FAIRFAX
FINANCIAL HOLDINGS LIMITED

Condensed Consolidated Financial Statements

for the fourth quarter and year ended

December 31, 2014

(unaudited)

These condensed consolidated financial statements of the company represent additional financial information of Fairfax Financial Holdings Limited as at December 31, 2014, the company's year-end, and for the fourth quarter and year ended December 31, 2014, as referred to in Fairfax Financial Holdings Limited's press release dated February 12, 2015 announcing its financial results for the year ended December 31, 2014. These condensed consolidated financial statements are not interim financial statements as defined by International Accounting Standard 34 *Interim Financial Reporting*, and 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. See Note 2, "Basis of Presentation". Readers should use caution when comparing such financial information to periods for which audited financial statements or interim financial reports are available. These condensed consolidated financial statements have not been audited or reviewed by our auditors in accordance with procedures that would otherwise apply to audited financial statements or interim financial statements prepared in accordance with IFRS, and, accordingly, the level of disclosure and independent review in respect of such statements are not at the level of audited financial statements issued in accordance with IFRS and applicable securities laws. Investors are cautioned that there may be variations from the financial information presented in such statements as compared to our audited financial statements for the year ended December 31, 2014 when such statements are issued following completion of our annual audit.

CONSOLIDATED BALANCE SHEETS
as at December 31, 2014 and December 31, 2013
(unaudited - US$ millions)

	Notes	December 31, 2014	December 31, 2013
Assets			
Holding company cash and investments (including assets pledged for short sale and derivative obligations – $109.7; December 31, 2013 – $124.4)	5, 19	**1,244.3**	1,296.7
Insurance contract receivables		**1,931.7**	2,017.0
		3,176.0	3,313.7
Portfolio investments			
Subsidiary cash and short term investments	5, 19	**5,534.3**	7,445.7
Bonds (cost $9,900.1; December 31, 2013 – $9,190.0)	5	**11,445.5**	9,550.5
Preferred stocks (cost $386.8; December 31, 2013 – $565.1)	5	**376.4**	541.8
Common stocks (cost $4,531.7; December 31, 2013 – $3,305.5)	5	**4,848.5**	3,835.7
Investments in associates (fair value $2,070.5; December 31, 2013 – $1,815.0)	5, 6	**1,617.7**	1,432.5
Derivatives and other invested assets (cost $634.0; December 31, 2013 – $667.8)	5, 7	**426.8**	224.2
Assets pledged for short sale and derivative obligations (cost $757.8; December 31, 2013 – $829.3)	5, 7	**860.0**	802.9
		25,109.2	23,833.3
Deferred premium acquisition costs		**497.6**	462.4
Recoverable from reinsurers (including recoverables on paid losses – $230.7; December 31, 2013 – $353.3)	9	**3,982.1**	4,974.7
Deferred income taxes		**460.4**	1,015.0
Goodwill and intangible assets		**1,558.3**	1,311.8
Other assets		**1,347.6**	1,088.1
		36,131.2	35,999.0
Liabilities			
Subsidiary indebtedness	10	**37.6**	25.8
Accounts payable and accrued liabilities		**2,029.1**	1,840.6
Income taxes payable		**118.3**	80.1
Short sale and derivative obligations (including at the holding company – $31.6; December 31, 2013 – $55.1)	5, 7	**160.8**	268.4
Funds withheld payable to reinsurers		**461.5**	461.2
		2,807.3	2,676.1
Insurance contract liabilities	8	**20,438.7**	21,893.7
Long term debt	10	**3,141.4**	2,968.7
		23,580.1	24,862.4
Equity	11		
Common shareholders' equity		**8,361.0**	7,186.7
Preferred stock		**1,164.7**	1,166.4
Shareholders' equity attributable to shareholders of Fairfax		**9,525.7**	8,353.1
Non-controlling interests		**218.1**	107.4
Total equity		**9,743.8**	8,460.5
		36,131.2	35,999.0

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS
for the three and twelve months ended December 31, 2014 and 2013
(unaudited - US$ millions except per share amounts)

	Notes	Fourth quarter 2014	Fourth quarter 2013	Year ended December 31, 2014	Year ended December 31, 2013
Revenue					
Gross premiums written	17	**1,778.6**	1,675.6	**7,459.9**	7,227.1
Net premiums written	17	**1,520.2**	1,430.7	**6,301.8**	6,036.2
Gross premiums earned		**1,867.4**	1,856.7	**7,358.2**	7,294.0
Premiums ceded to reinsurers		**(262.4)**	(282.5)	**(1,142.0)**	(1,216.7)
Net premiums earned	17	**1,605.0**	1,574.2	**6,216.2**	6,077.3
Interest and dividends		**119.4**	104.1	**403.8**	376.9
Share of profit of associates		**15.7**	30.4	**105.7**	96.7
Net gains (losses) on investments	5	**(172.6)**	(329.1)	**1,736.2**	(1,564.0)
Other revenue		**506.2**	304.1	**1,556.0**	958.0
		2,073.7	1,683.7	**10,017.9**	5,944.9
Expenses					
Losses on claims, gross	8	**1,090.2**	1,046.9	**4,427.4**	4,615.6
Losses on claims ceded to reinsurers		**(166.3)**	(216.3)	**(633.1)**	(945.3)
Losses on claims, net	18	**923.9**	830.6	**3,794.3**	3,670.3
Operating expenses	18	**297.3**	298.9	**1,227.2**	1,185.0
Commissions, net	9	**244.5**	248.2	**959.9**	969.2
Interest expense		**53.0**	51.3	**206.3**	211.2
Other expenses	18	**475.5**	280.1	**1,492.3**	910.3
		1,994.2	1,709.1	**7,680.0**	6,946.0
Earnings (loss) before income taxes		**79.5**	(25.4)	**2,337.9**	(1,001.1)
Provision for (recovery of) income taxes	13	**41.3**	(23.6)	**673.3**	(436.6)
Net earnings (loss)		**38.2**	(1.8)	**1,664.6**	(564.5)
Attributable to:					
Shareholders of Fairfax		**23.7**	(5.5)	**1,633.2**	(573.4)
Non-controlling interests		**14.5**	3.7	**31.4**	8.9
		38.2	(1.8)	**1,664.6**	(564.5)
Net earnings (loss) per share	12	**$ 0.50**	$ (0.98)	**$ 74.43**	$ (31.15)
Net earnings (loss) per diluted share	12	**$ 0.49**	$ (0.98)	**$ 73.01**	$ (31.15)
Cash dividends paid per share		**$ —**	$ —	**$ 10.00**	$ 10.00
Shares outstanding (000) (weighted average)	12	**21,181**	20,729	**21,186**	20,360

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
for the three and twelve months ended December 31, 2014 and 2013
(unaudited – US$ millions)

	Notes	Fourth quarter		Year ended December 31,	
		2014	2013	**2014**	2013
Net earnings (loss)		**38.2**	(1.8)	**1,664.6**	(564.5)
Other comprehensive income (loss), net of income taxes	11				
Items that may be subsequently reclassified to net earnings					
Change in unrealized foreign currency translation gains (losses) on foreign operations		**(115.4)**	(50.5)	**(200.7)**	(164.4)
Change in gains (losses) on hedge of net investment in Canadian subsidiaries		**48.0**	48.3	**118.7**	96.9
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans		**(18.6)**	4.5	**(52.7)**	(12.9)
		(86.0)	2.3	**(134.7)**	(80.4)
Items that will not be subsequently reclassified to net earnings					
Share of gains (losses) on defined benefit plans of associates		**(103.4)**	3.9	**(36.7)**	8.9
Change in gains (losses) on defined benefit plans		**(31.6)**	30.4	**(32.9)**	31.3
		(135.0)	34.3	**(69.6)**	40.2
Other comprehensive income (loss), net of income taxes		**(221.0)**	36.6	**(204.3)**	(40.2)
Comprehensive income (loss)		**(182.8)**	34.8	**1,460.3**	(604.7)
Attributable to:					
Shareholders of Fairfax		**(191.8)**	31.0	**1,436.7**	(607.1)
Non-controlling interests		**9.0**	3.8	**23.6**	2.4
		(182.8)	34.8	**1,460.3**	(604.7)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the years ended December 31, 2014 and 2013
(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, 2014	**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**
Net earnings for the year	—	—	—	—	**1,633.2**	—	**1,633.2**	—	**1,633.2**	**31.4**	**1,664.6**
Other comprehensive income (loss), net of income taxes:											
Change in unrealized foreign currency translation gains (losses) on foreign operations	—	—	—	—	—	**(193.3)**	**(193.3)**	—	**(193.3)**	**(7.4)**	**(200.7)**
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	—	—	—	—	—	**118.7**	**118.7**	—	**118.7**	—	**118.7**
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	—	—	—	—	—	**(52.7)**	**(52.7)**	—	**(52.7)**	—	**(52.7)**
Share of gains (losses) on defined benefit plans of associates	—	—	—	—	—	**(36.7)**	**(36.7)**	—	**(36.7)**	—	**(36.7)**
Change in gains (losses) on defined benefit plans	—	—	—	—	—	**(32.5)**	**(32.5)**	—	**(32.5)**	**(0.4)**	**(32.9)**
Issuance of shares	—	—	**8.8**	**(12.2)**	—	—	**(3.4)**	—	**(3.4)**	—	**(3.4)**
Purchases and amortization	—	—	**(24.6)**	**36.8**	—	—	**12.2**	**(1.7)**	**10.5**	—	**10.5**
Excess of book value over consideration of preferred shares purchased for cancellation	—	—	—	—	**0.5**	—	**0.5**	—	**0.5**	—	**0.5**
Common share dividends	—	—	—	—	**(215.7)**	—	**(215.7)**	—	**(215.7)**	**(6.6)**	**(222.3)**
Preferred share dividends	—	—	—	—	**(56.9)**	—	**(56.9)**	—	**(56.9)**	—	**(56.9)**
Net changes in capitalization and other	—	—	—	**3.3**	**(2.4)**	—	**0.9**	—	**0.9**	**93.7**	**94.6**
Balance as of December 31, 2014	**3,642.8**	**3.8**	**(155.8)**	**78.4**	**4,909.9**	**(118.1)**	**8,361.0**	**1,164.7**	**9,525.7**	**218.1**	**9,743.8**
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 year	—	—	—	—	(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 and other	—	—	—	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

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and twelve months ended December 31, 2014 and 2013
(unaudited - US$ millions)

	Notes	Fourth quarter 2014	Fourth quarter 2013	Year ended December 31, 2014	Year ended December 31, 2013
Operating activities					
Net earnings (loss)		**38.2**	(1.8)	**1,664.6**	(564.5)
Depreciation, amortization and impairment charges		**25.3**	20.0	**94.2**	104.3
Net bond discount amortization		**(9.8)**	6.2	**(30.0)**	(22.1)
Amortization of share-based payment awards		**17.2**	6.1	**36.8**	21.9
Share of profit of associates		**(15.7)**	(30.4)	**(105.7)**	(96.7)
Deferred income taxes	13	**7.4**	(50.2)	**521.7**	(431.8)
Net (gains) losses on investments	5	**172.6**	329.1	**(1,736.2)**	1,564.0
Loss on repurchase of long term debt	10	**3.5**	—	**3.6**	3.4
Net (purchases) sales of securities classified as at FVTPL	19	**(99.6)**	(18.7)	**(636.4)**	895.7
Changes in operating assets and liabilities		**(118.3)**	(252.3)	**117.2**	(766.9)
Cash provided by (used in) operating activities		**20.8**	8.0	**(70.2)**	707.3
Investing activities					
Sales of investments in associates and joint ventures	6	**44.1**	29.1	**252.1**	211.9
Purchases of investments in associates and joint ventures	6	**(3.2)**	(1.5)	**(390.2)**	(86.1)
Net purchases of premises and equipment and intangible assets		**(24.0)**	(11.9)	**(67.1)**	(48.1)
Net purchases of subsidiaries, net of cash acquired	15	**(80.1)**	211.6	**(189.9)**	136.3
Cash provided by (used in) investing activities		**(63.2)**	227.3	**(395.1)**	214.0
Financing activities					
Subsidiary indebtedness:	10				
Issuances		**16.7**	16.3	**102.9**	51.1
Repayment		**(30.8)**	(36.5)	**(85.5)**	(82.1)
Long term debt:	10				
Issuances		**—**	—	**297.1**	279.7
Issuance costs		**—**	—	**(2.9)**	(1.6)
Repayment		**(77.4)**	(197.3)	**(90.1)**	(251.2)
Subordinate voting shares:	11				
Issuances		**—**	412.8	**—**	412.8
Issuance costs		**—**	(13.3)	**—**	(13.3)
Preferred shares:	11				
Repurchases		**(1.1)**	—	**(1.2)**	—
Purchase of subordinate voting shares for treasury		**(3.7)**	(14.0)	**(24.6)**	(25.7)
Subsidiary common shares:					
Issuances to non-controlling interests		**—**	—	**—**	34.0
Issuance costs		**—**	—	**—**	(1.1)
Common share dividends		**—**	—	**(215.7)**	(205.5)
Preferred share dividends		**(13.6)**	(14.8)	**(56.9)**	(60.8)
Dividends paid to non-controlling interests		**—**	—	**(6.6)**	(6.4)
Cash provided by (used in) financing activities		**(109.9)**	153.2	**(83.5)**	129.9
Increase (decrease) in cash, cash equivalents and bank overdrafts		**(152.3)**	388.5	**(548.8)**	1,051.2
Cash, cash equivalents and bank overdrafts – beginning of period		**3,265.0**	3,396.9	**3,758.2**	2,815.3
Foreign currency translation		**(94.0)**	(27.2)	**(190.7)**	(108.3)
Cash, cash equivalents and bank overdrafts – end of period	19	**3,018.7**	3,758.2	**3,018.7**	3,758.2

See accompanying notes.

Index to Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements
for the three and twelve months ended December 31, 2014 and 2013
(unaudited – in US$ and $ millions except per share amounts and as otherwise indicated)

1. Business Operations

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

2. Basis of Presentation

These condensed consolidated financial statements of the company include financial information as at December 31, 2014, the company's year-end, and for the fourth quarter and year ended December 31, 2014. 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. These condensed consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the year ended December 31, 2013, which have been prepared in accordance with IFRS as issued by the IASB. 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. The company expects to issue its audited annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB on March 6, 2015.

These condensed consolidated financial statements were approved for issue by the company's Board of Directors on February 12, 2015.

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, 2013, 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.

New accounting pronouncements adopted in 2014

IFRIC 21 Levies ("IFRIC 21")
IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. Retrospective adoption of the interpretation on January 1, 2014 did not have a significant impact on the consolidated financial statements.

IAS 32 Financial Instruments: Presentation ("IAS 32")
The IASB amended IAS 32 to clarify the meaning of when an entity has a current legally enforceable right to offset a financial asset and a financial liability in its consolidated balance sheet. Retrospective adoption of the amendment on January 1, 2014 did not have a significant impact on the consolidated financial statements.

IAS 36 Impairment of Assets ("IAS 36")
The IASB amended IAS 36 to clarify the disclosure requirements when an impairment loss is recognized or reversed in respect of an asset or cash-generating unit. Retrospective adoption of the amendments on January 1, 2014 did not have a significant impact on the consolidated financial statements.

New accounting pronouncements issued but not yet effective

IFRS 9 Financial Instruments ("IFRS 9")
In July 2014 the IASB published the complete version of IFRS 9 which supersedes the 2010 version of IFRS 9 currently applied by the company. This complete version is effective for annual periods beginning on or after January 1, 2018, with retrospective application, and includes: requirements on the classification and measurement of financial assets and liabilities; an expected credit loss model that replaces the existing incurred loss impairment model; and new hedge accounting guidance. The company is currently evaluating the impact of the complete version of IFRS 9 on its consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")
In May 2014 the IASB published IFRS 15 which introduces a single model for recognizing revenue from contracts with customers. IFRS 15 excludes insurance contracts from its scope and is primarily applicable to the company's non-insurance entities. The standard is effective for annual periods beginning on or after January 1, 2017, with retrospective application. The company is currently evaluating the impact of IFRS 15 on its 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, 2013. 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, 2014	December 31, 2013
Holding company:		
Cash and cash equivalents (note 19)	**317.7**	214.4
Short term investments	**121.6**	185.9
Short term investments pledged for short sale and derivative obligations	**92.0**	107.8
Bonds	**323.8**	240.4
Bonds pledged for short sale and derivative obligations	**17.7**	16.6
Preferred stocks	**144.2**	223.0
Common stocks	**89.8**	264.9
Derivatives (note 7)	**137.5**	43.7
	1,244.3	1,296.7
Short sale and derivative obligations (note 7)	**(31.6)**	(55.1)
	1,212.7	1,241.6
Portfolio investments:		
Cash and cash equivalents (note 19)	**3,034.5**	3,878.4
Short term investments	**2,499.8**	3,567.3
Bonds	**11,445.5**	9,550.5
Preferred stocks	**376.4**	541.8
Common stocks	**4,848.5**	3,835.7
Investments in associates (note 6)	**1,617.7**	1,432.5
Derivatives (note 7)	**412.6**	193.1
Other invested assets	**14.2**	31.1
	24,249.2	23,030.4
Assets pledged for short sale and derivative obligations:		
Cash and cash equivalents (note 19)	**—**	11.8
Short term investments	**227.7**	45.8
Bonds	**632.3**	745.3
	860.0	802.9
	25,109.2	23,833.3
Short sale and derivative obligations (note 7)	**(129.2)**	(213.3)
	24,980.0	23,620.0

Common stocks included investments in limited partnerships with a carrying value of $1,004.4 at December 31, 2014 (December 31, 2013 - $816.4).

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, 2014 bonds containing call and put features represented approximately $6,880.2 and $56.4 respectively (December 31, 2013 - $5,990.1 and $60.3 respectively) of the total fair value of bonds in the table below.

	December 31, 2014		December 31, 2013	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**692.8**	**715.3**	962.7	998.2
Due after 1 year through 5 years	**4,714.1**	**5,708.3**	4,565.7	5,081.4
Due after 5 years through 10 years	**341.6**	**355.0**	518.2	527.3
Due after 10 years	**5,028.5**	**5,640.7**	4,203.1	3,945.9
	10,777.0	**12,419.3**	10,249.7	10,552.8

Fair Value Disclosures

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

	December 31, 2014				December 31, 2013			
	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	**3,352.2**	**3,352.2**	**—**	**—**	4,104.6	4,104.6	—	—
Short term investments:								
Canadian provincials	**334.0**	**334.0**	**—**	**—**	405.0	405.0	—	—
U.S. treasury	**2,170.7**	**2,170.7**	**—**	**—**	3,147.6	3,147.6	—	—
Other government	**361.1**	**312.8**	**48.3**	**—**	281.6	281.6	—	—
Corporate and other	**75.3**	**—**	**75.3**	**—**	72.6	—	72.6	—
	2,941.1	**2,817.5**	**123.6**	**—**	3,906.8	3,834.2	72.6	—
Bonds:								
Canadian government	**16.0**	**—**	**16.0**	**—**	18.3	—	18.3	—
Canadian provincials	**217.1**	**—**	**217.1**	**—**	164.7	—	164.7	—
U.S. treasury	**2,094.2**	**—**	**2,094.2**	**—**	1,669.6	—	1,669.6	—
U.S. states and municipalities	**6,998.2**	**—**	**6,998.2**	**—**	6,227.7	—	6,227.7	—
Other government	**1,559.0**	**—**	**1,559.0**	**—**	1,067.3	—	1,067.3	—
Corporate and other	**1,534.8**	**—**	**701.8**	**833.0**	1,405.2	—	967.6	437.6
	12,419.3	**—**	**11,586.3**	**833.0**	10,552.8	—	10,115.2	437.6
Preferred stocks:								
Canadian	**173.9**	**—**	**16.7**	**157.2**	242.3	—	78.9	163.4
U.S.	**322.4**	**—**	**321.6**	**0.8**	490.7	—	471.1	19.6
Other	**24.3**	**—**	**24.3**	**—**	31.8	—	31.8	—
	520.6	**—**	**362.6**	**158.0**	764.8	—	581.8	183.0
Common stocks:								
Canadian	**918.2**	**786.7**	**109.7**	**21.8**	678.1	643.7	7.2	27.2
U.S.	**907.3**	**478.0**	**29.4**	**399.9**	814.6	402.1	28.2	384.3
Other	**3,112.8**	**1,922.1**	**563.3**	**627.4**	2,607.9	1,672.2	370.6	565.1
	4,938.3	**3,186.8**	**702.4**	**1,049.1**	4,100.6	2,718.0	406.0	976.6
Derivatives and other invested assets[(1)]	**558.1**	**—**	**285.0**	**273.1**	244.8	1.7	96.6	146.5
Short sale and derivative obligations	**(160.8)**	**—**	**(160.8)**	**—**	(268.4)	—	(268.4)	—
Holding company cash and investments and portfolio investments measured at fair value	**24,568.8**	**9,356.5**	**12,899.1**	**2,313.2**	23,406.0	10,658.5	11,003.8	1,743.7
	100.0%	**38.1%**	**52.5%**	**9.4%**	100.0%	45.5%	47.0%	7.5%
Investments in associates (note 6)[(2)]	**2,070.5**	**1,046.4**	**35.5**	**988.6**	1,815.0	806.5	35.2	973.3

(1) Excluded from these totals are certain real estate investments at December 31, 2014 of \$6.2 (December 31, 2013 - \$23.1) 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, 2013.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the year ended December 31, 2014 and 2013 there were no significant transfers of financial instruments between Level 1 and Level 2 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.

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:

	2014						
	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	**437.6**	**183.0**	**692.7**	**112.2**	**171.7**	**146.5**	**1,743.7**
Total net realized and unrealized gains (losses) included in net gains (losses) on investments	**151.7**	**(35.1)**	**27.2**	**15.5**	**(21.1)**	**5.5**	**143.7**
Purchases	**249.2**	**4.1**	**112.9**	**26.2**	**5.6**	**121.1**	**519.1**
Transfer into category due to change in accounting treatment	**—**	**6.0**	**—**	**—**	**—**	**—**	**6.0**
Sales	**(5.5)**	**—**	**(57.5)**	**(36.3)**	**—**	**—**	**(99.3)**
Balance - December 31	**833.0**	**158.0**	**775.3**	**117.6**	**156.2**	**273.1**	**2,313.2**

	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

Reasonably possible changes in the value of unobservable inputs for any of these individual investments would not significantly change the fair value of investments classified as Level 3 in the fair value hierarchy.

Net gains (losses) on investments

	Fourth quarter					
	2014			2013		
	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	**93.0**	**291.4**	**384.4**	143.6	(247.8)	(104.2)
Preferred stocks	**(163.6)** (1)	**81.3**	**(82.3)**	—	43.9	43.9
Common stocks	**18.7**	**(375.5)**	**(356.8)**	281.1	(42.3)	238.8
	(51.9)	**(2.8)**	**(54.7)**	424.7	(246.2)	178.5
Derivatives:						
Common stock and equity index short positions	**(37.4)** (2)	**(265.1)**	**(302.5)**	(502.7) (2)	(69.9)	(572.6)
Common stock and equity index long positions	**(39.0)** (2)	**1.3**	**(37.7)**	24.6 (2)	32.7	57.3
Credit default swaps	**—**	**—**	**—**	—	(0.9)	(0.9)
Equity warrants and call options	**—**	**(1.3)**	**(1.3)**	—	2.0	2.0
CPI-linked contracts	**—**	**116.4**	**116.4**	—	(14.4)	(14.4)
Other	**15.5**	**10.0**	**25.5**	2.3	15.3	17.6
	(60.9)	**(138.7)**	**(199.6)**	(475.8)	(35.2)	(511.0)
Foreign currency gains (losses) on:						
Investing activities	**(23.7)**	**1.3**	**(22.4)**	11.2	12.6	23.8
Underwriting activities	**17.1**	**—**	**17.1**	8.5	—	8.5
Foreign currency contracts	**72.6**	**(9.1)**	**63.5**	(3.7)	(15.8)	(19.5)
	66.0	**(7.8)**	**58.2**	16.0	(3.2)	12.8
Gain on disposition of associates	**16.5** (3)	**—**	**16.5**	—	—	—
Other	**7.0**	**—**	**7.0**	(9.3)	(0.1)	(9.4)
Net gains (losses) on investments	**(23.3)**	**(149.3)**	**(172.6)**	(44.4)	(284.7)	(329.1)

(1) During the fourth quarter of 2014, pursuant to its terms, a preferred stock investment of the company was automatically converted into common shares of the issuer resulting in a net realized loss on investment of $161.5 (the difference between the share price of the underlying common stock at the date of conversion and the exercise price of the preferred stock).

(2) 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 reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.

(3) During the fourth quarter of 2014 the company sold its holdings in a KWF LP and recognized net realized gains of $9.9.

	Year ended December 31,					
	2014			2013		
	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	**139.7**	**1,300.9**	**1,440.6**	219.5	(1,151.1)	(931.6)
Preferred stocks	**(161.8)** (1)	**20.0**	**(141.8)**	(1.2)	46.9	45.7
Common stocks	**483.5**	**(216.6)**	**266.9**	684.1	257.1	941.2
	461.4	**1,104.3**	**1,565.7**	902.4	(847.1)	55.3
Derivatives:						
Common stock and equity index short positions	**(377.9)** (2)	**183.4**	**(194.5)**	(1,956.2) (2)	(25.8)	(1,982.0)
Common stock and equity index long positions	**70.3** (2)	**(23.8)**	**46.5**	273.0 (2)	20.9	293.9
Credit default swaps	**(8.5)**	**8.4**	**(0.1)**	(30.3)	28.7	(1.6)
Equity warrants and call options	**66.6**	**19.2**	**85.8**	32.4 (5)	(14.7)	17.7
CPI-linked contracts	**—**	**17.7**	**17.7**	—	(126.9)	(126.9)
Other	**21.0**	**(10.7)**	**10.3**	32.4	(37.8)	(5.4)
	(228.5)	**194.2**	**(34.3)**	(1,648.7)	(155.6)	(1,804.3)
Foreign currency gains (losses) on:						
Investing activities	**(55.8)**	**(98.7)**	**(154.5)**	(5.7)	75.0	69.3
Underwriting activities	**53.5**	**—**	**53.5**	15.8	—	15.8
Foreign currency contracts	**61.3**	**143.1**	**204.4**	(13.8)	(8.9)	(22.7)
	59.0	**44.4**	**103.4**	(3.7)	66.1	62.4
Gain on disposition of associates	**54.0** (3)	**41.2** (4)	**95.2**	130.2 (5)	—	130.2
Other	**6.1**	**0.1**	**6.2**	(7.7)	0.1	(7.6)
Net gains (losses) on investments	**352.0**	**1,384.2**	**1,736.2**	(627.5)	(936.5)	(1,564.0)

(1) During the fourth quarter of 2014, pursuant to its terms, a preferred stock investment of the company was automatically converted into common shares of the issuer resulting in a net realized loss on investment of $161.5 (the difference between the share price of the underlying common stock at the date of conversion and the exercise price of the preferred stock).

(2) 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 reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.

(3) During the second quarter of 2014 the company sold its holdings in MEGA Brands and a KWF LP and recognized net realized gains of $15.3 and $21.5 respectively.

During the fourth quarter of 2014 the company sold its holdings in a KWF LP and recognized net realized gains of $9.9.

(4) During the third quarter of 2014 Thomas Cook India increased its ownership interest in Sterling Holiday Resorts (India) Limited ("Sterling Resorts") to 55.1% and ceased applying the equity method of accounting, resulting in a non-cash gain of $41.2 in the consolidated statement of earnings. See note 15.

(5) On April 16, 2013 the company sold its investments in Imvescor common shares and equity warrants and recognized net realized gains of $6.2 and $7.7 respectively.

On March 28, 2013 and January 18, 2013 the company sold its ownership interests in The Brick and a private company respectively and recognized net realized gains of $111.9 and $12.1 respectively.

6. Investments in Associates

Investments in associates were comprised as follows:

	December 31, 2014		December 31, 2013	
	Fair value	**Carrying value**	Fair value	Carrying value
Insurance and reinsurance associates[(1)]	**673.3**	**439.6**	641.1	390.6
Non-insurance associates[(2)]	**1,397.2**	**1,178.1**	1,173.9	1,041.9
	2,070.5	**1,617.7**	1,815.0	1,432.5

(1) During the third quarter of 2014 the company increased its ownership interest in Thai Re from 23.8% at December 31, 2013 to 30.0% at December 31, 2014 following participation in Thai Re's rights offering and a concurrent private placement (representing an aggregate increase in the carrying value of Thai Re of $41.3 at the date of the transactions).

(2) During the second and fourth quarters of 2014 the company sold its holdings in two KWF LPs and recognized net realized gains of $21.5 and $9.9 respectively.

On April 30, 2014 Mattel, Inc. acquired MEGA Brands. The company received net cash proceeds of $101.6 for its holdings in MEGA Brands and recognized a net gain on investment of $15.3 (including amounts previously recorded in accumulated other comprehensive income).

On March 31, 2014 the company, through its subsidiaries, acquired a 40.0% interest in AFGRI Limited ("AgriCo") for cash consideration of $78.5. AgriCo is a leading South African agricultural services and foods group.

During the first quarter of 2014 the company participated in the rights offering of Grivalia Properties REIC (formerly Eurobank Properties REIC prior to October 15, 2014) which increased its ownership from 18.3% at December 31, 2013 to 40.6% at December 31, 2014 (representing an increase in the carrying value of Grivalia Properties of $291.9 at the date of the transaction).

During the first half of 2014 Thomas Cook India acquired a 41.9% ownership interest in Sterling Resorts for cash purchase consideration of $57.4 (3,534.6 million Indian rupees), and classified its investment as an associate. On September 3, 2014 Thomas Cook India increased its ownership interest in Sterling Resorts to 55.1% and ceased applying the equity method of accounting, resulting in a non-cash gain of $41.2 in the consolidated statement of earnings. See note 15.

7. Short Sales and Derivatives

The following table summarizes the company's derivative financial instruments:

	December 31, 2014				December 31, 2013			
			Fair value				Fair value	
	Cost	**Notional amount**	**Assets**	**Liabilities**	Cost	Notional amount	Assets	Liabilities
Equity derivatives:								
Equity index total return swaps – short positions	—	**4,891.8**	**29.8**	**97.2**	—	4,583.0	2.5	123.8
Equity total return swaps – short positions	—	**1,965.1**	**97.7**	**36.5**	—	1,744.4	15.4	84.8
Equity total return swaps – long positions	—	**177.9**	—	**15.9**	—	263.5	15.4	7.5
Equity call options	—	—	—	—	—	13.0	1.7	—
Warrants	**15.6**	**143.5**	**35.2**	—	15.6	150.5	15.4	—
CPI-linked derivative contracts	**655.4**	**111,797.9**	**238.4**	—	545.8	82,866.9	131.7	—
Foreign exchange forward contracts	—	—	**121.3**	**5.3**	—	—	15.6	42.8
Other derivative contracts	—	—	**27.7**	**5.9**	—	—	39.1	9.5
Total			**550.1**	**160.8**			236.8	268.4

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, 2014 equity hedges with a notional amount of $6,856.9 (December 31, 2013 - $6,327.4) represented 89.6% (December 31, 2013 - 98.2%) of the company's equity and equity-related holdings of $7,651.7 (December 31, 2013 - $6,442.6). The decrease in the hedge ratio resulted from appreciation and net purchases of equity and equity-related holdings, which exceeded the performance of the equity hedges and net purchases of equity hedges, during the year.

During the fourth quarter and full year of 2014 the company paid net cash of $37.4 and $377.9 respectively (2013 - paid net cash of $502.7 and $1,956.2) in connection with the reset provisions of its short equity and equity index total return swaps (excluding the impact of collateral requirements).

Refer to note 16 for a tabular analysis followed by a discussion of the company's hedges of equity price risk and the related basis risk.

	December 31, 2014				December 31, 2013			
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**	**1,204.70**	37,424,319	2,477.2	661.92	1,163.64
S&P/TSX 60	**13,044,000**	**206.1**	**641.12**	**854.85**	13,044,000	206.1	641.12	783.75
Other equity indices	—	**140.0**	—	—	—	140.0	—	—
Individual equities	—	**1,701.9**	—	—	—	1,481.8	—	—

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

As at December 31, 2014 the company had entered into long equity total return swaps on individual equities for investment purposes with an original notional amount of $243.5 (December 31, 2013 - $267.8). During the fourth quarter and full year of 2014 the company paid net cash of $39.0 and received net cash of $70.3 respectively (2013 - received net cash of $24.6 and $273.0 respectively) in connection with the reset provisions of its long equity total return swaps (excluding the impact of collateral requirements).

At December 31, 2014 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 $969.7 (December 31, 2013 - $927.3), comprised of collateral of $788.6 (December 31, 2013 - $723.2) required to be deposited to enter into such derivative contracts (principally related to total return swaps) and $181.1

(December 31, 2013 - $204.1) 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.

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. The CPI-linked derivative contracts are summarized as follows:

	December 31, 2014				December 31, 2013			
	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	**58,825.0**	**58,825.0**	**232.82**	**234.81**	34,375.0	34,375.0	230.43	233.05
United Kingdom	**3,300.0**	**5,145.6**	**243.82**	**257.50**	3,300.0	5,465.7	243.82	253.40
European Union	**36,775.0**	**44,499.7**	**111.24**	**117.01**	28,475.0	39,236.9	109.85	117.28
France	**2,750.0**	**3,327.6**	**124.85**	**125.81**	2,750.0	3,789.3	124.85	125.82
		111,797.9				82,866.9		

During the fourth quarter and full year of 2014 the company entered into CPI-linked derivative contracts with notional amounts of $6,100.0 and $35,954.2 respectively (2013 - $650.0 and $32,327.7) at a cost of $21.1 and $120.6 respectively (2013 - $1.8 and $99.8 respectively). Additional premiums of $5.1 and $24.0 were paid in the fourth quarter and full year of 2013 to increase the strike price of certain CPI-linked derivative contracts (primarily the U.S. CPI-linked derivatives). The company's CPI-linked derivative contracts produced net unrealized gains of $116.4 and $17.7 in the fourth quarter and full year of 2014 respectively (2013 - net unrealized losses of $14.4 and $126.9 respectively).

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, 2014 consisted of cash of $27.8 and government securities of $164.5 (December 31, 2013 - $25.3 and $25.1 respectively). 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, 2014. The company's exposure to counterparty risk and the manner in which the company manages counterparty risk are discussed further in note 16.

8. Insurance Contract Liabilities

	December 31, 2014			December 31, 2013		
	Gross	**Ceded**	**Net**	Gross	Ceded	Net
Provision for unearned premiums	**2,689.6**	**395.7**	**2,293.9**	2,680.9	408.1	2,272.8
Provision for losses and loss adjustment expenses	**17,749.1**	**3,355.7**	**14,393.4**	19,212.8	4,213.3	14,999.5
Total insurance contract liabilities	**20,438.7**	**3,751.4**	**16,687.3**	21,893.7	4,621.4	17,272.3

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:

	2014	2013
Provision for losses and loss adjustment expenses – January 1	**19,212.8**	19,648.8
Decrease in estimated losses and expenses for claims occurring in the prior years	**(473.9)**	(470.3)
Losses and expenses for claims occurring in the current year	**4,901.3**	5,085.9
Paid on claims occurring during:		
the current year	**(1,201.4)**	(1,212.8)
the prior years	**(4,081.0)**	(4,358.7)
Acquisitions of subsidiaries	**0.4**	690.3
Foreign exchange effect and other	**(609.1)**	(170.4)
Provision for losses and loss adjustment expenses – December 31	**17,749.1**	19,212.8

9. Reinsurance

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

	December 31, 2014			December 31, 2013		
	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	**3,410.0**	**(54.3)**	**3,355.7**	4,276.8	(63.5)	4,213.3
Reinsurers' share of paid losses	**380.7**	**(150.0)**	**230.7**	518.6	(165.3)	353.3
Provision for unearned premiums	**395.7**	**—**	**395.7**	408.1	—	408.1
	4,186.4	**(204.3)**	**3,982.1**	5,203.5	(228.8)	4,974.7

Included in commissions, net in the consolidated statement of earnings for the fourth quarter and full year of 2014 is commission income earned on premiums ceded to reinsurers of $65.4 and $261.0 respectively (2013 - $63.1 and $243.7 respectively).

On August 18, 2014 Runoff commuted a $312.7 reinsurance recoverable from Brit Group for proceeds of $310.2, comprised of cash and investments.

On March 29, 2013 TIG Insurance commuted an $85.4 reinsurance recoverable for proceeds of $118.5 (principally cash consideration of $115.8). The gain of $33.1 on the commutation was recorded in ceded losses on claims in the consolidated statement of earnings.

10. Subsidiary Indebtedness and Long Term Debt

	December 31, 2014			December 31, 2013		
	Principal	**Carrying value(1)**	**Fair value(2)**	Principal	Carrying value(1)	Fair value(2)
Subsidiary indebtedness - non-insurance companies	**37.6**	**37.6**	**37.6**	25.8	25.8	25.8
Long term debt:						
Holding company borrowings	**2,668.0**	**2,656.5**	**2,934.9**	2,498.3	2,491.0	2,659.1
Insurance and reinsurance companies	**389.3**	**385.9**	**387.7**	466.3	458.8	463.6
Non-insurance companies	**99.4**	**99.0**	**99.7**	18.4	18.9	18.9
Total long term debt	**3,156.7**	**3,141.4**	**3,422.3**	2,983.0	2,968.7	3,141.6

(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).

On December 15, 2014 Runoff redeemed $25.0 principal amount (carrying value of $21.5) of American Safety's floating rate trust preferred securities due 2035 for cash consideration of $25.0 and recorded a loss on repurchase of long term debt of $3.5 in other expenses in the consolidated statement of earnings.

On December 15, 2014 OdysseyRe redeemed $50.0 principal amount of its Series B unsecured senior notes due 2016 for cash consideration of $50.0.

On August 13, 2014 the company through its wholly-owned subsidiary, Fairfax (US) Inc., completed a private debt offering of $300.0 principal amount of 4.875% senior notes due August 13, 2024 at an issue price of 99.026 for net proceeds after discount, commissions and expenses of $294.2. Commissions and expenses of $2.9 were included as part of the carrying value of the debt. These senior notes are guaranteed by Fairfax.

During the second quarter of 2014 the company repurchased $7.0 principal amount of trust preferred securities due 2027 for cash consideration of $7.1 and recorded a loss on repurchase of long term debt of $0.1 in other expenses in the consolidated statement of earnings.

On February 4, 2014 the company assumed $86.1 of long term debt of Keg Restaurants Limited ("The Keg") pursuant to the transaction described in note 15. The long term debt was comprised of a note payable with a principal amount of $51.4 (Cdn$57.0) bearing interest at 7.50% per annum due May 31, 2042 and term loans with a principal amount of $34.7 (Cdn$38.4) bearing interest at a floating rate due July 1, 2016.

11. Total Equity

Equity attributable to shareholders of Fairfax

Common stock

The number of shares outstanding was as follows:

	2014	2013
Subordinate voting shares – January 1	**20,451,232**	19,496,641
Issuances during the year	**—**	1,000,000
Purchases for cancellation	**(8)**	(36)
Net treasury shares acquired	**(23,826)**	(45,373)
Subordinate voting shares – December 31	**20,427,398**	20,451,232
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	**21,176,168**	21,200,002

Preferred stock

On December 31, 2014 holders of Series C preferred shares converted 3,983,616 shares into Series D preferred shares. The Series D preferred shares have a dividend rate equal to the three-month Government of Canada Treasury Bill yield plus 3.15%, with rate resets at the end of each calendar quarter.

During the year ended December 31, 2014, under the terms of its normal course issuer bid, the company repurchased for cancellation 75,326 Series E preferred shares (2013 - nil) with a carrying value of $1.7 for a net cost of $1.2.

Issuance and repurchase of subordinate voting shares

During the years ended December 31, 2014 and 2013 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, 2014 the company repurchased 8 shares (2013 - 36 shares) for cancellation from former employees.

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).

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 were as follows:

	Fourth quarter					
	2014			2013		
	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	**(113.9)**	**(1.5)**	**(115.4)**	(53.1)	2.6	(50.5)
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	**48.0**	**—**	**48.0**	48.3	—	48.3
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	**(24.1)**	**5.5**	**(18.6)**	5.4	(0.9)	4.5
	(90.0)	**4.0**	**(86.0)**	0.6	1.7	2.3
Items that will not be subsequently reclassified to net earnings						
Share of gains (losses) on defined benefit plans of associates	**(145.1)**	**41.7**	**(103.4)**	5.4	(1.5)	3.9
Change in gains (losses) on defined benefit plans	**(42.4)**	**10.8**	**(31.6)**	44.3	(13.9)	30.4
	(187.5)	**52.5**	**(135.0)**	49.7	(15.4)	34.3
Other comprehensive income (loss)	**(277.5)**	**56.5**	**(221.0)**	50.3	(13.7)	36.6

	Year ended December 31,					
	2014			2013		
	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	**(186.6)**	**(14.1)**	**(200.7)**	(174.2)	9.8	(164.4)
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	**118.7**	**—**	**118.7**	96.9	—	96.9
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	**(67.5)**	**14.8**	**(52.7)**	(15.3)	2.4	(12.9)
	(135.4)	**0.7**	**(134.7)**	(92.6)	12.2	(80.4)
Items that will not be subsequently reclassified to net earnings						
Share of gains (losses) on defined benefit plans of associates	**(50.8)**	**14.1**	**(36.7)**	12.5	(3.6)	8.9
Change in gains (losses) on defined benefit plans	**(44.6)**	**11.7**	**(32.9)**	45.8	(14.5)	31.3
	(95.4)	**25.8**	**(69.6)**	58.3	(18.1)	40.2
Other comprehensive income (loss)	**(230.8)**	**26.5**	**(204.3)**	(34.3)	(5.9)	(40.2)

12. Earnings per Share

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

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Net earnings (loss) attributable to shareholders of Fairfax	**23.7**	(5.5)	**1,633.2**	(573.4)
Preferred share dividends	**(13.6)**	(14.8)	**(56.9)**	(60.8)
Excess of book value over consideration of preferred shares purchased for cancellation	**0.5**	—	**0.5**	—
Net earnings (loss) attributable to common shareholders – basic and diluted	**10.6**	(20.3)	**1,576.8**	(634.2)
Weighted average common shares outstanding – basic	**21,180,784**	20,728,636	**21,186,325**	20,360,251
Share-based payment awards	**425,976**	—	**411,814**	—
Weighted average common shares outstanding – diluted	**21,606,760**	20,728,636	**21,598,139**	20,360,251
Net earnings (loss) per common share – basic	**$ 0.50**	$ (0.98)	**$ 74.43**	$ (31.15)
Net earnings (loss) per common share – diluted	**$ 0.49**	$ (0.98)	**$ 73.01**	$ (31.15)

Share-based payment awards of 322,468 and 313,898 were not included in the calculation of net loss per diluted common share in the fourth quarter and year ended December 31, 2013 respectively as the inclusion of the awards would be anti-dilutive.

13. Income Taxes

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

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Current income tax				
Current year expense	**32.6**	32.2	**184.8**	30.2
Adjustments to prior years' income taxes	**1.3**	(5.6)	**(33.2)**	(35.0)
	33.9	26.6	**151.6**	(4.8)
Deferred income tax				
Origination and reversal of temporary differences	**4.1**	(65.7)	**514.2**	(512.4)
Adjustments to prior years' deferred income taxes	**4.2**	14.0	**8.8**	77.2
Other	**(0.9)**	1.5	**(1.3)**	3.4
	7.4	(50.2)	**521.7**	(431.8)
Provision for (recovery of) income taxes	**41.3**	(23.6)	**673.3**	(436.6)

A significant portion of the company's earnings (loss) before income taxes is earned or 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 for the fourth quarters and years ended December 31 are summarized in the following table:

	Fourth quarter							
	2014				2013			
	Canada	**U.S.[1]**	**Other**	**Total**	Canada	U.S.[1]	Other	Total
Earnings (loss) before income taxes	**(14.0)**	**7.2**	**86.3**	**79.5**	(63.2)	(75.9)	113.7	(25.4)
Provision for (recovery of) income taxes	**19.2**	**15.3**	**6.8**	**41.3**	5.0	(53.9)	25.3	(23.6)
Net earnings (loss)	**(33.2)**	**(8.1)**	**79.5**	**38.2**	(68.2)	(22.0)	88.4	(1.8)

	Year ended December 31,							
	2014				2013			
	Canada	**U.S.[1]**	**Other**	**Total**	Canada	U.S.[1]	Other	Total
Earnings (loss) before income taxes	**133.1**	**1,755.7**	**449.1**	**2,337.9**	(114.6)	(1,061.5)	175.0	(1,001.1)
Provision for (recovery of) income taxes	**48.7**	**570.1**	**54.5**	**673.3**	(8.7)	(464.3)	36.4	(436.6)
Net earnings (loss)	**84.4**	**1,185.6**	**394.6**	**1,664.6**	(105.9)	(597.2)	138.6	(564.5)

(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.

The increase in pre-tax profitability in Canada and the U.S. in the fourth quarter of 2014 compared to the fourth quarter of 2013 primarily reflected increased net realized and unrealized investment gains and an improvement in underwriting results while the decrease in pre-tax profitability in Other was primarily due to reduced profitability at European Runoff and Advent. The increase in pre-tax profitability in Canada, the U.S. and Other in the full year of 2014 compared to the full year of 2013 reflected increased net realized and unrealized investment gains and an improvement in underwriting results.

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 quarter and years ended December 31 are summarized in the following table:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
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	**21.1**	(6.7)	**619.5**	(265.3)
Non-taxable investment income	**12.4**	(42.4)	**(109.2)**	(166.4)
Tax rate differential on income and losses incurred outside Canada	**(11.4)**	(19.9)	**121.8**	(125.0)
Provision (recovery) relating to prior years	**8.6**	(9.0)	**(17.4)**	(25.2)
Change in unrecorded tax benefit of losses and temporary differences	**9.3**	48.1	**24.4**	107.7
Foreign exchange	**5.1**	6.8	**22.7**	18.9
Change in tax rate for deferred income taxes	**(12.8)**	(1.6)	**(10.9)**	2.6
Other including permanent differences	**9.0**	1.1	**22.4**	16.1
Provision for (recovery of) income taxes	**41.3**	(23.6)	**673.3**	(436.6)

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 fourth quarter and full year of 2014 also included a provision for income taxes of $38.0 following an internal reorganization of the U.S. shareholders of OdysseyRe that triggered the release of taxable gains on intercompany transactions within the U.S. consolidated tax group that had been deferred in prior years.

The tax rate differential on income and losses incurred outside Canada of $11.4 in the fourth quarter of 2014 reflected net unrealized losses on investments in the U.S. and income in jurisdictions with lower statutory income tax rates. The tax rate differential on income and losses incurred outside Canada of $121.8 in the full year of 2014 principally reflected significant net realized and unrealized investment gains and improved underwriting results 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 $19.9 and $125.0 in the fourth quarter and full year of 2013 principally reflected 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 provision relating to prior years of $8.6 in the fourth quarter of 2014 was primarily due to adjustments to deferred tax balances associated with prior year acquisitions in the U.S. The recovery relating to prior years of $17.4 in the full year of 2014, $9.0 in the fourth quarter of 2013, and $25.2 in the full year of 2013 was primarily due to the release of provisions following the completion of prior year income tax audits.

The change in unrecorded tax benefit of losses and temporary differences was primarily comprised as follows: During the fourth quarter and full year of 2014, the company did not record deferred tax assets in Canada of $7.8 and $28.1 respectively ($34.5 and $45.8 in the fourth quarter and full year of 2013 respectively) because the related pre-tax losses did not meet the applicable recognition criteria under IFRS. During the full year of 2014 the company also de-recognized $9.0 of U.S. foreign tax credits (2013 - $50.0) which had been recorded as deferred tax assets in prior years, after determining that it was no longer probable that those credits could be utilized prior to expiration.

14. Contingencies and Commitments

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.

The Autorité des marchés financiers, the securities regulatory authority in the Province of Quebec (the “AMF”), is conducting an investigation of Fairfax, its CEO, Prem Watsa, and its President, Paul Rivett. The investigation concerns the possibility of illegal insider trading and/or tipping (not involving any personal trading by the individuals) in connection with a Quebec transaction. Further details concerning the investigation are, by law, not permitted to be disclosed. Fairfax and these officers are fully cooperating with the investigation and they are not aware of any reasonable basis for any legal proceedings against them. However, if the AMF commences legal proceedings, no assurance can be given at this time by Fairfax as to the outcome.

15. Acquisitions and Divestitures

Subsequent to December 31, 2014

Investment in Fairfax India Holdings Corporation

On January 30, 2015 the company, through its subsidiaries, acquired 30,000,000 multiple voting shares of Fairfax India Holdings Corporation ("Fairfax India") for $300.0 through a private placement. The multiple voting shares acquired by the company represented approximately 95.2% of the voting rights and 28.3% of the equity interest in Fairfax India at the close of the offerings (inclusive of the over-allotment of subordinate voting shares that closed on February 10, 2015). Fairfax India was established, with the support of Fairfax, to invest in public and private equity securities and debt instruments in India and Indian businesses or other businesses primarily conducted in or dependent on India. Hamblin Watsa is the portfolio advisor to Fairfax India and its subsidiaries. Fairfax India will be included in the company's consolidated financial reporting commencing in the first quarter of 2015.

Acquisition of Eastern European Insurers

On December 16, 2014 the company entered into an agreement with QBE Insurance (Europe) Limited ("QBE") to acquire QBE’s insurance operations in the Czech Republic, Hungary and Slovakia. The existing businesses and renewal rights of QBE’s operations in the Czech Republic, Hungary and Slovakia are expected to be transferred to Fairfax by the third quarter of 2015, subject to customary closing conditions, including various regulatory approvals. In its most recent fiscal year, QBE's operations in the Czech Republic, Hungary and Slovakia generated over $40 in gross premiums written across a range of general insurance classes, including property, travel, general liability and product protection. On February 3, 2015 the company also entered into an agreement to acquire QBE's general insurance operations in Ukraine, which generated over $5 of gross premiums written in 2014.

Acquisition of MCIS Insurance Berhad

On December 1, 2014 the company entered into an agreement to acquire the general insurance business of MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad) ("MCIS") through its wholly-owned subsidiary Pacific Insurance. The transaction is subject to customary closing conditions, including Malaysian court approval, and is expected to close in the first quarter of 2015. MCIS is an established general insurer in Malaysia with over $55 of gross premiums written in 2013 in its general insurance business.

Acquisition of Union Assurance General Limited

On January 1, 2015 the company acquired 78% of Union Assurance General Limited ("Union Assurance") for cash consideration of $26.8 (3.5 billion Sri Lankan rupees). Union Assurance is headquartered in Colombo, Sri Lanka and underwrites general insurance in Sri Lanka, specializing in automobile and personal accident lines of business and writing approximately $41 of gross premiums written in 2013.

Year ended December 31, 2014

Acquisition of Pethealth Inc.

On November 14, 2014 the company acquired all of the outstanding common shares, preferred shares and employee share options of Pethealth Inc. ("Pethealth") for cash purchase consideration of $88.7 (Cdn$100.4). The goodwill and intangible assets associated with the marketing of pet medical insurance was allocated to the Crum & Forster and Northbridge reporting segments ($90.9 and $17.3 respectively) since they will become Pethealth's ongoing insurance carriers. Pethealth's residual assets and liabilities and results of operations were consolidated in the Other reporting segment. Pethealth is headquartered in Canada and provides pet medical insurance, management software and pet-related database management services in North America and the United Kingdom.

Acquisition of Sterling Holiday Resorts (India) Limited

During the first half of 2014 Thomas Cook India acquired a 41.9% ownership interest in Sterling Holiday Resorts (India) Limited ("Sterling Resorts") for cash purchase consideration of $57.4 (3,534.6 million Indian rupees), and classified its investment as an associate. On September 3, 2014 Thomas Cook India increased its ownership interest to 55.1% by acquiring additional common shares of Sterling Resorts for cash consideration of $19.2 (1,162.6 million Indian rupees). Having obtained control, Thomas Cook India was required to re-measure its existing ownership interest in Sterling Resorts at fair value as of September 3, 2014, resulting in the recognition of a one-time non-cash gain of $41.2 in net gains on investments in the consolidated statement of earnings, representing the difference between the fair value of the previously held interest in Sterling Resorts and its carrying value under the equity method of accounting. The acquisition of Sterling Resorts was financed internally by subsidiaries of Fairfax. The assets and liabilities and results of operations of Sterling Resorts were consolidated within the Other reporting segment. Sterling Resorts is engaged in vacation ownership and leisure hospitality and operates a network of resorts in India. Fairfax's economic interest in Sterling Resorts at December 31, 2014 was 40.2% since that interest is held through 73.0%-owned Thomas Cook India.

Acquisition of Praktiker Hellas Commercial Societe Anonyme

On June 5, 2014 Fairfax completed the acquisition of a 100% interest in Praktiker Hellas Commercial Societe Anonyme ("Praktiker") for cash purchase consideration of $28.6 (€21.0 million). The assets and liabilities and results of operations of Praktiker were consolidated in the Other reporting segment. Praktiker is one of the largest home improvement and do-it-yourself goods retailers in Greece, operating 14 stores.

Acquisition of PT Batavia Mitratama Insurance

On May 21, 2014 Fairfax Asia completed the acquisition of an 80.0% interest in PT Batavia Mitratama Insurance (subsequently renamed PT Fairfax Insurance Indonesia ("Fairfax Indonesia")) for cash purchase consideration of $8.5 (98.2 billion Indonesian rupees). Subsequent to the acquisition, Fairfax Asia contributed an additional $12.9 to Fairfax Indonesia (maintaining its 80.0% interest) to support business expansion. The assets and liabilities and results of operations of Fairfax Indonesia were consolidated in the Insurance - Fairfax Asia reporting segment. Fairfax Indonesia is headquartered in Jakarta, Indonesia and underwrites general insurance, specializing in automobile coverage in Indonesia.

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 were 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.

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

	Pethealth	Sterling Resorts	The Keg
Acquisition date	November 14, 2014	September 3, 2014	February 4, 2014
Percentage of common shares acquired	100.0%	40.2% (3)	51.0%
Assets:			
Portfolio investments[(1)]	10.7	19.1	126.0
Goodwill and intangible assets	108.2 (2)	69.6 (4)	65.5
Other assets	7.7	176.3	78.9
	126.6	265.0	270.4
Liabilities:			
Accounts payable and accrued liabilities	19.9	52.8	76.7
Deferred income taxes	18.0 (2)	17.0	20.1
Long term debt	—	2.1	86.1
	37.9	71.9	182.9
Non-controlling interests	—	74.1	10.8
Purchase consideration	88.7	119.0	76.7
	126.6	265.0	270.4

(1) Included in the carrying value of the acquired portfolio investments of Pethealth, Sterling Resorts and The Keg were $10.7, $0.5 and $24.8 respectively of subsidiary cash and cash equivalents.

(2) For segment reporting, goodwill and intangible assets and the related deferred income taxes associated with Pethealth have been allocated to Crum & Forster ($90.9 and $18.0 respectively) and Northbridge ($17.3 and $2.4 respectively).

(3) Fairfax's 40.2% economic interest in Sterling Resorts as a result of acquiring a 55.1% interest in Sterling Resorts through 73.0%-owned Thomas Cook India.

(4) Preliminary goodwill on the acquisition of Sterling Resorts was partially comprised of additional non-cash purchase consideration of $41.2 arising on the re-measurement to fair value of the previously held equity accounted interest.

The determination of the fair value of assets and liabilities of the acquired subsidiaries described in the paragraphs above are preliminary and may be revised when estimates and assumptions and the valuations of assets and liabilities are finalized within twelve months of the respective acquisition dates.

16. Financial Risk Management

Overview

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, 2014 compared to those identified at December 31, 2013, and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2013, 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, 2014 compared to December 31, 2013.

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, 2014 compared to December 31, 2013.

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, 2014	December 31, 2013
Total derivative assets(1)	**514.9**	219.6
Impact of net settlement arrangements	**(110.0)**	(136.1)
Fair value of collateral deposited for the benefit of the company(2)	**(171.1)**	(47.4)
Excess collateral pledged by the company in favour of counterparties	**137.1**	123.1
Initial margin not held in segregated third party custodian accounts	**61.8**	60.0
Net derivative counterparty exposure after net settlement and collateral arrangements	**432.7**	219.2

(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 $21.2 (December 31, 2013 - $3.0) of excess collateral pledged by counterparties.

The fair value of the collateral deposited for the benefit of the company at December 31, 2014 consisted of cash of $27.8 and government securities of $164.5 (December 31, 2013 - $25.3 and $25.1 respectively). The company had not exercised its right to sell or repledge collateral at December 31, 2014.

Recoverable from Reinsurers

Credit exposure on the company's recoverable from reinsurers balance existed at December 31, 2014 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 9.

Liquidity Risk

Liquidity risk is the potential for loss if the company is unable to meet financial commitments in a timely manner at reasonable costs as they fall due. There were no significant changes to the company's exposure to liquidity risk or the framework used to monitor, evaluate and manage liquidity risk at December 31, 2014 compared to December 31, 2013.

The holding company's known significant commitments for 2015 consist of the payment of the $216.1 dividend on common shares ($10.00 per share paid January 2015), interest and corporate overhead expenses, preferred share dividends, income tax payments and potential cash outflows related to derivative contracts. On August 13, 2014 the company completed a private debt offering of $300.0 principal amount of 4.875% senior notes due August 13, 2024 for net proceeds of $294.2 (see note 10). The company used a portion of these net proceeds to fund the redemption in the fourth quarter of 2014 the $50.0 principal amount of OdysseyRe Series B unsecured senior notes due 2016 and the $25.0 principal amount of American Safety trust preferred securities due 2035 and disclosed that it intends to use the remaining net proceeds to fund the repayment, upon maturity, of the Fairfax ($82.4) and OdysseyRe ($125.0) unsecured senior notes due in 2015.

During the fourth quarter and full year of 2014 the insurance and reinsurance subsidiaries paid net cash of $128.6 and $194.2 respectively (2013 - paid net cash of $407.8 and $1,615.4 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 2014 the holding company received net cash of $52.2 and paid net cash of $113.4 respectively (2013 - paid net cash of $70.3 and $67.8 respectively) in connection with long and short equity and equity index total return swap derivative contracts (excluding the impact of collateral requirements).

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, 2014 compared to December 31, 2013.

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, 2014 compared to December 31, 2013 are described below.

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/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.

At December 31, 2014 equity hedges with a notional amount of $6,856.9 (December 31, 2013 - $6,327.4) represented 89.6% (December 31, 2013 - 98.2%) of the company's equity and equity-related holdings of $7,651.7 (December 31, 2013 - $6,442.6). The decrease in the hedge ratio resulted from appreciation and net purchases of equity and equity-related holdings, which exceeded the performance of the equity hedges and net purchases of equity hedges, during the year.

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, 2014 and December 31, 2013 and results of operations for the quarters and years ended December 31, 2014 and 2013:

	December 31, 2014		December 31, 2013		**Quarter ended December 31, 2014**	Quarter ended December 31, 2013	**Year ended December 31, 2014**	Year ended December 31, 2013
	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	**4,938.3**	**4,938.3**	4,100.6	4,100.6	**(356.8)**	238.8	**266.9**	941.2
Preferred stocks – convertible	**329.8**	**329.8**	479.0	479.0	**(81.1)**	42.1	**(114.3)**	64.7
Bonds – convertible	**773.3**	**773.3**	408.5	408.5	**72.2**	(2.8)	**203.4**	(2.6)
Investments in associates[(1)]	**1,397.2**	**1,178.1**	1,173.9	1,041.9	**16.5**	—	**53.6**	130.2
Derivatives and other invested assets:								
Equity total return swaps – long positions	**177.9**	**(15.9)**	263.5	7.9	**(37.7)**	57.3	**46.5**	293.9
Equity warrants and call options	**35.2**	**35.2**	17.1	17.1	**(1.3)**	2.0	**85.8**	17.7
Total equity and equity related holdings	**7,651.7**	**7,238.8**	6,442.6	6,055.0	**(388.2)**	337.4	**541.9**	1,445.1
Hedging instruments:								
Derivatives and other invested assets:								
Equity total return swaps – short positions	**(1,965.1)**	**61.2**	(1,744.4)	(69.4)	**68.1**	(129.3)	**(5.5)**	(110.5)
Equity index total return swaps – short positions	**(4,891.8)**	**(67.4)**	(4,583.0)	(121.3)	**(370.6)**	(443.3)	**(189.0)**	(1,871.5)
	(6,856.9)	**(6.2)**	(6,327.4)	(190.7)	**(302.5)**	(572.6)	**(194.5)**	(1,982.0)
Net exposure and financial effects	**794.8**		115.2		**(690.7)**	(235.2)	**347.4**	(536.9)

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

Risk of Decreasing Price Levels

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. There was no significant change to the company's framework used to monitor, evaluate and manage foreign currency risk at December 31, 2014 compared to December 31, 2013.

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, 2014, comprising total debt, shareholders' equity attributable to shareholders of Fairfax and non-controlling interests, was $12,922.8 compared to $11,455.0 at December 31, 2013. The company manages its capital based on the following financial measurements and ratios:

	December 31, 2014	December 31, 2013
Holding company cash and investments (net of short sale and derivative obligations)	**1,212.7**	1,241.6
Long term debt – holding company borrowings	**2,656.5**	2,491.0
Long term debt – insurance and reinsurance companies	**385.9**	458.8
Subsidiary indebtedness - non-insurance companies	**37.6**	25.8
Long term debt – non-insurance companies	**99.0**	18.9
Total debt	**3,179.0**	2,994.5
Net debt	**1,966.3**	1,752.9
Common shareholders' equity	**8,361.0**	7,186.7
Preferred stock	**1,164.7**	1,166.4
Non-controlling interests	**218.1**	107.4
Total equity	**9,743.8**	8,460.5
Net debt/total equity	**20.2%**	20.7%
Net debt/net total capital[(1)]	**16.8%**	17.2%
Total debt/total capital[(2)]	**24.6%**	26.1%
Interest coverage[(3)]	**12.3x**	n/a
Interest and preferred share dividend distribution coverage[(4)]	**9.0x**	n/a

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

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

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

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

17. Segmented Information

The company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance, conducted on a primary and reinsurance basis, and runoff operations. As described in note 15, the company acquired controlling interests in Pethealth, Sterling Resorts, Praktiker and The Keg during the year ended December 31, 2014 and consolidated their assets and liabilities and results of operations in the Other reporting segment from their respective acquisition dates. The goodwill and intangible assets associated with Pethealth's marketing of pet medical insurance was allocated to the Crum & Forster and Northbridge reporting segments since they will become Pethealth's ongoing insurance carriers. Pethealth's residual assets and liabilities and results of operations were consolidated in the Other reporting segment. With the exception of the OdysseyRe reorganization described below, there were no other significant changes to the identifiable assets and liabilities by reporting segment as at December 31, 2014 compared to December 31, 2013.

In the fourth quarter of 2014, Fairfax centralized the ownership of its wholly-owned reinsurance and insurance company, Odyssey Re Holdings Corp. ("OdysseyRe"), under a single intermediate holding company in the U.S. (the "OdysseyRe reorganization"). Prior to the OdysseyRe reorganization, OdysseyRe was owned by Crum & Forster (8.1%), Runoff (TIG Insurance) (20.1%) and Fairfax (71.8%, through various U.S. intermediate holding companies). The OdysseyRe reorganization had no effect on Fairfax's consolidated financial reporting.

The OdysseyRe reorganization was principally comprised of the following transactions: OdysseyRe redeemed the investment of Crum & Forster in it and portions of the investments of Runoff and Fairfax in it in exchange for cash and unaffiliated marketable securities with fair values of $367.5, $510.1 and $12.8 respectively. The remainder of Runoff's investment in OdysseyRe (fair value of $380.7) was distributed to Fairfax as a dividend-in-kind. Crum & Forster and Runoff remitted to Fairfax a portion of the redemption proceeds received from OdysseyRe (Crum & Forster paid a dividend of $150.0 and Runoff made an intercompany advance of $350.0), from which Fairfax made a capital contribution to OdysseyRe of $400.0.

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, 2014

	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	289.3	569.6	127.8	620.3	106.6	1,713.6	65.0	—	—	—	1,778.6
Intercompany	0.5	2.4	(2.1)	9.7	18.3	28.8	—	—	—	(28.8)	—
	289.8	572.0	125.7	630.0	124.9	1,742.4	65.0	—	—	(28.8)	1,778.6
Net premiums written	258.9	468.8	54.9	561.6	92.0	1,436.2	84.0	—	—	—	1,520.2
Net premiums earned											
External	238.7	529.4	73.6	585.4	86.9	1,514.0	91.0	—	—	—	1,605.0
Intercompany	(2.5)	(2.1)	(10.2)	0.4	16.0	1.6	(1.6)	—	—	—	—
	236.2	527.3	63.4	585.8	102.9	1,515.6	89.4	—	—	—	1,605.0
Underwriting expenses	(219.0)	(504.5)	(53.1)	(444.3)	(87.6)	(1,308.5)	(117.7)	—	—	—	(1,426.2)
Underwriting profit (loss)	17.2	22.8	10.3	141.5	15.3	207.1	(28.3)	—	—	—	178.8
Interest income	10.1	20.1	5.3	47.4	6.5	89.4	20.0	—	(3.7)	—	105.7
Dividends	7.7	2.0	0.5	3.8	0.5	14.5	1.4	1.9	1.7	—	19.5
Investment expenses	(7.2)	(6.0)	(0.8)	0.1	(2.8)	(16.7)	(3.1)	—	(0.7)	14.7	(5.8)
Interest and dividends	10.6	16.1	5.0	51.3	4.2	87.2	18.3	1.9	(2.7)	14.7	119.4
Share of profit (loss) of associates	2.6	(1.5)	8.8	(6.0)	1.1	5.0	(11.7)	1.6	20.8	—	15.7
Other											
Revenue	—	—	—	—	—	—	—	506.2	—	—	506.2
Expenses	—	—	—	—	—	—	—	(472.0)	—	—	(472.0)
	—	—	—	—	—	—	—	34.2	—	—	34.2
Operating income (loss)	30.4	37.4	24.1	186.8	20.6	299.3	(21.7)	37.7	18.1	14.7	348.1
Net gains (losses) on investments[(1)]	2.9	285.5	(27.6)	(115.6)	10.2	155.4	396.6	2.5	28.3	(755.4)	(172.6)
Loss on repurchase of long term debt (note 10)	—	—	—	—	—	—	(3.5)	—	—	—	(3.5)
Interest expense	—	(1.1)	—	(3.2)	(1.0)	(5.3)	(0.2)	(3.2)	(44.3)	—	(53.0)
Corporate overhead	(4.5)	(9.3)	(0.1)	(6.1)	—	(20.0)	—	—	(4.8)	(14.7)	(39.5)
Pre-tax income (loss)	28.8	312.5	(3.6)	61.9	29.8	429.4	371.2	37.0	(2.7)	(755.4)	79.5
Income taxes											(41.3)
Net earnings											38.2
Attributable to:											
Shareholders of Fairfax											23.7
Non-controlling interests											14.5
											38.2

(1) Net gains (losses) on investments at U.S. Insurance, Runoff and Corporate and Other included a gain on redemption of the investment in OdysseyRe of $310.8, $406.1 and $38.5 respectively, all of which are eliminated on consolidation.

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)

Year ended December 31, 2014

	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	1,107.3	2,429.1	567.9	2,704.1	487.6	7,296.0	163.9	—	—	—	7,459.9
Intercompany	2.0	3.4	(4.4)	35.4	65.7	102.1	—	—	—	(102.1)	—
	1,109.3	2,432.5	563.5	2,739.5	553.3	7,398.1	163.9	—	—	(102.1)	7,459.9
Net premiums written	967.1	2,067.2	280.1	2,393.8	413.9	6,122.1	179.7	—	—	—	6,301.8
Net premiums earned											
External	951.3	2,032.2	306.7	2,347.2	341.2	5,978.6	237.6	—	—	—	6,216.2
Intercompany	(9.0)	(11.4)	(34.5)	9.4	51.5	6.0	(6.0)	—	—	—	—
	942.3	2,020.8	272.2	2,356.6	392.7	5,984.6	231.6	—	—	—	6,216.2
Underwriting expenses	(899.6)	(1,928.8)	(236.0)	(1,996.2)	(372.0)	(5,432.6)	(383.1)	—	—	—	(5,815.7)
Underwriting profit (loss)	42.7	92.0	36.2	360.4	20.7	552.0	(151.5)	—	—	—	400.5
Interest income	22.5	67.6	20.9	161.5	27.1	299.6	74.5	—	(23.8)	—	350.3
Dividends	17.4	7.9	5.0	26.8	3.6	60.7	5.8	7.2	6.5	—	80.2
Investment expenses	(17.7)	(21.3)	(3.6)	(32.7)	(12.0)	(87.3)	(15.1)	—	(3.4)	79.1	(26.7)
Interest and dividends	22.2	54.2	22.3	155.6	18.7	273.0	65.2	7.2	(20.7)	79.1	403.8
Share of profit (loss) of associates	10.3	7.0	38.2	26.6	8.3	90.4	(2.2)	3.1	14.4	—	105.7
Other											
Revenue	—	—	—	—	—	—	—	1,556.0	—	—	1,556.0
Expenses	—	—	—	—	—	—	—	(1,488.7)	—	—	(1,488.7)
	—	—	—	—	—	—	—	67.3	—	—	67.3
Operating income (loss)	75.2	153.2	96.7	542.6	47.7	915.4	(88.5)	77.6	(6.3)	79.1	977.3
Net gains (losses) on investments(1)	213.1	738.9	(19.3)	579.3	135.8	1,647.8	771.0	43.1	29.7	(755.4)	1,736.2
Loss on repurchase of long term debt (note 10)	—	—	—	—	—	—	(3.5)	—	(0.1)	—	(3.6)
Interest expense	—	(4.7)	—	(12.7)	(4.2)	(21.6)	(1.0)	(12.3)	(171.4)	—	(206.3)
Corporate overhead	(12.2)	(40.4)	(0.1)	(27.5)	(0.4)	(80.6)	—	—	(6.0)	(79.1)	(165.7)
Pre-tax income (loss)	276.1	847.0	77.3	1,081.7	178.9	2,461.0	678.0	108.4	(154.1)	(755.4)	2,337.9
Income taxes											(673.3)
Net earnings											1,664.6
Attributable to:											
Shareholders of Fairfax											1,633.2
Non-controlling interests											31.4
											1,664.6

(1) Net gains (losses) on investments at U.S. Insurance, Runoff and Corporate and Other included a gain on redemption of the investment in OdysseyRe of $310.8, $406.1 and $38.5 respectively, all of which are eliminated on consolidation.

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.

18. Expenses

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

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Losses and loss adjustment expenses	**869.4**	782.2	**3,584.0**	3,467.5
Salaries and employee benefit expenses	**299.7**	263.4	**1,145.1**	1,010.1
Other reporting segment cost of sales	**312.6**	201.1	**978.3**	623.2
Audit, legal and tax professional fees	**22.7**	19.9	**99.6**	93.0
Premium taxes	**19.4**	20.4	**93.2**	93.8
Information technology costs	**19.8**	19.6	**79.8**	78.1
Operating lease costs	**27.8**	17.2	**96.9**	66.2
Depreciation, amortization and impairment charges	**25.3**	20.0	**94.2**	104.3
Loss on repurchase of long term debt	**3.5**	—	**3.6**	3.4
Restructuring costs	**2.9**	0.2	**20.6**	12.9
Administrative expense and other	**93.6**	65.6	**318.5**	213.1
	1,696.7	1,409.6	**6,513.8**	5,765.6

19. Supplementary Cash Flow Information

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

	December 31, 2014	December 31, 2013
Holding company cash and investments:		
Cash and balances with banks	**93.7**	157.2
Treasury bills and other eligible bills	**224.0**	57.2
	317.7	214.4
Subsidiary cash and short term investments:		
Cash and balances with banks	**1,336.3**	1,786.7
Treasury bills and other eligible bills	**1,698.2**	2,091.7
	3,034.5	3,878.4
Subsidiary assets pledged for short sale and derivative obligations:		
Treasury bills and other eligible bills	—	11.8
Subsidiary indebtedness - bank overdrafts	—	(6.0)
Cash, cash equivalents and bank overdrafts included in the consolidated balance sheets	**3,352.2**	4,098.6
Less: Subsidiary cash and cash equivalents - restricted(1)		
Cash and balances with banks	**122.1**	96.7
Treasury bills and other eligible bills	**211.4**	243.7
	333.5	340.4
Cash, cash equivalents and bank overdrafts included in the consolidated statements of cash flows	**3,018.7**	3,758.2

(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 were as follows:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
(a) Net (purchases) sales of securities classified as at FVTPL				
Short term investments	**(59.7)**	(465.1)	**916.5**	1,159.1
Bonds	**57.3**	(153.5)	**(629.6)**	8.7
Preferred stocks	**3.5**	(66.9)	**60.0**	(34.6)
Common stocks	**(97.8)**	1,151.7	**(556.2)**	1,585.6
Derivatives and short sales	**(2.9)**	(484.9)	**(427.1)**	(1,823.1)
	(99.6)	(18.7)	**(636.4)**	895.7
(b) Net interest and dividends received				
Interest and dividends received	**189.0**	145.5	**612.3**	547.7
Interest paid	**(68.2)**	(75.9)	**(192.3)**	(199.7)
	120.8	69.6	**420.0**	348.0
(c) Net income taxes (paid) refund received	**(15.4)**	(2.8)	**(45.5)**	19.9
(d) Dividends paid				
Common share dividends paid	**—**	—	**(215.7)**	(205.5)
Preferred share dividends paid	**(13.6)**	(14.8)	**(56.9)**	(60.8)
Dividends paid to non-controlling interests	**—**	—	**(6.6)**	(6.4)
	(13.6)	(14.8)	**(279.2)**	(272.7)

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, 2014 and the notes to the MD&A contained in the company's 2013 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.

(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, 2014

On January 30, 2015 the company, through its subsidiaries, acquired 30,000,000 multiple voting shares of Fairfax India Holdings Corporation ("Fairfax India") for $300.0 through a private placement. The multiple voting shares acquired by the company represented approximately 95.2% of the voting rights and 28.3% of the equity interest in Fairfax India at the close of the offerings (inclusive of the over-allotment of subordinate voting shares that closed on February 10, 2015). Fairfax India was established, with the support of Fairfax, to invest in public and private equity securities and debt instruments in India and Indian businesses or other businesses primarily conducted in or dependent on India. Hamblin Watsa is the portfolio advisor to Fairfax India and its subsidiaries. Fairfax India will be included in the company's consolidated financial reporting commencing in the first quarter of 2015.

On December 16, 2014 the company entered into an agreement with QBE Insurance (Europe) Limited ("QBE") to acquire QBE’s insurance operations in the Czech Republic, Hungary and Slovakia. The existing businesses and renewal rights of QBE’s operations in the Czech Republic, Hungary and Slovakia are expected to be transferred to Fairfax by the third quarter of 2015, subject to customary closing conditions, including various regulatory approvals. In its most recent fiscal year, QBE's operations in the Czech Republic, Hungary and Slovakia generated over $40 in gross premiums written across a range of general insurance classes, including property, travel, general liability and product protection. On February 3, 2015 the company also entered into an agreement to acquire QBE's general insurance operations in Ukraine, which generated over $5 of gross premiums written in 2014.

On December 1, 2014 the company entered into an agreement to acquire the general insurance business of MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad) ("MCIS") through its wholly-owned subsidiary Pacific Insurance. The transaction is subject to customary closing conditions, including Malaysian court approval, and is expected to close in the first quarter of 2015. MCIS is an established general insurer in Malaysia with over $55 of gross premiums written in 2013 in its general insurance business.

On January 1, 2015 the company acquired 78% of Union Assurance General Limited ("Union Assurance") for cash consideration of $26.8 (3.5 billion Sri Lankan rupees). Union Assurance is headquartered in Colombo, Sri Lanka and underwrites general insurance in Sri Lanka, specializing in automobile and personal accident lines of business and writing approximately $41 of gross premiums written in 2013.

Year ended December 31, 2014

In the fourth quarter of 2014, Fairfax centralized the ownership of its wholly-owned reinsurance and insurance company, Odyssey Re Holdings Corp. ("OdysseyRe"), under a single intermediate holding company in the U.S. (the "OdysseyRe reorganization"). Prior to the OdysseyRe reorganization, OdysseyRe was owned by Crum & Forster (8.1%), Runoff (TIG Insurance) (20.1%) and Fairfax (71.8%, through various U.S. intermediate holding companies).

The OdysseyRe reorganization was effected in order to accomplish the following in respect of Fairfax and its affiliates: simplify the ownership of OdysseyRe; enhance investment flexibility (principally at Crum & Forster and Runoff (TIG Insurance)); reduce certain risk charges applied by insurance regulators and rating agencies to the capital of insurance entities when they own investments in affiliated companies (this affected principally Crum & Forster and TIG Insurance); create a direct channel through which OdysseyRe may remit dividends to Fairfax; and reduce regulatory overlap among jurisdictions.

The OdysseyRe reorganization was principally comprised of the following transactions: OdysseyRe redeemed the investment of Crum & Forster in it and portions of the investments of Runoff and Fairfax in it in exchange for cash and unaffiliated marketable securities with fair values of $367.5, $510.1 and $12.8 respectively. The remainder of Runoff's investment in OdysseyRe (fair value of $380.7) was distributed to Fairfax as a dividend-in-kind. Crum & Forster and Runoff remitted to Fairfax a portion of the redemption proceeds received from OdysseyRe (Crum & Forster paid a dividend of $150.0 and Runoff made an intercompany advance of $350.0), from which Fairfax made a capital contribution to OdysseyRe of $400.0.

The OdysseyRe reorganization had no effect on Fairfax's consolidated financial reporting; however, it impacted OdysseyRe, Crum & Forster and Runoff individually as follows:

OdysseyRe

OdysseyRe redeemed the investment of Crum & Forster in it and portions of the investments of Runoff and Fairfax in it in exchange for cash and unaffiliated marketable securities with fair values of $367.5, $510.1 and $12.8 respectively. Out of a portion of these redemption proceeds which were remitted by Crum & Forster and Runoff to Fairfax, Fairfax made a capital contribution to OdysseyRe of $400.0. The net effect of these transactions on OdysseyRe's shareholders' equity was a decrease of $490.3. Notwithstanding the reorganization, the statutory capital of OdysseyRe's principal operating subsidiary (Odyssey Reinsurance Company) increased from $3,102.5 at December 31, 2013 to $3,248.7 at December 31, 2014, reflecting significant net earnings and net unrealized investment gains in 2014.

Crum & Forster

OdysseyRe redeemed Crum & Forster's investment in it (carrying value of $56.7) in exchange for cash and unaffiliated marketable securities with a fair value of $367.5, resulting in a non-taxable net gain on investment at Crum & Forster of $310.8 (this gain is eliminated in Fairfax's consolidated financial reporting). Crum & Forster paid a dividend of $150.0 to Fairfax from a portion of the proceeds received from OdysseyRe, comprised primarily of U.S. municipal and corporate bonds and U.S. treasury bills. The net effect of these transactions increased Crum & Forster’s shareholders' equity by $160.8 and decreased its statutory capital by $110.0 (the latter reflects the higher carrying value of the investment in OdysseyRe under statutory accounting principles). Notwithstanding the decrease in statutory capital, Crum & Forster's risk-based capital ratio increased in 2014, principally as a result of an improvement in the composition of its investment portfolio.

Runoff

OdysseyRe redeemed a portion of Runoff's investment in it (carrying value of $104.0) in exchange for cash and unaffiliated marketable securities with a fair value of $510.1, resulting in a non-taxable net gain on investment at Runoff of $406.1 (this gain is eliminated in Fairfax's consolidated financial reporting). Runoff made an intercompany advance of $350.0 to Fairfax from a portion of the proceeds received from OdysseyRe, comprised primarily of cash and U.S. treasury bills. The intercompany advance bears interest at 5.2% per annum, and is repayable in equal installments over ten years. The remainder of Runoff's investment in OdysseyRe (carrying value of $74.5) was distributed to Fairfax as a dividend-in-kind (fair value of $380.7). The net effect of these transactions was an increase of $331.6 in Runoff's shareholders' equity and a decrease of $243.1 in TIG Insurance's statutory capital (the latter reflects the higher carrying value of the investment in OdysseyRe under statutory accounting principles). Notwithstanding the decrease in statutory capital, Runoff's risk-based capital increased in 2014, principally as a result of an improvement in the composition of its investment portfolio.

On November 14, 2014 the company acquired all of the outstanding common shares, preferred shares and employee share options of Pethealth Inc. ("Pethealth") for cash purchase consideration of $88.7 (Cdn$100.4). The goodwill and intangible assets associated with the marketing of pet medical insurance was allocated to the Crum & Forster and Northbridge reporting segments ($90.9 and $17.3 respectively) since they will become Pethealth's ongoing insurance carriers. Pethealth's residual assets and liabilities and results of operations were consolidated in the Other reporting segment. Pethealth is headquartered in Canada and provides pet medical insurance, management software and pet-related database management services in North America and the United Kingdom.

During the first half of 2014 Thomas Cook India acquired a 41.9% ownership interest in Sterling Holiday Resorts (India) Limited ("Sterling Resorts") for cash purchase consideration of $57.4 (3,534.6 million Indian rupees), and classified its investment as an associate. On September 3, 2014 Thomas Cook India increased its ownership interest to 55.1% by acquiring additional common shares of Sterling Resorts for cash consideration of $19.2 (1,162.6 million Indian rupees). The assets and liabilities and results of operations of Sterling Resorts were consolidated within the Other reporting segment. Sterling Resorts is engaged in vacation ownership and leisure hospitality and operates a network of resorts in India. Refer to note 15 (Acquisitions and Divestitures) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2014 for further details.

On June 5, 2014 Fairfax completed the acquisition of a 100% interest in Praktiker Hellas Commercial Societe Anonyme ("Praktiker") for cash purchase consideration of $28.6 (€21.0 million). The assets and liabilities and results of operations of Praktiker were consolidated in the Other reporting segment. Praktiker is one of the largest home improvement and do-it-yourself goods retailers in Greece, operating 14 stores.

On May 21, 2014 Fairfax Asia completed the acquisition of an 80.0% interest in PT Batavia Mitratama Insurance (subsequently renamed PT Fairfax Insurance Indonesia ("Fairfax Indonesia")) for cash purchase consideration of $8.5 (98.2 billion Indonesian rupees). Subsequent to the acquisition, Fairfax Asia contributed an additional $12.9 to Fairfax Indonesia (maintaining its 80.0% interest) to support business expansion. The assets and liabilities and results of operations of Fairfax Indonesia were consolidated in the Insurance - Fairfax Asia reporting segment. Fairfax Indonesia is headquartered in Jakarta, Indonesia and underwrites general insurance, specializing in automobile coverage in Indonesia.

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 were 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. On October 3, 2013 Runoff acquired American Safety Insurance Holdings, Ltd. ("American Safety"). The renewal rights to American Safety’s environmental casualty, excess and surplus lines casualty, property and package lines of business and surety lines of business were assumed by Crum & Forster and Hudson, respectively. On July 3, 2013 Crum & Forster acquired a 100% interest in Hartville Group, Inc. ("Hartville"). 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). Refer to note 23 (Acquisitions and Divestitures) to the consolidated financial statements for the year ended December 31, 2013 for a detailed discussion of these acquisitions.

Sources of Revenue

Revenues reflected in the consolidated financial statements for the fourth quarters and years ended December 31, 2014 and 2013 are shown in the table that follows. Other revenue comprises the revenue earned by Ridley, William Ashley, Sporting Life, Praktiker (acquired on June 5, 2014), The Keg (acquired on February 4, 2014), Prime Restaurants (acquired on January 10, 2012 and subsequently sold on October 31, 2013), Thomas Cook India, IKYA (acquired on May 14, 2013), Sterling Resorts (consolidated since September 3, 2014) and Pethealth (acquired on November 14, 2014).

	Fourth quarter		**Year ended December 31,**	
	2014	2013	**2014**	2013
Net premiums earned				
Insurance - Canada (Northbridge)	**236.2**	250.1	**942.3**	990.2
- U.S. (Crum & Forster and Zenith National)	**527.3**	501.6	**2,020.8**	1,934.8
- Asia (Fairfax Asia)	**63.4**	74.1	**272.2**	256.2
Reinsurance - OdysseyRe	**585.8**	585.2	**2,356.6**	2,373.6
Insurance and Reinsurance - Other	**102.9**	112.9	**392.7**	439.5
Runoff	**89.4**	50.3	**231.6**	83.0
	1,605.0	1,574.2	**6,216.2**	6,077.3
Interest and dividends	**135.1**	134.5	**509.5**	473.6
Net gains (losses) on investments	**(172.6)**	(329.1)	**1,736.2**	(1,564.0)
Other revenue	**506.2**	304.1	**1,556.0**	958.0
	2,073.7	1,683.7	**10,017.9**	5,944.9

Revenue of $2,073.7 in the fourth quarter of 2014 increased from $1,683.7 in the fourth quarter of 2013 reflecting increased other revenue, lower net losses on investments and increased net premiums earned. Revenue of $10,017.9 in the full year of 2014 increased from $5,944.9 in the full year of 2013 reflecting significant net gains on investments in 2014 and increased other revenue, net premiums earned and interest and dividends. Net losses on investments in the fourth quarter of 2014 was principally comprised of net realized and unrealized losses on equity and equity-related holdings after equity hedges, partially offset by net unrealized gains on bonds and CPI-linked derivatives. Net gains on investments in the full year of 2014 was principally comprised of net unrealized gains on bonds and net realized gains on equity and equity-related holdings after equity hedges. An analysis of consolidated interest and dividend income, share of profit (loss) of associates and net gains (losses) on investments for the fourth quarters and years ended December 31, 2014 and 2013 is provided in the Investments section of this MD&A.

The modest decrease in net premiums earned by the company's insurance and reinsurance operations in the fourth quarter of 2014 reflected year-over-year decreases at Northbridge ($13.9, 5.6% including the unfavourable effect of foreign currency translation), Fairfax Asia ($10.7, 14.4%) and Insurance and Reinsurance – Other ($10.0, 8.9%), partially offset by increases at Crum & Forster ($20.4, 6.3%), Zenith National ($5.3, 2.9%) and OdysseyRe ($0.6, 0.1%). The modest decrease in net premiums earned by the company's insurance and reinsurance operations in the full year of 2014 reflected year-over-year decreases at Northbridge ($47.9, 4.8% including the unfavourable effect of foreign currency translation), OdysseyRe ($17.0, 0.7%) and Insurance and Reinsurance – Other ($46.8, 10.6%), partially offset by increases at Crum & Forster ($45.5, 3.6%), Zenith National ($40.5, 6.0%) and Fairfax Asia ($16.0, 6.2%).

Net premiums earned at Runoff in 2014 were primarily impacted by two significant reinsurance transactions (a medical malpractice reinsurance transaction in the fourth quarter of 2014 and a reinsurance transaction with Everest Re in the third quarter of 2014, which resulted in net premiums earned of $66.5 and $84.1 respectively). Net premiums earned at Runoff in 2013 primarily reflected the runoff of policies in force on the acquisition dates of RiverStone Insurance and American Safety ($24.9 and $20.7 respectively in the fourth quarter of 2013 and $54.4 and $20.7 respectively in the full year of 2013). The medical malpractice reinsurance transaction, Everest Re reinsurance transaction and the acquisitions of American Safety and RiverStone Insurance are described in more detail in the Components of Net Earnings section of this MD&A under the heading Runoff.

The increase in other revenue from $304.1 and $958.0 in the fourth quarter and full year of 2013 respectively to $506.2 and $1,556.0 in the fourth quarter and full year of 2014 respectively, principally reflected the consolidation of the revenue of IKYA (acquired on May 14, 2013), The Keg (acquired on February 4, 2014) and Praktiker (acquired on June 5, 2014), partially offset by lower revenue following the disposition of Prime Restaurants (sold on October 31, 2013).

In order to better compare 2014 and 2013, 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, 2014 and 2013 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) and the change in the manner in which OdysseyRe recognizes premiums written in respect of its U.S. crop insurance business by applying the same recognition pattern for the U.S. crop insurance business as was adopted in the fourth quarter of 2014 to the fourth quarter and full year of 2013 (described in more detail in the Components of Net Earnings section of this MD&A under the heading Reinsurance - OdysseyRe).

	Fourth quarter			Year ended December 31,		
	2014	2013	**% change year-over-year**	**2014**	2013	**% change year-over-year**
Insurance - Canada (Northbridge)	**258.9**	262.4	(1.3)	**967.1**	992.3	(2.5)
- U.S. (Crum & Forster and Zenith National)	**468.8**	446.8	4.9	**2,067.2**	1,933.2	6.9
- Asia (Fairfax Asia)	**54.9**	66.5	(17.4)	**280.1**	257.4	8.8
Reinsurance - OdysseyRe	**561.6**	575.4	(2.4)	**2,359.4**	2,392.8	(1.4)
Insurance and Reinsurance - Other	**92.0**	84.1	9.4	**413.9**	446.0	(7.2)
Insurance and reinsurance operations	**1,436.2**	1,435.2	0.1	**6,087.7**	6,021.7	1.1

Northbridge's net premiums written decreased by 1.3% in the fourth quarter of 2014 and 2.5% in the full year of 2014. In Canadian dollar terms, Northbridge's net premiums written increased by 6.5% and 4.4% in the fourth quarter and full year of 2014 respectively. The increase in the fourth quarter of 2014 primarily reflected rate increases across most segments and increased volumes at Federated Insurance and in the Western region of Northbridge Insurance, partially offset by higher ceded reinsurance premium. The increase in the full year of 2014 primarily reflected rate increases and improved retention across most lines of business at Northbridge Insurance and Federated Insurance, lower ceded reinsurance and reinstatement premiums, partially offset by the strategic non-renewal of an unprofitable portfolio in the Ontario region of Northbridge Insurance.

Net premiums written by U.S. Insurance increased by 4.9% and 6.9% in the fourth quarter and full year of 2014 respectively. Crum & Forster's net premiums written increased by 6.4% in the fourth quarter of 2014 primarily reflecting growth in the Fairmont accident and health business and organic growth in the environmental casualty business, partially offset by planned reductions in the legacy CoverX business. Crum & Forster's net premiums written increased by 9.2% in the full year of 2014 primarily reflecting the incremental contribution from American Safety to the environmental casualty business and growth in the Fairmont accident and health and Seneca businesses, partially offset by planned reductions in the legacy CoverX business. Zenith National's net premiums written increased by 1.3% in the fourth quarter of 2014 (2.9% in the full year of 2014) primarily reflecting premium rate increases.

Net premiums written by Fairfax Asia decreased by 17.4% in the fourth quarter of 2014 primarily as a result of decreased writings in the marine hull, commercial automobile and engineering lines of business and increased ceded premium in the commercial automobile and general liability lines of business (primarily at First Capital), partially offset by increased writings in the property line of business. Net premiums written by Fairfax Asia increased by 8.8% in the full year of 2014 primarily as a result of increased writings in the commercial property, commercial automobile and marine hull lines of business along with slightly higher premium retention during the year, partially offset by decreased writings in the engineering lines of business.

OdysseyRe's net premiums written decreased by 2.4% and 1.4% in the fourth quarter and full year of 2014 respectively primarily reflecting declines in writings of reinsurance business (primarily property lines of business) due to competitive market conditions, partially offset by growth across most lines of business in the U.S. insurance division, including incremental gross premiums written related to the renewal of the American Safety business.

Net premiums written by the Insurance and Reinsurance – Other reporting segment increased by 9.4% in the fourth quarter of 2014 primarily reflecting increases at Advent (principally related to writings of new business in marine, property and accident and health insurance lines of business), partially offset by the non-renewal at Polish Re of certain classes of business where terms and conditions were considered inadequate. Net premiums written by the Insurance and Reinsurance – Other reporting segment decreased by 7.2% in the full year of 2014 primarily reflecting decreases at Polish Re and Advent (primarily reflecting the non-renewal of certain classes of business where terms and conditions were considered inadequate), partially offset by increases at Group Re (primarily related to a modest increase in net risk retained within the Fairfax group).

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, 2014 and 2013. In that table, interest and dividends in the 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. Net realized gains before equity hedges, net change in unrealized gains (losses) before equity hedges and equity hedging net losses are each shown separately to present more meaningfully the results of the company's investment management strategies.

	Fourth quarter		Year ended December 31,	
Combined ratios	**2014**	2013	**2014**	2013
Insurance - Canada (Northbridge)	**92.7%**	90.4%	**95.5%**	98.2%
- U.S. (Crum & Forster and Zenith National)	**95.7%**	99.8%	**95.4%**	100.3%
- Asia (Fairfax Asia)	**83.7%**	88.0%	**86.7%**	87.5%
Reinsurance - OdysseyRe	**75.8%**	79.1%	**84.7%**	84.0%
Insurance and Reinsurance - Other	**85.0%**	91.5%	**94.7%**	96.6%
Consolidated	**86.3%**	89.1%	**90.8%**	92.7%
Sources of net earnings				
Underwriting				
Insurance - Canada (Northbridge)	**17.2**	24.0	**42.7**	18.2
- U.S. (Crum & Forster and Zenith National)	**22.8**	0.8	**92.0**	(5.1)
- Asia (Fairfax Asia)	**10.3**	8.9	**36.2**	32.0
Reinsurance - OdysseyRe	**141.5**	122.1	**360.4**	379.9
Insurance and Reinsurance - Other	**15.3**	9.6	**20.7**	15.0
Underwriting profit	**207.1**	165.4	**552.0**	440.0
Interest and dividends - insurance and reinsurance	**92.2**	99.1	**363.4**	330.2
Operating income	**299.3**	264.5	**915.4**	770.2
Runoff (excluding net gains (losses) on investments)	**(21.7)**	91.0	**(88.5)**	77.3
Other reporting segment	**37.7**	24.4	**77.6**	51.9
Interest expense	**(53.0)**	(51.3)	**(206.3)**	(211.2)
Corporate overhead and other	**(10.2)**	(24.9)	**(96.5)**	(125.3)
Pre-tax income before net gains (losses) on investments	**252.1**	303.7	**601.7**	562.9
Net realized gains before equity hedges	**53.1**	757.6	**777.6**	1,379.6
Pre-tax income including net realized gains before equity hedges	**305.2**	1,061.3	**1,379.3**	1,942.5
Net change in unrealized gains (losses) before equity hedges	**76.8**	(514.1)	**1,153.1**	(961.6)
Equity hedging net losses	**(302.5)**	(572.6)	**(194.5)**	(1,982.0)
Pre-tax income (loss)	**79.5**	(25.4)	**2,337.9**	(1,001.1)
Income taxes	**(41.3)**	23.6	**(673.3)**	436.6
Net earnings (loss)	**38.2**	(1.8)	**1,664.6**	(564.5)
Attributable to:				
Shareholders of Fairfax	**23.7**	(5.5)	**1,633.2**	(573.4)
Non-controlling interests	**14.5**	3.7	**31.4**	8.9
	38.2	(1.8)	**1,664.6**	(564.5)
Net earnings (loss) per share	**$ 0.50**	$ (0.98)	**$ 74.43**	$ (31.15)
Net earnings (loss) per diluted share	**$ 0.49**	$ (0.98)	**$ 73.01**	$ (31.15)
Cash dividends paid per share	**$ —**	$ —	**$ 10.00**	$ 10.00

The company's insurance and reinsurance operations produced underwriting profits of $207.1 and $552.0 (combined ratios of 86.3% and 90.8%) in the fourth quarter and full year of 2014 compared to 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. The increase in underwriting profit in the fourth quarter and full year of 2014 principally reflected lower current period catastrophe losses on a year-over-year basis, improvement in the non-catastrophe underwriting margins related to the current accident year and higher net favourable prior year reserve development. The combined ratio in the fourth quarter and full year of 2014 included 2.5 and 3.2 percentage points ($37.8 and $189.0) of current period catastrophe losses compared to 4.7 and 4.8 percentage points ($71.1 and $289.3) in the fourth quarter and full year of 2013 respectively.

	Fourth quarter				Year ended December 31,			
	2014		2013		**2014**		2013	
	Catastrophe losses[1]	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact	**Catastrophe losses[1]**	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact
Windstorm Ela	**0.5**	—	—	—	**41.7**	**0.7**	—	—
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
Other	**37.3**	**2.5**	43.1	2.9	**147.3**	**2.5**	121.0	2.0
	37.8	**2.5 points**	71.1	4.7 points	**189.0**	**3.2 points**	289.3	4.8 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, 2014 and 2013:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Underwriting profit	**207.1**	165.4	**552.0**	440.0
Loss & LAE - accident year	**68.5 %**	71.4 %	**66.4 %**	68.9 %
Commissions	**16.1 %**	16.1 %	**16.0 %**	16.1 %
Underwriting expense	**16.1 %**	15.5 %	**15.8 %**	15.0 %
Combined ratio - accident year	**100.7 %**	103.0 %	**98.2 %**	100.0 %
Net favourable development	**(14.4)%**	(13.9)%	**(7.4)%**	(7.3)%
Combined ratio - calendar year	**86.3 %**	89.1 %	**90.8 %**	92.7 %

Net favourable development of $218.4 (14.4 combined ratio points) and $445.7 (7.4 combined ratio points) in the fourth quarter and full year of 2014 respectively and $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 was comprised as follows:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Insurance - Canada (Northbridge)	**(53.5)**	(46.4)	**(110.2)**	(154.0)
- U.S. (Crum & Forster and Zenith National)	**(17.8)**	(9.6)	**(72.6)**	(27.7)
- Asia (Fairfax Asia)	**(12.6)**	(10.9)	**(20.6)**	(16.7)
Reinsurance - OdysseyRe	**(107.6)**	(134.4)	**(189.1)**	(214.7)
Insurance and Reinsurance - Other	**(26.9)**	(10.6)	**(53.2)**	(26.9)
Insurance and reinsurance operations	**(218.4)**	(211.9)	**(445.7)**	(440.0)

The commission expense ratio (16.1% and 16.0% in the fourth quarter and full year of 2014 respectively compared to 16.1% in both the fourth quarter and full year of 2013), although relatively stable year-over-year, reflected changes in the mix of business at Northbridge and OdysseyRe, increased profit commission on reinsurance ceded by First Capital on its property line of business and lower inward reinstatement premiums earned at OdysseyRe (which do not attract commissions).

The increase in the underwriting expense ratio from 15.5% in the fourth quarter of 2013 (15.0% in the full year of 2013) to 16.1% in the fourth quarter of 2014 (15.8% in the full year of 2014) was due to increased underwriting expenses of 3.2% and 5.6% in the fourth quarter and full year of 2014 respectively and decreased net premiums earned of 0.5% and 0.2% in the fourth quarter and full year of 2014 respectively. The increase in underwriting expenses in the fourth quarter and full year of 2014 primarily reflected increased compensation expenses. The increase in the full year of 2014 was also impacted by an increase in legal expenses.

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 decreased from $298.9 in the fourth quarter of 2013 to $297.3 in the fourth quarter of 2014 primarily as a result of decreased Fairfax corporate overhead (primarily as a result of lower compensation expenses and legal fees and one-time expenses incurred in 2013 related to the acquisition of American Safety), partially offset by increased underwriting expenses of the insurance and reinsurance operations (described above) and higher subsidiary companies' corporate overhead (primarily reflecting higher charitable donations).

Operating expenses increased from $1,185.0 in the full year of 2013 to $1,227.2 in the full year of 2014 primarily as a result of increased underwriting expenses of the insurance and reinsurance operations (described above) and higher operating expenses at Runoff (primarily reflecting incremental operating expenses associated with the Everest Re reinsurance transaction and American Safety (acquired on October 3, 2013), partially offset by the release of a provision for uncollectible reinsurance), partially offset by decreased Fairfax corporate overhead (primarily as a result of lower compensation expenses and legal fees and one-time expenses incurred in 2013 related to the acquisition of American Safety) and lower subsidiary companies' corporate overhead (primarily as a result of a non-recurring charge of $31.2 incurred at Northbridge in 2013 related to redundant software development costs, partially offset by higher restructuring costs and charitable donations in 2014).

Other expenses increased from $280.1 and $910.3 in the fourth quarter and full year of 2013 to $475.5 and $1,492.3 in the fourth quarter and full year of 2014 respectively, primarily as a result of the consolidation of the operating expenses of Praktiker (acquired on June 5, 2014), The Keg (acquired February 4, 2014) and IKYA (acquired on May 14, 2013), partially offset by lower operating expenses following the disposition of Prime Restaurants (sold on October 31, 2013).

The company reported net earnings attributable to shareholders of Fairfax of $23.7 (net earnings of $0.50 per basic share and $0.49 per diluted share) in the fourth quarter of 2014 compared to a net loss attributable to shareholders of Fairfax of $5.5 (a net loss of $0.98 per basic and diluted share) in the fourth quarter of 2013. The company reported net earnings attributable to shareholders of Fairfax of $1,633.2 (net earnings of $74.43 per basic share and $73.01 per diluted share) in the full year of 2014 compared to 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. The year-over-year increase in profitability in the fourth quarter of 2014 primarily reflected lower net losses on investments and the increase in underwriting profit, partially offset by higher net adverse prior year reserve development at Runoff and the increased provision for income taxes. The year-over-year increase in profitability in the full year of 2014 was primarily due to significant net gains on investments in the full year of 2014 and the increase in underwriting profit, partially offset by higher net adverse prior year reserve development at Runoff and the increased provision for income taxes.

Common shareholders' equity increased from $7,186.7 at December 31, 2013 to $8,361.0 at December 31, 2014 primarily reflecting net earnings attributable to shareholders of Fairfax ($1,633.2), partially offset by decreased accumulated other comprehensive income (a decrease of $196.5 in the full year of 2014 primarily related to net unrealized foreign currency translation losses ($74.6), the share of other comprehensive loss of associates ($89.4 inclusive of actuarial losses related to associates' defined benefit plans of $36.7) and actuarial losses related to the company's subsidiaries' defined benefit plans ($32.5)) and the payment of dividends on the company's common and preferred shares ($272.6). Common shareholders' equity at December 31, 2014 was $8,361.0 or $394.83 per basic share compared to $7,186.7 or $339.00 per basic share at December 31, 2013, representing an increase per basic share in the full year of 2014 of 16.5% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2014, or an increase of 19.5% adjusted to include that dividend).

Net Earnings by Reporting Segment

The company's sources of net earnings shown by reporting segment are set out below for the fourth quarters and years ended December 31, 2014 and 2013. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the group, primarily to OdysseyRe and Group Re.

Quarter ended December 31, 2014

	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	**289.8**	**572.0**	**125.7**	**630.0**	**124.9**	**1,742.4**	**65.0**	**—**	**—**	**(28.8)**	**1,778.6**
Net premiums written	**258.9**	**468.8**	**54.9**	**561.6**	**92.0**	**1,436.2**	**84.0**	**—**	**—**	**—**	**1,520.2**
Net premiums earned	**236.2**	**527.3**	**63.4**	**585.8**	**102.9**	**1,515.6**	**89.4**	**—**	**—**	**—**	**1,605.0**
Underwriting profit (loss)	**17.2**	**22.8**	**10.3**	**141.5**	**15.3**	**207.1**	**(28.3)**	**—**	**—**	**—**	**178.8**
Interest and dividends	**13.2**	**14.6**	**13.8**	**45.3**	**5.3**	**92.2**	**6.6**	**3.5**	**18.1**	**14.7**	**135.1**
Operating income (loss)	**30.4**	**37.4**	**24.1**	**186.8**	**20.6**	**299.3**	**(21.7)**	**3.5**	**18.1**	**14.7**	**313.9**
Net gains (losses) on investments(1)	**2.9**	**285.5**	**(27.6)**	**(115.6)**	**10.2**	**155.4**	**396.6**	**2.5**	**28.3**	**(755.4)**	**(172.6)**
Other reporting segment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**34.2**	**—**	**—**	**34.2**
Interest expense	**—**	**(1.1)**	**—**	**(3.2)**	**(1.0)**	**(5.3)**	**(0.2)**	**(3.2)**	**(44.3)**	**—**	**(53.0)**
Corporate overhead and other	**(4.5)**	**(9.3)**	**(0.1)**	**(6.1)**	**—**	**(20.0)**	**(3.5)**	**—**	**(4.8)**	**(14.7)**	**(43.0)**
Pre-tax income (loss)	**28.8**	**312.5**	**(3.6)**	**61.9**	**29.8**	**429.4**	**371.2**	**37.0**	**(2.7)**	**(755.4)**	**79.5**
Income taxes											**(41.3)**
Net earnings											**38.2**
Attributable to:											
Shareholders of Fairfax											**23.7**
Non-controlling interests											**14.5**
											38.2

(1) Net gains (losses) on investments at U.S. Insurance, Runoff and Corporate and Other included a gain on redemption of the investment in OdysseyRe of $310.8, $406.1 and $38.5 respectively, all of which are eliminated on consolidation. Refer to Business Developments for a discussion of the OdysseyRe reorganization.

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	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 and other	(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)

Year ended December 31, 2014

	Insurance			Reinsurance	Insurance and Reinsurance						
	Northbridge	**U.S.**	**Fairfax Asia**	**OdysseyRe**	**Other**	**Ongoing operations**	**Runoff**	**Other**	**Corporate and Other**	**Eliminations and adjustments**	**Consolidated**
Gross premiums written	**1,109.3**	**2,432.5**	**563.5**	**2,739.5**	**553.3**	**7,398.1**	**163.9**	**—**	**—**	**(102.1)**	**7,459.9**
Net premiums written	**967.1**	**2,067.2**	**280.1**	**2,393.8**	**413.9**	**6,122.1**	**179.7**	**—**	**—**	**—**	**6,301.8**
Net premiums earned	**942.3**	**2,020.8**	**272.2**	**2,356.6**	**392.7**	**5,984.6**	**231.6**	**—**	**—**	**—**	**6,216.2**
Underwriting profit (loss)	**42.7**	**92.0**	**36.2**	**360.4**	**20.7**	**552.0**	**(151.5)**	**—**	**—**	**—**	**400.5**
Interest and dividends	**32.5**	**61.2**	**60.5**	**182.2**	**27.0**	**363.4**	**63.0**	**10.3**	**(6.3)**	**79.1**	**509.5**
Operating income (loss)	**75.2**	**153.2**	**96.7**	**542.6**	**47.7**	**915.4**	**(88.5)**	**10.3**	**(6.3)**	**79.1**	**910.0**
Net gains (losses) on investments[1]	**213.1**	**738.9**	**(19.3)**	**579.3**	**135.8**	**1,647.8**	**771.0**	**43.1**	**29.7**	**(755.4)**	**1,736.2**
Other reporting segment	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**67.3**	**—**	**—**	**67.3**
Interest expense	**—**	**(4.7)**	**—**	**(12.7)**	**(4.2)**	**(21.6)**	**(1.0)**	**(12.3)**	**(171.4)**	**—**	**(206.3)**
Corporate overhead and other	**(12.2)**	**(40.4)**	**(0.1)**	**(27.5)**	**(0.4)**	**(80.6)**	**(3.5)**	**—**	**(6.1)**	**(79.1)**	**(169.3)**
Pre-tax income (loss)	**276.1**	**847.0**	**77.3**	**1,081.7**	**178.9**	**2,461.0**	**678.0**	**108.4**	**(154.1)**	**(755.4)**	**2,337.9**
Income taxes											**(673.3)**
Net earnings											**1,664.6**
Attributable to:											
Shareholders of Fairfax											**1,633.2**
Non-controlling interests											**31.4**
											1,664.6

(1) Net gains (losses) on investments at U.S. Insurance, Runoff and Corporate and Other included a gain on redemption of the investment in OdysseyRe of $310.8, $406.1 and $38.5 respectively, all of which are eliminated on consolidation. Refer to Business Developments for a discussion of the OdysseyRe reorganization.

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	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)
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 and other	(37.2)	(36.6)	(0.1)	(22.0)	(0.1)	(96.0)	—	—	(17.6)	(88.3)	(201.9)
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)

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, 2014 and 2013.

Canadian Insurance - Northbridge

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Underwriting profit	**17.2**	24.0	**42.7**	18.2
Loss & LAE - accident year	**80.9 %**	74.1 %	**72.2 %**	77.5 %
Commissions	**14.5 %**	14.7 %	**16.0 %**	16.3 %
Underwriting expenses	**20.0 %**	20.2 %	**19.0 %**	20.0 %
Combined ratio - accident year	**115.4 %**	109.0 %	**107.2 %**	113.8 %
Net favourable development	**(22.7)%**	(18.6)%	**(11.7)%**	(15.6)%
Combined ratio - calendar year	**92.7 %**	90.4 %	**95.5 %**	98.2 %
Gross premiums written	**289.8**	290.0	**1,109.3**	1,150.0
Net premiums written	**258.9**	262.4	**967.1**	1,031.4
Net premiums earned	**236.2**	250.1	**942.3**	990.2
Underwriting profit	**17.2**	24.0	**42.7**	18.2
Interest and dividends	**13.2**	15.1	**32.5**	27.1
Operating income	**30.4**	39.1	**75.2**	45.3
Net gains (losses) on investments	**2.9**	(15.6)	**213.1**	(55.5)
Pre-tax income (loss) before interest and other	**33.3**	23.5	**288.3**	(10.2)

Northbridge reported underwriting profits of $17.2 and $42.7 and combined ratios of 92.7% and 95.5% in the fourth quarter and full year of 2014 respectively compared to underwriting profits of $24.0 and $18.2 and combined ratios of 90.4% and 98.2% in the fourth quarter and full year of 2013 respectively. The year-over-year decrease in underwriting profit in the fourth quarter of 2014 principally reflected lower non-catastrophe underwriting margins related to the current accident year (primarily due to increased large losses in the transportation and logistics and personal automobile lines of business), partially offset by higher net favourable prior year reserve development and lower current period catastrophe losses. The year-over-year increase in underwriting profit in the full year of 2014 principally reflected lower current period catastrophe losses, partially offset by lower net favourable prior year reserve development.

Current period catastrophe losses were nominal in the fourth quarter of 2014. Current period catastrophe losses of $5.2 (2.1 combined ratio points) in the fourth quarter of 2013 principally related to the Eastern Canada winter storms. Current period catastrophe losses of $8.1 (0.9 of a combined ratio point) in the full year of 2014 principally related to hailstorms in Alberta. Current period catastrophe losses in the full year of 2013 (inclusive of reinstatement premiums payable) of $61.0 (6.2 combined ratio points) were principally comprised 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). Net favourable prior year reserve development increased from $46.4 (18.6 combined ratio points) in the fourth quarter of 2013 to $53.5 (22.7 combined ratio points) in the fourth quarter of 2014. Net favourable prior year reserve development decreased from $154.0 (15.6 combined ratio points) in the full year of 2013 to $110.2 (11.7 combined ratio points) in the full year of 2014. Net favourable development in 2014 and 2013 primarily reflected better than expected emergence across most accident years and lines of business (more heavily concentrated in the general liability, commercial automobile and personal automobile lines of business in the fourth quarter and full year of 2014).

Northbridge's underwriting expense ratio decreased from 20.2% and 20.0% in the fourth quarter and full year of 2013 respectively to 20.0% and 19.0% in the fourth quarter and full year of 2014 respectively, primarily as a result of lower compensation and benefits expense and the impact (expressed in Canadian dollars) of increased net premiums earned. Northbridge's commission expense ratio decreased from 14.7% and 16.3% in the fourth quarter and full year of 2013 respectively to 14.5% and 16.0% in the fourth quarter and full year of 2014 respectively primarily due to changes in the mix of business.

Gross premiums written increased by 8.0% from Cdn$304.0 in the fourth quarter of 2013 to Cdn$328.4 in the fourth quarter of 2014 primarily due to rate increases across most segments and increased volumes at Federated Insurance and in the Western region of Northbridge Insurance. In Canadian dollar terms, net premiums written increased by 6.5% in the fourth quarter of 2014 reflecting many of the same factors which affected gross premiums written, with some offset due to higher ceded reinsurance premium in the fourth quarter of 2014. 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"). Gross premiums written increased by 3.4% from Cdn$1,184.3 in the full year of 2013 to Cdn$1,224.8 in the full year of 2014 primarily due to rate increases and improved retention across most lines of business at Northbridge Insurance and Federated Insurance, with some offset due to the strategic non-renewal of an unprofitable portfolio in the Ontario region of Northbridge Insurance. In Canadian dollar terms, net premiums written increased by 4.4% in the full year of 2014 (excluding the one-time impact of the unearned premium portfolio transfer) reflecting many of the same factors which affected gross premiums written in the full year of 2014 and also reflected lower ceded reinsurance and reinstatement premium in the full year of 2014. In Canadian dollar terms, the increases in net premiums earned of 2.3% and 2.0% in the fourth quarter and full year of 2014 respectively, were less than the increases in net premiums written in those respective periods reflecting growth in net premiums written that were only partially earned in 2014.

The significant year-over-year increase in net gains on investments (as set out in the table below), partially offset by lower underwriting profitability and lower interest and dividend income produced pre-tax income before interest and other of $33.3 in the fourth quarter of 2014 compared to pre-tax income before interest and other of $23.5 in the fourth quarter of 2013. The significant year-over-year increase in net gains on investments (as set out in the table below), higher underwriting profitability and higher interest and dividend income (reflecting lower investment management and administration fees and lower total return swap expense) produced pre-tax income before interest and other of $288.3 in the full year of 2014 compared to a pre-tax loss before interest and other of $10.2 in the full year of 2013.

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Equity and equity-related holdings	**(47.0)**	32.4	**105.4**	141.8
Equity hedges	**(17.9)**	(64.4)	**(37.5)**	(202.8)
Bonds	**12.5**	(1.7)	**66.9**	(31.7)
Preferred stocks	**(0.8)**	(0.5)	**(4.2)**	(3.7)
CPI-linked derivatives	**12.7**	(4.4)	**(2.6)**	(27.6)
Foreign currency	**36.3**	23.0	**74.7**	47.0
Gain on disposition of associates	**6.6**	—	**13.8**	22.2
Other	**0.5**	—	**(3.4)**	(0.7)
Net gains (losses) on investments	**2.9**	(15.6)	**213.1**	(55.5)

Northbridge's cash resources, excluding the impact of foreign currency translation, decreased by $437.9 in the full year of 2014 compared to an increase of $716.1 in the full year of 2013. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) increased from $22.7 in the full year of 2013 to $54.2 in the full year of 2014, primarily as a result of lower net claims paid, partially offset by lower net premiums collected and higher income taxes paid.

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

	Fourth quarter					
	2014			2013		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Underwriting profit (loss)	**(2.9)**	**25.7**	**22.8**	(20.9)	21.7	0.8
Loss & LAE - accident year	**68.0%**	**60.9 %**	**65.5 %**	72.3%	63.8 %	69.2 %
Commissions	**13.9%**	**9.9 %**	**12.5 %**	13.6%	9.7 %	12.2 %
Underwriting expenses	**19.0%**	**24.9 %**	**21.1 %**	18.0%	24.3 %	20.3 %
Combined ratio - accident year	**100.9%**	**95.7 %**	**99.1 %**	103.9%	97.8 %	101.7 %
Net unfavourable (favourable) development	**—**	**(9.6)%**	**(3.4)%**	2.6%	(9.9)%	(1.9)%
Combined ratio - calendar year	**100.9%**	**86.1 %**	**95.7 %**	106.5%	87.9 %	99.8 %
Gross premiums written	**441.9**	**130.1**	**572.0**	399.4	129.6	529.0
Net premiums written	**341.3**	**127.5**	**468.8**	320.9	125.9	446.8
Net premiums earned	**341.9**	**185.4**	**527.3**	321.5	180.1	501.6
Underwriting profit (loss)	**(2.9)**	**25.7**	**22.8**	(20.9)	21.7	0.8
Interest and dividends	**9.0**	**5.6**	**14.6**	13.6	4.6	18.2
Operating income (loss)	**6.1**	**31.3**	**37.4**	(7.3)	26.3	19.0
Net gains (losses) on investments	**12.2**	**(37.5)**	**(25.3)**	(68.3)	(16.9)	(85.2)
Gain on redemption of investment in OdysseyRe(2)	**310.8**	**—**	**310.8**	—	—	—
Pre-tax income (loss) before interest and other	**329.1**	**(6.2)**	**322.9**	(75.6)	9.4	(66.2)

	Year ended December 31,					
	2014			2013		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Underwriting profit (loss)	**2.5**	**89.5**	**92.0**	(24.3)	19.2	(5.1)
Loss & LAE - accident year	**66.9%**	**62.9 %**	**65.5 %**	70.1%	67.5 %	69.2 %
Commissions	**13.6%**	**9.7 %**	**12.2 %**	13.3%	9.8 %	12.1 %
Underwriting expenses	**19.3%**	**25.1 %**	**21.3 %**	17.8%	25.1 %	20.4 %
Combined ratio - accident year	**99.8%**	**97.7 %**	**99.0 %**	101.2%	102.4 %	101.7 %
Net unfavourable (favourable) development	**—**	**(10.2)%**	**(3.6)%**	0.7%	(5.3)%	(1.4)%
Combined ratio - calendar year	**99.8%**	**87.5 %**	**95.4 %**	101.9%	97.1 %	100.3 %
Gross premiums written	**1,699.5**	**733.0**	**2,432.5**	1,562.2	716.3	2,278.5
Net premiums written	**1,346.3**	**720.9**	**2,067.2**	1,232.9	700.3	1,933.2
Net premiums earned	**1,306.5**	**714.3**	**2,020.8**	1,261.0	673.8	1,934.8
Underwriting profit (loss)	**2.5**	**89.5**	**92.0**	(24.3)	19.2	(5.1)
Interest and dividends	**39.1**	**22.1**	**61.2**	38.3	22.3	60.6
Operating income	**41.6**	**111.6**	**153.2**	14.0	41.5	55.5
Net gains (losses) on investments	**321.3**	**106.8**	**428.1**	(313.8)	(131.2)	(445.0)
Gain on redemption of investment in OdysseyRe[(2)]	**310.8**	**—**	**310.8**	—	—	—
Pre-tax income (loss) before interest and other	**673.7**	**218.4**	**892.1**	(299.8)	(89.7)	(389.5)

(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.

(2) Eliminated on consolidation.

Crum & Forster

In the fourth quarter of 2014, Fairfax centralized the ownership of its wholly-owned reinsurance and insurance company, Odyssey Re Holdings Corp., under a single intermediate holding company in the U.S. This reorganization had no effect on Fairfax's consolidated financial reporting; however, it impacted Crum & Forster as described in the "Business Developments" section of this MD&A.

On December 31, 2013 Runoff (Clearwater Insurance) assumed net insurance liabilities from Crum & Forster related to its discontinued New York construction contractors' business. 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 since the company's management does not consider the initial effects of such reinsurance transactions in its assessment of the performance of Crum & Forster and Runoff (Crum & Forster's 2013 net premiums written, net premiums earned and losses on claims all would have decreased by $68.6 with operating income remaining unchanged). 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. Effective October 1, 2013 Crum & Forster transferred its directors and officers and management liability insurance business to Hudson Insurance Company (''Hudson Insurance''), a wholly-owned insurance subsidiary of OdysseyRe. The transferred business produced approximately $20 of annual gross premiums written. On July 3, 2013 Crum & Forster acquired a 100% interest in Hartville Group, Inc. ("Hartville"). Refer to note 23 (Acquisitions and Divestitures) to the consolidated financial statements for the year ended December 31, 2013 for a detailed discussion of these acquisitions. Incremental gross premiums written related to the renewal of the American Safety business was $7.3 in the fourth quarter of 2014 ($67.9 in the full year of 2014) principally in the environmental casualty business under the Crum & Forster and CoverX brands.

Crum & Forster reported an underwriting loss of $2.9 and an underwriting profit of $2.5 and combined ratios of 100.9% and 99.8% in the fourth quarter and full year of 2014 respectively compared to 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. The year-over-year improvements in underwriting profitability in the fourth quarter and full year of 2014 principally reflected the absence in 2014 of net adverse development of prior years' reserves and improvements in the non-catastrophe underwriting margins related to the current accident year (primarily reflecting the impact of underwriting actions that have improved the performance of the legacy CoverX business and the impact of a single large loss of $8.0 (0.6 of a combined ratio point) in the full year of 2013), partially offset by a modest increase in operating expenses.

There was no net prior year reserve development in the fourth quarter or full year of 2014. 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. Current period catastrophe losses of $1.5 (0.4 of a combined ratio point) in the fourth quarter of 2014 primarily related to net unfavourable development of loss reserves related to catastrophes occurring in the first nine months of 2014. Current period catastrophe losses in the full year of 2014 of $14.3 (1.1 combined ratio points) primarily related to the effects of storms and severe winter weather in the U.S. northeast and storms in the U.S. midwest. Current period catastrophe losses in the fourth quarter and full year of 2013 totaled $0.9 (0.3 of a combined ratio point) and $3.7 (0.3 of a combined ratio point) respectively.

Crum & Forster's underwriting expense ratio (excluding commissions) increased from 18.0% and 17.8% in the fourth quarter and full year of 2013 to 19.0% and 19.3% in the fourth quarter and full year of 2014 respectively, primarily as a result of incremental operating expenses necessary to support the growth in gross premiums written (principally related to employee compensation and benefit costs) and costs related to the acquisition of American Safety.

Gross premiums written increased by 10.6% from $399.4 in the fourth quarter of 2013 to $441.9 in the fourth quarter of 2014 reflecting growth in the Fairmont accident and health business and organic growth in the environmental casualty business at Crum & Forster, partially offset by planned reductions in the legacy CoverX business. Net premiums written increased by 6.4% in the fourth quarter of 2014 consistent with the increase in gross premiums written. Net premiums earned increased by 6.3% in the fourth quarter of 2014 primarily reflecting the growth in net premiums written late in 2013 and throughout 2014 (principally related to accident and health and environmental casualty business).

Gross premiums written increased by 8.8% from $1,562.2 in the full year of 2013 to $1,699.5 in the full year of 2014 reflecting the incremental contribution from American Safety to the environmental casualty business and growth in the Fairmont accident and health and Seneca businesses, partially offset by planned reductions in the legacy CoverX business. Net premiums written increased by 9.2% in the full year of 2014 consistent with the increase in gross premiums written. The growth in net premiums earned of 3.6% lagged the growth in net premiums written principally as a result of the reductions in net premiums written in 2013 in the legacy CoverX business and in the middle markets business of Crum & Forster, partially offset by the impact of the timing of earned premiums related to the American Safety business and growth in the Fairmont accident and health business.

The gain on redemption of Crum & Forster's investment in OdysseyRe coupled with increased net gains on investments (as set out in the table below) and the year-over-year improvement in underwriting profitability, partially offset by lower interest and dividend income (primarily reflecting decreased share of profit of associates and higher total return swap expense, partially offset by higher interest income earned), produced pre-tax income before interest and other of $329.1 in the fourth quarter of 2014 compared to a pre-tax loss before interest and other of $75.6 in the fourth quarter of 2013. The significant increase in net gains on investments (as set out in the table below) coupled with the gain on redemption of Crum & Forster's investment in OdysseyRe and the year-over-year improvement in underwriting profitability and slightly higher interest and dividend income (primarily reflecting increased interest income earned and share of profit of associates, partially offset by lower dividends received on common stocks), produced pre-tax income before interest and other of $673.7 in the full year of 2014 compared to a pre-tax loss before interest and other of $299.8 in the full year of 2013.

Crum & Forster’s cash resources, excluding the impact of foreign currency translation, decreased by $33.4 in the full year of 2014 compared to an increase of $14.8 in the full year of 2013. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) decreased from $122.8 in the full year of 2013 to $115.6 in the full year of 2014 primarily as a result of lower income tax recoveries, partially offset by increased underwriting cash flows. In the full year of 2014, Crum & Forster received a capital contribution from Fairfax of $5.0 (2013 - $65.0) and paid dividends to Fairfax of $150.0 (2013 - nil).

Zenith National

Zenith National reported underwriting profits of $25.7 and $89.5 and combined ratios of 86.1% and 87.5% in the fourth quarter and full year of 2014 respectively compared to 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. Net premiums earned in the fourth quarter and full year of 2014 of $185.4 and $714.3 respectively increased from $180.1 and $673.8 in the fourth quarter and full year of 2013 respectively, principally reflecting premium rate increases.

The improvement in Zenith National’s combined ratio in the fourth quarter of 2014 compared to the fourth quarter of 2013 principally reflected a decrease of 2.9 percentage points in the estimated accident year loss and LAE ratio in the fourth quarter of 2014. The improvement in Zenith National’s combined ratio in the full year of 2014 compared to the full year of 2013 reflected a decrease of 4.6 percentage points in the estimated accident year loss and LAE ratio in the full year of 2014 and higher net favourable development of prior years' reserves (10.2 percentage points in the full year of 2014). The decrease in the estimated accident year loss and LAE ratio in 2014 was due to favourable loss development trends for accident year 2013 combined with price increases equal to estimated loss trends for accident year 2014. Net favourable prior year reserve development in 2014 reflected net favourable emergence related to the 2011, 2012 and 2013 accident years.

The increase in net losses on investments (as set out in the table below), partially offset by the improvement in underwriting profitability and the modest increase in interest and dividend income, produced a pre-tax loss before interest and other of $6.2 in the fourth quarter of 2014 compared to pre-tax income before interest and other of $9.4 in the fourth quarter of 2013. The significant increase in net gains on investments (as set out in the table below) and the improvement in underwriting profitability, partially offset by slightly lower interest and dividend income, produced pre-tax income before interest and other of $218.4 in the full year of 2014 compared to a pre-tax loss before interest and other of $89.7 in the full year of 2013.

At December 31, 2014 Zenith National had unrestricted cash and cash equivalents of $39.2. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) increased from $109.2 in the full year of 2013 to $119.2 in the full year of 2014, 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.

Net gains (losses) on investments in the fourth quarters and years ended December 31, 2014 and 2013 for the U.S. Insurance segment were comprised as shown in the following table:

	Fourth quarter					
	2014			2013		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Common stocks and equity derivatives (excluding equity hedges)	**(21.3)**	**(38.2)**	**(59.5)**	53.0	27.9	80.9
Equity hedges	**(39.5)**	**(35.1)**	**(74.6)**	(92.4)	(30.5)	(122.9)
Bonds	**61.0**	**24.8**	**85.8**	(25.9)	(13.7)	(39.6)
CPI-linked derivatives	**11.7**	**9.0**	**20.7**	(1.7)	(0.6)	(2.3)
Other	**0.3**	**2.0**	**2.3**	(1.3)	—	(1.3)
Net gains (losses) on investments	**12.2**	**(37.5)**	**(25.3)**	(68.3)	(16.9)	(85.2)

	Year ended December 31,					
	2014			2013		
	Crum & Forster	**Zenith National**	**Total**	Crum & Forster	Zenith National	Total
Common stocks and equity derivatives (excluding equity hedges)	**96.7**	**17.9**	**114.6**	226.2	90.0	316.2
Equity hedges	**(15.0)**	**(14.8)**	**(29.8)**	(339.0)	(121.5)	(460.5)
Bonds	**230.4**	**93.4**	**323.8**	(179.6)	(89.4)	(269.0)
CPI-linked derivatives	**(3.3)**	**2.9**	**(0.4)**	(15.8)	(9.2)	(25.0)
Gain on disposition of associates	**10.5**	**—**	**10.5**	—	—	—
Other	**2.0**	**7.4**	**9.4**	(5.6)	(1.1)	(6.7)
Net gains (losses) on investments	**321.3**	**106.8**	**428.1**	(313.8)	(131.2)	(445.0)

Asian Insurance - Fairfax Asia

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Underwriting profit	**10.3**	8.9	**36.2**	32.0
Loss & LAE - accident year	**85.7 %**	89.4 %	**81.4 %**	80.3 %
Commissions	**1.8 %**	2.5 %	**(0.1)%**	1.4 %
Underwriting expenses	**16.0 %**	10.8 %	**13.0 %**	12.3 %
Combined ratio - accident year	**103.5 %**	102.7 %	**94.3 %**	94.0 %
Net favourable development	**(19.8)%**	(14.7)%	**(7.6)%**	(6.5)%
Combined ratio - calendar year	**83.7 %**	88.0 %	**86.7 %**	87.5 %
Gross premiums written	**125.7**	134.7	**563.5**	530.2
Net premiums written	**54.9**	66.5	**280.1**	257.4
Net premiums earned	**63.4**	74.1	**272.2**	256.2
Underwriting profit	**10.3**	8.9	**36.2**	32.0
Interest and dividends	**13.8**	0.6	**60.5**	36.7
Operating income	**24.1**	9.5	**96.7**	68.7
Net gains (losses) on investments	**(27.6)**	5.4	**(19.3)**	(23.8)
Pre-tax income (loss) before interest and other	**(3.5)**	14.9	**77.4**	44.9

On December 1, 2014 the company entered into an agreement to acquire the general insurance business of MCIS Insurance Berhad (formerly known as MCIS Zurich Insurance Berhad) ("MCIS") through its wholly-owned subsidiary Pacific Insurance. The transaction is subject to customary closing conditions, including Malaysian court approval, and is expected to close in the first quarter of 2015. MCIS is an established general insurer in Malaysia with over $55 of gross premiums written in 2013 in its general insurance business.

On January 1, 2015 the company acquired 78% of Union Assurance General Limited ("Union Assurance") for cash consideration of $26.8 (3.5 billion Sri Lankan rupees). Union Assurance is headquartered in Colombo, Sri Lanka and underwrites general insurance in Sri Lanka, specializing in automobile and personal accident lines of business and writing approximately $41 of gross premiums written in 2013.

On May 21, 2014 Fairfax Asia completed the acquisition of an 80.0% interest in PT Batavia Mitratama Insurance (subsequently renamed PT Fairfax Insurance Indonesia ("Fairfax Indonesia")) for cash purchase consideration of $8.5 (98.2 billion Indonesian rupees). Subsequent to the acquisition, Fairfax Asia contributed an additional $12.9 to Fairfax Indonesia (maintaining its 80.0% interest) to support business expansion. Fairfax Indonesia is headquartered in Jakarta, Indonesia and underwrites general insurance, specializing in automobile coverage in Indonesia.

Fairfax Asia reported underwriting profits of $10.3 and $36.2 and combined ratios of 83.7% and 86.7% in the fourth quarter and full year of 2014 respectively compared to 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. Each of First Capital, Falcon and Pacific Insurance produced combined ratios as set out in the following table:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
First Capital	**71.3%**	75.8%	**74.4%**	78.1%
Falcon	**98.1%**	108.7%	**98.8%**	101.3%
Pacific Insurance	**89.0%**	90.4%	**98.9%**	91.7%

The combined ratio in the fourth quarter of 2014 included 19.8 combined ratio points ($12.6) of net favourable prior year reserve development primarily related to commercial automobile, engineering, marine hull and workers' compensation loss reserves, partially offset by net adverse development of property loss reserves. The combined ratio in the full year of 2014 included 7.6 combined ratio points ($20.6) of net favourable prior year reserve development primarily related to engineering, workers' compensation, property and commercial automobile loss reserves. The combined ratio 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. 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.

The commission expense ratio improved from 2.5% in the fourth quarter of 2013 to 1.8% in the fourth quarter of 2014 (the commission expense ratio of 1.4% in the full year of 2013 improved to a commission income ratio of 0.1% in the full year of 2014) primarily as a result of increased profit commission on reinsurance ceded by First Capital on its property line of business. Fairfax Asia's underwriting expense ratio increased from 10.8% and 12.3% in the fourth quarter and full year of 2013 to 16.0% and 13.0% in the fourth quarter and full year of 2014, primarily as a result of a modest increase in operating expenses at Pacific Insurance related to the acquisition of MCIS. The underwriting expense ratio in the fourth quarter of 2014 was also affected by the impact of lower net premiums earned on a year-over-year basis.

Gross premiums written, net premiums written and net premiums earned decreased during the fourth quarter of 2014 by 6.7%, 17.4% and 14.4% respectively, primarily as a result of decreased writings in the marine hull, commercial automobile and engineering lines of business, partially offset by increased writings in the property line of business. The decrease in net premiums written in the fourth quarter of 2014 exceeded the decrease in gross premiums written due to increased ceded premium in the commercial automobile and general liability lines of business (primarily at First Capital). The decrease in net premiums earned was consistent with the decrease in net premiums written. Gross premiums written, net premiums written and net premiums earned increased during the full year of 2014 by 6.3%, 8.8% and 6.2% respectively, primarily as a result of increased writings in the commercial property, commercial automobile and marine hull lines of business, partially offset by decreased writings in the engineering lines of business. The increase in net premiums written in the full year of 2014 was higher than the growth in gross premiums written due to slightly higher premium retention during the year. The change in net premiums earned was consistent with the increase in net premiums written in prior periods.

The combination of net losses on investments (as set out in the table below), partially offset by increased interest and dividend income (reflecting the increased share of profit of associates, principally ICICI Lombard) and increased underwriting profit, produced a pre-tax loss before interest and other of $3.5 in the fourth quarter of 2014 compared to pre-tax income before interest and other of $14.9 in the fourth quarter of 2013. The combination of increased interest and dividend income (reflecting the increased share of profit of associates, principally ICICI Lombard), lower net losses on investments (as set out in the table below) and increased underwriting profit, produced pre-tax income before interest and other of $77.4 in the full year of 2014 compared to pre-tax income before interest and other of $44.9 in the full year of 2013.

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Equity and equity-related holdings	**(30.5)**	4.4	**(26.6)**	9.1
Equity hedges	**—**	—	**—**	(30.1)
Bonds	**(0.7)**	0.5	**2.2**	(6.7)
Preferred stocks	**—**	(0.4)	**0.3**	(1.0)
Foreign currency	**3.7**	0.8	**5.3**	5.0
Other	**(0.1)**	0.1	**(0.5)**	(0.1)
Net gains (losses) on investments	**(27.6)**	5.4	**(19.3)**	(23.8)

Reinsurance - OdysseyRe[(1)]

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Underwriting profit	**141.5**	122.1	**360.4**	379.9
Loss & LAE - accident year	**64.0 %**	71.4 %	**62.5 %**	64.2 %
Commissions	**20.6 %**	21.0 %	**20.3 %**	20.0 %
Underwriting expenses	**9.6 %**	9.7 %	**9.9 %**	8.8 %
Combined ratio - accident year	**94.2 %**	102.1 %	**92.7 %**	93.0 %
Net favourable development	**(18.4)%**	(23.0)%	**(8.0)%**	(9.0)%
Combined ratio - calendar year	**75.8 %**	79.1 %	**84.7 %**	84.0 %
Gross premiums written	**630.0**	603.1	**2,739.5**	2,715.5
Net premiums written	**561.6**	541.0	**2,393.8**	2,376.9
Net premiums earned	**585.8**	585.2	**2,356.6**	2,373.6
Underwriting profit	**141.5**	122.1	**360.4**	379.9
Interest and dividends	**45.3**	62.7	**182.2**	191.7
Operating income	**186.8**	184.8	**542.6**	571.6
Net gains (losses) on investments	**(115.6)**	(136.8)	**579.3**	(816.5)
Pre-tax income (loss) before interest and other	**71.2**	48.0	**1,121.9**	(244.9)

(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.

In the fourth quarter of 2014, Fairfax centralized the ownership of its wholly-owned reinsurance and insurance company, Odyssey Re Holdings Corp., under a single intermediate holding company in the U.S. This reorganization had no effect on Fairfax's consolidated financial reporting; however, it impacted OdysseyRe as described in the "Business Developments" section of this MD&A.

On April 1, 2014 Hudson Insurance Company ("Hudson Insurance", a wholly owned subsidiary of OdysseyRe) completed the acquisition of certain assets and assumed certain liabilities associated with Motor Transport Underwriters, Inc. ("Motor Transport") for cash purchase consideration of $12.8. Motor Transport is a leading underwriting, claims and risk management specialist in the long-haul trucking industry.

On October 3, 2013 Hudson Insurance assumed the renewal rights to American Safety’s surety lines of business. Refer to note 23 (Acquisitions and Divestitures) to the consolidated financial statements for the year ended December 31, 2013 for a detailed discussion of this acquisition.

Effective October 1, 2013 Crum & Forster transferred its directors and officers and management liability insurance business to Hudson Insurance. 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 produced approximately $20 of annual gross premiums written.

OdysseyRe reported underwriting profits of $141.5 and $360.4 and combined ratios of 75.8% and 84.7% in the fourth quarter and full year of 2014 respectively compared to 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. The increase in underwriting profit in the fourth quarter of 2014 reflected the pre-tax impact of a significant decrease in current period catastrophe losses (as set out in the table below) and improvement in non-catastrophe underwriting margins related to the current accident year (primarily reflecting lower large losses in 2014), partially offset by lower net favourable prior year reserve development. The modest decrease in underwriting profit in the full year of 2014 reflected the pre-tax impact of the increase in the underwriting expense ratio, lower net favourable prior year reserve development and lower writings of higher margin property catastrophe business, partially offset by a significant decrease in current period catastrophe losses (as set out in the table below).

	Fourth quarter				Year ended December 31,			
	2014		2013		**2014**		2013	
	Catastrophe losses[1]	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact	**Catastrophe losses[1]**	**Combined ratio impact**	Catastrophe losses[1]	Combined ratio impact
Windstorm Ela	**1.9**	**0.3**	—	—	**37.7**	**1.6**	—	—
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
Other	**31.0**	**5.3**	23.7	4.1	**107.4**	**4.6**	88.7	3.7
	32.9	**5.6 points**	65.0	11.2 points	**145.1**	**6.2 points**	203.4	8.7 points

(1) Net of reinstatement premiums.

OdysseyRe's combined ratios in the fourth quarter and full year of 2014 included 18.4 combined ratio points ($107.6) and 8.0 combined ratio points ($189.1) respectively of net favourable prior year reserve development (primarily related to casualty and non-catastrophe property loss reserves) compared to 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 (principally related to property catastrophe, casualty and non-catastrophe property loss reserves).

OdysseyRe's underwriting expense ratio increased from 8.8% in the full year of 2013 to 9.9% in the full year of 2014, primarily due to incremental operating expenses associated with the acquisition of Motor Transport and the American Safety renewal rights, increased legal fees and lower net premiums earned on a year-over-year basis. OdysseyRe's commission expense ratio decreased from 21.0% in fourth quarter of 2013 to 20.6% in the fourth quarter of 2014, primarily due to a significant profit commission reduction in the fourth quarter of 2014 related to a large property quota share reinsurance contract, partially offset by lower inward reinstatement premiums earned, which do not attract commissions. OdysseyRe's commission expense ratio increased from 20.0% in the full year of 2013 to 20.3% in the full year of 2014 respectively, primarily due to changes in the mix of business and lower inward reinstatement premiums earned in 2014.

In 2014, following recent enhancements to its underwriting systems and the accumulation of sufficient internal historical data, OdysseyRe commenced recognizing the majority of the premiums written in respect of the winter planting season of its U.S. crop insurance business in December, whereas in 2013 these premiums were recognized in the first quarter of 2014. Applying the same recognition pattern for the U.S. crop insurance business as was adopted in the fourth quarter and full year of 2014 to the fourth quarter and full year of 2013, OdysseyRe's gross premiums written, net premiums written and net premiums earned would have decreased as set out in the following table. The impact on underwriting profit of those changes was nominal in all periods presented.

	Fourth quarter					
	2014			2013		
	Gross premiums written	**Net premiums written**	**Net premiums earned**	Gross premiums written	Net premiums written	Net premiums earned
OdysseyRe - as reported	**630.0**	**561.6**	**585.8**	603.1	541.0	585.2
Adjustments related to timing of U.S. crop insurance	**—**	**—**	**—**	41.4	34.4	6.0
OdysseyRe - as adjusted	**630.0**	**561.6**	**585.8**	644.5	575.4	591.2
Percentage change (year-over-year)	**(2.2)%**	**(2.4)%**	**(0.9)%**			

	Year ended December 31,					
	2014			2013		
	Gross premiums written	**Net premiums written**	**Net premiums earned**	Gross premiums written	Net premiums written	Net premiums earned
OdysseyRe - as reported	**2,739.5**	**2,393.8**	**2,356.6**	2,715.5	2,376.9	2,373.6
Adjustments related to timing of U.S. crop insurance	**(41.4)**	**(34.4)**	**(6.0)**	10.9	15.9	3.1
OdysseyRe - as adjusted	**2,698.1**	**2,359.4**	**2,350.6**	2,726.4	2,392.8	2,376.7
Percentage change (year-over-year)	**(1.0)%**	**(1.4)%**	**(1.1)%**			

The decreases in gross premiums written, net premiums written and net premiums earned in the fourth quarter and full year of 2014 primarily reflected declines in writings of reinsurance business (primarily property lines of business) due to competitive market conditions, partially offset by growth across most lines of business in the U.S. insurance division, including incremental gross premiums written related to the renewal of the American Safety business ($3.0 and $22.4 in the fourth quarter and full year of 2014 respectively). Net premiums earned in the fourth quarter and full year of 2014 reflected lower net premiums earned related to reinsurance business in prior periods, partially offset by the growth in net premiums written in the U.S. Insurance division.

The decrease in net losses on investments (as set out in the table below) and higher underwriting profit, partially offset by lower interest and dividend income (primarily reflecting decreased share of profit of associates, partially offset by higher interest income earned and lower investment management and administration fees), produced pre-tax income before interest and other of $71.2 in the fourth quarter of 2014 compared to pre-tax income before interest and other of $48.0 in the fourth quarter of 2013. The significant increase in net gains on investments (as set out in the table below), partially offset by lower underwriting profit and lower interest and dividend income (primarily reflecting decreased share of profit of associates, partially offset by higher interest income earned), produced pre-tax income before interest and other of $1,121.9 in the full year of 2014 compared to a pre-tax loss before interest and other of $244.9 in the full year of 2013.

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Equity and equity-related holdings	**(143.9)**	108.9	**124.7**	422.4
Equity hedges	**(143.7)**	(210.1)	**(30.4)**	(767.8)
Bonds	**117.5**	(29.8)	**494.2**	(388.3)
CPI-linked derivatives	**35.6**	(6.1)	**(9.8)**	(62.4)
Foreign currency	**—**	(4.2)	**(10.9)**	8.1
Gain on disposition of associates	**9.9**	—	**21.4**	12.2
Other	**9.0**	4.5	**(9.9)**	(40.7)
Net gains (losses) on investments	**(115.6)**	(136.8)	**579.3**	(816.5)

OdysseyRe's cash resources, excluding the impact of foreign currency translation, increased by $24.9 in the full year of 2014 compared to an increase of $31.0 in the full year of 2013. Cash provided by operating activities (excluding operating cash flow activity related to securities recorded as at FVTPL) increased from $312.6 in the full year of 2013 to $466.3 in the full year of 2014, primarily as a result of a decrease in net claim payments due to reduced catastrophe activity in 2014 and the impact in the second quarter of 2013 of a large outward portfolio transfer of unearned premium related to a property quota share reinsurance contract.

On December 15, 2014 OdysseyRe redeemed $50.0 principal amount of its Series B unsecured senior notes due 2016 for cash consideration of $50.0.

Insurance and Reinsurance - Other

For the quarters ended December 31, 2014 and 2013

	Fourth quarter					
	2014					
	Group Re	**Advent**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**
Underwriting profit (loss)	**19.8**	**0.1**	**3.5**	**(8.1)**	**—**	**15.3**
Loss & LAE - accident year	**70.9 %**	**75.4 %**	**42.1 %**	**81.6%**	**—**	**70.2 %**
Commissions	**24.6 %**	**17.4 %**	**21.6 %**	**25.6%**	**—**	**21.9 %**
Underwriting expenses	**3.1 %**	**32.0 %**	**16.1 %**	**52.5%**	**—**	**19.0 %**
Combined ratio - accident year	**98.6 %**	**124.8 %**	**79.8 %**	**159.7%**	**—**	**111.1 %**
Net (favourable) adverse development	**(41.1)%**	**(25.3)%**	**(11.4)%**	**28.5%**	**—**	**(26.1)%**
Combined ratio - calendar year	**57.5 %**	**99.5 %**	**68.4 %**	**188.2%**	**—**	**85.0 %**
Gross premiums written	**42.5**	**38.9**	**7.7**	**38.4**	**(2.6)**	**124.9**
Net premiums written	**40.5**	**30.9**	**6.1**	**14.5**	**—**	**92.0**
Net premiums earned	**46.6**	**35.9**	**11.3**	**9.1**	**—**	**102.9**
Underwriting profit (loss)	**19.8**	**0.1**	**3.5**	**(8.1)**	**—**	**15.3**
Interest and dividends	**3.0**	**1.9**	**0.7**	**(0.3)**	**—**	**5.3**
Operating income (loss)	**22.8**	**2.0**	**4.2**	**(8.4)**	**—**	**20.6**
Net gains (losses) on investments	**19.1**	**(12.8)**	**1.6**	**2.3**	**—**	**10.2**
Pre-tax income (loss) before interest and other	**41.9**	**(10.8)**	**5.8**	**(6.1)**	**—**	**30.8**

	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 (favourable) adverse 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

For the years ended December 31, 2014 and 2013

	Year ended December 31,					
	2014					
	Group Re	**Advent**	**Polish Re**	**Fairfax Brasil**	**Inter-company**	**Total**
Underwriting profit (loss)	**34.3**	**0.2**	**2.3**	**(16.1)**	**—**	**20.7**
Loss & LAE - accident year	**68.2 %**	**72.2 %**	**70.1 %**	**70.4%**	**—**	**70.2 %**
Commissions	**26.3 %**	**18.3 %**	**17.3 %**	**16.3%**	**—**	**20.9 %**
Underwriting expenses	**2.5 %**	**27.9 %**	**9.3 %**	**41.6%**	**—**	**17.2 %**
Combined ratio - accident year	**97.0 %**	**118.4 %**	**96.7 %**	**128.3%**	**—**	**108.3 %**
Net (favourable) adverse development	**(20.4)%**	**(18.6)%**	**(0.6)%**	**5.6%**	**—**	**(13.6)%**
Combined ratio - calendar year	**76.6 %**	**99.8 %**	**96.1 %**	**133.9%**	**—**	**94.7 %**
Gross premiums written	**166.8**	**207.1**	**54.0**	**158.2**	**(32.8)**	**553.3**
Net premiums written	**163.4**	**153.6**	**41.2**	**55.7**	**—**	**413.9**
Net premiums earned	**146.2**	**138.6**	**60.5**	**47.4**	**—**	**392.7**
Underwriting profit (loss)	**34.3**	**0.2**	**2.3**	**(16.1)**	**—**	**20.7**
Interest and dividends	**11.8**	**8.6**	**3.5**	**3.1**	**—**	**27.0**
Operating income (loss)	**46.1**	**8.8**	**5.8**	**(13.0)**	**—**	**47.7**
Net gains on investments	**103.6**	**26.7**	**2.2**	**3.3**	**—**	**135.8**
Pre-tax income (loss) before interest and other	**149.7**	**35.5**	**8.0**	**(9.7)**	**—**	**183.5**

	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 (favourable) adverse 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

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 Insurance and Reinsurance – Other segment produced underwriting profits of $15.3 and $20.7 and combined ratios of 85.0% and 94.7% in the fourth quarter and full year of 2014 respectively compared to 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. The improvement in underwriting profit in the fourth quarter of 2014 principally reflected increased net favourable prior year reserve development, partially offset by lower non-catastrophe underwriting margins related to the current accident year (reflecting modest decreases at Group Re and Fairfax Brasil, partially offset by improvements at Polish Re and Advent). The improvement in underwriting profit in the full year of 2014 principally reflected increased net favourable prior year reserve development, partially offset by the effect of lower net premiums earned relative to fixed underwriting expenses and lower non-catastrophe underwriting margins related to the current accident year (reflecting modest deterioration at Group Re and Fairfax Basil, partially offset by improvements at Polish Re).

The underwriting results in the fourth quarter and full year of 2014 included net favourable prior year reserve development of $26.9 (26.1 combined ratio points) and $53.2 (13.6 combined ratio points) respectively primarily reflecting net favourable development at Group Re (principally related to prior years' catastrophe loss reserves and net favourable emergence on the runoff of the intercompany quota share reinsurance contract with Northbridge) and Advent (principally reflecting net favourable emergence on attritional loss reserves across most lines of business and prior years' catastrophe loss reserves). The underwriting results in the fourth quarter and full year of 2013 included net favourable prior year reserve development of $10.6 (9.3 combined ratio points) and $26.9 (6.1 combined ratio points) respectively, primarily reflecting net favourable emergence at Group Re (related to prior years' catastrophe loss reserves) and Advent (across a number of lines of business including prior years' catastrophe loss reserves), partially offset by net adverse emergence at Polish Re (related to commercial automobile loss reserves).

The underwriting results in the fourth quarter of 2014 included $2.8 (2.7 combined ratio points) of current period catastrophe losses (principally attributable to the impact on Advent of Hurricane Odile). The underwriting results in the full year of 2014 included $21.5 (5.5 combined ratio points) of current period catastrophe losses (principally attributable to the impact on Advent and Group Re of storms in the U.S. Midwest, Windstorm Ela and Hurricane Odile). 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. The expense ratio increased from 17.3% and 15.0% in the fourth quarter and full year of 2013 to 19.0% and 17.2% in the fourth quarter and full year of 2014 respectively, primarily as a result of the effect of lower net premiums earned relative to fixed underwriting expenses at Polish Re and Fairfax Brasil (and at Advent in the full year of 2014).

Gross premiums written and net premiums written increased by 11.4% and 9.4% respectively in the fourth quarter of 2014, primarily reflecting increases at Advent (principally related to writings of new business in marine, property and accident and health insurance lines of business), partially offset by the non-renewal at Polish Re of certain classes of business where terms and conditions were considered inadequate. Net premiums earned decreased by 8.9% in the fourth quarter of 2014, reflecting the lower levels of net premiums written in 2013 and early 2014 by Advent (as new classes of business and their respective underwriters were integrated) and Polish Re. Gross premiums written and net premiums written decreased by 4.2% and 7.2% in the full year of 2014 (excluding the unearned premium portfolio transfer which suppressed gross premiums written and net premiums written at Group Re in the full year of 2013 by $39.1), primarily reflecting decreases at Polish Re and Advent (principally due to the non-renewal of certain classes of business where terms and conditions were considered inadequate), partially offset by increases at Group Re (primarily related to a modest increase in net risk retained within the Fairfax group). Net premiums earned decreased by 10.6% in the full year of 2014 reflecting the lower levels of net premiums written in 2013 and early 2014 by Advent (as new classes of business and their respective underwriters were integrated) and Polish Re.

The year-over-year increase in net gains on investments (as set out in the table below), the improvement in underwriting profitability and higher interest and dividend income, produced pre-tax income before interest and other of $30.8 in the fourth quarter of 2014 compared to pre-tax income before interest and other of $13.2 in the fourth quarter of 2013. The year-over-year increase in net gains on investments (as set out in the table below), higher interest and dividend income (primarily reflecting increased share of profit of associates) and the improvement in underwriting profitability, produced pre-tax income before interest and other of $183.5 in the full year of 2014 compared to pre-tax income before interest and other of $47.9 in the full year of 2013. The gain on disposition of associate of $73.9 in the full year of 2013 as set out in the table below reflected the net gain recognized on the sale of the company's investment in The Brick.

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Equity and equity-related holdings	**(24.8)**	23.7	**68.7**	77.2
Equity hedges	**(19.0)**	(19.6)	**(6.1)**	(95.3)
Bonds	**12.6**	1.1	**45.5**	(14.0)
Preferred stocks	**(0.4)**	0.8	**(22.2)**	(15.3)
CPI-linked derivatives	**35.2**	(0.3)	**29.6**	(2.1)
Foreign currency	**6.8**	0.9	**17.4**	0.9
Gain on disposition of associates	**—**	—	**2.8**	73.9
Other	**(0.2)**	(5.5)	**0.1**	(6.5)
Net gains on investments	**10.2**	1.1	**135.8**	18.8

During the full year of 2014, CRC Re paid a dividend-in-kind to Fairfax of $60.2 comprised of its 100% ownership interest in TIG Insurance (Barbados) Limited ($24.1) and 14.8% ownership interest in Advent ($36.1). During the full year of 2013, Fairfax made capital contributions of $7.9 to Polish Re. 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). The dividends-in-kind described in the preceding two sentences had no impact on the company's consolidated financial reporting or its operating segments as investments in wholly-owned Fairfax affiliates are fully eliminated on consolidation.

Runoff

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Gross premiums written	**65.0**	35.3	**163.9**	36.3
Net premiums written	**84.0**	29.9	**179.7**	30.4
Net premiums earned	**89.4**	50.3	**231.6**	83.0
Losses on claims	**(103.8)**	45.4	**(265.9)**	23.8
Operating expenses	**(13.9)**	(15.5)	**(117.2)**	(95.5)
Interest and dividends	**6.6**	10.8	**63.0**	66.0
Operating income (loss)	**(21.7)**	91.0	**(88.5)**	77.3
Net gains (losses) on investments	**(9.5)**	(64.2)	**364.9**	(306.5)
Gain on redemption of investment in OdysseyRe(1)	**406.1**	—	**406.1**	—
Loss on repurchase of long term debt	**(3.5)**	—	**(3.5)**	—
Pre-tax income (loss) before interest and other	**371.4**	26.8	**679.0**	(229.2)

(1) Eliminated on consolidation.

In the fourth quarter of 2014, Fairfax centralized the ownership of its wholly-owned reinsurance and insurance company, Odyssey Re Holdings Corp., under a single intermediate holding company in the U.S. This reorganization had no effect on Fairfax's consolidated financial reporting; however, it impacted Runoff as described in the "Business Developments" section of this MD&A.

On December 4, 2014, RiverStone (UK) agreed to reinsure an Italian medical malpractice runoff portfolio principally comprised of liabilities arising from direct policies issued to hospitals in Italy between 2007 and 2010 (the "medical malpractice reinsurance transaction"). Runoff received a cash premium of $66.5 as consideration for the assumption of $65.5 of net loss reserves.

On October 6, 2014, TIG Insurance sold its wholly-owned inactive subsidiary Valiant Insurance Company and its wholly-owned subsidiary Valiant Specialty Insurance Company (“Valiant Group”) to a third party purchaser and recognized a net gain on investment of $6.5. Subsequent to the sale, TIG Insurance will continue to reinsure 100% of the gross insurance liabilities of Valiant Group and has entered into an administrative agreement with the purchaser whereby TIG Insurance will provide claims handling services on those liabilities.

On August 29, 2014 U.S. Runoff agreed to reinsure a construction defect runoff portfolio of Everest Re (the ‘‘Everest Re reinsurance transaction’’) and received a cash premium of $84.6 as consideration for the assumption of $82.6 of net loss reserves. This construction defect runoff portfolio was principally comprised of direct policies issued to general contractors between 2002 and 2004, primarily in the western U.S. (predominantly California).

On August 18, 2014 Runoff commuted a $312.7 reinsurance recoverable from Brit Group for proceeds of $310.2, comprised of cash and investments, and recognized a loss of $2.5.

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. 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 since the company’s management does not consider the initial effects of such reinsurance transactions in its assessment of the performance of Crum & Forster and Runoff (Runoff's 2013 gross premiums written, net premiums written, net premiums earned and losses on claims would have increased by $68.6, with operating income remaining unchanged).

On October 3, 2013 Runoff acquired American Safety Insurance Holdings, Ltd. ("American Safety"). Refer to note 23 (Acquisitions and Divestitures) to the consolidated financial statements for the year ended December 31, 2013 for a detailed discussion of the acquisition.

On March 29, 2013 TIG Insurance commuted an $85.4 reinsurance recoverable for proceeds of $118.5 (principally cash consideration of $115.8) and recognized a gain of $33.1.

Runoff reported an operating loss of $21.7 in the fourth quarter of 2014 compared to an operating income of $91.0 in the fourth quarter of 2013. Net premiums earned in the fourth quarter of 2014 of $89.4 principally reflected the impact of the medical malpractice reinsurance transaction ($66.5), premium adjustments at RiverStone Insurance ($15.0) and the runoff of policies in force on the acquisition date of American Safety ($7.9). Net premiums earned in the fourth quarter of 2013 of $50.3 principally reflected the runoff of policies in-force on the acquisition dates of American Safety ($20.7) and premium adjustments at RiverStone Insurance ($24.9). Losses on claims of $103.8 in the fourth quarter of 2014 primarily reflected net adverse prior year reserve development at Clearwater Insurance ($96.2 principally related to strengthening of construction contractors loss reserves assumed from Crum & Forster and asbestos and environmental loss reserves in the legacy portfolio) and TIG Insurance ($36.4 principally related to strengthening of asbestos loss reserves, partially offset by net favourable development of workers' compensation loss reserves) and the impact of the medical malpractice reinsurance transaction ($65.5), partially offset by net favourable prior year reserve development at American Safety ($67.4 related to environmental remediation contractor and other long tail casualty loss reserves). Losses on claims in the fourth quarter of 2013 reflected net favourable prior year reserve development at General Fidelity ($50.7 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). Operating expenses decreased from $15.5 in the fourth quarter of 2013 to $13.9 in the fourth quarter of 2014, primarily as a result of the release of a provision for uncollectible reinsurance in European Runoff, partially offset by incremental operating expenses associated with

American Safety. Interest and dividend income decreased from $10.8 in the fourth quarter of 2013 to $6.6 in the fourth quarter of 2014 primarily reflecting a higher share of loss of associates (principally related to Runoff's investment in Thai Re).

Runoff reported an operating loss of $88.5 in the full year of 2014 compared to operating income of $77.3 in the full year of 2013. Net premiums earned in the full year of 2014 of $231.6 principally reflected the impacts of the Everest Re reinsurance transaction and the medical malpractice reinsurance transaction ($84.1 and $66.5 respectively), the runoff of policies in force on the acquisition date of American Safety ($65.9) and premium adjustments at RiverStone Insurance ($15.0). Net premiums earned in the full year of 2013 of $83.0 primarily reflected the runoff of policies in force on the acquisition dates of RiverStone Insurance and American Safety ($29.5 and $20.7 respectively) and premium adjustments at RiverStone Insurance ($24.9). Losses on claims of $265.9 in the full year of 2014 primarily reflected net adverse prior year reserve development at Clearwater Insurance ($111.2 principally related to strengthening of construction contractors loss reserves assumed from Crum & Forster and asbestos and environmental loss reserves in the legacy portfolio) and TIG Insurance ($55.8 principally related to strengthening of asbestos loss reserves, partially offset by net favourable development of workers' compensation loss reserves) and the impacts of the medical malpractice reinsurance transaction and the Everest Re reinsurance transaction ($65.5 and $72.6 respectively), partially offset by net favourable prior year reserve development at American Safety ($67.4 related to environmental remediation contractor and other long tail casualty loss reserves). Losses on claims in the full year of 2013 included a gain of $33.1 on significant reinsurance commutation and 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 the 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). Operating expenses increased from $95.5 in the full year of 2013 to $117.2 in the full year of 2014, primarily as a result of incremental operating expenses associated with the Everest Re reinsurance transaction and American Safety, partially offset by the release of a provision for uncollectible reinsurance in European Runoff. Interest and dividend income decreased from $66.0 in the full year of 2013 to $63.0 in the full year of 2014 primarily reflecting lower dividends earned on common stocks and lower share of profit of associates (principally related to Runoff's investment in Thai Re), partially offset by lower total return swap expense.

The Runoff segment produced pre-tax income before interest and other of $371.4 in the fourth quarter of 2014 compared to pre-tax income before interest and other of $26.8 in the fourth quarter of 2013 with the year-over-year increase in profitability primarily due to the net gain on redemption of Runoff's investment in OdysseyRe and lower net losses on investments (as set out in the table below), partially offset by the increased operating loss and the loss on repurchase of long term debt (described below).

The Runoff segment produced pre-tax income before interest and other of $679.0 in the full year of 2014 compared to a pre-tax loss before interest and other of $229.2 in the full year of 2013 with the year-over-year increase in profitability primarily due to the significant increase in net gains on investments (as set out in the table below) and the net gain on redemption of Runoff's investment in OdysseyRe, partially offset by the increased operating loss and the loss on repurchase of long term debt (described below).

	Fourth quarter		**Year ended December 31,**	
	2014	2013	**2014**	2013
Equity and equity-related holdings	**(80.6)**	48.6	**69.8**	218.3
Equity hedges	**(44.1)**	(71.1)	**(24.6)**	(313.2)
Bonds	**88.8**	(35.3)	**294.4**	(226.9)
CPI-linked derivatives	**6.4**	(0.9)	**(3.8)**	(5.6)
Foreign currency	**12.9**	(5.7)	**17.4**	10.6
Gain on disposition of associates	**—**	—	**4.4**	9.8
Other	**7.1**	0.2	**7.3**	0.5
Net gains (losses) on investments	**(9.5)**	(64.2)	**364.9**	(306.5)

On December 15, 2014 Runoff redeemed $25.0 principal amount (carrying value of $21.5) of American Safety's floating rate trust preferred securities due 2035 for cash consideration of $25.0 and recorded a loss on repurchase of long term debt of $3.5 in other expenses in the consolidated statement of earnings. During the full year of 2014 Runoff paid dividends to Fairfax comprised of a cash dividend of $36.2 (2013 – $30.0) and a dividend-in-kind in connection with the OdysseyRe reorganization (comprised of marketable securities) of $74.5 (2013 – nil). The cash dividend received by Fairfax of $30.0 in the full year of 2013 was immediately reinvested into Runoff and formed part of the funding for the acquisition of American Safety.

Other

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Revenue	**506.2**	304.1	**1,556.0**	958.0
Expenses	**(472.0)**	(280.1)	**(1,488.7)**	(906.9)
Pre-tax income before interest and other	**34.2**	24.0	**67.3**	51.1
Interest and dividends	**3.5**	0.4	**10.3**	0.8
Net gains on investments	**2.5**	—	**43.1**	—
Pre-tax income before interest expense	**40.2**	24.4	**120.7**	51.9

On November 14, 2014 the company acquired all of the outstanding common shares, preferred shares and employee share options of Pethealth Inc. ("Pethealth") for cash purchase consideration of $88.7 (Cdn$100.4). The goodwill and intangible assets associated with the marketing of pet medical insurance was allocated to the Crum & Forster and Northbridge reporting segments ($90.9 and $17.3 respectively) since they will become Pethealth's ongoing insurance carriers. Pethealth's residual assets and liabilities and results of operations were consolidated in the Other reporting segment. Pethealth is headquartered in Canada and provides pet medical insurance, management software and pet-related database management services in North America and the United Kingdom.

On September 3, 2014 the company acquired control of Sterling Resorts through its 73.0%-owned Thomas Cook India subsidiary pursuant to the transaction described in note 15 (Acquisitions and Divestitures) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2014. Having obtained control, Thomas Cook India was required to re-measure its existing ownership interest in Sterling Resorts at fair value as of September 3, 2014, resulting in the recognition of a one-time non-cash gain of $41.2, representing the difference between the fair value of the previously held interest in Sterling Resorts and its carrying value under the equity method of accounting.

On June 5, 2014 Fairfax completed the acquisition of a 100% interest in Praktiker for cash purchase consideration of $28.6 (€21.0 million). Praktiker is one of the largest home improvement and do-it-yourself goods retailers in Greece, operating 14 stores.

On February 4, 2014 the company completed the acquisition of 51.0% of the outstanding common shares of The Keg for cash purchase consideration of $76.7 (Cdn$85.0). The Keg franchises, owns and operates a network of premium dining restaurants across Canada and in select locations in the United States.

Ridley's revenue and expenses fluctuate with changes in raw material prices. The increase in Ridley's revenues from $152.5 in the fourth quarter of 2013 to $164.3 in the fourth quarter of 2014 and from $561.1 in the full year of 2013 to $588.8 in the full year of 2014 primarily reflected an increase in sales volumes combined with a more favourable product mix 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, Praktiker (acquired on June 5, 2014), The Keg (acquired on February 4, 2014), Prime Restaurants (acquired on January 10, 2012 and subsequently sold on October 31, 2013), Thomas Cook India, IKYA (acquired on May 14, 2013), Sterling Resorts (consolidated since September 3, 2014) and Pethealth (acquired on November 14, 2014).

Interest and Dividends and Net Gains (Losses) on Investments

An analysis of consolidated 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 increased from $51.3 in the fourth quarter of 2013 to $53.0 in the fourth quarter of 2014, primarily reflecting the issuance on August 13, 2014 of $300.0 principal amount of unsecured senior notes due 2024 and the consolidation of the long term debt of The Keg, partially offset by the repayment on November 1, 2013 of $182.9 principal amount of OdysseyRe unsecured senior notes upon maturity and the favourable impact of foreign currency translation on the interest expense of the company's Canadian dollar denominated long term debt.

Consolidated interest expense decreased from $211.2 in the full year of 2013 to $206.3 in the full year of 2014, reflecting the repayment on November 1, 2013 of $182.9 principal amount of OdysseyRe unsecured senior notes upon maturity, the repurchase in the first quarter of 2013 of $48.4 principal amount of Fairfax unsecured senior notes due 2017 and the favourable impact of foreign currency translation on the interest expense of the company's Canadian dollar denominated long term debt, partially offset by the issuance on August 13, 2014 of $300.0 principal amount of unsecured senior notes due 2024, the consolidation of the subsidiary indebtedness and long term debt of American Safety, IKYA and The Keg and higher subsidiary indebtedness and long term debt of Thomas Cook India year-over-year.

Consolidated interest expense was comprised as follows:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Fairfax	**44.3**	42.9	**171.4**	172.3
Crum & Forster	**0.3**	0.4	**1.4**	1.5
Zenith National	**0.8**	0.8	**3.3**	3.3
OdysseyRe	**3.2**	4.4	**12.7**	24.8
Advent	**1.0**	1.1	**4.2**	4.3
Runoff	**0.2**	0.4	**1.0**	0.4
Other (principally related to The Keg and Thomas Cook India)	**3.2**	1.3	**12.3**	4.6
	53.0	51.3	**206.3**	211.2

Corporate Overhead and Other

Corporate overhead and other consists of the expenses of all of the group holding companies and loss on repurchase of long term debt, net of the company's investment management and administration fees and the interest and dividend income (inclusive of share of profit (loss) of associates and total return swap expense (income)) earned on holding company cash and investments.

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Fairfax corporate overhead	**19.5**	32.9	**85.1**	102.5
Subsidiary holding companies' corporate overhead	**20.0**	16.2	**80.6**	96.0
Holding company interest and dividends	**(18.1)**	(5.8)	**6.3**	11.7
Investment management and administration fees	**(14.7)**	(18.4)	**(79.1)**	(88.3)
Loss on repurchase of long term debt	**3.5**	—	**3.6**	3.4
	10.2	24.9	**96.5**	125.3

Fairfax corporate overhead decreased from $32.9 in the fourth quarter of 2013 to $19.5 in the fourth quarter of 2014 (decreased from $102.5 in the full year of 2013 to $85.1 in the full year of 2014) primarily as a result of lower compensation expenses and legal fees and one-time expenses incurred in 2013 related to the acquisition of American Safety.

Subsidiary holding companies' corporate overhead increased from $16.2 in the fourth quarter of 2013 to $20.0 in the fourth quarter of 2014 primarily as a result of higher charitable donations. Subsidiary holding companies' corporate overhead decreased from $96.0 in the full year of 2013 to $80.6 in the full year of 2014, primarily as a result of a non-recurring charge of $31.2 incurred at Northbridge in 2013 related to redundant software development costs, partially offset by higher restructuring costs and charitable donations in 2014.

Total return swap expense ($5.5 and $30.0 in the fourth quarter and full year of 2014 respectively and $4.4 and $31.2 in the fourth quarter and full year of 2013 respectively) is reported as a component of interest and dividend income. Holding company interest and dividends also included share of profit of associates ($20.8 and $14.4 in the fourth quarter and full year of 2014 respectively and $6.4 and $11.4 in the fourth quarter and full year of 2013 respectively). Prior to giving effect to the impacts of total return swap expense and share of profit of associates, interest and dividend income on holding company cash and investments decreased from $3.8 in the fourth quarter of 2013 to $2.8 in the fourth quarter of 2014 and increased from $8.1 in the full year of 2013 to $9.3 in the full year of 2014.

Investment management and administration fees decreased from $18.4 in the fourth quarter of 2013 to $14.7 in the fourth quarter of 2014 primarily related to management fees on equity investments. Investment management and administration fees decreased from $88.3 in the full year of 2013 to $79.1 in the full year of 2014 primarily as a result of adjustments to the fees in respect of the prior year.

Net gains (losses) on investments attributable to the corporate and other reporting segment was comprised as follows:

	Fourth quarter		Year ended December 31,	
	2014	2013	**2014**	2013
Equity and equity-related holdings	**(20.6)**	38.5	**30.2**	129.9
Equity hedges	**(3.2)**	(84.5)	**(66.1)**	(112.3)
Bonds	**(4.8)**	3.4	**9.6**	7.6
Foreign currency	**(3.2)**	(0.6)	**(11.7)**	(3.7)
Gain on disposition of associates	**—**	—	**0.7**	12.1
Gain on redemption of investment in OdysseyRe[(1)]	**38.5**	—	**38.5**	—
Other	**21.6**	9.4	**28.5**	30.9
Net gains (losses) on investments	**28.3**	(33.8)	**29.7**	64.5

(1) Eliminated on consolidation.

Income Taxes

The $41.3 and $673.3 provision for income taxes in the fourth quarter and full year of 2014 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), unrecorded income tax losses and temporary differences and income earned in jurisdictions where the corporate income tax rate differs from the company's Canadian statutory income tax rate.

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 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.

Consolidated Balance Sheet Summary

Holding company cash and investments decreased to $1,244.3 ($1,212.7 net of $31.6 of holding company short sale and derivative obligations) at December 31, 2014 from $1,296.7 at December 31, 2013 ($1,241.6 net of $55.1 of holding company short sale and derivative obligations). Significant cash movements at the Fairfax holding company level during the full year of 2014 are as set out in the Financial Condition section of this MD&A under the heading Liquidity.

Insurance contract receivables decreased by $85.3 to $1,931.7 at December 31, 2014 from $2,017.0 at December 31, 2013 primarily as a result of decreased reinsurance premiums receivable reflecting normal course collection activities (Runoff) and collection in the first quarter of 2014 of commutation proceeds receivable at December 31, 2013 (Runoff), partially offset by increased insurance premiums receivable reflecting the timing of policy renewals at OdysseyRe (principally related to its U.S. crop business) and the impact of increased business volumes at Fairfax Brasil and Advent.

Portfolio investments comprise investments carried at fair value and equity accounted investments, the aggregate carrying value of which was $25,109.2 at December 31, 2014 ($24,980.0 net of subsidiary short sale and derivative obligations) compared to an aggregate carrying value at December 31, 2013 of $23,833.3 ($23,620.0 net of subsidiary short sale and derivative obligations). The increase of $1,360.0 year-over-year generally reflected net unrealized appreciation of bonds and common stocks, and cash provided by operating activities, partially offset by the unfavourable impact of foreign currency translation (principally the strengthening of the U.S. dollar relative to the Canadian dollar) in addition to the specific factors which caused movements in portfolio investments as discussed in the subsequent paragraphs.

Subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) decreased by $1,741.3 primarily reflecting cash used to fund net purchases of other government bonds and other common stocks, net settlements of long and short equity and equity index total return swaps in accordance with their reset provisions, acquisitions of certain investments in associates (net of dispositions), and to enter into CPI-linked derivative contracts.

Bonds (including bonds pledged for short sale derivative obligations) increased by $1,782.0 primarily reflecting net unrealized appreciation (principally related to bonds issued by U.S. states and municipalities and the U.S. government) and net purchases of other government bonds.

Common stocks increased by $1,012.8 primarily reflecting net unrealized appreciation and net purchases of other common stocks.

Investments in associates increased by $185.2 primarily reflecting the share of profit of associates of $105.7, investments in AgriCo, additional investments in Grivalia Properties (formerly Eurobank Properties REIC prior to October 15, 2014) and Thai Re, partially offset by the share of losses on defined benefit plans of associates of $50.8 (principally related to Resolute), the sale of the company's investments in MEGA Brands and two KWF LPs and net unrealized foreign currency translation losses.

Derivatives and other invested assets net of short sale and derivative obligations increased by $286.7 primarily reflecting higher receivables from counterparties to the company's short equity and equity index total return swaps (excluding the impact of collateral requirements) and net unrealized gains on CPI-linked derivatives and foreign currency contracts.

Recoverable from reinsurers decreased by $992.6 to $3,982.1 at December 31, 2014 from $4,974.7 at December 31, 2013 primarily reflecting Runoff's continued progress reducing its recoverable from reinsurers (through normal cession and collection activity and commutations including the commutation of a reinsurance recoverable from the Brit Group with a carrying value of $312.7), the impact of more favourable loss experience at OdysseyRe in its U.S. federal crop insurance business and favourable prior year reserve development ceded to reinsurers.

Deferred income taxes decreased by $554.6 to $460.4 at December 31, 2014 from $1,015.0 at December 31, 2013 primarily due to realized and unrealized investment gains and improved underwriting profitability in the U.S.

Other assets increased by $259.5 to $1,347.6 at December 31, 2014 from $1,088.1 at December 31, 2013 primarily as a result of the consolidation of the other assets of The Keg, Sterling Resorts and Praktiker, partially offset by decreased income taxes refundable reflecting operating income earned in the full year of 2014 (principally at Northbridge) and lower receivables on securities sold not yet settled.

Provision for losses and loss adjustment expenses decreased by $1,463.7 to $17,749.1 at December 31, 2014 from $19,212.8 at December 31, 2013 primarily reflecting Runoff's continued progress settling its claim liabilities, the impact on loss reserves of the strengthening of the U.S. dollar relative to the Canadian dollar (principally at Northbridge) and the euro and British Pound Sterling (principally at OdysseyRe and Runoff), favourable prior year reserve development at OdysseyRe, Northbridge, Group Re, Advent and Zenith National and lower current period catastrophe losses, partially offset by the impact of the Everest Re reinsurance transaction and medical malpractice reinsurance transaction at Runoff, unfavourable prior year reserve development at Runoff and increased claim liabilities at Fairfax Asia and Fairfax Brasil (reflecting increased business volumes).

Non-controlling interests increased by $110.7 to $218.1 at December 31, 2014 from $107.4 at December 31, 2013 principally as a result of the consolidation of Sterling Resorts during the third quarter of 2014, the acquisition of The Keg during the first quarter of 2014 and net earnings attributable to the non-controlling interests, partially offset by dividends paid to non-controlling shareholders.

Investments

Interest and Dividends

Consolidated interest and dividend income increased from $104.1 in the fourth quarter of 2013 to $119.4 in the fourth quarter of 2014, reflecting a modest increase in interest income earned, partially offset by higher total return swap expense. Consolidated interest and dividend income increased from $376.9 in the full year of 2013 to $403.8 in the full year of 2014, reflecting an increase in interest income earned and lower total return swap expense, partially offset by lower dividends earned on common stocks as a result of sales of dividend paying equities during 2013. Total return swap expense increased from $31.6 in the fourth quarter of 2013 to $35.9 in the fourth quarter of 2014, reflecting lower total return swap income earned following the termination of a significant portion of the company's long equity total return swaps at the end of 2013, partially offset by lower total return swap expense following the termination in 2013 of a portion of the company's Russell 2000 and all of its S&P 500 equity index total return swaps. Total return swap expense decreased from $167.9 in the full year of 2013 to $156.3 in the full year of 2014, reflecting lower total return swap expense, partially offset by lower total return swap income in the full year of 2014 as a result of the transactions described above.

The share of profit of associates decreased from $30.4 in the fourth quarter of 2013 to $15.7 in the fourth quarter of 2014, primarily reflecting the company's share of losses of Resolute in the fourth quarter of 2014 and decreased limited partnership investment income, partially offset by improvement in share of profit of Thai Re and ICICI Lombard on a year-over-year basis. The share of profit from associates increased from $96.7 in the full year of 2013 to $105.7 in the full year of 2014, primarily reflecting improvements in the share of profit of ICICI Lombard, Grivalia Properties and Thai Re, partially offset by decreases in the share of profit of Resolute and decreased limited partnerships investment income on a year-over-year basis.

Net Gains (Losses) on Investments

Net gains (losses) on investments for the fourth quarters and years ended December 31, 2014 and 2013 were comprised as shown in the following tables:

	Fourth quarter					
	2014			2013		
	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	**18.7**	**(375.5)**	**(356.8)**	281.1	(42.3)	238.8
Preferred stocks - convertible	**(161.5)** (1)	**80.4**	**(81.1)**	—	42.1	42.1
Bonds - convertible	**3.3**	**68.9**	**72.2**	140.8	(143.6)	(2.8)
Gain on disposition of associate(2)	**16.5**	**—**	**16.5**	—	—	—
Other equity derivatives(3)(4)	**—**	**(39.0)**	**(39.0)**	323.9	(264.6)	59.3
Equity and equity-related holdings	**(123.0)**	**(265.2)**	**(388.2)**	745.8	(408.4)	337.4
Equity hedges(4)	**—**	**(302.5)**	**(302.5)**	(739.2)	166.6	(572.6)
Equity and equity-related holdings after equity hedges	**(123.0)**	**(567.7)**	**(690.7)**	6.6	(241.8)	(235.2)
Bonds	**89.7**	**222.5**	**312.2**	2.8	(104.2)	(101.4)
Preferred stocks	**(2.1)**	**0.9**	**(1.2)**	—	1.8	1.8
CPI-linked derivatives	**—**	**116.4**	**116.4**	—	(14.4)	(14.4)
Other derivatives	**15.5**	**10.0**	**25.5**	2.3	14.4	16.7
Foreign currency	**66.0**	**(7.8)**	**58.2**	16.0	(3.2)	12.8
Other	**7.0**	**—**	**7.0**	(9.3)	(0.1)	(9.4)
Net gains (losses) on investments	**53.1**	**(225.7)**	**(172.6)**	18.4	(347.5)	(329.1)
Net gains (losses) on bonds is comprised as follows:						
Government bonds	**76.7**	**106.6**	**183.3**	(0.5)	(56.6)	(57.1)
U.S. states and municipalities	**12.7**	**123.8**	**136.5**	3.7	(45.6)	(41.9)
Corporate and other	**0.3**	**(7.9)**	**(7.6)**	(0.4)	(2.0)	(2.4)
	89.7	**222.5**	**312.2**	2.8	(104.2)	(101.4)

(1) During the fourth quarter of 2014, pursuant to its terms, a preferred stock investment of the company was automatically converted into common shares of the issuer resulting in a net realized loss on investment of $161.5 (the difference between the share price of the underlying common stock at the date of conversion and the exercise price of the preferred stock).

(2) During the fourth quarter of 2014 the company sold its holdings in a KWF LP and recognized a net realized gain on investment of $9.9.

(3) Other equity derivatives include long equity total return swaps and equity warrants.

(4) 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, 2014			Year ended December 31, 2013		
	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	**483.5**	**(216.6)**	**266.9**	684.1	257.1	941.2
Preferred stocks - convertible	**(161.5)** [1]	**47.2**	**(114.3)**	—	64.7	64.7
Bonds - convertible	**36.7**	**166.7**	**203.4**	153.6	(156.2)	(2.6)
Gain on disposition of associates[2]	**53.6**	**—**	**53.6**	130.2	—	130.2
Other equity derivatives[3] [4]	**184.6**	**(52.3)**	**132.3**	356.3	(44.7)	311.6
Equity and equity-related holdings	**596.9**	**(55.0)**	**541.9**	1,324.2	120.9	1,445.1
Equity hedges[3]	**13.0**	**(207.5)**	**(194.5)**	(1,350.7)	(631.3)	(1,982.0)
Equity and equity-related holdings after equity hedges	**609.9**	**(262.5)**	**347.4**	(26.5)	(510.4)	(536.9)
Bonds	**103.0**	**1,134.2**	**1,237.2**	65.9	(994.9)	(929.0)
Preferred stocks	**(0.3)**	**(27.2)**	**(27.5)**	(1.2)	(17.8)	(19.0)
CPI-linked derivatives	**—**	**17.7**	**17.7**	—	(126.9)	(126.9)
Other derivatives	**12.5**	**(2.3)**	**10.2**	2.1	(9.1)	(7.0)
Foreign currency	**59.0**	**44.4**	**103.4**	(3.7)	66.1	62.4
Other	**6.5**	**41.3** [5]	**47.8**	(7.7)	0.1	(7.6)
Net gains (losses) on investments	**790.6**	**945.6**	**1,736.2**	28.9	(1,592.9)	(1,564.0)
Net gains (losses) on bonds is comprised as follows:						
Government bonds	**79.6**	**451.7**	**531.3**	35.9	(303.5)	(267.6)
U.S. states and municipalities	**18.5**	**666.2**	**684.7**	19.1	(656.4)	(637.3)
Corporate and other	**4.9**	**16.3**	**21.2**	10.9	(35.0)	(24.1)
	103.0	**1,134.2**	**1,237.2**	65.9	(994.9)	(929.0)

(1) During the fourth quarter of 2014, pursuant to its terms, a preferred stock investment of the company was automatically converted into common shares of the issuer resulting in a net realized loss on investment of $161.5 (the difference between the share price of the underlying common stock at the date of conversion and the exercise price of the preferred stock).

(2) The gain on disposition of associates of $53.6 in the full year of 2014 principally reflected the dispositions of the company's investments in MEGA Brands and two KWF LPs. The gain on disposition of associates of $130.2 in the full year of 2013 reflected the sales of the company's investments in The Brick ($111.9), a private company ($12.1) and Imvescor ($6.2).

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

(4) 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).

(5) During the third quarter of 2014 Thomas Cook India increased its ownership interest in Sterling Holiday Resorts (India) Limited ("Sterling Resorts") to 55.1% and ceased applying the equity method of accounting, resulting in a non-cash gain of $41.2 in the consolidated statement of earnings.

Equity and equity-related holdings after equity hedges: 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/TSX 60 index, other equity indexes and certain individual equities. 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.

At December 31, 2014 equity hedges with a notional amount of $6,856.9 (December 31, 2013 - $6,327.4) represented 89.6% (December 31, 2013 - 98.2%) of the company's equity and equity-related holdings of $7,651.7 (December 31, 2013 - $6,442.6). The decrease in the hedge ratio resulted from appreciation and net purchases of equity and equity-related holdings, which exceeded the performance of the equity hedges and net purchases of equity hedges, during the year.

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 16 (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, 2014, for a tabular analysis followed by a discussion of the company's hedges of equity price risk and the related basis risk.

	December 31, 2014				December 31, 2013			
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**	**1,204.70**	37,424,319	2,477.2	661.92	1,163.64
S&P/TSX 60	**13,044,000**	**206.1**	**641.12**	**854.85**	13,044,000	206.1	641.12	783.75
Other equity indices	**—**	**140.0**	**—**	**—**	—	140.0	—	—
Individual equities	**—**	**1,701.9**	**—**	**—**	—	1,481.8	—	—

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

Bonds: Net gains on bonds of $312.2 and $1,237.2 in the fourth quarter and full year of 2014 respectively were primarily comprised of net mark-to-market gains principally as a result of the effect of a decrease in interest rates during the fourth quarter and full year of 2014 on U.S. treasury bonds ($137.4 and $321.2 in the fourth quarter and full year of 2014 respectively) and U.S. state and municipal bonds ($132.4 and $658.7 in the fourth quarter and full year of 2014 respectively). The company recorded net losses on bonds of $101.4 and $929.0 in the fourth quarter and full year of 2013.

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, 2014 these contracts have a remaining weighted average life of 7.4 years (December 31, 2013 - 7.5 years), a notional amount of $111.8 billion (December 31, 2013 - $82.9 billion) and a fair value of $238.4 (December 31, 2013 - $131.7). The company's CPI-linked derivative contracts produced unrealized gains of $116.4 and $17.7 in the fourth quarter and full year of 2014 respectively, compared to unrealized losses of $14.4 and $126.9 in the fourth quarter and full year of 2013 respectively. 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 2014 the company entered into CPI-linked derivative contracts with notional amounts of $6,100.0 and $35,954.2 respectively (2013 - $650.0 and $32,327.7 respectively) at a cost of $21.1 and $120.6 respectively (2013 - $1.8 and $99.8 respectively). Additional premiums of $5.1 and $24.0 were paid in the fourth quarter and full year of 2013 to increase the strike price of certain CPI-linked derivative contracts (primarily the U.S. CPI-linked derivatives). 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 year ended December 31, 2014 for a discussion of the company's economic hedge against the potential adverse financial impact of decreasing price levels.

Financial Risk Management

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, 2014 compared to those identified at December 31, 2013 and disclosed in the company's 2013 Annual Report other than as outlined in note 16 (Financial Risk Management) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2014.

Financial Condition

Capital Resources and Management

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

	December 31, 2014	December 31, 2013
Holding company cash and investments (net of short sale and derivative obligations)	**1,212.7**	1,241.6
Long term debt – holding company borrowings	**2,656.5**	2,491.0
Long term debt – insurance and reinsurance companies	**385.9**	458.8
Subsidiary indebtedness - non-insurance companies	**37.6**	25.8
Long term debt – non-insurance companies	**99.0**	18.9
Total debt	**3,179.0**	2,994.5
Net debt	**1,966.3**	1,752.9
Common shareholders' equity	**8,361.0**	7,186.7
Preferred stock	**1,164.7**	1,166.4
Non-controlling interests	**218.1**	107.4
Total equity	**9,743.8**	8,460.5
Net debt/total equity	**20.2%**	20.7%
Net debt/net total capital(1)	**16.8%**	17.2%
Total debt/total capital(2)	**24.6%**	26.1%
Interest coverage(3)	**12.3x**	n/a
Interest and preferred share dividend distribution coverage(4)	**9.0x**	n/a

(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, 2014 increased by $165.5 to $2,656.5 from $2,491.0 at December 31, 2013 primarily reflecting the issuance on August 13, 2014 of $300.0 principal amount of holding company unsecured senior notes due 2024, partially offset by the impact of foreign currency translation on the company's Canadian dollar denominated long term debt and the repurchase of $7.0 principal amount of trust preferred securities due 2027.

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, 2014 increased by $19.0 to $522.5 from $503.5 at December 31, 2013, primarily reflecting the consolidation of the long term debt of The Keg and higher subsidiary indebtedness at IKYA, partially offset by the redemption of $50.0 principal amount of OdysseyRe Series B unsecured senior notes due 2016 and the redemption of $25.0 principal amount of American Safety's floating rate trust preferred securities due 2035.

Common shareholders' equity at December 31, 2014 increased by $1,174.3 to $8,361.0 from $7,186.7 at December 31, 2013 primarily as a result of net earnings attributable to shareholders of Fairfax ($1,633.2), partially offset by decreased accumulated other comprehensive income (a decrease of $196.5 in 2014, primarily related to net unrealized foreign currency translation losses ($74.6), the share of other comprehensive loss of associates ($89.4 inclusive of actuarial losses related to associates' defined benefit plans of $36.7) and actuarial losses related to the company's subsidiaries' defined benefit plans ($32.5)) and the payment of dividends on the company's common and preferred shares ($272.6).

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 16.8% at December 31, 2014 from 17.2% at December 31, 2013 primarily as a result of increases in net total capital, partially offset by increases in net debt. The increase in net debt was due to an increase in total debt (primarily increased holding company borrowings and subsidiary debt as described above) and a slight decrease in holding company cash and investments (net of short sale and derivative obligations). The increase in net total capital was due to increases in common shareholders' equity, non-controlling interests and net debt. The consolidated total debt/total capital ratio decreased to 24.6% at December 31, 2014 from 26.1% at December 31, 2013 primarily as a result of increased total capital (reflecting increases in common shareholders' equity, total debt and non-controlling interests), partially offset by increased total debt (primarily increased holding company borrowings and subsidiary debt as described above).

Liquidity

Holding company cash and investments at December 31, 2014 totaled $1,244.3 ($1,212.7 net of $31.6 of holding company short sale and derivative obligations) compared to $1,296.7 at December 31, 2013 ($1,241.6 net of $55.1 of holding company short sale and derivative obligations).

Significant cash and investment movements at the Fairfax holding company level during the full year of 2014 included the following outflows: the payment of $272.6 of common and preferred share dividends, the payment of $158.1 of interest on long term debt, the payment of $113.4 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 funding for the redemptions of OdysseyRe Series B unsecured senior notes due 2016 and American Safety trust preferred securities due 2035 ($50.0 and $25.0 principal amounts respectively), cash purchase consideration of $28.6 (€21.0 million) and $88.7 (Cdn$100.4) related to the acquisitions of Praktiker and Pethealth respectively and intra-group and capital transactions (inclusive of those related to the OdysseyRe reorganization as described in the "Business Developments" section of this MD&A). Significant inflows during the full year of 2014 included the following: net proceeds of $294.2 from the issuance of $300.0 principal amount of 4.875% senior notes due August 13, 2024, the receipt of corporate income tax refunds ($106.4) and the receipt of dividends from subsidiaries (primarily OdysseyRe ($225.0 ordinary dividends and a $100.0 extraordinary dividend), Crum & Forster ($150.0), Zenith National ($50.0) and Runoff ($36.2)). Dividends of $150.0 and $100.0 paid by Crum & Forster and OdysseyRe respectively were to facilitate the OdysseyRe reorganization. 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 investments.

The company believes that holding company cash and investments, net of holding company short sale and derivative obligations at December 31, 2014 of $1,212.7 provides adequate liquidity to meet the holding company's known obligations in 2015. 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, 2013 in the company's 2013 Annual Report). The holding company's known significant commitments for 2015 consist of the payment of the $216.1 dividend on common shares ($10.00 per share paid January 2015), interest and corporate overhead expenses, preferred share dividends, income tax payments and potential cash outflows related to derivative contracts (described below). The company used a portion of the net proceeds received from the August 13, 2014 issuance of $300.0 principal amount of 4.875% senior notes due 2024 to fund the redemption in the fourth quarter of 2014 the $50.0 principal amount of OdysseyRe Series B unsecured senior notes due 2016 and the $25.0 principal amount of American Safety trust preferred securities due 2035 and disclosed that it intends to use the remaining net proceeds to fund the repayment, upon maturity, of the Fairfax ($82.4) and OdysseyRe ($125.0) unsecured senior notes due in 2015.

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 2014 the holding company received net cash of $52.2 and paid net cash of $113.4 respectively (2013 - paid net cash of $70.3 and $67.8 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 2014 subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) decreased by $1,741.3 primarily reflecting cash used to fund net purchases of other government bonds and other common stocks, net settlements of long and short equity and equity index total return swaps in accordance with their reset provisions, acquisitions of certain investments in associates (net of dispositions), and to enter into CPI-linked derivative contracts. 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 2014 the insurance and reinsurance subsidiaries paid net cash of $128.6 and $194.2 respectively (2013 - paid net cash of $407.8 and $1,615.4 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 twelve months ended December 31:

	Year ended December 31,	
	2014	2013
Operating activities		
Cash provided by (used in) operating activities before the undernoted	**566.2**	(188.4)
Net (purchases) sales of securities classified as at FVTPL	**(636.4)**	895.7
Investing activities		
Net (purchases) sales of investments in associates and joint ventures	**(138.1)**	125.8
Net purchases of subsidiaries, net of cash acquired	**(189.9)**	136.3
Net purchases of premises and equipment and intangible assets	**(67.1)**	(48.1)
Financing activities		
Net (repayment) issuance of subsidiary indebtedness	**17.4**	(31.0)
Issuance of long term debt	**294.2**	278.1
Repurchase of holding company and subsidiary debt and securities	**(90.1)**	(251.2)
Issuance of subordinate voting shares	**—**	399.5
Repurchase of preferred shares	**(1.2)**	—
Purchase of subordinate voting shares for treasury	**(24.6)**	(25.7)
Issuance of subsidiary common shares to non-controlling interests	**—**	32.9
Common and preferred share dividends paid	**(272.6)**	(266.3)
Dividends paid to non-controlling interests	**(6.6)**	(6.4)
Increase (decrease) in cash, cash equivalents and bank overdrafts during the period	**(548.8)**	1,051.2

Cash provided by operating activities (excluding net (purchases) sales of securities classified as at FVTPL) was $566.2 in the full year of 2014 compared to cash used in operating activities of $188.4 in the full year of 2013 reflecting lower net paid losses and higher net premiums collected, partially offset by higher income taxes paid. Refer to note 19 (Supplementary Cash Flow Information) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2014 for details of net (purchases) sales of securities classified as at FVTPL.

Net purchases of investments in associates and joint ventures of $138.1 in the full year of 2014 primarily reflected investments in AgriCo and Sterling Resorts and additional investments in Grivalia Properties and Thai Re, partially offset by the sale of the company's investments in MEGA Brands and two KWF LPs. Net sales of investments in associates and joint ventures of $125.8 in the full year of 2013 primarily reflected the sales of the company's investments in The Brick, Imvescor and a private company, partially offset by additional investments in MEGA Brands and Resolute. Net purchases of subsidiaries, net of cash acquired of $189.9 in the full year of 2014 primarily related to the acquisition of a 51.0% interest in The Keg, the acquisitions of Praktiker and Pethealth, and the additional controlling interest in Sterling Resorts. Net purchases of subsidiaries, net of cash acquired of $136.3 in the full year of 2013 primarily related to the acquisition of a 58.0% economic interest in IKYA and the acquisitions of American Safety and Hartville.

Net repayment (issuance) of subsidiary indebtedness in the full year of 2014 and 2013 primarily reflected advances and repayments of the subsidiary indebtedness of Ridley, IKYA and Thomas Cook India in the normal course of business. Issuance of long term debt of $294.2 in the full year of 2014 reflected net proceeds from the issuance of $300.0 principal amount of Fairfax (US) Inc. 4.875% senior notes due August 13, 2024. Issuance of long term debt of $278.1 in the full year of 2013 reflected net proceeds from 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 net proceeds received by Thomas Cook India following the issuance of $18.3 (1 billion Indian rupees) principal amount of its debentures due 2018. Repurchase of holding company and subsidiary debt and securities of $90.1 in the full year of 2014 primarily reflected the redemption of $50.0 principal amount of OdysseyRe Series B unsecured senior notes due 2016, the redemption of $25.0 principal amount of American Safety trust preferred securities due 2035 and the repurchase of $7.0 principal amount of holding company trust preferred securities due 2027. Repurchase of holding company and subsidiary debt and securities of $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, the repurchase and redemption of $48.4 principal amount of Fairfax unsecured senior notes due 2017, and the redemption of $13.0 principal amount of American Safety's trust preferred securities. 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 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 qualified institutional buyers to partially fund the acquisition of IKYA. The company paid preferred share dividends of $56.9 in the full year of 2014 (2013 - $60.8). The company paid common share dividends of $215.7 in the full year of 2014 (2013 - $205.5).

Book Value Per Share

Common shareholders' equity at December 31, 2014 was $8,361.0 or $394.83 per basic share (excluding the unrecorded $452.8 excess of fair value over the carrying value of investments in associates) compared to $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) at December 31, 2013 representing an increase per basic share in the full year of 2014 of 16.5% (without adjustment for the $10.00 per common share dividend paid in the first quarter of 2014, or an increase of 19.5% adjusted to include that dividend). During the full year of 2014, the number of basic shares decreased primarily as a result of the repurchase of 23,826 subordinate voting shares for treasury (for use in the company's share-based payment awards). At December 31, 2014 there were 21,176,168 common shares effectively outstanding.

On September 26, 2014 the company commenced its normal course issuer bid by which it is authorized, until expiry of the bid on September 25, 2015, to acquire up to 800,000 subordinate voting shares, and cumulative five-year rate reset preferred shares as follows: 999,900 Series C shares; 800,000 Series E shares; 1,000,000 Series G shares; 1,200,000 Series I shares; and 950,000 Series K shares; representing approximately 3.9% of the public float in respect of the subordinate voting shares and 10% of the public float in respect of each series of preferred shares. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth.

Contingencies and Commitments

For a full description of these matters, please see note 14 (Contingencies and Commitments) to the condensed consolidated financial statements for the fourth quarter and year ended December 31, 2014.

Comparative Quarterly Data (unaudited)

	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Revenue	**2,073.7**	2,654.2	2,407.5	2,882.5	1,683.7	1,120.8	1,355.8	1,784.6
Net earnings (loss)	**38.2**	475.0	366.4	785.0	(1.8)	(569.1)	(156.9)	163.3
Net earnings (loss) attributable to shareholders of Fairfax	**23.7**	461.2	363.7	784.6	(5.5)	(571.7)	(157.8)	161.6
Net earnings (loss) per share	**$ 0.50**	$ 21.10	$ 16.47	$ 36.35	$ (0.98)	$ (29.02)	$ (8.55)	$ 7.22
Net earnings (loss) per diluted share	**$ 0.49**	$ 20.68	$ 16.15	$ 35.72	$ (0.98)	$ (29.02)	$ (8.55)	$ 7.12

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, 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; 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 implementing our business strategies; 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 impact of emerging claim and coverage issues; the failure of any of the loss limitation methods we employ; 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.

FAIRFAX
FINANCIAL HOLDINGS LIMITED