

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations

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Management's Discussion and Analysis of Financial Condition and Results of Operations (as of October 29, 2020)

(Figures and amounts are in US\$ and \$ millions except per share amounts and as otherwise indicated. Figures may not add due to rounding.)

Notes to Management's Discussion and Analysis of Financial Condition and Results of Operations

- (1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2020, and the notes to the MD&A contained in the company's 2019 Annual Report.
- (2) Management analyzes and assesses the underlying insurance and reinsurance and run-off operations, and the financial position of the consolidated group, in various ways. Certain of the measures and ratios provided in this interim report, which have been used consistently and disclosed regularly in the company's Annual Reports and interim financial reporting, do not have a prescribed meaning under International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and may not be comparable to similar measures presented by other companies.
- (3) The company presents information on gross premiums written and net premiums written throughout this MD&A. Gross premiums written represents the total premiums on policies issued during a specified period, irrespective of the portion ceded or earned, and is an indicator of the volume of new business generated by the company. Net premiums written represents gross premiums written less amounts ceded to reinsurers and is considered a measure of the insurance risk that the company has chosen to retain from the new business it has generated. These performance measures are used in the insurance industry and by management primarily to evaluate business volumes.
- (4) The combined ratio is the traditional performance measure of underwriting results of property and casualty companies and is calculated by the company as the sum of the loss ratio (claims losses and loss adjustment expenses expressed as a percentage of net premiums earned) and the expense ratio (commissions, premium acquisition costs and other underwriting expenses expressed as a percentage of net premiums earned). Other ratios used by the company include the commission expense ratio (commissions expressed as a percentage of net premiums earned), the underwriting expense ratio (premium acquisition costs and other underwriting expenses expressed as a percentage of net premiums earned), the accident year loss ratio (claims losses and loss adjustment expenses excluding the net favourable or adverse development of reserves established for claims that occurred in previous accident years, expressed as a percentage of net premiums earned), the accident year combined ratio (the sum of the accident year loss ratio and the expense ratio) and combined ratio points (expressing a particular loss such as a catastrophe loss as a percentage of net premiums earned). All of the ratios described above are calculated from information disclosed in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020 and are used by management for comparisons to historical underwriting results, to the underwriting results of competitors and to the broader property and casualty industry.
- (5) The company's long equity total return swaps allow the company to receive the total return on a notional amount of an equity index or an individual equity instrument (including dividends and capital gains or losses) in exchange for the payment of a floating rate of interest on the notional amount. Conversely, short equity total return swaps allow the company to pay the total return on a notional amount of an equity index or an individual equity instrument in exchange for the receipt of a floating rate of interest on the notional amount. Throughout this MD&A, the terms "total return swap expense" and "total return swap income" refer to the net dividends and interest paid and received respectively on the company's long and short equity total return swaps. Interest and dividends as presented in the consolidated statement of earnings includes total return swap expense or income.
- (6) The measures "pre-tax income (loss) before net gains (losses) on investments", "net realized gains (losses) on investments", "pre-tax income (loss) including net realized gains (losses) on investments" and "net change in unrealized gains (losses) on investments" are presented separately in this MD&A, consistent with the manner in which management reviews the results of the company's investment management strategies. The two measures "net realized gains (losses) on investments", and "net change in unrealized gains (losses) on investments" are performance measures derived from the details of net gains (losses) on investments as presented in note 5 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2020, and their sum is equal to "net gains (losses) on investments" as presented in the consolidated statement of earnings.

- (7) In this MD&A "long equity exposures" and "short equity exposures" refer to long and short positions respectively, in equity and equity-related instruments held for investment purposes, and "net equity exposures and financial effects" refers to the company's long equity exposures net of its short equity exposures. "Long equity exposures" exclude the company's insurance and reinsurance investments in associates, joint ventures, and other equity and equity-related holdings which are considered long term strategic holdings. For details, see note 16 (Financial Risk Management, under the heading of "Market risk") to the interim consolidated financial statements for the three and nine months ended September 30, 2020.
- (8) Ratios presented in the Capital Resources and Management section of this MD&A include: net debt divided by total equity, net debt divided by net total capital and total debt divided by total capital. Those ratios are used by the company to assess the amount of leverage employed in its operations. The company also presents an interest coverage ratio and an interest and preferred share dividend distribution coverage ratio as measures of its ability to service its debt and pay dividends to its preferred shareholders. These ratios are calculated using amounts presented in the company's interim consolidated financial statements for the three and nine months ended September 30, 2020 and are explained in note 16 (Financial Risk Management, under the heading of "Capital Management") thereto.
- (9) Book value per basic share (also referred to as book value per share or common shareholders' equity per share) is a performance measure calculated by the company as common shareholders' equity divided by the number of common shares effectively outstanding. Those amounts are presented in the consolidated balance sheet and note 11 (Total Equity, under the heading of "Common stock") respectively to the interim consolidated financial statements for the three and nine months ended September 30, 2020.
- (10) References in this MD&A to the company's insurance and reinsurance operations do not include the company's run-off operations, consistent with the presentation in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.
- (11) Cash provided by (used in) operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) is presented for the insurance and reinsurance subsidiaries in this MD&A as management believes this amount to be a useful estimate of cash generated or used by a subsidiary's underwriting activities. This performance measure is calculated from amounts that comprise cash provided by (used in) operating activities in the consolidated statement of cash flows.

Business Developments

Acquisitions and Divestitures

For a description of these transactions, see note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

COVID-19

For a discussion of the impacts of the COVID-19 pandemic, see note 16 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Sources of Income

Income in the interim consolidated financial statements for the three and nine months ended September 30, 2020 and 2019 is shown in the table that follows.

	Third quarter		First nine months	
	2020	2019	2020	2019
Net premiums earned - Insurance and Reinsurance				
Northbridge	377.8	332.4	1,039.7	911.2
Odyssey Group	944.9	855.0	2,648.2	2,363.5
Crum & Forster	614.5	561.1	1,776.4	1,589.5
Zenith National	166.9	186.1	471.2	549.4
Brit	419.2	388.3	1,239.1	1,195.3
Allied World	701.2	605.1	1,986.1	1,796.3
Fairfax Asia	52.9	52.0	164.8	145.1
Other	294.4	273.3	839.7	772.0
	<u>3,571.8</u>	<u>3,253.3</u>	<u>10,165.2</u>	<u>9,322.3</u>
Run-off	—	12.2	127.9	625.0
	<u>3,571.8</u>	<u>3,265.5</u>	<u>10,293.1</u>	<u>9,947.3</u>
Interest and dividends	181.8	214.9	604.7	672.4
Share of profit (loss) of associates	50.8	149.6	(177.5)	415.1
Net gains (losses) on investments	(27.3)	(96.7)	(922.7)	1,075.8
Gain on deconsolidation of insurance subsidiary	—	—	117.1	—
Other ⁽¹⁾	1,215.5	1,392.6	3,302.1	3,889.2
	<u>4,992.6</u>	<u>4,925.9</u>	<u>13,216.8</u>	<u>15,999.8</u>

(1) Represents revenue earned by the Non-insurance companies reporting segment, which is comprised primarily of the revenue earned by Recipe and its subsidiaries The Keg, Pickle Barrel, St-Hubert and Original Joe's, Thomas Cook India and its subsidiary Sterling Resorts, AGT (consolidated on April 17, 2019), Toys "R" Us Canada, and Fairfax India and its subsidiaries NCML, Fairchem, Privi and Saurashtra Freight. Also included is the revenue earned by Mosaic Capital, Boat Rocker, Horizon North (acquired on May 29, 2020) and its subsidiary Dexterra, Farmers Edge (consolidated on July 1, 2020), Praktiker, Sporting Life, Golf Town, Grivalia Properties (deconsolidated on May 17, 2019), Pethealth, Fairfax Africa and its subsidiary CIG (consolidated on January 4, 2019), Kitchen Stuff Plus, Rouge Media and William Ashley.

Income of \$4,992.6 in the third quarter of 2020 increased from \$4,925.9 in the third quarter of 2019 principally as a result of increased net premiums earned and lower net losses on investments, partially offset by decreases in other revenue, share of profit of associates and interest and dividends.

Income of \$13,216.8 in the first nine months of 2020 decreased from \$15,999.8 in the first nine months of 2019 principally as a result of net losses on investments and share of loss of associates in the first nine months of 2020 compared to net gains on investments and share of profit of associates in the first nine months of 2019, and decreased other revenue, partially offset by increased net premiums earned reflecting strong growth in the insurance and reinsurance operations and a gain on the deconsolidation of European Run-off.

The increase in net premiums earned by the company's insurance and reinsurance operations in the third quarter of 2020 reflected increases at Allied World (\$96.1, 15.9%), Odyssey Group (\$89.9, 10.5%), Crum & Forster (\$53.4, 9.5%), Northbridge (\$45.4, 13.7%, inclusive of the unfavourable effect of foreign currency translation), Brit (\$30.9, 8.0%), Insurance and Reinsurance – Other (\$21.1, 7.7%) and Fairfax Asia (\$0.9, 1.7%), partially offset by a decrease at Zenith National (\$19.2, 10.3%).

The increase in net premiums earned by the company's insurance and reinsurance operations in the first nine months of 2020 reflected increases at Odyssey Group (\$284.7, 12.0%), Allied World (\$189.8, 10.6%), Crum & Forster (\$186.9, 11.8%), Northbridge (\$128.5, 14.1%, inclusive of the unfavourable effect of foreign currency translation), Insurance and Reinsurance – Other (\$67.7, 8.8%), Brit (\$43.8, 3.7%) and Fairfax Asia (\$19.7, 13.6%), partially offset by a decrease at Zenith National (\$78.2, 14.2%). Net premiums earned at Run-off in the first nine months of 2020 and 2019 principally reflected the first quarter 2020 Part VII transfer and reinsurance transactions and the first quarter 2019 reinsurance transaction described in the Run-off section of this MD&A.

An analysis of interest and dividends, share of profit (loss) of associates and net gains (losses) on investments for the third quarters and first nine months of 2020 and 2019 is provided in the Investments section of this MD&A.

The decrease in other revenue to \$1,215.5 in the third quarter of 2020 from \$1,392.6 in the third quarter of 2019 principally reflected temporary closures and other economic effects related to the COVID-19 pandemic at Thomas Cook India, Fairfax India and Mosaic Capital, partially offset by the consolidation of Horizon North (on May 29, 2020) and increased revenue at AGT and Boat Rocker.

The decrease in other revenue to \$3,302.1 in the first nine months of 2020 from \$3,889.2 in the first nine months of 2019 principally reflected temporary closures and other economic effects related to the COVID-19 pandemic at Thomas Cook India, Restaurants and

retail, Fairfax India, Mosaic Capital and Boat Rocker, and the deconsolidation of Grivalia Properties (on May 17, 2019), partially offset by the consolidation of AGT (on April 17, 2019) and Horizon North (on May 29, 2020).

Refer to the Non-insurance companies section of this MD&A for further details.

The table which follows presents net premiums written by the company's insurance and reinsurance operations.

	Third quarter			First nine months		
	2020	2019	% change year-over- year	2020	2019	% change year-over- year
Net premiums written - Insurance and Reinsurance						
Northbridge	379.0	335.3	13.0 %	1,091.2	975.1	11.9 %
Odyssey Group	969.3	855.2	13.3 %	2,769.0	2,510.1	10.3 %
Crum & Forster	657.9	598.3	10.0 %	1,888.4	1,738.3	8.6 %
Zenith National	146.3	152.4	(4.0)%	516.3	579.5	(10.9)%
Brit	487.2	413.9	17.7 %	1,353.4	1,239.1	9.2 %
Allied World	726.6	613.3	18.5 %	2,318.7	1,997.5	16.1 %
Fairfax Asia	59.4	55.9	6.3 %	164.5	161.2	2.0 %
Other	309.5	293.8	5.3 %	889.1	850.0	4.6 %
	<u>3,735.2</u>	<u>3,318.1</u>	<u>12.6 %</u>	<u>10,990.6</u>	<u>10,050.8</u>	<u>9.4 %</u>

Northbridge's net premiums written increased by 13.0% and 11.9% in the third quarter and first nine months of 2020. In Canadian dollar terms, Northbridge's net premiums written increased by 14.1% and 14.0%, primarily due to price increases across the group, strong retention of renewal business and new business writings, partially offset by returned premium due to reduced exposure from the COVID-19 closures (primarily related to automobile lines).

Odyssey Group's net premiums written increased by 13.3% and 10.3% in the third quarter and first nine months of 2020, principally reflecting growth in North America (growth in U.S. casualty reinsurance), U.S. Insurance (principally reflecting growth in financial products and professional liability, partially offset by a decrease in U.S. crop), EuroAsia (principally reflecting growth in property and accident and health) and London Market (principally reflecting growth in Newline's casualty business).

Crum & Forster's net premiums written increased by 10.0% in the third quarter of 2020, principally reflecting growth in surety, credit and programs, and surplus and specialty lines of business, partially offset by decreases in commercial lines and accident and health. Crum & Forster's net premiums written increased by 8.6% in the first nine months of 2020, primarily reflecting growth in surety, credit and programs, and accident and health, partially offset by reduced exposure resulting from decreased economic activity associated with COVID-19.

Zenith National's net premiums written decreased by 4.0% and 10.9% in the third quarter and first nine months of 2020, primarily reflecting price decreases and lower payroll exposure due to the economic impacts of COVID-19 in the workers' compensation business, partially offset by price increases and growth in other property and casualty lines.

Brit's net premiums written increased by 17.7% and 9.2% in the third quarter and first nine months of 2020, reflecting growth in core lines of business generated by price increases across most lines of business, increased contributions from underwriting initiatives launched in recent years (primarily related to Brit's U.S. operations) and targeted reductions in ceded premiums to retain higher performing business, partially offset by reductions in non-core lines of business through active portfolio management and reduced exposure resulting from decreased economic activity associated with COVID-19.

Allied World's net premiums written increased by 18.5% and 16.1% in the third quarter and first nine months of 2020, primarily due to improved pricing and growth across both the insurance segment (principally North American and Global Markets platforms relating to excess casualty and professional lines) and the reinsurance segment (principally related to North American lines of business), partially offset by decreased premium retention (primarily driven by increased reinsurance purchased in the insurance segment during 2020).

Fairfax Asia's net premiums written increased by 6.3% and 2.0% in the third quarter and first nine months of 2020, principally reflecting increased business volume by Falcon Insurance on its 25% quota share reinsurance participation in the net underwriting result of MS First Capital's insurance portfolio, partially offset by decreased business volumes in automobile lines of business at Pacific Insurance and AMAG Insurance due to the economic impact of COVID-19.

Insurance and Reinsurance – Other's net premiums written increased by 5.3% in the third quarter of 2020, principally reflecting increases at Group Re and Polish Re, partially offset by decreases at Bryte Insurance (primarily reflecting the unfavourable impact of foreign currency translation). Insurance and Reinsurance – Other's net premiums written increased by 4.6% in the first nine months of 2020 principally reflecting increases at Group Re, Polish Re, ARX Insurance and Fairfax Brasil, and the consolidation of Universalna in November 2019, partially offset by decreases at Bryte Insurance (primarily reflecting the unfavourable impact of foreign currency translation) and lower premium retention and economic activity at Fairfax Latam.

Sources of Net Earnings

The table below presents the sources of the company's net earnings for the three and nine months ended September 30, 2020 and 2019 using amounts presented in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020, set out in a format the company has consistently used as it believes it assists in understanding the composition and management of the company. In that table, combined ratios and underwriting results for each of the insurance and reinsurance segments is shown separately. Operating income (loss) as presented for the insurance and reinsurance, Run-off and Non-insurance companies reporting segments includes interest and dividends and share of profit (loss) of associates, and excludes net gains (losses) on investments which are considered a less predictable source of investment income. Net gains (losses) on investments is disaggregated into net realized gains (losses) on investments and net change in unrealized gains (losses) on investments, consistent with the manner in which management reviews the results of the company's investment management strategies.

	Third quarter		First nine months	
	2020	2019	2020	2019
Combined ratios - Insurance and Reinsurance				
Northbridge	89.9 %	97.5 %	93.4 %	98.7 %
Odyssey Group	99.4 %	97.6 %	99.2 %	96.3 %
Crum & Forster	99.3 %	97.9 %	98.6 %	97.7 %
Zenith National	92.7 %	87.1 %	91.6 %	83.3 %
Brit	114.0 %	104.1 %	109.6 %	98.9 %
Allied World	93.1 %	96.2 %	95.2 %	98.7 %
Fairfax Asia	96.0 %	96.9 %	99.4 %	97.8 %
Other	99.8 %	97.1 %	98.8 %	99.5 %
Consolidated	<u>98.5 %</u>	<u>97.5 %</u>	<u>98.6 %</u>	<u>97.1 %</u>
Sources of net earnings				
Underwriting - Insurance and Reinsurance				
Northbridge	38.2	8.4	68.5	11.7
Odyssey Group	6.0	20.2	20.1	88.3
Crum & Forster	4.1	11.8	25.7	36.0
Zenith National	12.2	24.1	39.6	91.7
Brit	(58.9)	(15.8)	(118.5)	12.9
Allied World	48.3	23.0	96.0	23.0
Fairfax Asia	2.1	1.6	0.9	3.1
Other	0.4	8.0	9.9	4.0
Underwriting profit - insurance and reinsurance	<u>52.4</u>	<u>81.3</u>	<u>142.2</u>	<u>270.7</u>
Interest and dividends - insurance and reinsurance	127.7	163.1	440.3	501.5
Share of profit of associates - insurance and reinsurance	74.6	35.7	18.3	84.6
Operating income - insurance and reinsurance	<u>254.7</u>	<u>280.1</u>	<u>600.8</u>	<u>856.8</u>
Run-off (excluding net gains (losses) on investments)	(9.3)	(14.2)	(47.6)	(45.0)
Non-insurance companies reporting segment (excluding net gains (losses) on investments)	0.6	8.2	(113.7)	163.9
Interest expense	(120.9)	(121.5)	(358.8)	(355.0)
Corporate overhead and other	(18.3)	14.0	(268.2)	97.1
Gain on deconsolidation of insurance subsidiary	—	—	117.1	—
Pre-tax income (loss) before net gains (losses) on investments	<u>106.8</u>	<u>166.6</u>	<u>(70.4)</u>	<u>717.8</u>
Net realized gains (losses) on investments	<u>(87.1)</u>	<u>48.3</u>	<u>(269.9)</u>	<u>196.9</u>
Pre-tax income (loss) including net realized gains (losses) on investments	19.7	214.9	(340.3)	914.7
Net change in unrealized gains (losses) on investments	59.8	(145.0)	(652.8)	878.9
Pre-tax income (loss)	<u>79.5</u>	<u>69.9</u>	<u>(993.1)</u>	<u>1,793.6</u>
Income taxes	(37.7)	4.5	72.1	(325.1)
Net earnings (loss)	<u>41.8</u>	<u>74.4</u>	<u>(921.0)</u>	<u>1,468.5</u>
Attributable to:				
Shareholders of Fairfax	133.7	68.6	(690.7)	1,332.1
Non-controlling interests	(91.9)	5.8	(230.3)	136.4
	<u>41.8</u>	<u>74.4</u>	<u>(921.0)</u>	<u>1,468.5</u>
Net earnings (loss) per share	\$ 4.66	\$ 2.13	\$ (27.27)	\$ 48.20
Net earnings (loss) per diluted share	\$ 4.44	\$ 2.04	\$ (27.27)	\$ 46.23
Cash dividends paid per share	\$ —	\$ —	\$ 10.00	\$ 10.00

The company's insurance and reinsurance operations produced underwriting profit of \$52.4 and \$142.2 (combined ratios of 98.5% and 98.6%) in the third quarter and first nine months of 2020 compared to underwriting profit of \$81.3 and \$270.7 (combined ratios of 97.5% and 97.1%) in the third quarter and first nine months of 2019.

The increase in the combined ratio in the third quarter of 2020 compared to the third quarter of 2019 principally reflected COVID-19 losses, higher current period catastrophe losses and lower net favourable prior year reserve development, partially offset by a lower underwriting expense ratio. The increase in the combined ratio in the first nine months of 2020 compared to the first nine months of 2019 principally reflected COVID-19 losses and higher current period catastrophe losses, partially offset by higher net favourable prior year reserve development and a lower underwriting expense ratio.

The following table presents the components of the company's combined ratios for the three and nine months ended September 30, 2020 and 2019:

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit - insurance and reinsurance	52.4	81.3	142.2	270.7
Loss & LAE - accident year	68.3 %	67.6 %	68.6 %	65.5 %
Commissions	17.3 %	17.1 %	17.1 %	17.2 %
Underwriting expense	15.0 %	15.7 %	15.6 %	16.4 %
Combined ratio - accident year	100.6 %	100.4 %	101.3 %	99.1 %
Net favourable reserve development	(2.1)%	(2.9)%	(2.7)%	(2.0)%
Combined ratio - calendar year	98.5 %	97.5 %	98.6 %	97.1 %

Net (favourable) adverse prior year reserve development for the three and nine months ended September 30, 2020 and 2019 was comprised as follows:

	Third quarter		First nine months	
	2020	2019	2020	2019
Insurance and Reinsurance				
Northbridge	(17.2)	0.5	(15.3)	(31.9)
Odyssey Group	(32.3)	(45.5)	(91.1)	(85.6)
Crum & Forster	(1.7)	(2.2)	(4.1)	(4.7)
Zenith National	(14.4)	(16.5)	(62.4)	(75.4)
Brit	(8.1)	(8.2)	(42.4)	(10.1)
Allied World	—	(0.3)	(25.3)	79.3
Fairfax Asia	(3.7)	(7.6)	(13.0)	(21.0)
Other	3.1	(14.4)	(21.8)	(35.6)
	(74.3)	(94.2)	(275.4)	(185.0)

Current period catastrophe losses and COVID-19 losses for the three and nine months ended September 30, 2020 and 2019 were comprised as follows:

	Third quarter				First nine months			
	2020		2019		2020		2019	
	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact
Hurricane Laura	112.3	3.1	—	—	112.3	1.1	—	—
Hurricane Dorian	—	—	75.4	2.3	—	—	75.4	0.8
Attritional catastrophes	106.3	3.0	62.6	1.9	307.5	3.0	150.9	1.6
COVID-19 ⁽²⁾	143.2	4.0	—	—	535.6	5.3	—	—
	361.8	10.1 points	138.0	4.2 points	955.4	9.4 points	226.3	2.4 points

(1) Net of reinstatement premiums.

(2) COVID-19 losses in the first nine months of 2020 are comprised primarily of business interruption exposures (approximately 40%, principally from international business) and event cancellation coverage (approximately 29%). Incurred but not reported losses comprise approximately 60% of the total.

The commission expense ratio of 17.3% and 17.1% in the third quarter and first nine months of 2020 compared to 17.1% and 17.2% in the third quarter and first nine months of 2019 primarily reflected lower commission expense ratios at Allied World (lower average gross commissions and increased ceding commission income, primarily in the insurance segment) and Brit (reflecting changes in the mix of business written), and higher commission expense ratios at Northbridge and Crum & Forster (reflecting changes in the mix of business written including decreases in the travel business which attracts lower commissions).

The underwriting expense ratio decreased to 15.0% and 15.6% in the third quarter and first nine months of 2020 from 15.7% and 16.4% in the third quarter and first nine months of 2019, primarily reflecting lower underwriting expense ratios at Allied World, Odyssey Group and Northbridge (principally reflecting increased net premiums earned relative to modest increases in underwriting expenses), partially offset by an increase at Brit (primarily reflecting a reduction in underwriting related fee income, increased

regulatory levies and initial set-up costs of business initiatives to support premium growth, with underlying operating expenses remaining stable).

Underwriting expenses increased to \$538.2 and \$1,584.6 in the third quarter and first nine months of 2020 from \$510.9 and \$1,523.3 in the third quarter and first nine months of 2019, primarily reflecting increased business volumes at Brit, Crum & Forster and Odyssey Group, and the consolidation of ARX Insurance (on February 14, 2019), partially offset by decreased business volume at Zenith National. For further details refer to note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Operating expenses as presented in the consolidated statement of earnings increased to \$617.2 and \$1,893.7 in the third quarter and first nine months of 2020 from \$609.3 and \$1,821.6 in the third quarter and first nine months of 2019, primarily reflecting increases in underwriting expenses of the insurance and reinsurance operations (as described in the preceding paragraph). The increase in the nine months of 2020 also reflected higher Fairfax and subsidiary holding companies' corporate overhead (refer to the Corporate Overhead and Other section in this MD&A for further details).

Other expenses as presented in the consolidated statement of earnings decreased to \$1,192.1 in the third quarter of 2020 from \$1,452.8 in the third quarter of 2019, primarily reflecting temporary closures and other economic effects related to the COVID-19 pandemic at Thomas Cook India, Restaurants and retail, Fairfax India and Mosaic Capital, partially offset by the consolidation of Horizon North (on May 29, 2020) and increased expenses at AGT and Boat Rocker.

Other expenses as presented in the consolidated statement of earnings decreased to \$3,403.8 in the first nine months of 2020 from \$3,880.5 in the first nine months of 2019, primarily reflecting temporary closures and other economic effects related to the COVID-19 pandemic at Thomas Cook India, Restaurants and retail, Fairfax India and Mosaic Capital, partially offset by the consolidation of AGT (on April 17, 2019) and Horizon North (on May 29, 2020), and non-cash impairment charges on right-of-use assets and finance lease receivables related to Recipe's previously announced restaurant portfolio restructuring and COVID-19 related impairments. Refer to the Non-insurance companies section of this MD&A for further details.

An analysis of interest and dividends, share of profit (loss) of associates and net gains (losses) on investments for the three and nine months ended September 30, 2020 and 2019 is provided in the Investments section of this MD&A.

Net earnings attributable to shareholders of Fairfax increased to \$133.7 (net earnings of \$4.66 per basic share and \$4.44 per diluted share) in the third quarter of 2020 from \$68.6 (net earnings of \$2.13 per basic share and \$2.04 per diluted share) in the third quarter of 2019, principally reflecting lower net losses on investments, partially offset by lower operating income in the insurance and reinsurance operations (reflecting decreases in underwriting profit and interest and dividends, partially offset by higher share of profit of associates).

Net loss attributable to shareholders of Fairfax of \$690.7 (net loss of \$27.27 per basic and diluted share) in the first nine months of 2020 compared to net earnings attributable to shareholders of Fairfax of \$1,332.1 (net earnings of \$48.20 per basic share and \$46.23 per diluted share) in the first nine months of 2019 principally reflected net losses on investments, operating losses in the Non-insurance companies reporting segment and lower operating income in the insurance and reinsurance operations (reflecting decreases in underwriting profit, interest and dividends and share of profit of associates), partially offset by a gain on deconsolidation of insurance subsidiary and income tax recovery.

Net Earnings by Reporting Segment

The company's sources of net earnings by reporting segment are set out below for the three and nine months ended September 30, 2020 and 2019. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the company, primarily to Odyssey Group, Allied World and Group Re. Additional details about share of profit (loss) of associates and net gains (losses) on investments, by reporting segment, are set out in the Investments section of this MD&A.

Quarter ended September 30, 2020

Insurance and Reinsurance														
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written	457.3	1,095.8	799.6	150.3	602.4	1,168.2	119.6	482.3	4,875.5	—	—	—	(132.3)	4,743.2
Net premiums written	379.0	969.3	657.9	146.3	487.2	726.6	59.4	309.5	3,735.2	—	—	—	—	3,735.2
Net premiums earned	377.8	944.9	614.5	166.9	419.2	701.2	52.9	294.4	3,571.8	—	—	—	—	3,571.8
Underwriting profit (loss)	38.2	6.0	4.1	12.2	(58.9)	48.3	2.1	0.4	52.4	(17.2)	—	—	—	35.2
Interest and dividends	11.9	34.5	17.7	4.2	13.3	29.7	4.9	11.5	127.7	5.1	5.5	11.8	31.7	181.8
Share of profit (loss) of associates	2.7	21.3	6.6	4.1	11.1	14.7	9.4	4.7	74.6	2.8	(38.6)	12.0	—	50.8
Non-insurance companies reporting segment	—	—	—	—	—	—	—	—	—	—	33.7	—	(10.3)	23.4
Operating income (loss)	52.8	61.8	28.4	20.5	(34.5)	92.7	16.4	16.6	254.7	(9.3)	0.6	23.8	21.4	291.2
Net gains (losses) on investments ⁽¹⁾	62.2	(37.7)	(43.3)	(19.8)	(2.4)	11.3	13.6	19.7	3.6	(1.8)	(38.6)	9.5	—	(27.3)
Interest expense	(0.3)	(1.5)	(1.2)	(0.9)	(4.5)	(7.5)	(0.1)	(0.3)	(16.3)	(0.2)	(41.8)	(62.6)	—	(120.9)
Corporate overhead and other	(1.8)	(1.1)	(7.5)	(3.3)	(3.4)	(17.3)	(2.0)	—	(36.4)	—	—	6.9	(34.0)	(63.5)
Pre-tax income (loss)	112.9	21.5	(23.6)	(3.5)	(44.8)	79.2	27.9	36.0	205.6	(11.3)	(79.8)	(22.4)	(12.6)	79.5
Income taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	(37.7)
Net earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	41.8
Attributable to:														
Shareholders of Fairfax														133.7
Non-controlling interests														(91.9)
														41.8

(1) Includes an aggregate non-cash loss of \$164.0 principally at Odyssey Group, Allied World, Zenith and Brit pursuant to Fairfax Africa being classified as held for sale as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Quarter ended September 30, 2019

Insurance and Reinsurance														
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written	415.7	929.8	732.1	155.1	530.5	948.7	116.9	450.0	4,278.8	(1.1)	—	—	(66.1)	4,211.6
Net premiums written	335.3	855.2	598.3	152.4	413.9	613.3	55.9	293.8	3,318.1	0.2	—	—	—	3,318.3
Net premiums earned	332.4	855.0	561.1	186.1	388.3	605.1	52.0	273.3	3,253.3	12.2	—	—	—	3,265.5
Underwriting profit (loss)	8.4	20.2	11.8	24.1	(15.8)	23.0	1.6	8.0	81.3	(32.0)	—	—	—	49.3
Interest and dividends	17.7	43.5	20.8	7.9	20.8	34.5	4.1	13.8	163.1	13.7	(1.5)	6.0	33.6	214.9
Share of profit (loss) of associates	4.5	3.3	11.3	0.7	6.8	9.2	2.4	(2.5)	35.7	4.1	47.7	62.1	—	149.6
Non-insurance companies reporting segment	—	—	—	—	—	—	—	—	—	—	(38.0)	—	1.5	(36.5)
Operating income (loss)	30.6	67.0	43.9	32.7	11.8	66.7	8.1	19.3	280.1	(14.2)	8.2	68.1	35.1	377.3
Net gains (losses) on investments	(23.9)	(65.5)	(55.7)	(6.1)	(15.8)	(10.3)	87.2	(22.4)	(112.5)	(15.2)	14.4	16.6	—	(96.7)
Interest expense	(0.4)	(1.8)	(1.2)	(1.0)	(4.4)	(7.2)	(0.1)	(0.4)	(16.5)	(1.9)	(51.9)	(52.0)	0.8	(121.5)
Corporate overhead and other	(1.1)	0.4	(5.3)	(2.2)	(2.3)	(16.3)	(2.3)	0.6	(28.5)	—	—	(24.8)	(35.9)	(89.2)
Pre-tax income (loss)	5.2	0.1	(18.3)	23.4	(10.7)	32.9	92.9	(2.9)	122.6	(31.3)	(29.3)	7.9	—	69.9
Income taxes	—	—	—	—	—	—	—	—	—	—	—	—	—	4.5
Net earnings	—	—	—	—	—	—	—	—	—	—	—	—	—	74.4
Attributable to:														
Shareholders of Fairfax														68.6
Non-controlling interests														5.8
														74.4

Nine months ended September 30, 2020

Insurance and Reinsurance														
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written	1,235.5	3,176.6	2,292.9	528.2	1,884.9	3,524.3	330.9	1,391.3	14,364.6	146.5	—	—	(289.5)	14,221.6
Net premiums written	1,091.2	2,769.0	1,888.4	516.3	1,353.4	2,318.7	164.5	889.1	10,990.6	146.5	—	—	—	11,137.1
Net premiums earned	1,039.7	2,648.2	1,776.4	471.2	1,239.1	1,986.1	164.8	839.7	10,165.2	127.9	—	—	—	10,293.1
Underwriting profit (loss)	68.5	20.1	25.7	39.6	(118.5)	96.0	0.9	9.9	142.2	(54.7)	—	—	—	87.5
Interest and dividends	43.9	118.3	63.3	15.4	46.7	98.9	15.6	38.2	440.3	20.1	57.4	45.7	41.2	604.7
Share of profit (loss) of associates	(8.5)	33.1	(18.5)	(11.1)	(0.6)	23.8	13.6	(13.5)	18.3	(13.0)	(87.8)	(95.0)	—	(177.5)
Non-insurance companies reporting segment	—	—	—	—	—	—	—	—	—	—	(83.3)	—	(18.4)	(101.7)
Operating income (loss)	103.9	171.5	70.5	43.9	(72.4)	218.7	30.1	34.6	600.8	(47.6)	(113.7)	(49.3)	22.8	413.0
Net gains (losses) on investments ⁽¹⁾	(35.4)	(282.3)	(248.9)	(84.4)	(9.8)	29.2	(10.4)	(81.8)	(723.8)	(157.2)	(149.8)	108.1	—	(922.7)
Gain (loss) on deconsolidation of insurance subsidiary	—	(30.5)	(25.8)	—	—	—	—	—	(56.3)	(9.0)	—	182.4	—	117.1
Interest expense	(1.0)	(4.9)	(3.6)	(2.8)	(13.9)	(22.8)	(0.3)	(1.2)	(50.5)	(2.1)	(131.5)	(174.8)	0.1	(358.8)
Corporate overhead and other	(4.2)	(2.6)	(18.5)	(7.3)	(8.0)	(57.8)	(7.2)	(0.3)	(105.9)	—	—	(87.7)	(48.1)	(241.7)
Pre-tax income (loss)	63.3	(148.8)	(226.3)	(50.6)	(104.1)	167.3	12.2	(48.7)	(335.7)	(215.9)	(395.0)	(21.3)	(25.2)	(993.1)
Income taxes														72.1
Net loss														(921.0)
Attributable to:														
Shareholders of Fairfax														(690.7)
Non-controlling interests														(230.3)
														(921.0)

(1) Includes an aggregate non-cash loss of \$164.0 principally at Odyssey Group, Allied World, Zenith and Brit pursuant to Fairfax Africa being classified as held for sale as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Nine months ended September 30, 2019

Insurance and Reinsurance														
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Eliminations and adjustments	Consolidated
Gross premiums written	1,112.0	2,793.4	2,100.8	588.6	1,741.0	2,944.9	329.0	1,292.1	12,901.8	592.9	—	—	(221.1)	13,273.6
Net premiums written	975.1	2,510.1	1,738.3	579.5	1,239.1	1,997.5	161.2	850.0	10,050.8	563.3	—	—	—	10,614.1
Net premiums earned	911.2	2,363.5	1,589.5	549.4	1,195.3	1,796.3	145.1	772.0	9,322.3	625.0	—	—	—	9,947.3
Underwriting profit (loss)	11.7	88.3	36.0	91.7	12.9	23.0	3.1	4.0	270.7	(95.0)	—	—	—	175.7
Interest and dividends	47.5	130.0	65.3	25.5	56.0	114.1	16.6	46.5	501.5	45.2	(3.5)	26.9	102.3	672.4
Share of profit (loss) of associates	(2.1)	55.9	23.8	(7.8)	0.5	20.4	2.3	(8.4)	84.6	4.8	141.2	184.5	—	415.1
Non-insurance companies reporting segment	—	—	—	—	—	—	—	—	—	—	26.2	—	6.2	32.4
Operating income (loss)	57.1	274.2	125.1	109.4	69.4	157.5	22.0	42.1	856.8	(45.0)	163.9	211.4	108.5	1,295.6
Net gains (losses) on investments	(42.7)	154.1	118.1	11.5	47.1	147.5	255.6	53.7	744.9	139.9	78.6	112.4	—	1,075.8
Interest expense	(1.2)	(5.8)	(3.9)	(2.9)	(14.6)	(21.8)	(0.3)	(1.3)	(51.8)	(5.6)	(134.7)	(163.7)	0.8	(355.0)
Corporate overhead and other	(3.7)	(6.6)	(15.9)	(6.2)	(6.9)	(46.8)	(7.7)	(0.7)	(94.5)	—	—	(19.0)	(109.3)	(222.8)
Pre-tax income	9.5	415.9	223.4	111.8	95.0	236.4	269.6	93.8	1,455.4	89.3	107.8	141.1	—	1,793.6
Income taxes														(325.1)
Net earnings														1,468.5
Attributable to:														
Shareholders of Fairfax														1,332.1
Non-controlling interests														136.4
														1,468.5

Components of Net Earnings

Underwriting and Operating Income

Set out and discussed below are the underwriting and operating results of the company's insurance and reinsurance, Run-off and Non-insurance companies reporting segments for the three and nine months ended September 30, 2020 and 2019.

Northbridge

	Cdn\$		Cdn\$		Cdn\$		Cdn\$	
	Third quarter		First nine months		Third quarter		First nine months	
	2020	2019	2020	2019	2020	2019	2020	2019
Underwriting profit	51.3	11.1	92.7	15.5	38.2	8.4	68.5	11.7
Loss & LAE - accident year	61.1 %	64.9 %	62.4 %	69.4 %	61.1 %	64.9 %	62.4 %	69.4 %
Commissions	18.6 %	16.5 %	17.2 %	16.5 %	18.6 %	16.5 %	17.2 %	16.5 %
Underwriting expenses	14.7 %	15.9 %	15.3 %	16.3 %	14.7 %	15.9 %	15.3 %	16.3 %
Combined ratio - accident year	94.4 %	97.3 %	94.9 %	102.2 %	94.4 %	97.3 %	94.9 %	102.2 %
Net (favourable) adverse reserve development	(4.5)%	0.2 %	(1.5)%	(3.5)%	(4.5)%	0.2 %	(1.5)%	(3.5)%
Combined ratio - calendar year	89.9 %	97.5 %	93.4 %	98.7 %	89.9 %	97.5 %	93.4 %	98.7 %
Gross premiums written	610.3	549.5	1,672.5	1,478.1	457.3	415.7	1,235.5	1,112.0
Net premiums written	505.1	442.8	1,477.1	1,296.1	379.0	335.3	1,091.2	975.1
Net premiums earned	504.1	439.2	1,407.5	1,211.1	377.8	332.4	1,039.7	911.2
Underwriting profit	51.3	11.1	92.7	15.5	38.2	8.4	68.5	11.7
Interest and dividends	15.8	23.4	59.4	63.1	11.9	17.7	43.9	47.5
Share of profit (loss) of associates	3.9	6.0	(11.4)	(2.8)	2.7	4.5	(8.5)	(2.1)
Operating income	71.0	40.5	140.7	75.8	52.8	30.6	103.9	57.1

The Canadian dollar weakened relative to the U.S. dollar (measured using average foreign exchange rates) by 1.8% in the first nine months of 2020 compared to the first nine months of 2019. To avoid the distortion caused by foreign currency translation, the table above presents Northbridge's underwriting and operating results in both U.S. dollars and Canadian dollars (Northbridge's functional currency). The discussion which follows makes reference to those Canadian dollar figures unless indicated otherwise.

Northbridge reported underwriting profit of Cdn\$51.3 and Cdn\$92.7 (\$38.2 and \$68.5) and combined ratios of 89.9% and 93.4% in the third quarter and first nine months of 2020 compared to underwriting profit of Cdn\$11.1 and Cdn\$15.5 (\$8.4 and \$11.7) and combined ratios of 97.5% and 98.7% in the third quarter and first nine months of 2019. The increase in underwriting profit in the third quarter and first nine months of 2020 principally reflected lower non-catastrophe loss experience related to the current accident year (reflecting improvements across most lines of business mainly as a result of lower claims activity due to the various closures and lower economic activity related to COVID-19), improved pricing and a lower underwriting expense ratio, partially offset by higher catastrophe losses and COVID-19 losses. The increase in underwriting profit in the third quarter of 2020 also reflected net favourable prior year reserve development.

	Third quarter						First nine months					
	2020			2019			2020			2019		
	Cdn\$ Losses ⁽¹⁾	Losses ⁽¹⁾	Combined ratio impact	Cdn\$ Losses ⁽¹⁾	Losses ⁽¹⁾	Combined ratio impact	Cdn\$ Losses ⁽¹⁾	Losses ⁽¹⁾	Combined ratio impact	Cdn\$ Losses ⁽¹⁾	Losses ⁽¹⁾	Combined ratio impact
Catastrophe losses ⁽²⁾	6.2	4.8	1.3	2.7	2.1	0.6	38.8	28.7	2.8	12.7	9.6	1.0
COVID-19	25.5	19.1	5.0	—	—	—	60.5	44.7	4.3	—	—	—
	31.7	23.9	6.3 points	2.7	2.1	0.6 points	99.3	73.4	7.1 points	12.7	9.6	1.0 points

(1) Net of reinstatement premiums.

(2) Current period catastrophe losses in the third quarter and first nine months of 2020 principally related to the Fort McMurray floods and the Calgary hailstorms. Current period catastrophe losses in the third quarter and first nine months of 2019 principally related to several storms in Ontario and Quebec.

Net favourable prior year reserve development in the third quarter and first nine months of 2020 of Cdn\$23.3 and Cdn\$20.7 (\$17.2 and \$15.3; 4.5 and 1.5 combined ratio points) principally reflected better than expected emergence across automobile lines of business and primarily related to accident years 2015 through 2018. Net adverse prior year reserve development in the third quarter of 2019 was nominal. Net favourable prior year reserve development in the first nine months of 2019 of Cdn\$42.3 (\$31.9; 3.5 combined ratio points) principally reflected better than expected emergence across all major lines of business and primarily related to accident years 2013 to 2015.

Gross premiums written increased by 11.1% and 13.2% in the third quarter and first nine months of 2020, reflecting price increases across the group, strong retention of renewal business and new business writings, partially offset by returned premium due to reduced exposure from the COVID-19 closures (primarily related to automobile lines). Net premiums written increased by 14.1% and 14.0% in the third quarter and first nine months of 2020, consistent with the growth in gross premiums written. Net premiums earned increased by 14.8% and 16.2% in the third quarter and first nine months of 2020, primarily reflecting the growth in net premiums written during 2019.

Interest and dividends decreased to Cdn\$15.8 and Cdn\$59.4 (\$11.9 and \$43.9) in the third quarter and first nine months of 2020 from Cdn\$23.4 and Cdn\$63.1 (\$17.7 and \$47.5) in the third quarter and first nine months of 2019, principally reflecting lower dividend income earned on common and preferred stocks, and lower interest income earned on cash and cash equivalents and decreased holdings of Canadian government bonds. The decrease in interest and dividends in the first nine months of 2020 was partially offset by higher interest income earned on short term investments.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to Cdn\$241.3 (\$178.3) in the first nine months of 2020 from Cdn\$191.8 (\$144.3) in the first nine months of 2019, primarily reflecting higher net premium collections.

Odyssey Group

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit	6.0	20.2	20.1	88.3
Loss & LAE - accident year	75.9 %	75.7 %	74.4 %	70.6 %
Commissions	18.6 %	18.5 %	19.3 %	19.7 %
Underwriting expenses	8.3 %	8.7 %	8.9 %	9.6 %
Combined ratio - accident year	102.8 %	102.9 %	102.6 %	99.9 %
Net favourable reserve development	(3.4)%	(5.3)%	(3.4)%	(3.6)%
Combined ratio - calendar year	99.4 %	97.6 %	99.2 %	96.3 %
Gross premiums written	1,095.8	929.8	3,176.6	2,793.4
Net premiums written	969.3	855.2	2,769.0	2,510.1
Net premiums earned	944.9	855.0	2,648.2	2,363.5
Underwriting profit	6.0	20.2	20.1	88.3
Interest and dividends	34.5	43.5	118.3	130.0
Share of profit of associates	21.3	3.3	33.1	55.9
Operating income	61.8	67.0	171.5	274.2

Odyssey Group reported underwriting profit of \$6.0 and \$20.1 and combined ratios of 99.4% and 99.2% in the third quarter and first nine months of 2020 compared to underwriting profit of \$20.2 and \$88.3 and combined ratios of 97.6% and 96.3% in the third quarter and first nine months of 2019. The decrease in underwriting profit in the third quarter of 2020 principally reflected COVID-19 losses and decreased net favourable prior year reserve development, partially offset by increased net premiums earned relative to modest increases in underwriting expenses and an improvement in current accident year attritional loss experience. The decrease in underwriting profit in the first nine months of 2020 principally reflected COVID-19 losses and increased current period catastrophe losses (as set out in the table below), partially offset by increased net premiums earned relative to modest increases in underwriting and commission expenses and an improvement in current accident year attritional loss experience.

	Third quarter				First nine months			
	2020		2019		2020		2019	
	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact
Hurricane Laura	18.0	1.9	—	—	18.0	0.7	—	—
Hurricane Dorian	—	—	26.0	3.0	—	—	26.0	1.1
Attritional catastrophes	50.4	5.4	41.3	4.9	142.9	5.4	109.2	4.6
COVID-19	25.0	2.6	—	—	125.0	4.7	—	—
	<u>93.4</u>	<u>9.9</u> points	<u>67.3</u>	<u>7.9</u> points	<u>285.9</u>	<u>10.8</u> points	<u>135.2</u>	<u>5.7</u> points

(1) Net of reinstatement premiums.

Net favourable prior year reserve development of \$32.3 (3.4 combined ratio points) in the third quarter of 2020 primarily reflected better than expected emergence across all divisions, most notably in EuroAsia and North America. Net favourable prior year reserve development of \$91.1 (3.4 combined ratio points) in the first nine months of 2020 primarily reflected better than expected emergence related to property catastrophe and casualty loss reserves. Net favourable prior year reserve development of \$45.5 and \$85.6 (5.3 and 3.6 combined ratio points) in the third quarter and first nine months of 2019 primarily reflected better than expected emergence related to casualty and property catastrophe loss reserves.

Gross premiums written increased by 17.9% and 13.7% in the third quarter and first nine months of 2020, principally reflecting growth in North America (growth in U.S. casualty reinsurance), U.S. Insurance (principally reflecting growth in financial products and professional liability, partially offset by a decrease in U.S. crop), EuroAsia (principally reflecting growth in property and accident and health) and London Market (principally reflecting growth in Newline's casualty business). Net premiums written increased by 13.3% and 10.3% in the third quarter and first nine months of 2020, consistent with the growth in gross premiums written. Net premiums earned in the third quarter and first nine months of 2020 increased by 10.5% and 12.0% consistent with the growth in net premiums written during 2019 and 2020.

Interest and dividends decreased to \$34.5 in the third quarter of 2020 from \$43.5 in the third quarter of 2019, primarily reflecting lower interest income earned on decreased holdings of short term investments. Interest and dividends decreased to \$118.3 in the first nine months of 2020 from \$130.0 in the first nine months of 2019, primarily reflecting lower dividend income earned on common stocks.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to \$634.3 in the first nine months of 2020 from \$480.3 in the first nine months of 2019, primarily as a result of increased net premium collections, partially offset by higher net payments on prior year losses.

Crum & Forster

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit	4.1	11.8	25.7	36.0
Loss & LAE - accident year	64.5 %	63.8 %	63.5 %	63.3 %
Commissions	17.9 %	16.3 %	17.0 %	15.8 %
Underwriting expenses	17.2 %	18.2 %	18.3 %	18.9 %
Combined ratio - accident year	99.6 %	98.3 %	98.8 %	98.0 %
Net favourable reserve development	(0.3)%	(0.4)%	(0.2)%	(0.3)%
Combined ratio - calendar year	99.3 %	97.9 %	98.6 %	97.7 %
Gross premiums written	799.6	732.1	2,292.9	2,100.8
Net premiums written	657.9	598.3	1,888.4	1,738.3
Net premiums earned	614.5	561.1	1,776.4	1,589.5
Underwriting profit	4.1	11.8	25.7	36.0
Interest and dividends	17.7	20.8	63.3	65.3
Share of profit (loss) of associates	6.6	11.3	(18.5)	23.8
Operating income	28.4	43.9	70.5	125.1

Crum & Forster reported underwriting profit of \$4.1 and \$25.7 and combined ratios of 99.3% and 98.6% in the third quarter and first nine months of 2020 compared to underwriting profit of \$11.8 and \$36.0 and combined ratios of 97.9% and 97.7% in the third quarter and first nine months of 2019. The decrease in underwriting profit in the third quarter and first nine months of 2020 principally reflected an increase in current period catastrophe losses (as set out in the table below) and COVID-19 losses, partially offset by price increases. Net favourable prior year reserve development was nominal in the third quarter and first nine months of 2020 and 2019.

	Third quarter				First nine months			
	2020		2019		2020		2019	
	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact
Hurricane Laura	22.5	3.7	—	—	22.5	1.3	—	—
Attritional catastrophes	27.6	4.4	4.6	0.8	48.1	2.7	13.1	0.8
COVID-19	13.0	2.1	—	—	33.0	1.9	—	—
	<u>63.1</u>	<u>10.2</u> points	<u>4.6</u>	<u>0.8</u> points	<u>103.6</u>	<u>5.9</u> points	<u>13.1</u>	<u>0.8</u> points

(1) Net of reinstatement premiums.

Gross premiums written increased by 9.2% in the third quarter of 2020, principally reflecting growth in surety, credit and programs, and surplus and specialty lines of business, partially offset by decreases in commercial lines and accident and health. Gross premiums written increased by 9.1% in the first nine months of 2020, primarily reflecting growth in surety, credit and programs, and accident and health, partially offset by reduced exposure resulting from decreased economic activity associated with COVID-19. Net premiums written increased by 10.0% and 8.6% in the third quarter and first nine months of 2020, consistent with the factors that affected gross premiums written. Net premiums earned increased by 9.5% and 11.8% in the third quarter and first nine months of 2020, primarily reflecting the growth in net premiums written during 2019 and 2020.

The commission expense ratio increased to 17.9% and 17.0% in the third quarter and first nine months of 2020 from 16.3% and 15.8% in the third quarter and first nine months of 2019 primarily reflecting changes in the mix of business written including decreases in the travel business which attracts lower commissions. The underwriting expense ratio decreased to 17.2% and 18.3% in the third quarter and first nine months of 2020 from 18.2% and 18.9% in the third quarter and first nine months of 2019 primarily reflecting increased net premiums earned relative to modest increases in underwriting expenses.

Interest and dividends decreased to \$17.7 in the third quarter of 2020 from \$20.8 in the third quarter of 2019, primarily reflecting lower interest income earned on decreased holdings of short term investments and U.S treasury bonds. Interest and dividends decreased to \$63.3 in the first nine months of 2020 from \$65.3 in the first nine months of 2019, primarily reflecting lower dividend income earned on common and preferred stocks and lower interest income earned on reduced holdings of U.S. municipal bonds, partially offset by higher interest income earned on increased holdings of high quality U.S. corporate bonds and short term investments.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to \$295.3 in the first nine months of 2020 from \$199.3 in the first nine months of 2019, primarily due to increased net premium collections and a decrease in net paid losses.

Zenith National⁽¹⁾

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit	12.2	24.1	39.6	91.7
Loss & LAE - accident year	61.2 %	56.8 %	63.4 %	57.8 %
Commissions	11.4 %	10.9 %	11.6 %	10.8 %
Underwriting expenses	28.8 %	28.3 %	29.8 %	28.4 %
Combined ratio - accident year	101.4 %	96.0 %	104.8 %	97.0 %
Net favourable reserve development	(8.7)%	(8.9)%	(13.2)%	(13.7)%
Combined ratio - calendar year	92.7 %	87.1 %	91.6 %	83.3 %
Gross premiums written	150.3	155.1	528.2	588.6
Net premiums written	146.3	152.4	516.3	579.5
Net premiums earned	166.9	186.1	471.2	549.4
Underwriting profit	12.2	24.1	39.6	91.7
Interest and dividends	4.2	7.9	15.4	25.5
Share of profit (loss) of associates	4.1	0.7	(11.1)	(7.8)
Operating income	20.5	32.7	43.9	109.4

(1) These results differ from those published by Zenith National primarily due to differences between IFRS and U.S. GAAP, intercompany investment transactions and acquisition accounting adjustments recorded by Fairfax related to the acquisition of Zenith National in 2010.

Zenith National reported underwriting profit of \$12.2 and \$39.6 and combined ratios of 92.7% and 91.6% in the third quarter and first nine months of 2020 compared to underwriting profit of \$24.1 and \$91.7 and combined ratios of 87.1% and 83.3% in the third quarter and first nine months of 2019. The decrease in underwriting profit in the third quarter and first nine months of 2020 principally reflected price decreases and lower payroll exposure due to the economic impacts of COVID-19 in the workers' compensation business, partially offset by price increases and growth in other property and casualty lines. The decrease in underwriting profit in the third quarter and first nine months of 2020 also reflected lower net favourable prior year reserve development.

Net favourable prior year reserve development of \$14.4 and \$62.4 (8.7 and 13.2 combined ratio points) in the third quarter and first nine months of 2020 principally reflected net favourable emergence related to accident years 2015 through 2019. Net favourable prior year reserve development of \$16.5 and \$75.4 (8.9 and 13.7 combined ratio points) in the third quarter and first nine months of 2019 principally reflected net favourable emergence related to accident years 2013 through 2018.

Gross premiums written decreased by 3.1% and 10.3% in the third quarter and first nine months of 2020, primarily reflecting price decreases and lower payroll exposure due to the economic impacts of COVID-19 in the workers' compensation business, partially offset by price increases and growth in other property and casualty lines. Net premiums written decreased by 4.0% and 10.9% in the third quarter and first nine months of 2020, consistent with the decrease in gross premiums written. Net premiums earned decreased by 10.3% and 14.2% in the third quarter and first nine months of 2020, primarily reflecting the decreases in net premiums written.

Interest and dividends decreased to \$4.2 and \$15.4 in the third quarter and first nine months of 2020 from \$7.9 and \$25.5 in the third quarter and first nine months of 2019, primarily reflecting lower interest income earned on bonds due to sales and maturities of higher yielding short-dated U.S. treasury bonds and the reinvestment of the proceeds into lower yielding U.S. treasury bonds, lower interest income earned on decreased holdings of U.S. municipal bonds and lower dividend income earned on common stocks.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to \$57.3 in the first nine months of 2020 from \$51.8 in the first nine months of 2019, primarily reflecting decreased net claims, underwriting expenses and income taxes paid, partially offset by reduced net premium collections.

Brit

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit (loss)	(58.9)	(15.8)	(118.5)	12.9
Loss & LAE - accident year	70.5 %	63.2 %	70.7 %	58.3 %
Commissions	26.9 %	28.8 %	25.9 %	27.3 %
Underwriting expenses	18.5 %	14.2 %	16.4 %	14.1 %
Combined ratio - accident year	115.9 %	106.2 %	113.0 %	99.7 %
Net favourable reserve development	(1.9)%	(2.1)%	(3.4)%	(0.8)
Combined ratio - calendar year	114.0 %	104.1 %	109.6 %	98.9 %
Gross premiums written	602.4	530.5	1,884.9	1,741.0
Net premiums written	487.2	413.9	1,353.4	1,239.1
Net premiums earned	419.2	388.3	1,239.1	1,195.3
Underwriting profit (loss)	(58.9)	(15.8)	(118.5)	12.9
Interest and dividends	13.3	20.8	46.7	56.0
Share of profit (loss) of associates	11.1	6.8	(0.6)	0.5
Operating income (loss)	(34.5)	11.8	(72.4)	69.4

Brit reported underwriting losses of \$58.9 and \$118.5 and combined ratios of 114.0% and 109.6% in the third quarter and first nine months of 2020 compared to an underwriting loss of \$15.8 and an underwriting profit of \$12.9 and combined ratios of 104.1% and 98.9% in the third quarter and first nine months of 2019. The increase in underwriting loss in the third quarter of 2020 principally reflected COVID-19 losses. The underwriting loss in the first nine months of 2020 principally reflected COVID-19 losses and an increase in current period catastrophe losses (as set out in the table below), partially offset by an improvement in current accident year attritional loss experience and increased net favourable prior year reserve development.

	Third quarter				First nine months			
	2020		2019		2020		2019	
	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact
Hurricane Laura	36.5	8.7	—	—	36.5	2.9	—	—
Hurricane Dorian	—	—	30.7	7.9	—	—	30.7	2.6
Attritional catastrophes	1.9	0.5	9.3	2.4	34.2	2.8	12.6	1.0
COVID-19	42.5	10.1	—	—	170.4	13.8	—	—
	<u>80.9</u>	<u>19.3</u> points	<u>40.0</u>	<u>10.3</u> points	<u>241.1</u>	<u>19.5</u> points	<u>43.3</u>	<u>3.6</u> points

(1) Net of reinstatement premiums.

Net favourable prior year reserve development of \$8.1 and \$42.4 (1.9 and 3.4 combined ratio points) in the third quarter and first nine months of 2020 primarily reflected better than expected claims experience on the 2017 to 2019 catastrophe events (predominantly California Wildfires, Hurricane Dorian and Typhoon Jebi) and by attritional loss ratio improvements reflecting increased certainty across a number of portfolios including property, programs and facilities, specialty and property treaty. Net favourable prior year reserve development of \$8.2 (2.1 combined ratio points) in the third quarter 2019 primarily reflected better than expected claims experience in financial and professional lines and discontinued classes of business. Net favourable prior year reserve development of \$10.1 (0.8 of a combined ratio point) in the first nine months of 2019 primarily reflected better than expected claims experience in several lines of business (property direct, professional lines, energy, marine classes), partially offset by strengthening in U.S. marine and U.S. property classes.

Gross premiums written increased by 13.6% and 8.3% in the third quarter and first nine months of 2020 reflecting growth in core lines of business generated by price increases across most lines of business and increased contributions from underwriting initiatives launched in recent years (primarily related to Brit's U.S. operations), partially offset by reductions in non-core lines of business through active portfolio management and reduced exposure resulting from decreased economic activity associated with COVID-19. Net premiums written increased by 17.7% and 9.2% in the third quarter and first nine months of 2020 consistent with the growth in gross premiums written and targeted reductions in ceded premiums to retain higher performing business. Net premiums earned increased by 8.0% and 3.7% in the third quarter and first nine months of 2020 primarily reflecting growth in net premiums written in 2019 and 2020.

The underwriting expense ratio increased to 18.5% and 16.4% in the third quarter and first nine months of 2020 from 14.2% and 14.1% in the third quarter and first nine months of 2019, primarily reflecting a reduction in underwriting related fee income, increased regulatory levies and initial set-up costs of business initiatives to support premium growth, with underlying operating expenses remaining stable.

The commission expense ratio decreased to 26.9% and 25.9% in the third quarter and first nine months of 2020 from 28.8% and 27.3% in the third quarter and first nine months of 2019 primarily reflecting changes in the mix of business written.

Interest and dividends decreased to \$13.3 in the third quarter of 2020 from \$20.8 in the third quarter of 2019 principally reflecting lower interest income earned on decreased holdings of short term investments and cash and cash equivalents. Interest and dividends decreased to \$46.7 in the first nine months of 2020 from \$56.0 in the first nine months of 2019 principally reflecting lower interest income earned on cash and cash equivalents, short term investments and decreased holdings of U.S treasury bonds, partially offset by reduced investment management and administration fees.

Cash provided by operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) increased to \$137.9 in the first nine months of 2020 from \$119.7 in the first nine months of 2019, primarily reflecting increased premium collection, partially offset by increases in net paid losses and general operating expenses.

On August 28, 2020 the company acquired the remaining shares of Brit that it did not already own from Brit's minority shareholder (OMERS) for cash consideration of \$220.0. On April 9, 2020 Brit paid a dividend of \$20.6 to its minority shareholder.

Brit expects to launch Ki insurance, a newly formed subsidiary of Brit, in the fourth quarter of 2020. Ki insurance is a fully digital and algorithmically-driven Lloyd's of London syndicate that will be accessible from anywhere, at anytime.

Allied World⁽¹⁾

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit	48.3	23.0	96.0	23.0
Loss & LAE - accident year	69.6 %	69.4 %	71.7 %	66.6 %
Commissions	8.8 %	10.4 %	9.4 %	10.9 %
Underwriting expenses	14.7 %	16.4 %	15.4 %	16.8 %
Combined ratio - accident year	93.1 %	96.2 %	96.5 %	94.3 %
Net (favourable) adverse reserve development	—	—	(1.3)%	4.4 %
Combined ratio - calendar year	93.1 %	96.2 %	95.2 %	98.7 %
Gross premiums written	1,168.2	948.7	3,524.3	2,944.9
Net premiums written	726.6	613.3	2,318.7	1,997.5
Net premiums earned	701.2	605.1	1,986.1	1,796.3
Underwriting profit	48.3	23.0	96.0	23.0
Interest and dividends	29.7	34.5	98.9	114.1
Share of profit of associates	14.7	9.2	23.8	20.4
Operating income	92.7	66.7	218.7	157.5

(1) These results differ from those published by Allied World primarily due to differences between IFRS and U.S. GAAP and acquisition accounting adjustments.

Allied World reported underwriting profit of \$48.3 and \$96.0 and combined ratios of 93.1% and 95.2% in the third quarter and first nine months of 2020 compared to underwriting profit of \$23.0 and \$23.0 and combined ratios of 96.2% and 98.7% in the third quarter and first nine months of 2019. The increase in underwriting profit in the third quarter and first nine months of 2020 principally reflected growth in net premiums earned relative to modest changes in commission and underwriting expenses and an improvement in current accident year attritional loss experience, partially offset by an increase in current period catastrophe and COVID-19 losses (as set out in the table below). The increase in underwriting profit in the first nine months of 2020 also reflected net favourable prior year reserve development compared to net adverse prior year reserve development in the first nine months of 2019.

	Third quarter				First nine months			
	2020		2019		2020		2019	
	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact	Losses ⁽¹⁾	Combined ratio impact
Hurricane Laura	35.4	5.1	—	—	35.4	1.8	—	—
Hurricane Dorian	—	—	14.5	2.4	—	—	14.5	0.8
Attritional catastrophes	19.7	2.9	8.9	1.5	50.1	2.5	8.9	0.5
COVID-19	30.0	4.3	—	—	112.8	5.7	—	—
	<u>85.1</u>	<u>12.3</u> points	<u>23.4</u>	<u>3.9</u> points	<u>198.3</u>	<u>10.0</u> points	<u>23.4</u>	<u>1.3</u> points

(1) Net of reinstatement premiums.

Net favourable prior year reserve development of \$25.3 (1.3 combined ratio points) in the first nine months of 2020 primarily reflected better than expected emergence across all major business segments, particularly reinsurance (all North American lines) and insurance (principally North America professional lines and property). Net adverse prior year reserve development of \$79.3 (4.4 combined ratio points) in the first nine months of 2019 primarily reflected deterioration in the insurance segment of \$47.1 (principally related to North American casualty) and the reinsurance segment of \$32.9 (principally related to Typhoon Jebi).

Gross premiums written increased by 23.1% and 19.7% in the third quarter and first nine months of 2020, primarily due to improved pricing and growth across both the insurance segment (principally North American and Global Markets platforms relating to excess casualty and professional lines) and the reinsurance segment (principally related to North American lines of business). Net premiums written increased by 18.5% and 16.1% in the third quarter and first nine months of 2020 consistent with the growth in gross premiums written, partially offset by decreased premium retention (primarily driven by increased reinsurance purchased in the insurance segment during 2020). Net premiums earned increased by 15.9% and 10.6% in the third quarter and first nine months of 2020 primarily reflecting the increase in net premiums written during 2019 and 2020.

The commission expense ratio decreased to 8.8% and 9.4% in the third quarter and first nine months of 2020 from 10.4% and 10.9% in the third quarter and first nine months of 2019 primarily reflecting lower average gross commissions and increased ceding commission income, primarily in the insurance segment.

The underwriting expense ratio decreased to 14.7% and 15.4% in the third quarter and first nine months of 2020 from 16.4% and 16.8% in the third quarter and first nine months of 2019 primarily reflecting increased net premiums earned relative to modest increases in underwriting expenses.

Interest and dividends decreased to \$29.7 in the third quarter of 2020 from \$34.5 in the third quarter of 2019, principally reflecting lower net interest income earned on funds withheld and lower interest income earned on short term investments, partially offset by reduced investment management and administration fees and increased dividend income on common stocks. Interest and dividends decreased to \$98.9 in the first nine months of 2020 from \$114.1 in the first nine months of 2019, principally reflecting lower interest income earned on decreased holdings of U.S treasury bonds and lower net interest income earned on funds withheld, partially offset by increased dividend income on common stocks.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to \$900.9 in the first nine months of 2020 from \$587.3 in the first nine months of 2019, primarily reflecting increased net premium collections and lower net paid losses.

On June 30, 2020 Allied World received a capital contribution from the company of \$100.0 primarily to support its underwriting plans, which increased the company's ownership interest in Allied World to 70.9% from 70.1% at December 31, 2019. On April 30, 2020 Allied World paid a dividend of \$126.4 to its minority shareholders (OMERS, AIMCo and others).

Fairfax Asia

	Third quarter		First nine months	
	2020	2019	2020	2019
Underwriting profit	2.1	1.6	0.9	3.1
Loss & LAE - accident year	65.1 %	71.7 %	67.4 %	71.0 %
Commissions	13.9 %	14.0 %	15.1 %	12.6 %
Underwriting expenses	24.1 %	25.8 %	24.8 %	28.6 %
Combined ratio - accident year	103.1 %	111.5 %	107.3 %	112.2 %
Net favourable reserve development	(7.1)%	(14.6)%	(7.9)%	(14.4)%
Combined ratio - calendar year	96.0 %	96.9 %	99.4 %	97.8 %
Gross premiums written	119.6	116.9	330.9	329.0
Net premiums written	59.4	55.9	164.5	161.2
Net premiums earned	52.9	52.0	164.8	145.1
Underwriting profit	2.1	1.6	0.9	3.1
Interest and dividends	4.9	4.1	15.6	16.6
Share of profit of associates	9.4	2.4	13.6	2.3
Operating income	16.4	8.1	30.1	22.0

Fairfax Asia reported underwriting profit of \$2.1 and \$0.9 and combined ratios of 96.0% and 99.4% in the third quarter and first nine months of 2020 compared to underwriting profit of \$1.6 and \$3.1 and combined ratios of 96.9% and 97.8% in the third quarter and first nine months of 2019. The companies comprising Fairfax Asia produced combined ratios as set out in the following table:

	Third quarter		First nine months	
	2020	2019	2020	2019
Falcon Insurance	90.5 %	100.4 %	96.0 %	99.7 %
Pacific Insurance	103.3 %	95.0 %	109.9 %	97.8 %
AMAG Insurance	90.9 %	92.5 %	92.4 %	93.2 %
Fairfirst Insurance	100.0 %	99.3 %	96.1 %	99.2 %

Underwriting profit in the third quarter and first nine months of 2020 included net favourable prior year reserve development of \$3.7 and \$13.0 (7.1 and 7.9 combined ratio points), primarily related to commercial automobile and property loss reserves. Underwriting profit in the third quarter and first nine months of 2019 included net favourable prior year reserve development of \$7.6 and \$21.0 (14.6 and 14.4 combined ratio points), primarily related to commercial automobile, property and workers' compensation loss reserves.

Gross premiums written increased modestly by 2.3% and 0.6% in the third quarter and first nine months of 2020, principally reflecting increased business volume by Falcon Insurance on its 25% quota share reinsurance participation in the net underwriting result of MS First Capital's insurance portfolio. The increase in the first nine months of 2020 was partially offset by decreased business volumes in automobile lines of business at Pacific Insurance and AMAG Insurance due to the economic impact of COVID-19. Net premiums written increased by 6.3% and 2.0% in the third quarter and first nine months of 2020, principally reflecting the increase in gross premiums written and decreased reinsurance purchased at Pacific Insurance in automobile lines of business. Net premiums earned increased by 1.7% and 13.6% in the third quarter and first nine months of 2020 reflecting the growth in net premiums written.

The commission expense ratio increased to 15.1% in the first nine months of 2020 from 12.6% in the first nine months of 2019, primarily reflecting increased commission expense at Pacific Insurance and lower ceding commission income at Fairfirst Insurance on automobile and property lines of business.

Interest and dividends increased to \$4.9 in the third quarter of 2020 from \$4.1 in the third quarter of 2019, primarily reflecting reduced investment management and administration fees, partially offset by lower interest income earned on cash and cash equivalents. Interest and dividends decreased to \$15.6 in the first nine months of 2020 from \$16.6 in the first nine months of 2019, primarily reflecting lower interest income earned on reduced holdings of cash and cash equivalents and lower dividend income earned on common stocks, partially offset by reduced investment management and administration fees.

Insurance and Reinsurance - Other

	Third quarter					
	2020					
	Group Re	Bryte Insurance	Fairfax Latin America	Fairfax Central and Eastern Europe	Inter-company	Total
Underwriting profit (loss)	(3.3)	(1.8)	1.6	3.9	—	0.4
Loss & LAE - accident year	64.2 %	72.6 %	51.0 %	53.7 %	—	59.0 %
Commissions	36.8 %	14.5 %	9.5 %	22.4 %	—	20.3 %
Underwriting expenses	2.8 %	17.0 %	35.4 %	18.8 %	—	19.4 %
Combined ratio - accident year	103.8 %	104.1 %	95.9 %	94.9 %	—	98.7 %
Net (favourable) adverse reserve development	2.0 %	(1.2)%	1.9 %	1.4 %	—	1.1 %
Combined ratio - calendar year	105.8 %	102.9 %	97.8 %	96.3 %	—	99.8 %
Gross premiums written	74.7	81.7	224.5	101.7	(0.3)	482.3
Net premiums written	73.3	67.6	82.2	86.4	—	309.5
Net premiums earned	55.9	61.7	72.5	104.3	—	294.4
Underwriting profit (loss)	(3.3)	(1.8)	1.6	3.9	—	0.4
Interest and dividends	0.8	2.6	5.3	2.8	—	11.5
Share of profit of associates	4.4	—	—	0.3	—	4.7
Operating income	1.9	0.8	6.9	7.0	—	16.6

	Third quarter					
	2019					
	Group Re	Bryte Insurance	Fairfax Latin America	Fairfax Central and Eastern Europe	Inter-company	Total
Underwriting profit (loss)	5.9	3.1	(6.8)	5.8	—	8.0
Loss & LAE - accident year	73.5 %	70.4 %	58.6 %	51.1 %	—	61.7 %
Commissions	29.8 %	15.2 %	10.8 %	22.8 %	—	18.5 %
Underwriting expenses	3.2 %	15.5 %	39.5 %	21.3 %	—	22.2 %
Combined ratio - accident year	106.5 %	101.1 %	108.9 %	95.2 %	—	102.4 %
Net favourable reserve development	(20.6)%	(5.5)%	(0.2)%	(2.1)%	—	(5.3)%
Combined ratio - calendar year	85.9 %	95.6 %	108.7 %	93.1 %	—	97.1 %
Gross premiums written	52.8	91.8	223.4	82.4	(0.4)	450.0
Net premiums written	53.0	76.4	92.6	71.8	—	293.8
Net premiums earned	42.1	70.7	77.5	83.0	—	273.3
Underwriting profit (loss)	5.9	3.1	(6.8)	5.8	—	8.0
Interest and dividends	1.7	2.9	6.4	2.8	—	13.8
Share of loss of associates	(2.2)	—	—	(0.3)	—	(2.5)
Operating income (loss)	5.4	6.0	(0.4)	8.3	—	19.3

	First nine months					
	2020					
	Group Re	Bryte Insurance	Fairfax Latin America	Fairfax Central and Eastern Europe	Inter-company	Total
Underwriting profit (loss)	(0.6)	(11.6)	4.8	17.3	—	9.9
Loss & LAE - accident year	72.6 %	76.6 %	55.0 %	49.3 %	—	61.0 %
Commissions	30.1 %	15.0 %	10.4 %	23.6 %	—	19.4 %
Underwriting expenses	2.8 %	18.0 %	36.3 %	20.8 %	—	21.0 %
Combined ratio - accident year	105.5 %	109.6 %	101.7 %	93.7 %	—	101.4 %
Net (favourable) adverse reserve development	(5.1)%	(3.3)%	(3.9)%	0.2 %	—	(2.6)%
Combined ratio - calendar year	100.4 %	106.3 %	97.8 %	93.9 %	—	98.8 %
Gross premiums written	187.7	236.9	633.4	334.0	(0.7)	1,391.3
Net premiums written	173.3	185.4	233.9	296.5	—	889.1
Net premiums earned	152.7	185.4	219.8	281.8	—	839.7
Underwriting profit (loss)	(0.6)	(11.6)	4.8	17.3	—	9.9
Interest and dividends	4.5	8.9	15.8	9.0	—	38.2
Share of loss of associates	(12.1)	(0.5)	—	(0.9)	—	(13.5)
Operating income (loss)	(8.2)	(3.2)	20.6	25.4	—	34.6

	First nine months					
	2019					
	Group Re	Bryte Insurance	Fairfax Latin America	Fairfax Central and Eastern Europe	Inter-company	Total
Underwriting profit (loss)	9.3	(5.1)	(13.2)	13.0	—	4.0
Loss & LAE - accident year	74.6 %	71.5 %	58.5 %	53.3 %	—	62.9 %
Commissions	25.4 %	17.4 %	10.1 %	21.9 %	—	17.8 %
Underwriting expenses	3.7 %	18.3 %	39.4 %	22.4 %	—	23.4 %
Combined ratio - accident year	103.7 %	107.2 %	108.0 %	97.6 %	—	104.1 %
Net favourable reserve development	(11.5)%	(4.7)%	(2.1)%	(3.4)%	—	(4.6)%
Combined ratio - calendar year	92.2 %	102.5 %	105.9 %	94.2 %	—	99.5 %
Gross premiums written	136.4	260.1	618.8	277.2	(0.4)	1,292.1
Net premiums written	131.9	209.5	262.7	245.9	—	850.0
Net premiums earned	119.1	205.6	224.3	223.0	—	772.0
Underwriting profit (loss)	9.3	(5.1)	(13.2)	13.0	—	4.0
Interest and dividends	2.6	11.3	25.6	7.0	—	46.5
Share of loss of associates	(7.5)	—	—	(0.9)	—	(8.4)
Operating income	4.4	6.2	12.4	19.1	—	42.1

Group Re primarily constitutes the participation of the company's Barbados based reinsurance subsidiaries CRC Re, Wentworth and Connemara (established in 2019) in the reinsurance of Fairfax's subsidiaries by quota share or through participation in those subsidiaries' third party reinsurance programs on the same terms as third party reinsurers. Group Re also writes third party business.

Bryte Insurance is an established property and casualty insurer in South Africa and Botswana.

Fairfax Latin America is comprised of Fairfax Brasil and Fairfax Latam, which writes property and casualty insurance through its operating companies in Chile, Colombia, Argentina and Uruguay.

Fairfax Central and Eastern Europe ("Fairfax CEE") is comprised of Colonnade Insurance, Polish Re and Fairfax Ukraine (established in 2019). Colonnade Insurance writes general insurance through its Ukrainian insurance company and through its branches in the Czech Republic, Hungary, Slovakia, Bulgaria, Poland and Romania. Fairfax Ukraine, comprised of ARX Insurance and Universalna (both acquired in 2019), primarily writes property and casualty insurance in Ukraine.

The Insurance and Reinsurance – Other segment reported underwriting profit of \$0.4 and \$9.9 and combined ratios of 99.8% and 98.8% in the third quarter and first nine months of 2020 compared to underwriting profit of \$8.0 and \$4.0 and combined ratios of 97.1% and 99.5% in the third quarter and first nine months of 2019. The decrease in underwriting profit in the third quarter of 2020 principally reflected COVID-19 losses of \$8.4 (2.8 combined ratio points) and net adverse prior year reserve development, partially offset by an improvement in current accident year attritional loss experience, growth in net premiums earned relative to a modest increase in commission expenses and decreased underwriting expenses. The increase in underwriting profit in the first nine months of 2020 principally reflected growth in net premiums earned relative to a modest increase in commission expenses, decreased underwriting expenses and an improvement in current accident year attritional loss experience, partially offset by COVID-19 losses of \$34.7 (4.1 combined ratio points) and lower net favourable prior year reserve development.

The underwriting results in the third quarter of 2020 included net adverse prior year reserve development of \$3.1 (1.1 combined ratio points) at Group Re (CRC Re), Fairfax CEE (Polish Re) and Fairfax Latin America. The underwriting results in the first nine months of 2020 included net favourable prior year reserve development of \$21.8 (2.6 combined ratio points) reflecting favourable emergence across most segments. The underwriting results in the third quarter and first nine months of 2019 included net favourable prior year reserve development of \$14.4 and \$35.6 (5.3 and 4.6 combined ratio points), principally at Group Re, Bryte Insurance and Colonnade Insurance.

The underwriting expense ratio decreased to 19.4% and 21.0% in the third quarter and first nine months of 2020 from 22.2% and 23.4% in the third quarter and first nine months of 2019, principally reflecting improvements at Fairfax Latin America and Fairfax CEE.

Gross premiums written increased by 7.2% in the third quarter of 2020, principally reflecting increases at Group Re and Polish Re, partially offset by decreases at Bryte Insurance (primarily reflecting the unfavourable impact of foreign currency translation). Gross premiums written increased by 7.7% in the first nine months of 2020, principally reflecting increases at Group Re, Polish Re, ARX Insurance and Fairfax Brasil, and the consolidation of Universalna in November 2019, partially offset by decreases at Bryte Insurance (primarily reflecting the unfavourable impact of foreign currency translation). Net premiums written increased by 5.3% in the third quarter of 2020, primarily reflecting the factors that affected gross premiums written. Net premiums written increased by 4.6% in the first nine months of 2020 primarily reflecting the factors that affected gross premiums written, partially offset by lower premium retention and economic activity at Fairfax Latam. Net premiums earned increased by 7.7% and 8.8% in the third quarter and first nine months of 2020, consistent with the factors that affected net premiums written.

Interest and dividends decreased to \$11.5 and \$38.2 in the third quarter and first nine months of 2020 from \$13.8 and \$46.5 in the third quarter and first nine months of 2019, primarily reflecting lower interest income earned on decreased holdings of U.S treasury and other government bonds and lower interest income earned on cash and cash equivalents.

Run-off

	Third quarter		First nine months					
	2020	2019	First quarter 2020 transactions ⁽¹⁾⁽²⁾	Other ⁽³⁾	2020	First quarter 2019 reinsurance transaction ⁽⁴⁾	Other ⁽⁵⁾⁽⁶⁾	2019
Gross premiums written	—	(1.1)	146.5	—	146.5	561.5	31.4	592.9
Net premiums written	—	0.2	146.5	—	146.5	561.5	1.8	563.3
Net premiums earned	—	12.2	125.6	2.3	127.9	561.5	63.5	625.0
Losses on claims, net	(1.7)	(7.7)	(124.7)	0.8	(123.9)	(556.8)	(43.6)	(600.4)
Operating expenses	(15.5)	(36.5)	8.7	(67.4)	(58.7)	—	(119.6)	(119.6)
Interest and dividends	5.1	13.7	—	20.1	20.1	—	45.2	45.2
Share of profit (loss) of associates	2.8	4.1	—	(13.0)	(13.0)	—	4.8	4.8
Operating profit (loss)	(9.3)	(14.2)	9.6	(57.2)	(47.6)	4.7	(49.7)	(45.0)

- (1) Effective January 31, 2020 a portfolio of business predominantly comprised of U.S. asbestos, pollution and other hazards ("APH") exposures relating to accident years 2001 and prior was transferred to RiverStone (UK) through a Part VII transfer under the Financial Services and Markets Act 2000, as amended (the "first quarter 2020 Part VII transfer"). Pursuant to this transaction RiverStone (UK) assumed net insurance contract liabilities of \$134.7 for cash consideration of \$143.3.
- (2) Effective January 1, 2020 Run-off Syndicate 3500 reinsured a portfolio of business predominantly comprised of property, liability and marine exposures relating to accident years 2019 and prior (the "first quarter 2020 reinsurance transaction"). Pursuant to this transaction Run-off Syndicate 3500 assumed net insurance contract liabilities of \$145.5 for consideration of \$146.5.
- (3) Run-off excluding the first quarter 2020 Part VII transfer and first quarter 2020 reinsurance transaction described in footnotes (1) and (2).
- (4) Effective January 1, 2019 Run-off Syndicate 3500 reinsured a portfolio of business predominantly comprised of casualty (principally employers' liability and public liability), professional indemnity, property, marine and aviation exposures relating to accident years 2018 and prior (the "first quarter 2019 reinsurance transaction"). Pursuant to this transaction Run-off Syndicate 3500 assumed \$556.8 of net insurance contract liabilities for consideration of \$561.5.
- (5) Run-off excluding the first quarter 2019 reinsurance transaction described in footnote (4).
- (6) Effective April 1, 2019 Run-off ceded to Brit, for initial consideration of \$17.6, a portfolio of business written by Advent Syndicate 780 related to accident years 2018 and prior, comprised of property direct and facultative, property binders and terrorism policies.

On March 31, 2020 the company contributed its wholly owned European run-off group ("European Run-off") to RiverStone (Barbados) Ltd. ("RiverStone Barbados"), a newly created joint venture entity, for cash proceeds of \$599.5 and a 60.0% equity interest in RiverStone Barbados with a fair value of \$605.0. OMERS, the pension plan for municipal employees in the province of Ontario, jointly manages RiverStone Barbados and had contemporaneously subscribed for a 40.0% equity interest for cash consideration of \$599.5, based on the fair value of European Run-off at December 31, 2019 pursuant to the subscription agreement entered into on December 20, 2019. At the closing date the company deconsolidated the assets and liabilities of European Run-off from assets held for sale and liabilities associated with assets held for sale on the consolidated balance sheet respectively, which included European Run-off's unrestricted cash and cash equivalents of \$377.8, and commenced applying the equity method of accounting to its joint venture interest in RiverStone Barbados. The company recorded a pre-tax gain on deconsolidation of insurance subsidiary of \$117.1 in the consolidated statement of earnings, comprised of a gain of \$243.4 on the disposal of 40.0% of European Run-off, a gain of \$35.6 on remeasurement to fair value at the closing date of the 60.0% of European Run-off retained, and foreign currency translation losses of \$161.9 that were reclassified from accumulated other comprehensive income to the consolidated statement of earnings. The company has the option to purchase OMERS' interest in RiverStone Barbados at certain dates commencing in 2023.

References to the first nine months of 2020 and 2019 throughout the remainder of this section exclude the impact of the first quarter 2020 Part VII transfer, the first quarter 2020 reinsurance transaction and the first quarter 2019 reinsurance transaction described in footnotes (1), (2) and (4) above respectively. Commencing April 1, 2020, the operating results of the Run-off reporting segment only include U.S. Run-off.

Run-off reported an operating loss of \$9.3 and \$57.2 in the third quarter and first nine months of 2020 compared to an operating loss of \$14.2 and \$49.7 in the third quarter and first nine months of 2019. Net premiums earned of \$12.2 and \$63.5 in the third quarter and first nine months of 2019 principally reflected the run-off of Advent's unearned premium reserve (\$19.1 and \$82.7), partially offset by net premiums ceded to Brit (\$6.2 and \$18.6, related to the second quarter 2019 Brit reinsurance transaction). Losses on claims, net of \$7.7 and \$43.6 in the third quarter and first nine months of 2019 principally reflected losses on claims of \$10.7 and \$52.6 associated with the run-off of Advent's unearned premium reserve, partially offset by losses of \$2.6 and \$9.6 ceded to Brit related to the second quarter 2019 Brit reinsurance transaction. Operating expenses decreased to \$15.5 and \$67.4 in the third quarter and first nine months of 2020 from \$36.5 and \$119.6 in the third quarter and first nine months of 2019, primarily reflecting the deconsolidation of European Run-off on March 31, 2020. The decrease in the first nine months of 2020 also reflected decreased commission expense as a result of the run-off of Advent's unearned premium reserve.

Interest and dividends decreased to \$5.1 and \$20.1 in the third quarter and first nine months of 2020 from \$13.7 and \$45.2 in the third quarter and first nine months of 2019, primarily reflecting the deconsolidation of European Run-off on March 31, 2020 and lower interest income earned on bonds.

Non-insurance companies

	Third quarter									
	2020					2019				
	Restaurants and retail ⁽¹⁾	Fairfax India ⁽²⁾	Thomas Cook India ⁽³⁾	Other ⁽⁴⁾	Total ⁽⁵⁾	Restaurants and retail ⁽¹⁾	Fairfax India ⁽²⁾	Thomas Cook India ⁽³⁾	Other ⁽⁴⁾	Total ⁽⁵⁾
Revenue	492.1	82.3	18.7	635.0	1,228.1	507.3	102.3	253.5	529.5	1,392.6
Expenses	(447.2)	(75.7)	(34.4)	(637.1)	(1,194.4)	(488.1)	(126.3)	(257.7)	(558.5)	(1,430.6)
Pre-tax income (loss) before interest expense and other	44.9	6.6	(15.7)	(2.1)	33.7	19.2	(24.0)	(4.2)	(29.0)	(38.0)
Interest and dividends	1.7	0.5	—	3.3	5.5	2.2	(7.0)	—	3.3	(1.5)
Share of profit (loss) of associates	0.6	(13.9)	—	(25.3)	(38.6)	—	52.7	1.4	(6.4)	47.7
Operating income (loss)	47.2	(6.8)	(15.7)	(24.1)	0.6	21.4	21.7	(2.8)	(32.1)	8.2
Net gains (losses) on investments	(9.0)	12.7	(0.6)	(41.7)	(38.6)	(2.0)	16.1	0.3	—	14.4
Pre-tax income (loss) before interest expense	38.2	5.9	(16.3)	(65.8)	(38.0)	19.4	37.8	(2.5)	(32.1)	22.6

	First nine months									
	2020					2019				
	Restaurants and retail ⁽¹⁾	Fairfax India ⁽²⁾	Thomas Cook India ⁽³⁾	Other ⁽⁴⁾	Total ⁽⁵⁾	Restaurants and retail ⁽¹⁾	Fairfax India ⁽²⁾	Thomas Cook India ⁽³⁾	Other ⁽⁴⁾	Total ⁽⁵⁾
Revenue	1,193.2	225.6	192.0	1,716.5	3,327.3	1,462.9	325.0	827.3	1,274.0	3,889.2
Expenses	(1,279.6)	(210.4)	(240.4)	(1,680.2)	(3,410.6)	(1,414.8)	(322.7)	(826.7)	(1,298.8)	(3,863.0)
Pre-tax income (loss) before interest expense and other	(86.4)	15.2	(48.4)	36.3	(83.3)	48.1	2.3	0.6	(24.8)	26.2
Interest and dividends	4.6	42.0	—	10.8	57.4	6.3	(19.9)	—	10.1	(3.5)
Share of profit (loss) of associates	0.8	(24.3)	(3.4)	(60.9)	(87.8)	(0.1)	165.4	5.0	(29.1)	141.2
Operating income (loss)	(81.0)	32.9	(51.8)	(13.8)	(113.7)	54.3	147.8	5.6	(43.8)	163.9
Net gains (losses) on investments	(26.2)	(66.9)	0.7	(57.4)	(149.8)	4.0	65.9	(0.1)	8.8	78.6
Pre-tax income (loss) before interest expense	(107.2)	(34.0)	(51.1)	(71.2)	(263.5)	58.3	213.7	5.5	(35.0)	242.5

(1) Comprised primarily of Recipe and its subsidiaries The Keg, St-Hubert, Pickle Barrel and Original Joe's, Toys "R" Us Canada, Praktiker, Golf Town, Sporting Life, Kitchen Stuff Plus and William Ashley.

(2) Comprised of Fairfax India and its subsidiaries NCML, Fairchem, Privi and Saurashtra Freight. These results differ from those published by Fairfax India due to Fairfax India's application of investment entity accounting under IFRS. Interest and dividends of Fairfax India included the reversal of a performance fee accrual of \$47.1 in the first nine months of 2020 (2019 - nil).

(3) Comprised of Thomas Cook India and its subsidiary Sterling Resorts. These results differ from those published by Thomas Cook India primarily due to differences between IFRS and Ind AS, and acquisition accounting adjustments.

(4) Comprised primarily of AGT (consolidated on April 17, 2019), Horizon North (acquired on May 29, 2020) and its subsidiary Dexterra, Grivalia Properties (deconsolidated on May 17, 2019), Mosaic Capital, Pethealth, Boat Rocker, Farmers Edge (consolidated on July 1, 2020), Fairfax Africa and its subsidiary CIG (consolidated on January 4, 2019), and Rouge Media.

(5) Amounts as presented in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Restaurants and retail

The decrease in the revenue and expenses of Restaurants and retail in the third quarter and first nine months of 2020 primarily reflected lower business volume at Recipe, Praktiker and Sporting Life resulting from the impact of COVID-19, partially offset by higher business volume at Golf Town. Revenue of Restaurants and retail in the third quarter of 2020 exceeded that in each of the first and second quarters of 2020, reflecting a modest recovery of business volumes suppressed by COVID-19 government mandated restrictions during the first six months of 2020. The decrease in the revenue and expenses in the first nine months of 2020 also included lower business volume at Toys "R" Us Canada. The expenses of Restaurants and retail in the first nine months of 2020 included COVID-19 related non-cash impairment charges, principally on right-of-use assets and finance lease receivables related to Recipe's previously announced restaurant portfolio restructuring.

Net losses on investments in the third quarter and first nine months of 2020 primarily reflected net unrealized losses on The Keg's investment in units of The Keg Royalties Income Fund.

Fairfax India

During the third quarter of 2020 Fairchem reorganized into two separate entities, Fairchem Organics Limited ("Fairchem"), comprised of the oleochemicals and nutraceuticals businesses, and Privi Speciality Chemicals Limited ("Privi"), comprised of the aroma chemicals business.

The decrease in revenue and expenses in the third quarter and first nine months of 2020 primarily reflected lower business volumes at NCML and Privi resulting from the impact of COVID-19.

Interest and dividends in the first nine months of 2020 included the reversal of a performance fee accrual of \$47.1.

Net gains on investments decreased to \$12.7 in the third quarter of 2020 from \$16.1 in the third quarter of 2019, primarily reflecting lower net gains on corporate bonds and common stocks, partially offset by foreign exchange gains on Fairfax India's U.S. dollar borrowings as the U.S. dollar weakened relative to the Indian rupee. Net losses on investments of \$66.9 in the first nine months of 2020 compared to net gains on investments of \$65.9 in the first nine months of 2019 primarily reflected net losses on common stocks and foreign exchange losses on Fairfax India's U.S. dollar borrowings as the U.S. dollar strengthened relative to the Indian rupee.

Thomas Cook India

The decrease in the revenue and expenses of Thomas Cook India in the third quarter and first nine months of 2020 primarily reflected lower business volume resulting from the impact of COVID-19.

Other

Subsequent to September 30, 2020

On July 10, 2020 Fairfax Africa entered into an agreement with Helios Holdings Limited ("Helios") pursuant to which Helios will acquire a 45.9% voting and equity interest in Fairfax Africa in exchange for contributing its entitlement to cash flows from certain fee streams and being appointed sole investment advisor to Fairfax Africa. Closing of the transaction, expected to be in the fourth quarter of 2020, is subject to various conditions including regulatory and shareholder approvals, and the acquisition of Fairfax Africa's 42.3% equity interest in Atlas Mara by the company for consideration of approximately \$40. In addition, the company has guaranteed the repayment obligations of Atlas Mara's \$40.0 secured borrowing with Fairfax Africa. Upon closing, Fairfax Africa will be renamed Helios Fairfax Partners Corporation ("HFP") and continue to be listed on the Toronto Stock Exchange. The company expects that upon closing it will deconsolidate Fairfax Africa from the Non-insurance companies reporting segment and account for its interest in HFP as an investment in associate in its consolidated financial reporting. Fairfax Africa is an investment holding company whose investment objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in Africa and African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa. Helios, an Africa-focused private investment firm led and predominantly staffed by African professionals, manages geographically diversified portfolios of private equity and credit investments in over 30 African countries.

Nine months ended September 30, 2020

On July 1, 2020 the company commenced consolidating Farmers Edge as the company held convertible debentures and warrants that, together with its holdings of common shares, represented a substantive potential voting interest of approximately 67%. Farmers Edge provides advanced digital tools to growers and other key participants in the agricultural value chain.

On May 29, 2020 Horizon North Logistics Inc. ("Horizon North") legally acquired 100% of Dexterra by issuing common shares to the company representing a 49.0% equity interest in Horizon North. The company obtained de facto voting control of Horizon North as its largest shareholder and accounted for the transaction as a reverse acquisition of Horizon North by Dexterra. The assets, liabilities and results of operations of Horizon North were consolidated in the Non-insurance companies reporting segment. Horizon North, based in the province of Alberta, is a publicly listed corporation providing a range of industrial services and modular construction solutions.

The revenue and expenses of Other increased in the third quarter and first nine months of 2020 primarily reflecting the consolidation of Horizon North (on May 29, 2020) and Farmers Edge (on July 1, 2020), partially offset by lower business volume at Mosaic Capital principally due to COVID-19. The increase in revenue and expenses of Other in the first nine months of 2020 also reflected the consolidation of AGT (on April 17, 2019), partially offset by lower business volumes at Boat Rocker principally due to COVID-19 and the deconsolidation of Grivalia Properties (on May 17, 2019). The operating losses of Other of \$24.1 and \$13.8 in the third quarter and first nine months of 2020 principally reflected Fairfax Africa's operating losses of \$45.4 and \$84.2, partially offset by operating income at Horizon North and AGT.

Net losses on investments of \$41.7 in the third quarter of 2020, principally reflected net losses on corporate bonds at Fairfax Africa and net losses on foreign currency contracts at AGT. Net losses on investments of \$57.4 in the first nine months of 2020 compared to net gains on investments of \$8.8 in the first nine months of 2019 primarily related to net losses on corporate bonds in the first nine months of 2020 compared to net gains in the first nine months of 2019 at Fairfax Africa, foreign exchange losses on Fairfax Africa's cash holdings of South African rand which weakened relative to the U.S. dollar and net losses on foreign currency contracts at AGT.

Investments

Interest and Dividends

Interest and dividends of \$181.8 and \$604.7 in the third quarter and first nine months of 2020 decreased from \$214.9 and \$672.4 in the third quarter and first nine months of 2019, primarily reflecting lower interest income earned principally due to sales and maturities of U.S. treasury bonds in the second half of 2019 and throughout 2020, and a general decrease in sovereign bond yields, partially offset by the reinvestment of U.S. treasury bond proceeds into higher yielding, high quality U.S. corporate bonds and short term investments.

Share of Profit (Loss) of Associates

Share of profit (loss) of associates by reporting segment for the three and nine months ended September 30, 2020 and 2019 were comprised as shown in the following tables:

Quarter ended September 30, 2020

	Insurance and Reinsurance											Consolidated
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Operating companies	Run-off	Non-insurance companies	
Insurance and reinsurance:												
RiverStone Barbados	—	0.3	0.2	—	—	—	—	—	0.5	0.2	—	13.0
Eurolife	—	—	—	—	—	—	—	—	—	—	—	(6.7)
Digit	—	—	—	—	—	—	7.3	—	7.3	—	—	—
Thai Re	—	0.2	1.2	0.7	—	—	—	—	2.1	2.0	—	0.4
Other	—	0.4	—	—	0.4	—	2.0	—	2.8	—	—	(2.8)
	<u>—</u>	<u>0.9</u>	<u>1.4</u>	<u>0.7</u>	<u>0.4</u>	<u>—</u>	<u>9.3</u>	<u>—</u>	<u>12.7</u>	<u>2.2</u>	<u>—</u>	<u>3.9</u>
Non-insurance:												
Atlas (formerly Seaspan)	—	8.7	1.5	0.7	1.8	5.0	—	0.4	18.1	1.0	—	0.3
IIFL Finance	—	—	0.1	—	—	(0.1)	—	—	—	—	0.5	—
Atlas Mara ⁽¹⁾	—	—	—	—	—	—	—	—	—	—	(13.5)	—
EXCO	(0.9)	—	—	—	—	—	—	—	(0.9)	—	—	—
KWF LPs	(1.3)	(1.2)	—	—	(0.2)	—	—	—	(2.7)	(1.2)	—	—
KWF UK Holdco	—	0.1	—	—	0.5	—	—	—	0.6	—	—	—
Eurobank	0.1	11.0	3.3	—	2.3	3.5	—	3.3	23.5	—	—	6.8
Astarta	—	2.1	1.3	0.8	1.2	—	—	0.7	6.1	—	—	0.5
Resolute	0.3	—	0.6	0.9	0.4	0.3	—	0.2	2.7	—	—	—
Quess	0.1	—	—	—	—	(0.1)	—	—	—	—	—	0.4
Sanmar	—	—	—	—	—	—	—	—	—	—	(13.9)	—
Other	4.4	(0.3)	(1.6)	1.0	4.7	6.1	0.1	0.1	14.5	0.8	(11.7)	0.1
	<u>2.7</u>	<u>20.4</u>	<u>5.2</u>	<u>3.4</u>	<u>10.7</u>	<u>14.7</u>	<u>0.1</u>	<u>4.7</u>	<u>61.9</u>	<u>0.6</u>	<u>(38.6)</u>	<u>8.1</u>
Share of profit (loss) of associates	<u>2.7</u>	<u>21.3</u>	<u>6.6</u>	<u>4.1</u>	<u>11.1</u>	<u>14.7</u>	<u>9.4</u>	<u>4.7</u>	<u>74.6</u>	<u>2.8</u>	<u>(38.6)</u>	<u>12.0</u>

(1) Includes a non-cash impairment charge of \$16.6. See note 6 (Investments in Associates) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Quarter ended September 30, 2019

	Insurance and Reinsurance											Consolidated
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Operating companies	Run-off	Non-insurance companies	
Insurance and reinsurance:												
Eurolife	—	—	—	—	—	—	—	—	—	—	—	73.4
Digit	—	—	—	—	—	—	—	—	—	—	—	—
Thai Re	—	(0.3)	1.5	—	—	—	—	—	1.2	(0.3)	—	—
Other	—	0.2	—	—	0.5	—	0.3	—	1.0	—	—	3.8
	<u>—</u>	<u>(0.1)</u>	<u>1.5</u>	<u>—</u>	<u>0.5</u>	<u>—</u>	<u>0.3</u>	<u>—</u>	<u>2.2</u>	<u>(0.3)</u>	<u>—</u>	<u>77.2</u>
Non-insurance:												
Atlas (formerly Seaspan)	—	1.5	0.3	—	0.7	1.8	—	0.6	4.9	0.9	—	0.6
IIFL Finance	3.0	0.7	9.2	—	2.6	4.5	2.1	1.1	23.2	7.1	46.5	(14.6)
Atlas Mara	—	—	—	—	—	—	—	—	—	—	(0.8)	—
KWF LPs	(1.3)	(0.4)	—	—	(0.1)	—	—	—	(1.8)	(1.2)	—	—
Farmers Edge	(1.3)	—	(0.9)	(1.1)	(0.5)	(1.3)	—	(4.6)	(9.7)	—	—	—
APR Energy	—	(0.3)	(0.5)	(0.2)	(0.5)	(0.5)	—	(0.3)	(2.3)	(0.9)	—	—
Resolute	0.5	—	0.6	1.2	0.3	0.3	—	0.3	3.2	0.9	—	—
Astarta ⁽¹⁾	—	0.2	0.4	0.2	(0.2)	—	—	0.5	1.1	0.8	—	(0.9)
Quess	—	—	—	—	—	—	—	—	—	—	1.8	—
Other	3.6	1.7	0.7	0.6	4.0	4.4	—	(0.1)	14.9	(3.2)	0.2	(0.2)
	<u>4.5</u>	<u>3.4</u>	<u>9.8</u>	<u>0.7</u>	<u>6.3</u>	<u>9.2</u>	<u>2.1</u>	<u>(2.5)</u>	<u>33.5</u>	<u>4.4</u>	<u>47.7</u>	<u>(15.1)</u>
Share of profit (loss) of associates	<u>4.5</u>	<u>3.3</u>	<u>11.3</u>	<u>0.7</u>	<u>6.8</u>	<u>9.2</u>	<u>2.4</u>	<u>(2.5)</u>	<u>35.7</u>	<u>4.1</u>	<u>47.7</u>	<u>62.1</u>

(1) Includes a non-cash impairment charge of \$10.1.

Nine months ended September 30, 2020

	Insurance and Reinsurance												
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Operating companies	Run-off	Non-insurance companies	Corporate and Other	Consolidated
Insurance and reinsurance:													
RiverStone Barbados	—	1.7	1.3	—	—	—	—	—	3.0	1.4	—	75.9	80.3
Eurolife	—	—	—	—	—	—	—	—	—	—	—	(15.6)	(15.6)
Digit	—	—	—	—	—	—	10.1	—	10.1	—	—	—	10.1
Thai Re	—	(0.9)	(1.6)	(2.0)	—	—	—	—	(4.5)	(7.5)	—	(2.0)	(14.0)
Other	—	0.1	—	—	1.6	—	3.3	—	5.0	5.8	—	(6.8)	4.0
	<u>—</u>	<u>0.9</u>	<u>(0.3)</u>	<u>(2.0)</u>	<u>1.6</u>	<u>—</u>	<u>13.4</u>	<u>—</u>	<u>13.6</u>	<u>(0.3)</u>	<u>—</u>	<u>51.5</u>	<u>64.8</u>
Non-insurance:													
Atlas (formerly Seaspan)	—	42.5	5.3	1.9	8.1	25.5	—	3.1	86.4	10.8	—	0.4	97.6
IIFL Finance	0.2	—	1.7	—	0.2	0.3	0.1	—	2.5	0.3	9.0	0.3	12.1
Atlas Mara ⁽¹⁾	—	—	—	—	—	—	—	—	—	—	(30.3)	—	(30.3)
EXCO	—	1.0	0.1	0.5	0.4	—	—	0.3	2.3	0.2	—	0.1	2.6
KWF LPs	(3.2)	(2.4)	0.1	—	(0.4)	—	—	—	(5.9)	(3.0)	—	—	(8.9)
KWF UK Holdco	—	0.1	—	—	0.4	—	—	—	0.5	—	—	—	0.5
Farmers Edge	(2.8)	—	(2.2)	(2.3)	(1.2)	(2.9)	—	(10.4)	(21.8)	—	—	—	(21.8)
APR Energy	—	(1.6)	(2.0)	(1.3)	(1.8)	(2.0)	—	(1.2)	(9.9)	(3.6)	—	(0.1)	(13.6)
Eurobank	—	2.3	0.7	—	0.5	0.7	—	0.7	4.9	—	—	1.3	6.2
Astarta ⁽¹⁾	—	(4.8)	(5.1)	(3.1)	(4.9)	—	—	(1.6)	(19.5)	(1.5)	—	(3.2)	(24.2)
Resolute ⁽¹⁾	(7.1)	—	(11.8)	(4.8)	(6.9)	(2.6)	—	(3.9)	(37.1)	(13.0)	—	(24.2)	(74.3)
Quess ⁽¹⁾	—	—	(0.4)	—	—	(0.1)	—	—	(0.5)	(0.1)	—	(121.4)	(125.7)
Sanmar	—	—	—	—	—	—	—	—	—	—	(39.1)	—	(39.1)
Other	4.4	(4.9)	(4.6)	—	3.4	4.9	0.1	(0.5)	2.8	(2.8)	(23.7)	0.3	(23.4)
	<u>(8.5)</u>	<u>32.2</u>	<u>(18.2)</u>	<u>(9.1)</u>	<u>(2.2)</u>	<u>23.8</u>	<u>0.2</u>	<u>(13.5)</u>	<u>4.7</u>	<u>(12.7)</u>	<u>(87.8)</u>	<u>(146.5)</u>	<u>(242.3)</u>
Share of profit (loss) of associates	<u>(8.5)</u>	<u>33.1</u>	<u>(18.5)</u>	<u>(11.1)</u>	<u>(0.6)</u>	<u>23.8</u>	<u>13.6</u>	<u>(13.5)</u>	<u>18.3</u>	<u>(13.0)</u>	<u>(87.8)</u>	<u>(95.0)</u>	<u>(177.5)</u>

(1) During the first nine months of 2020 the company recorded non-cash impairment charges on its investments in Quess, Resolute, Atlas Mara and Astarta of \$98.3, \$56.5, \$35.0 and \$26.3 respectively. See note 6 (Investments in Associates) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Nine months ended September 30, 2019

	Insurance and Reinsurance												
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Operating companies	Run-off	Non-insurance companies	Corporate and Other	Consolidated
Insurance and reinsurance:													
Eurolife	—	—	—	—	—	—	—	—	—	—	—	166.4	166.4
Digit	—	—	—	—	—	—	(3.4)	—	(3.4)	—	—	—	(3.4)
Thai Re	—	(1.5)	(0.6)	(0.8)	—	—	—	—	(2.9)	(3.3)	—	(0.2)	(6.4)
Other	—	1.0	—	—	—	—	3.6	—	4.6	—	—	4.2	8.8
	<u>—</u>	<u>(0.5)</u>	<u>(0.6)</u>	<u>(0.8)</u>	<u>—</u>	<u>—</u>	<u>0.2</u>	<u>—</u>	<u>(1.7)</u>	<u>(3.3)</u>	<u>—</u>	<u>170.4</u>	<u>165.4</u>
Non-insurance:													
Atlas (formerly Seaspan) ⁽¹⁾	—	18.7	10.0	1.0	8.3	25.6	—	5.8	69.4	13.1	—	14.2	96.7
IIFL Finance ⁽²⁾	3.1	0.7	27.0	—	2.7	4.6	2.1	1.1	41.3	7.3	147.4	1.1	197.1
Atlas Mara	—	—	—	—	—	—	—	—	—	—	(50.5)	—	(50.5)
KWF LPs ⁽³⁾	(3.3)	57.5	0.1	—	(0.4)	—	—	—	53.9	(3.1)	—	—	50.8
Farmers Edge	(4.1)	(2.6)	(3.2)	(3.5)	(1.7)	(4.3)	—	(10.0)	(29.4)	—	—	—	(29.4)
APR Energy	—	(14.0)	(8.7)	(5.6)	(7.7)	(8.3)	—	(5.1)	(49.4)	(8.3)	—	(0.3)	(58.0)
Astarta ⁽⁴⁾	—	(2.9)	(1.9)	(1.2)	(2.4)	—	—	(1.0)	(9.4)	(0.7)	—	(0.9)	(11.0)
Resolute	1.2	—	1.8	3.2	1.0	0.9	—	0.8	8.9	2.7	—	—	11.6
Quess	—	—	—	—	—	—	—	—	—	—	4.9	—	4.9
Other	1.0	(1.0)	(0.7)	(0.9)	0.7	1.9	—	—	1.0	(2.9)	39.4	—	37.5
	<u>(2.1)</u>	<u>56.4</u>	<u>24.4</u>	<u>(7.0)</u>	<u>0.5</u>	<u>20.4</u>	<u>2.1</u>	<u>(8.4)</u>	<u>86.3</u>	<u>8.1</u>	<u>141.2</u>	<u>14.1</u>	<u>249.7</u>
Share of profit (loss) of associates	<u>(2.1)</u>	<u>55.9</u>	<u>23.8</u>	<u>(7.8)</u>	<u>0.5</u>	<u>20.4</u>	<u>2.3</u>	<u>(8.4)</u>	<u>84.6</u>	<u>4.8</u>	<u>141.2</u>	<u>184.5</u>	<u>415.1</u>

(1) Principally reflects the company's share of Atlas' gain of \$227.0 related to the modification of charter arrangements with one of its largest customers.

(2) Principally reflects the company's share of a gain at IIFL Holdings from the spin-offs of IIFL Wealth and IIFL Securities. IIFL Holdings was subsequently renamed IIFL Finance.

(3) Includes the company's share of profit of \$57.0 (£53.6) from the sale of investment property in Dublin, Ireland by a KWF LP that was subsequently liquidated.

(4) Includes a non-cash impairment charge of \$10.1.

Net Gains (Losses) on Investments

Net gains (losses) on investments for the three and nine months ended September 30, 2020 and 2019 were comprised as follows:

	Third quarter					
	2020			2019		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Common stocks	(12.1)	121.3	109.2	166.1	(126.8)	39.3
Preferred stocks - convertible	—	0.5	0.5	—	(3.0)	(3.0)
Bonds - convertible	(11.6)	42.3	30.7	—	(20.6)	(20.6)
Other equity derivatives ⁽²⁾⁽³⁾⁽⁴⁾	52.9	(38.1)	14.8	3.6	(8.9)	(5.3)
Disposition of non-insurance associate ⁽⁵⁾	21.4	—	21.4	1.0	—	1.0
Non-insurance subsidiary held for sale ⁽⁶⁾	—	(164.0)	(164.0)	—	—	—
Long equity exposures	50.6	(38.0)	12.6	170.7	(159.3)	11.4
Short equity exposures ⁽³⁾	(79.2)	(89.0)	(168.2)	—	(17.9)	(17.9)
Net equity exposures and financial effects	(28.6)	(127.0)	(155.6)	170.7	(177.2)	(6.5)
Bonds	15.5	27.1	42.6	14.3	48.0	62.3
U.S. treasury bond forward contracts	(54.2)	53.0	(1.2)	(73.4)	23.3	(50.1)
Preferred stocks	—	8.3	8.3	—	(1.2)	(1.2)
CPI-linked derivatives	(42.2)	33.9	(8.3)	—	13.1	13.1
Other derivatives	3.5	(0.3)	3.2	—	(22.3)	(22.3)
Foreign currency	30.0	53.5	83.5	(74.8)	(16.0)	(90.8)
Disposition of insurance and reinsurance associate	—	—	—	(0.2)	—	(0.2)
Other	(11.1)	11.3	0.2	11.7	(12.7)	(1.0)
Net gains (losses) on investments	(87.1)	59.8	(27.3)	48.3	(145.0)	(96.7)
Net gains (losses) on bonds is comprised as follows:						
Government bonds	(0.6)	(6.7)	(7.3)	6.6	(19.1)	(12.5)
U.S. states and municipalities	0.7	11.0	11.7	1.1	11.2	12.3
Corporate and other	15.4	22.8	38.2	6.6	55.9	62.5
	15.5	27.1	42.6	14.3	48.0	62.3

	First nine months					
	2020			2019		
	Net realized gains (losses) ⁽¹⁾	Net change in unrealized gains (losses)	Net gains (losses) on investments	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Common stocks	220.1	(831.1)	(611.0)	333.1	361.0	694.1
Preferred stocks - convertible	—	2.9	2.9	—	(0.5)	(0.5)
Bonds - convertible	14.5	6.0	20.5	(4.4)	(1.1)	(5.5)
Other equity derivatives ⁽²⁾⁽³⁾⁽⁴⁾	122.3	(194.6)	(72.3)	98.9	2.8	101.7
Disposition of non-insurance associate ⁽⁵⁾⁽⁷⁾	14.6	—	14.6	0.7	—	0.7
Non-insurance subsidiaries held for sale and deconsolidated ⁽⁶⁾⁽⁸⁾	—	(164.0)	(164.0)	171.3	—	171.3
Long equity exposures	371.5	(1,180.8)	(809.3)	599.6	362.2	961.8
Short equity exposures ⁽³⁾	(327.3)	(63.3)	(390.6)	(7.9)	117.0	109.1
Net equity exposures and financial effects	44.2	(1,244.1)	(1,199.9)	591.7	479.2	1,070.9
Bonds ⁽⁹⁾	125.9	324.5	450.4	(260.2)	471.6	211.4
U.S. treasury bond forward contracts	(109.3)	(1.4)	(110.7)	(147.8)	39.1	(108.7)
Preferred stocks	—	(3.8)	(3.8)	(23.4)	43.1	19.7
CPI-linked derivatives	(275.5)	275.8	0.3	—	4.4	4.4
Other derivatives	18.1	(51.5)	(33.4)	23.0	(104.6)	(81.6)
Foreign currency	(60.6)	37.8	(22.8)	(14.6)	(65.4)	(80.0)
Disposition of insurance and reinsurance associate ⁽¹⁰⁾	—	—	—	10.2	—	10.2
Other	(12.7)	9.9	(2.8)	18.0	11.5	29.5
Net gains (losses) on investments	(269.9)	(652.8)	(922.7)	196.9	878.9	1,075.8
Net gains (losses) on bonds is comprised as follows:						
Government bonds	93.1	(7.8)	85.3	13.7	67.5	81.2
U.S. states and municipalities	3.9	(5.8)	(1.9)	11.3	47.7	59.0
Corporate and other	28.9	338.1	367.0	(285.2)	356.4	71.2
	125.9	324.5	450.4	(260.2)	471.6	211.4

(1) Amounts recorded in net realized gains (losses) in the first nine months of 2020 include net gains (losses) on investments that were disposed of pursuant to the deconsolidation of European Run-off as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

(2) Other equity derivatives include long equity total return swaps, equity warrant forward contracts, and equity warrants and options.

(3) Gains and losses on equity total return swaps that are regularly renewed as part of the company's long term risk management objectives are presented in net change in unrealized gains (losses).

- (4) *Includes the Atlas (formerly Seaspan) \$8.05 equity warrants, and forward contracts relating to commitments to purchase Tranche 2 warrants and debentures in January 2019.*
- (5) *On September 30, 2020 the company sold its investment in Davos Brands for cash proceeds of \$58.6 and recorded a net realized gain of \$19.3 as described in note 6 (Investment in Associates) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.*
- (6) *Pursuant to a proposed transaction on July 10, 2020 Fairfax Africa was classified as held for sale which resulted in a non-cash loss of \$164.0 as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.*
- (7) *On February 28, 2020 the company sold its equity accounted investment in APR Energy to Atlas in an all-stock transaction as described in note 6 (Investments in Associates) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.*
- (8) *On May 17, 2019 the company deconsolidated Grivalia Properties upon its merger into Eurobank and recognized a non-cash gain of \$171.3.*
- (9) *On June 28, 2019 EXCO emerged from bankruptcy protection and settled the company's EXCO bonds with common shares, resulting in the company recording a net loss on investment of \$179.3 (realized losses of \$296.3, of which \$117.0 was recorded as unrealized losses in prior years).*
- (10) *On April 18, 2019 Brit acquired the remaining 50.0% equity interest in Ambridge Partners LLC ("Ambridge Partners") that it did not already own for \$46.6, remeasured its existing equity interest to fair value for a gain of \$10.4, and commenced consolidating Ambridge Partners.*

Net equity exposure and financial effects: During the third quarter and first nine months of 2020 the company's net equity exposures (long equity exposures net of short equity exposures) produced net losses of \$155.6 and \$1,199.9 respectively (2019 - net losses of \$6.5 and net gains of \$1,070.9). Net gains on long equity exposures of \$12.6 in the third quarter of 2020 were primarily comprised of net gains on common stocks (\$109.2), convertible bonds (\$30.7), equity warrants and options (\$24.5) and the sale of Davos Brands (\$19.3), partially offset by a non-cash unrealized loss from classifying Fairfax Africa as held for sale (\$164.0). Net losses on long equity exposures of \$809.3 in the first nine months of 2020 were primarily comprised of net losses on common stocks (\$611.0) and equity warrants and options (\$111.3) and a non-cash loss recorded from classifying Fairfax Africa as held for sale (\$164.0), partially offset by net gains on long equity total return swaps (\$39.0).

Net gains on long equity exposures of \$11.4 in the third quarter of 2019 were primarily comprised of net gains on common stocks (\$39.3), partially offset by net losses on convertible bonds (\$20.6). Net gains on long equity exposures of \$961.8 in the first nine months of 2019 were primarily comprised of net gains on common stocks (\$694.1), the deconsolidation of Grivalia Properties (\$171.3), equity warrant forward contracts (\$65.2) and equity warrants and call options (\$50.6). The company's short equity exposures and equity hedges produced net losses of \$168.2 and \$390.6 in the third quarter and first nine months of 2020 (2019 - net losses of \$17.9 and net gains of \$109.1).

Within the interim consolidated financial statements for the three and nine months ended September 30, 2020, refer to note 7 (Short Sales and Derivatives) for details of the company's equity total return swaps, and note 16 (Financial Risk Management, under the heading "Market Price Fluctuations") for a tabular analysis summarizing the net effect of the company's equity and equity-related holdings (long exposures net of short exposures) on the company's financial position and results of operations.

Bonds: Net gains on bonds of \$42.6 in the third quarter of 2020 (2019 - \$62.3) were primarily comprised of net gains on corporate and other bonds (\$38.2) and U.S. states and municipalities (\$11.7), partially offset by net losses on U.S. treasury bonds (\$13.5). Net gains on bonds of \$450.4 in the first nine months of 2020 (2019 - \$211.4) were primarily comprised of net gains on corporate and other bonds (\$367.0), U.S. treasury bonds (\$28.3) and India government bonds (\$22.5), partially offset by net losses on U.S. state and municipal bonds (\$1.9).

Net gains on bonds of \$62.3 in the third quarter of 2019 were primarily comprised of net gains on corporate and other bonds (\$62.5), U.S. state and municipal bonds (\$12.3) and U.S. treasury bonds (\$8.1), partially offset by net losses on India government bonds (\$8.7). Net gains on bonds of \$211.4 in the first nine months of 2019 were primarily comprised of net gains on corporate and other bonds (\$71.2, inclusive of net losses on EXCO bonds), U.S. treasury bonds (\$62.0), U.S. state and municipal bonds (\$59.0) and India government bonds (\$16.6).

To economically hedge its exposure to interest rate risk (primarily exposure to long dated U.S. corporate bonds and U.S. state and municipal bonds held in its fixed income portfolio), the company holds forward contracts to sell long dated U.S. treasury bonds. The U.S. treasury bond forwards produced net losses of \$1.2 and \$110.7 in the third quarter and first nine months of 2020 (2019 - net losses of \$50.1 and \$108.7).

CPI-linked derivatives: The company's CPI-linked derivative contracts produced net losses of \$8.3 and net gains of \$0.3 in the third quarter and first nine months of 2020 (2019 - net gains of \$13.1 and \$4.4). During the third quarter and first nine months of 2020 certain CPI-linked derivative contracts referenced to CPI in the United States, European Union and United Kingdom with notional amounts of \$3,506.3 and \$25,171.4 matured. Refer to note 7 (Short Sales and Derivatives, under the heading "CPI-linked derivative contracts") to the interim consolidated financial statements for the three and nine months ended September 30, 2020 for further details.

Foreign currency: Net gains on foreign currency in the third quarter of 2020 of \$83.5 (2019 - net losses of \$90.8) was comprised of foreign currency net gains on investing activities of \$74.2 (principally related to strengthening of the Canadian dollar and euro relative to the U.S. dollar) and foreign currency contracts of \$11.2, partially offset by foreign currency net losses on underwriting activities of \$1.9. Net losses on foreign currency in the first nine months of 2020 of \$22.8 (2019 - \$80.0), was comprised of foreign currency net losses on investing activities of \$8.3 (principally related to strengthening of the U.S. dollar relative to the Canadian dollar, Indian

rupee and British pound) and net losses on foreign currency contracts of \$16.0, partially offset by foreign currency net gains on underwriting activities of \$1.5.

Net gains (losses) on investments for the three and nine months ended September 30, 2020 and 2019 for each of the insurance and reinsurance operations, run-off operations, Non-insurance companies reporting segment, and Corporate and Other, were comprised as shown in the following tables:

Quarter ended September 30, 2020

Insurance and Reinsurance													
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Consolidated
Long equity exposures ⁽¹⁾⁽²⁾	39.2	13.6	23.3	(18.4)	(26.3)	(24.9)	(1.8)	5.6	10.3	(4.4)	(12.8)	19.5	12.6
Short equity exposures ⁽¹⁾	—	(82.4)	(85.7)	—	—	—	—	(0.1)	(168.2)	—	—	—	(168.2)
Bonds ⁽¹⁾	16.8	25.0	16.2	(2.9)	(1.1)	23.7	1.3	12.0	91.0	0.7	(33.1)	(16.0)	42.6
U.S. treasury bond forwards	—	(0.5)	(0.8)	—	0.1	—	—	—	(1.2)	—	—	—	(1.2)
Preferred stocks	1.9	2.8	0.8	0.5	0.7	2.1	—	(0.5)	8.3	—	—	—	8.3
CPI-linked derivatives	(0.8)	(3.8)	(0.3)	(0.8)	—	—	—	(1.8)	(7.5)	—	—	(0.8)	(8.3)
Foreign currency	4.9	1.5	4.5	2.4	24.0	11.2	13.4	1.6	63.5	1.4	10.1	8.5	83.5
Other	0.2	6.1	(1.3)	(0.6)	0.2	(0.8)	0.7	2.9	7.4	0.5	(2.8)	(1.7)	3.4
Net gains (losses) on investments	62.2	(37.7)	(43.3)	(19.8)	(2.4)	11.3	13.6	19.7	3.6	(1.8)	(38.6)	9.5	(27.3)

Quarter ended September 30, 2019

Insurance and Reinsurance													
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Consolidated
Long equity exposures ⁽¹⁾	(19.1)	(45.2)	(31.8)	(1.6)	(9.6)	(10.8)	99.8	5.6	(12.7)	1.8	16.7	5.6	11.4
Short equity exposures ⁽¹⁾	—	(6.1)	(9.1)	(0.1)	—	—	—	(1.0)	(16.3)	(1.6)	—	—	(17.9)
Bonds ⁽¹⁾	0.5	5.1	21.6	5.8	6.0	10.4	0.4	(16.9)	32.9	16.1	12.5	0.8	62.3
U.S. treasury bond forwards	—	(4.1)	(24.8)	(8.3)	—	—	—	—	(37.2)	(12.9)	—	—	(50.1)
Preferred stocks	(0.3)	(0.3)	(0.1)	—	(0.1)	(0.4)	—	—	(1.2)	—	—	—	(1.2)
CPI-linked derivatives	1.3	5.6	0.9	1.1	1.4	—	—	2.9	13.2	0.2	—	(0.3)	13.1
Foreign currency	(6.5)	(13.2)	(7.8)	(0.7)	(15.1)	(20.7)	(14.0)	3.2	(74.8)	(16.5)	(15.1)	15.6	(90.8)
Other	0.2	(7.3)	(4.6)	(2.3)	1.6	11.2	1.0	(16.2)	(16.4)	(2.3)	0.3	(5.1)	(23.5)
Net gains (losses) on investments	(23.9)	(65.5)	(55.7)	(6.1)	(15.8)	(10.3)	87.2	(22.4)	(112.5)	(15.2)	14.4	16.6	(96.7)

Nine months ended September 30, 2020

Insurance and Reinsurance													
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Consolidated
Long equity exposures ⁽¹⁾⁽²⁾	(31.7)	(238.6)	(69.0)	(54.5)	(77.8)	(115.7)	(1.1)	(109.8)	(698.2)	(170.0)	(73.0)	131.9	(809.3)
Short equity exposures ⁽¹⁾	—	(164.7)	(203.8)	—	—	—	—	(13.0)	(381.5)	(9.1)	—	—	(390.6)
Bonds ⁽¹⁾	15.5	122.4	86.8	(7.8)	67.5	170.5	4.1	24.0	483.0	20.4	(30.8)	(22.2)	450.4
U.S. treasury bond forwards	—	(21.2)	(55.4)	(23.9)	(3.1)	—	—	—	(103.6)	(7.1)	—	—	(110.7)
Preferred stocks	(2.3)	0.3	(0.3)	(0.2)	(0.4)	(1.0)	0.8	(0.7)	(3.8)	—	—	—	(3.8)
CPI-linked derivatives	(2.0)	(1.1)	0.6	(0.2)	1.4	—	—	(0.6)	(1.9)	2.0	—	0.2	0.3
Foreign currency	(14.7)	24.1	5.0	2.3	9.5	(17.5)	(15.0)	11.9	5.6	5.3	(35.1)	1.4	(22.8)
Other	(0.2)	(3.5)	(12.8)	(0.1)	(6.9)	(7.1)	0.8	6.4	(23.4)	1.3	(10.9)	(3.2)	(36.2)
Net gains (losses) on investments	(35.4)	(282.3)	(248.9)	(84.4)	(9.8)	29.2	(10.4)	(81.8)	(723.8)	(157.2)	(149.8)	108.1	(922.7)

Nine months ended September 30, 2019

Insurance and Reinsurance													
	Northbridge	Odyssey Group	Crum & Forster	Zenith National	Brit	Allied World	Fairfax Asia	Other	Ongoing operations	Run-off	Non-insurance companies	Corporate and Other	Consolidated
Long equity exposures ⁽¹⁾	5.8	166.1	46.5	4.4	30.1	62.1	252.3	90.2	657.5	137.7	45.4	121.2	961.8
Short equity exposures ⁽¹⁾	—	33.5	61.1	(0.1)	—	—	—	7.5	102.0	7.1	—	—	109.1
Bonds ⁽¹⁾	(41.4)	0.4	74.9	26.6	13.3	74.5	4.5	(19.5)	133.3	46.0	39.3	(7.2)	211.4
U.S. treasury bond forwards	—	(9.8)	(54.4)	(17.6)	—	—	—	—	(81.8)	(26.9)	—	—	(108.7)
Preferred stocks	4.8	3.4	3.0	1.3	1.2	5.8	—	—	19.5	0.2	—	—	19.7
CPI-linked derivatives	2.9	5.1	0.7	(0.1)	1.9	—	—	(4.2)	6.3	(0.1)	—	(1.8)	4.4
Foreign currency	(15.9)	(14.3)	1.4	2.1	(13.9)	(8.6)	(8.6)	6.5	(51.3)	(18.3)	(8.9)	(1.5)	(80.0)
Other	1.1	(30.3)	(15.1)	(5.1)	14.5	13.7	7.4	(26.8)	(40.6)	(5.8)	2.8	1.7	(41.9)
Net gains (losses) on investments	(42.7)	154.1	118.1	11.5	47.1	147.5	255.6	53.7	744.9	139.9	78.6	112.4	1,075.8

(1) Long equity exposures, short equity exposures and bonds as presented in note 16 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

(2) Includes an aggregate non-cash loss of \$164.0 principally at Odyssey Group, Allied World, Zenith and Brit pursuant to Fairfax Africa being classified as held for sale as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Interest Expense

Consolidated interest expense for the three and nine months ended September 30, 2020 and 2019 was comprised as follows:

	Third quarter		First nine months	
	2020	2019	2020	2019
Interest expense on borrowings:				
Holding company	62.5	51.9	174.6	163.5
Insurance and reinsurance companies	12.0	13.8	38.5	42.8
Non-insurance companies ⁽¹⁾	31.2	36.6	98.5	97.9
	<u>105.7</u>	<u>102.3</u>	<u>311.6</u>	<u>304.2</u>
Interest expense on lease liabilities: ⁽²⁾				
Holding company and insurance and reinsurance companies	4.6	4.7	14.3	14.8
Non-insurance companies	10.6	14.5	32.9	36.0
	<u>15.2</u>	<u>19.2</u>	<u>47.2</u>	<u>50.8</u>
Interest expense as presented in the consolidated statement of earnings	<u>120.9</u>	<u>121.5</u>	<u>358.8</u>	<u>355.0</u>

(1) Borrowings and related interest expense of the non-insurance companies are non-recourse to the holding company.

(2) Represents accretion of lease liabilities using the effective interest method subsequent to the adoption of IFRS 16 on January 1, 2019.

The increase in interest expense on borrowings at the holding company in the third quarter and first nine months of 2020 principally reflected the issuance on April 29, 2020 of \$650.0 principal amount of 4.625% senior notes due 2030. The increase in the first nine months of 2020 also reflected the issuance on June 14, 2019 of Cdn\$500.0 principal amount of 4.23% senior notes due 2029, partially offset by the redemption on July 15, 2019 of the remaining Cdn\$395.6 principal amount of 6.40% senior notes due 2021 and the effects of lower interest rates.

The decrease in interest expense on borrowings at the insurance and reinsurance companies in the third quarter and first nine months of 2020 principally reflected the deconsolidation of European Run-off and its borrowings on March 31, 2020.

The decrease in interest expense on borrowings at the non-insurance companies in the third quarter of 2020 principally reflected a lower interest rate on Fairfax India's floating rate term loan and decreased borrowings at NCML and CIG, partially offset by additional borrowings at Recipe. The increase in interest expense on borrowings in the first nine months of 2020 principally reflected the consolidation of AGT (on April 17, 2019), Horizon North (on May 29, 2020) and Farmers Edge (on July 1, 2020) and additional borrowings at Recipe, partially offset by a lower interest rate on Fairfax India's term loan, decreased borrowings at NCML and CIG, and the deconsolidation of Grivalia Properties (on May 17, 2019).

Interest expense by reporting segment is set out in the Net Earnings by Reporting Segment section of this MD&A.

For further details of the company's borrowings refer to note 10 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2020 and note 15 (Borrowings) to the consolidated financial statements for the year ended December 31, 2019.

Corporate Overhead and Other

Corporate overhead and other consists primarily of the expenses of all of the group holding companies (corporate overhead), net of investment management and administration fees earned by the holding company, interest and dividends earned on holding company cash and investments and holding company share of (profit) loss of associates.

	Third quarter		First nine months	
	2020	2019	2020	2019
Fairfax corporate overhead	27.1	37.0	135.8	104.6
Subsidiary holding companies' corporate overhead	12.9	4.4	35.4	22.1
Subsidiary holding companies' non-cash intangible asset amortization ⁽¹⁾	23.5	24.1	70.5	72.4
Total corporate overhead ⁽²⁾	<u>63.5</u>	<u>65.5</u>	<u>241.7</u>	<u>199.1</u>
Holding company interest and dividends	(11.8)	(6.0)	(45.7)	(26.9)
Holding company share of (profit) loss of associates	(12.0)	(62.1)	95.0	(184.5)
Investment management and administration fees and other ⁽³⁾	(21.4)	(35.1)	(22.8)	(108.5)
Loss on repurchase of borrowings	—	23.7	—	23.7
	<u>18.3</u>	<u>(14.0)</u>	<u>268.2</u>	<u>(97.1)</u>

(1) Non-cash intangible asset amortization is principally related to customer and broker relationships.

(2) Presented as consolidated corporate overhead in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

(3) Presented as a consolidation elimination in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Fairfax corporate overhead decreased to \$27.1 in the third quarter of 2020 from \$37.0 in the third quarter of 2019, primarily reflecting lower office expenses and charitable donations. Fairfax corporate overhead increased to \$135.8 in the first nine months of 2020 from \$104.6 in the first nine months of 2019, primarily reflecting increased employee compensation expenses.

Subsidiary holding companies' corporate overhead increased to \$12.9 and \$35.4 in the third quarter and first nine months of 2020 from \$4.4 and \$22.1 in the third quarter and first nine months of 2019, primarily reflecting increased corporate overhead at Allied World and Crum & Forster. The increase in the first nine months of 2020 was partially offset by decreased corporate overhead at Odyssey Group.

Subsidiary holding companies' non-cash intangible asset amortization of \$23.5 and \$70.5 in the third quarter and first nine months of 2020 (2019 - \$24.1 and \$72.4) primarily related to amortization of intangible assets at Allied World and Crum & Forster.

Excluding total return swap income of \$7.5 and \$14.5 in the third quarter and first nine months of 2020, holding company interest and dividends of \$4.3 and \$31.2 primarily related to interest income earned on cash, short term investments and bonds. Excluding total return swap income of \$1.0 and \$2.6 in the third quarter and first nine months of 2019, holding company interest and dividends of \$5.0 and \$24.3 primarily related to interest income on bonds.

Investment management and administration fees and other of \$21.4 and \$22.8 in the third quarter and first nine months of 2020 (2019 - \$35.1 and \$108.5) were primarily comprised of investment and administration fees of \$34.0 and \$48.1 (2019 - \$35.9 and \$109.3) earned from the insurance and reinsurance subsidiaries, partially offset by consolidation eliminations. The decrease in investment and administration fees in the first nine months of 2020 primarily reflected the reversal of a performance fee receivable from Fairfax India of \$47.9 in the first quarter of 2020.

Share of profit (loss) of associates and net gains (losses) on investments attributable to the Corporate and Other reporting segment are set out in the Investments section of this MD&A.

Income Taxes

For details of the provision for (recovery of) income taxes in the third quarters and first nine months of 2020 and 2019, see note 13 (Income Taxes) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Consolidated Balance Sheet Summary

Changes to the assets and liabilities in the company's consolidated balance sheet at September 30, 2020 compared to December 31, 2019 were primarily due to the classification of Fairfax Africa as held for sale (with the exception of its investment in Atlas Mara), the deconsolidation of European Run-off on March 31, 2020 (classified as held for sale at December 31, 2019), net unrealized losses on portfolio investments as a result of the global economic disruption caused by the COVID-19 pandemic and the consolidation of Farmers Edge on July 1, 2020 and Horizon North on May 29, 2020. For details refer to note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020, and the Components of Net Earnings section of this MD&A under the heading "Run-off".

Holding company cash and investments increased to \$1,153.0 (\$1,095.9 net of \$57.1 of holding company short sale and derivative obligations) at September 30, 2020 from \$975.5 (\$975.2 net of \$0.3 of holding company short sale and derivative obligations) at December 31, 2019, primarily reflecting \$700.0 drawn on the company's credit facility and held at the holding company, solely as a precaution, to support the insurance and reinsurance subsidiaries should it be needed as a result of the effects of the COVID-19 pandemic, and the contribution of European Run-off to a joint venture for proceeds of \$599.5, partially offset by capital contributions of \$1,152.2 primarily to support the underwriting plans of the insurance and reinsurance subsidiaries, common and preferred share dividends, the acquisition of the remaining shares of Brit that it did not already own for cash consideration of \$220.0, and purchases of subordinate voting shares for treasury of \$132.3 (for use in the company's share-based payment awards) and for cancellation of \$86.9. Significant cash movements at the holding company level during the third quarter and first nine months of 2020 are as set out in the Financial Condition section of this MD&A under the heading "Liquidity". At March 31, 2020 the company had drawn \$1,770.0 million on its credit facility. On April 29, 2020 the company completed an offering of \$650.0 principal amount of 4.625% unsecured senior notes due April 29, 2030 and used \$500.0 of the net proceeds from the offering to partially repay the amount drawn on its credit facility. An additional \$300.0 was repaid in May 2020 and a further \$270.0 repaid in July 2020.

Insurance contract receivables increased by \$600.9 to \$6,035.9 at September 30, 2020 from \$5,435.0 at December 31, 2019, primarily reflecting higher insurance and reinsurance premiums receivable due to increased business volumes (principally at Odyssey Group, Allied World and Brit).

Portfolio investments comprise investments carried at fair value and equity accounted investments, the aggregate carrying value of which was \$39,865.5 (\$39,713.1 net of subsidiary short sale and derivative obligations) at September 30, 2020 compared to \$38,235.0 (\$38,029.4 net of subsidiary short sale and derivative obligations) at December 31, 2019. The increase of \$1,683.7 principally reflected net gains on bonds and a joint venture investment in RiverStone Barbados, partially offset by unrealized losses on common stocks and the classification of Fairfax Africa as held for sale, in addition to the specific factors which caused movements in portfolio investments as discussed in the paragraphs that follow.

Subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) increased by \$1,233.3, primarily reflecting the reinvestment of proceeds from sales and maturities of U.S. treasury and Canadian government bonds into U.S. treasury short term investments.

Bonds (including bonds pledged for short sale and derivative obligations) increased by \$647.7 primarily reflecting appreciation of U.S. corporate bonds and investment of proceeds from sales and maturities of short-dated U.S. treasury bonds and net sales of India government bonds into U.S. corporate bonds, partially offset by the classification of Fairfax Africa's bonds to assets held for sale.

Common stocks decreased by \$344.6 primarily reflecting net unrealized losses resulting from the global economic effects of the COVID-19 pandemic.

Investments in associates increased by \$151.4 primarily reflecting a joint venture investment in RiverStone Barbados of \$605.0 pursuant to the company's contribution of European Run-off to RiverStone Barbados, partially offset by share of loss of associates of \$177.5 (which included non-cash impairment charges of \$227.7 principally on Quess, Resolute, Atlas Mara and Astarta), the classification of Fairfax Africa's investment in associates to assets held for sale, the sale of Davos Brands and the recognition of distributions and dividends.

Derivatives and other invested assets, net of short sale and derivative obligations decreased by \$8.8 primarily reflecting net unrealized losses on equity warrants, partially offset by lower net payables to counterparties to short equity total return swaps.

Recoverable from reinsurers increased by \$775.1 to \$9,930.9 at September 30, 2020 from \$9,155.8 at December 31, 2019, primarily reflecting increased business volumes (principally at Allied World, Odyssey Group and Brit) and amounts ceded to European Run-off by Group Re and Brit that are included in recoverable from reinsurers at September 30, 2020 as a result of the deconsolidation of European Run-off whereas at December 31, 2019 those were intercompany balances that eliminated on consolidation.

Deferred income taxes increased by \$236.5 to \$612.4 at September 30, 2020 from \$375.9 at December 31, 2019, primarily reflecting increased temporary tax differences from significant net unrealized investment losses due to the COVID-19 pandemic.

Goodwill and intangible assets increased by \$2.5 to \$6,196.6 at September 30, 2020 from \$6,194.1 at December 31, 2019, primarily reflecting the addition of intangible assets and the consolidation of Horizon North and Farmers Edge, partially offset by the effect of foreign currency translation (principally the strengthening of the U.S. dollar relative to the Canadian dollar), the classification of Fairfax Africa as held for sale and amortization of intangible assets.

Other assets decreased by \$294.7 to \$5,712.6 at September 30, 2020 from \$6,007.3 at December 31, 2019, primarily due to the classification of Fairfax Africa as held for sale, the effect of foreign currency translation on premises and equipment, right-of-use assets and finance lease receivables, decreased income taxes refundable, and decreased working capital in the Non-insurance companies reporting segment due to the impact of COVID-19, partially offset by the consolidation of Horizon North and Farmers Edge.

Accounts payable and accrued liabilities decreased by \$21.9 to \$4,792.2 at September 30, 2020 from \$4,814.1 at December 31, 2019, primarily due to lower payables in the Non-insurance companies reporting segment due to the impact of COVID-19, the effect of foreign currency translation on lease liabilities and the classification of Fairfax Africa as held for sale, partially offset by higher payables for securities purchased but not yet settled and the consolidation of Horizon North and Farmers Edge.

Insurance contracts payable increased by \$478.6 to \$3,069.6 at September 30, 2020 from \$2,591.0 at December 31, 2019, primarily reflecting an increase in premiums payable to reinsurers (principally at Brit, Odyssey Group and Allied World) due to an increase in premiums ceded and timing of associated payments.

Provision for losses and loss adjustment expenses increased by \$1,337.0 to \$29,837.2 at September 30, 2020 from \$28,500.2 at December 31, 2019, primarily reflecting COVID-19 and catastrophe losses, increased business volumes (principally at Odyssey Group and Allied World) and loss reserves assumed from, and subsequently ceded to, European Run-off which were previously eliminated on consolidation, partially offset by the impact of U.S. Run-off's continued progress settling its claims liabilities, the strengthening of the U.S. dollar relative to most foreign currencies, and net favourable prior year reserve development (principally at Odyssey Group, Zenith National and Brit).

Non-controlling interests decreased by \$79.0 to \$3,450.1 at September 30, 2020 from \$3,529.1 at December 31, 2019, primarily reflecting non-controlling interests' share of net loss (\$230.3), the acquisition of the minority interest in Brit (\$189.6) and other comprehensive loss (\$90.6), partially offset by the deconsolidation of European Run-off and its investments in certain of the company's non-insurance subsidiaries (\$340.4), and the consolidation of Horizon North. For further details refer to note 11 (Total Equity) and note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Float in the insurance industry refers to the funds available for investment that arise as an insurance or reinsurance operation receives premiums in advance of the payment of claims. The company calculates its float as the sum of its provision for losses and loss adjustment expenses, unearned premiums and other insurance contract liabilities, less the sum of its insurance contract receivables, recoverable from reinsurers and deferred premium acquisition costs. Float of the insurance and reinsurance operations increased by 7.2% to \$22,120.0 at September 30, 2020 from \$20,631.1 at December 31, 2019.

Financial Risk Management

There were no significant changes to the company's types of risk exposures or the processes used by the company for managing those risk exposures at September 30, 2020 compared to those identified at December 31, 2019 and disclosed in the company's 2019 Annual Report, other than as described in note 16 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Financial Condition

Capital Management

For a detailed analysis, see note 16 (Financial Risk Management, under the heading "Capital Management") to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Liquidity

Holding company cash and investments at September 30, 2020 was \$1,153.0 (\$1,095.9 net of \$57.1 of holding company short sale and derivative obligations) compared to \$975.5 (\$975.2 net of \$0.3 of holding company short sale and derivative obligations) at December 31, 2019.

Significant cash and investment movements at the holding company level during the first nine months of 2020 included the following inflows: net borrowings from the holding company credit facility of \$700.0, net proceeds from issuance of \$650.0 senior notes on April 29, 2020 and the contribution of European Run-off to a joint venture for proceeds of \$599.5. Significant outflows during the first nine months of 2020 included the following: capital contributions of \$1,152.2 to support the underwriting plans of the insurance and reinsurance companies, common and preferred share dividends of \$308.6, the acquisition of the remaining shares of Brit that the company did not already own for cash consideration of \$220.0, and purchases of subordinate voting shares for treasury of \$132.3 (for use in the company's share-based payment awards) and for cancellation of \$86.9.

The carrying value of holding company cash and investments was also affected by the following: receipt of investment management and administration fees, disbursements for corporate overhead expenses and changes in the fair value of holding company investments.

The company believes that holding company cash and investments, net of holding company short sale and derivative obligations, at September 30, 2020 of \$1,095.9 provides more than sufficient liquidity to meet the holding company's remaining known obligations in 2020. The holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries, investment income on its holdings of cash and investments, and dividends from its insurance and reinsurance subsidiaries. To further augment its liquidity, the holding company can draw upon the remainder of its \$2.0 billion unsecured revolving credit facility. For further details of the credit facility, refer to note 10 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

The holding company's remaining known significant commitments for 2020 consist of payments relating to interest expense, corporate overhead, preferred share dividends, income taxes and other investment related activities, including the expected acquisition of Fairfax Africa's interest in Atlas Mara, as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020. The company may also in 2020 make payments related to its credit facility, derivative contracts and capital support for its insurance and reinsurance companies (for underwriting initiatives in favourable insurance markets).

On April 29, 2020 the company completed an offering of \$650.0 principal amount of 4.625% unsecured senior notes due April 29, 2030 at par for net proceeds after commissions and expenses of \$645.0. On April 29, 2020 the company used \$500.0 of the net proceeds from the offering to partially repay the amount drawn on its credit facility.

During the first nine months of 2020 subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) increased by \$1,233.3 primarily reflecting sales and maturities of short-dated U.S. treasury bonds principally reinvested into U.S. corporate bonds, partially offset by the reinvestment of the U.S. treasury bond proceeds into corporate and other short term investments.

Highlights in the first nine months of 2020 (with comparisons to the first nine months of 2019) of major components of cash flow are presented in the following table:

	<u>First nine months</u>	
	2020	2019
Operating activities		
Cash provided by operating activities before the undernoted	2,032.5	1,792.9
Net purchases of investments classified at FVTPL	(1,698.1)	(1,068.3)
Investing activities		
Net sales (purchases) of investments in associates	90.8	(279.5)
Purchases of subsidiaries, net of cash acquired	—	(211.7)
Net purchases of investment property	(2.2)	(175.8)
Deconsolidation of subsidiary, net of cash divested	221.7	(41.6)
Net purchases of premises and equipment and intangible assets	(226.3)	(221.9)
Financing activities		
Net proceeds from borrowings - holding company and insurance and reinsurance companies	645.0	456.5
Repayments of borrowings - holding company and insurance and reinsurance companies	(0.2)	(326.7)
Net borrowings from holding company revolving credit facility	700.0	500.0
Net borrowings from revolving credit facilities - insurance and reinsurance companies	42.0	114.1
Net proceeds from borrowings - non-insurance companies	74.9	269.1
Repayments of borrowings - non-insurance companies	(61.4)	(271.9)
Net borrowings from revolving credit facilities and short term loans - non-insurance companies	74.6	86.7
Principal payments on lease liabilities - holding company and insurance and reinsurance companies	(46.9)	(41.0)
Principal payments on lease liabilities - non-insurance companies	(123.9)	(121.6)
Purchases of subordinate voting shares for treasury	(132.3)	(104.3)
Purchases of subordinate voting shares for cancellation	(86.9)	(118.0)
Issuance of subsidiary shares to non-controlling interests	—	43.2
Purchases of subsidiary shares from non-controlling interests	(244.6)	(122.2)
Sales of subsidiary shares to non-controlling interests	—	1.3
Common and preferred share dividends paid	(308.6)	(312.2)
Dividends paid to non-controlling interests	(158.2)	(188.7)
Increase (decrease) in cash and cash equivalents during the period	<u>791.9</u>	<u>(341.6)</u>

Operating activities for the nine months ended September 30, 2020 and 2019

Cash provided by operating activities (excluding net purchases of investments classified at FVTPL) increased to \$2,032.5 in 2020 from \$1,792.9 in 2019, principally reflecting higher net premium collections, lower net paid losses and lower income taxes paid. Refer to the consolidated statements of cash flows and to note 19 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2020 for details of operating activities, including net purchases of investments classified at FVTPL.

Investing activities for the nine months ended September 30, 2020 and 2019

Deconsolidation of subsidiary, net of cash divested of \$221.7 in 2020 reflected the contribution of European Run-off to a joint venture as described in note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Net sales of investments in associates of \$90.8 in 2020 primarily reflected the sale of Davos Brands and distributions received from the company's associates and joint ventures.

Net purchases of investments in associates of \$279.5 in 2019 primarily reflected increased investments in Atlas (formerly Seaspan) and CSB Bank (by Fairfax India), an investment in Seven Islands (by Fairfax India), partially offset by distributions received from the company's associates and joint ventures.

Purchases of subsidiaries, net of cash acquired of \$211.7 in 2019 primarily related to the acquisitions of AGT, CIG (by Fairfax Africa), Ambridge Partners (by Brit), and ARX Insurance.

Financing activities for the nine months ended September 30, 2020 and 2019

Net proceeds from borrowings - holding company and insurance and reinsurance companies of \$645.0 in 2020 reflected net proceeds from the issuance of \$650.0 principal amount of 4.625% unsecured senior notes due April 29, 2030.

Net proceeds from borrowings - holding company and insurance and reinsurance companies of \$456.5 in 2019 reflected net proceeds from the issuance of Cdn\$500.0 principal amount of 4.23% unsecured senior notes due June 14, 2029 and the issuance of \$85.0 principal amount of 4.142% unsecured senior notes due February 7, 2024.

Net borrowings from holding company revolving credit facility of \$700.0 in 2020 reflected the company's draw on its credit facility, solely as a precaution, to support the insurance and reinsurance companies should it be needed as a result of the effects of the COVID-19 pandemic.

Net proceeds from borrowings - non-insurance companies of \$269.1 in 2019 primarily reflected net proceeds from the issuance of Cdn\$250.0 principal amount of 4.719% secured senior notes due May 1, 2029 by Recipe and borrowings by Boat Rocker and Thomas Cook India.

Repayment of borrowings - non-insurance companies of \$271.9 in 2019 primarily reflected AGT's partial repayment of \$131.8 (Cdn\$175.6) of its Cdn\$200.0 principal amount of 5.875% senior notes due December 1, 2021 and Recipe's early repayment of its \$111.4 (Cdn\$150.0) floating rate term loan due September 2, 2019.

Purchases of subordinate voting shares for treasury of \$132.3 in 2020 (2019 - \$104.3) were for the company's share-based payment awards.

Purchases of subsidiary shares from non-controlling interests of \$244.6 in 2020 (2019 - \$122.2) primarily reflected the acquisition of the remaining shares held by Brit's minority shareholder and purchases of common shares made under normal course issuer bids by Fairfax India, Fairfax Africa and Recipe. Issuance of subsidiary shares to non-controlling interests of \$43.2 in 2019 primarily reflected the issuance of preferred shares by a non-insurance company.

Dividends paid to non-controlling interests of \$158.2 and \$188.7 in 2020 and 2019 primarily reflected dividends paid by Allied World, Brit and Recipe to their minority shareholders. Dividends paid in 2019 also included those of Grivalia Properties.

Book Value Per Share

Common shareholders' equity at September 30, 2020 was \$11,600.8 or \$442.17 per basic share compared to \$13,042.6 or \$486.10 per basic share at December 31, 2019, representing a decrease per basic share in the first nine months of 2020 of 9.0% (a decrease of 6.9% adjusted to include the \$10.00 per common share dividend paid in the first quarter of 2020). During the first nine months of 2020 the number of basic shares decreased primarily as a result of purchases of 293,038 subordinate voting shares for cancellation and net purchases of 302,040 subordinate voting shares for treasury (for use in the company's share-based payment awards). At September 30, 2020 there were 26,235,991 common shares effectively outstanding.

Following the expiry on September 29, 2020 of its then current normal course issuer bid, on September 30, 2020 the company commenced a normal course issuer bid pursuant to which it is authorized, until expiry of the bid on September 29, 2021, to acquire up to 2,455,854 subordinate voting shares, 751,034 Series C preferred shares, 178,415 Series D preferred shares, 543,613 Series E preferred shares, 173,574 Series F preferred shares, 743,295 Series G preferred shares, 256,704 Series H preferred shares, 1,046,555 Series I preferred shares, 153,444 Series J preferred shares, 950,000 Series K preferred shares and 919,600 Series M preferred shares, representing approximately 10% of the public float in respect of the subordinate voting shares and each series of preferred shares. Decisions regarding any future purchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available by contacting the Corporate Secretary of the company.

Contingencies and Commitments

For a description of these matters, see note 14 (Contingencies and Commitments) to the interim consolidated financial statements for the three and nine months ended September 30, 2020.

Quarterly Data (unaudited)

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
Income	4,992.6	5,065.1	3,159.1	5,533.0	4,925.9	5,441.3	5,632.6	4,179.9
Net earnings (loss) ⁽¹⁾	41.8	426.3	(1,389.1)	502.7	74.4	579.5	814.6	(453.2)
Net earnings (loss) attributable to shareholders of Fairfax ⁽¹⁾	133.7	434.9	(1,259.3)	672.0	68.6	494.3	769.2	(477.6)
Net earnings (loss) per share ⁽¹⁾	\$ 4.66	\$ 16.00	\$ (47.38)	\$ 24.62	\$ 2.13	\$ 17.94	\$ 28.04	\$ (17.89)
Net earnings (loss) per diluted share ⁽¹⁾	\$ 4.44	\$ 15.26	\$ (47.38)	\$ 23.58	\$ 2.04	\$ 17.18	\$ 26.98	\$ (17.89)

(1) Periods prior to 2019 have not been restated for the adoption of IFRS 16 Leases on January 1, 2019 as described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2019.

Operating results at the company's insurance and reinsurance operations have been, and will continue to be, affected by the ongoing COVID-19 pandemic and the effects it is having on the global economy. Individual quarterly results have been (and may in the future be) affected by losses from significant natural or other catastrophes, by favourable or adverse reserve development and by settlements or commutations, the occurrence of which are not predictable, and have been (and are expected to continue to be) significantly affected by net gains or losses on investments, the timing of which are not predictable.

Forward-Looking Statements

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; risks associated with the global pandemic caused by COVID-19, and the related global reduction in commerce and substantial downturns in stock markets worldwide; 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; our inability to maintain our long term debt ratings, the inability of our subsidiaries to maintain financial or claims paying ability ratings and the impact of a downgrade of such ratings on derivative transactions that we or our subsidiaries have entered into; risks associated with implementing our business strategies; the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated by us; risks associated with any use we may make of derivative instruments; the failure of any hedging methods we may employ 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 or 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 adverse requirements, 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 or significant litigation; 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; impairment of the carrying value of our goodwill, indefinite-lived intangible assets or investments in associates; 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; disruptions of our information technology systems; assessments and shared market mechanisms which may adversely affect our insurance subsidiaries; and adverse consequences to our business, our investments and our personnel resulting from or related to the COVID-19 pandemic. Additional risks and uncertainties are described in our most recently issued Annual Report, which is available at www.fairfax.ca, and in our Base Shelf Prospectus (under "Risk Factors") filed with the securities regulatory authorities in Canada, which is available on SEDAR at www.sedar.com. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.

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