

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

To Our Shareholders:

In the second quarter net earnings decreased 30% to \$40.9 million from \$58.1 million last year. Net earnings per share for the second quarter decreased to \$2.82 per share from \$4.79 share last year. The weighted average outstanding shares for the six months ended June 30, 1999 were 12.9 million versus 11.6 million last year.

Revenue in the second quarter increased to \$1,569.9 million from \$648.2 million as a result of increased premium, interest and dividend income related to the August 13, 1998 acquisition of Crum & Forster and the April 13, 1999 acquisition of TIG Holdings, Inc.

The combined ratio in the second quarter increased to 113% from 108% last year due to the recent U.S. acquisitions of Crum & Forster and TIG and greater pricing competition.

Interest and dividend income in the second quarter increased to \$201.8 million from \$87.5 million last year. Realized gains on disposal of portfolio securities were \$56.1 million in the second quarter compared to \$51 million last year. At June 30, 1999 the Fairfax investment portfolio had a pre-tax unrealized loss of \$612.9 million compared to an unrealized gain of \$5.5 million at December 31, 1998. The unrealized loss primarily relates to the impact of higher interest rates on the bond portfolios of U.S. subsidiaries. The unrealized loss on bonds does not impact their regulatory capital.

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. TIG's results are included in the 1999 second quarter earnings of Fairfax from April 13, 1999. The estimated negative goodwill on acquisition of TIG (compared to December 31, 1998 values) was reduced by:

- a \$67 million decrease in the value of TIG's bond portfolio due to higher interest rates;
- \$38 million in acquisition related costs;
- \$65 million for TIG's share of the estimated premium for Fairfax's US\$1 billion corporate cover for adverse development on reserves and uncollectible reinsurance at December 31, 1998; and
- \$90 million in respect of other fair value adjustments, including the write-off of non-current assets.

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 has since repurchased 181,400 subordinate voting shares for \$74.9 million.

Shareholders' equity at June 30, 1999 was \$3.24 billion or about \$231 per share.

August 4, 1999

V. P. Watsa

V. PREM WATSA

Chairman and Chief Executive Officer

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

CONSOLIDATED BALANCE SHEETS

as at June 30, 1999 and December 31, 1998

(unaudited - \$ millions)

	1999	1998
ASSETS		
Cash and short term investments	112.8	246.0
Marketable securities	108.0	59.4
Subscription receipt cash in trust	-	959.7
Accounts receivable and other	3,948.1	2,777.8
Recoverable from reinsurers	6,863.4	3,820.4
Income taxes refundable	215.2	7.1
	11,247.5	7,870.4
<i>Portfolio Investments</i>		
Cash and short term investments	1,184.9	896.2
Bonds -		
(market value - \$12,958.1; 1998 - \$9,888.0)	13,615.0	9,859.9
Preferred stocks -		
(market value - \$164.8; 1998 - \$159.3)	165.1	155.0
Common stocks -		
(market value - \$1,388.4; 1998 - \$770.5)	1,344.1	797.4
Real estate	83.2	94.5
Total (market value - \$15,779.4;		
1998 - \$11,808.5)	16,392.3	11,803.0
Deferred premium acquisition costs	465.1	277.3
Deferred income taxes	720.7	524.0
Capital assets	96.4	94.6
Investment in Hub Group	79.6	-
Goodwill (Lindsey Morden)	249.5	276.4
Other assets	50.6	41.0
	29,301.7	20,886.7
LIABILITIES		
Share subscription receipts	-	959.7
Accounts payable and accrued liabilities	1,583.2	880.2
Premium deposits	944.7	97.4
	2,527.9	1,937.3
Provision for claims	18,049.4	13,161.2
Unearned premiums	2,899.8	1,651.5
Long term debt	2,250.2	1,582.1
	23,199.4	16,394.8
Non-controlling interest	81.1	87.9
Excess of net assets acquired over purchase price paid	250.7	227.8
SHAREHOLDERS' EQUITY		

Capital stock	<u>2,152.5</u>	1,222.4
Retained earnings	<u>1,090.1</u>	<u>1,016.5</u>
	<u>3,242.6</u>	<u>2,238.9</u>
	<u>29,301.7</u>	<u>20,886.7</u>

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

CONSOLIDATED STATEMENTS OF EARNINGS

*for the six months ended June 30, 1999 and 1998
(unaudited - \$ millions, except per share data)*

<u>months</u>	<u>Second quarter</u>		<u>First six</u>	
<u>1998</u>	<u>1999</u>	<u>1998</u>	<u>1999</u>	—
Revenue				
Gross Premiums written 1,285.0	1,531.9	584.3	2,641.3	
Net Premiums written 903.8	1,089.8	475.2	1,906.8	
Net premiums 927.2	1,205.2	464.9	1,901.0	
Interest and dividends 163.9	201.8	87.5	369.4	
Realized gains on investments 106.9	56.1	51.0	106.1	
Claims fees 87.4	<u>106.8</u>	<u>44.8</u>	<u>216.6</u>	—
	<u>1,569.9</u>	<u>648.2</u>	<u>2,593.1</u>	
Expenses				
Losses on claims 680.1	924.7	335.9	1,451.6	
Operating expenses 249.4	320.7	130.2	579.6	
Commissions, net 177.8	243.6	85.4	364.5	
Interest expense 34.2	<u>44.6</u>	<u>20.3</u>	<u>76.2</u>	—
	<u>1,533.6</u>	<u>571.8</u>	<u>2,471.9</u>	
Earnings before income taxes 144.0	36.3	76.4	121.2	
Provision for income taxes 32.6	<u>(4.8)</u>	<u>18.1</u>	<u>3.2</u>	—
Earnings from operations 111.4	41.1	58.3	118.0	
Non-controlling interest (0.5)	<u>(0.2)</u>	<u>(0.2)</u>	<u>1.0</u>	—

Net earnings	<u>40.9</u>	<u>58.1</u>	<u>119.0</u>	-
<u>110.9</u>	-----	-----	-----	

Net earnings per share	\$2.82	\$4.79	\$9.19	
\$9.54				
Shares outstanding (000)			12,947	
11,618				
(weighted average)				

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

**CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
for the six months ended June 30, 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	119.0	110.9
Excess over stated value of shares purchased for cancellation	<u>(45.4)</u>	<u>--</u>
Retained earnings - end of period	<u><u>1,090.1</u></u>	<u><u>739.9</u></u>

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

**CONSOLIDATED STATEMENTS OF CHANGES IN CASH RESOURCES
for the six months ended June 30, 1999 and 1998**

(unaudited - \$ millions)

	<u>1999</u>	<u>1998</u>
Operating Activities		
Earnings from operations	118.0	111.4
Amortization	8.6	6.5
Deferred income taxes	(5.7)	8.1
Gains on investments	<u>(106.1)</u>	<u>(106.9)</u>
	14.8	19.1
Change in provision for claims	(1,127.0)	183.8
Change in unearned premiums	342.7	16.8
Change in cash funds resulting from changes in other operating working capital items	<u>868.2</u>	<u>(50.6)</u>
	<u>98.7</u>	<u>169.1</u>
Investing Activities		
Investments - net purchases	(517.1)	(353.2)
Capital assets	(4.5)	(28.4)
Purchase of subsidiary, net of cash acquired	<u>(572.1)</u>	<u>(223.0)</u>
	<u>(1,093.7)</u>	<u>(604.6)</u>
Financing Activities		
Net capital stock transactions	884.8	455.6
Change in long term debt, net	271.6	704.1
Change in non-controlling interest	(5.9)	29.4
	<u>1,150.5</u>	<u>1,189.1</u>
Change in cash resources	155.5	753.6
Cash resources - beginning of period	<u>1,142.2</u>	<u>1,030.3</u>
Cash resources - end of period	<u><u>1,297.7</u></u>	<u><u>1,783.9</u></u>

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

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

SOURCES OF NET EARNINGS (Lindsey Morden equity accounted) for the six months ended June 30, 1999 and 1998 (unaudited - \$ millions)

	<u>1999</u>	<u>1998</u>
Underwriting		
Insurance	(175.7)	(30.2)
Reinsurance	(59.7)	(39.8)
Interest and dividends	<u>342.9</u>	<u>144.9</u>
	107.5	74.9
Realized gains	106.1	106.9
Claims adjusting (Fairfax portion)	(1.1)	0.9
Interest expense	(69.9)	(33.4)
Goodwill amortization	(2.5)	(2.5)
Corporate overhead and other	<u>(16.4)</u>	<u>(5.0)</u>
Pre-tax income	123.7	141.8
Less: taxes (recovery)	<u>4.7</u>	<u>31.1</u>
Net earnings	<u><u>119.0</u></u>	<u><u>110.9</u></u>
Combined ratio:		
Insurance	113%	107%
Reinsurance	<u>110%</u>	<u>108%</u>

FAIRFAX FINANCIAL HOLDINGS

Interim Report for the six months ended June 30, 1999

CAPITAL STRUCTURE (Lindsey Morden equity accounted) as at June 30, 1999 and December 31, 1998 (unaudited - \$ millions, except per share data)

	<u>1999</u>	<u>1998</u>
Cash and short term investments	220.8	305.4
Long term debt	2,108.2	1,444.4
Net debt	1,887.4	1,139.0
Common shareholders' equity	3,242.6	2,238.9
Net debt/equity	58%	51%
Net debt/capital	37%	34%
Shareholders' equity per share	\$231.33	\$184.54