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# FAIRFAX

FINANCIAL HOLDINGS LIMITED

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## **Annual Meeting**

**April 09, 2014**

Note: All financial disclosure in this presentation is, unless otherwise noted, in US\$

# Forward-Looking Statements

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

# Guiding Principles

## Objectives

- We expect to compound our book value per share over the long term by 15% annually by running Fairfax and its subsidiaries for the long term benefit of customers, employees and shareholders – at the expense of short term profits if necessary

Our focus is long term growth in book value per share and not quarterly earnings. We plan to grow through internal means as well as through friendly acquisitions

- We always want to be soundly financed
- We provide complete disclosure annually to our shareholders

# Guiding Principles

## Structure

- Our companies are decentralized and run by the presidents except for performance evaluation, succession planning, acquisitions and financing, which are done by or with Fairfax. Cooperation among companies is encouraged to the benefit of Fairfax in total
- Complete and open communication between Fairfax and its subsidiaries is an essential requirement at Fairfax
- Share ownership and large incentives are encouraged across the Group
- Fairfax head office will always be a very small holding company and not an operating company

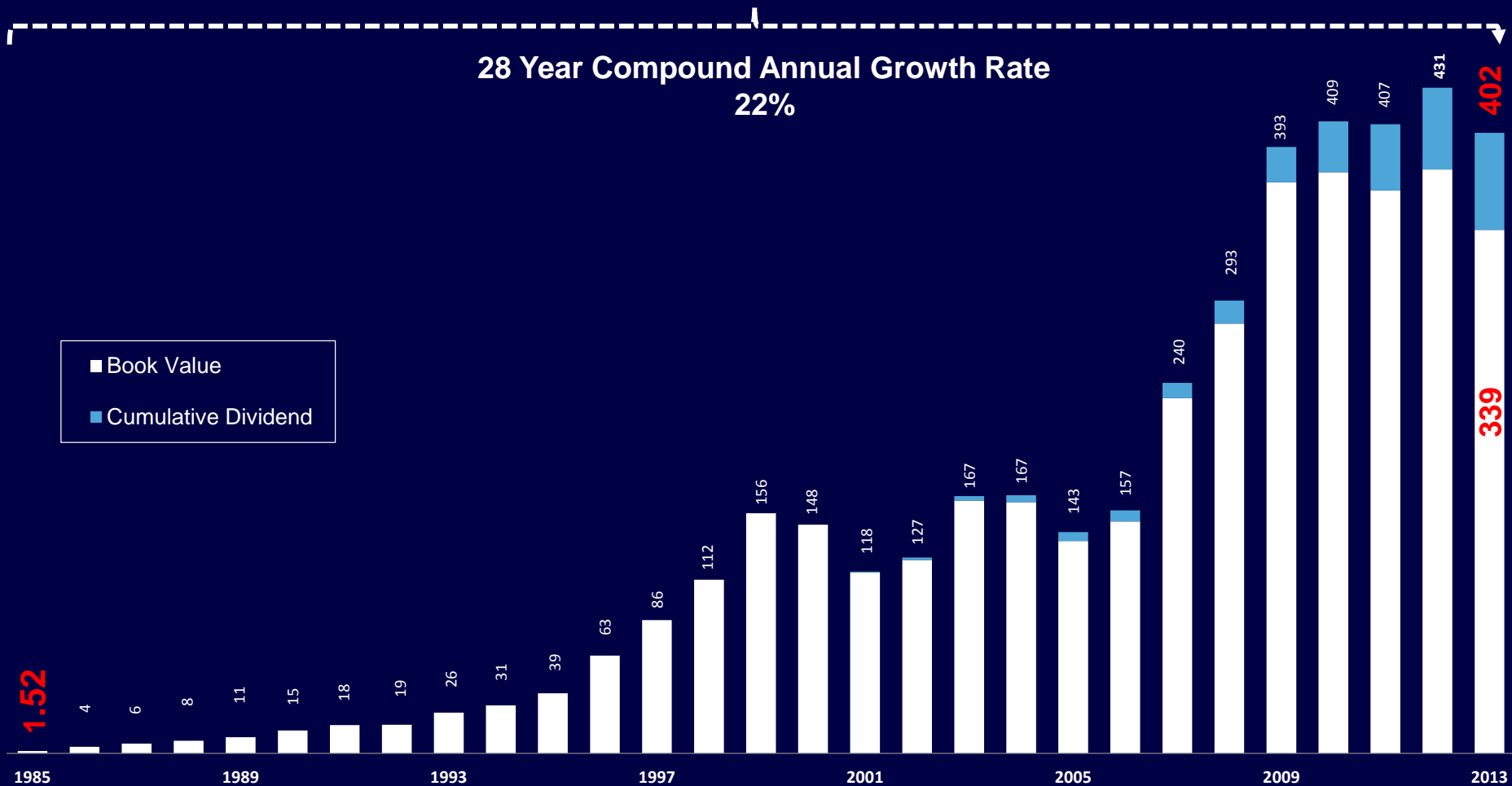
# Guiding Principles

## Values

- Honesty and integrity are essential in all of our relationships and will never be compromised
- We are results-oriented — not political
- We are team players — no "egos". A confrontational style is not appropriate. We value loyalty — to Fairfax and our colleagues
- We are hard working but not at the expense of our families
- We always look at opportunities but emphasize downside protection and look for ways to minimize loss of capital
- We are entrepreneurial. We encourage calculated risk-taking. It is all right to fail but we should learn from our mistakes
- We will never bet the company on any project or acquisition
- We believe in having fun — at work!

# Fairfax – 28 Years

## Shareholders – Book Value per Share plus Dividends \$



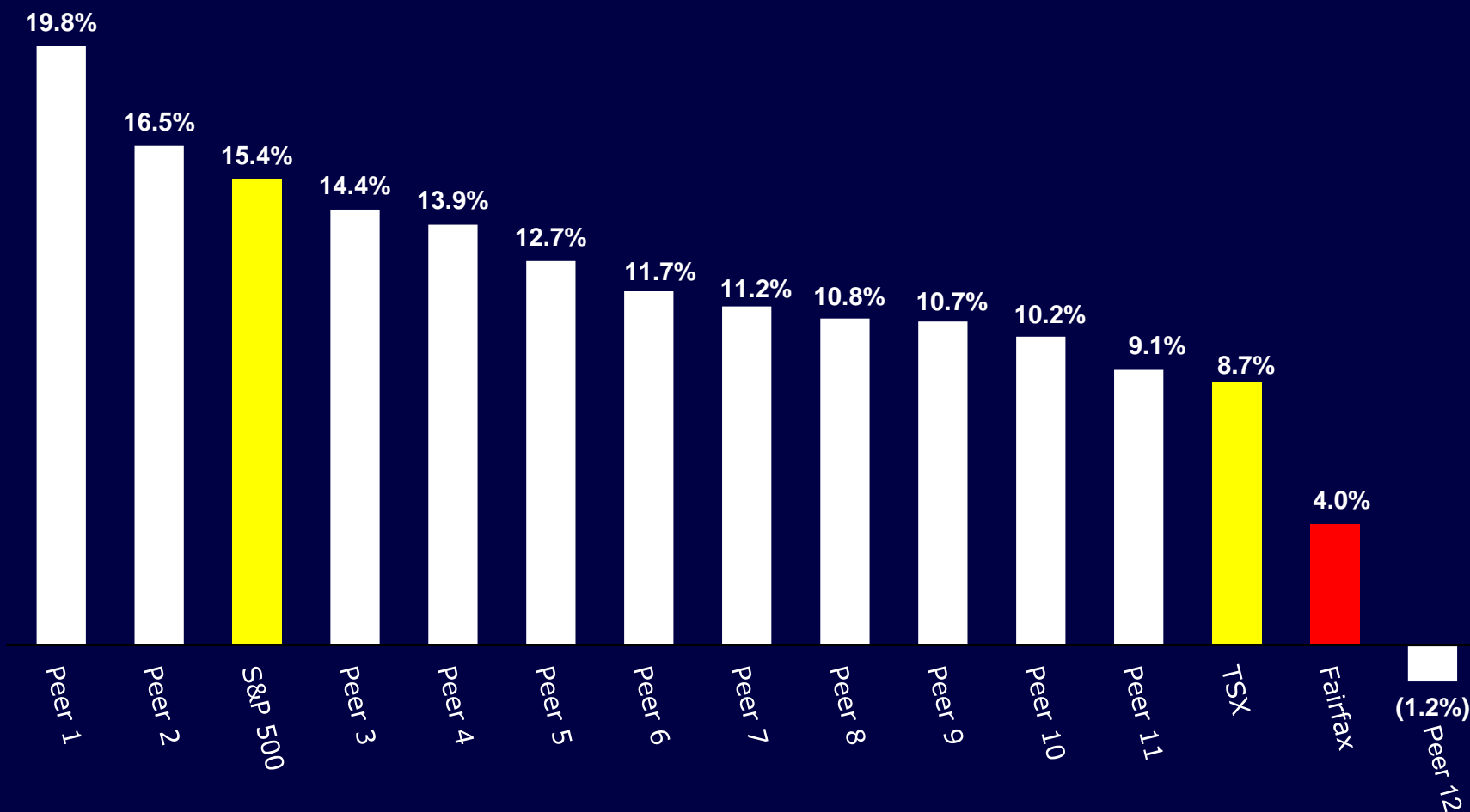
# Financial Results

	<u>Book Value per Share <sup>(1)</sup></u>	<u>% Change</u>
<b>2006</b>	\$ 150	
<b>2007</b>	\$ 230	<b>53%</b>
<b>2008</b>	\$ 278	<b>21%</b>
<b>2009</b>	\$ 369	<b>33%</b>
<b>2010</b>	\$ 376	<b>2%</b>
<b>2011</b>	\$ 365	<b>(3%)</b>
<b>2012</b>	\$ 378	<b>4%</b>
<b>2013</b>	\$ 339	<b>(10%)</b>

(1) Excludes dividends paid

# Historic Performance vs Peer Group

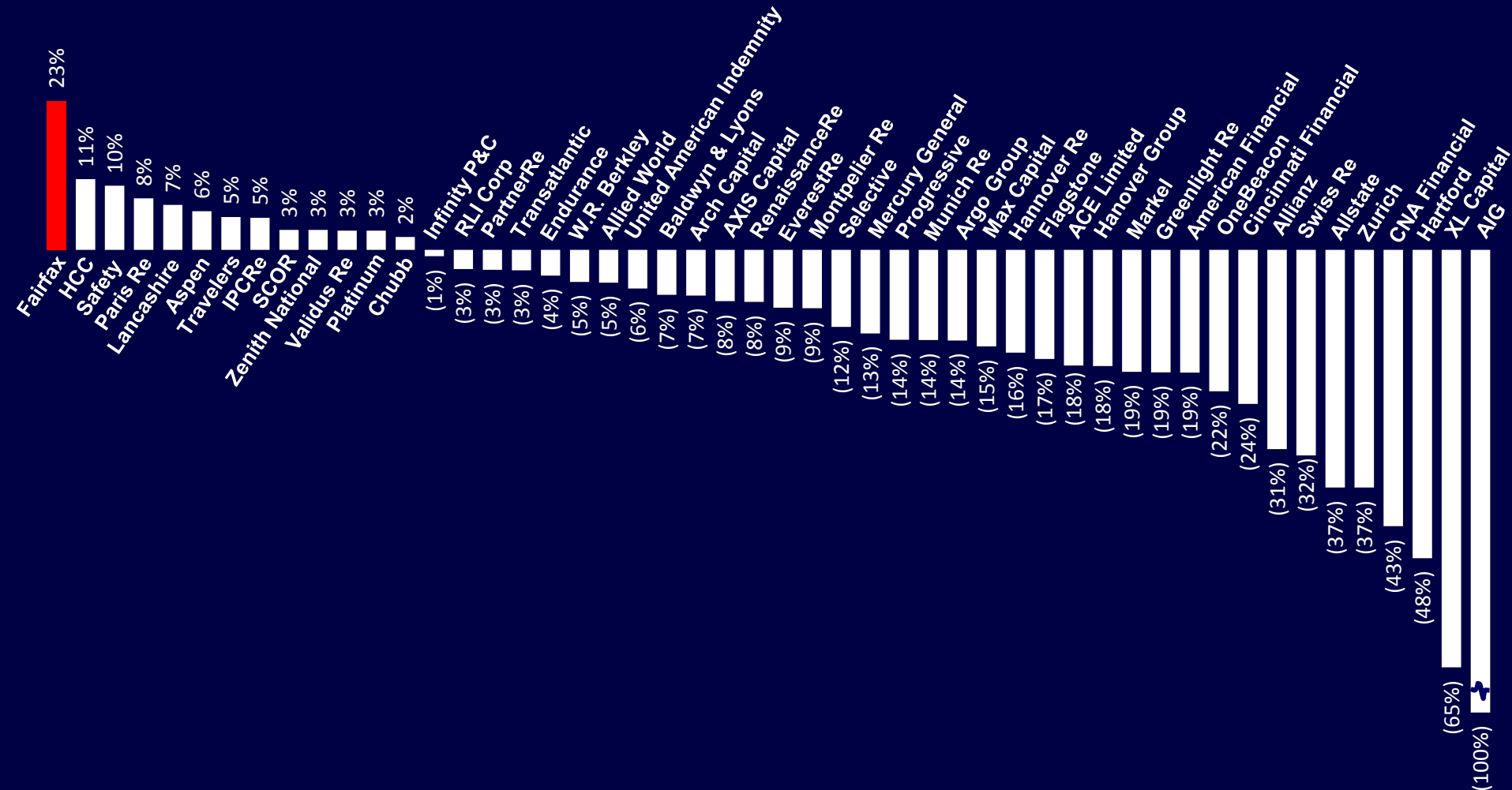
Compound Growth in Book Value per Share (5 Years ending 2013) <sup>(1)</sup>



(1) Except for S&P 500 and TSX which are compound index return excluding dividends



# 2008 Change in Book Value per Share

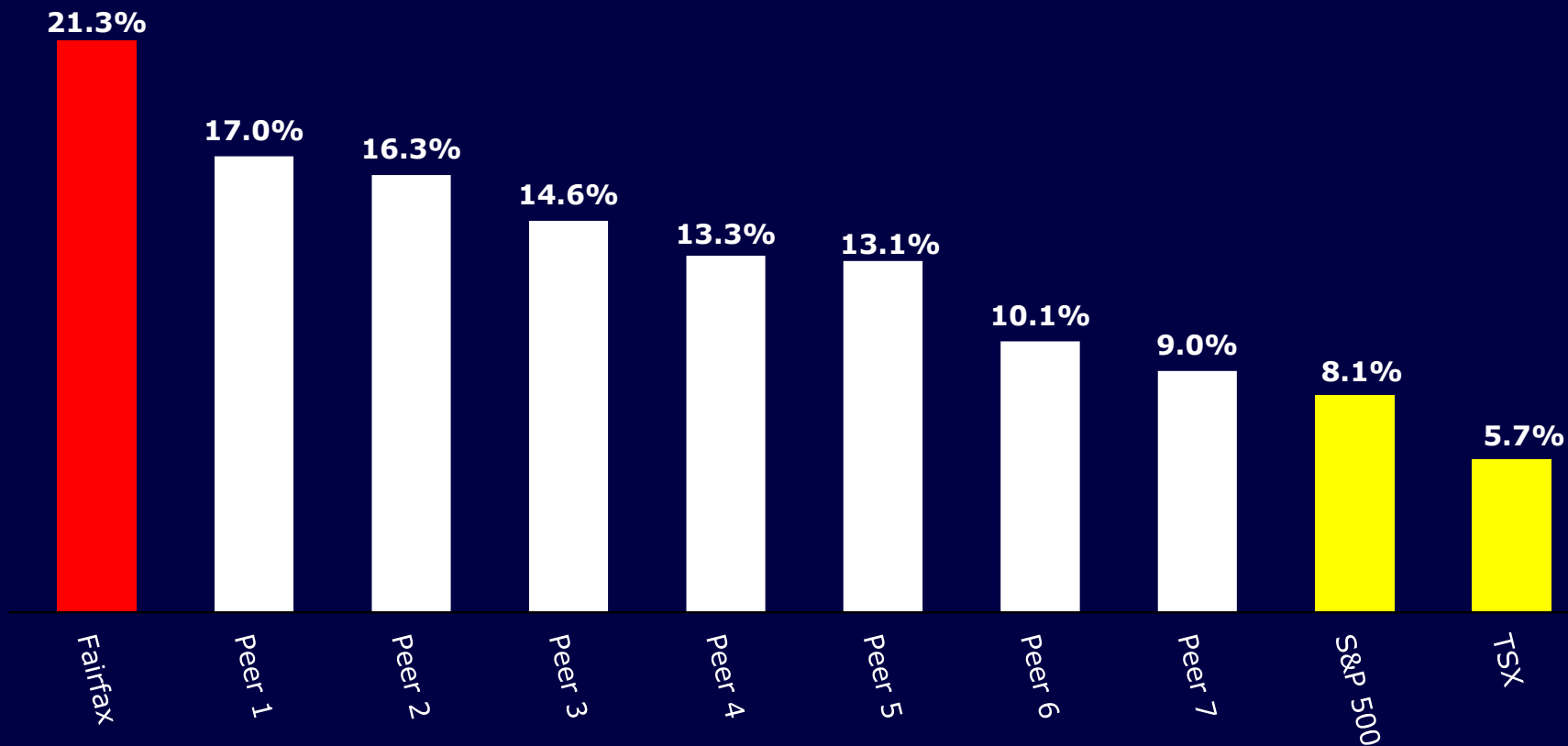


SOURCE: Dowling & Partners, IBNR #12

Fairfax and AIG calculated using the same methodology as Dowling & Partners, based on company data (AIG excludes government financing)

# Historic Performance vs Peer Group

Compound Growth in Book Value per Share (28 Years: since Fairfax's inception) <sup>(1)</sup>



(1) Except for S&P 500 and TSX which are compound index return excluding dividends

# Source of Earnings in 2013

(\$ millions)

Underwriting profit – (Combined Ratio of 92.7%)	440
Investment income and other	<u>382</u>
<b>Operating Income</b>	<b>822</b>
Other <sup>(1)</sup>	(259)
Realized investment gains	<u>1,380</u>
<b>Pre-tax income including realized investment gains</b>	<b>1,943</b>
Unrealized investment losses (mostly from bonds)	(962)
Hedging losses	<u>(1,982)</u>
Pre-tax loss	<u>(1,001)</u>
<b>Net Loss</b>	<b>(565)</b>

# Net Gains on Investments in 2013

	Realized Gains (Losses) (\$ millions)	Unrealized Gains (Losses) (\$ millions)	Net Gains (Losses) (\$ millions)
Equity and equity related investments	1,324	121	1,445
Equity hedges	(1,351)	(631)	(1,982)
Net equity	(27)	(510)	(537)
Bonds	66	(995)	(929)
CPI-linked Derivatives	-	(127)	(127)
Other	(10)	39	29
	<u>29</u>	<u>(1,593)</u>	<u>(1,564)</u>

# Net Gains on Investments 2010 – 2013

	<b>Realized Gains (Losses)</b> (\$ millions)	<b>Unrealized Gains (Losses)</b> (\$ millions)	<b>Net Gains (Losses)</b> (\$ millions)
Equity and equity related investments	2,767	(91)	2,676
Equity hedges	(1,344)	(2,166)	(3,510)
Net equity	1,423	(2,256)	(834)
Bonds	1,622	(468)	1,154
CPI-linked Derivatives	-	(462)	(462)
Other	(209)	118	(91)
	<u>2,835</u>	<u>(3,068)</u>	<u>(233)</u>

# Accident Year Combined Ratios

	2004-2013	
	<b>Cumulative Net Premiums Written</b>	<b>Average Combined Ratio</b>
	<b>(\$ billions)</b>	
Northbridge	Cdn 11.0	98.4%
Crum & Forster	9.9	101.8%
OdysseyRe	21.6	92.6%
Fairfax Asia	1.3	86.7%
	<b>43.8</b>	<b>96.0%</b>

# Accident Year Reserve Redundancies

## Average Annual Reserve Redundancies 2003-2012

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Northbridge	10.3%
Crum & Forster	4.6%
OdysseyRe	11.3%
Fairfax Asia	7.9%

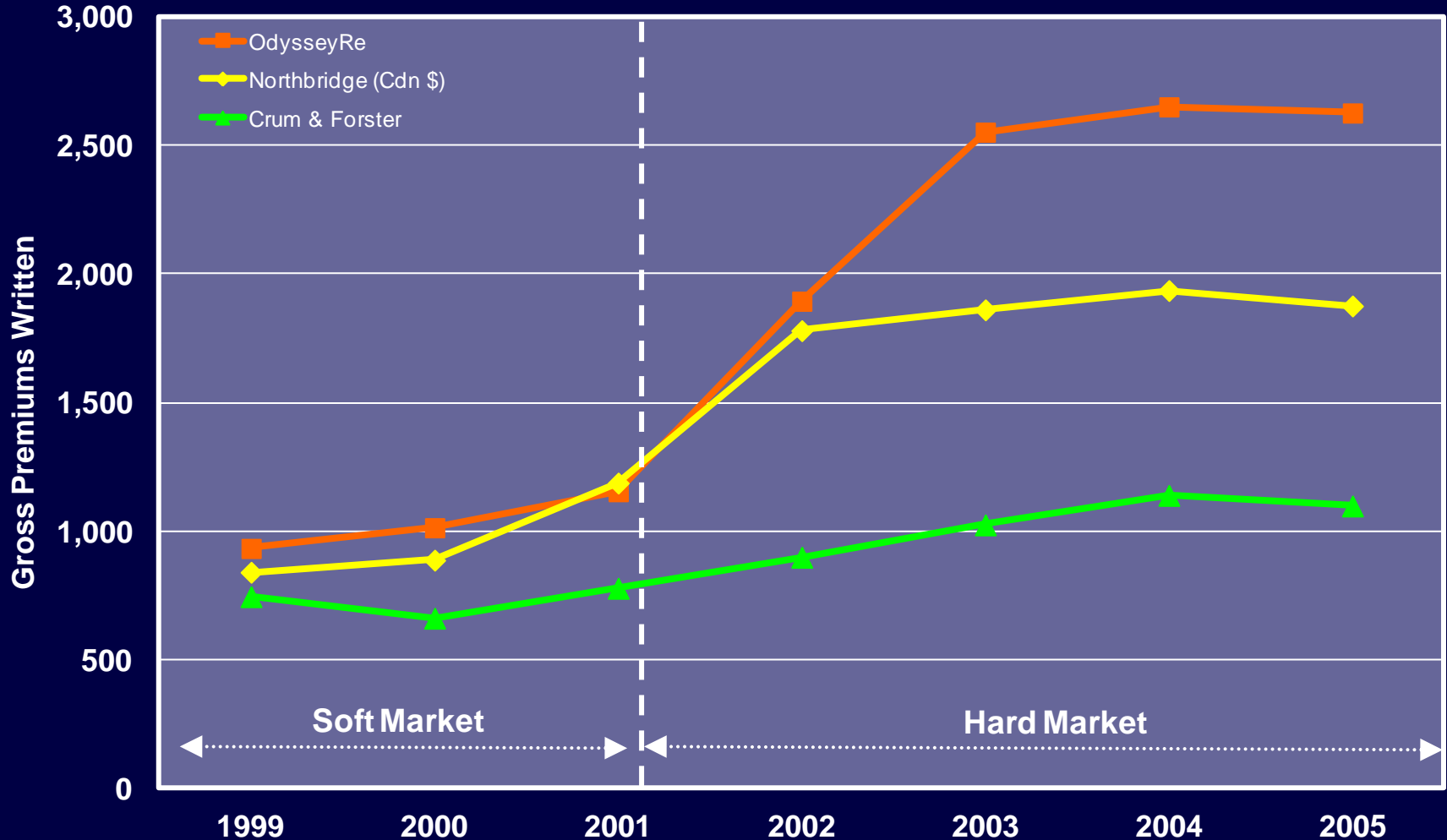
# Strong Operating Companies' Capital - 2013

	<b>Net Premiums Written</b>	<b>Statutory Surplus</b>	<b>Net Premiums Written/ Statutory Surplus</b>
	<u>(\$ millions)</u>	<u>(\$ millions)</u>	
Northbridge	1,031	1,172	0.9x
Crum & Forster	1,233	1,142	1.1x
Zenith National	700	516	1.4x
OdysseyRe	2,377	3,809 <sup>(1)</sup>	0.6x
Fairfax Asia	257	610 <sup>(1)</sup>	0.4x



# Well Positioned for a Turn in the Cycle

(\$ millions)



# Importance of Float

	Year-End		
	<u>Operating</u> <u>Companies</u>	<u>Total</u> <u>(Including Runoff)</u>	<u>Per Share</u>
1985	\$ 12.5 million	\$ 12.5 million	\$ 3
2013	\$ 11.9 billion	\$ 15.6 billion	\$ 734

10 year average cost of float: 0.7%  
(2004 – 2013)

# Importance of Float

	Year-End 2013	
	(\$ millions)	<u>Per Share</u>
Total Float	15,551	\$ 734
Common Shareholders' Equity	7,187	\$ 339
Net Liabilities	2,124	\$ 100
Total Investment Portfolio	<u>24,862</u>	<u>\$ 1,173</u>
Investment Portfolio in 1985	24	\$ 5

# Pre-Tax Realized and Unrealized Gains

	<u>Gains</u> (\$ millions)	<u>Per Share</u>
1985	0.5	10¢
2008	2,144	\$ 118
2009	1,981	\$ 108
2010	(3)	-
2011	691	\$ 34
2012	643	\$ 31
2013	(1,564)	\$ (77)
Cumulative Gains	\$ 10 billion	

# Pre-Tax Income – Runoff Operations

	(\$ millions)
2007	188
2008	393
2009	31
2010	165
2011	351
2012	184
2013	<u>(229)</u>
<b>Cumulative (2007-2013)</b>	<b>1,083</b>

# Acquisitions in 2013

- **American Safety – 100% ownership**
- **Hartville – 100% ownership**
- **Thomas Cook/IKYA/Sterling**
- **Prime/CARA/Keg**

# Investment Performance

## Hamblin Watsa Investment Performance

	As at December 31, 2013		
	5 Years	10 Years	15 Years
<b>Common stocks (with equity hedging)</b>	<b>3.2%</b>	<b>7.6%</b>	<b>13.5%</b>
<b>S&amp;P 500</b>	<b>17.9%</b>	<b>7.4%</b>	<b>4.7%</b>
<b>Taxable bonds</b>	<b>11.2%</b>	<b>10.3%</b>	<b>9.9%</b>
<b>Merrill Lynch U.S.corporate (1-10 year) bond index</b>	<b>8.4%</b>	<b>5.0%</b>	<b>5.7%</b>

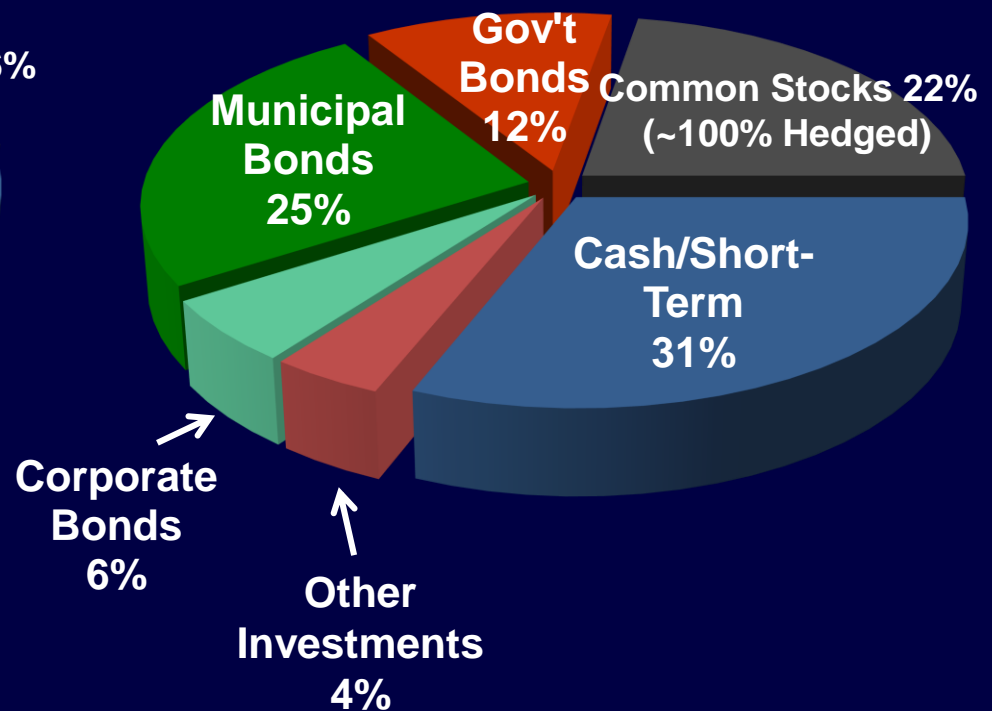
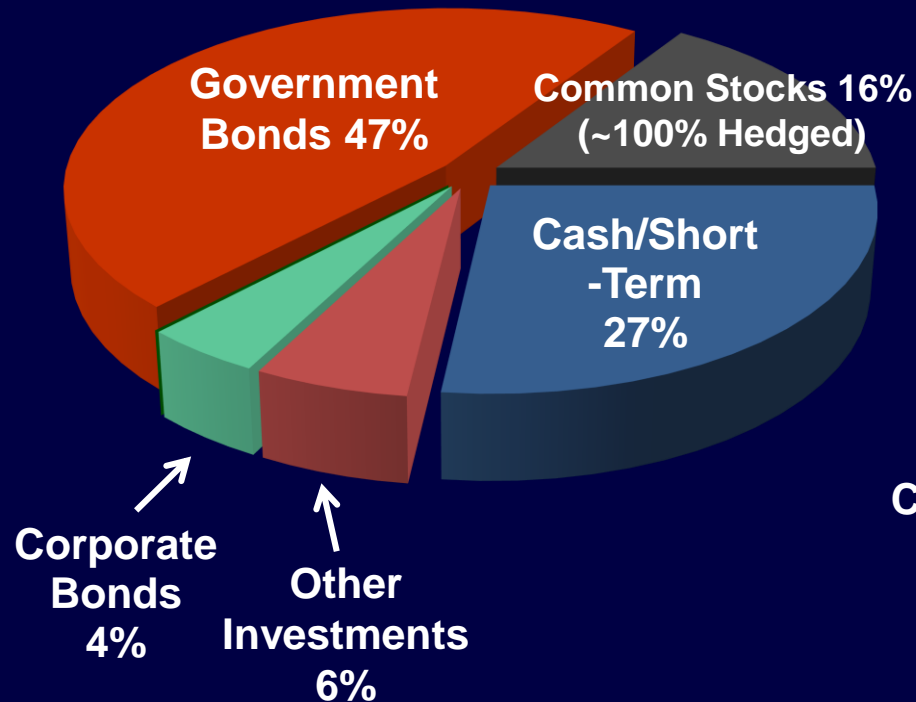
Notes: Bonds do not include returns from credit default swaps.

# Fairfax's Investment Portfolio

## 2008 vs 2013

September 30, 2008 <sup>(1)</sup>  
\$20.4 billion

December 31, 2013 <sup>(1)</sup>  
\$24.9 billion





# Fairfax Focused on the Long Term

Earnings and book value volatile on a quarterly basis

	<b>2013</b>	
	<b>Earnings (Loss) per Share</b>	<b>Book Value per Share</b>
<b>At December 31, 2012</b>	n/a	<b>\$ 378</b>
<b>First quarter</b>	\$ 7.1	\$ 373
<b>Second quarter</b>	\$ (8.6)	\$ 362
<b>Third quarter</b>	<b>\$ (29.0)</b>	\$ 335
<b>Fourth quarter</b>	\$ (1.0)	<b>\$ 339</b>

# Financial Strength

	<u>2012</u>	<u>2013</u>
	(\$ millions)	
Holding Company Obligations	2,378	2,491
Subsidiary Debt	671	504
Total Debt	3,049	2,995
Holding Company Cash and Marketable Securities	1,128	1,242
Net Debt	1,921	1,753
Total Equity & Non-controlling Interests	8,890	8,461
<b>Net Debt/Net Total Capital</b>	<b>17.8%</b>	<b>17.2%</b>
<b>Total Debt/Total Capital</b>	<b>25.5%</b>	<b>26.1%</b>

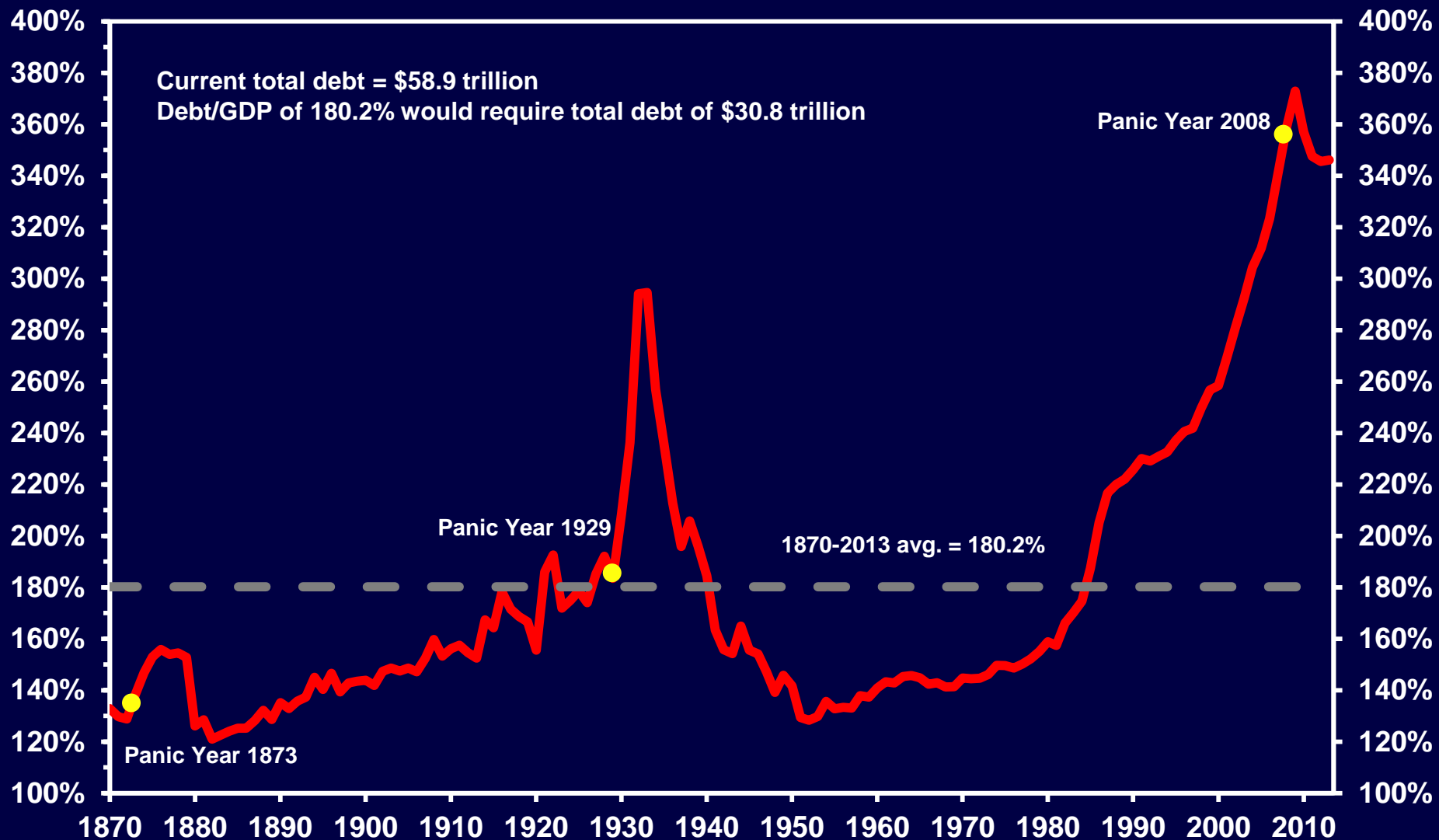
# Investments Not Carried at Market Value

	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
	(\$ millions)	(\$ millions)	(\$ millions)
<b>Investments in Associates</b>	<b>1,433</b>	<b>1,815</b>	<b>382</b>
<b>Thomas Cook India</b>	<b>162</b>	<b>253</b>	<b>91</b>
<b>Ridley</b>	<b>70</b>	<b>131</b>	<b>61</b>
<b>Eurobank Properties (Rights Offering)</b>			<b>109</b>
<b>Total</b>			<b>643</b>

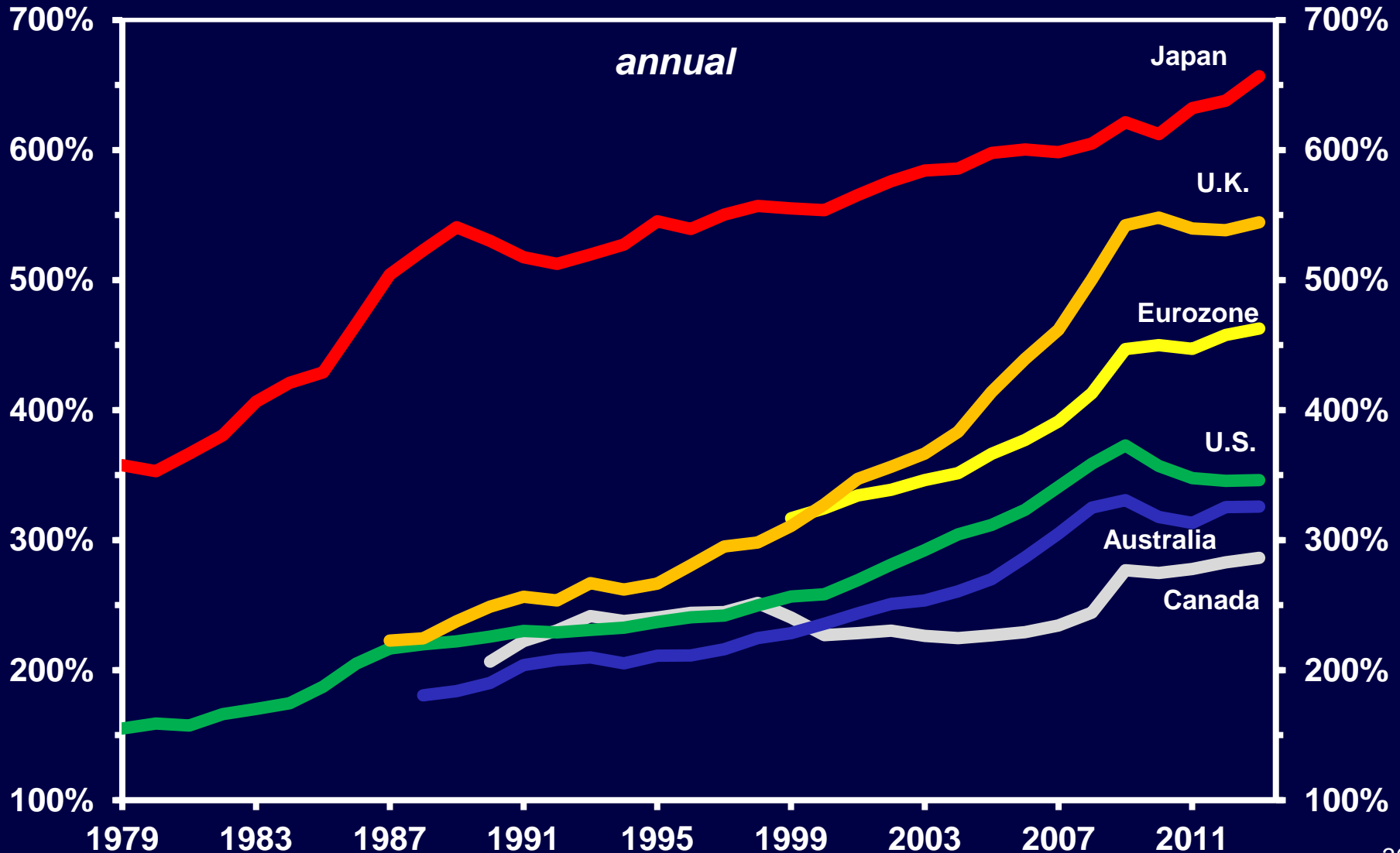
# Emerging Markets and Asian Footprint

	Gross Premiums Written	Ownership	Fairfax's Share of Gross Premiums Written
First Capital	399	100%	399
Fairfax Brasil	151	100%	151
Polish Re	100	100%	100
Pacific Insurance	73	100%	73
Falcon Insurance (Hong Kong)	58	100%	58
	<u>781</u>		<u>781</u>
ICICI Lombard	1,240	26%	322
Alltrust Insurance	900	15%	135
Gulf Insurance	533	41%	219
Falcon Insurance (Thailand)	48	41%	20
Other Reinsurance	334	25%	84
	<u>3,055</u>		<u>780</u>
<b>Total</b>	<u>3,836</u>		<u>1,561</u>

# U.S. Private and Public Debt as % of GDP

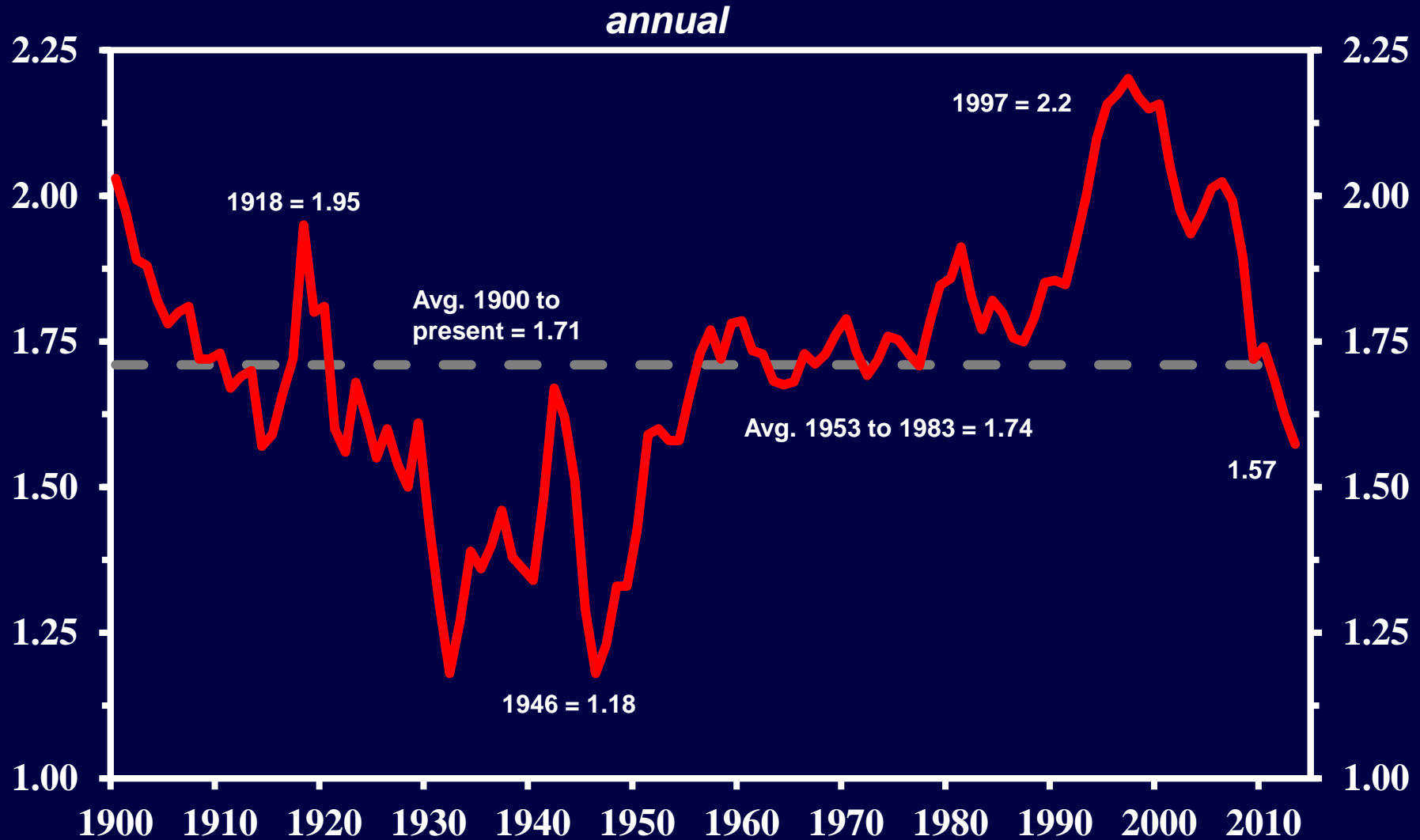


# Total Public and Private Debt as a % of GDP – Major Countries



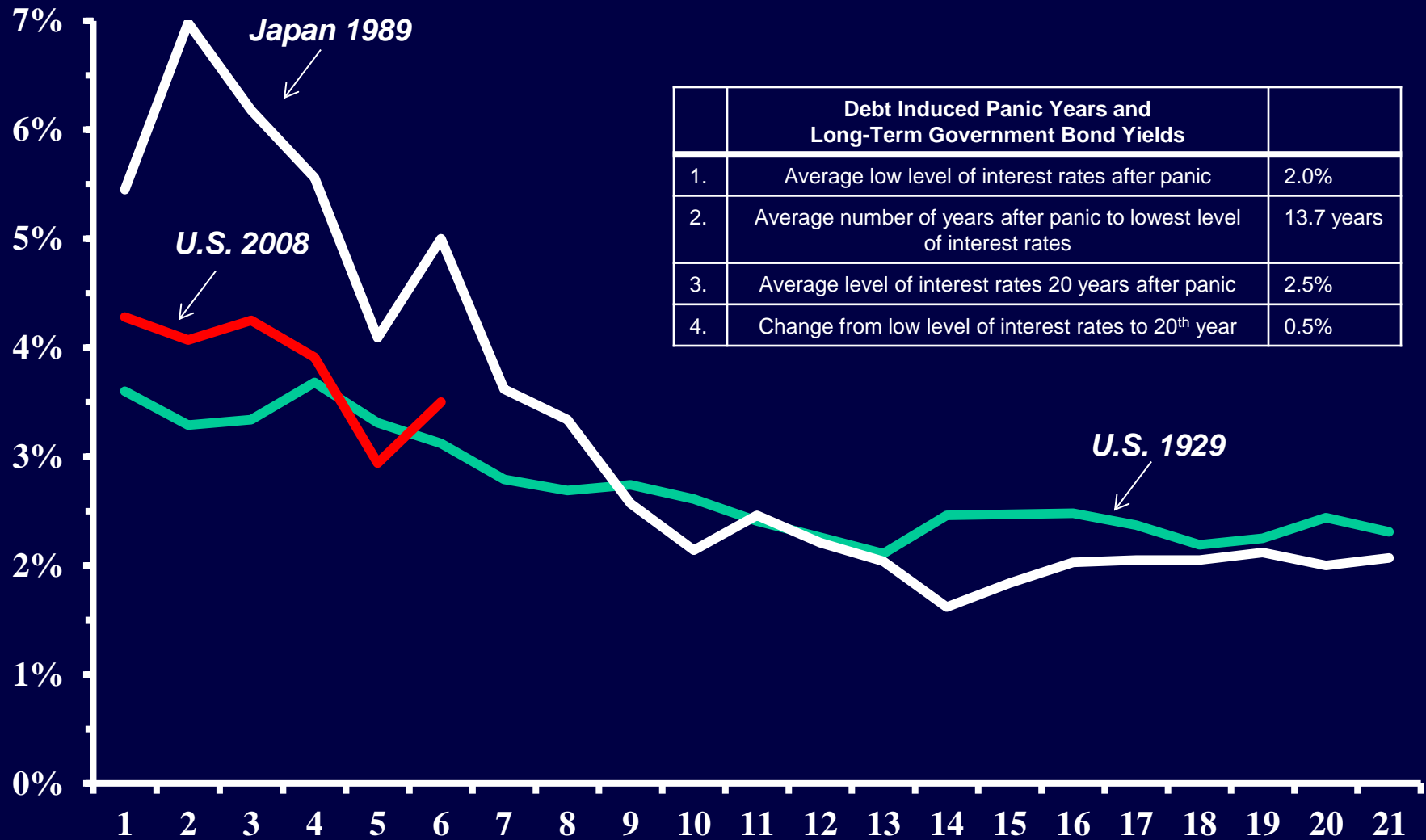
# Velocity of Money 1900-2013

$$\text{Equation of Exchange: GDP (nominal)} = M * V$$



# Long-Term Government Bond Yields

## Historic Panic Years

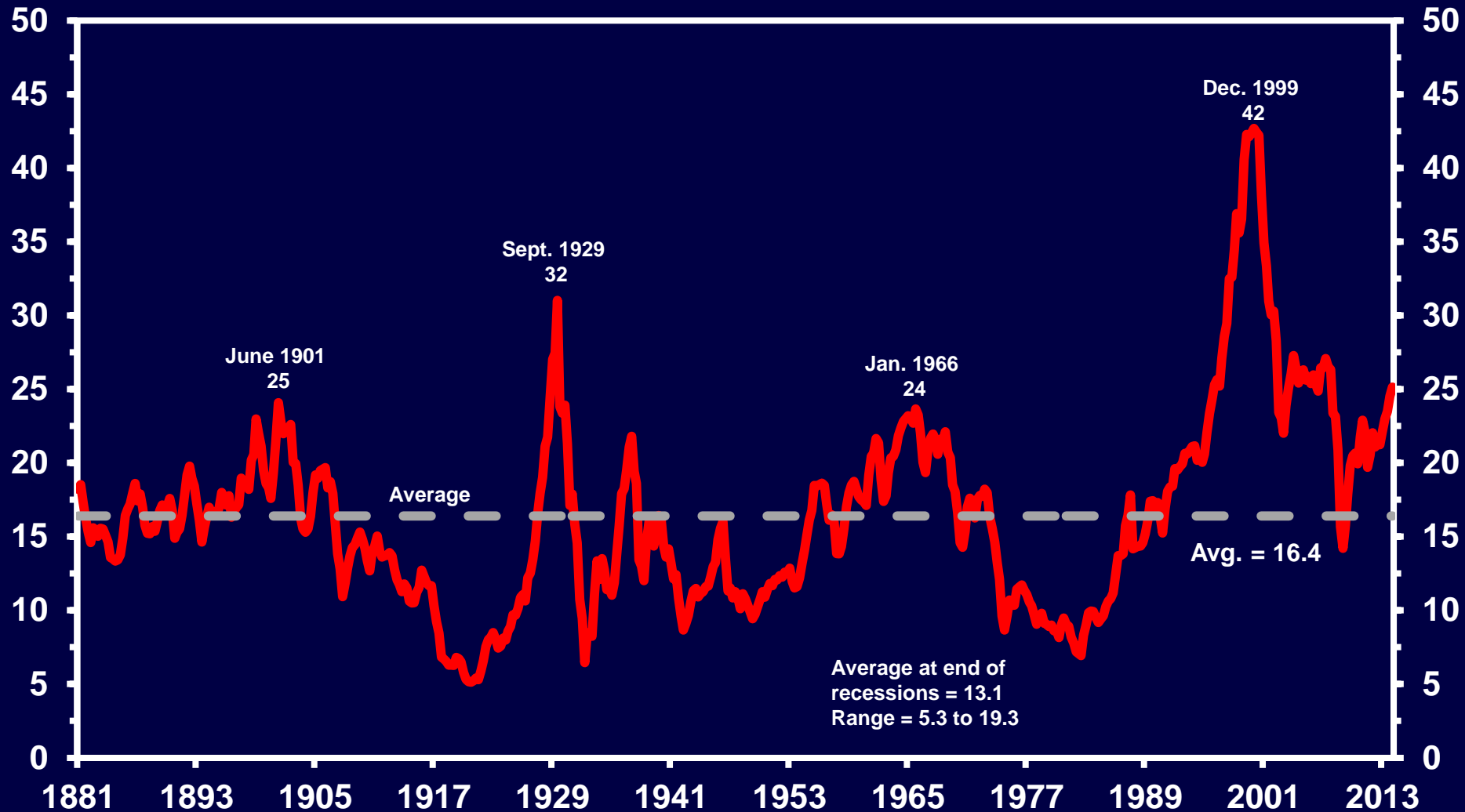




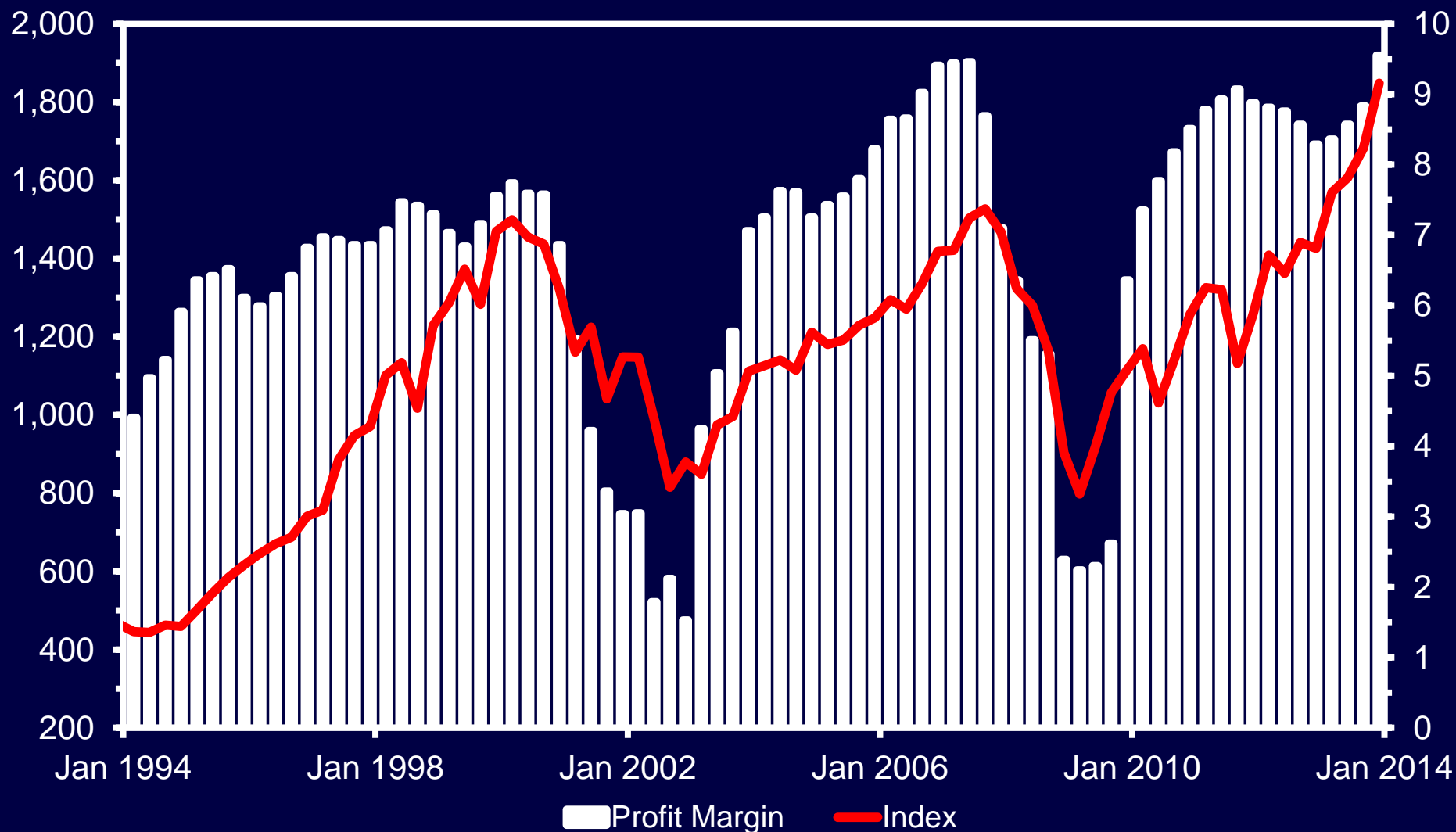
# Long Term Treasury Rate 1871-2013



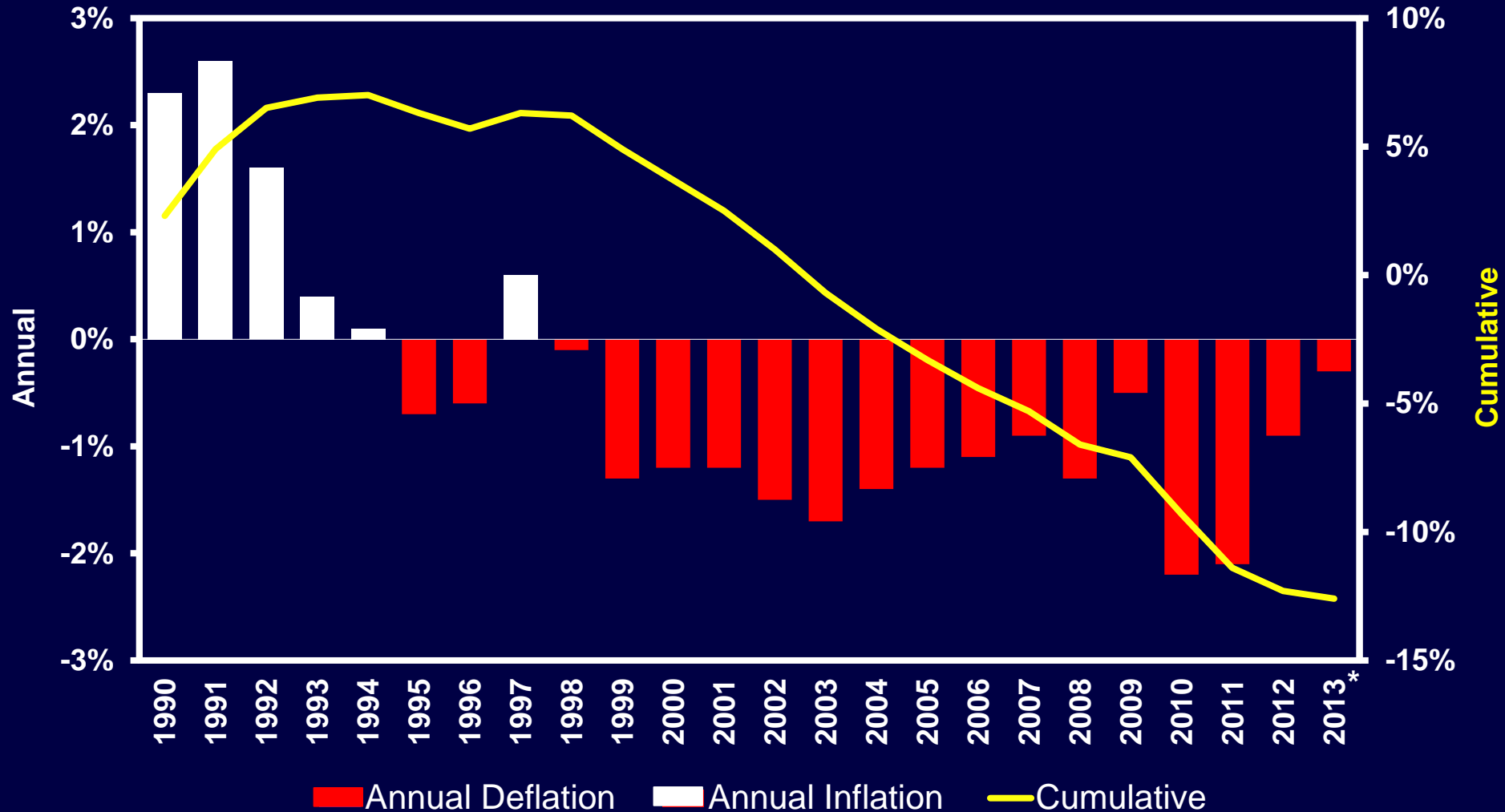
# Shiller's Price-Earnings Ratio 1881-2013



# S&P 500 Index and Profit Margins

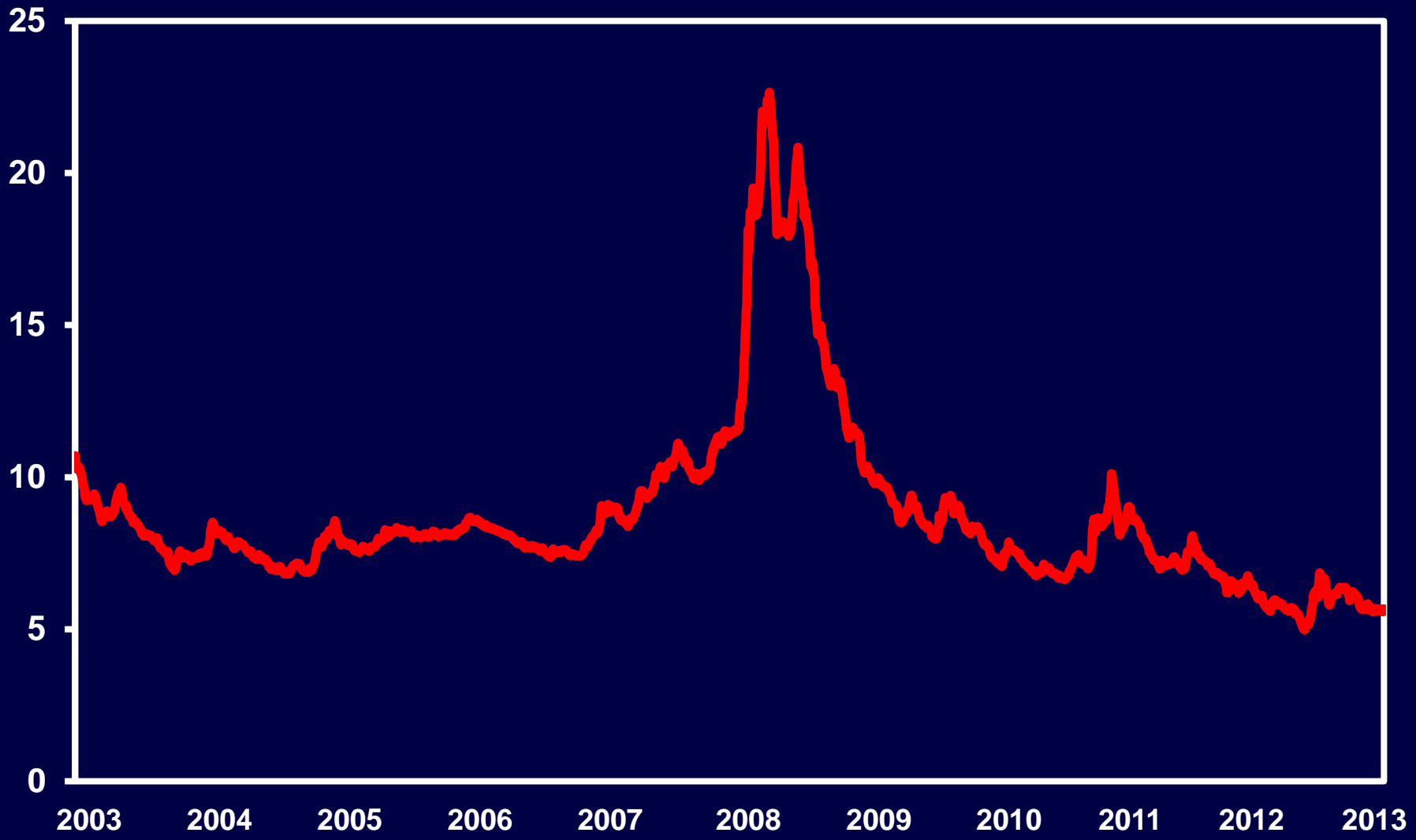


# Deflation in Japan



\* Estimate  
Source: Organization for Economic Cooperation & Development

# 7-10 Year US High Yield Debt (Yield To Maturity)



Source: Bloomberg

# High Tech Speculation

	Market Cap. (US\$ Billions)	P/E Ratio	Price to Sales
<b>Social Media</b>			
Twitter	39	(loss)	38x
Netflix	27	186x	6x
Facebook	174	116x	21x
LinkedIn	24	887x	15x
Yelp	7	(loss)	27x
Yandex	12	33x	11x
Tencent Holdings	150	59x	16x
<b>Other Tech/Web</b>			
Groupon	6	(loss)	2x
Service Now	10	(loss)	22x
Salesforce.com	38	(loss)	9x
Netsuite	9	(loss)	21x

# Monstrous Real Estate & Construction Bubble in China

- **China built 50 Manhattans between 2008 and 2012**
- **China built 20 million housing units in 2012 compared to 2 million in the United States at its peak**
  - At the end of 2013 China had 60 million units under construction
- **In many Chinese cities, the existing housing stock has been replicated and is empty**
- **Home ownership rates in China are estimated to be over 100% versus 65% in the United States**
- **Since 2009 the Chinese banks have grown by the equivalent of the entire United States banking system**
- **The shadow banking system in China is estimated by BoA to be \$4.7 trillion or 51% of Chinese GDP**
  - Prior to the credit crisis, the U.S. had \$4.5 trillion in asset-backed securities (31% of U.S. GDP)
- **A combination of explosive growth and high interest rates has resulted in a massive carry trade where speculators borrow at low rates across the world and invest in China – when the capital flows reverse, watch out!**

# CPI-Linked Derivative Contracts

## December 31, 2013

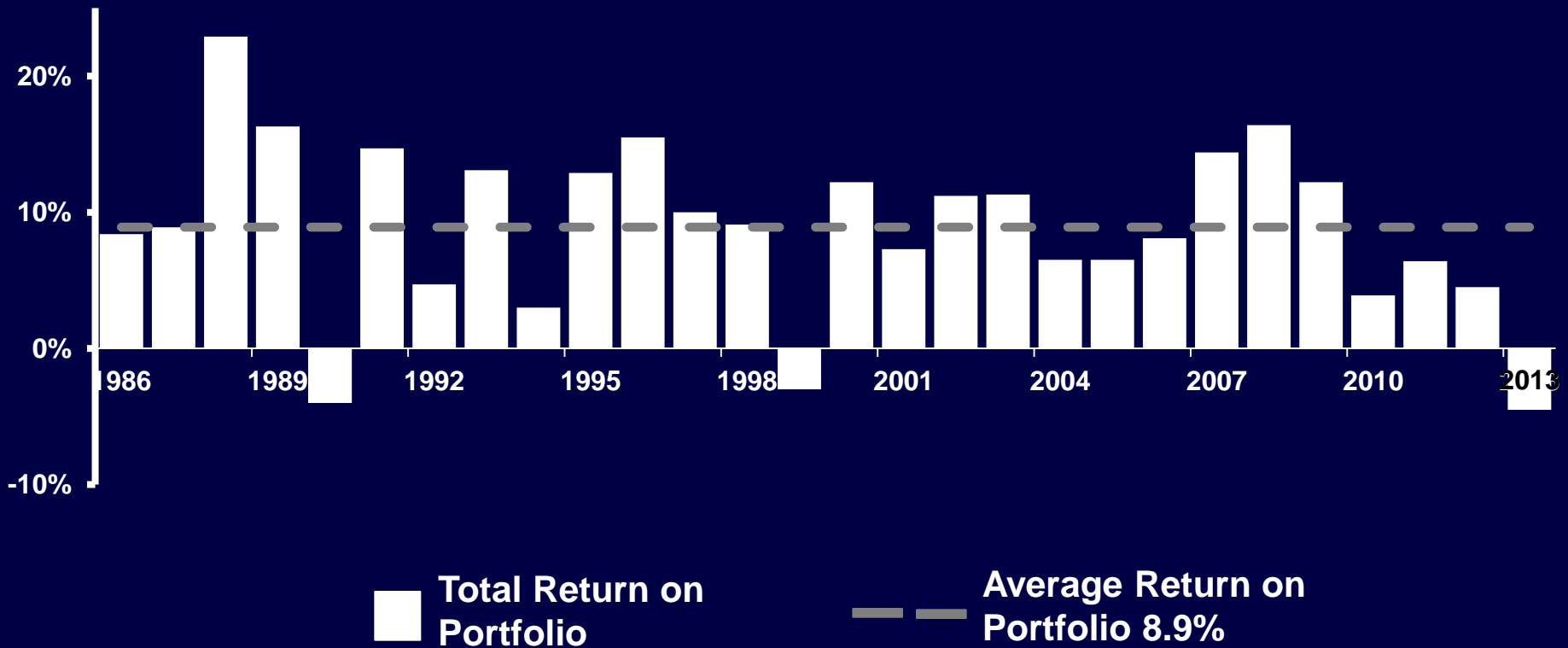
<u>Underlying CPI Index</u>	<u>Notional Amount (\$ billions)</u>	<u>Weighted Average Strike Price (CPI)</u>	<u>Dec 31, 2013 CPI</u>
U.S.	34	230	233
European Union	39	110	117
U.K.	6	244	253
France	4	125	126
	<u>83</u>		

(\$ millions)

Total Cost	546
Total Market Value	132



# Fairfax Historic Total Return on Investment Portfolio



# Superior Long Term Investment Track Record

## Return on Average Investments 2004-2013

Peer 1	4.7%
Peer 2	4.6%
Peer 3	4.5%
Peer 4	4.4%
Peer 5	4.3%
Peer 6	4.2%
Peer 7	4.1%
Peer 8	4.0%
Peer 9	3.8%
Peer 10	3.6%

<b>Average</b>	<b>4.2%</b>
<b>Fairfax</b>	<b>7.4%</b>

# Ready for the Next Decade - Building on Fairfax's Strengths

- Our guiding principles have remained intact
- Excellent long term performance
- Demonstrated strengths
  - Strong operating subsidiaries focused on underwriting profitability and prudent reserving
  - Conservative investment management providing excellent long term returns
- Well positioned for the future
  - Fair and friendly Fairfax culture