

FAIRFAX FINANCIAL HOLDINGS LTD/ CAN

Form SUPPL

February 17, 2004

PROSPECTUS SUPPLEMENT NO. 4
(To base shelf prospectus dated August 11, 2003)

**Filed Pursuant to General
Instruction I.L. of Form F-10;
File No. 333-107361**

Fairfax Financial Holdings Limited
US\$200,000,000 Aggregate Principal Amount of
5% Convertible Senior Debentures Due 2023
Subordinate Voting Shares

This document supplements our base shelf prospectus dated August 11, 2003, as supplemented October 6, 2003, October 31, 2003 and December 19, 2003, relating to the resale of up to US\$200,000,000 aggregate principal amount of debentures and the subordinate voting shares issuable upon conversion, redemption, purchase or maturity thereof by certain selling securityholders, each an Electing Holder, named in Schedule A to this prospectus supplement.

You should read this prospectus supplement in conjunction with the base shelf prospectus. This prospectus supplement updates certain information in the base shelf prospectus and, accordingly, to the extent inconsistent, the information in this prospectus supplement supersedes the information contained in the base shelf prospectus.

The debentures and the subordinate voting shares issuable upon conversion, redemption, purchase or maturity thereof may be offered in negotiated transactions or otherwise, at varying prices determined at the time of the sale or at negotiate prices. In addition, the subordinate voting shares may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. See **Plan of Distribution** in the base shelf prospectus.

Investing in the debentures and the subordinate voting shares issuable upon their conversion involves risks.

See the **Risk Factors section beginning on page 2 of the base shelf prospectus.**

We are permitted to prepare this prospectus supplement and the base shelf prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements in accordance with Canadian generally accepted accounting principles, and are subject to Canadian auditing and auditor independence standards. As a result, they may be not be comparable to financial statements of United States companies.

Owning debentures or subordinate voting shares may subject you to tax consequences both in the United States and Canada. This prospectus supplement may not describe these tax consequences fully. You should read the tax discussion under **Certain Income Tax Considerations** in the base shelf prospectus.

Your ability to enforce civil liabilities under the United States federal securities laws may be affected adversely because we are incorporated in Canada, our officers and directors and the experts named in the base shelf prospectus are Canadian residents, and many of our assets are located outside the United States.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATOR HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS SUPPLEMENT OR THE BASE SHELF PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus supplement is February 17, 2004.

WHERE YOU CAN FIND MORE INFORMATION ABOUT FAIRFAX

The following documents, filed with the Ontario Securities Commission (the OSC) under the Securities Act (Ontario) are specifically incorporated by reference into and form an integral part of the base shelf prospectus, as supplemented, which we refer to as the prospectus:

- (a) our Renewal Annual Information Form for the year ended December 31, 2002, dated May 15, 2003;
- (b) our comparative consolidated financial statements and the notes thereto as at and for the years ended December 31, 2001 and 2002, together with the auditors' report thereon;
- (c) our Management's Discussion and Analysis for the year ended December 31, 2002 contained in our 2002 Annual Report;
- (d) our comparative unaudited financial statements for the nine-month period ended September 30, 2003;
- (e) our interim Management's Discussion and Analysis for the nine-month period ended September 30, 2003; and
- (f) our press release dated February 6, 2004 in connection with the financial results for the year ended December 31, 2003, which is included as Annex A to this prospectus.

Any document of the type referred to in the preceding paragraphs (excluding press releases) and any management information circulars and material change reports (excluding confidential material change reports) subsequently filed by us with the OSC after the date of this prospectus supplement and prior to the termination of the distribution of the debentures and subordinate voting shares under this prospectus supplement shall be deemed to be incorporated by reference in this prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this prospectus shall be deemed to be modified or superseded, for the purposes of this prospectus, to the extent that a statement contained herein or therein, or any other subsequently filed document which also is or is deemed to be incorporated by reference herein or therein, modifies or supercedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

Upon a new annual information form and new annual comparative consolidated financial statements being filed by us with, and where required, accepted by, the applicable securities regulatory authorities during the currency of this prospectus, the previous annual information form, the previous annual comparative consolidated financial statements and the accompanying management's discussion and analysis, all interim consolidated financial statements and the accompanying management's discussion and analysis, information circulars and material change reports filed prior to the commencement of our then current fiscal year in which our new annual information form is filed, will be deemed no longer to be incorporated into this prospectus for purposes of future offers and sales of the securities under this prospectus. Upon interim consolidated financial statements and the accompanying management's discussion and analysis being filed by us with the applicable securities regulatory authorities during the currency of this prospectus, all interim consolidated financial statements and the accompanying management's discussion and analysis filed prior to the new interim consolidated financial statements will be deemed no longer to be incorporated into this prospectus for purposes of future offers and sales of securities under this prospectus.

Information has been incorporated in this prospectus from documents filed with the OSC. Copies of documents incorporated herein or therein by reference may be obtained on request without charge from

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Bradley P. Martin, Vice President and Corporate Secretary of Fairfax, at Suite 800, 95 Wellington Street West, Toronto, Ontario, M5J 2N7. Copies of documents that we have filed with the OSC may be obtained over the Internet at the Canadian Securities Administrators' website at www.sedar.com.

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file or furnish reports and other information with or to the SEC. Our recent SEC filings may be obtained over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file or furnish with or to the SEC at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Please call 1-800-SEC-0330 for further information on the operations of the public reference facilities and copying charges. Copies of reports and other information concerning Fairfax may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

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SCHEDULE A

ELECTING HOLDERS

The debentures originally were issued by us and sold by Banc of America Securities LLC, Ferris, Baker Watts Incorporated and BNY Capital Markets, Inc., as the initial purchasers, in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, to persons reasonably believed by the initial purchasers to be qualified institutional buyers. The Electing Holders named below, including their transferees, pledgees or donees or their successors, may from time to time offer and sell any or all of the debentures and the subordinate voting shares conversion, redemption, purchase or maturity thereof pursuant to this prospectus supplement. The Electing Holders may offer all, some or none of the debentures and the subordinate voting shares issuable upon conversion, redemption, purchase or maturity thereof.

The table below sets forth the name of each Electing Holder, the principal amount of debentures that may be offered by each Electing Holder under this prospectus and the number of subordinate voting shares into which the debentures are convertible upon conversion, redemption, purchase or maturity thereof. The information is based on information provided to us by or on behalf of the Electing Holders on or prior to February 16, 2004. The Electing Holders identified below may have sold, transferred or otherwise disposed of all or a portion of their debentures or subordinate voting shares since the date on which they provided this information in transactions exempt from the registration requirements of the Securities Act of 1933, as amended. Information about the Electing Holders may change from time to time. Any changed information will be set forth in prospectus supplements or post-effective amendments, as required.

Because the Electing Holders may offer all or some portion of the debentures or the subordinate voting shares issuable upon conversion, redemption, purchase or maturity thereof, we cannot estimate the amount of debentures or subordinate voting shares that may be held by the Electing Holders upon the conversion, redemption, purchase or maturity thereof, upon completion of any sales. For information on the procedure for sales by selling securityholders, read the disclosure under the heading *Plan of Distribution* in the base shelf prospectus.

Name of Electing Holder	Principal Amount of Debentures Beneficially Owned and Offered Hereby*	Number of Subordinate Voting Shares Beneficially Owned**
Amaranth L.L.C.	US\$ 63,050,000	296,694
Argent Classic Convertible Arbitrage Fund (Bermuda) Ltd.	2,000,000	9,411
Banc of America Securities LLC	655,000	3,082
Chrysler Corporation Master Retirement Trust	1,895,000	8,917
CQS Convertible & Quantitative Strategies Master Fund Limited	12,500,000	58,821
D.E. Shaw Investment Group, L.P.	400,000	1,882
D.E. Shaw Valence Portfolios, L.P.	1,600,000	7,529
Deephaven Domestic Convertible Trading Ltd.	3,933,000	18,507
Delta Air Lines Master Trust CV	835,000	3,929
Delta Pilots Disability and Survivorship Trust CV	375,000	1,764
Jersey (IMA) Ltd.	2,500,000	11,764
LibertyView Credit Opportunities Fund L.P.	3,000,000	14,117
LibertyView Funds L.P.	5,500,000	25,881
Marathon Global Convertible Master Fund Ltd.	18,000,000	84,702
Microsoft Corporation	1,415,000	6,658
MLQA Convertible Securities Arbitrage	2,500,000	11,764
Motion Picture Industry Health Plan Active Member Fund	195,000	917
Motion Picture Industry Health Plan Retiree Member Fund	120,000	564
OCM Convertible Trust	1,850,000	8,705
Partner Reinsurance Company Ltd.	220,000	1,035
Qwest Occupational Health Trust	250,000	1,176
Sphinx Convertible Arbitrage Fund SPC	67,000	315
State Employees Retirement Fund of the State of Delaware	825,000	3,882
Sunrise Partners Limited Partnership	8,450,000	39,763
Vanguard Convertible Securities Fund, Inc.	5,865,000	27,598
Zazove Convertible Arbitrage Fund, L.P.	2,000,000	9,411

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Total	US\$ 140,000,000	658,788
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* This includes all of the debentures beneficially owned by the Electing Holders.

** Assumes conversion of all of the Electing Holder s debentures at the initial conversion ratio of 4.7057 subordinate voting shares per US\$1,000 principal amount of debentures and a cash payment in lieu of fractional shares. The conversion ratio is subject to adjustment as described under Description of the Debentures Conversion Rights Conversion Rate Adjustments in the base shelf prospectus. As a result, the number of subordinate voting shares may increase or decrease in the future.

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ANNEX A

FAIRFAX *News Release*

Stock Symbol: FFH (TSX and NYSE)

TORONTO, February 6, 2004

FINANCIAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2003

Fairfax Financial Holdings Limited announces that it earned US\$271.1 million in 2003, the largest annual profit in its history. Other 2003 operating highlights were as follows:

The combined ratio of the company's continuing insurance and reinsurance operations improved to 97.6% in 2003 from 101.5% in 2002.

Net premiums written at the company's continuing insurance and reinsurance operations increased 28.4% in 2003 to US\$4.1 billion.

Underwriting profit at the company's continuing insurance and reinsurance operations increased to US\$87.7 million in 2003 from an underwriting loss of US\$42.8 million in 2002.

Cash flow from operations at OdysseyRe, Crum & Forster and Northbridge improved to US\$1,099.2 million in 2003 from US\$236.1 million in 2002.

Realized gains on investments in 2003 totalled US\$845.9 million compared to US\$469.5 million in 2002.

Cash and investments increased to US\$12.6 billion at December 31, 2003 from US\$10.6 billion at the end of 2002.

Total interest and dividends decreased to US\$330.1 million in 2003 from US\$418.6 million in 2002, reflecting lower investment yields since almost half the portfolio investments have been held in cash and short term investments since the second quarter of 2003 pending the company identifying suitable opportunities for reinvestment in line with its long term value-oriented investment philosophy.

Common shareholders' equity per basic share increased by 29.1% to US\$192.81 at December 31, 2003 from US\$149.31 at the end of 2002. Total common shareholders' equity increased to US\$2.7 billion at December 31, 2003 from US\$2.1 billion at December 31, 2002.

At December 31, 2003, United States Fire Insurance, Crum & Forster's principal operating subsidiary, had moved to a positive earned surplus position of approximately US\$146 million, thereby achieving dividend capacity in 2004 of approximately US\$80 million.

At December 31, 2003, TIG met the three financial tests necessary to permit the release of securities from the trust established in connection with the reorganization of TIG at the end of 2002, subject to California regulatory approval.

The company has available US\$260 million of syndicated bank lines, which are currently unused.

As the majority of the company's operations are in the United States or conducted in U.S. dollars, effective December 31, 2003, the company is reporting its consolidated financial statements in U.S. dollars, in order to provide more meaningful information to its financial statement users. Consequently, **throughout this release, amounts are expressed in U.S. dollars** and (except per share amounts) in \$ millions, unless otherwise indicated, and are unaudited.

Following is a summary of Fairfax's unaudited fourth quarter and full year financial results:

	Fourth Quarter		Year	
	2003	2002	2003	2002
Total revenue	1,575.4	1,363.6	5,713.9	5,067.4
Net earnings	6.6	48.3	271.1	263.0
Net earnings per share	\$ 0.51	\$ 3.84	\$ 18.55	\$ 18.20

The results for the fourth quarter of 2003 were impacted by net reserve charges aggregating \$224 at Crum & Forster and the runoff operations. Crum & Forster's net charge of \$39 included a \$150 strengthening of asbestos reserves; the runoff operations strengthened reserves by \$434, which resulted in a net charge of \$185 after the effect of existing reinsurance protections. The results for the fourth quarter of 2002 were impacted by \$200 of reserve strengthening and \$63.6 of restructuring charges in connection with the reorganization of TIG, partially offset by \$188.4 of negative goodwill on the acquisition of the remaining 72.5% economic interest in TRG Holdings.

There were 14.0 and 14.3 million weighted average shares outstanding during 2003 and 2002 respectively (13.9 and 14.1 million during the fourth quarters of 2003 and 2002 respectively). The consolidated balance sheets and consolidated statements of earnings, retained earnings and cash flows for 2003 and 2002 are set out below, followed by management's discussion and analysis.

CONSOLIDATED BALANCE SHEETS

as at December 31, 2003 and 2002
(unaudited US\$ millions)

	<u>2003</u>	<u>2002</u>
Assets		
Cash and short term investments	346.4	304.6
Cash held in Crum & Forster interest escrow account	47.3	
Marketable securities	16.5	23.1
Accounts receivable and other	2,112.3	2,271.9
Recoverable from reinsurers (including recoverables on paid losses \$654.2; 2002 \$623.2)	8,542.6	7,591.4
	<u>11,065.1</u>	<u>10,191.0</u>
<i>Portfolio investments</i>		
Subsidiary cash and short term investments (market value \$5,710.6; 2002 \$1,705.5)	5,710.6	1,705.5
Bonds (market value \$4,644.8; 2002 \$7,513.5)	4,729.3	7,394.5
Preferred stocks (market value \$143.9; 2002 \$158.0)	142.3	160.1
Common stocks (market value \$1,428.5; 2002 \$712.4)	1,173.9	679.6
Investments in Hub, Zenith National and Advent (market value \$456.0; 2002 \$332.6)	387.6	354.3
Real estate (market value \$17.0; 2002 \$24.2)	12.2	20.5
	<u>12,155.9</u>	<u>10,314.5</u>
Deferred premium acquisition costs	412.0	375.6
Future income taxes	968.3	977.3
Premises and equipment	98.7	111.7
Goodwill	214.3	185.3
Other assets	104.0	69.1
	<u>25,018.3</u>	<u>22,224.5</u>
Liabilities		
Lindsey Morden bank indebtedness	17.7	26.5
Accounts payable and accrued liabilities	1,413.0	1,278.3
Funds withheld payable to reinsurers	1,104.6	959.7
	<u>2,535.3</u>	<u>2,264.5</u>
Provision for claims	14,368.1	13,397.3
Unearned premiums	2,441.9	2,089.1
Long term debt	2,033.8	1,482.7
Purchase consideration payable	200.6	205.5
Trust preferred securities of subsidiaries	79.8	215.8
	<u>19,124.2</u>	<u>17,390.4</u>
Non-controlling interests	440.8	321.6
Shareholders Equity		
Common stock	1,510.0	1,535.7

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Other paid in capital	101.4	
Preferred stock	136.6	136.6
Retained earnings	1,114.9	873.5
Currency translation account	55.1	(297.8)
	<u>2,918.0</u>	<u>2,248.0</u>
	<u>25,018.3</u>	<u>22,224.5</u>

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CONSOLIDATED STATEMENTS OF EARNINGS

for the years ended December 31, 2003 and 2002
(unaudited US\$ millions except per share amounts)

	<u>2003</u>	<u>2002</u>
Revenue		
Gross premiums written	5,518.6	5,173.2
Net premiums written	4,448.1	4,033.9
Net premiums earned	4,209.0	3,888.6
Interest and dividends	330.1	418.6
Realized gains on investments	840.2	469.5
Realized gain on Northbridge IPO	5.7	
Claims fees	328.9	290.7
	<u>5,713.9</u>	<u>5,067.4</u>
Expenses		
Losses on claims	3,240.6	2,998.7
Operating expenses	1,023.4	927.5
Commissions, net	776.1	706.2
Interest expense	146.3	87.0
Other costs and restructuring charges		70.0
Swiss Re premiums		2.7
	<u>5,186.4</u>	<u>4,792.1</u>
Earnings from operations before income taxes	527.5	275.3
Provision for income taxes	191.9	150.0
Earnings from operations before extraordinary item	335.6	125.3
Negative goodwill		188.4
Net earnings before non-controlling interests	335.6	313.7
Non-controlling interests	(64.5)	(50.7)
Net earnings	<u>271.1</u>	<u>263.0</u>
Net earnings per share before extraordinary item and after non-controlling interests	\$ 18.55	\$ 5.01
Net earnings per share	\$ 18.55	\$ 18.20
Net earnings per diluted share	\$ 18.23	\$ 18.20
Cash dividends paid per share	\$ 0.98	\$ 0.63

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the years ended December 31, 2003 and 2002
(unaudited US\$ millions)

	<u>2003</u>	<u>2002</u>
Retained earnings beginning of year	873.5	590.3
Change in accounting for negative goodwill		32.2
	<u>873.5</u>	<u>622.5</u>
Retained earnings as restated beginning of year	873.5	622.5
Net earnings for the year	271.1	263.0
Excess over stated value of shares purchased for cancellation	(4.9)	
Common share dividends	(13.9)	(9.0)
Preferred share dividends	(9.8)	(8.3)
Cost of convertible debentures, net of tax	(1.1)	
Dividend tax recovery		5.3
	<u>1,114.9</u>	<u>873.5</u>
Retained earnings end of year	<u>1,114.9</u>	<u>873.5</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 2003 and 2002
(unaudited US\$ millions)

	2003	2002
Operating activities		
Earnings before non-controlling interests	335.6	313.7
Amortization	52.1	42.9
Future income taxes	127.0	114.8
Negative goodwill		(188.4)
Gains on investments	(845.9)	(469.5)
	<u>(331.2)</u>	<u>(186.5)</u>
Increase (decrease) in:		
Provision for claims	759.5	(492.5)
Unearned premiums	235.7	415.6
Accounts receivable and other	257.4	(135.6)
Recoverable from reinsurers	(793.5)	450.6
Funds withheld payable to reinsurers	141.6	(164.6)
Accounts payable and accrued liabilities	59.8	122.5
Other	62.4	119.3
	<u>391.7</u>	<u>128.8</u>
Cash provided by operating activities		
Investing activities		
Investments purchases	(11,280.6)	(5,354.5)
sales	14,483.6	5,498.4
Sale of marketable securities	6.6	28.8
Purchase of capital assets	(29.9)	(23.9)
Investments in Hub, Zenith National and Advent		(29.1)
Purchase of subsidiaries, net of cash acquired	18.7	(53.0)
Net proceeds on Northbridge IPO	148.9	
Non-controlling interests		(6.9)
	<u>3,347.3</u>	<u>59.8</u>
Cash provided by investing activities		
Financing activities		
Subordinate voting shares repurchased	(30.6)	(16.7)
Trust preferred securities of subsidiary repurchased	(136.0)	(4.1)
Issue of OdysseyRe debt	225.0	110.0
Issue of Crum & Forster debt	300.0	
Issue of convertible debentures	200.0	
Long term debt repayment	(179.3)	(88.5)
Purchase consideration	(23.3)	
Bank indebtedness	(8.8)	(0.8)
Common share dividends	(13.9)	(9.0)
Preferred share dividends	(9.8)	(8.3)
	<u>323.3</u>	<u>(17.4)</u>
Cash provided by (used in) financing activities		
Foreign currency translation	31.9	(44.1)
	<u>4,094.2</u>	<u>127.1</u>
Increase in cash resources		
Cash resources beginning of year	<u>2,010.1</u>	<u>1,883.0</u>

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Cash resources	end of year	<u>6,104.3</u>	<u>2,010.1</u>
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Cash resources consist of cash and short term investments, including subsidiary cash and short term investments. Short term investments are readily convertible into cash and have maturities of three months or less.

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Notes to Consolidated Financial Statements

for the years ended December 31, 2003 and 2002

(unaudited in US\$ millions except per share amounts and as otherwise indicated)

1. Basis of Presentation

These consolidated financial statements should be read in conjunction with the company's consolidated financial statements for the year ended December 31, 2002 as set out on pages 24 to 50 of the company's 2002 Annual Report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the company's consolidated financial statements for the year ended December 31, 2002.

In order to control the company's exposure to loss from adverse development of reserves or reinsurance recoverable on pre-acquisition reserves of companies acquired or from future adverse development on long tail latent or other potentially volatile claims, and to protect capital, the company obtains vendor indemnities or purchases excess of loss reinsurance protection from reinsurers. For excess of loss reinsurance treaties (other than vendor indemnities), the company generally pays the reinsurer a premium as losses from adverse development are ceded under the treaty. The company records both the premium charge and the related reinsurance recovery in its consolidated statement of earnings in the period in which the adverse development is ceded to the reinsurer.

Effective January 1, 2002, in accordance with changes to Canadian generally accepted accounting principles, goodwill is no longer being amortized to earnings over its estimated useful life. The carrying value of goodwill will be charged to earnings if and to the extent that it is determined that an impairment in value exists. The company assesses the carrying value of goodwill based on the underlying discounted cash flows and operating results of its subsidiaries. In addition, effective January 1, 2002, the excess of the fair value of net assets acquired over the purchase price paid for acquired businesses (negative goodwill) is no longer amortized to earnings. Consequently, effective January 1, 2002, the company's negative goodwill balance of \$32.2 was added to shareholders' equity as an adjustment to opening retained earnings.

2. Investments

On May 28 and June 10, 2003, Northbridge Financial Corporation (Northbridge), the Canadian holding company for Lombard Canada Ltd., Commonwealth Insurance Company, Markel Insurance Company of Canada and Federated Holdings of Canada Ltd. and their respective subsidiaries, issued an aggregate of 14,740,000 common shares in an initial public offering at Cdn \$15 (US\$10.82) per share. Net proceeds (after expenses of issue) were \$148.9. After the offering, Fairfax held 36.1 million (71.0%) of Northbridge's common shares. Fairfax recorded a \$5.7 gain on its effective sale of a 29.0% interest in Northbridge which is included in realized gains on investments in the consolidated statement of earnings.

On May 30, 2003, Lindsey Morden acquired all of the outstanding common shares of RSKCo Services, Inc. (RSKCo), a claims management service provider in the U.S. The purchase price payable is estimated to be \$10.1 and the fair value of the assets acquired and liabilities assumed would both be \$37.7. Based on these estimates, this resulted in goodwill of approximately \$4.7.

On March 3, 2003, the company purchased an additional 4,300,000 outstanding common shares of Odyssey Re Holdings Corp. (OdysseyRe) for \$18.15 per share, increasing its interest in OdysseyRe from 73.8% to 80.6%. As consideration, the company issued seven-year 3.15% notes exchangeable in November 2004 and February 2005 into the same number of OdysseyRe shares purchased.

3. Long Term Debt and Trust Preferred Securities

During the year, the company repurchased and/or repaid \$159.6, \$18.1 (Cdn\$25.0) and nil of its U.S. dollar-denominated notes, Canadian dollar-denominated notes and trust preferred securities respectively (2002 \$25.6, nil and \$10.2) at a cost of \$177.7 (2002 \$17.5). The notes purchased in 2003 were notes maturing primarily in 2003.

Effective October 31 and November 18, 2003, OdysseyRe issued \$225 of 7.65% senior notes due November 1, 2013 for net proceeds (after expenses of issue) of \$222.5, of which \$50 which was used to repay \$50 of 7.49% senior notes due November 30, 2006.

On July 14 and 24, 2003, the company issued an aggregate \$200 of 5% convertible senior debentures due July 15, 2023 for net proceeds (after expenses of issue) of \$193.7. Each \$1,000.00 principal amount of debentures is convertible under certain circumstances into 4.7057 subordinate voting shares (\$212.51 per share). Prior to July 15, 2008, the company may redeem the debentures (effectively forcing conversion) if the share price exceeds \$293.12 for 20 trading days in any 30-day trading period. The company may redeem the debentures at any time commencing July 15, 2008, and the debenture holders can put their debentures to the company for repayment on July 15, 2008, 2013 and 2018. The company has the option to repay the debentures in cash, subordinate voting shares or a combination thereof. In accordance with Canadian GAAP, these convertible debentures are recorded as components of debt and equity. The present value of the interest cost associated with these debentures, discounted at 8% per annum, is presented as debt of \$99.0. The value of the conversion option and the present value of the principal amount of the debentures on maturity, discounted at 8% per annum, aggregating \$101.4, is included in paid in capital. The paid in capital amount is net of issue costs of \$1.8 after tax. The amortization of the net present value of the principal amount of the debentures is charged to retained earnings (\$1.1 in 2003). As described in note 6, under U.S. GAAP the full amount of the debentures is included in debt, with no allocation to paid in capital.

Effective June 5, 2003, Crum & Forster Holdings Corp. issued \$300 of 10.375% senior notes due June 15, 2013 for net proceeds (after expenses of issue) of \$281, of which \$63.1 was placed in an interest escrow account, to fund the first four interest payments. The remainder of the net proceeds were released from escrow on June 30, 2003 on completion of the renegotiation of the company's bank lines.

In February 2003, the company redeemed its RHINOS preferred securities for \$136 cash.

4. Contingencies

As disclosed in note 11 to the company's consolidated financial statements for the year ended December 31, 2002 (pages 41 and 42 of the company's 2002 Annual Report), the company's subsidiary, Sphere Drake, had commenced legal proceedings in the Commercial Court in London, England against underwriting agents who, it alleged, fraudulently obtained a binding authority in conspiracy with brokers, who were also defendants, in order to write reinsurance contracts which exposed Sphere Drake to grossly underpriced U.S. workers' compensation carve out business.

On July 8, 2003, the Commercial Court released a judgment finding in Sphere Drake's favour. The judgment upheld Sphere Drake's allegation that in accepting business, the underwriting agents acted in dishonest breach of fiduciary duties owed to Sphere Drake, that the brokers dishonestly assisted in committing those breaches, and that the underwriting agents and the brokers were both dishonest and collusive. The judge has therefore found for Sphere Drake on all material grounds on which Sphere Drake contends that it is entitled to avoid paying losses under the inward reinsurance contracts purportedly placed on its behalf under the binding authority.

This judgment confirms the company's belief that the likely ultimate net liability which might arise in respect of this business will not be material to Sphere Drake's financial position.

5. Segmented Information

The company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance conducted on a direct and reinsurance basis, runoff operations and claims adjusting, appraisal and loss management services.

In Management's Discussion and Analysis of Financial Condition and Results of Operations, the company shows the net premiums earned, combined ratios, and underwriting and operating results for each of its insurance and reinsurance groups, and as applicable, for its runoff operations as well as the earnings

contributions from its claims adjusting, appraisal and loss management services. In the table showing the sources of net earnings, interest and dividends on the consolidated statements of earnings are included in the insurance and reinsurance group operating results and in the runoff and other operations and realized gains on investments related to the runoff group are included in the runoff and other operations. There were no significant changes in the identifiable assets by operating group as at December 31, 2003 compared to December 31, 2002.

Commencing with the first quarter of 2003 (and reflected in the 2002 comparatives), the company refined its operating segment disclosure as follows:

- (a) Realized gains (losses) on investments are allocated to each operating segment, in aggregate, based on the realized gains (losses) on investments reported by each segment. Realized gains (losses) on the consolidated statements of earnings also include realized gains (losses) on the holding company marketable securities, elimination of intersegment gains (losses) and purchase price adjustments resulting from recording investments at fair value on acquisition of subsidiaries.
- (b) Fairfax and Hamblin Watsa investment administration and management fees are now included in each operating segment's interest and dividends and in corporate overhead and other.

The above-described change in presenting segmented information resulted in the following changes to information presented in the 2002 Annual Report to put that information on a comparable basis:

- (x) For the Canadian segment, the results presented are those for Northbridge which became a separate public company in 2003. In 2002, business ceded by Lombard to CRC (Bermuda) was included in Lombard's results for purposes of the Canadian insurance segment. As a result of the change in basis of presentation, the business ceded to CRC (Bermuda) is now included in Group Re in the runoff and other segment. As a result, the 2002 combined ratio of 95.8% previously reported for the Canadian segment is now shown as Northbridge's 2002 combined ratio of 97.4%.
- (y) For the U.S. segment, the changed presentation resulted in the following changes to amounts previously reported in 2002:
 - (i) In 2002, Crum & Forster ceded premiums of US\$32.1 (and no losses) under a stop loss treaty with nSpire Re. In and prior to 2002, Crum & Forster's combined ratio was shown prior to the effect of this intercompany stop loss treaty. Commencing in 2003, Crum & Forster's combined ratio is shown after the effect of this intercompany stop loss treaty. Consequently, Crum & Forster's combined ratio for 2002 is shown as 103.3% in the 2002 Annual Report, and is shown in 2003 as 108.3%.
 - (ii) In the 2002 Annual Report, TIG's results were presented for continuing business which was expected to be underwritten by Fairmont and the business written by Napa MGU resulting in a combined ratio of 106.0%. In 2003, the Fairmont results only include business underwritten by Fairmont, resulting in a combined ratio of 107.0% for 2002. The Napa MGU results are included in runoff and other since it was a subsidiary of TIG in 2003.
- (z) Crum & Forster's 2003 combined ratio of 104.4% reflects the offset of an existing purchase price accrual against a commutation loss of \$26.8 on an affiliated stop loss reinsurance treaty.

The effect of this change in presenting segmented information is to change the 2002 consolidated combined ratio previously reported of 100.1% to the consolidated combined ratio of 101.5% now presented.

Comparative numbers for the U.S. runoff group for the year ended December 31, 2002 have been restated to include TIG's discontinued MGA-controlled program business, which was placed into runoff in 2002, retroactive to January 1, 2002 in conformity with the presentation adopted in the company's 2002 Annual Report.

6. U.S. GAAP Reconciliation

The consolidated financial statements of the company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) which are different in some respects from those applicable in the United States, as described in note 18 on pages 46 to 50 of the company s 2002 Annual Report.

For purposes of U.S. GAAP, the full amount of the company s convertible debentures described in note 3 is included in debt with no allocation to paid in capital.

The following shows the reconciliation of the company s net earnings, prepared in accordance with Canadian GAAP, to its net earnings, prepared in accordance with U.S. GAAP:

	<u>2003</u>	<u>2002</u>
Net earnings, Canadian GAAP	271.1	263.0
Recoveries (deferred gains) on retroactive reinsurance	(209.4)	33.2
Other than temporary declines	(49.9)	(13.8)
Cumulative catchup adjustment on changes in accounting for negative goodwill		112.6
Other differences	1.5	
Tax effect	91.0	(8.0)
	<u>104.3</u>	<u>387.0</u>
Net earnings, US GAAP		
Net earnings per share, US GAAP before cumulative catchup adjustment and extraordinary item	\$ 6.66	\$ 5.81
	<u>6.66</u>	<u>5.81</u>
Net earnings per share, US GAAP before cumulative catchup adjustment	\$ 6.66	\$ 19.00
	<u>6.66</u>	<u>19.00</u>
Net earnings per share, US GAAP	\$ 6.66	\$ 26.88
	<u>6.66</u>	<u>26.88</u>
Net earnings per diluted share, US GAAP	\$ 6.66	\$ 26.88
	<u>6.66</u>	<u>26.88</u>

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The following shows the balance sheet amounts in accordance with US GAAP, setting out individual amounts where different from the amounts reported under Canadian GAAP:

	<u>2003</u>	<u>2002</u>
Assets		
Portfolio investments		
Bonds	4,644.8	7,513.5
Preferred stocks	143.9	158.0
Common stocks	1,428.5	712.4
Strategic investments	423.3	323.7
	<u> </u>	<u> </u>
Total portfolio investments	6,640.5	8,707.6
Future income taxes	1,229.9	1,193.5
Goodwill	266.6	237.4
All other assets	17,402.6	12,473.4
	<u> </u>	<u> </u>
Total assets	25,539.6	22,611.9
	<u> </u>	<u> </u>
Liabilities		
Accounts payable and accrued liabilities	2,288.0	1,945.3
Long term debt	2,135.2	1,482.7
All other liabilities	17,932.3	16,472.6
	<u> </u>	<u> </u>
Total liabilities	22,355.5	19,900.6
	<u> </u>	<u> </u>
Trust preferred securities of subsidiaries	79.8	215.8
Mandatorily redeemable shares of TRG	200.6	205.5
Non-controlling interests	440.8	321.6
	<u> </u>	<u> </u>
	721.2	742.9
	<u> </u>	<u> </u>
Shareholders Equity		
Total shareholders equity	2,462.9	1,968.4
	<u> </u>	<u> </u>
	<u>25,539.6</u>	<u>22,611.9</u>

The difference in consolidated shareholders equity is as follows:

	<u>2003</u>	<u>2002</u>
Shareholders equity based on Canadian GAAP	2,918.0	2,248.0
Other comprehensive income	187.5	94.8
Reduction of other paid in capital	(101.4)	
Cumulative reduction in net earnings under US GAAP	(541.2)	(374.4)
	<u> </u>	<u> </u>
Shareholders equity based on US GAAP	2,462.9	1,968.4
	<u> </u>	<u> </u>

7. Foreign Exchange

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As the majority of the company's operations are in the United States or conducted in U.S. dollars, effective December 31, 2003, the company is reporting its consolidated financial statements in U.S. dollars, in order to provide more meaningful information to its financial statement users. To effect this conversion, the consolidated financial statements have been translated into U.S. dollars using the current rate method, pursuant to which the consolidated statements of earnings and cash flows have been translated using the average rate of exchange for the relevant year, all assets and liabilities have been translated using the relevant year end rate of exchange and both common stock and preferred stock have been translated using the rates of exchange in effect as of the dates of the various capital transactions. Foreign exchange differences arising from the translation as described above have been recorded in the currency translation account which is included as a separate component of shareholders' equity. All comparative financial

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information has been restated to reflect the company's results as if they had been historically reported in U.S. dollars.

The company (i.e. the holding company) has also determined, effective January 1, 2004, that its functional currency is U.S. dollars. This change from Canadian dollars, which will be accounted for on a prospective basis, is based primarily on the fact that with the termination of the U.S. forward contracts and the repayment of the Canadian dollar denominated debt, the holding company balance sheet will be fully exposed to the U.S. dollar. In addition, based on analysis of the underlying cash flows, management has determined that these cash flows will be primarily denominated in U.S. dollars and that future dividend payments will likely be denominated in U.S. dollars.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(in US\$ millions except per share amounts and as otherwise indicated)

The company produced an excellent underwriting result in 2003. The combined ratio of its continuing insurance and reinsurance operations was 97.6% for the year, with Northbridge, Crum & Forster and OdysseyRe producing combined ratios of 92.6%, 104.4% (99.7% excluding the effect of the net strengthening of asbestos reserves) and 96.9% respectively. The combined ratio of those operations in the fourth quarter was 97.4% (94.1% excluding the effect of the net strengthening of asbestos reserves) compared to 98.1% in the fourth quarter of 2002.

The improved underwriting profit and substantial realized gains, offset by lower interest and dividends (reflecting almost half of the investment portfolio being held in cash and short term investments) as well as increased runoff and interest costs, resulted in pre-tax income increasing significantly and in net earnings increasing to \$271.1 (\$18.55 per basic share or \$18.23 per diluted share) in 2003 from \$263.0 (\$18.20 per basic or diluted share) in 2002, which included the benefit of \$188.4 of negative goodwill on the TRG purchase.

Revenue in the year increased to \$5,713.9 from \$5,067.4 last year principally as a result of increased realized gains, earned premiums and claims fees offset by reduced interest and dividend income. During 2003, net premiums written by Northbridge, Crum & Forster and OdysseyRe, expressed in local currency on a consistent basis, increased 35.2%, 12.6% (28.0% treating Seneca bail bonds on a consistent basis and excluding the effect of the net strengthening of asbestos reserves) and 32.0% respectively over 2002. Consolidated net premiums written in 2003 increased by 10.3% to \$4,448.1 from \$4,033.9 in 2002, and increased 28.4% excluding the effect of TIG's discontinued MGA-controlled program business.

Cash flow from operations for the year ended December 31, 2003 amounted to \$554.1 for OdysseyRe (\$214.2 in 2002), \$379.2 for Crum & Forster (negative \$110.7 in 2002) and \$165.9 for Northbridge (\$132.6 in 2002).

Net Earnings

The combined ratios by segment and the sources of net earnings (with Lindsey Morden equity accounted) were as follows for the years ended December 31, 2003 and 2002:

	<u>2003(1)</u>	<u>2002(1)</u>
Combined ratios		
Insurance Canada	92.6%	97.4%
U.S.	102.5%	107.1%
Reinsurance	96.9%	99.1%
	<u> </u>	<u> </u>
Consolidated	97.6%	101.5%
	<u> </u>	<u> </u>
Sources of net earnings		
Underwriting		
Insurance Canada	52.3	12.4
U.S.	(25.6)	(68.1)
Reinsurance	61.0	12.9
	<u> </u>	<u> </u>
Underwriting income (loss)	87.7	(42.8)
Interest and dividends	220.3	266.1
	<u> </u>	<u> </u>
Operating income	308.0	223.3
Realized gains	534.6	285.9
Runoff	(110.0)	135.7
TIG reserve strengthening and restructuring costs		(263.6)
Claims adjusting (Fairfax portion)	(16.6)	(6.7)
Interest expense	(138.6)	(79.6)
Swiss Re premium		(2.7)
Corporate overhead and other	(48.7)	(5.9)
Other costs and charges		(9.0)
	<u> </u>	<u> </u>
Pre-tax income	528.7	(277.4)
Taxes	(187.6)	(149.3)
Negative goodwill on TRG purchase		188.4
Non-controlling interests	(70.0)	(53.5)
	<u> </u>	<u> </u>
Net earnings	271.1	263.0
	<u> </u>	<u> </u>

(1) See note 5 to the consolidated financial statements.

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The above sources of net earnings (with Lindsey Morden equity accounted) shown by business segments were as follows for the years ended December 31, 2003 and 2002:

Year ended December 31, 2003

	Northbridge	U.S. Insurance	OdysseyRe	Sub-total	Runoff & Other	Intercompany	Corporate & Other	Consolidated
Gross premiums written	1,318.6	1,477.8	2,588.2	5,384.6	582.2	(448.2)		5,518.6
Net premiums written	802.3	1,153.7	2,153.6	4,109.6	338.5			4,448.1
Net premiums earned	703.2	1,028.9	1,965.1	3,697.2	511.8			4,209.0
Underwriting profit	52.3	(25.6)	61.0	87.7				87.7
Interest and dividends	50.8	76.8	92.7	220.3				220.3
Operating income before:	103.1	51.2	153.7	308.0				308.0
Realized gains/ losses	67.2	312.6	284.1	663.9	311.3	(132.4)	3.1	845.9
Runoff operating income					(421.3)			(421.3)
Claims adjusting							(16.6)	(16.6)
Interest expense		(18.7)	(12.7)	(31.4)			(107.2)	(138.6)
Corporate overhead and other							(48.7)	(48.7)
Pre-tax income	170.3	345.1	425.1	940.5	(110.0)	(132.4)	(169.4)	528.7
Taxes								(187.6)
Non-controlling interests								(70.0)
Net earnings								271.1

Year ended December 31, 2002

	Northbridge	U.S. Insurance	OdysseyRe	Sub-total	Runoff & Other	Intercompany	Corporate & Other	Consolidated
Gross premiums written	1,132.9	1,371.7	1,894.5	4,399.1	1,205.3	(431.2)		5,173.2
Net premiums written	533.2	1,036.5	1,631.2	3,200.9	833.0			4,033.9
Net premiums earned	482.9	954.0	1,432.6	2,869.5	1,019.1			3,888.6
Underwriting profit	12.4	(68.1)	12.9	(42.8)				(42.8)
Interest and dividends	31.2	127.9	107.0	266.1				266.1
Operating income before:	43.6	59.8	119.9	223.3				223.3
Realized gains/ losses	13.4	62.5	118.6	194.5	183.7	(17.5)	108.9	469.5
Runoff operating income					(48.0)			(48.0)
TIG reserve strengthening and restructuring					(263.6)			(263.6)
Claims adjusting							(6.7)	(6.7)
Interest expense			(7.7)	(7.7)			(71.9)	(79.6)
Swiss Re premium and other							(2.7)	(2.7)
Corporate overhead and other							(5.9)	(5.9)
Other costs and charges		(9.0)		(9.0)				(9.0)

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Pre-tax income	57.0	113.3	230.8	401.1	(127.9)	(17.5)	21.7	277.4
Taxes								(149.3)
Negative goodwill on TRG purchase								188.4
Non-controlling interests								(53.5)
Net earnings								263.0

Summarized income statements showing the underwriting results and operating income for each business segment for the years ended December 31, 2003 and 2002 are set out below, followed by a discussion of the principal other elements of net earnings.

Canadian Insurance Northbridge

	2003(1)	2002(1)
Underwriting profit	52.3	12.4
Combined ratio	92.6%	97.4%
Gross premiums written	1,318.6	1,132.9
Net premiums written	802.3	533.2
Net premiums earned	703.2	482.9
Underwriting profit	52.3	12.4
Interest and dividends	50.8	31.2
Operating income	103.1	43.6
Realized gains	67.2	13.4
Pre-tax income before interest and other	170.3	57.0

(1) See note 5 to the consolidated financial statements.

The Canadian insurance companies' combined ratio for the year ended December 31, 2003 improved to 92.6% from 97.4% last year. The outstanding underwriting results in 2003 reflect considerable new business volumes written in 2003 and continued price increases achieved by all Northbridge subsidiaries in 2002 and continuing into 2003 without compromising their stringent underwriting standards. Net premiums written by Northbridge (before intercompany reinsurance and in Canadian dollars) increased by 35.2% in 2003 compared with 2002 due to price increases achieved in continuing favourable market conditions, increased volumes and increased retentions. For more information on Northbridge's results, please see its year-end press release posted on its website at www.northbridgefinancial.com.

U.S. Insurance

Year ended December 31, 2003

	Crum & Forster(1)	Fairmont(1)(2)	Falcon(3)	Old Lyme(4)	Total(1)
Underwriting profit (loss)	(32.7)	1.7	1.5	3.9	(25.6)
Combined ratio	104.4%	99.2%	96.0%	92.7%	102.5%
Gross premiums written	1,104.2	242.3	81.8	49.5	1,477.8
Net premiums written	857.3	185.4	61.6	49.4	1,153.7
Net premiums earned	735.3	203.3	37.2	53.1	1,028.9
Underwriting profit (loss)	(32.7)	1.7	1.5	3.9	(25.6)
Interest and dividends	59.2	14.4	0.7	2.5	76.8

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Operating income	<u>26.5</u>	<u>16.1</u>	<u>2.2</u>	<u>6.4</u>	<u>51.2</u>
Realized gains	<u>294.8</u>	<u>13.8</u>	<u>3.8</u>	<u>0.2</u>	<u>312.6</u>
Pre-tax income before interest and other	<u>321.3</u>	<u>29.9</u>	<u>6.0</u>	<u>6.6</u>	<u>363.8</u>

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Year ended December 31, 2002

	<u>Crum & Forster(1)</u>	<u>Fairmont(1)(2)</u>	<u>Falcon(3)</u>	<u>Old Lyme</u>	<u>Total(1)</u>
Underwriting profit (loss)	(55.2)	(15.0)	0.1	2.0	(68.1)
Combined ratio	108.3%	107.0%	99.8%	92.9%	107.1%
Gross premiums written	963.5	313.0	56.6	38.6	1,371.7
Net premiums written	729.0	227.2	41.7	38.6	1,036.5
Net premiums earned	669.0	214.9	41.6	28.5	954.0
Underwriting profit (loss)	(55.2)	(15.0)	0.1	2.0	(68.1)
Interest and dividends	105.5	19.4	1.3	1.7	127.9
Operating income	50.3	4.4	1.4	3.7	59.8
Realized gains	51.4	10.4	0.7		62.5
Pre-tax income before interest and other	101.7	14.8	2.1	3.7	122.3

(1) See note 5 to the consolidated financial statements.

(2) Fairmont includes Ranger's results and the ongoing operations of TIG's Hawaii and Accident and Health business on a retroactive basis consistent with the basis of presentation effective January 1, 2003. Effective January 1, 2004, Fairmont received formal approvals of its structure and capitalization from all relevant insurance regulatory authorities.

(3) Included in U.S. operations for convenience.

(4) Transferred to runoff effective January 1, 2004.

The U.S. insurance combined ratio for the year ended December 31, 2003 improved to 102.5% (99.1% excluding the net effect of Crum & Forster strengthening its asbestos reserves) from 107.1% last year (after giving effect to the discontinued TIG business which was moved to runoff).

Crum & Forster's combined ratio improved to 104.4% for 2003 (99.7%, excluding the effect of the net strengthening of asbestos reserves) from 108.3% in 2002 reflecting the impact of price increases in excess of 10% for 2003, improved retention of existing business, growth in new business and its continued focus on expenses. Crum & Forster's net premiums written in 2003 increased by 28.0% over 2002 (prior to the negative impact of Seneca recording its bail bonds on a net basis commencing January 1, 2003 and the effect of the net strengthening of asbestos reserves), reflecting new business and price increases on renewal business. United States Fire Insurance, Crum & Forster's principal operating subsidiary, was redomiciled from New York to Delaware at December 31, 2003 and moved to a positive earned surplus position of approximately \$146 at December 31, 2003, a significant improvement from its negative earned surplus position of \$255 at December 31, 2002. As a result, U.S. Fire has 2004 dividend capacity of approximately \$80. North River Insurance, Crum & Forster's New Jersey-domiciled operating subsidiary, reduced its negative earned surplus position to \$6 at December 31, 2003 from \$38 at December 31, 2002. Crum & Forster will begin to publish financial information on its website during the first quarter of 2004.

Fairmont's combined ratio of 99.2% for 2003 and its decrease in net premiums written in the year reflect its continuing strict focus on underwriting profitability.

Reinsurance OdysseyRe

	<u>2003</u>	<u>2002</u>
Underwriting profit	61.0	12.9
Combined ratio	96.9%	99.1%
Gross premiums written	2,558.2	1,894.5
Net premiums written	2,153.6	1,631.2
Net premiums earned	1,965.1	1,432.6
Underwriting profit	61.0	12.9
Interest and dividends	92.7	107.0
Operating income	153.7	119.9
Realized gains	284.1	118.6
Pre-tax income before interest and other	437.8	238.5

OdysseyRe produced an excellent underwriting profit in 2003. Its combined ratio for the year improved to 96.9%, compared to 99.1% last year. The company demonstrates a continued disciplined commitment to underwriting profitability and opportunistic portfolio growth. Net premiums written in 2003 increased by 32.0% over 2002 as insurance and reinsurance market conditions continued to improve on a global basis. Premium growth in North America was due to increased pricing both at the insurance and reinsurance levels, while premium growth in the Euro Asia division reflected increased opportunities due to catastrophe losses, competitor withdrawals and asset impairments, particularly in Europe. For more information on OdysseyRe's results, please see its year-end press release posted on its website at www.odysseyre.com.

Interest and Dividends and Realized Gains

Interest and dividend income in 2003 decreased to \$220.3 from \$266.1 last year due to lower investment yields as a result of the liquidation during the second quarter of a substantial portion of the bond portfolio and retaining the proceeds in cash and short term investments. The lower interest and dividend income in the latter half of 2003 reflects the fact that 47% of portfolio investments were held in cash and short term investments at December 31, 2003 pending the company identifying suitable opportunities for reinvestment in line with its long term value-oriented investment philosophy.

Realized gains on investments were \$534.6 for 2003 from the sale of bonds and common stock, consisting of \$667.0 of realized gains reduced by adjustments of \$132.4 for intersegment gains and purchase price adjustments as referred to in note 5(a) above. Consolidated realized gains of \$845.9 include as well the \$311.3 of realized gains in the runoff segment.

Runoff and Other*Year ended December 31, 2003*

	<u>U.S.</u>	<u>Europe</u>	<u>Group Re</u>	<u>Total</u>
Gross premiums written	325.8	(1.1)	257.5	582.2
Net premiums written	(1.4)	71.1	268.8	338.5
Net premiums earned	196.1	71.3	244.4	511.8
Losses on claims	(429.0)	(119.3)	(177.9)	(726.2)
Operating expenses	(153.9)	(54.0)	(71.4)	(279.3)
Interest and dividends	36.8	20.0	15.6	72.4
Operating income (loss)	(350.0)	(82.0)	10.7	(421.3)
Realized gains	213.8	91.6	5.9	311.3
Pre-tax income (loss) before interest and other	(136.2)	9.6	16.6	(110.0)

Year ended December 31, 2002

	<u>U.S.</u>	<u>Europe</u>	<u>Group Re</u>	<u>Total</u>
Gross premiums written	795.8	224.5	185.0	1,205.3
Net premiums written	495.4	153.3	184.3	833.0
Net premiums earned	679.3	187.8	152.0	1,019.1
Losses on claims	(493.4)	(234.7)	(87.0)	(815.1)
Operating expenses	(240.5)	(103.7)	(47.1)	(391.3)
Interest and dividends	74.1	47.0	18.2	139.3
Operating income (loss)	19.5	(103.6)	36.1	(48.0)
Realized gains (losses)	108.1	76.7	(1.1)	183.7
Pre-tax income (loss) before interest and other	127.6	(26.9)	35.0	135.7

The U.S. runoff segment represents the merged operations of TIG Insurance and International Insurance Company effective December 16, 2002 (the comparative numbers have been retroactively restated to include TIG's runoff business and to present the runoff results on a comparable basis). For the year ended December 31, 2003, the U.S. runoff group had a pre-tax loss of \$136.2 compared to pre-tax income of \$127.6 for 2002, primarily attributable to the \$98.5 net additional cost in 2003 of the \$300 adverse development cover provided by Chubb Re (Bermuda) Ltd. (the Chubb Re cover) (under which TIG had ceded \$290 of losses as of December 31, 2003, leaving \$10 of remaining coverage), reserve strengthening of \$68 on lines not covered by the Chubb Re cover, as well as lower interest and dividends reflecting the significant cash position since the second quarter of 2003. The remaining variance is attributable to operating costs in excess of net investment income as a result of the continuing effects of winding down TIG's MGA-controlled program business as premiums earned reduce faster than infrastructure costs.

At December 31, 2003, TIG had statutory surplus of approximately \$690, net reserves to statutory surplus of 1.6:1 and a risk-based capital ratio greater than 200%. TIG has achieved the three financial tests—statutory surplus in excess of \$500, net reserves to statutory surplus of less than 3:1 and a risk-based capital ratio of at least 200%—which it is required to meet as of December 31, 2003 in order to permit the release from

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trust of securities formerly distributed to the company which are being held in trust for TIG's benefit, subject to California regulatory approval. During 2003, 14.4 million Northbridge shares (with a market value of approximately \$191) were released from the aforementioned trust as a result of the placement of the Chubb Re cover.

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For the year ended December 31, 2003, the European runoff group had pre-tax income of \$9.6 compared to a pre-tax loss of \$26.9 for 2002, primarily attributable to a reduction in expenses offset by a reduction in interest and dividends.

The 2003 runoff loss includes premiums payable of \$147.8 upon the cession of an additional \$263.6 of losses under the corporate insurance cover ultimately reinsured with a Swiss Re subsidiary (of which \$62 relates to European runoff, \$107 relates to U.S. runoff and \$86 relates to Crum & Forster). At December 31, 2003, ceded losses under this cover (the benefits of which were assigned to nSpire Re as of December 31, 2002) totalled \$996.1 (December 31, 2002 \$732.5), leaving unutilized coverage of \$3.9.

Consistent with the company's objective of retaining more business for its own account in favourable market conditions, CRC (Bermuda), Wentworth and (commencing in 2002) nSpire Re participate in the reinsurance programs of the company's subsidiaries with third party reinsurers. This participation, on the same terms, including pricing, as the third party reinsurers, varies by program and by subsidiary, and is shown separately above as Group Re. For the year ended December 31, 2003, Group Re had pre-tax income of \$16.6 compared to \$35.0 in 2002, the decrease relating primarily to the change, upon the IPO of Northbridge, in the terms of CRC (Bermuda)'s participation in reinsuring Lombard programs.

Other Elements of Net Earnings

Interest expense increased to \$138.6 (including OdysseyRe interest of \$12.7 and Crum & Forster interest of \$18.7) for 2003 compared to \$79.6 (including OdysseyRe interest of \$7.7 and Crum & Forster interest of nil) in 2002. The increased interest expense resulted partly from new interest costs (the interest cost of the Crum & Forster notes issued in June 2003, the Fairfax convertible debentures issued in July 2003, and the company's purchase consideration contracted in December 2002 for the acquisition of the remaining 72 1/2% economic interest in TRG), and partly from the company's decision to maintain fixed rather than floating interest costs (the effect of the company's closing out its fixed rate to floating rate interest rate swaps in the third quarter of 2002 was a \$34.2 benefit in 2002, compared to a \$14.6 benefit in 2003 as a result of the gain on the aforementioned closing out of swaps being deferred and amortized against future interest expense).

Corporate overhead and other includes Fairfax, OdysseyRe, Crum & Forster and Northbridge holding company expenses net of the company's investment management and administration fees and interest income on Fairfax's cash balances and is broken down as follows:

	<u>2003</u>	<u>2002</u>
Fairfax corporate overhead (net of interest on cash balances)	35.3	22.8
Investment management and administration fees	(36.5)	(36.9)
Corporate overhead of OdysseyRe, Crum & Forster and Northbridge	18.2	5.0
Technology expenses and amortization	15.6	15.0
Other	16.1	
	<u>48.7</u>	<u>5.9</u>

The increase in the Fairfax corporate overhead charge in 2003 relates primarily to increased insurance and professional services costs. The Other items relate to one-time service expenses and writeoffs. Fairfax has continued to invest in technology to better support its businesses. The company's technology subsidiary, MFXchange, is also marketing its technology products and services for the insurance industry to third parties, resulting in net selling and administration costs over the near term until it generates more third party revenue. These costs are shown separately in the above corporate overhead costs. The company expects that over time, third party revenue will cover these costs.

The company recorded an income tax expense of \$187.6 for 2003, principally due to taxable income as well as tax losses not recognized for accounting purposes. The decrease in the deferred tax asset for the year ended December 31, 2003 was \$9.0 which reflected a decrease of \$135.1 from utilization of the U.S. net operating tax losses as a result of the profitability of the U.S. insurance and reinsurance

companies, partially offset by increases in the non-U.S. components of the deferred tax asset and increases resulting in the ordinary course from increased business volumes.

The company's non-controlling interests in its consolidated statements of earnings come from the following subsidiaries:

	<u>2003</u>	<u>2002</u>
OdysseyRe	55.2	39.7
Northbridge	14.8	
TRG		13.8
Lindsey Morden	(5.5)	(2.8)
	<u>64.5</u>	<u>50.7</u>

Investments

At December 31, 2003 the investment portfolio had a pre-tax unrealized gain of \$244.9 (compared to \$131.7 at December 31, 2002). At December 31, 2003, approximately 47% of the portfolio was held in cash and short term investments.

Goodwill

Goodwill relates mostly to Lindsey Morden's U.K. subsidiary. The increase in goodwill to \$214.3 at December 31, 2003 from \$185.3 at December 31, 2002 is principally attributable to the strengthening of the pound sterling against the U.S. dollar during 2003.

Capital Structure and Liquidity

The company's capital structure (with Lindsey Morden equity accounted) and financial ratios were as follows:

	<u>December 31, 2003</u>	<u>December 31, 2002</u>
Cash, short term investments and marketable securities	410.2	327.7
Long term debt (including OdysseyRe debt)	1,942.7	1,406.0
TRG purchase consideration payable	200.6	205.5
RHINOS due February 2003		136.0
Net debt	1,733.1	1,419.8
Common shareholders' equity	2,781.4	2,111.4
Preferred shares and trust preferred securities of subsidiaries	216.4	216.4
OdysseyRe non-controlling interest	250.6	268.5
Total equity	3,248.4	2,596.3
Net debt/equity	53%	55%
Net debt/total capital	35%	35%
Interest coverage	4.8x	4.6x

At December 31, 2003, Fairfax had \$410.2 of cash, short term investments and marketable securities at the holding company level, after repaying its remaining December 2003 debt maturity of \$73. Net debt increased to \$1,733.1 at December 31, 2003 from \$1,419.8 at December 31, 2002 principally due to increased debt from OdysseyRe and Crum & Forster. The slight improvement in the net debt to equity and net debt to total capital ratios primarily reflects the increase in common shareholders' equity.

Also, at December 31, 2003 Fairfax had \$260 of syndicated bank lines, \$121.9 of the credit available under which had been used for the issuance of letters of credit, as required by insurance regulators for non-admitted reinsurers, in support of its subsidiaries' reinsurance obligations, all relating to nSpire Re's

intercompany reinsurance of the company's subsidiaries. After year-end, these letters of credit were cancelled or replaced by letters of credit issued under a new separate letter of credit facility. Consequently, the company's syndicated bank lines are currently unused.

Besides the above cash resources, in 2004 the holding company will receive management fees, interest on its holdings of cash, short term investments and marketable securities, tax sharing payments from Crum & Forster and OdysseyRe and dividends from its insurance and reinsurance subsidiaries. The company believes that these resources provide adequate liquidity to meet all of the company's obligations in 2004. In 2004, the holding company's obligations (other than interest and overhead expenses) consist of the final note instalment of \$100 due to TIG and obligations of the runoff subsidiaries, including the above-mentioned premium payable under the corporate insurance cover, TIG-related indemnities on adverse development not covered by the Chubb Re cover and the normal volatility of runoff cash flows. There are no external debt maturities in 2004.

Common shareholders' equity at December 31, 2003 was \$2.7 billion or \$192.81 per basic share (excluding the \$101.4 of capital arising from the company's issue of convertible debentures in the 2003 third quarter). During 2003, the company repurchased 240,700 shares for cash of \$30.6.

Fairfax's 2003 Annual Report is scheduled to be posted on its website www.fairfax.ca after the close of markets on Friday, March 5, 2004 and will be mailed to shareholders shortly thereafter.

As previously announced, Fairfax will hold a conference call to discuss its year-end results provided in this announcement at 8:30 a.m. Eastern Time on Monday, February 9, 2004. The call, consisting of a presentation by the company followed by a question period, may be accessed at (416) 695-6120 or (877) 461-2814. A replay of the call will be available from shortly after the termination of the call until 10:00 p.m. Eastern Time on Monday, February 23, 2004. The replay may be accessed at (416) 695-5275 or (888) 509-0081.

Fairfax Financial Holdings Limited is a financial services holding company which, through its subsidiaries, is engaged in property, casualty and life insurance and reinsurance, investment management and insurance claims management.

For further information, contact Bradley P. Martin, Vice President, at (416) 367-4941.

The foregoing announcement may contain forward-looking statements. Actual results may differ, perhaps materially, from those contained in such forward-looking statements as a result of a large variety of uncertainties and risk factors, the most foreseeable of which are listed on pages 114 and 115 of Fairfax's 2002 Annual Report which is available on Fairfax's website at www.fairfax.ca or are set out under "Risk Factors" in Fairfax's Base Shelf Prospectus dated August 11, 2003 filed with the Ontario Securities Commission (which is available on SEDAR) and Fairfax's Registration Statement (Amendment No. 1 to Form F-10) filed with the U.S. Securities and Exchange Commission on the same date (which is available on EDGAR).