

# FAIRFAX News Release

*TSX Stock Symbol: FFH and FFH.U*

**TORONTO, April 28, 2016**

## **FIRST 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 prepared using the recognition and measurement requirements of International Financial Reporting Standards except as otherwise noted, and are unaudited.)*

Fairfax Financial Holdings Limited (TSX: FFH and FFH.U) announces a net loss of \$51.0 million in the first quarter of 2016 (\$2.76 net loss per diluted share after payment of preferred share dividends) compared to net earnings of \$225.2 million in the first quarter of 2015 (\$9.71 per diluted share after payment of preferred share dividends), reflecting a net loss on investments, partially offset by a lower provision for income taxes and increased interest and dividend income. Book value per basic share at March 31, 2016 was \$398.83 compared to \$403.01 at December 31, 2015 (an increase of 1.4% adjusted for the \$10 per common share dividend paid in the first quarter of 2016).

"Our insurance companies have begun 2016 strongly, with a consolidated combined ratio of 93.1%. All of our major insurance companies again had combined ratios less than 100%, with Fairfax Asia at 76.5%, Zenith National at 83.4% and OdysseyRe at 90.3%. Our operating income was very strong at \$248 million, but was offset by net investment losses in the quarter of \$160 million which arose primarily as a result of stock price fluctuations and foreign currency movements," 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 over \$1.5 billion."

Highlights in the first quarter of 2016 (with comparisons to the first quarter of 2015 except as otherwise noted) included the following:

- The combined ratio of the insurance and reinsurance operations was 93.1% on a consolidated basis, producing an underwriting profit of \$121.7 million, compared to a combined ratio and underwriting profit of 91.3% and \$126.8 million respectively in 2015.
- Net premiums written by the insurance and reinsurance operations increased by 20.6% to \$2,030.1 million, primarily reflecting the consolidation of Brit in the second quarter of 2015 (net premiums written decreased by 3.5% excluding Brit).
- The insurance and reinsurance operations produced operating income (excluding net gains or losses on investments) of \$246.7 million, compared to \$236.1 million in 2015, primarily as a result of improved interest and dividend income.
- Interest and dividend income of \$152.8 million increased from \$114.2 million in 2015, principally due to increased holdings of higher-yielding government bonds and the impact of consolidating Brit's portfolio investments. As at March 31, 2016, subsidiary cash and short term investments accounted for 20.9% 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 \$4,934.6 million at March 31, 2016 and \$5,191.7 million at March 31, 2015).

**FAIRFAX FINANCIAL HOLDINGS LIMITED**

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- Net investment losses of \$159.6 million in 2016 (net investment gains of \$176.5 million in 2015) consisted of the following:

	<b>First quarter of 2016</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	(65.7)	(269.9)	(335.6)
Equity hedges	31.8	(140.2)	(108.4)
Equity and equity-related investments after equity hedges	(33.9)	(410.1)	(444.0)
Bonds	11.2	421.5	432.7
CPI-linked derivatives	—	(54.6)	(54.6)
Other - principally foreign currency	(129.1)	35.4	(93.7)
	<u>(151.8)</u>	<u>(7.8)</u>	<u>(159.6)</u>

- On March 31, 2016 the company increased its ownership interest in ICICI Lombard to 34.6% by acquiring an additional 9.0% of the issued and outstanding shares of ICICI Lombard from ICICI Bank for \$234.1 million (15.5 billion Indian rupees).
- As previously announced, on December 22, 2015 the company agreed to acquire an 80% interest in Eurolife ERB Insurance Group Holdings S.A. ("Eurolife"), the third largest insurer in Greece, for a purchase price of €316 million (approximately \$360 million). On March 22, 2016 Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario, agreed to acquire a 40% indirect interest in Eurolife from Fairfax for a purchase price of €158 million (approximately \$180 million) concurrent with the closing of the acquisition described above. The company will have the ability to repurchase the shares owned by OMERS over time. Closing of the transaction is subject to governmental and regulatory approvals and customary closing conditions, and is expected to occur by the end of the second quarter of 2016.
- The company held \$1,587.6 million of cash, short term investments and marketable securities at the holding company level (\$1,509.1 million net of short sale and derivative obligations) at March 31, 2016, compared to \$1,276.5 million (\$1,275.9 million net of short sale and derivative obligations) at December 31, 2015.
- The company's total debt to total capital ratio increased from 21.8% at December 31, 2015 to 23.4% at March 31, 2016.
- On March 2, 2016 the company completed an underwritten public offering of 1.0 million subordinate voting shares at a price of Cdn\$735.00 per share, realizing proceeds of \$523.5 million (Cdn\$705.1 million) net of commissions and expenses.
- On March 22, 2016 the company completed an underwritten public offering of Cdn\$400 million principal amount of 4.50% Senior Notes due 2023, realizing proceeds of \$303.2 million (Cdn\$395.7 million) net of commissions and expenses.

- At March 31, 2016, the company owned \$112.1 billion notional amount of CPI-linked derivative contracts with an original cost of \$663.8 million, a market value of \$228.9 million, and a remaining weighted average life of 6.3 years. The majority of the contracts are based on the underlying United States CPI index (52.9%) or the European Union CPI index (39.6%).

(\$ 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%	6.4	\$ 46,725.0	\$ 287.2	61.5	\$ 77.9	16.7	\$ (209.3)
United States	0.5%	8.5	12,600.0	39.7	31.5	71.1	56.4	31.4
European Union	0.0%	5.5	44,413.9	292.5	65.9	69.2	15.6	(223.3)
United Kingdom	0.0%	6.6	4,743.1	23.7	50.0	2.8	5.9	(20.9)
France	0.0%	6.8	3,589.6	20.7	57.7	7.9	22.0	(12.8)
		6.3	\$ 112,071.6	\$ 663.8		\$ 228.9		\$ (434.9)

(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 March 31, 2016, common shareholders' equity was \$9,247.5 million, or \$398.83 per basic share, compared to \$8,952.5 million, or \$403.01 per basic share, at December 31, 2015.

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 March 31, 2016, equity hedges represented 107.2% of the company's equity and equity-related holdings. The increase in the equity hedge ratio from 88.1% at December 31, 2015 primarily reflected additional short positions in equity and equity index total return swaps and unrealized depreciation of equity and equity-related holdings. 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 22.5 million and 21.5 million weighted average shares outstanding during the first quarters of 2016 and 2015 respectively. At March 31, 2016, there were 23,186,786 common shares effectively outstanding.

Unaudited consolidated balance sheet, earnings and comprehensive income information, along with segmented premium and combined ratio information, follow and form part of this news release. Fairfax's detailed first 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 first quarter 2016 results at 8:30 a.m. Eastern time on Friday, April 29, 2016. 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, May 13, 2016. The replay may be accessed at 1 (888) 566-0458 (Canada or U.S.) or 1 (402) 998-0628 (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; technological or other change which adversely impacts demand, or the premiums payable, for the insurance coverages we offer; 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 March 31, 2016 and December 31, 2015*  
*(unaudited - US\$ millions)*

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
<b>Assets</b>		
Holding company cash and investments (including assets pledged for short sale and derivative obligations – \$106.8; December 31, 2015 – \$62.8)	1,587.6	1,276.5
Insurance contract receivables	2,878.7	2,546.5
<i>Portfolio investments</i>		
Subsidiary cash and short term investments	5,250.6	6,641.6
Bonds (cost \$13,658.0; December 31, 2015 – \$11,258.9)	15,035.7	12,286.6
Preferred stocks (cost \$277.7; December 31, 2015 – \$220.5)	147.4	116.6
Common stocks (cost \$4,966.6; December 31, 2015 – \$6,004.2)	4,127.8	5,358.3
Investments in associates (fair value \$2,571.0; December 31, 2015 – \$2,185.9)	2,156.2	1,730.2
Derivatives and other invested assets (cost \$614.6; December 31, 2015 – \$628.5)	319.8	500.7
Assets pledged for short sale and derivative obligations (cost \$681.8; December 31, 2015 – \$322.9)	713.2	351.1
Fairfax India cash and portfolio investments (cost \$859.2; December 31, 2015 – \$848.7)	867.2	847.4
	<u>28,617.9</u>	<u>27,832.5</u>
Deferred premium acquisition costs	584.7	532.7
Recoverable from reinsurers (including recoverables on paid losses – \$348.2; December 31, 2015 – \$286.3)	4,006.2	3,890.9
Deferred income taxes	567.1	463.9
Goodwill and intangible assets	3,310.9	3,214.9
Other assets	1,892.2	1,771.1
Total assets	<u>43,445.3</u>	<u>41,529.0</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2,538.8	2,555.9
Income taxes payable	171.8	85.8
Short sale and derivative obligations (including at the holding company – \$78.5; December 31, 2015 – \$0.6)	626.6	92.9
Funds withheld payable to reinsurers	383.8	322.8
Insurance contract liabilities	23,558.7	23,101.2
Long term debt – holding company and insurance and reinsurance companies	3,467.9	3,067.5
Long term debt – non-insurance companies	320.2	284.0
Total liabilities	<u>31,067.8</u>	<u>29,510.1</u>
<b>Equity</b>		
Common shareholders' equity	9,247.5	8,952.5
Preferred stock	1,334.9	1,334.9
Shareholders' equity attributable to shareholders of Fairfax	<u>10,582.4</u>	<u>10,287.4</u>
Non-controlling interests	1,795.1	1,731.5
Total equity	<u>12,377.5</u>	<u>12,018.9</u>
	<u>43,445.3</u>	<u>41,529.0</u>

**CONSOLIDATED STATEMENTS OF EARNINGS**  
*for the three months ended March 31, 2016 and 2015*  
*(unaudited - US\$ millions except per share amounts)*

	<b>First quarter</b>	
	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
Gross premiums written	<b>2,344.0</b>	2,064.2
Net premiums written	<b>2,030.3</b>	1,832.1
Gross premiums earned	<b>2,074.6</b>	1,853.7
Premiums ceded to reinsurers	<b>(298.2)</b>	(241.6)
Net premiums earned	<b>1,776.4</b>	1,612.1
Interest and dividends	<b>152.8</b>	114.2
Share of profit of associates	<b>9.9</b>	30.8
Net gains (losses) on investments	<b>(159.6)</b>	176.5
Other revenue	<b>407.0</b>	454.3
	<b>2,186.5</b>	2,387.9
<b>Expenses</b>		
Losses on claims, gross	<b>1,224.6</b>	1,160.3
Losses on claims ceded to reinsurers	<b>(205.8)</b>	(161.5)
Losses on claims, net	<b>1,018.8</b>	998.8
Operating expenses	<b>388.4</b>	321.0
Commissions, net	<b>318.0</b>	243.2
Interest expense	<b>55.2</b>	51.5
Other expenses	<b>402.0</b>	442.5
	<b>2,182.4</b>	2,057.0
<b>Earnings before income taxes</b>	<b>4.1</b>	330.9
Provision for income taxes	<b>20.8</b>	94.8
<b>Net earnings (loss)</b>	<b>(16.7)</b>	236.1
<b>Attributable to:</b>		
Shareholders of Fairfax	<b>(51.0)</b>	225.2
Non-controlling interests	<b>34.3</b>	10.9
	<b>(16.7)</b>	236.1
<b>Net earnings (loss) per share</b>	<b>\$ (2.76)</b>	\$ 9.92
<b>Net earnings (loss) per diluted share</b>	<b>\$ (2.76)</b>	\$ 9.71
<b>Cash dividends paid per share</b>	<b>\$ 10.00</b>	\$ 10.00
<b>Shares outstanding (000) (weighted average)</b>	<b>22,530</b>	21,508

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME***for the three months ended March 31, 2016 and 2015**(unaudited - US\$ millions)*

	<b>First quarter</b>	
	<b>2016</b>	<b>2015</b>
<b>Net earnings (loss)</b>	<b>(16.7)</b>	<b>236.1</b>
<b>Other comprehensive income (loss), net of income taxes</b>		
<b>Items that may be subsequently reclassified to net earnings</b>		
Net unrealized foreign currency translation gains (losses) on foreign operations	<b>176.1</b>	(189.0)
Gains (losses) on hedge of net investment in Canadian subsidiaries	<b>(81.2)</b>	112.5
Share of other comprehensive income (loss) of associates, excluding net gains (losses) on defined benefit plans	<b>4.0</b>	(35.6)
	<b>98.9</b>	(112.1)
<b>Items that will not be subsequently reclassified to net earnings</b>		
Share of net gains (losses) on defined benefit plans of associates	<b>1.5</b>	(2.2)
<b>Other comprehensive income (loss), net of income taxes</b>	<b>100.4</b>	(114.3)
<b>Comprehensive income</b>	<b>83.7</b>	<b>121.8</b>
<b>Attributable to:</b>		
Shareholders of Fairfax	<b>21.4</b>	117.9
Non-controlling interests	<b>62.3</b>	3.9
	<b>83.7</b>	<b>121.8</b>

## SEGMENTED INFORMATION

(unaudited - US\$ millions)

Net premiums written and net premiums earned by the insurance and reinsurance operations (excluding Runoff) in the first quarters ended March 31, 2016 and 2015 were:

### Net Premiums Written

	First quarter	
	2016	2015
Northbridge	181.0	181.3
OdysseyRe	483.5	563.4
Crum & Forster	440.8	378.0
Zenith National	327.6	309.8
Brit <sup>(1)</sup>	405.3	—
Fairfax Asia	65.0	75.9
Insurance and Reinsurance - Other	126.9	174.7
Insurance and reinsurance operations	<u>2,030.1</u>	<u>1,683.1</u>

### Net Premiums Earned

	First quarter	
	2016	2015
Northbridge	209.2	212.8
OdysseyRe	461.4	538.1
Crum & Forster	422.3	335.5
Zenith National	187.3	178.9
Brit <sup>(1)</sup>	342.6	—
Fairfax Asia	50.4	68.3
Insurance and Reinsurance - Other	103.0	129.5
Insurance and reinsurance operations	<u>1,776.2</u>	<u>1,463.1</u>

Combined ratios of the insurance and reinsurance operations (excluding Runoff) in the first quarters ended March 31, 2016 and 2015 were:

	First quarter	
	2016	2015
Northbridge	98.6%	97.0%
OdysseyRe	90.3%	89.2%
Crum & Forster	97.6%	98.6%
Zenith National	83.4%	77.7%
Brit <sup>(1)</sup>	96.0%	—
Fairfax Asia	76.5%	90.8%
Insurance and Reinsurance - Other	92.7%	91.2%
Insurance and reinsurance operations	<u>93.1%</u>	<u>91.3%</u>

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