 2012 increased to $1,185.0 in the full year of 2013 reflecting increased Fairfax and subsidiary holding companies' corporate overhead, increased underwriting expenses of the insurance and reinsurance operations (described above) and higher operating expenses at Runoff. Fairfax corporate overhead increased primarily as a result of higher compensation and acquisition-related expenses, partially offset by lower legal expenses. Subsidiary holding companies' corporate overhead increased reflecting a charge of $31.2 related to redundant software development costs included in the corporate overhead of Northbridge following a decision by Northbridge to pursue a group-wide software solution and increased expenses related to a recently implemented voluntary retirement program at Crum & Forster, partially offset by lower restructuring costs at Northbridge on a year-over-year basis (Northbridge incurred certain one-time severance costs in the full year of 2012). Operating expenses at Runoff increased primarily as a result of the consolidation of the operating expenses of American Safety and the release of a provision related to value added tax recorded in operating expenses in the full year of 2012, partially offset by the same factors which reduced operating expenses in the fourth quarter of 2013.

Other expenses decreased from $283.5 in the fourth quarter of 2012 to $280.1 in the fourth quarter of 2013 primarily as a result of lower operating expenses following the divestiture by Ridley of its Canadian feed business (described in the Components of Net Earnings section of this MD&A under the heading Other) and the recognition of a loss on repurchase of long term debt of $39.8 in the fourth quarter of 2012 related to the repayment by Runoff of the loan note issued by TIG Insurance in connection with its acquisition of General Fidelity, partially offset by the consolidation of $60.1 of the operating expenses of IKYA (acquired on May 14, 2013). In addition to the factors that affected other expenses in the fourth quarter of 2013, the consolidation of the operating expenses of Thomas Cook India (acquired on August 14, 2012) and the recognition of a loss of $3.4 related to the redemption of Fairfax unsecured senior notes due 2017 resulted in other expenses increasing from $870.9 in the full year of 2012 to $910.3 in the full year of 2013.

The company reported a net loss attributable to shareholders of Fairfax of $5.5 (net loss of $0.98 per basic and diluted share) in the fourth quarter of 2013 compared to net earnings attributable to shareholders of Fairfax of $402.4 (net earnings of $19.05 per basic share and $18.82 per diluted share) in the fourth quarter of 2012. The company reported a net loss attributable to shareholders of Fairfax of $573.4 (a net loss of $31.15 per basic and diluted share) in the full year of 2013 compared to net earnings attributable to shareholders of Fairfax of $526.9 (net earnings of $22.95 per basic share and $22.68 per diluted share) in the full year of 2012. The year-over-year decrease in profitability in the fourth quarter and full year of 2013 was primarily due to significant net losses on investments, partially offset by higher underwriting profit and the increased recovery of income taxes.

Common shareholders’ equity decreased from $7,654.7 at December 31, 2012 to $7,186.7 at December 31, 2013 primarily reflecting the net loss attributable to shareholders of Fairfax ($573.4), the payment of dividends on the company's common and preferred shares ($266.3) and decreased accumulated other comprehensive income (a decrease of $33.7 in the full year of 2013 primarily related to foreign currency translation), partially offset by the issuance of 1 million subordinate voting shares on November 15, 2013 for net proceeds after commissions and expenses of $399.5 (Cdn $417.1). Common shareholders’ equity at December 31, 2013 was $7,186.7 or $339.00 per basic share compared to $7,654.7 or $378.10 per basic share at December 31, 2012, representing a decrease per basic share in 2013 of 10.3% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2013, or a decrease of 7.8% adjusted to include that dividend).

Net Earnings by Reporting Segment

The company's sources of net earnings shown by reporting segment are set out in the tables which follow for the fourth quarters and years ended December 31, 2013 and 2012. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the group, primarily to OdysseyRe and Group Re. Also set out in the tables which follow, for those respective periods and by reporting segment, is reinsurers' share of premiums earned and the pre-tax benefit (cost) of ceded reinsurance (calculated as the net impact of reinsurers' share of premiums earned, commissions earned on reinsurers' share of premiums earned and losses on claims ceded to reinsurers).

Quarter ended December 31, 2013

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Inter-company	Consolidated
Gross premiums written	290.0	529.0	134.7	603.1	112.1	1,668.9	35.3	—	—	(28.6)	1,675.6
Net premiums written	262.4	446.8	66.5	541.0	84.1	1,400.8	29.9	—	—	—	1,430.7
Net premiums earned	250.1	501.6	74.1	585.2	112.9	1,523.9	50.3	—	—	—	1,574.2
Underwriting profit	24.0	0.8	8.9	122.1	9.6	165.4	80.2	—	—	—	245.6
Interest and dividends	15.1	18.2	0.6	62.7	2.5	99.1	10.8	0.4	5.8	18.4	134.5
Operating income	39.1	19.0	9.5	184.8	12.1	264.5	91.0	0.4	5.8	18.4	380.1
Net gains (losses) on investments	(15.6)	(85.2)	5.4	(136.8)	1.1	(231.1)	(64.2)	—	(33.8)	—	(329.1)
Other reporting segment	—	—	—	—	—	—	—	24.0	—	—	24.0
Interest expense	—	(1.2)	—	(4.4)	(1.1)	(6.7)	(0.4)	(1.3)	(42.9)	—	(51.3)
Corporate overhead	(1.5)	(8.6)	—	(6.1)	—	(16.2)	—	—	(14.5)	(18.4)	(49.1)
Pre-tax income (loss)	22.0	(76.0)	14.9	37.5	12.1	10.5	26.4	23.1	(85.4)	—	(25.4)
Income taxes											23.6
Net loss											(1.8)
Attributable to:											
Shareholders of Fairfax											(5.5)
Non-controlling interests											3.7
											(1.8)

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Inter-company	Consolidated
Reinsurers' share of premiums earned	31.7	86.7	75.8	74.4	31.3	299.9	3.2	—	—	(20.6)	282.5
Pre-tax benefit (cost) of ceded reinsurance	(43.2)	106.6	16.6	8.7	0.3	89.0	(45.6)	—	—	(47.8)	(4.4)

Quarter ended December 31, 2012

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Inter-company	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	114.5	1,398.6	199.1	—	—	—	1,597.7
Net premiums earned	240.3	484.1	62.2	613.6	150.9	1,551.1	214.3	—	—	—	1,765.4
Underwriting profit (loss)	(34.3)	(109.5)	9.7	34.1	(14.8)	(114.8)	(1.6)	—	—	—	(116.4)
Interest and dividends	8.6	5.8	12.0	22.2	(0.5)	48.1	14.8	0.2	(2.7)	33.0	93.4
Operating income (loss)	(25.7)	(103.7)	21.7	56.3	(15.3)	(66.7)	13.2	0.2	(2.7)	33.0	(23.0)
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	—	—	—	—	—	—	(39.8)	—	—	—	(39.8)
Other reporting segment	—	—	—	—	—	—	6.8	19.3	—	—	26.1
Interest expense	—	(1.3)	—	(6.9)	(1.1)	(9.3)	(0.5)	(1.2)	(41.2)	—	(52.2)
Corporate overhead	(11.6)	(5.3)	—	(7.5)	(0.2)	(24.6)	—	—	13.8	(33.0)	(43.8)
Pre-tax income (loss)	23.0	(13.3)	25.3	252.7	183.5	471.2	44.6	22.0	(34.9)	—	502.9
Income taxes											(96.5)
Net earnings											406.4
Attributable to:											
Shareholders of Fairfax											402.4
Non-controlling interests											4.0
											406.4

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Inter-company	Consolidated
Reinsurers' share of premiums earned	62.9	77.8	74.2	88.4	31.7	335.0	44.1	—	—	(34.5)	344.6
Pre-tax benefit (cost) of ceded reinsurance	41.1	45.3	26.4	(15.9)	(14.0)	82.9	153.7	—	—	(69.7)	166.9

Year ended December 31, 2013

	Insurance			**Reinsurance**	**Insurance and Reinsurance**						
	Northbridge	**U.S.**	**Fairfax Asia**	**OdysseyRe**	**Other**	**Ongoing operations**	**Runoff**	**Other**	**Corporate and Other**	**Inter-company**	**Consolidated**
Gross premiums written	**1,150.0**	**2,278.5**	**530.2**	**2,715.5**	**538.5**	**7,212.7**	**36.3**	**—**	**—**	**(21.9)**	**7,227.1**
Net premiums written	**1,031.4**	**1,933.2**	**257.4**	**2,376.9**	**406.9**	**6,005.8**	**30.4**	**—**	**—**	**—**	**6,036.2**
Net premiums earned	**990.2**	**1,934.8**	**256.2**	**2,373.6**	**439.5**	**5,994.3**	**83.0**	**—**	**—**	**—**	**6,077.3**
Underwriting profit (loss)	**18.2**	**(5.1)**	**32.0**	**379.9**	**15.0**	**440.0**	**11.3**	**—**	**—**	**—**	**451.3**
Interest and dividends	**27.1**	**60.6**	**36.7**	**191.7**	**14.1**	**330.2**	**66.0**	**0.8**	**(11.7)**	**88.3**	**473.6**
Operating income (loss)	**45.3**	**55.5**	**68.7**	**571.6**	**29.1**	**770.2**	**77.3**	**0.8**	**(11.7)**	**88.3**	**924.9**
Net gains (losses) on investments	**(55.5)**	**(445.0)**	**(23.8)**	**(816.5)**	**18.8**	**(1,322.0)**	**(306.5)**	**—**	**64.5**	**—**	**(1,564.0)**
Loss on repurchase of long term debt	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3.4)**	**—**	**(3.4)**
Other reporting segment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**51.1**	**—**	**—**	**51.1**
Interest expense	**—**	**(4.8)**	**—**	**(24.8)**	**(4.3)**	**(33.9)**	**(0.4)**	**(4.6)**	**(172.3)**	**—**	**(211.2)**
Corporate overhead	**(37.2)**	**(36.6)**	**(0.1)**	**(22.0)**	**(0.1)**	**(96.0)**	**—**	**—**	**(14.2)**	**(88.3)**	**(198.5)**
Pre-tax income (loss)	**(47.4)**	**(430.9)**	**44.8**	**(291.7)**	**43.5**	**(681.7)**	**(229.6)**	**47.3**	**(137.1)**	**—**	**(1,001.1)**
Income taxes											**436.6**
Net loss											**(564.5)**
Attributable to:											
Shareholders of Fairfax											**(573.4)**
Non-controlling interests											**8.9**
											(564.5)

	Insurance			**Reinsurance**	**Insurance and Reinsurance**						
	Northbridge	**U.S.**	**Fairfax Asia**	**OdysseyRe**	**Other**	**Ongoing operations**	**Runoff**	**Other**	**Corporate and Other**	**Inter-company**	**Consolidated**
Reinsurers' share of premiums earned	**160.1**	**333.6**	**273.5**	**350.8**	**117.9**	**1,235.9**	**35.8**	**—**	**—**	**(55.0)**	**1,216.7**
Pre-tax benefit (cost) of ceded reinsurance	**(18.6)**	**29.9**	**(46.3)**	**41.7**	**(46.0)**	**(39.3)**	**(5.0)**	**—**	**—**	**14.6**	**(29.7)**

Year ended December 31, 2012

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Inter-company	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)	(61.7)	(206.3)	30.1	265.8	(21.8)	6.1	(57.3)	—	—	—	(51.2)
Interest and dividends	41.5	49.6	36.2	127.5	37.6	292.4	65.1	0.2	(10.2)	76.8	424.3
Operating income (loss)	(20.2)	(156.7)	66.3	393.3	15.8	298.5	7.8	0.2	(10.2)	76.8	373.1
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	—	(0.8)	—	—	—	(0.8)	(39.8)	—	—	—	(40.6)
Other reporting segment	—	—	—	—	—	—	6.8	33.9	—	—	40.7
Interest expense	—	(5.7)	—	(27.7)	(4.5)	(37.9)	(7.5)	(2.2)	(160.6)	—	(208.2)
Corporate overhead	(17.2)	(23.2)	—	(23.1)	(0.4)	(63.9)	—	—	(17.9)	(76.8)	(158.6)
Pre-tax income (loss)	(100.5)	(39.1)	66.6	609.7	246.5	783.2	183.1	35.6	(352.9)	—	649.0
Income taxes											(114.0)
Net earnings											535.0
Attributable to:											
Shareholders of Fairfax											526.9
Non-controlling interests											8.1
											535.0

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	U.S.	Fairfax Asia	OdysseyRe	Other	Ongoing operations	Runoff	Other	Corporate and Other	Inter-company	Consolidated
Reinsurers' share of premiums earned	259.6	288.0	253.6	377.3	104.2	1,282.7	53.3	—	—	(126.1)	1,209.9
Pre-tax benefit (cost) of ceded reinsurance	(9.8)	12.8	14.6	(28.5)	(25.6)	(36.5)	126.3	—	—	(38.2)	51.6

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, 2013 and 2012.

Canadian Insurance - Northbridge

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Underwriting profit (loss)	**24.0**	(34.3)	**18.2**	(61.7)
Loss & LAE - accident year	**74.1 %**	79.4 %	**77.5 %**	76.2 %
Commissions	**14.7 %**	15.1 %	**16.3 %**	15.0 %
Underwriting expenses	**20.2 %**	23.9 %	**20.0 %**	21.1 %
Combined ratio - accident year	**109.0 %**	118.4 %	**113.8 %**	112.3 %
Net favourable development	**(18.6)%**	(4.1)%	**(15.6)%**	(6.1)%
Combined ratio - calendar year	**90.4 %**	114.3 %	**98.2 %**	106.2 %
Gross premiums written	**290.0**	298.4	**1,150.0**	1,194.3
Net premiums written	**262.4**	243.0	**1,031.4**	948.7
Net premiums earned	**250.1**	240.3	**990.2**	992.2
Underwriting profit (loss)	**24.0**	(34.3)	**18.2**	(61.7)
Interest and dividends	**15.1**	8.6	**27.1**	41.5
Operating income (loss)	**39.1**	(25.7)	**45.3**	(20.2)
Net gains (losses) on investments	**(15.6)**	60.3	**(55.5)**	(63.1)
Pre-tax income (loss) before interest and other	**23.5**	34.6	**(10.2)**	(83.3)

Effective January 1, 2013 Northbridge sold its wholly-owned U.S.-based subsidiary Commonwealth Insurance Company of America ("CICA") to TIG Insurance Company ("TIG Insurance"). CICA had total equity of $20.8 on January 1, 2013 principally comprised of its U.S. property business in runoff following the renewal rights transfer discussed below. Periods prior to January 1, 2013 have not been restated as the impact was not significant. Effective January 1, 2013 Northbridge discontinued its 10% participation on a quota share reinsurance contract with Group Re and received $39.1 (Cdn $39.4) of unearned premium which had previously been ceded to Group Re (the "unearned premium portfolio transfer"). Effective May 1, 2012 Northbridge sold the renewal rights of its U.S. property business to a wholly-owned subsidiary of OdysseyRe (the "renewal rights transfer").

Northbridge's underwriting results in the fourth quarter of 2013 showed significant improvement compared to the fourth quarter of 2012 primarily due to increased net favourable prior year reserve development and lower current period catastrophe losses year-over-year. Northbridge's underwriting results in the full year of 2013 also benefited from increased net favourable prior year reserve development, partially offset by increased current period catastrophe losses year-over-year. Throughout the year, competitive conditions within the Canadian commercial lines insurance market remained challenging. Northbridge reported underwriting profits of $24.0 and $18.2 (combined ratios of 90.4% and 98.2%) in the fourth quarter and full year of 2013 respectively, compared to underwriting losses of $34.3 and $61.7 (combined ratios of 114.3% and 106.2%) in the fourth quarter and full year of 2012 respectively.

Net favourable prior year reserve development, reflecting better than expected emergence across most accident years and lines of business, increased from $9.9 (4.1 combined ratio points) and $60.8 (6.1 combined ratio points) in the fourth quarter and full year of 2012 respectively, to $46.4 (18.6 combined ratio points) and $154.0 (15.6 combined ratio points) in the fourth quarter and full year of 2013 respectively. Current period catastrophe losses in the fourth quarter of 2013 totaled $5.2 (2.1 combined ratio points) and principally related to the Eastern Canada winter storms. Current period catastrophe losses in the full year of 2013 (inclusive of reinstatement premiums payable) totaled $61.0 (6.2 combined ratio points) comprised principally of the impact of the Alberta floods of $34.1 (3.5 combined ratio points) and the Toronto floods of $18.5 (1.9 combined ratio points). The underwriting results in the fourth quarter and full year of 2012 (inclusive of reinstatement premiums payable) included $24.1 and $39.0 of current period catastrophe losses respectively, which added 10.1 and 4.0 percentage points to the combined ratios in those respective periods, primarily related to the impact of Hurricane Sandy on the U.S. property exposure of Northbridge Indemnity prior to the sale of that business to TIG Insurance. Current period catastrophe losses in the full year of 2012 also included storms in Alberta, Ontario and Quebec.

Northbridge's expense ratio decreased from 23.9% and 21.1% in the fourth quarter and full year of 2012 respectively, to 20.2% and 20.0% in the fourth quarter and full year of 2013 respectively, primarily as a result of lower operating expenses year-over-year (operating expenses in the fourth quarter of 2012 and full year of 2012 included a non-recurring adjustment to the harmonized sales tax applied to reinsurance premiums ceded to foreign affiliated reinsurers) and the 10.1% and 2.8% year-over-year increase in net premiums earned in those respective periods (expressed in Canadian dollars). Northbridge's corporate overhead in the full year of 2013 included a charge of $31.2 (Cdn$31.9) related to software development costs that became redundant following a decision by Northbridge to pursue a new group-wide underwriting software system. Northbridge’s commission expense ratios of 14.7% and 16.3% in the fourth quarter and full year of 2013 respectively, (15.1% and 15.0% in the fourth quarter and full year of 2012 respectively) reflected lower ceding commissions received in 2013 following the termination of the intercompany quota share reinsurance contract discussed above. Northbridge's commission expense ratio in the fourth quarter of 2013 also reflected lower direct commissions related to a change in mix of business.

In order to better compare Northbridge's gross premiums written, net premiums written and net premiums earned in the fourth quarters and years ended December 31, 2013 and 2012, the premiums presented in the following table are expressed in Canadian dollars, give effect to the renewal rights transfer as of January 1, 2012 and exclude the effect on January 1, 2013 of the unearned premium portfolio transfer.

	Cdn$			
	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Gross premiums written	**304.0**	295.9	**1,184.2**	1,172.2
Net premiums written	**275.0**	233.5	**1,023.4**	940.5
Net premiums earned	**262.5**	240.9	**1,018.9**	971.6

Gross premiums written increased by 2.7% from Cdn$295.9 in the fourth quarter of 2012 to Cdn$304.0 in the fourth quarter of 2013 due to higher premium volumes at Northbridge Insurance (primarily reflecting new large account business underwritten and the timing of the renewal of certain other accounts) and higher renewal business at Federated Insurance. Gross premiums written increased by 1.0% from Cdn$1,172.2 in the full year of 2012 to Cdn$1,184.2 in the full year of 2013 due to higher premium volumes at Federated Insurance, partially offset by lower premium volumes at Northbridge Insurance (primarily reflecting modest decreases in writings across most segments except in the Specialty Risk segment which benefited from increased fronting of property and aviation business). Higher premium volumes at Federated Insurance in the fourth quarter and full year of 2013 reflected an increase in the opportunities to quote on new business coupled with an increase in the ratio of new business accepted relative to business quoted. In addition to the factors which impacted gross premiums written, the growth in net premiums written and net premiums earned of 17.8% and 9.0% respectively, in the fourth quarter of 2013, reflected increased premium retention following the termination of the intercompany quota share reinsurance contract discussed above. This was also the primary driver of the growth in net premiums written and net premiums earned of 8.8% and 4.9% respectively in the full year of 2013.

The net losses on investments (as set out in the table below), partially offset by the significant improvement in underwriting profitability year-over-year and increased interest and dividend income (principally related to lower total return swap expense and an increase in share of profit of associates), produced pre-tax income before interest and other of $23.5 in the fourth quarter of 2013 compared to pre-tax income before interest and other of $34.6 in the fourth quarter of 2012. The significant year-over-year improvement in underwriting profitability and decreased net losses on investments (as set out in the table below), partially offset by decreased interest and dividend income (principally related to the impact on investment income of increased holdings of cash and short term investments year-over-year, increased investment administration expenses and lower dividend income due to sales of certain dividend paying common stocks in 2013, partially offset by an increase in share of profit of associates), produced a pre-tax loss before interest and other of $10.2 in the full year of 2013 compared to a pre-tax loss before interest and other of $83.3 in the full year of 2012.

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Common stocks and equity derivatives (excluding equity hedges)	**32.6**	55.4	**141.3**	60.1
Equity hedges	**(64.4)**	(17.2)	**(202.8)**	(137.3)
Bonds	**0.5**	22.8	**(29.4)**	73.9
Preferred stocks	**(2.9)**	(1.1)	**(5.5)**	(11.7)
CPI-linked derivatives	**(4.4)**	(12.8)	**(27.6)**	(35.1)
Foreign currency	**23.0**	12.1	**47.0**	(20.3)
Gain on disposition of associates	**—**	—	**22.2**	6.8
Other	**—**	1.1	**(0.7)**	0.5
Net gains (losses) on investments	**(15.6)**	60.3	**(55.5)**	(63.1)

Northbridge's cash resources, excluding the impact of foreign currency translation, decreased by $183.9 in the fourth quarter of 2013 (decreased by $481.6 in the fourth quarter of 2012) and increased by $716.1 in the full year of 2013 (increased by $45.6 in the full year of 2012). Cash used in operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) decreased from $42.0 in the fourth quarter of 2012 to $22.2 in the fourth quarter of 2013 with the year-over-year improvement primarily attributable to lower net claims paid, partially offset by a decrease in net premium collections. Cash provided by operating activities of $22.7 in the full year of 2013 was relatively unchanged from cash provided by operating activities of $23.4 in the full year of 2012.

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

	Fourth quarter					
	2013			2012		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Underwriting profit (loss)	**(20.9)**	**21.7**	**0.8**	(87.4)	(22.1)	(109.5)
Loss & LAE - accident year	**72.3%**	**63.8 %**	**69.2 %**	82.2%	78.7 %	81.1%
Commissions	**13.6%**	**9.7 %**	**12.2 %**	12.9%	9.9 %	11.9%
Underwriting expenses	**18.0%**	**24.3 %**	**20.3 %**	16.7%	26.1 %	19.7%
Combined ratio - accident year	**103.9%**	**97.8 %**	**101.7 %**	111.8%	114.7 %	112.7%
Net adverse (favourable) development	**2.6%**	**(9.9)%**	**(1.9)%**	15.0%	(0.7)%	9.9%
Combined ratio - calendar year	**106.5%**	**87.9 %**	**99.8 %**	126.8%	114.0 %	122.6%
Gross premiums written	**399.4**	**129.6**	**529.0**	369.1	113.8	482.9
Net premiums written	**320.9**	**125.9**	**446.8**	297.7	110.4	408.1
Net premiums earned	**321.5**	**180.1**	**501.6**	325.6	158.5	484.1
Underwriting profit (loss)	**(20.9)**	**21.7**	**0.8**	(87.4)	(22.1)	(109.5)
Interest and dividends	**13.6**	**4.6**	**18.2**	1.1	4.7	5.8
Operating income (loss)	**(7.3)**	**26.3**	**19.0**	(86.3)	(17.4)	(103.7)
Net gains (losses) on investments	**(68.3)**	**(16.9)**	**(85.2)**	75.6	21.4	97.0
Pre-tax income (loss) before interest and other	**(75.6)**	**9.4**	**(66.2)**	(10.7)	4.0	(6.7)

	Year ended December 31,					
	2013			2012		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Underwriting profit (loss)	**(24.3)**	**19.2**	**(5.1)**	(113.2)	(93.1)	(206.3)
Loss & LAE - accident year	**70.1%**	**67.5 %**	**69.2 %**	73.1%	77.9 %	74.7%
Commissions	**13.3%**	**9.8 %**	**12.1 %**	13.0%	9.8 %	11.9%
Underwriting expenses	**17.8%**	**25.1 %**	**20.4 %**	18.8%	28.2 %	21.9%
Combined ratio - accident year	**101.2%**	**102.4 %**	**101.7 %**	104.9%	115.9 %	108.5%
Net adverse (favourable) development	**0.7%**	**(5.3)%**	**(1.4)%**	4.4%	(0.3)%	2.9%
Combined ratio - calendar year	**101.9%**	**97.1 %**	**100.3 %**	109.3%	115.6 %	111.4%
Gross premiums written	**1,562.2**	**716.3**	**2,278.5**	1,529.7	633.5	2,163.2
Net premiums written	**1,232.9**	**700.3**	**1,933.2**	1,253.4	619.4	1,872.8
Net premiums earned	**1,261.0**	**673.8**	**1,934.8**	1,214.6	597.0	1,811.6
Underwriting profit (loss)	**(24.3)**	**19.2**	**(5.1)**	(113.2)	(93.1)	(206.3)
Interest and dividends	**38.3**	**22.3**	**60.6**	28.1	21.5	49.6
Operating income (loss)	**14.0**	**41.5**	**55.5**	(85.1)	(71.6)	(156.7)
Net gains (losses) on investments	**(313.8)**	**(131.2)**	**(445.0)**	126.2	21.1	147.3
Loss on repurchase of long term debt	**—**	**—**	**—**	(0.8)	—	(0.8)
Pre-tax income (loss) before interest and other	**(299.8)**	**(89.7)**	**(389.5)**	40.3	(50.5)	(10.2)

(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.

Crum & Forster

On December 31, 2013 Runoff (Clearwater Insurance) assumed net insurance liabilities of $68.6 from Crum & Forster related to its discontinued New York construction contractors' business. Runoff received $68.6 of cash and investments as consideration from Crum & Forster for assuming those liabilities. This transfer is expected to reduce the volatility of the operating income of Crum & Forster and may reduce interest and dividend income earned as a result of the transfer of cash and investments to Runoff. In its assessment of the performance of Crum & Forster and Runoff, the company's management does not consider the initial effects of such reinsurance transactions and as a result, the tables in this MD&A which set out the operating results of Crum & Forster and Runoff do not give effect to the initial effects of this transaction. Had this reinsurance transaction been reflected in the operating results of the Crum & Forster segment, net premiums written and net premiums earned would have decreased by $68.6 and losses on claims would have decreased by $68.6 with Crum & Forster's operating income remaining unchanged in 2013.

On October 3, 2013 Crum & Forster assumed the renewal rights to American Safety's environmental casualty, excess and surplus lines casualty, property and package lines of business. In 2014 Crum & Forster anticipates writing approximately $73 of gross premiums related to these renewal rights.

Effective October 1, 2013 Crum & Forster transferred its directors and officers and management liability insurance business to Hudson Insurance Group ("Hudson"), a wholly-owned insurance subsidiary of OdysseyRe. This strategic combination will allow Hudson (which also underwrites this line of business) to provide a more focused and efficient presence in the marketplace for such insurance. The transferred business produces approximately $20 of annual gross premiums written.

On July 3, 2013 Crum & Forster acquired a 100% interest in Hartville Group, Inc. ("Hartville") for cash purchase consideration of $34.0. Hartville markets and administers pet health insurance plans (including enrollment, claims, billing and customer service) and produces approximately $40 in gross premiums written annually. Prior to the acquisition, Crum & Forster underwrote all of the premiums produced by Hartville and ceded 57% of this business to a reinsurance subsidiary controlled by Hartville. Subsequent to the acquisition, Crum & Forster will underwrite and retain 100% of the premiums produced by Hartville.

Crum & Forster reported underwriting losses of $20.9 and $24.3 and combined ratios of 106.5% and 101.9% in the fourth quarter and full year of 2013 respectively, compared to 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. The improvement in underwriting performance in the fourth quarter and full year of 2013 compared with the fourth quarter and full year of 2012 primarily reflected the pre-tax impact of a decrease in net adverse prior year reserve development and lower current period catastrophe losses.

Crum & Forster’s underwriting results in the fourth quarter and full year of 2013 included $8.3 (2.6 combined ratio points) and $8.3 (0.7 of a combined ratio point) of net adverse prior year reserve development respectively, primarily related to general liability loss reserves at First Mercury, partially offset by net favourable prior year reserve development related to a single large liability claim at Crum & Forster. Crum & Forster’s underwriting results in the fourth quarter and full year of 2012 included $49.0 (15.0 combined ratio points) and $54.0 (4.4 combined ratio points) of net adverse prior year reserve development, primarily due to net unfavourable development of workers’ compensation loss reserves at Crum & Forster and general liability loss reserves at First Mercury, partially offset by net favourable emergence in the loss reserves of other lines of business. Current period catastrophe losses of $0.9 and $3.7 in the fourth quarter and full year of 2013 respectively decreased significantly from catastrophe losses of $21.1 and $28.7 in the fourth quarter and full year of 2012 respectively, which primarily reflected the impact of Hurricane Sandy.

Crum & Forster’s expense ratio (excluding commissions) increased from 16.7% in the fourth quarter of 2012 to 18.0% in the fourth quarter of 2013 reflecting lower premium tax expense, increased compensation expense and decreased net premiums earned in the fourth quarter of 2013 and the non-recurring benefit related to the release of a reserve for uncollectible balances related to structured settlements in the fourth quarter of 2012. Crum & Forster's expense ratio (excluding commissions) decreased from 18.8% in the full year of 2012 to 17.8% in the full year of 2013 reflecting the year-over-year increase in net premiums earned of 3.8% in the full year of 2013 and the benefit of a business interruption insurance recovery related to Hurricane Sandy at the Seneca division in the full year of 2013, partially offset by many of the same factors which increased the expense ratio (excluding commissions) in the fourth quarter of 2013. Crum & Forster’s commission expense ratios increased from 12.9% and 13.0% in the fourth quarter and full year of 2012 respectively, to 13.6% and 13.3% in the fourth quarter and full year of 2013 respectively, primarily reflecting unfavourable adjustments to profit sharing reinsurance commissions at First Mercury related to the net adverse prior year reserve development described above.

Gross premiums written increased by 8.2% from $369.1 in the fourth quarter of 2012 to $399.4 in the fourth quarter of 2013 primarily reflecting an increase in specialty lines gross premiums written of $36.1 (increased by 12.1%), partially offset by lower standard lines gross premiums written of $5.8 (decreased by 8.2% due to the re-underwriting of workers' compensation business which was completed in the fourth quarter of 2013). Specialty lines gross premiums written increased quarter-over-quarter in every specialty division, except First Mercury, with Fairmont accident and health business (mostly related to a new travel program) accounting for the majority of the growth. The reduced premium volume at First Mercury was the result of the targeted non-renewal of unprofitable classes of primary and excess general liability business written in the excess and surplus lines market.

Net premiums written increased by 7.8% in the fourth quarter of 2013, less than the 8.2% quarter-over-quarter rate of growth in gross premiums written. During the fourth quarter of 2013 as a result of premium growth in comparatively low retention specialty businesses combined with premium declines in higher retention lines of business such as workers' compensation and First Mercury’s primary general liability, growth in net premiums written did not keep pace with growth in gross premiums written. Mitigating the impact of this shift in business mix in the fourth quarter of 2013 was the increased retention of gross premiums written produced by Hartville ($6) and renewals of the of American Safety business ($13), substantially all of which was retained.

Net premiums earned decreased by 1.3% in the fourth quarter of 2013 reflecting reductions in net premiums written in the workers' compensation and First Mercury lines of business in prior quarters, partially offset by increases in accident and health net premiums written which earn into income over a shorter period of time.

Gross premiums written increased by 2.1% from $1,529.7 in the full year of 2012 to $1,562.2 in the full year of 2013 primarily reflecting an increase in specialty lines gross premiums written of $129.3 (increased by 10.9%), partially offset by lower standard lines gross premiums written of $96.8 (decreased by 28.2%). Gross premiums written in the full year of 2013 was generally influenced by the same factors that affected gross premiums written in the fourth quarter of 2013; however, the impact of re-underwriting the workers' compensation business was more pronounced through the first three quarters of 2013. Crum & Forster's environmental casualty and First Mercury business benefited from approximately $9 and $4 of gross premiums written respectively, in the fourth quarter and full year of 2013 as a result renewals of the American Safety business.

Net premiums written decreased by 1.6% in the full year of 2013 reflecting the impact of the shift in business mix that affected growth in net premiums written in the fourth quarter 2013. The decrease in net premiums written was partially offset by a year-over-year increase of $13.9 as a result of increased retention of gross premiums written produced by Hartville.

Net premiums earned increased by 3.8% in the full year of 2013 reflecting the increase in accident and health net premiums written which earn into income over a shorter period of time, partially offset by reductions in the net premiums written in the workers' compensation and First Mercury lines of business in prior quarters.

Interest and dividend income of $13.6 and $38.3 in the fourth quarter and full year of 2013 respectively increased from $1.1 and $28.1 in the fourth quarter and full year of 2012 respectively, primarily due to lower total return swap expense (Crum & Forster terminated approximately $650 notional amount of short equity index total return swaps in the fourth quarter of 2013) and an increase in share of profit of associates, partially offset by lower investment income earned reflecting the sale of higher-yielding municipal, government and corporate bonds in 2012 where the proceeds were reinvested into lower yielding cash and short term investments and decreased dividends earned on common stocks as a result of sales of dividend paying equities during 2013. The significant increase in net losses on investments (as set out in the table below), partially offset by the improvements in underwriting profitability and higher interest and dividend income, produced a pre-tax loss before interest and other of $75.6 in the fourth quarter of 2013 ($299.8 in the full year of 2013) compared to a pre-tax loss before interest and other of $10.7 in the fourth quarter of 2012 (pre-tax income before interest and other of $40.3 in the full year of 2012).

Crum & Forster's cash resources, excluding the impact of foreign currency translation, increased by $80.8 in the fourth quarter of 2013 compared to an increase of $25.2 in the fourth quarter of 2012 and increased by $14.8 in the full year of 2013 compared to a decrease of $48.5 in the full year of 2012. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) was $71.0 in the fourth quarter of 2013 ($122.8 in the full year of 2013) compared to $20.1 in the fourth quarter of 2012 ($116.7 in the full year of 2012) with the year-over-year increase primarily attributable to an increase in net premium collections, higher investment income and income tax recoveries received.

Crum & Forster received a capital contribution of $65.0 from Fairfax in the full year of 2013 (2012 - $5.0). Crum & Forster paid dividends to Fairfax of nil in the full year of 2013 (2012 - $63.0).

Zenith National

Zenith National reported underwriting profits of $21.7 and $19.2 and combined ratios of 87.9% and 97.1% in the fourth quarter and full year of 2013 respectively, compared to 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. Net premiums earned in the fourth quarter and full year of 2013 of $180.1 and $673.8 respectively, increased from $158.5 and $597.0 in the fourth quarter and full year of 2012 respectively, principally reflecting premium rate increases. The improvement in Zenith National's combined ratios in the fourth quarter and full year of 2013 compared to the same periods in 2012 reflected: decreases of 14.9 and 10.4 percentage points in the accident year loss and LAE ratio in the fourth quarter and full year of 2013 respectively, due to earned premium price increases exceeding estimates of loss trends; net favourable development of prior years' reserves of 9.9 and 5.3 percentage points in the fourth quarter and full year of 2013 respectively, reflecting net favourable emergence related to the 2012 accident year; and decreases in the expense ratio (excluding commissions) of 1.8 and 3.1 percentage points in the fourth quarter and full year of 2013 respectively, as a result of a 13.6% and 12.9% year-over-year increase in net premiums earned in those respective periods. The combined ratio in the fourth quarter of 2013 also reflected a 1.4 percentage point improvement in the 2013 accident year loss and LAE ratio (an estimate of 67.5% for the year ended December 31, 2013 compared to the estimate of 68.9% for the nine months ended September 30, 2013).

Interest and dividend income of $4.6 and $22.3 in the fourth quarter and full year of 2013 remained comparable to interest and dividend income of $4.7 and $21.5 in the fourth quarter and full year of 2012. The significant net losses on investments (as set out in the table below), partially offset by improvements in underwriting profitability and relatively stable interest and dividend income, produced pre-tax income before interest and other of $9.4 in the fourth quarter of 2013 (a pre-tax loss before interest and other of $89.7 in the full year of 2013) compared to pre-tax income before interest and other of $4.0 in the fourth quarter of 2012 (a pre-tax loss before interest and other of $50.5 in the full year of 2012).

At December 31, 2013 Zenith National had unrestricted cash and cash equivalents of $54.0. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) increased from $4.1 and $36.7 in the fourth quarter and full year of 2012 respectively, to $29.2 and $109.2 in the fourth quarter and full year of 2013 respectively, primarily as a result of increased net premium collections.

Zenith National received a capital contribution of $10.0 from Fairfax in the full year of 2013 (2012 - nil). Zenith National paid dividends to Fairfax and its affiliates of nil in the full year of 2013 (2012 - $100.0).

Net gains (losses) on investments in the fourth quarters and years ended December 31, 2013 and 2012 for the U.S. Insurance segment were comprised as shown in the following table:

	Fourth quarter					
	2013			2012		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Common stocks and equity derivatives (excluding equity hedges)	**47.1**	**21.3**	**68.4**	67.2	26.5	93.7
Equity hedges	**(92.4)**	**(30.5)**	**(122.9)**	(11.7)	(3.8)	(15.5)
Bonds	**(27.3)**	**(13.3)**	**(40.6)**	28.9	1.0	29.9
Preferred stocks	**7.3**	**6.2**	**13.5**	(2.6)	(0.4)	(3.0)
CPI-linked derivatives	**(1.7)**	**(0.6)**	**(2.3)**	(1.8)	(2.7)	(4.5)
Other	**(1.3)**	**—**	**(1.3)**	(4.4)	0.8	(3.6)
Net gains (losses) on investments	**(68.3)**	**(16.9)**	**(85.2)**	75.6	21.4	97.0

	Year ended December 31,					
	2013			2012		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Common stocks and equity derivatives (excluding equity hedges)	**214.0**	**76.2**	**290.2**	161.2	15.5	176.7
Equity hedges	**(339.0)**	**(121.5)**	**(460.5)**	(177.5)	(26.2)	(203.7)
Bonds	**(181.3)**	**(88.5)**	**(269.8)**	169.9	34.7	204.6
Preferred stocks	**13.9**	**11.9**	**25.8**	(0.8)	6.5	5.7
CPI-linked derivatives	**(15.8)**	**(9.2)**	**(25.0)**	(18.3)	(11.2)	(29.5)
Other	**(5.6)**	**(0.1)**	**(5.7)**	(8.3)	1.8	(6.5)
Net gains (losses) on investments	**(313.8)**	**(131.2)**	**(445.0)**	126.2	21.1	147.3

Asian Insurance - Fairfax Asia

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Underwriting profit	**8.9**	9.7	**32.0**	30.1
Loss & LAE - accident year	**89.4 %**	83.6 %	**80.3 %**	78.8 %
Commissions	**2.5 %**	3.1 %	**1.4 %**	2.5 %
Underwriting expenses	**10.8 %**	15.2 %	**12.3 %**	12.8 %
Combined ratio - accident year	**102.7 %**	101.9 %	**94.0 %**	94.1 %
Net favourable development	**(14.7)%**	(17.5)%	**(6.5)%**	(7.1)%
Combined ratio - calendar year	**88.0 %**	84.4 %	**87.5 %**	87.0 %
Gross premiums written	**134.7**	146.7	**530.2**	515.2
Net premiums written	**66.5**	59.2	**257.4**	240.6
Net premiums earned	**74.1**	62.2	**256.2**	231.4
Underwriting profit	**8.9**	9.7	**32.0**	30.1
Interest and dividends	**0.6**	12.0	**36.7**	36.2
Operating income	**9.5**	21.7	**68.7**	66.3
Net gains (losses) on investments	**5.4**	3.6	**(23.8)**	0.3
Pre-tax income before interest and other	**14.9**	25.3	**44.9**	66.6

Fairfax Asia reported underwriting profits of $8.9 and $32.0 and combined ratios of 88.0% and 87.5% in the fourth quarter and full year of 2013 respectively, compared to underwriting profits of $9.7 and $30.1 and combined ratios of 84.4% and 87.0% in the fourth quarter and full year of 2012 respectively. Each of First Capital, Falcon and Pacific Insurance produced combined ratios as set out in the following table:

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
First Capital	**75.8%**	83.6%	**78.1%**	79.0%
Falcon	**108.7%**	93.5%	**101.3%**	98.4%
Pacific Insurance	**90.4%**	69.3%	**91.7%**	90.8%

The combined ratio for Fairfax Asia in the fourth quarter of 2013 included 14.7 combined ratio points ($10.9) of net favourable prior year reserve development (primarily attributable to commercial automobile and workers' compensation loss reserves) compared to net favourable prior year reserve development of 17.5 combined ratio points ($10.9) in the fourth quarter of 2012 (primarily attributable to the commercial automobile, marine hull and property loss reserves). The combined ratio in the full year of 2013 included 6.5 combined ratio points ($16.7) of net favourable prior year reserve development (primarily related to the commercial automobile, workers' compensation and marine hull loss reserves) compared to net favourable prior year reserve development of 7.1 combined ratio points ($16.4) in the full year of 2012 (primarily attributable to commercial automobile, workers' compensation and marine hull loss reserves, partially offset by net adverse prior year development of property loss reserves related to the Thailand floods). The decrease in underwriting profitability reflected in Falcon's combined ratio in the fourth quarter and full year of 2013 reflected the impact in 2013 of an assumed Thailand-based commercial automobile treaty which resulted in higher loss and commission ratios.

During the fourth quarter of 2013 gross premiums written decreased by 8.2% and net premiums written and net premiums earned increased by 12.3% and 19.1% respectively. The decrease in gross premiums written primarily reflected a reduction in the property line of business at First Capital, partially offset by increases in the commercial automobile lines of business at Falcon and Pacific Insurance. Since the premium retention at First Capital related to its property and other lines of business is low relative to its other lines of business, net premiums written was not significantly impacted by the decrease in writings in the property line of business in the fourth quarter of 2013. The increase in net premiums earned reflected the growth in net premiums written in prior periods.

During the full year of 2013 gross premiums written, net premiums written and net premiums earned increased by 2.9%, 7.0% and 10.7% respectively, primarily as a result of increased writings in the commercial automobile, engineering and liability lines of business, partially offset by a reduction in writings in the marine hull line of business. The year-over-year increase in net premiums written in the full year of 2013 is higher than the increase in gross premiums written due to the growth in the commercial automobile line of business where Fairfax Asia's premium retention is higher relative to its other lines of business. The increase in net premiums earned reflected the growth in net premiums written in prior periods.

The combination of the year-over-year decrease in interest and dividend income (principally reflecting a year-over-year decrease in share of profit of an associate (ICICI Lombard)) and the modest decrease in underwriting profit, partially offset by higher net gains on investments (as set out in the table below), produced pre-tax income before interest and other of $14.9 in the fourth quarter of 2013 compared to pre-tax income before interest and other of $25.3 in the fourth quarter of 2012. The combination of the year-over-year increase in net losses on investments (as set out in the table below), partially offset by increased underwriting profit and interest and dividend income, produced pre-tax income before interest and other of $44.9 in the full year of 2013 compared to pre-tax income before interest and other of $66.6 in the full year of 2012.

Fairfax Asia received a capital contribution of $8.2 from Fairfax in the full year of 2013 (nil in the full year of 2012). In the full year of 2013, Fairfax Asia contributed $4.8 (2012 - nil) to ICICI Lombard through participation in a rights offering to maintain its 26.0% ownership interest.

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Common stocks and equity derivatives (excluding equity hedges)	**4.3**	2.5	**10.1**	12.9
Equity hedges	**—**	(1.3)	**(30.1)**	(16.4)
Bonds	**0.1**	3.9	**(7.7)**	17.3
Preferred stocks	**0.1**	(0.4)	**(1.0)**	(2.5)
Foreign currency	**0.8**	(1.1)	**5.0**	(10.9)
Other	**0.1**	—	**(0.1)**	(0.1)
Net gains (losses) on investments	**5.4**	3.6	**(23.8)**	0.3

Reinsurance - OdysseyRe[(1)]

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Underwriting profit	**122.1**	34.1	**379.9**	265.8
Loss & LAE - accident year	**71.4 %**	86.2 %	**64.2 %**	67.7 %
Commissions	**21.0 %**	19.5 %	**20.0 %**	19.0 %
Underwriting expenses	**9.7 %**	8.6 %	**8.8 %**	8.4 %
Combined ratio - accident year	**102.1 %**	114.3 %	**93.0 %**	95.1 %
Net favourable development	**(23.0)%**	(19.9)%	**(9.0)%**	(6.6)%
Combined ratio - calendar year	**79.1 %**	94.4 %	**84.0 %**	88.5 %
Gross premiums written	**603.1**	648.2	**2,715.5**	2,773.2
Net premiums written	**541.0**	573.8	**2,376.9**	2,402.3
Net premiums earned	**585.2**	613.6	**2,373.6**	2,315.3
Underwriting profit	**122.1**	34.1	**379.9**	265.8
Interest and dividends	**62.7**	22.2	**191.7**	127.5
Operating income	**184.8**	56.3	**571.6**	393.3
Net gains (losses) on investments	**(136.8)**	210.8	**(816.5)**	267.2
Pre-tax income (loss) before interest and other	**48.0**	267.1	**(244.9)**	660.5

(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.

On October 3, 2013 Hudson Insurance Group ("Hudson"), a wholly-owned insurance subsidiary of OdysseyRe, assumed the renewal rights to American Safety's surety lines of business. The renewal rights are expected to produce approximately $30 of annual gross premiums written.

Effective October 1, 2013 Crum & Forster transferred its directors and officers and management liability insurance business to Hudson. This strategic combination will allow Hudson (also an underwriter of these lines of business) to provide a more focused and efficient presence in the marketplace for such insurance. The transferred business produces approximately $20 of annual gross premiums written.

On June 1, 2012 OdysseyRe entered into a significant quota share reinsurance contract covering property risks in Florida (the "Florida property quota share reinsurance contract"). On the inception date the cedent transferred $119.8 of unearned premiums to OdysseyRe. On June 1, 2013 the Florida property quota share contract was renewed with OdysseyRe's participation rate decreasing from 45% to 30% causing OdysseyRe to return $37.9 of unearned premiums to the cedent.

OdysseyRe generated improved underwriting profits of $122.1 and $379.9 and combined ratios of 79.1% and 84.0% in the fourth quarter and full year of 2013 respectively, compared to underwriting profits of $34.1 and $265.8 and combined ratios of 94.4% and 88.5% in the fourth quarter and full year of 2012 respectively. The increase in underwriting profit in the fourth quarter and full year of 2013 compared to the same periods in 2012 reflected the pre-tax impact of a significant decrease in current period catastrophe losses (as set out in the table below) and higher net favourable prior year reserve development, partially offset by modest increases in underwriting and commission expense ratios.

OdysseyRe's combined ratio benefited from higher net favourable prior year reserve development of 23.0 combined ratio points ($134.4) and 9.0 combined ratio points ($214.7) in the fourth quarter and full year of 2013 respectively, compared to 19.9 combined ratio points ($122.0) and 6.6 combined ratio points ($152.0) in the fourth quarter and full year of 2012 respectively. Net favourable prior year reserve development during those respective periods primarily reflected net favourable emergence on prior years' catastrophe loss reserves and U.S. and European casualty reserves.

	Fourth quarter					Year ended December 31,				
	2013		2012			**2013**		2012		
	Catastrophe losses[1]	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact		**Catastrophe losses[1]**	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact	
Typhoon Fitow	**25.8**	**4.4**	—	—		**25.8**	**1.1**	—	—	
Alberta floods	—	—	—	—		**25.1**	**1.1**	—	—	
Germany hailstorms	**10.8**	**1.9**	—	—		**25.0**	**1.1**	—	—	
Central Europe floods	**(8.2)**	**(1.4)**	—	—		**14.9**	**0.6**	—	—	
Windstorm Christian	**12.9**	**2.2**	—	—		**12.9**	**0.6**	—	—	
Toronto floods	—	—	—	—		**11.0**	**0.5**	—	—	
Hurricane Sandy	—	—	175.0	29.0		—	—	175.0	7.7	
Other	**23.7**	**4.1**	10.5	1.7		**88.7**	**3.7**	108.2	4.7	
	65.0	**11.2**	185.5	30.7	points	**203.4**	**8.7**	283.2	12.4	points

(1) Net of reinstatement premiums.

OdysseyRe's commission expense ratio increased from 19.5% in the fourth quarter of 2012 (19.0% in the full year of 2012) to 21.0% in the fourth quarter of 2013 (20.0% in the full year of 2013) primarily reflecting changes in OdysseyRe's mix of business (primarily the Florida property quota share reinsurance contract) and higher reinstatement premiums (which do not attract commissions) received in the fourth quarter and full year of 2012. OdysseyRe's underwriting expense ratio increased from 8.6% in the fourth quarter of 2012 to 9.7% in the fourth quarter of 2013, primarily due to the 4.6% decrease in net premiums earned in the fourth quarter of 2013.

Gross premiums written, net premiums written and net premiums earned decreased by 7.0%, 5.7% and 4.6% respectively, in the fourth quarter of 2013 compared to the fourth quarter of 2012, primarily due to lower writings of property catastrophe (primarily reflecting the reduction in OdysseyRe's participation on the Florida property quota share reinsurance contract) and casualty business (principally at Newline Insurance). These decreases were partially offset by increases across most lines of business at the U.S. Insurance division.

In order to better compare OdysseyRe's gross premiums written, net premiums written and net premiums earned in the full years of 2013 and 2012, the premiums presented in the following table exclude from those respective periods the impact of the unearned premium portfolio transfers related to the Florida property quota share reinsurance contract and also excludes from the full year of 2012 a one-time positive adjustment of $49.5 to reflect the earning into income of certain lines of business in OdysseyRe's U.S. Insurance division 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.

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Gross premiums written	**603.1**	648.2	**2,753.4**	2,653.4
Net premiums written	**541.0**	573.8	**2,414.8**	2,282.5
Net premiums earned	**585.2**	613.6	**2,373.6**	2,265.8

Gross premiums written, net premiums written and net premiums earned increased by 3.8%, 5.8% and 4.8% respectively, in the full year of 2013 compared to the full year of 2012, primarily reflecting increased writings of U.S. crop insurance and the contribution of the Florida property quota share reinsurance contract throughout the full year of 2013 compared to seven months (June to December) in the full year of 2012, partially offset by lower writings of property catastrophe and casualty business.

Interest and dividend income increased from $22.2 in the fourth quarter of 2012 ($127.5 in the full year of 2012) to $62.7 in the fourth quarter of 2013 ($191.7 in the full year of 2013) primarily reflecting increased share of profit of associates (inclusive of limited partnership investment income) and lower total return swap expense (OdysseyRe terminated approximately $717 notional amount of short equity index total return swaps in the fourth quarter of 2013). The increase in OdysseyRe's share of profit of associates and lower total return swap expense in the full year of 2013 were partially offset by lower investment income earned reflecting the sale of higher-yielding bonds in the first quarter of 2012 and dividend paying common stocks during 2013 where the proceeds were reinvested into lower yielding securities. Interest and dividend income in the full year of 2012 included a loss of $10.9 related to OdysseyRe's share of the loss of an associate (principally comprised of an impairment charge).

The significant net losses on investments (as set out in the table below), partially offset by increased underwriting profit and higher interest and dividend income, produced pre-tax income before interest and other of $48.0 in the fourth quarter of 2013 (a pre-tax loss before interest and other of $244.9 in the full year of 2013) compared to pre-tax income before interest and other of $267.1 in the fourth quarter of 2012 (pre-tax income before interest and other of $660.5 in the full year of 2012).

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Common stocks and equity derivatives (excluding equity hedges)	**80.1**	142.4	**375.3**	306.5
Equity hedges	**(210.1)**	(22.7)	**(767.8)**	(298.1)
Bonds	**(27.2)**	104.8	**(385.0)**	362.4
Preferred stocks	**28.2**	(9.0)	**44.5**	(9.5)
CPI-linked derivatives	**(6.1)**	(10.6)	**(62.4)**	(56.9)
Foreign currency	**(4.2)**	6.9	**8.1**	(31.5)
Gain on disposition of associate	**—**	—	**12.2**	14.7
Other	**2.5**	(1.0)	**(41.4)**	(20.4)
Net gains (losses) on investments	**(136.8)**	210.8	**(816.5)**	267.2

OdysseyRe's cash resources, excluding the impact of foreign currency translation, increased by $161.4 and $31.0 in the fourth quarter and full year of 2013 respectively, compared to increases of $53.8 and $202.9 in the fourth quarter and full year of 2012 respectively. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) decreased from $121.0 in the fourth quarter of 2012 ($263.8 in the full year of 2012) to $94.2 in the fourth quarter of 2013 ($312.6 in the full year of 2013) primarily as a result of lower net premium collections.

OdysseyRe received a capital contribution of $188.5 from Fairfax in the full year of 2013 (2012 - nil) which was primarily used to fund the repayment upon maturity (November 1, 2013) of $182.9 principal amount of its unsecured senior notes.

Insurance and Reinsurance - Other

For the quarters ended December 31, 2013 and 2012

	Fourth quarter					
	2013					
	Group Re	Advent	Polish Re	Fairfax Brasil	Inter-company	Total
Underwriting profit (loss)	**24.4**	**0.4**	**(9.5)**	**(5.7)**	**—**	**9.6**
Loss & LAE - accident year	**59.2 %**	**69.5 %**	**54.8%**	**77.3%**	**—**	**63.0 %**
Commissions	**23.4 %**	**17.6 %**	**15.5%**	**26.8%**	**—**	**20.5 %**
Underwriting expenses	**2.1 %**	**38.4 %**	**7.5%**	**37.5%**	**—**	**17.3 %**
Combined ratio - accident year	**84.7 %**	**125.5 %**	**77.8%**	**141.6%**	**—**	**100.8 %**
Net adverse (favourable) development	**(38.7)%**	**(26.8)%**	**61.8%**	**6.1%**	**—**	**(9.3)%**
Combined ratio - calendar year	**46.0 %**	**98.7 %**	**139.6%**	**147.7%**	**—**	**91.5 %**
Gross premiums written	**41.0**	**14.0**	**23.6**	**36.5**	**(3.0)**	**112.1**
Net premiums written	**39.1**	**11.4**	**20.9**	**12.7**	**—**	**84.1**
Net premiums earned	**45.1**	**31.9**	**23.9**	**12.0**	**—**	**112.9**
Underwriting profit (loss)	**24.4**	**0.4**	**(9.5)**	**(5.7)**	**—**	**9.6**
Interest and dividends	**(0.7)**	**1.9**	**1.1**	**0.2**	**—**	**2.5**
Operating income (loss)	**23.7**	**2.3**	**(8.4)**	**(5.5)**	**—**	**12.1**
Net gains on investments	**0.6**	**—**	**0.5**	**—**	**—**	**1.1**
Pre-tax income (loss) before interest and other	**24.3**	**2.3**	**(7.9)**	**(5.5)**	**—**	**13.2**

	Fourth quarter					
	2012					
	Group Re	Advent	Polish Re	Fairfax Brasil	Inter-company	Total
Underwriting profit (loss)	4.3	(4.7)	(9.0)	(5.4)	—	(14.8)
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	24.7	11.4	—	114.5
Net premiums earned	63.3	51.2	28.2	8.2	—	150.9
Underwriting profit (loss)	4.3	(4.7)	(9.0)	(5.4)	—	(14.8)
Interest and dividends	(3.6)	2.0	1.8	(0.7)	—	(0.5)
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

For the years ended December 31, 2013 and 2012

	Year ended December 31,					
	2013					
	Group Re	**Advent**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**
Underwriting profit (loss)	**39.1**	**(4.6)**	**(12.1)**	**(7.4)**	**—**	**15.0**
Loss & LAE - accident year	**64.0 %**	**70.1 %**	**71.7%**	**63.8 %**	**—**	**67.7 %**
Commissions	**24.0 %**	**18.5 %**	**17.1%**	**18.7 %**	**—**	**20.0 %**
Underwriting expenses	**2.7 %**	**22.9 %**	**8.2%**	**34.0 %**	**—**	**15.0 %**
Combined ratio - accident year	**90.7 %**	**111.5 %**	**97.0%**	**116.5 %**	**—**	**102.7 %**
Net adverse (favourable) development	**(18.9)%**	**(8.7)%**	**17.1%**	**(2.1)%**	**—**	**(6.1)%**
Combined ratio - calendar year	**71.8 %**	**102.8 %**	**114.1%**	**114.4 %**	**—**	**96.6 %**
Gross premiums written	**109.0**	**211.0**	**99.7**	**151.0**	**(32.2)**	**538.5**
Net premiums written	**105.0**	**157.0**	**84.1**	**60.8**	**—**	**406.9**
Net premiums earned	**138.8**	**164.0**	**85.4**	**51.3**	**—**	**439.5**
Underwriting profit (loss)	**39.1**	**(4.6)**	**(12.1)**	**(7.4)**	**—**	**15.0**
Interest and dividends	**2.5**	**6.5**	**3.9**	**1.2**	**—**	**14.1**
Operating income (loss)	**41.6**	**1.9**	**(8.2)**	**(6.2)**	**—**	**29.1**
Net gains (losses) on investments	**17.9**	**(1.8)**	**0.9**	**1.8**	**—**	**18.8**
Pre-tax income (loss) before interest and other	**59.5**	**0.1**	**(7.3)**	**(4.4)**	**—**	**47.9**

	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

Effective January 1, 2013 Group Re discontinued its 10% participation on an intercompany quota share reinsurance contract with Northbridge and returned $39.1 of unearned premium to Northbridge (the "unearned premium portfolio transfer").

The improvement in underwriting profitability in the Insurance and Reinsurance – Other segment in the fourth quarter and full year of 2013 compared to the same periods in 2012 reflected the pre-tax impact of a significant decrease in current period catastrophe losses and higher net favourable prior year reserve development, partially offset by modest increases in the underwriting expense ratio. The Insurance and Reinsurance – Other segment produced underwriting profits of $9.6 and $15.0 and combined ratios of 91.5% and 96.6% in the fourth quarter and full year of 2013 respectively, compared to underwriting losses of $14.8 and $21.8 and combined ratios of 109.8% and 104.3% in the fourth quarter and full year of 2012 respectively.

Net favourable prior year reserve development of $10.6 (9.3 combined ratio points) and $26.9 (6.1 combined ratio points) in the fourth quarter and full year of 2013 respectively, primarily reflected net favourable emergence at Group Re (related to prior years' catastrophe loss reserves) and Advent (across a number of lines of business), partially offset by net adverse emergence at Polish Re (related to commercial automobile loss reserves). Net adverse prior year reserve development of $6.3 (4.2 combined ratio points) in the fourth quarter of 2012 and net favourable prior year reserve development of $0.7 (0.1 of a combined ratio point) in the full year of 2012 primarily reflected net adverse emergence at Polish Re (related to commercial automobile loss reserves) and net favourable emergence at Advent (related to discontinued commercial property binder business loss reserves).

Current period catastrophe losses (net of reinstatement premiums) were nominal in the fourth quarter of 2013 and totaled $21.2 (4.8 combined ratio points) in the full year of 2013, principally comprised of $7.1 (1.6 combined ratio points) related to the Alberta floods, $4.8 (1.1 combined ratio points) related to the central Europe floods and $2.0 (0.5 of a combined ratio point) related to the Germany hailstorms. Current period catastrophe losses (net of reinstatement premiums) totaled $46.3 (31.0 combined ratio points) and $58.9 (11.5 combined ratio points) in the fourth quarter and full year of 2012 respectively, principally comprised of $40.7 of losses related to Hurricane Sandy (27.2 and 7.9 combined ratio points in the fourth quarter and full year of 2012 respectively).

The underwriting expense ratios of the Insurance and Reinsurance – Other segment increased from 10.0% and 10.6% in the fourth quarter and full year of 2012 respectively to 17.3% and 15.0% in the fourth quarter and full year of 2013 respectively, primarily as a result of the 25.2% and 14.5% year-over-year decrease in net premiums earned in those respective periods and increased operating expenses primarily at Advent (principally related to restructuring costs).

The commission ratios of the Insurance and Reinsurance – Other segment increased from 18.0% and 19.8% in the fourth quarter and full year of 2012 respectively to 20.5% and 20.0% in the fourth quarter and full year of 2013 respectively, primarily reflecting higher commission expense at Fairfax Brasil (higher commission rates on a new affinity line of business relative to Fairfax Brasil's existing mix of business) and Polish Re (lower commission expense was recorded in the fourth quarter and full year of 2012 related to favourable adjustments to profit sharing reinsurance commissions).

Gross premiums written, net premiums written and net premiums earned decreased by 17.5%, 26.6% and 25.2% respectively, in the fourth quarter of 2013 compared to the fourth quarter of 2012. Gross premiums written, net premiums written and net premiums earned decreased by 11.4%, 15.9% and 14.5% respectively, in the full year of 2013 compared to the full year of 2012 (excluding the unearned premium portfolio transfer which suppressed gross premiums written and net premiums written by Group Re in the full year of 2013 by $39.1). The decrease in gross premiums written in the fourth quarter and full year of 2013 compared to the same periods in 2012 primarily reflected the impact on Group Re of the termination of the intercompany quota share reinsurance contract with Northbridge discussed above (specifically, the decrease in quota share participation from 10% in 2012 to nil in 2013) and the non-renewal of certain classes of business where terms and conditions were considered inadequate at Advent and Polish Re, partially offset by growth at Fairfax Brasil. Net premiums written and net premiums earned were also affected by the decreased usage of reinsurance at Advent during the full year of 2013.

Interest and dividend expense of $0.5 in the fourth quarter of 2012 compared to interest and dividend income of $2.5 in the fourth quarter of 2013, with the quarter-over-quarter improvement primarily reflecting lower investment management fees. Interest and dividend income decreased from $37.6 in the full year of 2012 to $14.1 in the full year of 2013, primarily as a result of decreased share of profit of associates (reflecting the sales of Cunningham Lindsey in the fourth quarter of 2012 and The Brick in the first quarter of 2013) and lower investment income earned as a result of the sale in 2012 of higher yielding government bonds where the proceeds from sales were reinvested into lower yielding cash and short term investments. The gain on disposition of associate of $73.9 and $167.0 as set out in the table below reflected the net gains recognized on the sale of the company's investments in The Brick and Cunningham Lindsey respectively.

The year-over-year decrease in net gains on investments (as set out in the table below), partially offset by the improvement in underwriting profitability and higher interest and dividend income, produced pre-tax income before interest and other of $13.2 in the fourth quarter of 2013 compared to pre-tax income before interest and other of $184.8 in the fourth quarter of 2012. The year-over-year decrease in net gains on investments (as set out in the table below) and lower interest and dividend income, partially offset by the improvement in underwriting profitability, produced pre-tax income before interest and other of $47.9 in the full year of 2013 compared to pre-tax income before interest and other of $251.4 in the full year of 2012.

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Common stocks and equity derivatives (excluding equity hedges)	**20.0**	16.8	**71.4**	37.3
Equity hedges	**(19.6)**	(2.7)	**(95.3)**	(21.9)
Bonds	**2.9**	24.4	**(11.8)**	61.4
Preferred stocks	**2.7**	(0.8)	**(11.7)**	1.3
CPI-linked derivatives	**(0.3)**	(2.4)	**(2.1)**	(3.8)
Foreign currency	**0.9**	0.8	**0.9**	(1.4)
Gain on disposition of associate	**—**	167.0	**73.9**	167.0
Other	**(5.5)**	(3.0)	**(6.5)**	(4.3)
Net gains on investments	**1.1**	200.1	**18.8**	235.6

During the full year of 2013, Fairfax made capital contributions of $7.9 (2012 - nil) to Polish Re, nil (2012 - $100.0) to CRC Re, nil (2012 - $43.9) to Wentworth, nil (2012 - $22.4) to Fairfax Brasil and nil (2012 - $11.0) to Advent.

During the full year of 2013, CRC Re paid dividends to Fairfax of $118.1 (inclusive of a dividend-in-kind of $28.0 comprised of CRC Re's 26.0% ownership interest in Ridley) (2012 - dividend-in-kind of $77.1 comprised of CRC Re's investment in a common stock and its 1.45% ownership interest in Northbridge) and Wentworth paid a dividend to Fairfax of nil (2012 - $120.0).

Runoff

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Gross premiums written	**35.3**	221.2	**36.3**	221.2
Net premiums written	**29.9**	199.1	**30.4**	199.1
Net premiums earned	**50.3**	214.3	**83.0**	220.1
Losses on claims	**45.4**	(170.4)	**(9.3)**	(181.4)
Operating expenses	**(15.5)**	(45.5)	**(95.5)**	(96.0)
Interest and dividends	**10.8**	14.8	**66.0**	65.1
Operating income	**91.0**	13.2	**44.2**	7.8
Net gains (losses) on investments	**(64.2)**	64.9	**(306.5)**	215.8
Pre-tax income (loss) before the undernoted	**26.8**	78.1	**(262.3)**	223.6
Gain on significant reinsurance commutation(1)	**—**	—	**33.1**	—
Loss on repurchase of long term debt(2)	**—**	(39.8)	**—**	(39.8)
Excess of fair value of net assets acquired over purchase price(3)	**—**	6.8	**—**	6.8
Pre-tax income (loss) before interest and other	**26.8**	45.1	**(229.2)**	190.6

(1) On March 29, 2013 TIG Insurance entered into an agreement to commute a recoverable from a reinsurer with a carrying value of $85.4 for total consideration of $118.5 (principally cash consideration of $115.8) and recognized a gain of $33.1.

(2) On October 19, 2012 TIG Insurance repaid for $200.0 of cash the $160.2 carrying value of the loan note it had issued in connection with its acquisition of General Fidelity in August 2010 and recognized a loss of $39.8 in other expense.

(3) On October 12, 2012, Runoff recognized $6.8 excess of fair value of net assets acquired over purchase price related to the acquisition of RiverStone Insurance (described below).

On December 31, 2013 Clearwater Insurance assumed net insurance liabilities of $68.6 from Crum & Forster related to its discontinued New York construction contractors' business. Runoff received $68.6 of cash and investments as consideration from Crum & Forster for assuming those liabilities. In its assessment of the performance of Crum & Forster and Runoff, the company's management does not consider the initial effects of such reinsurance transactions and as a result, the tables in this MD&A which set out the operating results of Crum & Forster and Runoff do not give effect to the initial effects of this transaction. Had this reinsurance transaction been reflected in the operating results of the Runoff segment, gross premiums written, net premiums written and net premiums earned would have increased by $68.6 and losses on claims would have increased by $68.6 with Runoff's operating income remaining unchanged in 2013.

On October 3, 2013 the company acquired all of the outstanding common shares of American Safety Insurance Holdings, Ltd. ("American Safety") for $30.25 per share in cash, representing aggregate purchase consideration of $317.1. On October 8, 2013 the company sold American Safety's Bermuda-based reinsurance subsidiary, American Safety Reinsurance, Ltd. ("AS Re"), to an unrelated third party for net proceeds of $52.5. Crum & Forster assumed the renewal rights to American Safety's environmental casualty, excess and surplus lines casualty, property and package lines of business and anticipates writing approximately $73 of annual gross premiums written related to these renewal rights in 2014. Hudson Insurance Group ("Hudson"), a wholly-owned insurance subsidiary of OdysseyRe assumed the renewal rights to American Safety's surety lines of business and anticipates writing approximately $30 of gross premiums written related to these renewal rights in 2014. The remainder of American Safety's lines of business which did not meet Fairfax's underwriting criteria were placed into runoff under the supervision of the RiverStone group. The purchase consideration for this acquisition was financed internally by the company's runoff subsidiaries, Crum & Forster and Hudson and was partially defrayed by the proceeds received on the sale of AS Re ($52.5) and the receipt of a post-acquisition dividend of excess capital paid by American Safety ($123.7). The fair values of the portfolio investments (including cash and short term investments), insurance contract liabilities and recoverable from reinsurers of American Safety that will ultimately be retained and consolidated by the Runoff reporting segment were approximately $642, $652 and $220 respectively, after giving effect to the post-acquisition transactions described in the preceding sentence. American Safety, a Bermuda-based holding company, underwrote specialty risks through its U.S.-based program administrator, American Safety Insurance Services, Inc., and its U.S. insurance and Bermuda reinsurance companies.

Effective January 1, 2013 Northbridge sold its wholly-owned subsidiary Commonwealth Insurance Company of America ("CICA") to TIG Insurance. CICA had total equity of $20.8 on January 1, 2013 principally to support its U.S. property business placed into runoff effective May 1, 2012. Periods prior to January 1, 2013 have not been restated as the impact was not significant.

On December 21, 2012 RiverStone (UK) agreed to reinsure the runoff portfolio of the Eagle Star group of companies (part of the Zurich group), comprised primarily of London market and U.S. casualty business related to accident years 1990 and prior (the "Eagle Star reinsurance transaction"). RiverStone (UK) received a premium of $183.5 as consideration for the assumption of $130.9 of net loss reserves and recognized a pre-tax gain of $52.6 in operating income in the fourth quarter of 2012. The net loss reserves underlying this transaction were formally transferred to RiverStone (UK) on December 31, 2013 by way of a Part VII transfer pursuant to the Financial Services and Markets Act 2000 of the United Kingdom. The Part VII transfer did not have an impact on the results of operations of the Runoff reporting segment.

On October 12, 2012 the company's UK runoff subsidiary, RiverStone Holdings Limited, completed the acquisition of a 100% interest in RiverStone Insurance (formerly known as Brit Insurance Limited) for cash purchase consideration of $335.1 (208.3 British pound sterling). The assets and liabilities and results of operations of RiverStone Insurance were consolidated within the company's financial reporting in the Runoff reporting segment. 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. In the full year of 2013, the Runoff reporting segment included the impact of the runoff of policies in-force at RiverStone Insurance on the date of acquisition which increased net premiums earned, losses on claims and operating expenses by $29.3, $15.7 and $19.8 respectively ($30.1, $18.1 and $10.5 respectively, in the full year of 2012).

Prior to giving effect to the undernoted items in the table above, the Runoff segment produced pre-tax income before interest and other of $26.8 in the fourth quarter of 2013 (a pre-tax loss before interest and other of $262.3 in the full year of 2013) compared to pre-tax income before interest and other of $78.1 in the fourth quarter of 2012 (pre-tax income before interest and other of $223.6 in the full year of 2012) with the lower profitability year-over-year primarily due to the significant increase in net losses on investments (as set out in the table below), partially offset by increased operating income.

The increase in Runoff's operating income from $13.2 in the fourth quarter of 2012 ($7.8 in the full year of 2012) to $91.0 in the fourth quarter of 2013 ($44.2 in the full year of 2013) primarily reflected lower net premiums earned and decreased losses on claims. Net premiums earned decreased from $214.3 in the fourth quarter of 2012 ($220.1 in the full year of 2012) to $50.3 in the fourth quarter of 2013 ($83.0 in the full year of 2013) primarily reflecting non-recurring net premiums earned related to the Eaglestar reinsurance transaction ($183.5 in the fourth quarter and full year of 2012) and the runoff of policies in-force on the acquisition date of American Safety ($20.7 in the fourth quarter and full year of 2013). The fourth quarters and full years of 2013 and 2012 also included the runoff of policies in-force at RiverStone Insurance and General Fidelity since their respective acquisition dates.

Losses on claims in the fourth quarter of 2013 reflected net favourable prior year reserve development at General Fidelity ($50.6 primarily related to construction defect and marine loss reserves and the release of certain other insurance liabilities) and European Runoff ($34.1 primarily at RiverStone (UK) across all lines of business including the release of redundant unallocated loss adjustment expense reserves), partially offset by net adverse prior year reserve development at Clearwater Insurance ($43.0 principally related to strengthening of asbestos and environmental loss reserves and other latent claims assumed from Crum & Forster and asbestos loss reserves in its legacy portfolio).

Losses on claims of $170.4 in the fourth quarter of 2012 reflected losses incurred in connection with the Eaglestar reinsurance transaction of $130.9 (which were more than offset by $183.5 of net premiums earned as described above), net adverse prior year reserve development, primarily at TIG

Insurance ($67.8 principally related to workers' compensation and asbestos loss reserves) and Clearwater Insurance ($42.9 primarily related to strengthening of asbestos and environmental loss reserves 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 $9.3 in the full year of 2013 reflected net adverse prior year reserve development at Clearwater Insurance ($43.0 principally related to strengthening of asbestos and environmental loss reserves and other latent claims assumed from Crum & Forster and asbestos loss reserves in its legacy portfolio) and TIG Insurance ($43.4 primarily related to asbestos and environmental loss reserves), partially offset by net favourable prior year reserve development at General Fidelity ($50.7 primarily related to construction defect and marine loss reserves) and European Runoff ($34.1 primarily at RiverStone (UK) across all lines of business including the release of redundant unallocated loss adjustment expense reserves).

Losses on claims of $181.4 in the full year of 2012 reflected losses incurred in connection with the Eaglestar reinsurance transaction of $130.9 (which were more than offset by $183.5 of net premiums earned as described above) and net strengthening of prior years' loss reserves, primarily at TIG Insurance ($96.1 principally related to workers' compensation and asbestos loss reserves) and Clearwater Insurance ($88.8 principally related to strengthening of asbestos and environmental loss reserves 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 on construction defect and marine loss reserves) and at European Runoff ($81.1 primarily related to net favourable emergence across all lines of business).

Operating expenses decreased from $45.5 in the fourth quarter of 2012 to $15.5 in the fourth quarter of 2013 primarily as a result of the integration of RiverStone Insurance and the Eaglestar runoff portfolio during 2013 which resulted in significantly lower operating costs in the fourth quarter of 2013 compared to the fourth quarter of 2012 and a reduction in reserves for extra contractual obligations in the fourth quarter of 2013. Operating expenses decreased modestly from $96.0 in the full year of 2012 to $95.5 in the full year of 2013, primarily as a result of the same factors which reduced operating expenses in the fourth quarter of 2013, partially offset by incremental operating expense associated with the consolidation of American Safety and the release of a provision related to value added tax recorded in operating expenses in the full year of 2012.

Interest and dividend income decreased from $14.8 in the fourth quarter of 2012 to $10.8 in the fourth quarter of 2013 primarily reflecting decreased share of profit of associates and lower investment income earned (the result of sales during 2012 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 lower total return swap expense. Interest and dividend income increased from $65.1 in the full year of 2012 to $66.0 in the full year of 2013 primarily reflecting increased share of profit of associates and lower total return swap expense, partially offset by lower investment income earned as described in the preceding sentence.

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Common stocks and equity derivatives (excluding equity hedges)	**56.2**	75.2	**234.0**	165.1
Equity hedges	**(71.1)**	(26.3)	**(313.2)**	(88.5)
Bonds	**(43.3)**	30.7	**(240.1)**	158.6
Preferred stocks	**0.4**	(2.4)	**(2.5)**	(5.9)
CPI-linked derivatives	**(0.9)**	—	**(5.6)**	(2.6)
Foreign currency	**(5.7)**	(12.2)	**10.6**	(8.5)
Gain on disposition of associate	**—**	—	**9.8**	3.6
Other	**0.2**	(0.1)	**0.5**	(6.0)
Net gains (losses) on investments	**(64.2)**	64.9	**(306.5)**	215.8

During the full year of 2013, Runoff paid dividends to Fairfax comprised of cash dividends of $41.6 (2012 – $177.6) and dividends-in-kind (marketable securities) of nil (2012 – $126.2). The cash dividend of $41.6 was reinvested by Fairfax into Runoff in the fourth quarter of 2013 and formed part of the funding for the acquisition of American Safety.

Other

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Revenue	**304.1**	263.0	**958.0**	864.2
Expenses	**(280.1)**	(243.7)	**(906.9)**	(830.3)
Pre-tax income before interest and other	**24.0**	19.3	**51.1**	33.9
Share of profit of associates	**0.4**	0.2	**0.8**	0.2
Net gains on investments	**—**	3.7	**—**	3.7
Interest expense	**(1.3)**	(1.2)	**(4.6)**	(2.2)
Pre-tax income	**23.1**	22.0	**47.3**	35.6

On May 14, 2013 Thomas Cook India acquired a 77.3% interest in IKYA for purchase consideration of $46.8 (2,563.2 million Indian rupees). Thomas Cook India partially financed the acquisition of IKYA through a private placement of its common shares to qualified institutional buyers (other than existing shareholders of Thomas Cook India). As a result of the share issuance, the company's interest in Thomas Cook India was reduced from 87.1% at December 31, 2012 to 75.0% at December 31, 2013. IKYA provides specialized human resources services to leading corporate clients in India.

On November 28, 2012 Ridley acquired the assets and certain liabilities of Stockade Brands Inc. (a manufacturer of animal feed products). 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). Ridley received a 30% interest in Masterfeeds LP for the net assets contributed. The company records its investment in Masterfeeds LP using the equity method of accounting.

Ridley's revenue and expenses fluctuate with changes in raw material prices. Decreases in Ridley's revenues from $180.4 in the fourth quarter of 2012 to $152.5 in the fourth quarter of 2013 and from $670.8 in the full year of 2012 to $561.1 in the full year of 2013 primarily reflected the divestiture of its Canadian feed operations in the fourth quarter of 2012, partially offset by higher material prices on a year-over-year basis. The remaining revenues and expenses included in the Other reporting segment were comprised of the revenues and expenses of William Ashley, Sporting Life, Prime Restaurants (acquired January 10, 2012 and subsequently disposed October 31, 2013), Thomas Cook India (acquired August 14, 2012) and IKYA (acquired May 14, 2013).

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 decreased from $52.2 in the fourth quarter of 2012 to $51.3 in the fourth quarter of 2013, reflecting lower interest expense subsequent to the repayment on November 1, 2013 of $182.9 principal amount of the OdysseyRe unsecured senior notes upon maturity and the repurchases on January 22, 2013 and March 11, 2013 of $12.2 and $36.2 principal amounts respectively of Fairfax unsecured senior notes due 2017, partially offset by higher interest expense subsequent to the issuance on January 21, 2013 and October 15, 2012 of Cdn$250.0 and Cdn$200.0 principal amounts respectively of Fairfax unsecured senior notes due 2022.

Consolidated interest expense increased from $208.2 in the full year of 2012 to $211.2 in the full year of 2013, reflecting higher interest expense subsequent to the issuance on January 21, 2013 and October 15, 2012 of Cdn$250.0 and Cdn$200.0 principal amounts respectively of Fairfax unsecured senior notes due 2022 and the consolidation of the subsidiary indebtedness of Thomas Cook India, partially offset by the repayment on October 19, 2012 of $200.0 principal amount of the TIG Note, the repayment on November 1, 2013 of $182.9 principal amount of OdysseyRe unsecured senior notes upon maturity, the repayment on April 26, 2012 of $86.3 principal amount of Fairfax unsecured senior notes upon maturity and the repurchases on January 22, 2013 and March 11, 2013 of $12.2 and $36.2 principal amounts respectively of Fairfax unsecured senior notes due 2017.

Consolidated interest expense was comprised of the following:

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Fairfax	**42.9**	41.2	**172.3**	160.6
Crum & Forster	**0.4**	0.5	**1.5**	2.4
Zenith National	**0.8**	0.8	**3.3**	3.3
OdysseyRe	**4.4**	6.9	**24.8**	27.7
Advent	**1.1**	1.1	**4.3**	4.5
Runoff	**0.4**	0.5	**0.4**	7.5
Other	**1.3**	1.2	**4.6**	2.2
	51.3	52.2	**211.2**	208.2

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,	
	2013	2012	**2013**	2012
Fairfax corporate overhead	**32.9**	19.2	**102.5**	94.7
Subsidiary holding companies' corporate overhead	**16.2**	24.6	**96.0**	63.9
Holding company interest and dividends	**(5.8)**	2.7	**11.7**	10.2
Holding company net (gains) losses on investments	**33.8**	4.8	**(64.5)**	164.2
Investment management and administration fees	**(18.4)**	(33.0)	**(88.3)**	(76.8)
	58.7	18.3	**57.4**	256.2

Fairfax corporate overhead increased from $19.2 in the fourth quarter of 2012 to $32.9 in the fourth quarter of 2013, primarily as a result of higher acquisition-related expenses. The increase in Fairfax corporate overhead from $94.7 in the full year of 2012 to $102.5 in the full year of 2013 reflected higher compensation expenses and acquisition-related expenses, partially offset by lower legal expenses. Subsidiary holding companies' corporate overhead decreased from $24.6 in the fourth quarter of 2013 to $16.2 in the fourth quarter of 2013, reflecting lower restructuring costs at Northbridge on a quarter-over-quarter basis (Northbridge incurred certain one-time severance costs in the full year of 2012). Subsidiary holding companies' corporate overhead increased from $63.9 in the full year of 2012 to $96.0 in the full year of 2013, primarily as a result of a charge of $31.2 related to redundant software development costs included in the corporate overhead of Northbridge following a decision by Northbridge to pursue a group-wide software solution and increased expenses related to a recently implemented voluntary retirement program at Crum & Forster, partially offset by lower restructuring costs at Northbridge as discussed in the preceding sentence.

Total return swap expense ($4.4 and $31.2 in the fourth quarter and full year of 2013 respectively and $8.0 and $38.3 in the fourth quarter and full year of 2012 respectively) 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 on holding company cash and investments increased from $5.3 in the fourth quarter of 2012 to $10.2 in the fourth quarter of 2013 primarily as a result of higher share of profit of associates. Prior to giving effect to the impact of total return swap expense, interest and dividend income on holding company cash and investments decreased from $28.1 in the full year of 2012 to $19.5 in the full year of 2013, primarily as a result lower investment income earned due to decreased holdings year-over-year of high-yielding corporate debt securities and other government bonds. Total return swap expense decreased in the fourth quarter and full year of 2013 principally reflecting a decrease in the average notional amount of short equity total return swaps on a year-over-year basis. Holding company net gains and losses on investments were comprised as shown in the table below. The decrease in investment management and administration fees from $33.0 in the fourth quarter of 2012 to $18.4 in the fourth quarter of 2013 was primarily due to lower management fees earned on equity investments. The increase in investment management and administration fees from $76.8 in the full year of 2012 to $88.3 in the full year of 2013 was primarily due to adjustments to the fees payable in respect of the prior year and higher management fees earned on the higher year-over-year investment portfolio at RiverStone Insurance.

	Fourth quarter		**Year ended December 31,**	
	2013	2012	**2013**	2012
Common stocks and equity derivatives (excluding equity hedges)	**36.5**	22.8	**130.5**	12.8
Equity hedges	**(84.5)**	(55.0)	**(112.3)**	(239.6)
Bonds	**3.4**	9.5	**10.9**	70.3
Preferred stocks	**1.9**	(4.6)	**(3.9)**	(13.9)
Foreign currency	**(0.6)**	0.9	**(3.7)**	(4.4)
Gain on disposition of associates	**—**	—	**11.9**	—
Other	**9.5**	21.6	**31.1**	10.6
Net gains (losses) on investments	**(33.8)**	(4.8)	**64.5**	(164.2)

Income Taxes

The $23.6 and $436.6 recovery of income taxes in the fourth quarter and full year of 2013 respectively differed from the recovery of income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily as a result of non-taxable investment income (including dividend income, non-taxable interest income, capital gains and the 50% of net capital gains which are not taxable in Canada), losses incurred in jurisdictions where the corporate income tax rate is higher than the company's Canadian statutory income tax rate, partially offset by unrecorded income tax losses and temporary differences.

The $96.5 and $114.0 provision for income taxes in the fourth quarter and full year of 2012 respectively differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily as a result of non-taxable investment income (including dividend income, non-taxable interest income, capital gains and the 50% of net capital gains which are not taxable in Canada), partially offset by income or losses earned or incurred in jurisdictions where the corporate income tax rate is different from the company's statutory income tax rate and unrecorded income tax losses.

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,	
	2013	2012	**2013**	2012
Ridley	**1.9**	1.7	**4.5**	4.0
Fairfax Asia	**0.3**	0.5	**0.9**	1.7
Prime Restaurants	**—**	0.3	**0.5**	1.3
Sporting Life	**2.2**	1.4	**1.9**	0.8
Thomas Cook India	**0.3**	0.1	**1.3**	0.3
IKYA	**0.3**	—	**1.1**	—
Other	**(1.3)**	—	**(1.3)**	—
	3.7	4.0	**8.9**	8.1

Components of Consolidated Balance Sheets

Consolidated Balance Sheet Summary

Holding company cash and investments increased to $1,296.7 ($1,241.6 net of $55.1 of holding company short sale and derivative obligations) at December 31, 2013 from $1,169.2 at December 31, 2012 ($1,128.0 net of $41.2 of holding company short sale and derivative obligations). Significant cash movements at the Fairfax holding company level during 2013 are as set out in the Financial Condition section of this MD&A under the heading Liquidity.

Insurance contract receivables increased by $71.6 to $2,017.0 at December 31, 2013 from $1,945.4 at December 31, 2012 primarily as a result of increased receivable balances at Runoff (higher commutation proceeds receivable balances, partially offset by collections at Riverstone Insurance in respect of balances receivable at December 31, 2012) and Odyssey Re (primarily due to year-over-year growth in crop insurance premium receivables), partially offset by lower receivable balances at Crum & Forster (reflecting a decline in premium levels across certain lines of business) and First Capital and Advent (both were impacted by the timing of collections).

Portfolio investments comprise investments carried at fair value and equity accounted investments, the aggregate carrying value of which was $23,833.3 at December 31, 2013 ($23,620.0 net of subsidiary short sale and derivative obligations) compared to an aggregate carrying value at December 31, 2012 of $25,163.2 ($24,966.2 net of subsidiary short sale and derivative obligations). The decrease of $1,346.2 in the aggregate carrying value of portfolio investments (net of subsidiary short sale and derivative obligations) at December 31, 2013 compared to December 31, 2012 generally reflected the unfavourable impact of foreign currency translation (principally the impact of strengthening of the U.S. dollar relative to the Canadian dollar), partially offset by the consolidation of the investment portfolio of American Safety in addition to the specific factors which caused movements in portfolio investments as discussed below.

Subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) increased by $185.0 primarily reflecting net proceeds received from the sales of equity and equity-related holdings and the consolidation of the cash and short term investments of American Safety, partially offset by net cash paid of $1,615.4 in the full year of 2013 in connection with the reset provisions of the company's long and short equity and equity index total return swaps. Bonds (including bonds pledged for short sale derivative obligations) decreased by $1,008.6 primarily reflecting net unrealized depreciation (principally related to bonds issued by the U.S. government and U.S. states and municipalities) and net sales of corporate and other government bonds, partially offset by net purchases of U.S. government bonds and the consolidation of the bond portfolio of American Safety. Common stocks decreased by $563.4 primarily reflecting net sales of common stocks, partially offset by net unrealized appreciation. Investments in associates increased by $77.2 primarily reflecting additional investments in Resolute and MEGA Brands and net purchases of limited partnerships, partially offset by the sale of The Brick, Imvescor and a private company. Derivatives and other invested assets net of short sale and derivative obligations increased by $26.9 due to decreased payables to counterparties to the company's long and short equity and equity index total return swaps (net of balances receivable and excluding the impact of collateral requirements) and purchases of CPI-linked derivatives and other derivatives, partially offset by net unrealized depreciation of CPI-linked derivatives and foreign exchange contracts.

Recoverable from reinsurers decreased by $316.1 to $4,974.7 at December 31, 2013 from $5,290.8 at December 31, 2012 primarily reflecting the continued progress by Runoff reducing its recoverable from reinsurers balance (through normal cession and collection activity and the commutation of a significant reinsurance recoverable balance described in the Runoff section of this MD&A), partially offset by increased recoverable from reinsurer balances at Crum & Forster (related to adverse development on general liability loss reserves ceded to reinsurers), Northbridge (reflecting increased recoveries related to catastrophe losses incurred in the full year of 2013) and Runoff (due to the consolidation of the recoverable from reinsurers of American Safety).

Deferred income taxes increased by $407.4 to $1,015.0 at December 31, 2013 from $607.6 at December 31, 2012 primarily due to increased operating loss carryovers and net unrealized investment losses in the U.S.

Other assets increased by $63.0 to $1,047.9 at December 31, 2013 from $984.9 at December 31, 2012 primarily as a result of increased inventory at the non-insurance operating companies and the consolidation of the receivable balances of IKYA, partially offset by the de-consolidation of the premises and equipment and accounts receivable balances of Prime Restaurants subsequent to its sale to Cara.

Provision for losses and loss adjustment expenses decreased by $436.0 to $19,212.8 at December 31, 2013 from $19,648.8 at December 31, 2012 primarily reflecting the timing of settlements of claim liabilities at Runoff and Advent, net favourable prior year reserve development (principally at Northbridge and OdysseyRe) and the impact of the strengthening of the U.S. dollar relative to the Canadian dollar on the loss reserves of Northbridge, partially offset by the impact of catastrophe losses incurred during the full year of 2013 (principally at Northbridge and OdysseyRe) and net adverse prior year reserve development at Crum & Forster on general liability loss reserves and the consolidation of the loss reserves of American Safety.

Non-controlling interests increased by $34.0 to $107.4 at December 31, 2013 from $73.4 at December 31, 2012 principally as a result of the private placement of newly issued common shares of Thomas Cook India to institutional buyers other than Fairfax (reducing the company's ownership of Thomas Cook India from 87.1% at December 31, 2012 to 75.0% at December 31, 2013) and the acquisition of IKYA during the second quarter of 2013, partially offset by the decrease in non-controlling interests in connection with the de-consolidation of Prime Restaurants subsequent to its sale to Cara.

Investments

Net Gains (Losses) on Investments

Net gains (losses) on investments in the fourth quarters and years ended December 31, 2013 and 2012 were comprised as shown in the following table:

	Fourth quarter					
	2013			2012		
	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	**281.1**	**(42.3)**	**238.8**	(94.0)	507.2	413.2
Preferred stocks - convertible	**—**	**42.1**	**42.1**	—	(20.8)	(20.8)
Bonds - convertible	**140.8**	**(143.6)**	**(2.8)**	3.3	36.7	40.0
Gain on disposition of associate(1)	**—**	**—**	**—**	167.0	—	167.0
Other equity derivatives(2)(3)	**323.9**	**(264.6)**	**59.3**	76.7	(81.1)	(4.4)
Equity and equity-related holdings	**745.8**	**(408.4)**	**337.4**	153.0	442.0	595.0
Equity hedges(3)	**(739.2)**	**166.6**	**(572.6)**	13.5	(154.2)	(140.7)
Equity and equity-related holdings after equity hedges	**6.6**	**(241.8)**	**(235.2)**	166.5	287.8	454.3
Bonds	**2.8**	**(104.2)**	**(101.4)**	176.1	8.6	184.7
Preferred stocks	**—**	**1.8**	**1.8**	0.4	(0.9)	(0.5)
CPI-linked derivatives	**—**	**(14.4)**	**(14.4)**	—	(29.9)	(29.9)
Other derivatives	**2.3**	**14.4**	**16.7**	5.8	12.7	18.5
Foreign currency	**16.0**	**(3.2)**	**12.8**	(14.1)	20.1	6.0
Other	**(9.3)**	**(0.1)**	**(9.4)**	0.1	2.4	2.5
Net gains (losses) on investments	**18.4**	**(347.5)**	**(329.1)**	334.8	300.8	635.6
Net gains (losses) on bonds is comprised as follows:						
Government bonds	**(0.5)**	**(56.6)**	**(57.1)**	100.3	(52.7)	47.6
U.S. states and municipalities	**3.7**	**(45.6)**	**(41.9)**	120.8	0.8	121.6
Corporate and other	**(0.4)**	**(2.0)**	**(2.4)**	(45.0)	60.5	15.5
	2.8	**(104.2)**	**(101.4)**	176.1	8.6	184.7

(1) 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.

(2) Other equity derivatives include long equity total return swaps, equity warrants and call options.

(3) Gains and losses on 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,					
	2013			2012		
	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	**684.1**	**257.1**	**941.2**	133.9	563.7	697.6
Preferred stocks - convertible	**—**	**64.7**	**64.7**	—	(36.2)	(36.2)
Bonds - convertible	**153.6**	**(156.2)**	**(2.6)**	62.7	124.0	186.7
Gain on disposition of associates[1]	**130.2**	**—**	**130.2**	196.8	—	196.8
Other equity derivatives[2] [3]	**356.3**	**(44.7)**	**311.6**	76.7	(2.9)	73.8
Equity and equity-related holdings	**1,324.2**	**120.9**	**1,445.1**	470.1	648.6	1,118.7
Equity hedges[3]	**(1,350.7)**	**(631.3)**	**(1,982.0)**	6.3	(1,011.8)	(1,005.5)
Equity and equity-related holdings after equity hedges	**(26.5)**	**(510.4)**	**(536.9)**	476.4	(363.2)	113.2
Bonds	**65.9**	**(994.9)**	**(929.0)**	566.3	161.8	728.1
Preferred stocks	**(1.2)**	**(17.8)**	**(19.0)**	1.0	(1.3)	(0.3)
CPI-linked derivatives	**—**	**(126.9)**	**(126.9)**	—	(129.2)	(129.2)
Other derivatives	**2.1**	**(9.1)**	**(7.0)**	63.7	(60.3)	3.4
Foreign currency	**(3.7)**	**66.1**	**62.4**	(44.7)	(31.5)	(76.2)
Other	**(7.7)**	**0.1**	**(7.6)**	2.3	1.3	3.6
Net gains (losses) on investments	**28.9**	**(1,592.9)**	**(1,564.0)**	1,065.0	(422.4)	642.6
Net gains (losses) on bonds is comprised as follows:						
Government bonds	**35.9**	**(303.5)**	**(267.6)**	421.3	(328.6)	92.7
U.S. states and municipalities	**19.1**	**(656.4)**	**(637.3)**	149.7	403.0	552.7
Corporate and other	**10.9**	**(35.0)**	**(24.1)**	(4.7)	87.4	82.7
	65.9	**(994.9)**	**(929.0)**	566.3	161.8	728.1

(1) The gain on disposition of associate of $130.2 in the full year of 2013 reflected the sales in the first quarter of the company's investment in The Brick ($111.9) and a private company ($12.1) and the sale in the second quarter of the company's investment in Imvescor ($6.2). The gain on disposition of associate of $196.8 in the full year of 2012 reflected the sale of the company's investments in Cunningham Lindsey ($167.0) and Fibrek ($29.8).

(2) Other equity derivatives include long equity total return swaps, equity warrants and call options.

(3) Gains and losses on 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, non-insurance 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 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. In the fourth quarter and full year of 2013, the impact of basis risk was pronounced compared to prior periods as the performance of the company's equity and equity-related holdings lagged the performance of the economic equity hedges used to protect those holdings despite the notional amount of the company's equity hedges being closely matched to the fair value of the company's equity and equity-related holdings, primarily as a result of the increase in the Russell 2000 index (the index underlying a significant proportion of the company's short positions) being meaningfully greater than the gain in the company's equity and equity-related holdings.

The company's equity and equity-related holdings after equity hedges produced a net loss of $235.2 in the fourth quarter of 2013 (a net loss of $536.9 in the full year of 2013) compared to a net gain of $454.3 in the fourth quarter of 2012 (a net gain of $113.2 in the full year of 2012). At December 31, 2013 equity hedges with a notional amount of $6,327.4 ($7,668.5 at December 31, 2012) represented 98.2% (101.0% at December 31, 2012) of the company's equity and equity-related holdings of $6,442.6 ($7,594.0 at December 31, 2012). As a result of the significant appreciation of certain of its equity and equity-related holdings, the company reduced its direct equity exposure through net sales of common stocks and convertible bonds for net proceeds of $750.5 and $1,385.9 in the fourth quarter and full year of 2013 respectively, and reduced the notional amount of its long positions in individual equities effected through total return swaps by $1,031.3 in the fourth quarter and full year of 2013. The company also closed out a portion of its Russell 2000 and all of its S&P 500 equity index total return swaps and certain short positions in individual equities, with notional amounts of $1,959.5 and $3,254.1 in the fourth quarter and full year of 2013 respectively. By undertaking the transactions described above the company reduced its direct equity exposure and rebalanced its equity hedge ratio to approximately 100% at December 31, 2013, after giving consideration to net gains recognized on its equity and equity-related holdings and net losses incurred on its equity hedging instruments.

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 as a result of the timing of opportunities to exit and enter hedges at attractive prices, decisions by the company to hedge an amount less than the company's full equity exposure or, on a temporary basis, as a result of 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 price risk. Refer to note 17 (Financial Risk Management) under the heading

Market Price Fluctuations in the company's condensed consolidated financial statements for the fourth quarter and year ended December 31, 2013 for a tabular analysis followed by a discussion of the company's hedges of equity price risk and the related basis risk.

	December 31, 2013				December 31, 2012			
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	**37,424,319**	**2,477.2**	**661.92**	**1,163.64**	52,881,400	3,501.9	662.22	849.35
S&P 500	—	—	—	—	10,532,558	1,117.3	1,060.84	1,426.19
S&P/TSX 60	**13,044,000**	**206.1**	**641.12**	**783.75**	13,044,000	206.1	641.12	713.72
Other equity indices	—	**140.0**	—	—	—	140.0	—	—
Individual equities	—	**1,481.8**	—	—	—	1,231.3	—	—

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

Bonds: Net losses on bonds of $101.4 and $929.0 in the fourth quarter and full year of 2013 respectively, were primarily comprised of net mark-to-market losses on U.S. treasury bonds ($80.2 and $309.7 respectively), U.S. state bonds ($29.8 and $287.6 respectively) and bonds issued by U.S. municipalities ($15.1 and $344.5 respectively). The company recorded net gains on bonds of $184.7 and $728.1 in the fourth quarter and full year of 2012 respectively.

CPI-linked derivatives: The company has purchased derivative contracts referenced to consumer price indexes ("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, 2013 these contracts have a remaining weighted average life of 7.5 years (7.7 years at December 31, 2012), a notional amount of $82.9 billion ($48.4 billion at December 31, 2012) and a fair value of $131.7 ($115.8 at December 31, 2012). The company's CPI-linked derivative contracts produced unrealized losses of $14.4 and $126.9 in the fourth quarter and full year of 2013 respectively, compared to unrealized losses of $29.9 and $129.2 in the fourth quarter and full year of 2012. Unrealized losses on CPI-linked derivative contracts typically reflect increases in the values of the CPI indexes underlying those contracts during the periods presented (those contracts are structured to benefit the company during periods of decreasing CPI index values).

During the fourth quarter and full year of 2013, the company purchased notional amounts of $650.0 and $32,327.7 respectively of CPI-linked derivative contracts at a cost of $1.8 and $99.8 respectively. In addition, the company paid additional premiums of $5.1 and $24.0 in the fourth quarter and full year of 2013 respectively, to increase the strike price (primarily of its U.S.) CPI-linked derivative contracts. Refer to the analysis in note 7 (Short Sales and Derivatives) under the heading CPI-linked derivative contracts in the company's condensed consolidated financial statements for the fourth quarter and full year of 2013 for a discussion of the company's economic hedge against the potential adverse financial impact of decreasing price levels.

Interest and Dividends

Consolidated interest and dividend income of $73.4 in the fourth quarter of 2012 increased to $104.1 in the fourth quarter of 2013 reflecting lower total return swap expense, partially offset by lower investment income earned. Consolidated interest and dividend income of $409.3 in the full year of 2012 decreased to $376.9 in the full year of 2013 reflecting lower investment income earned, partially offset by lower total return swap expense. Lower investment income in the fourth quarter and full year of 2013 principally reflected sales of higher yielding government and corporate bonds during 2012 and 2013 and sales of dividend paying common stocks during 2013, the proceeds of which were reinvested into lower yielding cash and short term investments. The decrease in total return swap expense from $69.8 in the fourth quarter of 2012 ($204.9 in the full year of 2012) to $31.6 in the fourth quarter of 2013 ($167.9 in the full year of 2013) primarily reflected terminations of equity index total return swaps and certain short positions ($1,959.5 and $3,254.1 notional amounts in the fourth quarter and full year of 2013 respectively) commensurate with sales of equity and equity-related holdings. In addition, the dividend rates payable by the company on its equity index total return swaps were lower in the fourth quarter of 2013 as several companies included in the Russell 2000 and S&P 500 indexes accelerated the payment of dividends planned for 2013 into the fourth quarter of 2012.

The share of profit of associates of $30.4 and $96.7 in the fourth quarter and full year of 2013 respectively, increased significantly compared to the share of profit of associates of $20.0 and $15.0 in the fourth quarter and full year of 2012 respectively. The improvement in the fourth quarter of 2013 primarily reflected the company's share of profit of Resolute (recorded on the equity method of accounting effective from December 2012) and increased limited partnership investment income on a year-over-year basis, partially offset by the share of loss of Thai Re which increased from $1.0 in the fourth quarter of 2012 to $25.9 in the fourth quarter of 2013 (principally comprised of net reserve strengthening related to the Thailand floods). The share of profit of associates in the full year of 2012 included an $18.8 share of the net loss of Fibrek (principally comprised of an impairment charge recorded by Fibrek) and a $22.0 share of the net loss of Thai Re (principally comprised of net reserve strengthening related to the Thailand floods).

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, 2013 compared to those identified at December 31, 2012 and disclosed in the company's 2012 Annual Report other than as outlined in note 17 (Financial Risk Management) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2013.

Financial Condition

Capital Resources and Management

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

	December 31, 2013	December 31, 2012
Holding company cash and investments (net of short sale and derivative obligations)	**1,241.6**	1,128.0
Long term debt – holding company borrowings	**2,491.0**	2,377.7
Long term debt – insurance and reinsurance companies	**459.5**	618.3
Subsidiary indebtedness - non-insurance companies	**25.8**	52.1
Long term debt – non-insurance companies	**18.2**	0.5
Total debt	**2,994.5**	3,048.6
Net debt	**1,752.9**	1,920.6
Common shareholders' equity	**7,186.7**	7,654.7
Preferred stock	**1,166.4**	1,166.4
Non-controlling interests	**107.4**	73.4
Total equity	**8,460.5**	8,894.5
Net debt/total equity	**20.7%**	21.6%
Net debt/net total capital(1)	**17.2%**	17.8%
Total debt/total capital(2)	**26.1%**	25.5%
Interest coverage(3)	**n/a**	4.2x
Interest and preferred share dividend distribution coverage(4)	**n/a**	3.0x

(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 borrowings at December 31, 2013 increased by $113.3 to $2,491.0 from $2,377.7 at December 31, 2012 primarily due to the issuance of Cdn$250.0 principal amount of Fairfax unsecured senior notes due 2022, partially offset by the foreign currency translation effect of the strengthening of the U.S. dollar on the company's Canadian dollar denominated long term debt and the repurchase and redemption of $48.4 of the outstanding principal amount of Fairfax unsecured senior notes due 2017.

Subsidiary debt (comprised of long term debt of the insurance and reinsurance companies, subsidiary indebtedness and long term debt of the non-insurance companies) at December 31, 2013 decreased by $167.4 to $503.5 from $670.9 at December 31, 2012, primarily reflecting the repayment of $182.9 principal amount of the OdysseyRe unsecured senior notes upon maturity and decreased indebtedness of Thomas Cook India (notwithstanding the issuance of $18.3 (1 billion Indian rupees) principal amount of debentures due 2018, partially offset by the consolidation of the long term debt of American Safety ($22.2) and the subsidiary indebtedness of IKYA ($10.3).

Common shareholders' equity at December 31, 2013 decreased by $468.0 to $7,186.7 from $7,654.7 at December 31, 2012 primarily as a result of the net loss attributable to shareholders of Fairfax ($573.4), the payment of dividends on the company's common and preferred shares ($266.3) and decreased accumulated other comprehensive income (a decrease of $33.7 in the full year of 2013 primarily related to foreign currency translation), partially offset by the issuance of 1 million subordinate voting shares on November 15, 2013 for net proceeds after commissions and expenses of $399.5 (Cdn$417.1).

The changes in holding company borrowings, subsidiary debt and common shareholders' equity affected the company's leverage ratios as follows: the consolidated net debt/net total capital ratio decreased to 17.2% at December 31, 2013 from 17.8% at December 31, 2012 primarily as a result of decreases in net debt and net total capital. The decrease in net debt was due to a decrease in total debt (primarily decreased subsidiary debt, partially offset by increased holding company borrowings as described above) and an increase in holding company cash and investments (net of short sale and derivative obligations). The decrease in net total capital was due to decreased common shareholders' equity and decreased net debt. The consolidated total debt/total capital ratio increased to 26.1% at December 31, 2013 from 25.5% at December 31, 2012 primarily as a result of decreased total capital (reflecting decreased common shareholders' equity and decreased total debt, partially offset by increased non-controlling interests), partially offset by decreased total debt (primarily decreased subsidiary debt, partially offset by increased holding company borrowings as described above).

Liquidity

Holding company cash and investments at December 31, 2013 totaled $1,296.7 ($1,241.6 net of $55.1 of holding company short sale and derivative obligations) compared to $1,169.2 at December 31, 2012 ($1,128.0 net of $41.2 of holding company short sale and derivative obligations).

Significant cash and investment movements at the Fairfax holding company level during the full year of 2013 included the following outflows: the payment of $266.3 of common and preferred share dividends, the repayment of $182.9 principal amount of the OdysseyRe unsecured senior notes upon maturity, the payment of $161.3 of interest on long term debt, the payment of $67.8 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 repurchase and redemption of $48.4 of the outstanding principal amount of Fairfax unsecured senior notes due 2017, the partial repayment of an intercompany loan payable to Northbridge ($19.1) and capital contributions to Crum & Forster ($65.0), Zenith National ($10.0), Fairfax Asia ($8.2) and Polish Re ($7.9). Significant inflows during the full year of 2013 included the following: net proceeds after commissions and expenses of $399.5 (Cdn$417.1) from the issuance of 1 million subordinate voting shares on November 15, 2013, net proceeds of $259.9 (Cdn$258.1) from the issuance of Cdn$250.0 principal amount of 5.84% unsecured senior notes due 2022, the receipt of $54.5 of Cara preferred shares and equity warrants related to the sale of Prime Restaurants, the receipt of $50.0 corporate income tax refunds and the receipt of dividends from Odyssey Re ($200.0), Runoff ($41.6) and CRC Re ($90.3). The dividend received from Runoff ($41.6) was reinvested into Runoff in the fourth quarter of 2013 and formed part of the funding for the American Safety acquisition. The carrying value of holding company cash and investments was also affected by the following: receipt of investment management and administration fees, disbursements associated with corporate overhead expenses and costs in connection with the repurchase of subordinate voting shares for treasury. 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, 2013 of $1,241.6 ($1,128.0 at December 31, 2012) provide adequate liquidity to meet the holding company's known obligations in 2014. 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 15 (Subsidiary Indebtedness, Long Term Debt and Credit Facilities) to the consolidated financial statements for the year ended December 31, 2012 in the company's 2012 Annual Report). The holding company's known significant commitments for 2014 consist of the payment of the $215.7 dividend on common shares ($10.00 per share paid January 2014), interest and corporate overhead expenses, preferred share dividends, income tax payments and potential cash outflows related to derivative contracts (described below).

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 2013 the holding company paid net cash of $70.3 and $67.8 respectively (paid net cash of $58.5 and $220.5 in the fourth quarter and full year of 2012 respectively) in connection with long and short equity and equity index total return swap derivative contracts (excluding the impact of collateral requirements).

During the full year of 2013 subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) increased by $185.0 primarily reflecting net proceeds received from the sales of equity and equity-related holdings and the consolidation of the cash and short term investments of American Safety, partially offset by net cash paid of $1,615.4 in the full year of 2013 in connection with the reset provisions of the company's long and short equity and equity index total return swaps. 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 2013 the insurance and reinsurance subsidiaries paid net cash of $407.8 and $1,615.4 respectively (paid net cash of $14.4 and $603.6 in the fourth quarter and full year of 2012 respectively) in connection with long and short equity and equity index total return swap derivative contracts (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, 2013 and 2012:

	Fourth quarter		Year ended December 31,	
	2013	2012	**2013**	2012
Operating activities				
Cash provided by (used in) operating activities before the undernoted	**26.7**	5.5	**(188.4)**	210.0
Net (purchases) sales of securities classified as at FVTPL	**(18.7)**	(207.8)	**895.7**	1,105.7
Investing activities				
Net sales of investments in associates and joint ventures	**27.6**	208.7	**125.8**	114.6
Net purchases of subsidiaries, net of cash acquired	**211.6**	(142.9)	**136.3**	(334.4)
Net purchases of premises and equipment and intangible assets	**(11.9)**	(29.8)	**(48.1)**	(71.5)
Financing activities				
Net (repayment) issuance of subsidiary indebtedness	**(20.2)**	0.3	**(31.0)**	20.1
Issuance of long term debt	**—**	203.0	**278.1**	203.0
Repurchase of holding company and subsidiary debt and securities	**(197.3)**	(200.9)	**(251.2)**	(296.5)
Issuance of subordinate voting shares	**399.5**	—	**399.5**	—
Issuance of preferred shares	**—**	—	**—**	231.7
Purchase of subordinate voting shares for treasury	**(14.0)**	(30.9)	**(25.7)**	(50.6)
Issuance of subsidiary common shares to non-controlling interests	**—**	—	**32.9**	—
Common and preferred share dividends paid	**(14.8)**	(15.9)	**(266.3)**	(266.3)
Dividends paid to non-controlling interests	**—**	—	**(6.4)**	(6.7)
Increase (decrease) in cash, cash equivalents and bank overdrafts during the period	**388.5**	(210.7)	**1,051.2**	859.1

Cash provided by operating activities (excluding net (purchases) sales of securities classified as at FVTPL) increased to $26.7 in the fourth quarter of 2013 from $5.5 in the fourth quarter of 2012 primarily as a result of lower income taxes paid, partially offset by lower net premiums collected. Cash used in operating activities (excluding net (purchases) sales of securities classified as at FVTPL) was $188.4 in the full year of 2013 compared to cash provided by operating activities of $210.0 in the full year of 2012 reflecting higher net paid losses, partially offset by lower income taxes paid and higher net premiums collected. Refer to note 20 (Supplementary Cash Flow Information) in the company's condensed consolidated financial statements for the fourth quarter and year ended December 31, 2013 for details of net (purchases) sales of securities classified as at FVTPL.

Net sales of investments in associates and joint ventures of $27.6 in the fourth quarter of 2013 ($125.8 in the full year of 2013) primarily reflected net proceeds from sales of limited partnerships and also included in the full year of 2013 the net proceeds from sale of the Brick, partially offset by the purchase of additional investments in MEGA Brands and Resolute. Net sales of investments in associates and joint ventures of $208.7 in the fourth quarter of 2012 primarily reflected net sales of limited partnerships. Net sales of investments in associates and joint ventures of $114.6 in the full year of 2012 primarily reflected the net proceeds from sale of Fibrek, partially offset by the investments in Thai Re and certain limited partnerships. Net purchases of subsidiaries, net of cash acquired in the fourth quarter and full year of 2013 primarily related to the acquisition of American Safety and also included in the full year of 2013 the acquisition of Hartville and a 58.0% effective interest in IKYA. Net purchases of subsidiaries, net of cash acquired in the fourth quarter and full year of 2012 primarily related to the acquisition of RiverStone Insurance and also included in the full year of 2012 the acquisition of an 87.1% interest in Thomas Cook India and an 81.7% interest in Prime Restaurants.

Net repayment (issuance) of subsidiary indebtedness in the fourth quarters and full years of 2013 and 2012 primarily reflected advances and repayments of the subsidiary indebtedness of Ridley and Thomas Cook India in the normal course of business. Issuance of long term debt of $278.1 in the full year of 2013 reflected the issuance of Cdn$250.0 principal amount of Fairfax 5.84% unsecured senior notes due 2022 for net proceeds of $259.9 (Cdn $258.1) and the net proceeds received by Thomas Cook India following the issuance of $18.3 (1 billion Indian rupees) principal amount of its debentures due 2018. Issuance of long term debt of $203.0 (Cdn$198.6) in the fourth quarter and 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 $197.3 in the fourth quarter of 2013 ($251.2 in the full year of 2013) primarily reflected the repayment of $182.9 principal amount of the OdysseyRe unsecured senior notes upon maturity and the redemption of $13.0 principal amount of American Safety's trust preferred securities. The full year of 2013 also reflected the repurchase and redemption of $48.4 principal amount of Fairfax unsecured senior notes due 2017. Repurchase of holding company and subsidiary debt and securities of $200.9 in the fourth quarter of 2012 ($296.5 in the full year of 2012) primarily reflected the repayment of the TIG Note ($200.0). The full year of 2013 also reflected 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). Issuance of subordinate voting shares of $399.5 (Cdn$417.1) related to the issuance of 1 million subordinate voting shares on November 15, 2013. Issuance of preferred shares of $231.7 in the full year of 2012 reflected the receipt of proceeds from the issuance of Cdn$237.5 par value of Series K preferred shares. Issuance of subsidiary common shares to non-controlling interests of $32.9 in the full year of 2013 reflected the private placement of Thomas Cook India common shares with institutional buyers to partially fund the acquisition of IKYA. The company paid preferred share dividends of $14.8 in the fourth quarter of 2013 ($15.9 in the fourth quarter of 2012) and $60.8 in the full year of 2013 ($60.5 in the full year of 2012). The company paid common share dividends of $205.5 in the full year of 2013 ($205.8 in the full year of 2012).

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, 2013:

	Less than 1 year	1-3 years	3-5 years	More than 5 years	Total
Provision for losses and loss adjustment expenses	4,646.7	5,557.5	3,770.4	5,238.2	19,212.8
Long term debt obligations - principal	5.4	275.3	283.4	2,415.3	2,979.4
Long term debt obligations - interest	197.0	365.1	337.7	618.5	1,518.3
Operating leases - obligations	72.9	120.2	85.9	139.7	418.7
	4,922.0	6,318.1	4,477.4	8,411.7	24,129.2

For further detail on the maturity profile of the company's financial liabilities, please see the heading Liquidity Risk in note 24 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2012, in the company's 2012 Annual Report.

Book Value Per Share

Common shareholders' equity at December 31, 2013 was $7,186.7 or $339.00 per basic share (excluding the unrecorded $382.5 excess of fair value over the carrying value of investments in associates) compared to $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) at December 31, 2012 representing a decrease per basic share in 2013 of 10.3% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2013, or a decrease of 7.8% adjusted to include that dividend). During 2013, the number of basic shares increased primarily as a result of the issuance of 1 million subordinate voting shares on November 15, 2013, partially offset by the repurchase of 45,373 subordinate voting shares for treasury (for use in the company's share-based payment awards). At December 31, 2013 there were 21,200,002 common shares effectively outstanding.

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, 2013.

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 of the MD&A in the company's 2012 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, 2012, in the company's 2012 Annual Report.

Comparative Quarterly Data (unaudited)

	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenue	**1,683.7**	1,120.8	1,355.8	1,784.6	2,764.2	1,891.6	1,742.5	1,624.5
Net earnings (loss)[1]	**(1.8)**	(569.1)	(156.9)	163.3	406.4	35.7	94.2	(1.3)
Net earnings (loss) attributable to shareholders of Fairfax[1]	**(5.5)**	(571.7)	(157.8)	161.6	402.4	33.4	93.7	(2.6)
Net earnings (loss) per share[1]	**$ (0.98)**	$ (29.02)	$ (8.55)	$ 7.22	$ 19.05	$ 0.85	$ 3.84	$ (0.76)
Net earnings (loss) per diluted share[1]	**$ (0.98)**	$ (29.02)	$ (8.55)	$ 7.12	$ 18.82	$ 0.84	$ 3.79	$ (0.76)

(1) 2012 results reflect the retrospective adoption on January 1, 2013 of amendments to IAS 19 *Employee Benefits* as described in note 3 (Summary of Significant Accounting Policies) to the condensed consolidated statements for the fourth quarter and year ended December 31, 2013.

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 2012, 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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