

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1999

To Our Shareholders:

In the first quarter net earnings increased 48% to \$78.1 million from \$52.8 million last year. Net earnings per share for the first quarter increased to \$6.37 per share from \$4.75 per share last year. The weighted average outstanding shares were 12.3 million versus 11.1 million last year.

Revenue in the first quarter increased to \$1,023.2 million from \$637.1 million as a result of increased premium and investment income, mainly related to the August 13, 1998 acquisition of Crum & Forster.

The combined ratio in the first quarter increased to 111% from 110% last year, principally due to the inclusion of Crum & Forster.

Interest and dividend income in the first quarter increased to \$167.6 million from \$76.4 million last year. Realized gains on disposal of portfolio securities were \$50.0 million for the first quarter compared to \$55.9 million last year. The effective tax rate in the first quarter decreased to 9.4% from 21.5% last year principally due to non-taxable investment income and income earned outside Canada. At March 31, 1999 the Fairfax investment portfolio had a pre-tax unrealized loss of \$217.3 million compared to an unrealized gain of \$5.5 million at December 31, 1998.

On April 13, 1999 the company completed its acquisition of TIG Holdings, Inc. for US\$847 million cash. The acquisition was funded by the issue in December 1998 of 2,000,000 subscription receipts at \$500 per receipt (which were exchanged upon the acquisition into 2,000,000 subordinate voting shares) and the issue in March 1999 of US\$275 million of 7% unsecured Notes due March 15, 2006.

On March 30, 1999 the company announced its intention to make a normal course issuer bid for up to 790,000 subordinate voting shares, representing less than 10% of the public float of its outstanding subordinate voting shares. The company believes that in appropriate circumstances the shares represent an attractive investment opportunity for it and consequently such purchase will enhance the value of the shares held by the remaining shareholders. Subsequently, the company repurchased 86,100 subordinate voting shares for \$36.3 million.

Shareholders' equity at March 31, 1999 was \$3.28 billion or about \$232 per share.

May 5, 1999

V. P. Watsa

V. PREM WATSA

Chairman and Chief Executive Officer

Fairfax's news releases, quarterly reports and annual report can be obtained from our internet location www.fairfax.ca

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1999

CONSOLIDATED BALANCE SHEETS

as at March 31, 1999 and December 31, 1998

(unaudited - \$ millions)

	<u>1999</u>	<u>1998</u>
ASSETS		
Cash and short term investments	578.3	246.0
Marketable securities	122.9	59.4
Subscription receipts cash in trust	959.7	959.7
Accounts receivable and other	2,906.4	2,777.8
Recoverable from reinsurers	3,801.4	3,820.4
Income taxes refundable	<u>12.4</u>	<u>7.1</u>
	<u>8,381.1</u>	<u>7,870.4</u>
Portfolio Investments		
Cash and short term investments	813.3	896.2
Bonds - (market value - \$9,223.4; 1998 - \$9,888.0)	9,422.8	9,859.9
Preferred stocks - (market value - \$165.6; 1998 - \$159.3)	166.3	155.0
Common stocks - (market value - \$889.7; 1998 - \$770.5)	906.9	797.4
Real estate	<u>93.4</u>	<u>94.5</u>
Total (market value - \$11,185.4; 1998 - \$11,808.5)	<u>11,402.7</u>	<u>11,803.0</u>
Deferred premium acquisition costs	280.9	277.3
Deferred income taxes	491.0	524.0
Capital assets	88.6	94.6
Goodwill	263.2	276.4
Other assets	<u>40.5</u>	<u>41.0</u>
	<u>20,948.0</u>	<u>20,886.7</u>
LIABILITIES		
Share subscription receipts	-	959.7

Accounts payable and accrued liabilities	1,038.6	880.2
Premium deposits	<u>91.3</u>	<u>97.4</u>
	1,129.9	<u>1,937.3</u>
Provision for claims	12,549.3	13,161.2
Unearned premiums	1,739.7	1,651.5
Long term debt	<u>1,968.0</u>	<u>1,582.1</u>
	16,257.0	<u>16,394.8</u>
Non-controlling interest	75.2	87.9
Excess of net assets acquired over purchase price	209.2	227.8
SHAREHOLDERS' EQUITY		
Capital Stock	1,222.4	1,222.4
Share subscription receipts	959.7	---
Retained earnings	<u>1,094.6</u>	<u>1,016.5</u>
	3,276.7	<u>2,238.9</u>
	20,948.0	<u>20,886.7</u>

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1999
CONSOLIDATED STATEMENTS OF EARNINGS

for the three months ended March 31, 1999 and 1998
(unaudited - \$ millions, except per share data)

	<u>1999</u>	<u>1998</u>
Revenue		
Gross premiums written	<u>1,109.4</u>	<u>700.7</u>
Net premiums written	<u>817.0</u>	<u>428.7</u>
Net premiums earned	695.8	462.2
Interest and dividends	167.6	76.4
Realized gains on investments	50.0	55.9
Claims fees	<u>109.8</u>	<u>42.6</u>
	<u>1,023.2</u>	<u>637.1</u>
Expenses		
Losses on claims	526.9	344.2
Operating expenses	258.9	119.1
Commissions, net	120.9	92.4
Interest expense	<u>31.6</u>	<u>13.8</u>
	<u>938.3</u>	<u>569.5</u>
Earnings before income taxes	84.9	67.6
Provision for income taxes	<u>8.0</u>	<u>14.5</u>
Earnings from operations	76.9	53.1
Non-controlling interest	<u>1.2</u>	<u>(0.3)</u>
Net earnings	<u>78.1</u>	<u>52.8</u>
Net earnings per share	\$6.37	\$4.75
Shares outstanding (000) (weighted average)	12,258.0	11,132.0

FAIRFAX FINANCIAL HOLDINGS LIMITED

Interim Report for the three months ended March 31, 1999

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the three months ended March 31, 1999 and 1998

(unaudited - \$ millions)

	<u>1999</u>	<u>1998</u>
Retained earnings		
- beginning of period	1,016.5	629.0
Net earnings for the period	<u>78.1</u>	<u>52.8</u>
Retained earnings		
- end of period	<u>1,094.6</u>	<u>681.8</u>

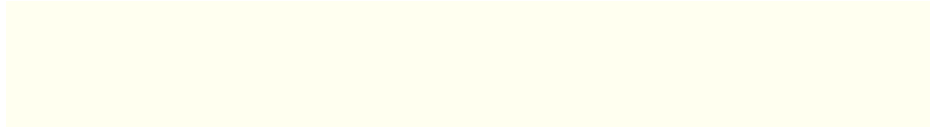
FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1999

**CONSOLIDATED STATEMENTS OF CHANGES IN CASH
RESOURCES**

for the three months ended March 31, 1999 and 1998
(unaudited - \$ millions)

	<u>1998</u>	<u>1997</u>
Operating Activities		
Earnings from operations	76.9	53.1
Amortization	4.4	0.5
Deferred income taxes	(1.8)	3.8
Gains on investments	<u>(50.0)</u>	<u>(55.9)</u>
	29.5	1.5
Change in provision for claims	(592.8)	(0.7)
Change in unearned premiums	88.2	(50.9)
Change in cash funds resulting from changes in other operating working capital items	<u>93.9</u>	<u>23.0</u>
Cash resources provided by (used in) operating activities	<u>(381.2)</u>	<u>(27.1)</u>
 Investing Activities		
Investments – net sales	251.6	69.9
Capital assets	<u>4.6</u>	<u>(0.7)</u>
	<u>256.2</u>	<u>69.2</u>
 Financing Activities		
Change in long term debt	385.9	(18.3)
Change in non-controlling interest	<u>(11.5)</u>	<u>(0.5)</u>
	<u>374.4</u>	<u>(18.8)</u>
Change in cash resources	249.4	23.3
Cash resources		
- beginning of period	<u>1,142.2</u>	<u>1,030.3</u>
Cash resources		
- end of period	<u>1,391.6</u>	<u>1,053.6</u>



Cash resources consist of cash and short term investments including subsidiary cash and short term investments.

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the three months ended March 31, 1999

SOURCES OF NET EARNINGS

(Lindsey Morden equity accounted)

for the three months ended March 31, 1999 and 1998

(unaudited - \$ millions)

	<u>1999</u>	<u>1998</u>
Underwriting:		
Insurance	(52.7)	(19.9)
Reinsurance	(24.5)	(24.3)
Interest and dividends	<u>154.0</u>	<u>73.8</u>
	76.8	29.6
Realized gains	50.0	55.9
Claims adjusting (Fairfax portion)	(1.3)	0.4
Interest expense	(28.6)	(13.5)
Goodwill amortization	(1.2)	(1.2)
Corporate overhead and other	(7.9)	<u>(4.1)</u>
Pre-tax income	87.8	67.1
Less: taxes	9.7	<u>14.3</u>
Net earnings	<u>78.1</u>	<u>52.8</u>
Combined ratio		
Insurance	111.3%	109.4%
Reinsurance	110.8%	109.7%

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Interim Report for the three months ended March 31, 1999

CAPITAL STRUCTURE

(Lindsey Morden equity accounted)
as at March 31, 1999 and December 31, 1998
(unaudited - \$ millions, except per share data)

	<u>1999</u>	<u>1998</u>
Cash and short term investments	701.2	305.4
Long term debt	1,832.6	1,444.4
Net debt	1,131.4	1,139.0
Common shareholders' equity	3,276.7	2,238.9
Net debt/equity	35%	51%
Net debt/total capital	26%	34%
Shareholders' equity per share	\$231.85	\$184.54