

# FAIRFAX News Release

TSX Stock Symbol: FFH and FFH.U

TORONTO, October 29, 2015

## THIRD QUARTER FINANCIAL RESULTS

*(Note: All dollar amounts in this news release are expressed in U.S. dollars, except as otherwise noted. The financial results are reported under International Financial Reporting Standards, except as otherwise noted.)*

Fairfax Financial Holdings Limited (TSX: FFH and FFH.U) announces net earnings of \$424.8 million in the third quarter of 2015 (\$18.16 net earnings per diluted share after payment of preferred share dividends) compared to net earnings of \$461.2 million in the third quarter of 2014 (\$20.68 net earnings per diluted share after payment of preferred share dividends), principally reflecting lower net gains on investments, partially offset by increased underwriting profit. Book value per basic share at September 30, 2015 was \$399.65 compared to \$394.83 at December 31, 2014 (an increase of 3.7% adjusted for the \$10 per common share dividend paid in the first quarter of 2015).

"Our insurance companies continued to have excellent underwriting performance in the third quarter and the first nine months of 2015 with consolidated combined ratios of 90.9% and 91.3% respectively, and we had net investment gains, mostly unrealized, in the third quarter of \$425.6 million, principally deriving from bonds, due to lower interest rates, and our CPI-linked derivative contracts. All of our major insurance companies again had combined ratios less than 100% in the quarter with OdysseyRe at 88.9%, Northbridge at 83.1% and Zenith at 82.3%," said Prem Watsa, Chairman and Chief Executive Officer of Fairfax. "We are maintaining our defensive equity hedges and deflation protection as we remain concerned about the financial markets and the economic outlook in this global deflationary environment. We continue to be soundly financed, with quarter-end cash and marketable securities in the holding company in excess of \$1.1 billion."

Highlights in the third quarter of 2015 (with comparisons to the third quarter of 2014 except as otherwise noted) included the following:

- The combined ratio of the insurance and reinsurance operations was 90.9% on a consolidated basis, producing an underwriting profit of \$177.4 million, compared to a combined ratio and underwriting profit of 91.2% and \$136.2 million respectively in 2014.
- Net premiums written by the insurance and reinsurance operations increased by 31.0% to \$1,883.3 million, primarily reflecting the consolidation of Brit in the third quarter of 2015 (2.3% increase excluding Brit).
- The insurance and reinsurance operations produced operating income (excluding net gains or losses on investments) of \$260.6 million, compared to \$223.1 million in 2014, primarily as a result of improved underwriting profit and the inclusion of Brit.
- Interest and dividend income of \$105.8 million increased from \$73.8 million in 2014. As of September 30, 2015, subsidiary cash and short term investments accounted for 25.7% of the company's portfolio investments. Interest income as reported is unadjusted for the positive tax effect of the company's significant holdings of tax-advantaged debt securities (holdings of \$4,964.2 million at September 30, 2015 and \$5,188.4 million at September 30, 2014).

FAIRFAX FINANCIAL HOLDINGS LIMITED

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- Net investment gains of \$425.6 million in 2015 (net investment gains of \$493.7 million in 2014) consisted of the following:

	<b>Third quarter of 2015</b>		
	<i>(\$ millions)</i>		
	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Net gains (losses)</b>
Net gains (losses) on:			
Equity and equity-related investments	(2.6)	(789.7)	(792.3)
Equity hedges	—	793.2	793.2
Equity and equity-related investments after equity hedges	(2.6)	3.5	0.9
Bonds	7.9	230.3	238.2
CPI-linked derivatives	—	102.4	102.4
Other	59.6	24.5	84.1
	<u>64.9</u>	<u>360.7</u>	<u>425.6</u>

	<b>First nine months of 2015</b>		
	<i>(\$ millions)</i>		
	<b>Realized gains (losses)</b>	<b>Unrealized gains (losses)</b>	<b>Net gains (losses)</b>
Net gains (losses) on:			
Equity and equity-related investments	874.8	(1,471.5)	(596.7)
Equity hedges	(54.5)	669.3	614.8
Equity and equity-related investments after equity hedges	820.3	(802.2)	18.1
Bonds	107.9	(385.8)	(277.9)
CPI-linked derivatives	—	125.3	125.3
Other	175.9	(100.5)	75.4
	<u>1,104.1</u>	<u>(1,163.2)</u>	<u>(59.1)</u>

Included in realized gains in the first nine months of 2015 is a gain of \$269.8 million realized upon the company's sale of a portion of its holdings in the Bank of Ireland in the first quarter of 2015 and \$236.4 million realized on the sale of Ridley Inc. in the second quarter of 2015. Of the unrealized losses on equity and equity-related investments in the first nine months of 2015, \$364.1 million resulted simply from reclassifying unrealized gains to realized gains.

- The company held \$1,176.2 million of cash, short term investments and marketable securities at the holding company level (\$1,166.4 million net of short sale and derivative obligations) at September 30, 2015, compared to \$1,244.3 million (\$1,212.7 million net of short sale and derivative obligations) at December 31, 2014.
- The company's total debt to total capital ratio improved to 22.4% at September 30, 2015 from 24.6% at December 31, 2014.
- On September 18, 2015 Fairfax Asia acquired a 35% ownership interest in Bank for Investment and Development of Vietnam Insurance Joint Stock Corporation ("BIC") for purchase consideration of \$48.1 million (1.1 trillion Vietnamese dong). BIC is a leading property and casualty insurer in Vietnam, producing approximately \$60 million of annual gross premiums written through an exclusive arrangement with its majority shareholder, Bank for Investment and Development of Vietnam ("BIDV"), to sell its products through BIDV's distribution network.

- Following shareholder approval, on August 31, 2015 the company amended its articles to preserve the then current 41.8% voting power of its multiple voting shares, which are controlled by V. Prem Watsa, the company's Chairman and Chief Executive Officer. The continuing preservation of the 41.8% voting power of the multiple voting shares is subject to a majority of the minority shareholder ratification vote in various circumstances.
- At September 30, 2015, the company owned \$109.2 billion notional amount of CPI-linked derivative contracts with a cost of \$651.3 million, a market value of \$358.4 million, and a remaining weighted average life of 6.7 years. The majority of the contracts are based on the underlying United States CPI index (53.9%) or the European Union CPI index (38.3%).

(\$ in millions)

Underlying CPI Index	Floor Rate <sup>(1)</sup>	Average Life (in years)	Notional Amount	Cost	Cost <sup>(2)</sup> (in bps)	Market Value	Market Value <sup>(2)</sup> (in bps)	Unrealized Gain (Loss)
United States	0.0%	6.9	\$ 46,225.0	\$ 285.1	61.7	\$ 143.8	31.1	\$ (141.3)
United States	0.5%	9.0	12,600.0	39.5	31.3	120.1	95.3	80.6
European Union	0.0%	5.8	41,831.3	281.8	67.4	79.4	19.0	(202.4)
United Kingdom	0.0%	7.1	4,998.7	24.2	48.4	3.9	7.8	(20.3)
France	0.0%	7.3	3,516.2	20.7	58.9	11.2	31.9	(9.5)
		<u>6.7</u>	<u>\$ 109,171.2</u>	<u>\$ 651.3</u>		<u>\$ 358.4</u>		<u>\$ (292.9)</u>

(1) Contracts with a floor rate of 0.0% provide a payout at maturity if there is cumulative deflation over the life of the contract. Contracts with a floor rate of 0.5% provide a payout at maturity if cumulative inflation averages less than 0.5% per year over the life of the contract.

(2) Expressed as a percentage of the notional amount.

- At September 30, 2015, common shareholders' equity was \$8,894.6 million, or \$399.65 per basic share, compared to \$8,361.0 million, or \$394.83 per basic share, at December 31, 2014.

Subsequent to quarter-end:

- On October 1, 2015 the company repaid its \$82.4 million principal amount of 8.25% unsecured senior notes upon maturity.

Fairfax holds significant investments in equity and equity-related securities. In response to the significant appreciation in equity market valuations and uncertainty in the economy, the company has hedged its equity investment exposure. At September 30, 2015, equity hedges represented 100.3% of the company's equity and equity-related holdings. The hedge ratio increased from 89.6% at December 31, 2014 primarily because of net unrealized depreciation of the company's equity and equity-related holdings due to significant market declines and the unfavourable impact of foreign currency translation. The market value and the liquidity of these hedges are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over the long term.

There were 22.3 million and 21.2 million weighted average shares outstanding during the third quarters of 2015 and 2014 respectively. At September 30, 2015, there were 22,255,875 common shares effectively outstanding.

Summarized (without notes) interim consolidated balance sheets and statements of earnings and comprehensive income, along with segmented premium and combined ratio information, follow and form part of this news release. Fairfax's detailed third quarter report can be accessed at its website

[www.fairfax.ca](http://www.fairfax.ca).

As previously announced, Fairfax will hold a conference call to discuss its third quarter results at 8:30 a.m. Eastern time on Friday, October 30, 2015. The call, consisting of a presentation by the company followed by a question period, may be accessed at 1 (800) 857-9641 (Canada or U.S.) or 1 (517) 308-9408 (International) with the passcode "Fairfax". A replay of the call will be available from shortly after the termination of the call until 5:00 p.m. Eastern time on Friday, November 13, 2015. The replay may be accessed at 1 (866) 415-8358 (Canada or U.S.) or 1 (203) 369-0699 (International).

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

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*Certain statements contained herein may constitute forward-looking statements and are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fairfax to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: a reduction in net earnings if our loss reserves are insufficient; underwriting losses on the risks we insure that are higher or lower than expected; the occurrence of catastrophic events with a frequency or severity exceeding our estimates; changes in market variables, including interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect our investment portfolio; the cycles of the insurance market and general economic conditions, which can substantially influence our and our competitors' premium rates and capacity to write new business; insufficient reserves for asbestos, environmental and other latent claims; exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements; exposure to credit risk in the event our insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to us or failure by our insureds to reimburse us for deductibles that are paid by us on their behalf; the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated by us; the inability of our subsidiaries to maintain financial or claims paying ability ratings; risks associated with implementing our business strategies; risks associated with our use of derivative instruments; the failure of our hedging methods to achieve their desired risk management objective; a decrease in the level of demand for insurance or reinsurance products, or increased competition in the insurance industry; the impact of emerging claim and coverage issues; the failure of any of the loss limitation methods we employ; our inability to access cash of our subsidiaries; our inability to obtain required levels of capital on favourable terms, if at all; the 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.*

## CONSOLIDATED BALANCE SHEETS

as at September 30, 2015 and December 31, 2014

(unaudited - US\$ millions)

	September 30, 2015	December 31, 2014
<b>Assets</b>		
Holding company cash and investments (including assets pledged for short sale and derivative obligations – \$80.1; December 31, 2014 – \$109.7)	1,176.2	1,244.3
Insurance contract receivables	2,900.0	1,931.7
	<u>4,076.2</u>	<u>3,176.0</u>
<i>Portfolio investments</i>		
Subsidiary cash and short term investments	7,022.4	5,534.3
Bonds (cost \$11,324.1; December 31, 2014 – \$9,900.1)	12,420.9	11,445.5
Preferred stocks (cost \$227.6; December 31, 2014 – \$386.8)	114.5	376.4
Common stocks (cost \$5,895.3; December 31, 2014 – \$4,531.7)	5,165.7	4,848.5
Investments in associates (fair value \$1,779.8; December 31, 2014 – \$2,070.5)	1,587.6	1,617.7
Derivatives and other invested assets (cost \$622.6; December 31, 2014 – \$634.0)	729.5	426.8
Assets pledged for short sale and derivative obligations (cost \$252.8; December 31, 2014 – \$757.8)	279.3	860.0
Fairfax India portfolio investments (cost \$836.8; December 31, 2014 – nil)	837.8	—
	<u>28,157.7</u>	<u>25,109.2</u>
Deferred premium acquisition costs	489.1	497.6
Recoverable from reinsurers (including recoverables on paid losses – \$344.0; December 31, 2014 – \$230.7)	4,324.1	3,982.1
Deferred income taxes	365.6	460.4
Goodwill and intangible assets	3,228.6	1,558.3
Other assets	2,023.6	1,347.6
	<u>42,664.9</u>	<u>36,131.2</u>
<b>Liabilities</b>		
Subsidiary indebtedness	134.4	37.6
Accounts payable and accrued liabilities	2,811.9	2,029.1
Income taxes payable	83.3	118.3
Short sale and derivative obligations (including at the holding company – \$9.8; December 31, 2014 – \$31.6)	73.7	160.8
Funds withheld payable to reinsurers	720.2	461.5
	<u>3,823.5</u>	<u>2,807.3</u>
Insurance contract liabilities	23,514.1	20,438.7
Long term debt	3,321.3	3,141.4
	<u>26,835.4</u>	<u>23,580.1</u>
<b>Equity</b>		
Common shareholders' equity	8,894.6	8,361.0
Preferred stock	1,336.5	1,164.7
Shareholders' equity attributable to shareholders of Fairfax	10,231.1	9,525.7
Non-controlling interests	1,774.9	218.1
Total equity	<u>12,006.0</u>	<u>9,743.8</u>
	<u>42,664.9</u>	<u>36,131.2</u>

## CONSOLIDATED STATEMENTS OF EARNINGS

for the three and nine months ended September 30, 2015 and 2014  
(unaudited - US\$ millions except per share amounts)

	Third quarter		First nine months	
	2015	2014	2015	2014
<b>Revenue</b>				
Gross premiums written	2,336.6	1,844.4	6,453.4	5,681.3
Net premiums written	2,023.6	1,523.8	5,610.0	4,781.6
Gross premiums earned	2,447.2	1,949.7	6,283.2	5,490.8
Premiums ceded to reinsurers	(366.0)	(308.4)	(913.9)	(879.6)
Net premiums earned	2,081.2	1,641.3	5,369.3	4,611.2
Interest and dividends	105.8	73.8	367.1	284.4
Share of profit of associates	13.4	46.6	161.1	90.0
Net gains (losses) on investments	425.6	493.7	(59.1)	1,908.8
Other revenue	384.0	398.8	1,328.5	1,049.8
	<b>3,010.0</b>	<b>2,654.2</b>	<b>7,166.9</b>	<b>7,944.2</b>
<b>Expenses</b>				
Losses on claims, gross	1,335.4	1,117.9	3,649.5	3,337.2
Losses on claims ceded to reinsurers	(83.9)	(87.9)	(410.4)	(466.8)
Losses on claims, net	1,251.5	1,030.0	3,239.1	2,870.4
Operating expenses	394.1	328.1	1,061.9	929.9
Commissions, net	344.5	235.9	871.4	715.4
Interest expense	55.1	52.5	163.4	153.3
Other expenses	372.4	391.8	1,280.7	1,016.8
	<b>2,417.6</b>	<b>2,038.3</b>	<b>6,616.5</b>	<b>5,685.8</b>
<b>Earnings before income taxes</b>	<b>592.4</b>	<b>615.9</b>	<b>550.4</b>	<b>2,258.4</b>
Provision for income taxes	141.0	140.9	41.5	632.0
<b>Net earnings</b>	<b>451.4</b>	<b>475.0</b>	<b>508.9</b>	<b>1,626.4</b>
<b>Attributable to:</b>				
Shareholders of Fairfax	424.8	461.2	464.3	1,609.5
Non-controlling interests	26.6	13.8	44.6	16.9
	<b>451.4</b>	<b>475.0</b>	<b>508.9</b>	<b>1,626.4</b>
<b>Net earnings per share</b>	<b>\$ 18.57</b>	<b>\$ 21.10</b>	<b>\$ 19.50</b>	<b>\$ 73.92</b>
<b>Net earnings per diluted share</b>	<b>\$ 18.16</b>	<b>\$ 20.68</b>	<b>\$ 19.07</b>	<b>\$ 72.53</b>
<b>Cash dividends paid per share</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 10.00</b>	<b>\$ 10.00</b>
<b>Shares outstanding (000) (weighted average)</b>	<b>22,261</b>	<b>21,186</b>	<b>22,014</b>	<b>21,188</b>

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

for the three and nine months ended September 30, 2015 and 2014

(unaudited - US\$ millions)

	Third quarter		First nine months	
	2015	2014	2015	2014
<b>Net earnings</b>	<b>451.4</b>	475.0	<b>508.9</b>	1,626.4
<b>Other comprehensive income (loss), net of income taxes</b>				
<b>Items that may be subsequently reclassified to net earnings</b>				
Change in unrealized foreign currency translation gains (losses) on foreign operations	(283.8)	(131.7)	(445.6)	(85.3)
Change in gains (losses) on hedge of net investment in Canadian subsidiaries	84.1	67.1	179.2	70.7
Share of other comprehensive income (loss) of associates, excluding gains (losses) on defined benefit plans	1.0	(34.4)	(19.4)	(34.1)
	<b>(198.7)</b>	(99.0)	<b>(285.8)</b>	(48.7)
<b>Items that will not be subsequently reclassified to net earnings</b>				
Share of gains (losses) on defined benefit plans of associates	4.1	2.8	5.1	66.7
Change in gains (losses) on defined benefit plans	—	—	(3.9)	(1.3)
	<b>4.1</b>	2.8	<b>1.2</b>	65.4
<b>Other comprehensive income (loss), net of income taxes</b>	<b>(194.6)</b>	(96.2)	<b>(284.6)</b>	16.7
<b>Comprehensive income</b>	<b>256.8</b>	378.8	<b>224.3</b>	1,643.1
<b>Attributable to:</b>				
Shareholders of Fairfax	<b>278.6</b>	368.2	<b>246.3</b>	1,628.5
Non-controlling interests	<b>(21.8)</b>	10.6	<b>(22.0)</b>	14.6
	<b>256.8</b>	378.8	<b>224.3</b>	1,643.1

## SEGMENTED INFORMATION

(unaudited - US\$ millions)

Net premiums written and net premiums earned by the insurance and reinsurance operations (excluding Runoff) in the third quarters and first nine months of 2015 and 2014 were:

### Net Premiums Written

	Third quarter		First nine months	
	2015	2014	2015	2014
Insurance and Reinsurance - Northbridge	201.4	223.1	660.1	708.2
OdysseyRe	508.7	585.9	1,626.1	1,832.2
Crum & Forster	420.8	320.5	1,210.3	1,005.0
Zenith National	168.1	152.6	642.3	593.4
Brit <sup>(1)</sup>	411.7	—	562.9	—
Fairfax Asia	42.7	52.8	198.8	225.2
Insurance and Reinsurance - Other	129.9	103.1	422.7	321.9
Insurance and reinsurance operations	<b>1,883.3</b>	<b>1,438.0</b>	<b>5,323.2</b>	<b>4,685.9</b>

### Net Premiums Earned

	Third quarter		First nine months	
	2015	2014	2015	2014
Insurance and Reinsurance - Northbridge	224.1	246.4	661.9	706.1
OdysseyRe	560.3	628.3	1,690.7	1,770.8
Crum & Forster	386.8	327.0	1,088.2	964.6
Zenith National	200.2	186.8	565.8	528.9
Brit <sup>(1)</sup>	402.0	—	527.7	—
Fairfax Asia	54.2	64.7	201.3	208.8
Insurance and Reinsurance - Other	113.3	98.9	346.9	289.8
Insurance and reinsurance operations	<b>1,940.9</b>	<b>1,552.1</b>	<b>5,082.5</b>	<b>4,469.0</b>

Combined ratios of the insurance and reinsurance operations (excluding Runoff) in the third quarters and first nine months of 2015 and 2014 were:

	Third quarter		First nine months	
	2015	2014	2015	2014
Insurance and Reinsurance - Northbridge	83.1%	94.3%	91.5%	96.4%
OdysseyRe	88.9%	88.3%	88.7%	87.6%
Crum & Forster	98.4%	99.7%	98.1%	99.4%
Zenith National	82.3%	83.8%	82.8%	87.9%
Brit <sup>(1)</sup>	95.4%	—	95.5%	—
Fairfax Asia	90.1%	74.2%	90.2%	87.6%
Insurance and Reinsurance - Other	89.6%	99.0%	91.0%	98.2%
Insurance and reinsurance operations	<b>90.9%</b>	<b>91.2%</b>	<b>91.3%</b>	<b>92.3%</b>

(1) Brit is included in the company's financial reporting with effect from June 5, 2015.