

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

Notes to Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Adoption of IFRS 17 Insurance Contracts on January 1, 2023	36
Overview of Consolidated Performance	38
Sources of Income	43
Sources of Net Earnings	44
Components of Net Earnings	
Underwriting and Operating Income	47
North American Insurers	47
Global Insurers and Reinsurers	48
International Insurers and Reinsurers	50
Life Insurance and Run-off	51
Investments	53
Interest Expense	54
Corporate Overhead and Other	54
Income Taxes	54
Segmented Balance Sheet	55
Financial Risk Management	56
Financial Condition	
Capital Management	56
Liquidity	56
Book Value Per Basic Share	57
Accounting and Disclosure Matters	58
Internal Control Over Financial Reporting	58
Adoption of IFRS 17 Insurance Contracts	58
Other	
Quarterly Data	61
Forward-Looking Statements	62
Glossary of Non-GAAP and Other Financial Measures	63

## Management's Discussion and Analysis of Financial Condition and Results of Operations

(as of May 11, 2023)

*(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 months ended March 31, 2023, and the notes to the MD&A in the company's 2022 Annual Report.
- (2) In this MD&A, Life Insurance and Run-off is included in references to the insurance and reinsurance companies and excluded in references to the property and casualty insurance and reinsurance companies.
- (3) The company presents information on gross premiums written and net premiums written throughout its MD&A. Gross premiums written represents the total premiums on policies issued by the company during a specified period, irrespective of the portion ceded or earned, and is an indicator of the volume of new business generated. Net premiums written represents gross premiums written less amounts ceded to reinsurers and is considered a measure of the new business volume and insurance risk that the company has chosen to retain from new business generated. These measures are used in the insurance industry and by the company primarily to evaluate business volumes, including related trends, and the management of insurance risk.
- (4) Management analyzes and assesses the underlying insurance and reinsurance companies, and the financial position of the consolidated company, 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. Please refer to the Glossary of Non-GAAP and Other Financial Measures at the end of this MD&A for details of the company's measures and ratios, which include:

**Supplementary Financial Measures** – Net insurance revenue, book value per basic share, increase (decrease) in book value per basic share (with and without adjustment for the \$10.00 per common share dividend), long equity exposures and long equity exposures and financial effects.

**Capital Management Measures** – Net debt, net total capital, total capital, net debt divided by total equity, net debt divided by net total capital, total debt divided by total capital, interest coverage ratio and interest and preferred share dividend distribution coverage ratio. The company presents all of these measures on a consolidated basis and also on a consolidated basis excluding non-insurance subsidiaries.

**Total of Segments Measures** – Supplementary financial measures presented for the property and casualty insurance and reinsurance segments in aggregate including net finance income (expense) from insurance contracts and reinsurance contract assets held, operating income (loss) and corporate overhead and other.

**Non-GAAP Financial Measures and Ratios** – Net premiums earned, underwriting profit (loss), adjusted operating income (loss), various property and casualty insurance and reinsurance ratios including the combined ratio, excess (deficiency) of fair value over carrying value, cash provided by (used in) operating activities (excluding operating cash flow activity related to investments recorded at FVTPL), investments in Fairfax insurance and reinsurance affiliates and investments in Fairfax affiliates.

## Adoption of IFRS 17 Insurance Contracts ("IFRS 17") on January 1, 2023

On January 1, 2023 Fairfax adopted the new accounting standard for insurance contracts (IFRS 17).

- It has resulted in considerable changes to the recognition, measurement, presentation and disclosure of the company's insurance and reinsurance operations – the most significant being the discounting of the company's net insurance liabilities and the addition of a risk adjustment for uncertainty.
- This new accounting standard has not changed the way management evaluates the performance of its insurance and reinsurance operations. The company remains focused on underwriting profit on an undiscounted basis with strong reserving and all of the property and casualty insurance and reinsurance operations continue to use the traditional volume measures of gross premiums written, net premiums written and combined ratios to manage the business.
- A reconciliation from insurance service result presented within Note 15 (Segmented Information) to the interim consolidated financial statements to underwriting profit, a metric historically presented within the company's MD&A, is included within the Overview of Consolidated Performance and Components of Net Earnings sections of this MD&A for each of the company's property and casualty insurance and reinsurance reporting segments.
- In accordance with the transitional provisions of IFRS 17, the cumulative effect of initially applying IFRS 17 was recognized as an adjustment to retained earnings in the opening consolidated balance sheet as at January 1, 2022 and each prior period presented in the interim consolidated financial statements was restated.
- Refer to Note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three months ended March 31, 2023 and to the Accounting and Disclosure Matters, under the heading Adoption of IFRS 17 Insurance Contracts, at the end of this MD&A, for additional details on the adoption of IFRS 17.

### Impact on Consolidated Financial Statements

#### Common Shareholders' Equity and Book value per share

The table below summarize the measurement adjustments to the restated consolidated balance sheets, recorded through retained earnings, as at January 1, 2022 and as at December 31, 2022, and the benefit to book value per share:

	December 31, 2022	January 1, 2022
Common shareholders' equity as previously reported (Book value per share at December 31, 2022 - \$657.68 and January 1, 2022 - \$630.60)	15,340.7	15,049.6
IFRS 17 adjustments:		
Discounting of provision for losses and loss adjustment expenses	4,668.7	1,536.9
Inclusion of a specific risk adjustment for non-financial risk for provision for losses and loss adjustment expenses	(1,635.5)	(1,421.8)
Acquisition cost deferral and changes in attributable expenses	443.1	385.7
Loss component net of loss recovery component	(359.6)	(387.5)
Foreign exchange and other measurement adjustments	292.3	108.5
Deferred income taxes	(726.1)	(60.9)
Non-controlling interests	(243.3)	(10.7)
	<u>2,439.6</u>	<u>150.2</u>
Common shareholders' equity as restated (Book value per share at December 31, 2022 - \$762.28 and January 1, 2022 - \$636.89)	<u>17,780.3</u>	<u>15,199.8</u>

- The effect of initially applying IFRS 17 was an increase in common shareholders' equity of \$150.2 as presented in the table above which was recognized as an adjustment to retained earnings in the opening consolidated balance sheet as at January 1, 2022.
- The cumulative effect of initially applying IFRS 17 was an increase in common shareholders' equity of \$2,439.6 (an increase in book value per share of \$104.60), as presented in the table above, and was principally comprised of (i) the impact on the January 1, 2022 consolidated balance sheet of \$150.2 recognized in retained earnings, and (ii) the increase in consolidated net earnings attributable to shareholders of Fairfax for the full year of 2022 of \$2,229.3.

- The risk adjustment for non-financial risk represents the compensation that the company requires for bearing uncertainty with respect to both the amount and the timing of cash flows that arise from non-financial risk from the insurance contracts and reinsurance contract assets held. The risk adjustment is measured at each of the company's insurance and reinsurance subsidiaries, reflecting their estimates of uncertainty, diversification benefits and expected favourable and unfavourable outcomes. For reinsurance contract assets held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the company to the reinsurer. The company aggregates the sum of risk adjustments across insurance and reinsurance subsidiaries and does not redistribute further benefits of diversification achieved at a consolidated level between subsidiaries. The resulting amount of the calculated risk adjustment corresponds to a consolidated confidence level of 83.7% (December 31, 2022 - 84.0%; and January 1, 2022 - 84.4%).

### ***Consolidated Statement of Earnings for the first quarter of 2022***

The table below summarize the measurement adjustments to the restated net earnings attributable to shareholders of Fairfax in the first quarter of 2022:

	<u>First quarter</u> <u>2022</u>
Net earnings attributable to shareholders of Fairfax as previously reported (\$4.49 net earnings per diluted share)	<u>125.5</u>
IFRS 17 adjustments:	
Discounting of provision for losses and loss adjustment expenses recognized in insurance service result	197.6
Discounting of provision for losses and loss adjustment expenses recognized in net finance income	419.0
Inclusion of a specific risk adjustment for non-financial risk for provision for losses and loss adjustment expenses and other recognized in insurance service result	(45.8)
Foreign exchange and other measurement adjustments	85.6
Deferred income taxes	(136.2)
Non-controlling interests	<u>(57.0)</u>
	<u>463.2</u>
Net earnings attributable to shareholders of Fairfax as restated (\$22.67 net earnings per diluted share)	<u>588.7</u>

#### **Measurement Items Recorded in Restated Net earnings attributable to shareholders of Fairfax in the First Quarter of 2022**

	<u>Analysis</u>
Effects of discounting in Insurance Service Result	Discounting losses and ceded losses on claims recorded in the period: cash flows are discounted using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts and reinsurance contract assets held. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums.  Given the duration of the company's current accident year net reserves the majority was discounted using rates that ranged from the 1 year euro yield curve at 0.15% to the 5 year US yield curve at 2.38%.
Net finance income (expense) from insurance contracts and reinsurance contract assets held	Changes in the carrying amounts of insurance and reinsurance contracts arising from the effects of the time value of money. The sources of the insurance finance income and expense arise from the effects of discounting the fulfillment cash flows within the LRC under the GMM and the LIC under all measurement models at current rates.  Reflects the benefit of the change in discount rates during the first quarter of 2022 as the change in the interest rate environment was more pronounced in 2022 compared to the transition adjustment recorded in retained earnings as at January 1, 2022, which was partially offset by interest accretion from unwinding of the discount.
Taxes and Other	Primarily comprised of the above noted items tax effected at the underlying operating companies' statutory tax rates and the allocation of the retained earnings impact to non-controlling interests at Allied World, Odyssey Group and Brit.

## Overview of Consolidated Performance for the first quarter of 2023

### Net earnings attributable to shareholders of Fairfax

#### Property and Casualty Insurance and Reinsurance Operations

##### Underwriting Performance

Highlights for the first quarter of 2023, with comparisons to the first quarter of 2022 except as otherwise noted, included the following:

- The insurance service result of the property and casualty insurance and reinsurance operations increased from \$661.9 to \$977.7, primarily reflecting a greater benefit from discounting losses on claims due to higher discount rates in the period resulting in reduced losses on claims included within the insurance service result and recoveries of insurance service expenses in the consolidated statement of earnings, increased business volumes (net insurance revenue increased by 10.6%) and prudent expense management, partially offset by higher current period catastrophe losses in the first quarter of 2023.
- The table below presents the insurance service result for the property and casualty insurance and reinsurance operations reconciled to underwriting profit, a key performance measure used by the company and the property and casualty industry in which it operates. The reconciling adjustments are (i) other insurance operating expenses as presented on the consolidated statement of earnings, and (ii) the effects of discounting of losses and ceded losses on claims recorded in the period and the effects of the risk adjustment and other, which are presented in insurance service expenses and recoveries of insurance service expenses. Other insurance operating expenses are adjusted to derive underwriting profit as the company measures the performance of management at all property and casualty insurance and reinsurance operations in the decentralized structure on disciplined underwriting profit which includes prudent expense management on all expenses incurred, including those that are not considered directly attributable to insurance contracts.

	First Quarter							
	2023				2022			
	North American Insurers	Global Insurers and Reinsurers	International Insurers and Reinsurers	Total	North American Insurers	Global Insurers and Reinsurers	International Insurers and Reinsurers	Total
<b>Insurance service result</b>	275.8	625.3	76.6	977.7	211.6	399.1	51.2	661.9
Other insurance operating expenses	(65.1)	(96.3)	(36.2)	(197.6)	(60.9)	(74.4)	(34.7)	(170.0)
Discounting of losses and ceded losses on claims recorded in the period	(108.7)	(302.3)	(11.4)	(422.4)	(30.5)	(128.0)	(17.2)	(175.7)
Changes in the risk adjustment and other	(12.0)	(21.2)	(10.7)	(43.9)	(10.9)	7.1	12.0	8.2
<b>Underwriting profit</b>	<b>90.0</b>	<b>205.5</b>	<b>18.3</b>	<b>313.8</b>	<b>109.3</b>	<b>203.8</b>	<b>11.3</b>	<b>324.4</b>
<b>Combined ratios<sup>(1)</sup></b>	94.1 %	93.5 %	96.4 %	94.0 %	92.5 %	92.8 %	97.5 %	93.1 %

(1) A performance measure of underwriting profit.

- The consolidated combined ratio of the property and casualty insurance and reinsurance operations was 94.0% producing an underwriting profit of \$313.8, compared to a combined ratio of 93.1% and an underwriting profit of \$324.4 in 2022, primarily reflecting the same factors as noted above in insurance service result except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the first quarter of 2023. The continued strong underwriting performance by reporting segment was as follows:

	First quarter				First quarter			
	2023				2022			
	Gross Premiums Written	Net Premiums Written	Combined ratios	Underwriting profit	Gross Premiums Written	Net Premiums Written	Combined ratios	Underwriting profit
<b>North American Insurers</b>								
Northbridge	506.3	443.1	91.1 %	42.0	474.7	431.1	87.3 %	59.2
Crum & Forster	1,155.6	855.3	94.7 %	46.7	1,036.6	833.3	94.8 %	42.2
Zenith National	257.3	259.8	99.3 %	1.3	259.0	257.5	95.4 %	7.9
	<u>1,919.2</u>	<u>1,558.2</u>	<u>94.1 %</u>	<u>90.0</u>	<u>1,770.3</u>	<u>1,521.9</u>	<u>92.5 %</u>	<u>109.3</u>
<b>Global Insurers and Reinsurers</b>								
Allied World	1,883.6	1,460.8	91.7 %	90.4	1,751.8	1,334.3	92.1 %	74.3
Odyssey Group	1,508.8	1,409.6	96.4 %	49.0	1,417.1	1,320.0	93.7 %	81.0
Brit	895.1	644.0	90.8 %	66.1	885.4	630.2	91.8 %	48.5
	<u>4,287.5</u>	<u>3,514.4</u>	<u>93.5 %</u>	<u>205.5</u>	<u>4,054.3</u>	<u>3,284.5</u>	<u>92.8 %</u>	<u>203.8</u>
<b>International Insurers and Reinsurers</b>	886.3	546.8	96.4 %	18.3	791.2	490.9	97.5 %	11.3
<b>Property and casualty insurance and reinsurance</b>	<u>7,093.0</u>	<u>5,619.4</u>	<u>94.0 %</u>	<u>313.8</u>	<u>6,615.8</u>	<u>5,297.3</u>	<u>93.1 %</u>	<u>324.4</u>

- Net premiums written by the property and casualty insurance and reinsurance operations increased by 6.1% to \$5,619.4 from \$5,297.3, while gross premiums written increased by 7.2%, principally attributable to the Global Insurers and Reinsurers reporting segment reflecting new business, strong customer retention and continued incremental rate increases in certain lines of business.
- Current period catastrophe losses on an undiscounted basis in the first quarter of 2023 were \$191.9 or 3.7 combined ratio points, principally reflecting exposure to the earthquake in Turkey compared to \$130.2 or 2.8 combined ratio points in the first quarter of 2022 which primarily reflected the impact of Australian floods.

#### **Net finance income (expense) from insurance contracts and reinsurance contract assets held**

- Total effects of discounting and risk adjustment recognized in the consolidated statement of earnings were comprised as follows:

	First quarter	
	2023	2022
<i>Net finance income (expense) from insurance contracts and reinsurance contract assets held as presented in the consolidated statement of earnings:</i>		
Net finance income (expense) from insurance contracts	(225.8)	513.6
Net finance income (expense) from reinsurance contract assets held	62.4	(94.6)
<b>Net finance income (expense) from insurance contracts and reinsurance contract assets held</b>	<u>(163.4)</u>	<u>419.0</u>
<i>Effects of discounting for future periods and risk adjustment and other recognized in Insurance Service Result:</i>		
Discounting of losses and ceded on claims recorded in the period	414.9	170.0
Changes in the risk adjustment and other	58.1	49.9
<b>Effects included in Insurance Service Results</b>	<u>473.0</u>	<u>219.9</u>
<b>Total net benefit</b>	<u>309.6</u>	<u>638.9</u>

In the first quarter of 2023 the total benefit of \$309.6 principally related to the benefit of discounting of losses and ceded losses on claims recorded in the period of \$414.9 (recognized in insurance service result), partially offset by net finance expense from insurance contracts and reinsurance contract assets held of \$163.4 primarily comprised of interest accretion as a result of the unwinding of the effects of discounting recognized during a high interest rate environment in 2022 related to payments made during the quarter of \$253.7, partially offset by changes in discount rates in the period of \$90.3.

In the first quarter of 2022 the total benefit of \$638.9 principally related to net finance income from insurance contracts and reinsurance contract assets held of \$419.0, reflecting the benefit of changes in discount rates of \$457.5 in the quarter as the change in the interest rate environment was more pronounced in the first quarter of 2022 compared to the first quarter of 2023, partially offset by the interest accretion as a result of the unwinding of the discount of \$38.5 and the benefit of discounting of losses and ceded losses on claims recorded in the period of \$170.0 (recognized in insurance service result).

Refer to Note 4 (Critical Accounting Estimates and Judgments) to the interim consolidated financial statements for the three months ended March 31, 2023 for additional details on the discount rates applied on losses on claims recorded in the period.

## **Non-insurance companies**

### ***Operating income (loss) - Non-insurance companies***

- Operating income of the Non-insurance companies reporting segment decreased to an operating loss of \$0.6 in the first quarter of 2023 from operating income of \$27.1 in the first quarter of 2022. Excluding non-cash charges and adjustments and the operating loss at Grivalia Hospitality (consolidated on July 5, 2022) which together totaled \$74.7 in the first quarter of 2023, operating income increased by \$47.0 to \$74.1, principally reflecting increased operating income at Fairfax India (reflecting higher share of profit of associates and increased interest and dividend income) and at AGT (higher business volumes).
- The company's investments in non-insurance associates and market traded consolidated non-insurance subsidiaries are primarily held in the insurance and reinsurance companies' investment portfolios and as such are managed and reviewed by management as part of portfolio investment performance. Refer to the heading Financial Condition within this section of the MD&A for additional details on the pre-tax excess of fair value over the carrying value of investments in non-insurance associates and market traded consolidated non-insurance subsidiaries of \$439.1 at March 31, 2023 that the company considers to be portfolio investments and is not reflected in the company's book value per basic share.

## **Investment Performance**

### ***Interest and dividends***

- Interest and dividends of \$382.3 in the first quarter of 2023 significantly increased compared to \$168.9 in the first quarter of 2022, with higher interest income earned principally due to a general increase in sovereign bond yields, net purchases of U.S. treasury and Canadian government bonds, first mortgage loans and other government bonds during 2022, partially offset by lower dividend income earned from long equity total return swaps.
- At March 31, 2023 the company's insurance and reinsurance companies held portfolio investments of \$54.5 billion (excluding Fairfax India's portfolio of \$2.0 billion), of which approximately \$7.5 billion was in cash and short term investments and \$6.6 billion in short-dated U.S. treasuries. During the first quarter of 2023 the company primarily used proceeds from net sales and maturities of holdings of short-dated U.S. treasury bonds to re-invest into mid-dated U.S. treasury bonds with maturities between 3 to 5 years, contributing to the increased interest and dividend income in the first quarter of 2023 of \$213.4, and producing the company's current run rate of over \$1.5 billion annually.

### ***Share of profit of associates***

- Share of profit of associates increased to \$333.8 in the first quarter of 2023 from \$180.6 in the first quarter of 2022, primarily reflecting the company's increased share of profits of Eurobank (\$94.6 compared to \$30.7), EXCO Resources (\$69.2 compared to \$38.0) and Gulf Insurance (\$28.7 compared to \$1.3), and continued strong performance by Poseidon, formerly known as Atlas (\$50.1 compared to \$49.7), partially offset by decreased share of profit of Resolute due to the disposition of the investment on March 1, 2023 (nil compared to \$11.7).
- On March 1, 2023 Domtar Corporation acquired all outstanding common shares of Resolute for a combination of cash consideration of \$20.50 and a Contingent Value Right ("CVR") per Resolute common share, valued at \$1.42 per share. The company received total consideration of \$665.6 and recorded a realized gain of \$44.2.
- On March 28, 2023 a consortium composed of the company, the Washington Family, David Sokol, Chairman of the Board of Directors of Atlas, and Ocean Network Express Pte. Ltd. (collectively, the "Consortium") acquired all of the outstanding common shares of Atlas, other than those shares owned by the Consortium, at a cash purchase price of \$15.50, plus payment of all ordinary course quarterly dividends up until closing of the transaction. The company did not purchase any additional interest not already owned by the Consortium upon closing of the transaction and continues to apply the equity method of accounting to its interest in Atlas through its interest in Poseidon Corp., the entity formed by the Consortium that acquired Atlas.
- Subsequent to March 31, 2023, on May 9, 2023 Fairfax India entered into an agreement to acquire an additional 3.0% equity interest in Bangalore International Airport Limited ("Bangalore Airport") from Siemens Project Ventures GmbH ("Siemens") for cash consideration of approximately \$75. The transaction is expected to close in the second quarter of 2023, subject to certain closing conditions. Fairfax India also agreed to acquire an additional 7.0% equity interest in Bangalore Airport from Siemens for additional cash consideration of approximately \$175, subject to certain performance conditions by Bangalore Airport and other closing conditions, which are expected to be assessed subsequent to October 31, 2023. The company expects to continue to apply the equity method of accounting to its interest in Bangalore Airport on closing of the transaction.

Refer to Note 6 (Investments in Associates) to the interim consolidated financial statements for the three months ended March 31, 2023 for additional details on these transactions.

## Net gains on investments

- Net gains on investments of \$771.2 in the first quarter of 2023 consisted of the following:

	First quarter of 2023		
	2023		
	Net realized gains (losses)	Net change in unrealized gains	Net gains on investments
Equity exposures	172.7	237.7	410.4
Bonds	(331.9)	650.9	319.0
Other	(63.1)	104.9	41.8
	<u>(222.3)</u>	<u>993.5</u>	<u>771.2</u>

- Net gains on equity exposures of \$410.4 was primarily comprised of net gains on common stocks (\$301.1), convertible debentures and preferred stocks (\$32.2), equity derivatives (inclusive of net gains of \$139.8 on equity total return swaps that the company continued to hold on Fairfax subordinate voting shares) and realized gains on the disposition of the company's equity accounted investment in Resolute (\$44.2 primarily related to the CVR which provides holders with the right to a share of any future softwood lumber duty deposit refunds).
- Net gains on bonds of \$319.0 in the first quarter of 2023 was principally comprised of net gains on U.S. treasuries of \$216.9 and net gains of \$55.8 on corporate and other bonds. At March 31, 2023 the company's fixed income portfolio duration increased from approximately 1.6 years at December 31, 2022 to approximately 2.5 years at quarter end, with \$14.1 billion remaining invested in cash and principally short-dated investments (comprised of cash, short term investments and the bond portfolio invested in short-dated U.S treasuries), enabling the company to benefit significantly from increased interest income in the remainder of 2023 and provides an opportunity for the portfolio to be deployed into longer-dated bonds.

## Financial Condition

- Maintaining an emphasis on financial soundness, the company held \$971.6 of cash and investments at the holding company at March 31, 2023 compared to \$1,345.8 at December 31, 2022, with its \$2.0 billion unsecured revolving credit facility primarily undrawn. In the second quarter of 2023, Brit will pay a special dividend of approximately \$275 to the holding company as a result of the sale of its Managing General Underwriter operations, Ambridge. Holding company cash and investments, as previously described, supports the company's decentralized structure and enables the company to deploy capital efficiently to its insurance and reinsurance companies.
- At March 31, 2023 the excess of fair value over carrying value of investments in non-insurance associates and market traded consolidated non-insurance subsidiaries was \$439.1 compared to \$310.0 at December 31, 2022. The pre-tax excess of \$439.1 is not reflected in the company's book value per share, but is regularly reviewed by management as an indicator of investment performance. Refer to the Financial Condition of this MD&A, under the heading Book Value Per Basic Share, for details.
- The company's total debt to total capital ratio, excluding non-insurance companies, improved to 22.9% at March 31, 2023 compared to 23.7% at December 31, 2022, reflecting the strong net earnings in the quarter, with no significant holding company debt maturities until 2024.
- There were no significant acquisitions or divestitures that closed during the first quarter of 2023. The following transactions closed subsequent to the quarter or are anticipated to close in 2023, with the impact not yet reflected in the company's book value per share:
  - Sale of Ambridge Group by Brit** - On May 10, 2023 Brit completed the sale of Ambridge Group ("Ambridge"), its Managing General Underwriter operations, to Amynta Group. In the second quarter of 2023 Brit will deconsolidate the assets and liabilities of Ambridge, record a pre-tax gain of approximately \$255 (prior to ascribing any fair value to the potential additional receivable) and will pay a special dividend of approximately \$275 to the holding company as a result of the net proceeds received from the sale of Ambridge.
  - Acquisition of additional interest in Gulf Insurance** - On April 19, 2023 the company entered into an agreement pursuant to which it will acquire all of the shares of Gulf Insurance Group K.S.C.P. ("Gulf Insurance") under the control of KIPCO and certain of its affiliates, representing 46.3% of the equity of Gulf Insurance. On closing of the transaction, expected to close in the second half of 2023, the company anticipates it will consolidate the assets and liabilities of Gulf Insurance, increasing its equity interest from 43.7% to a controlling interest of 90.0%, and expects it will record a pre-tax gain of approximately \$300, with changes in the company's carrying value of its equity accounted investment in Gulf Insurance, up until date of closing, impacting the pre-tax gain.

Refer to Note 12 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three months ended March 31, 2023 for additional details on the above two transactions.

- **Obtaining controlling interest in Digit Insurance** - Digit, Go Digit Insurance Limited ("Digit Insurance") and the company continued to explore all avenues under applicable law to achieve the company's majority ownership of Digit through conversion of the company's holdings in compulsory convertible preferred shares issued by Digit. The company has not recorded any gains on its equity accounted investment in Digit, as regulatory approvals to permit the company to obtain control were still pending and as a result the company's ownership interest remained unchanged at 49.0%.
- Common shareholders' equity increased by \$883.5 to \$18,663.8 at March 31, 2023 from \$17,780.3 at December 31, 2022, primarily reflecting:
  - net earnings attributable to shareholders of Fairfax of \$1,250.0, partially offset by
  - payments of common and preferred share dividends of \$257.3, and
  - purchases of 156,685 subordinate voting shares for cancellation for cash consideration of \$100.0, or \$638.22 per share.
- Book value per basic share was \$803.49 at March 31, 2023 compared to \$762.28 at December 31, 2022, representing an increase per basic share in the first quarter of 2023 of 5.4% (an increase of 6.8% adjusted to include the \$10.00 per common share dividend paid in the first quarter of 2023). At March 31, 2023 there were 23,228,539 common shares effectively outstanding.

## Sources of Income

Net premiums written, net insurance revenue, and other sources of earned income in the consolidated financial statements for the first quarter of 2023 and 2022 were comprised as follows.

	First quarter	
	2023	2022
Net premiums written:		
North American Insurers	1,558.2	1,521.9
Global Insurers and Reinsurers	3,514.4	3,284.5
International Insurers and Reinsurers	546.8	490.9
Property and Casualty Insurance and Reinsurance	5,619.4	5,297.3
Life insurance and Run-off	43.7	45.4
<b>Consolidated net premiums written</b>	<b>5,663.1</b>	<b>5,342.7</b>
Net insurance revenue:		
North American Insurers	1,607.5	1,490.0
Global Insurers and Reinsurers	3,017.9	2,689.9
International Insurers and Reinsurers	506.1	459.1
Property and Casualty Insurance and Reinsurance	5,131.5	4,639.0
Life insurance and Run-off	27.7	33.7
Eliminations and adjustments	0.7	1.7
<b>Consolidated net insurance revenue</b>	<b>5,159.9</b>	<b>4,674.4</b>
Interest and dividends	382.3	168.9
Share of profit of associates	333.8	180.6
Net gains (losses) on investments	771.2	(195.2)
Non-insurance revenue	1,558.4	1,066.3
<b>Total income</b>	<b>8,205.6</b>	<b>5,895.0</b>

Income of \$8,205.6 in the first quarter of 2023 increased from \$5,895.0 in the first quarter of 2022 principally as a result of net gains on investments compared to net losses on investments in the prior period, increases in net insurance revenue, non-insurance revenue, interest and dividends and share of profit of associates.

The increase in net insurance revenue in the first quarter of 2023 of \$485.5 (10.4%) was principally attributable to the Global Insurers and Reinsurers reporting segment, primarily reflecting increased business volumes due to continued incremental rate increases and new business, partially offset by non-renewals from increased competition in certain lines of business. Refer to Components of Net Earnings in this MD&A for details by reporting segment.

An analysis of interest and dividends, share of profit of associates and net gains (losses) on investments for the first quarter of 2023 and 2022 is provided in the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

The increase in non-insurance revenue to \$1,558.4 in the first quarter of 2023 from \$1,066.3 in the first quarter of 2022 principally reflected significantly higher business volumes at AGT.

## Sources of Net Earnings

The table below presents the sources of the company's net earnings for the three months ended March 31, 2023 and 2022 using amounts presented in note 15 (Segmented Information) to the interim consolidated financial statements for the three months ended March 31, 2023, set out in a format the company believes assists in understanding the composition and management of the company. The table shows separately the combined ratio and insurance service result for each of the Property and Casualty Insurance and Reinsurance reporting segments. Operating income (loss) as presented for the Property and Casualty Insurance and Reinsurance, Life insurance and Run-off and Non-insurance companies reporting segments includes interest and dividends and share of profit of associates, and excludes net gains (losses) on investments which are considered a less predictable source of investment income. Also excluded is net finance income (expense) from insurance contracts and reinsurance contract assets held which represents the effects of the time value of money.

	<b>First quarter</b>	
	<b>2023</b>	<b>2022</b>
<b>Combined ratios - Property and Casualty Insurance and Reinsurance</b>		
North American Insurers	94.1%	92.5%
Global Insurers and Reinsurers	93.5%	92.8%
International Insurers and Reinsurers	96.4%	97.5%
Consolidated	<b>94.0%</b>	<b>93.1%</b>
<b>Sources of net earnings</b>		
Operating income - Property and Casualty Insurance and Reinsurance:		
Insurance service result:		
North American Insurers	275.8	211.6
Global Insurers and Reinsurers	625.3	399.1
International Insurers and Reinsurers	76.6	51.2
Insurance service result	977.7	661.9
Other insurance operating expenses	(197.6)	(170.0)
	780.1	491.9
Interest and dividends	311.5	110.5
Share of profit of associates	217.7	127.5
Operating income - Property and Casualty Insurance and Reinsurance	1,309.3	729.9
Operating income - Life insurance and Run-off	3.4	44.6
Operating income (loss) - Non-insurance companies	(0.6)	27.1
Net gains (losses) on investments	771.2	(195.2)
Net finance income (expense) from insurance contracts and reinsurance contract assets held	(163.4)	419.0
Interest expense	(124.3)	(103.9)
Corporate overhead and other expense	(26.5)	(16.3)
Earnings before income taxes	1,769.1	905.2
Provision for income taxes	(365.1)	(206.4)
<b>Net earnings</b>	<b>1,404.0</b>	<b>698.8</b>
Attributable to:		
Shareholders of Fairfax	1,250.0	588.7
Non-controlling interests	154.0	110.1
	<b>1,404.0</b>	<b>698.8</b>
<b>Net earnings per share</b>	\$ 53.17	\$ 24.23
<b>Net earnings per diluted share</b>	\$ 49.38	\$ 22.67
<b>Cash dividends paid per share</b>	\$ 10.00	\$ 10.00

The table below presents the insurance service result for the property and casualty insurance and reinsurance operations reconciled to underwriting profit, a key performance measure used by the company and the property and casualty industry in which it operates. The reconciling adjustments are (i) other insurance operating expenses as presented on the consolidated statement of earnings, and (ii) the effects of discounting of losses and ceded losses on claims recorded in the period and the effects of the risk adjustment and other, which are presented in insurance service expenses and recoveries of insurance service expenses.

	First Quarter							
	2023				2022			
	North American Insurers	Global Insurers and Reinsurers	International Insurers and Reinsurers	Total	North American Insurers	Global Insurers and Reinsurers	International Insurers and Reinsurers	Total
<b>Insurance service result</b>	275.8	625.3	76.6	977.7	211.6	399.1	51.2	661.9
Other insurance operating expenses	(65.1)	(96.3)	(36.2)	(197.6)	(60.9)	(74.4)	(34.7)	(170.0)
Discounting of losses and ceded losses on claims recorded in the period	(108.7)	(302.3)	(11.4)	(422.4)	(30.5)	(128.0)	(17.2)	(175.7)
Changes in the risk adjustment and other	(12.0)	(21.2)	(10.7)	(43.9)	(10.9)	7.1	12.0	8.2
<b>Underwriting profit</b>	90.0	205.5	18.3	313.8	109.3	203.8	11.3	324.4
Interest and dividends	91.7	178.8	41.0	311.5	36.2	57.5	16.8	110.5
Share of profit of associates	54.8	127.6	35.3	217.7	40.1	81.5	5.9	127.5
<b>Adjusted operating income - Property and Casualty Insurance and Reinsurance</b>	236.5	511.9	94.6	843.0	185.6	342.8	34.0	562.4

The increase in the insurance service result from the company's property and casualty insurance and reinsurance operations in the first quarter of 2023 of \$315.8 or 47.7% was principally attributable to the Global Insurers and Reinsurers reporting segment, primarily reflecting a greater benefit from discounting losses on claims due to higher discount rates in the period resulting in reduced losses on claims included within the insurance service result and recoveries of insurance service expenses in the consolidated statement of earnings, increased business volumes and prudent expense management, partially offset by higher current period catastrophe losses as shown in the table below.

The company's property and casualty insurance and reinsurance operations produced an underwriting profit of \$313.8 (combined ratio of 94.0%) in the first quarter of 2023 compared to an underwriting profit of \$324.4 (combined ratio of 93.1%) in the first quarter of 2022, primarily reflecting the same factors as noted above in insurance service results except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the first quarter of 2023.

The following table presents the components of the company's combined ratios, a performance measure of underwriting profit, for the three months ended March 31, 2023 and 2022:

	First quarter	
	2023	2022
<b>Underwriting profit - Property and Casualty Insurance and Reinsurance</b>	313.8	324.4
Losses on claims - accident year	64.5 %	62.9 %
Commissions	16.3 %	16.8 %
Underwriting expenses	13.8 %	13.9 %
<b>Combined ratio - accident year</b>	94.6 %	93.6 %
Net favourable reserve development	(0.6)%	(0.5)%
<b>Combined ratio - calendar year</b>	94.0 %	93.1 %

Current period catastrophe losses for the three months ended March 31, 2023 and 2022 were comprised as follows:

	First quarter			
	2023		2022	
	Losses <sup>(1)</sup>	Combined ratio impact	Losses <sup>(1)</sup>	Combined ratio impact
Turkey Earthquake	93.5	1.8	—	—
Australian Floods	—	—	41.8	0.9
Other	98.4	1.9	88.4	1.9
	191.9	3.7 points	130.2	2.8 points

(1) Net of reinstatement premiums.

The commission expense ratio decreased to 16.3% in the first quarter of 2023 from 16.8% in the first quarter of 2022, principally reflecting decreases in the North American Insurers and Global Insurers and Reinsurers reporting segments primarily due to decreased average commission rates, particularly in surplus and specialty lines of business and increased commission income.

An analysis of interest and dividends, share of profit of associates and net gains (losses) on investments for the three months ended March 31, 2023 and 2022 is provided in the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

An analysis of net finance income (expense) from insurance contracts and reinsurance contract assets held for the three months ended March 31, 2023 and 2022 is provided in the Overview of Consolidated Performance section at the beginning of this MD&A.

Net earnings attributable to shareholders of Fairfax increased to \$1,250.0 (net earnings of \$53.17 per basic share and \$49.38 per diluted share) in the first quarter of 2023 from net earnings of \$588.7 (net earnings of \$24.23 per basic share and \$22.67 per diluted share) in the first quarter of 2022. The improvement in profitability in the first quarter of 2023 principally reflected increased insurance service result, net gains on investments and increases in interest and dividends and share of profit of associates, partially offset by net finance expense from insurance contracts and reinsurance contract assets held and higher provision for income taxes.

## Components of Net Earnings

### Underwriting and Operating Income

Presented below are the insurance service results, reconciled to underwriting profit, of the property and casualty insurance and reinsurance reporting segments, the insurance service results of Life Insurance and Run-off and the operating income (loss) of the Non-insurance companies reporting segment, for the three months ended March 31, 2023 and 2022. Interest and dividends, share of profit (loss) of associates and net gains (losses) on investments by reporting segment for the three months ended March 31, 2023 and 2022 are provided in the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

#### North American Insurers

	First quarter	
	2023	2022
Loss & LAE - accident year	62.6 %	59.7 %
Commissions	15.5 %	16.6 %
Underwriting expenses	17.0 %	17.0 %
<b>Combined ratio - accident year</b>	<b>95.1 %</b>	<b>93.3 %</b>
Net favourable reserve development	(1.0) %	(0.8) %
<b>Combined ratio - calendar year</b>	<b>94.1 %</b>	<b>92.5 %</b>
Gross premiums written	1,919.2	1,770.3
Net premiums written	1,558.2	1,521.9
Net insurance revenue	1,607.5	1,490.0
<b>Insurance service result</b>	<b>275.8</b>	<b>211.6</b>
Other insurance operating expenses	(65.1)	(60.9)
Discounting of losses and ceded losses on claims recorded in the period	(108.7)	(30.5)
Changes in the risk adjustment and other	(12.0)	(10.9)
<b>Underwriting profit</b>	<b>90.0</b>	<b>109.3</b>

North American Insurers reporting segment's insurance service result of \$275.8 in the first quarter of 2023 increased by \$64.2 or 30.3% primarily reflecting an increased benefit from discounting losses on claims in first quarter of 2023 due to higher discount rates in the period which resulted in reduced losses on claims and recoveries of insurance service expenses, continued growth in net insurance revenue primarily at Crum & Forster (including rate increases across most lines of business) relative to modest increases in underwriting expenses and increased net favourable prior year reserve development at Northbridge, partially offset by increased current period losses for each operating company in the North American Insurers reporting segment.

North American Insurers reporting segment produced an underwriting profit of \$90.0 and a combined ratio of 94.1% in the first quarter of 2023 compared to an underwriting profit of \$109.3 and a combined ratio of 92.5% in the first quarter of 2022. The decrease in underwriting profitability in the first quarter of 2023 primarily reflected the same factors as noted above in insurance service results except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the first quarter of 2023.

The commission expense ratio decreased to 15.5% in the first quarter of 2023 from 16.6% in the first quarter of 2022, primarily reflecting decreased average commissions in surplus and specialty, and accident and health lines at Crum & Forster and increased commission income from certain ceded lines at Northbridge.

The companies comprising the North American Insurers reporting segment had combined ratios and underwriting profit in the first quarters of 2023 and 2022 as set out in the following table:

	Combined ratios		Underwriting profit	
	First quarter		First quarter	
	2023	2022	2023	2022
Northbridge	91.1 %	87.3 %	42.0	59.2
Crum & Forster	94.7 %	94.8 %	46.7	42.2
Zenith National	99.3 %	95.4 %	1.3	7.9
<b>North American Insurers</b>	<b>94.1 %</b>	<b>92.5 %</b>	<b>90.0</b>	<b>109.3</b>

Gross premiums written on a third party basis and net insurance revenue for each operating company in the North American Insurers reporting segment for the first quarters of 2023 and 2022 are shown in the following table:

	<u>Gross premiums written</u>		<u>Net insurance revenue</u>	
	<u>First quarter</u>		<u>First quarter</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Northbridge	506.3	474.7	478.4	475.4
Crum & Forster	1,155.6	1,036.6	952.8	842.8
Zenith National	257.3	259.0	176.3	171.8
<b>North American Insurers</b>	<b>1,919.2</b>	<b>1,770.3</b>	<b>1,607.5</b>	<b>1,490.0</b>

Gross premiums written increased by 8.4% in the first quarter of 2023 primarily reflecting increased business volumes at Crum & Forster (primarily accident and health) and Northbridge (primarily property lines of business) and rate increases across most lines of business with the exception of workers' compensation business, primarily at Zenith National, which continues to experience rate decreases.

Net premiums written increased by 2.4% in the first quarter of 2023 reflecting the growth in gross premiums written, partially offset by the effect of a fronting arrangement on Crum & Forster's pet business following the sale of Pet Insurance Group and Pethealth at Crum & Forster whereby no business was retained. Net insurance revenue increased by 7.9% in the first quarter of 2023, principally reflecting the increase in net premiums written during 2023 and 2022.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to \$188.8 in the first quarter of 2023 from \$158.4 in the first quarter of 2022, primarily reflecting increased net premium collections and decreased net taxes paid at Northbridge, partially offset by increased net claims paid at Crum & Forster and Zenith National.

### ***Global Insurers and Reinsurers***

	<u>First quarter</u>	
	<u>2023</u>	<u>2022</u>
Loss & LAE - accident year	65.6 %	65.1 %
Commissions	16.4 %	16.9 %
Underwriting expenses	11.2 %	11.1 %
<b>Combined ratio - accident year</b>	<b>93.2 %</b>	<b>93.1 %</b>
Net (favourable) adverse reserve development	0.3 %	(0.3) %
<b>Combined ratio - calendar year</b>	<b>93.5 %</b>	<b>92.8 %</b>
Gross premiums written	4,287.5	4,054.3
Net premiums written	3,514.4	3,284.5
Net insurance revenue	3,017.9	2,689.9
<b>Insurance service result</b>	<b>625.3</b>	<b>399.1</b>
Other insurance operating expenses	(96.3)	(74.4)
Discounting of losses and ceded losses on claims recorded in the period	(302.3)	(128.0)
Changes in the risk adjustment and other	(21.2)	7.1
<b>Underwriting profit</b>	<b>205.5</b>	<b>203.8</b>

Global Insurers and Reinsurers reporting segment's insurance service result of \$625.3 in the first quarter of 2023 increased by \$226.2 or 56.7% primarily reflecting an increased benefit from discounting losses on claims in first quarter of 2023 due to higher discount rates in the period which resulted in reduced losses on claims and recoveries of insurance service expenses, growth in net insurance revenue at each operating company in the Global Insurers and Reinsurers reporting segment (including rate increases across most lines of business) relative to modest increases in underwriting expenses, partially offset by increased current period catastrophe losses (as set out in the table below), primarily at Odyssey Group related to the earthquake in Turkey.

Global Insurers and Reinsurers reporting segment produced an underwriting profit of \$205.5 and a combined ratio of 93.5% in the first quarter of 2023 compared to an underwriting profit of \$203.8 and a combined ratio of 92.8% in the first quarter of 2022. The modest increase in underwriting profit in the first quarter of 2023 principally reflected the same factors as noted above in insurance service results except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the first quarter of 2023.

The commission expense ratio decreased to 16.4% in the first quarter of 2023 from 16.9% in the first quarter of 2022, primarily reflecting decreased net commissions at Odyssey Group, primarily from U.S crop insurance business.

The companies comprising the Global Insurers and Reinsurers reporting segment had combined ratios and underwriting profit in the first quarters of 2023 and 2022 as set out in the following table:

	Combined ratios		Underwriting profit	
	First quarter		First quarter	
	2023	2022	2023	2022
Allied World	91.7 %	92.1 %	90.4	74.3
Odyssey Group	96.4 %	93.7 %	49.0	81.0
Brit	90.8 %	91.8 %	66.1	48.5
<b>Global Insurers and Reinsurers</b>	<b>93.5 %</b>	<b>92.8 %</b>	<b>205.5</b>	<b>203.8</b>

Catastrophe losses in the Global Insurers and Reinsurers reporting segment for the first quarters of 2023 and 2022 are as set out in the following table:

	First quarter			
	2023		2022	
	Losses <sup>(1)</sup>	Combined ratio impact	Losses <sup>(1)</sup>	Combined ratio impact
Turkey earthquake	90.3	2.8	—	—
Australian floods	—	—	41.8	1.5
Other	84.7	2.7	69.7	2.4
Total catastrophe losses	<u>175.0</u>	<u>5.5</u> points	<u>111.5</u>	<u>3.9</u> points

(1) Net of reinstatement premiums.

Gross premiums written on a third party basis and net insurance revenue for each operating company in the Global Insurers and Reinsurers reporting segment for the first quarters of 2023 and 2022 are shown in the following table:

	Gross premiums written		Net insurance revenue	
	First quarter		First quarter	
	2023	2022	2023	2022
Allied World	1,883.6	1,751.8	1,167.0	1,032.9
Odyssey Group	1,508.8	1,417.1	1,181.1	1,127.8
Brit	895.1	885.4	669.8	529.2
<b>Global Insurers and Reinsurers</b>	<b>4,287.5</b>	<b>4,054.3</b>	<b>3,017.9</b>	<b>2,689.9</b>

Gross premiums written increased by 5.8% in the first quarter of 2023, primarily reflecting increased business volumes at Allied World (primarily the Global Reinsurance segment relating to property lines of business) and Odyssey Group (primarily relating to U.S. property reinsurance including a large quota share agreement covering homeowners risks and U.S. casualty treaty). Net premiums written increased by 7.0% in the first quarter of 2023, reflecting the growth in gross premiums written at all operating companies, with Allied World's growth in net premiums written outpacing the growth in gross premiums written as a result of non-renewing property catastrophe quota share retro programs. Net insurance revenue increased by 12.2% in the first quarter of 2023, principally reflecting the increase in net premiums written during 2023 and 2022.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) decreased modestly to \$923.9 in the first quarter of 2023 from \$968.4 in the first quarter of 2022, primarily reflecting decreased net premium collections and increased net paid losses at Odyssey Group, partially offset by increased net premium collections at Allied World.

## International Insurers and Reinsurers

	First quarter	
	2023	2022
Loss & LAE - accident year	63.8 %	59.2 %
Commissions	18.2 %	17.4 %
Underwriting expenses	19.3 %	21.3 %
<b>Combined ratio - accident year</b>	101.3 %	97.9 %
Net favourable reserve development	(4.9)%	(0.4)%
<b>Combined ratio - calendar year</b>	96.4 %	97.5 %
Gross premiums written	886.3	791.2
Net premiums written	546.8	490.9
Net insurance revenue	506.1	459.1
<b>Insurance service result</b>	76.6	51.2
Other insurance operating expenses	(36.2)	(34.7)
Discounting of losses and ceded losses on claims recorded in the period	(11.4)	(17.2)
Changes in the risk adjustment and other	(10.7)	12.0
<b>Underwriting profit</b>	<b>18.3</b>	<b>11.3</b>

International Insurers and Reinsurers reporting segment's insurance service result of \$76.6 in the first quarter of 2023 increased by \$25.4 or 49.6% primarily reflecting an increase in the insurance service result at Fairfax Latin America principally related to an improved net benefit from discounting losses on claims and changes in risk adjustments and other, and higher net favourable prior year reserve development (principally increased net favourable development at Fairfax Asia and net favourable development at Fairfax Brasil compared to the first quarter of 2022 that included strengthening of its Agribusiness reserves).

International Insurers and Reinsurers reporting segment reported an underwriting profit of \$18.3 and a combined ratio of 96.4% in the first quarter of 2023 compared to underwriting profit of \$11.3 and a combined ratio of 97.5% in the first quarter of 2022. The increase in underwriting profit in the first quarter of 2023 principally reflected the same factors as above in insurance service results except for the net benefit from discounting losses on claims and changes in the risk adjustment and other which improved the insurance service result in the first quarter of 2023, partially offset by decreased underwriting profit at Group Re and Eurolife General (primarily due to net adverse prior year reserve development in the first quarter of 2023 compared to net favourable prior year reserve development in the first quarter of 2022).

The commission expense ratio increased to 18.2% in the first quarter of 2023 from 17.4% in the first quarter of 2022, primarily reflecting higher commission expense at Group Re and Fairfax Asia (across most operating companies).

The underwriting expense ratio decreased to 19.3% in the first quarter of 2023 from 21.3% in the first quarter of 2022, primarily reflecting lower underwriting expenses at Fairfax Asia and Fairfax Central and Eastern Europe.

The companies comprising the International Insurers and Reinsurers reporting segment had combined ratios and underwriting profit (loss) in the first quarters of 2023 and 2022 as set out in the following table:

	Combined ratios		Underwriting profit (loss)	
	First quarter		First quarter	
	2023	2022	2023	2022
Group Re	98.0 %	94.0 %	2.3	5.4
Bryte Insurance	102.6 %	101.7 %	(1.8)	(1.1)
Fairfax Asia	92.9 %	90.6 %	6.6	7.0
Fairfax Latin America	94.4 %	109.1 %	5.3	(7.8)
Fairfax Central and Eastern Europe	96.1 %	96.0 %	4.7	4.7
Eurolife General	92.1 %	79.0 %	1.2	3.1
<b>International Insurers and Reinsurers</b>	<b>96.4 %</b>	<b>97.5 %</b>	<b>18.3</b>	<b>11.3</b>

Gross premiums written on a third party basis and net insurance revenue for each operating company in the International Insurers and Reinsurers reporting segment for the first quarters of 2023 and 2022 are shown in the following table:

	Gross premiums written		Net insurance revenue	
	First quarter		First quarter	
	2023	2022	2023	2022
Group Re	38.4	33.7	90.4	71.4
Bryte Insurance	103.4	109.6	76.6	82.5
Fairfax Asia	296.0	217.1	83.3	65.1
Fairfax Latin America	255.0	255.6	123.5	109.6
Fairfax Central and Eastern Europe	170.8	154.9	114.0	109.8
Eurolife General	22.7	20.3	18.3	20.7
<b>International Insurers and Reinsurers</b>	<b>886.3</b>	<b>791.2</b>	<b>506.1</b>	<b>459.1</b>

Gross premiums written increased by 12.0% in the first quarter of 2023, principally reflecting increases at Fairfax Asia (primarily at Singapore Re due to increases in renewals, rate increases and new business and at Pacific Insurance across its property, motor, engineering and accident lines) and at Fairfax Central and Eastern Europe (primarily at Polish Re across its property and agricultural lines of business and at Colonnade Insurance). Net premiums written increased by 11.4% in the first quarter of 2023 consistent with the growth in gross premiums written. Net insurance revenue increased by 10.2% in the first quarter of 2023, principally reflecting the increase in net premiums written during 2023.

### *Life Insurance and Run-off*

	First quarter					
	2023			2022		
	Eurolife	Run-off	Total	Eurolife	Run-off	Total
Net premiums written	43.7	—	43.7	45.4	—	45.4
Insurance revenue	25.7	3.1	28.8	28.9	5.2	34.1
Insurance service expenses	(25.1)	(11.1)	(36.2)	(34.0)	6.5	(27.5)
Net reinsurance result	(0.6)	16.3	15.7	0.5	(3.2)	(2.7)
<b>Insurance service result</b>	<b>—</b>	<b>8.3</b>	<b>8.3</b>	<b>(4.6)</b>	<b>8.5</b>	<b>3.9</b>

Eurolife primarily underwrites traditional life insurance policies (endowments, deferred annuities, whole life and term life), group benefits including retirement benefits, and accident and health insurance policies. Run-off manages the companies run-off businesses in the U.S and continues to manage essentially all of the company's latent reserves.

## Non-insurance companies

	First quarter				
	2023				
	Restaurants and retail	Fairfax India	Thomas Cook India	Other <sup>(1)</sup>	Total <sup>(2)</sup>
Revenue	379.0	68.1	186.8	924.5	1,558.4
Expenses	(371.5)	(70.4)	(185.5)	(998.8)	(1,626.2)
Pre-tax income (loss) before interest expense and other	7.5	(2.3)	1.3	(74.3)	(67.8)
Interest and dividends	2.5	10.9	—	0.4	13.8
Share of profit of associates	—	52.8	0.1	0.5	53.4
Operating income (loss)	10.0	61.4	1.4	(73.4)	(0.6)

	First quarter				
	2022				
	Restaurants and retail	Fairfax India	Thomas Cook India	Other <sup>(1)</sup>	Total <sup>(2)</sup>
Revenue	347.5	44.9	84.3	589.6	1,066.3
Expenses	(333.4)	(45.8)	(86.4)	(609.4)	(1,075.0)
Pre-tax income (loss) before interest expense and other	14.1	(0.9)	(2.1)	(19.8)	(8.7)
Interest and dividends	2.2	(2.1)	—	0.1	0.2
Share of profit of associates	—	34.6	0.3	0.7	35.6
Operating income (loss)	16.3	31.6	(1.8)	(19.0)	27.1

(1) Comprised primarily of AGT, Dexterra Group, Boat Rocker, Farmers Edge and Grivalia Hospitality (consolidated on July 5, 2022).

(2) Amounts as presented in note 15 (Segmented Information) to the interim consolidated financial statements for the three months ended March 31, 2023.

### Restaurants and retail

The increase in revenue and expenses of Restaurants and retail in the first quarter of 2023 primarily reflected higher business volumes at Recipe, principally due to no COVID-19 related restrictions in the first quarter of 2023 compared to the first quarter of 2022. The increase in expenses in the first quarter of 2023 also reflected higher costs of sales relating to food inflation and compensation expense at Recipe.

### Fairfax India

The increase in revenue and expenses of Fairfax India in the first quarter of 2023 primarily reflected the consolidation of Jaynix and Maxop by Fairfax India during 2022, partially offset by lower business volumes at Fairchem Organics.

### Thomas Cook India

The increase in the revenue and expenses of Thomas Cook India in the first quarter of 2023 primarily reflected higher business volumes resulting from increased domestic and international travel resulting from easing of COVID-19 related travel restrictions.

### Other

The increase in revenue and expenses of Other in the first quarter of 2023 primarily reflected higher business volumes at AGT and Dexterra Group and the consolidation of Grivalia Hospitality (on July 5, 2022), partially offset by the deconsolidation of Pethealth (deconsolidated on October 31, 2022).

## Investments

Refer to the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, for details of interest and dividends and share of profit of associates.

### Net Gains (Losses) on Investments

Net gains (losses) on investments for the three months ended March 31, 2023 and 2022 were comprised as follows:

	First quarter					
	2023			2022		
	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	15.5	285.6	301.1	36.4	202.6	239.0
Bonds and preferred stock - convertible	—	32.2	32.2	1.4	(93.8)	(92.4)
Other equity derivatives <sup>(1)(2)</sup>	116.2	(80.1)	36.1	41.2	72.2	113.4
Disposition of non-insurance associates	44.1	—	44.1	2.3	—	2.3
Other	(3.1)	—	(3.1)	0.6	—	0.6
<b>Long equity exposures and financial effects</b>	<b>172.7</b>	<b>237.7</b>	<b>410.4</b>	<b>81.9</b>	<b>181.0</b>	<b>262.9</b>
Bonds	(327.3)	654.4	327.1	1.7	(564.3)	(562.6)
U.S. treasury bond forward contracts	(4.6)	(3.5)	(8.1)	19.3	49.2	68.5
<b>Total bonds</b>	<b>(331.9)</b>	<b>650.9</b>	<b>319.0</b>	<b>21.0</b>	<b>(515.1)</b>	<b>(494.1)</b>
Foreign currency	(39.1)	48.7	9.6	46.7	(2.2)	44.5
Other	(24.0)	56.2	32.2	(7.7)	(0.8)	(8.5)
<b>Net gains (losses) on investments</b>	<b>(222.3)</b>	<b>993.5</b>	<b>771.2</b>	<b>141.9</b>	<b>(337.1)</b>	<b>(195.2)</b>

(1) Other equity derivatives include long equity total return swaps, equity warrants and options and the Asset Value Loan Notes ("AVLNs") entered with RiverStone Barbados.

(2) Amounts recorded in net realized gains (losses) include net gains (losses) on total return swaps where the counterparties are required to cash-settle monthly or quarterly the market value movement since the previous reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.

**Long equity exposure and financial effects:** During the first quarter of 2023 the company's long equity exposures produced net gains of \$410.4 compared to the first quarter of 2022 long equity exposures that produced net gains of \$262.9. Net gains on long equity exposures of \$410.4 in the first quarter of 2023 were primarily comprised of net gains on common stocks (\$301.1) and realized gains on the disposition of Resolute (\$44.2). Net gains on long equity exposures of \$262.9 in the first quarter of 2022 were primarily comprised of net gains on common stocks (\$239.0), long equity total return swaps (\$102.7) and equity warrants and options (\$80.5), partially offset by net losses on convertible bonds and preferred stocks (\$92.4) and the AVLNs entered with RiverStone Barbados (\$69.3).

**Bonds:** Net gains on bonds of \$319.0 in the first quarter of 2023 (2022 - net losses of \$494.1) were primarily comprised of net gains on U.S. treasury bonds (\$216.9) and corporate and other bonds (\$55.8), partially offset by the company's investment in U.S. treasury bond forward contracts that produced net losses of \$8.1 in the first quarter of 2023 (2022 - net gains of \$68.5).

**Foreign currency:** Net gains on foreign currency in the first quarter of 2023 of \$9.6 (2022 - \$44.5) was comprised of foreign currency net gains on investing activities (principally related to strengthening of the Brazilian real relative to the U.S. dollar).

## Interest Expense

Interest expense as presented in the consolidated statement of earnings for the three months ended March 31, 2023 and 2022 was comprised as follows:

	<b>First quarter</b>	
	<b>2023</b>	<b>2022</b>
Interest expense on borrowings:		
Holding company	67.0	61.5
Insurance and reinsurance companies	14.8	15.5
Non-insurance companies <sup>(1)</sup>	29.5	14.7
	<u>111.3</u>	<u>91.7</u>
Interest expense on lease liabilities: <sup>(2)</sup>		
Holding company and insurance and reinsurance companies	3.6	3.6
Non-insurance companies	9.4	8.6
	<u>13.0</u>	<u>12.2</u>
Interest expense	<u>124.3</u>	<u>103.9</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.

The increase in interest expense on borrowings at the holding company in the first quarter of 2023 principally reflected the issuance in August 2022 of the \$750.0 principal amount of 5.625% unsecured senior notes due 2032.

The increase in interest expense on borrowings at the non-insurance companies in the first quarter of 2023 principally reflected movements of certain redemption liabilities primarily at Boat Rocker, increased borrowings at Recipe as part of the privatization transaction on October 28, 2022 and at AGT, and higher interest rates on credit facilities across a number of non-insurance companies.

Interest expense by reporting segment is set out in note 15 (Segmented Information) to the interim consolidated financial statements for the three months ended March 31, 2023.

## 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 of associates.

	<b>First quarter</b>	
	<b>2023</b>	<b>2022</b>
Fairfax corporate overhead	71.6	42.9
Subsidiary holding companies' corporate overhead	12.4	13.0
Subsidiary holding companies' non-cash intangible asset amortization and goodwill impairment charges <sup>(1)</sup>	22.5	22.9
Corporate and other expenses <sup>(2)</sup>	106.5	78.8
Holding company interest and dividends	(6.9)	(16.4)
Holding company share of profit of associates	(41.3)	(9.3)
Investment management and administration fees and other <sup>(3)</sup>	(31.8)	(36.8)
	<u>26.5</u>	<u>16.3</u>

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

(2) Presented as Corporate and other expenses in the consolidated statement of earnings, and as Corporate overhead and other in note 15 (Segmented Information), to the interim consolidated financial statements for the three months ended March 31, 2023.

(3) Presented as a consolidation elimination in note 15 (Segmented Information) to the interim consolidated financial statements for the three months ended March 31, 2023.

Fairfax corporate overhead increased to \$71.6 in the first quarter of 2023 from \$42.9 in the first quarter of 2022, primarily reflecting increases in charitable donations and employee compensation expenses.

Investment management and administration fees and other of \$31.8 in the first quarter of 2023 (2022 - \$36.8) were primarily comprised of investment and administration fee income of \$28.1 (2022 - \$35.1). Interest and dividends, share of profit of associates and net gains (losses) on investments attributable to the Corporate and Other reporting segment are set out in the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

## Income Taxes

Details of the provision for (recovery of) income taxes in the first quarters of 2023 and 2022 are provided in note 13 (Income Taxes) to the interim consolidated financial statements for the three months ended March 31, 2023.

## Segmented Balance Sheet

The company's segmented balance sheets as at March 31, 2023 and December 31, 2022 present the assets, liabilities and non-controlling interests in each of the company's reporting segments in accordance with the company's IFRS accounting policies and includes, where applicable, acquisition accounting adjustments principally related to goodwill and intangible assets which arose on initial acquisition of the subsidiaries or on a subsequent step acquisition. Certain of the company's subsidiaries hold equity interests in other Fairfax subsidiaries ("affiliates") which are carried at cost. Affiliated insurance and reinsurance balances are not shown separately and are eliminated in "Corporate and eliminations".

	March 31, 2023					December 31, 2022				
	Property and casualty insurance and reinsurance companies	Life insurance and Run-off	Non-insurance companies	Corporate and eliminations <sup>(3)</sup>	Consolidated	Property and casualty insurance and reinsurance companies	Life insurance and Run-off	Non-insurance companies	Corporate and eliminations <sup>(3)</sup>	Consolidated
<b>Assets</b>										
Holding company cash and investments	339.6	—	—	632.0	971.6	316.6	—	—	1,029.2	1,345.8
Insurance contract receivables	604.5	9.4	—	—	613.9	636.2	12.7	—	—	648.9
Portfolio investments <sup>(1)</sup>	51,141.2	4,425.9	2,169.9	(1,098.5)	56,638.5	49,038.9	4,275.5	2,119.3	(1,109.0)	54,324.7
Insurance contract assets	45.2	—	—	(45.2)	—	46.4	—	—	(46.4)	—
Reinsurance contract assets held	10,556.9	408.6	—	(1,073.9)	9,891.6	10,348.5	413.2	—	(1,070.2)	9,691.5
Deferred income tax assets	(136.1)	0.8	52.9	215.3	132.9	(40.6)	(6.4)	54.5	129.8	137.3
Goodwill and intangible assets	3,435.9	7.4	2,293.5	0.4	5,737.2	3,396.8	7.5	2,284.4	0.3	5,689.0
Due from affiliates	213.9	370.2	—	(584.1)	—	206.3	364.1	—	(570.4)	—
Other assets	1,822.1	843.8	4,254.1	263.6	7,183.6	1,673.7	832.5	4,153.2	321.9	6,981.3
Investments in Fairfax insurance and reinsurance affiliates <sup>(2)</sup>	167.2	29.3	—	(196.5)	—	167.1	29.3	—	(196.4)	—
<b>Total assets</b>	<b>68,190.4</b>	<b>6,095.4</b>	<b>8,770.4</b>	<b>(1,886.9)</b>	<b>81,169.3</b>	<b>65,789.9</b>	<b>5,928.4</b>	<b>8,611.4</b>	<b>(1,511.2)</b>	<b>78,818.5</b>
<b>Liabilities</b>										
Accounts payable and accrued liabilities	1,962.6	319.6	2,469.3	167.3	4,918.8	1,901.8	257.6	2,430.7	216.5	4,806.6
Derivative obligations	96.5	—	56.3	148.5	301.3	113.5	—	58.2	19.3	191.0
Deferred income tax liabilities	585.9	43.9	252.2	189.0	1,071.0	516.7	43.2	252.4	55.7	868.0
Insurance contract payable	795.8	644.2	—	—	1,440.0	785.4	617.3	—	—	1,402.7
Insurance contract liabilities	37,768.1	3,961.1	—	(1,037.8)	40,691.4	36,967.8	4,009.2	—	(1,070.4)	39,906.6
Reinsurance contract liabilities held	66.7	—	—	(66.7)	—	37.6	(0.2)	—	(37.4)	—
Due to affiliates	14.5	0.1	67.8	(82.4)	—	17.1	0.4	82.4	(99.9)	—
Borrowings - holding company and insurance and reinsurance companies	727.5	—	—	5,904.2	6,631.7	733.4	—	—	5,887.6	6,621.0
Borrowings - non insurance companies	—	—	2,079.6	7.0	2,086.6	—	—	1,996.9	7.0	2,003.9
<b>Total liabilities</b>	<b>42,017.6</b>	<b>4,968.9</b>	<b>4,925.2</b>	<b>5,229.1</b>	<b>57,140.8</b>	<b>41,073.3</b>	<b>4,927.5</b>	<b>4,820.6</b>	<b>4,978.4</b>	<b>55,799.8</b>
<b>Equity</b>										
Shareholders' equity attributable to shareholders of Fairfax	23,813.8	1,126.5	2,175.0	(7,116.0)	19,999.3	22,504.1	1,000.9	2,100.4	(6,489.6)	19,115.8
Non-controlling interests	2,359.0	—	1,670.2	—	4,029.2	2,212.5	—	1,690.4	—	3,902.9
<b>Total equity</b>	<b>26,172.8</b>	<b>1,126.5</b>	<b>3,845.2</b>	<b>(7,116.0)</b>	<b>24,028.5</b>	<b>24,716.6</b>	<b>1,000.9</b>	<b>3,790.8</b>	<b>(6,489.6)</b>	<b>23,018.7</b>
<b>Total liabilities and total equity</b>	<b>68,190.4</b>	<b>6,095.4</b>	<b>8,770.4</b>	<b>(1,886.9)</b>	<b>81,169.3</b>	<b>65,789.9</b>	<b>5,928.4</b>	<b>8,611.4</b>	<b>(1,511.2)</b>	<b>78,818.5</b>

(1) Includes intercompany investments in Fairfax non-insurance subsidiaries carried at cost that are eliminated on consolidation.

(2) Intercompany investments in Fairfax insurance and reinsurance subsidiaries carried at cost that are eliminated on consolidation.

(3) Corporate and eliminations includes the Fairfax holding company, subsidiary intermediate holding companies, and consolidating and eliminating entries. The most significant of those entries are the elimination of intercompany reinsurance provided by Group Re, and reinsurance provided by Odyssey Group and Allied World to affiliated primary insurers.

## Financial Risk Management

There were no significant changes to the company's risk exposures or the processes used by the company for managing those risk exposures at March 31, 2023 compared to those identified at December 31, 2022 and disclosed in the company's 2022 Annual Report. For details see note 14 (Financial Risk Management) to the interim consolidated financial statements for the three months ended March 31, 2023.

## Financial Condition

### Capital Management

See note 14 (Financial Risk Management, under the heading "Capital Management") to the interim consolidated financial statements for the three months ended March 31, 2023.

### Liquidity

Operating, investing and financing cash flow activities discussed below are presented in the consolidated statement of cash flows to the interim consolidated financial statements for the three months ended March 31, 2023, except for "cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL)" which is presented in the Glossary of Non-GAAP and Other Financial Measures at the end of this MD&A.

#### *Operating activities for the three months ended March 31, 2023 and 2022*

Cash provided by operating activities (excluding net purchases of investments classified at FVTPL) increased to \$1,156.1 in 2023 from \$1,091.9 in 2022, principally reflecting higher interest and dividends received and higher net premium collections, partially offset by higher net paid losses.

#### *Investing activities for the three months ended March 31, 2023 and 2022*

Sales of investments in associates of \$682.2 in 2023 primarily reflected proceeds from the sale of the company's investment in Resolute for cash consideration of \$622.5 (\$20.50 per Resolute common share).

Purchases of investments in associates of \$216.7 in 2023 primarily reflected increased investment in Atlas common shares through the exercise of equity warrants for cash consideration of \$78.7 and purchases of certain securities held through AVLNs entered with RiverStone Barbados.

#### *Financing activities for the three months ended March 31, 2023 and 2022*

Purchases of subsidiary shares from non-controlling interests of \$122.0 in 2022 primarily reflected the company's acquisition of additional common shares of Fairfax India from non-controlling interests and purchases of common shares under normal course issuer bids by Fairfax India.

#### *Holding company*

Holding company cash and investments at March 31, 2023 was \$971.6 (\$823.2 net of \$148.4 of holding company derivative obligations) compared to \$1,345.8 (\$1,326.4 net of \$19.4 of holding company derivative obligations) at December 31, 2022.

Significant cash and investment transactions during the first quarter of 2023 included the payment of common and preferred share dividends of \$257.3, purchases of 156,685 subordinate voting shares for cancellation for cash consideration of \$100.0 and capital contributions to U.S. Run-off of \$85.0, partially offset by dividends received from the insurance and reinsurance companies of \$79.0.

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

The company believes that holding company cash and investments, net of holding company derivative obligations, at March 31, 2022 of \$823.2 provides adequate liquidity to meet the holding company's remaining known commitments in 2023. The holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries and Fairfax India, investment income on its holdings of cash and investments, and dividends from its insurance and reinsurance subsidiaries. In the second quarter of 2023, Brit will pay a special dividend of approximately \$275 to the holding company as a result of the net proceeds received from the sale of its Managing General Underwriter operations, Ambridge. To further augment its liquidity, the holding company can draw upon its \$2.0 billion unsecured revolving credit facility.

The holding company's known significant commitments for the remainder of 2023 consist of payment of interest and corporate overhead expenses, preferred share dividends, income tax payments, potential payments on amounts borrowed, if any, from the revolving credit facility and other investment related activities and the anticipated acquisition of additional interest in Gulf Insurance. The company may also in 2023 make payments related to its insurance and reinsurance companies to support their underwriting initiatives in favourable insurance markets.

Additionally, pursuant to the sale of RiverStone Barbados in 2021, the company, through financial instruments referred to as AVLNs, had guaranteed the value of certain securities held by the purchaser and certain affiliates thereof until such time that the securities are purchased by or sold at the direction of Hamblin Watsa, of which \$393.0 remain held at March 31, 2023 and are required to be purchased or sold prior to the end of 2023.

#### *Insurance and reinsurance companies*

During the first three months of 2023 subsidiary cash and short term investments (including cash and short term investments pledged for derivative obligations) decreased by \$1,907.8 primarily due to net re-investments of proceeds on sales and maturities of U.S. treasury short-term investments into longer-dated U.S treasury bonds for net purchases of \$1,770.0.

### **Book Value Per Basic Share**

#### *Book Value Per Basic Share*

Common shareholders' equity at March 31, 2023 was \$18,663.8 or \$803.49 per basic share compared to \$17,780.3 or \$762.28 per basic share at December 31, 2022, representing an increase per basic share in the first quarter of 2023 of 5.4% (an increase of 6.8% adjusted for the \$10.00 per common share dividend paid in the first quarter of 2023). During the first quarter of 2023 the number of basic shares decreased primarily as a result of purchases of 156,685 subordinate voting shares for cancellation, partially offset by net share-based payment awards of 59,919 subordinate voting shares from treasury. At March 31, 2023 there were 23,228,539 common shares effectively outstanding.

#### *Excess (deficiency) of fair value over adjusted carrying value*

The table below presents the pre-tax excess (deficiency) of fair value over adjusted carrying value of investments in non-insurance associates and certain consolidated non-insurance subsidiaries the company considers to be portfolio investments. Those amounts, while not included in the calculation of book value per basic share, are regularly reviewed by management as an indicator of investment performance. The aggregate pre-tax excess of fair value over adjusted carrying value of these investments at March 31, 2023 was \$439.1 (December 31, 2022 - \$310.0).

	March 31, 2023			December 31, 2022		
	Fair value	Adjusted carrying value	Excess (deficiency) of fair value over adjusted carrying value	Fair value	Adjusted carrying value	Excess (deficiency) of fair value over adjusted carrying value
Non-insurance associates <sup>(1)</sup> :						
Eurobank	1,578.9	1,632.0	(53.1)	1,344.5	1,507.6	(163.1)
Poseidon (formerly known as Atlas)	2,035.8	1,637.1	398.7	1,864.7	1,506.3	358.4
Quess	230.4	484.9	(254.5)	222.2	447.1	(224.9)
All other	1,887.2	1,579.9	307.3	2,252.9	1,957.0	295.9
	<u>5,732.3</u>	<u>5,333.9</u>	<u>398.4</u>	<u>5,684.3</u>	<u>5,418.0</u>	<u>266.3</u>
Non-insurance companies <sup>(2)</sup> :						
Fairfax India	640.0	533.7	106.3	585.3	517.0	68.3
Thomas Cook India	232.1	213.5	18.6	292.8	214.0	78.8
Other <sup>(3)</sup>	159.6	243.8	(84.2)	174.8	278.2	(103.4)
	<u>1,031.7</u>	<u>991.0</u>	<u>40.7</u>	<u>1,052.9</u>	<u>1,009.2</u>	<u>43.7</u>
	<u>6,764.0</u>	<u>6,324.9</u>	<u>439.1</u>	<u>6,737.2</u>	<u>6,427.2</u>	<u>310.0</u>

(1) The fair values and adjusted carrying values of non-insurance associates represent their fair values and carrying values as presented in note 6 (Investments in Associates) to the interim consolidated financial statements for the three months ended March 31, 2023, and excludes investments in associates held by Fairfax India (including Bangalore Airport), Thomas Cook India (including its share of Quess), Dexterra Group and Boat Rocker.

(2) The fair values of the company's investments in market traded non-insurance companies - Fairfax India, Thomas Cook India, Dexterra Group, Boat Rocker and Farmers Edge - are calculated as the company's pro rata ownership share of each subsidiary's market capitalization, as determined by traded share prices at the financial statement date. The adjusted carrying value of each subsidiary represents its total equity as included in the company's interim consolidated financial statements for the three months ended March 31, 2023, less the subsidiary's non-controlling interests as included in note 11 (Total Equity) to those interim consolidated financial statements.

(3) Comprised of Dexterra Group, Boat Rocker and Farmers Edge.

### Normal course issuer bid

Following the expiry on September 29, 2022 of its then current normal course issuer bid, on September 30, 2022 the company commenced a normal course issuer bid pursuant to which it is authorized, until expiry of the bid on September 29, 2023, to acquire up to 2,381,484 subordinate voting shares, 751,034 Series C preferred shares, 178,415 Series D preferred shares, 543,613 Series E preferred shares, 179,629 Series F preferred shares, 771,984 Series G preferred shares, 228,015 Series H preferred shares, 1,042,010 Series I preferred shares, 157,989 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.

## Accounting and Disclosure Matters

### Internal Control Over Financial Reporting

As a result of the adoption of IFRS 17 on January 1, 2023, the company revised certain of its internal controls over financial reporting at its insurance and reinsurance subsidiaries and at the holding company. These significant changes to internal controls were principally for implementation governance and controls over the initial implementation of IFRS 17 and the ongoing controls in the company's actuarial and financial reporting processes, including the adoption of IFRS 17 accounting policies and significant judgments and estimates, the use of new information technology systems and the reconciliation of financial data between IFRS 4 and IFRS 17.

### Adoption of IFRS 17 Insurance Contracts

The company's adoption of IFRS 17 on January 1, 2023 is described in note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three months ended March 31, 2023. The supplemental financial information below summarizes the reclassification and measurement adjustments applied to the restated consolidated balance sheets as at January 1, 2022 and December 31, 2022, and to the restated consolidated statement of earnings for the three months ended March 31, 2022.

#### INFORMATION ON CONSOLIDATED BALANCE SHEET

as at January 1, 2022  
(US\$ millions)

Financial statement line under IFRS 4	Notes	As previously reported	Reclassification adjustments	Measurement adjustments	Restated	Financial statement line under IFRS 17
<b>Assets</b>						
Holding company cash and investments		1,478.3	—	—	1,478.3	Holding company cash and investments
Insurance contract receivables	1	6,883.2	(6,324.9)	91.8	650.1	Insurance contract receivables
Deferred premium acquisition costs	2	1,924.1	(1,924.1)	—	—	
Recoverable from reinsurers	3	12,090.5	(2,566.2)	368.8	9,893.1	Reinsurance contract assets held
Deferred income tax assets		522.4	—	(73.3)	449.1	Deferred income tax assets
All other assets		63,746.9	(64.6)	(28.5)	63,653.8	All other assets
Total assets		86,645.4	(10,879.8)	358.8	76,124.4	Total assets
<b>Liabilities</b>						
Deferred income tax liabilities		598.8	—	(12.3)	586.5	Deferred income tax liabilities
Insurance contract payables	3, 4	4,493.5	(2,444.8)	(222.7)	1,826.0	Insurance contract payables
Insurance contract liabilities	1, 2, 4	47,346.5	(8,062.3)	458.0	39,742.2	Insurance contract liabilities
All other liabilities		12,891.3	(372.7)	(25.1)	12,493.5	All other liabilities
Total liabilities		65,330.1	(10,879.8)	197.9	54,648.2	Total liabilities
<b>Equity</b>						
Common shareholders' equity	See table below	15,049.6	—	150.2	15,199.8	Common shareholders' equity
Preferred stock		1,335.5	—	—	1,335.5	Preferred stock
Shareholders' equity attributable to shareholders of Fairfax		16,385.1	—	150.2	16,535.3	Shareholders' equity attributable to shareholders of Fairfax
Non-controlling interests		4,930.2	—	10.7	4,940.9	Non-controlling interests
Total equity		21,315.3	—	160.9	21,476.2	Total equity
		86,645.4	(10,879.8)	358.8	76,124.4	
<b>Book value per basic share</b>		<b>\$ 630.60</b>		<b>\$ 6.29</b>	<b>\$ 636.89</b>	

**INFORMATION ON CONSOLIDATED BALANCE SHEET**

as at December 31, 2022

(US\$ millions)

Financial statement line under IFRS 4	Notes	As previously reported	Reclassification adjustments	Measurement adjustments	Restated	Financial statement line under IFRS 17
<b>Assets</b>						<b>Assets</b>
Holding company cash and investments		1,345.8	—	—	1,345.8	Holding company cash and investments
Insurance contract receivables	1	7,907.5	(7,214.0)	(44.6)	648.9	Insurance contract receivables
Deferred premium acquisition costs	2	2,170.3	(2,170.3)	—	—	
Recoverable from reinsurers	3	13,115.8	(3,045.6)	(378.7)	9,691.5	Reinsurance contract assets held
Deferred income tax assets		492.1	—	(354.8)	137.3	Deferred income tax assets
All other assets		67,093.6	(75.2)	(23.4)	66,995.0	All other assets
Total assets		<u>92,125.1</u>	<u>(12,505.1)</u>	<u>(801.5)</u>	<u>78,818.5</u>	Total assets
<b>Liabilities</b>						<b>Liabilities</b>
Deferred income tax liabilities		496.7	—	371.3	868.0	Deferred income tax liabilities
Insurance contract payables	3, 4	5,061.9	(3,561.6)	(97.6)	1,402.7	Insurance contract payables
Insurance contract liabilities	1, 2, 4	52,199.6	(8,565.2)	(3,727.8)	39,906.6	Insurance contract liabilities
All other liabilities		14,031.1	(378.3)	(30.3)	13,622.5	All other liabilities
Total liabilities		<u>71,789.3</u>	<u>(12,505.1)</u>	<u>(3,484.4)</u>	<u>55,799.8</u>	Total liabilities
<b>Equity</b>						<b>Equity</b>
Common shareholders' equity	See table below	15,340.7	—	2,439.6	17,780.3	Common shareholders' equity
Preferred stock		1,335.5	—	—	1,335.5	Preferred stock
Shareholders' equity attributable to shareholders of Fairfax		16,676.2	—	2,439.6	19,115.8	Shareholders' equity attributable to shareholders of Fairfax
Non-controlling interests		3,659.6	—	243.3	3,902.9	Non-controlling interests
Total equity		<u>20,335.8</u>	<u>—</u>	<u>2,682.9</u>	<u>23,018.7</u>	Total equity
		<u>92,125.1</u>	<u>(12,505.1)</u>	<u>(801.5)</u>	<u>78,818.5</u>	
<b>Book value per basic share</b>		<b>\$ 657.68</b>		<b>\$ 104.60</b>	<b>\$ 762.28</b>	

The cumulative increases to common shareholders' equity were comprised as follows:

	December 31, 2022	January 1, 2022
Common shareholders' equity as previously reported (Book value per share at December 31, 2022 - \$657.68 and January 1, 2022 - \$630.60)	15,340.7	15,049.6
IFRS 17 adjustments:		
Discounting of provision for losses and loss adjustment expenses	4,668.7	1,536.9
Inclusion of a specific risk adjustment for non-financial risk for provision for losses and loss adjustment expenses	(1,635.5)	(1,421.8)
Acquisition cost deferral and changes in attributable expenses	443.1	385.7
Loss component net of loss recovery component	(359.6)	(387.5)
Foreign exchange and other measurement adjustments	292.3	108.5
Deferred income taxes	(726.1)	(60.9)
Non-controlling interests	(243.3)	(10.7)
	<u>2,439.6</u>	<u>150.2</u>
Common shareholders' equity as restated (Book value per share at December 31, 2022 - \$762.28 and January 1, 2022 - \$636.89)	<u>17,780.3</u>	<u>15,199.8</u>

The reclassification and measurement adjustments in the restated consolidated balance sheets above principally reflect the following:

Note	Reclassification adjustments	Measurement adjustments
1	Insurance premiums receivable, reinsurance premiums receivable and funds withheld receivable are included within insurance contract liabilities under IFRS 17.	No significant measurement adjustments.
2	Deferred premium acquisition costs are included within insurance contract liabilities under IFRS 17.	No measurement adjustments.
3	Recoverable from reinsurers, payable to reinsurers (previously included within insurance contract payables) and ceded deferred premium acquisition costs (previously included within insurance contract payables) are included within reinsurance contract assets held under IFRS 17.	Losses on claims, ceded are measured on a discounted basis using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the reinsurance contracts, and the application of a risk adjustment. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums. Also reflects the recognition of CSM and a loss recovery component.
4	Various insurance contract payables related balances (accrued commissions, accrued premium taxes, advances and deposits from policyholders and others) are included within insurance contract liabilities under IFRS 17.	Losses on claims, gross are measured on a discounted basis using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts, and the application of a risk adjustment. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums. Also reflects the recognition of CSM, a loss component, deferral of expenses and an asset for insurance acquisition cash flows.

**INFORMATION ON CONSOLIDATED STATEMENT OF EARNINGS**

 for the three months ended March 31, 2022  
 (US\$ millions except per share amounts)

Financial statement line under IFRS 4	Notes	As previously reported	Reclassification adjustments	Measurement adjustments	Restated	Financial statement line under IFRS 17
Gross premiums written		6,662.9	(6,662.9)	—	—	<i>No longer presented in the consolidated statements of earnings, refer to the company's MD&amp;A</i>
Net premiums written		5,342.7	(5,342.7)	—	—	
						<b>Insurance</b>
Gross premiums earned	1	6,023.3	(350.9)	(34.2)	5,638.2	Insurance revenue
	2		(5,000.2)	302.4	(4,697.8)	Insurance service expense
					940.4	Net insurance result
Premiums ceded to reinsurers	3	(1,245.6)	240.5	41.3	(963.8)	Cost of reinsurance
	4		824.8	(133.7)	691.1	Recoveries of insurance service expenses
					(272.7)	Net reinsurance result
					667.7	<b>Insurance service result</b>
	5		(190.3)	45.9	(144.4)	Other insurance operating expense
	6		—	513.6	513.6	Net finance income from insurance contracts
	6		—	(94.6)	(94.6)	Net finance expense from reinsurance contract assets held
					942.3	
Net premiums earned		4,777.7				
Losses on claims, gross	2	(3,795.6)	3,795.6	—	—	
Losses on claims, ceded to reinsurers	4	803.2	(803.2)	—	—	
Losses on claims, net		(2,992.4)				
Operating expenses	2, 5	(761.4)	761.4	—	—	
Commissions, net	1, 2, 3	(801.1)	801.1	—	—	
						<b>Investment income</b>
Interest and dividends		168.9	—	—	168.9	Interest and dividends
Share of profit of associates		184.1	—	(3.5)	180.6	Share of profit of associates
Net losses on investments		(214.4)	—	19.2	(195.2)	Net losses on investments
					154.3	
						<b>Other revenue and expenses</b>
Other revenue		1,066.3	—	—	1,066.3	Non-insurance revenue
Other expenses		(1,075.0)	—	—	(1,075.0)	Non-insurance expenses
Interest expense		(103.9)	—	—	(103.9)	Interest expense
			(78.8)	—	(78.8)	Corporate and other expenses
					(191.4)	
<b>Earnings before income taxes</b>		248.8	—	656.4	905.2	<b>Earnings before income taxes</b>
Provision for income taxes		(70.2)	—	(136.2)	(206.4)	Provision for income taxes
<b>Net earnings</b>		178.6	—	520.2	698.8	<b>Net earnings</b>
						<b>Attributable to:</b>
Shareholders of Fairfax		125.5	—	463.2	588.7	Shareholders of Fairfax
Non-controlling interests		53.1	—	57.0	110.1	Non-controlling interests
		178.6	—	520.2	698.8	
<b>Net earnings per share</b>		\$ 4.79			\$ 24.23	
<b>Net earnings per diluted share</b>		\$ 4.49			\$ 22.67	

The reclassification and measurement adjustments in the restated consolidated statement of earnings above principally reflect the following:

Note	Reclassification adjustments	Measurement adjustments
1	Commission expense on assumed reinsurance business is netted with insurance revenue whereas it was previously included within commissions, net.	Changes in gross earning patterns and other adjustments.
2	The following under IFRS 4 are included in insurance service expense under IFRS 17: <ul style="list-style-type: none"> <li>• losses on claims, gross;</li> <li>• gross commissions, which were previously included within commissions, net; and</li> <li>• other acquisition costs and certain operating expenses, both which were previously included within operating expenses.</li> </ul>	The amount required to bring losses on claims, gross to its net present value using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts, and the application of a risk adjustment. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums. These measurement adjustments represent a timing difference as both the effects of discounting and the application of a risk adjustment will reverse through net finance income (expense) from insurance contracts and insurance service expenses, respectively, to bring the claim to the amount that will be paid.
3	Netting of ceded commission income with the cost of reinsurance, whereas such income was previously included within commissions, net.	Changes in ceded earning patterns and other adjustments.
4	Losses on claims, ceded under IFRS 4 are presented as recoveries of insurance service expense under IFRS 17.	The amount required to bring losses on claims, ceded to reinsurers to its net present value using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the reinsurance contracts, and the application of a risk adjustment. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums. These measurement adjustments represent a timing difference as both the effects of discounting and the application of a risk adjustment will reverse through net finance income (expense) from reinsurance contract assets held and recoveries of insurance service expenses, respectively.
5	The portion of operating expenses under IFRS 4 which were determined to not be directly attributable are presented as other insurance operating expenses under IFRS 17.	No measurement adjustments.
6	No reclassification adjustments.	Unwind of the effects of discounting on both losses on claims, gross and losses on claims, ceded to bring these amounts to their ultimate settlement value.

## Quarterly Data<sup>(1)</sup>

	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021
					<i>Restated</i>			
Income	8,205.6	9,720.5	6,844.6	5,502.3	5,895.0	6,928.3	6,710.4	6,831.0
Net earnings (loss)	1,404.0	2,102.9	(79.3)	(915.4)	698.8	987.7	576.1	1,280.2
Net earnings (loss) attributable to shareholders of Fairfax	1,250.0	1,978.2	(75.1)	(881.4)	588.7	931.3	462.4	1,201.4
Net earnings (loss) per share	\$ 53.17	\$ 84.09	\$ (3.65)	\$ (37.59)	\$ 24.23	\$ 35.66	\$ 17.43	\$ 45.79
Net earnings (loss) per diluted share	\$ 49.38	\$ 78.33	\$ (3.65)	\$ (37.59)	\$ 22.67	\$ 33.64	\$ 16.44	\$ 43.25

(1) Quarterly data for periods prior to 2023, with the exception of the quarter ended March 31, 2022, have not been restated for the adoption of IFRS 17 on January 1, 2023 which is described in note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three months ended March 31, 2023.

Operating results at the company's insurance and reinsurance companies have been, and may continue to be, affected by the economic uncertainty caused by increased inflationary pressures and heightened interest rates. 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.

In addition, the adoption of IFRS 17 on January 1, 2023 has affected the first quarters of 2023 and 2022 operating results of the company's insurance and reinsurance companies with the introduction of discounting net claims reserves and a risk adjustment for uncertainty related to the timing and amount of cash flows from non-financial risk, the occurrence of which are not predictable, and have been (and are expected to continue to be) a significant impact on net earnings.

## 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 and any applicable Canadian securities regulations. 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; unfavourable changes in market variables, including interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect our investment portfolio; the cycles of the insurance market and general economic conditions, which can substantially influence our and our competitors' premium rates and capacity to write new business; insufficient reserves for asbestos, environmental and other latent claims; exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements; exposure to credit risk in the event our insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to us or failure by our insureds to reimburse us for deductibles that are paid by us on their behalf; 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; risks associated with IFRS 17; 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 risks associated with the global pandemic caused by COVID-19 and the conflict in Ukraine. Additional risks and uncertainties are described in our most recently issued Annual Report, which is available at [www.fairfax.ca](http://www.fairfax.ca), and in our Base Shelf Prospectus (under “Risk Factors”) filed with the securities regulatory authorities in Canada, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.*

## **Glossary of Non-GAAP and Other Financial Measures**

Management analyzes and assesses the underlying insurance and reinsurance companies, and the financial position of the consolidated company, in various ways. Certain of those measures and ratios, 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 IFRS and may not be comparable to similar measures presented by other companies.

### ***Supplementary Financial Measures***

**Net insurance revenue** – This measure of underwriting activity is calculated as insurance revenue less cost of reinsurance, both as presented in the consolidated statement of earnings.

**Book value per basic share** – The company considers book value per basic share a key performance measure as one of the company's stated objectives is to build long term shareholder value by compounding book value per basic share over the long term by 15% annually. This measure is 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 "Common stock") respectively to the unaudited interim consolidated financial statements for the three months ended March 31, 2023.

**Increase or decrease in book value per basic share** is calculated as the percentage change in book value per basic share from the end of the last annual reporting period to the end of the current reporting period. **Increase or decrease in book value per basic share adjusted for the \$10.00 per common share dividend** is calculated in the same manner except that it assumes the annual \$10.00 per common share dividend paid in the first quarter of 2023 was not paid and book value per basic share at the end of the current reporting period would be higher as a result.

**Equity exposures** – **Long equity exposures** refer to the company's long positions in equity and equity-related instruments held for investment purposes, and **long equity exposures and financial effects** refers to the aggregate position and performance of the company's long 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. These measures are presented and explained in note 14 (Financial Risk Management, under the heading "Market risk") to the unaudited interim consolidated financial statements for the three months ended March 31, 2023.

### ***Capital Management Measures***

**Net debt, net total capital, total capital, net debt divided by total equity, net debt divided by net total capital and total debt divided by total capital** are measures and ratios used by the company to assess the amount of leverage employed in its operations. The company also uses an **interest coverage ratio** and an **interest and preferred share dividend distribution coverage ratio** to measure its ability to service its debt and pay dividends to its preferred shareholders. These measures and ratios are calculated using amounts presented in the company's unaudited interim consolidated financial statements for the three months ended March 31, 2023, both including and excluding the relevant balances of consolidated non-insurance companies, and are presented and explained in note 14 (Financial Risk Management, under the heading "Capital Management") thereto.

### ***Total of Segments Measures***

**Property and casualty insurance and reinsurance** – References in this MD&A to the company's property and casualty insurance and reinsurance operations do not include the company's life insurance and run-off operations. The company believes this aggregation of reporting segments to be helpful in evaluating the performance of its core property and casualty insurance and reinsurance companies and has historically disclosed measures on this basis including net premiums written, net premiums earned, underwriting profit (loss) and operating income (loss), consistent with the information presented in note 15 (Segmented Information) to the unaudited interim consolidated financial statements for the three months ended March 31, 2023. References to "**insurance and reinsurance**" operations includes property and casualty insurance and reinsurance, life insurance and run-off operations.

**Net finance income (expense) from insurance contracts and reinsurance contract assets held** - This measure represents the net change in the carrying amounts of the company's insurance contracts and reinsurance contract assets held arising from the effects of the time value of money, and is calculated as the sum of the respective amounts presented in the consolidated statement of earnings.

**Operating income (loss)** – This measure is used by the company as a pre-tax performance measure of operations that excludes net finance income (expense) from insurance contracts and reinsurance contract assets held, net gains (losses) on investments, interest expense and corporate overhead and other, and that includes interest and dividends and share of profit (loss) of associates, which the company considers to be more predictable sources of investment income. Operating income (loss) includes the insurance service result and other insurance operating expenses of the insurance and reinsurance operations and the revenue and expenses of the non-insurance companies. A reconciliation of operating income (loss) to earnings before income taxes, the most directly comparable IFRS measure, is presented in the table below. All figures in that table are from the company's unaudited interim consolidated statement of earnings

for the three months ended March 31, 2023, except for net finance income (expense) from insurance contracts and reinsurance contract assets held, which is comprised of figures from the consolidated statement of earnings as described above.

	<b>First quarter</b>	
	<b>2023</b>	<b>2022</b>
Insurance service result:		
Property and casualty insurance and reinsurance	977.7	661.9
Life insurance and Run-off	8.3	3.9
Eliminations and adjustments	0.8	1.9
Insurance service result	<u>986.8</u>	<u>667.7</u>
Other insurance operating expenses	(246.1)	(144.4)
Non-insurance companies:		
Non-insurance revenue	1,558.4	1,066.3
Non-insurance expenses	(1,623.1)	(1,075.0)
Investments:		
Interest and dividends	382.3	168.9
Share of profit of associates	333.8	180.6
<b>Operating income</b>	<u>1,392.1</u>	<u>864.1</u>
Net finance income (expense) from insurance contracts and reinsurance contract assets held	(163.4)	419.0
Net gains (losses) on investments	771.2	(195.2)
Interest expense	(124.3)	(103.9)
Corporate and other expenses	(106.5)	(78.8)
<b>Earnings before income taxes</b>	<u>1,769.1</u>	<u>905.2</u>

**Corporate overhead and other** – This measure includes corporate and other expenses as presented in the consolidated statement of earnings, representing the non-underwriting operating expenses of the Fairfax holding company and the holding companies of the insurance and reinsurance operations, and the amortization of intangible assets that primarily arose on acquisition of the insurance and reinsurance subsidiaries. Also included are investment management and administration fees paid by the insurance and reinsurance operating companies to the Fairfax holding company.

#### **Non-GAAP Financial Measures and Ratios**

The financial measures and ratios described below are presented on the same basis as prior to the adoption of IFRS 17 *Insurance Contracts* on January 1, 2023.

**Net premiums earned** – Net premiums earned represents the portion of net premiums written that are considered earned by the company during a specified period in exchange for providing insurance coverage to the policyholder. This measure is used in the insurance industry and by the company primarily to evaluate business volumes, including related trends, and the management of insurance risk.

**Underwriting profit (loss)** – This is a measure of underwriting activity which is adjusted to remove the effects of discounting and risk adjustment in future periods for claims incurred in the current period and is calculated as insurance service result with the effects of discounting for net claims incurred in the current period, changes in the risk adjustment and other insurance operating expenses removed as shown in the table below.

**Adjusted operating income (loss)** – Calculated as the sum of underwriting profit (loss), interest and dividends and share of profit of associates, this measure is used in a similar manner to operating income (loss).

**Property and casualty insurance and reinsurance ratios** – 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), the **commission expense ratio** (commissions expressed as a percentage of net premiums earned) and the **underwriting expense ratio** (other underwriting expenses, including premium acquisition costs, expressed as a percentage of net premiums earned). Other ratios used by the company include 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), and the **accident year combined ratio** (the sum of the accident year loss ratio and the expense ratio). The ratios described are derived from information disclosed in note 15 (Segmented Information) to the interim consolidated financial statements for the three months ended March 31, 2023 and adjusted principally to remove the effects of discounting for net claims incurred in the current period, the change in the risk adjustment and other insurance operating expenses. These ratios are used by the company for comparisons to historical underwriting results, to the underwriting results of competitors and to the broader property and casualty industry, as well as for evaluating the

performance of individual operating companies. The company may also refer to **combined ratio points**, which expresses a loss that is a component of losses on claims, net, such as a catastrophe loss or net favourable or adverse prior year reserve development, as a percentage of net premiums earned during the same period.

The table below presents the amounts used in the calculation of the property and casualty insurance and reinsurance ratios and reconciles insurance revenue to net premiums earned and insurance service result to underwriting profit.

	North American Insurers		Global Insurers and Reinsurers		International Insurers and Reinsurers		Property and Casualty Insurance and Reinsurance	
	2023	2022	2023	2022	2023	2022	2023	2022
Reconciliation of net premiums earned:								
Insurance revenue <sup>(1)</sup>	1,911.2	1,708.3	3,656.8	3,299.0	772.3	668.0	6,340.3	5,675.3
Cost of reinsurance <sup>(1)</sup>	(303.7)	(218.3)	(638.9)	(609.1)	(266.2)	(208.9)	(1,208.8)	(1,036.3)
Net insurance revenue	1,607.5	1,490.0	3,017.9	2,689.9	506.1	459.1	5,131.5	4,639.0
Adjust for: net ceding commissions on reinsurance assumed and other	(78.5)	(41.7)	166.9	138.3	1.8	(3.0)	90.2	93.6
<b>Net premiums earned</b>	<b>1,529.0</b>	<b>1,448.3</b>	<b>3,184.8</b>	<b>2,828.2</b>	<b>507.9</b>	<b>456.1</b>	<b>5,221.7</b>	<b>4,732.6</b>
Total underwriting expenses, net:								
Losses on claims - accident year	956.5	864.3	2,089.9	1,841.2	323.9	270.0	3,370.3	2,975.5
Net (favourable) adverse reserve development	(15.2)	(12.3)	9.8	(7.8)	(24.9)	(1.8)	(30.3)	(21.9)
Losses on claims - calendar year	941.3	852.0	2,099.7	1,833.4	299.0	268.2	3,340.0	2,953.6
Commissions	237.7	239.8	523.8	477.5	92.2	79.3	853.7	796.6
Other underwriting expenses	260.0	247.2	355.8	313.5	98.4	97.3	714.2	658.0
Total underwriting expenses, net	1,439.0	1,339.0	2,979.3	2,624.4	489.6	444.8	4,907.9	4,408.2
<b>Underwriting profit</b>	<b>90.0</b>	<b>109.3</b>	<b>205.5</b>	<b>203.8</b>	<b>18.3</b>	<b>11.3</b>	<b>313.8</b>	<b>324.4</b>
<b>Combined ratio</b>	<b>94.1 %</b>	<b>92.5 %</b>	<b>93.5 %</b>	<b>92.8 %</b>	<b>96.4 %</b>	<b>97.5 %</b>	<b>94.0 %</b>	<b>93.1 %</b>
Reconciliation of underwriting profit:								
Insurance service result <sup>(1)</sup>	275.8	211.6	625.3	399.1	76.6	51.2	977.7	661.9
Other insurance operating expenses <sup>(1)</sup>	(65.1)	(60.9)	(96.3)	(74.4)	(36.2)	(34.7)	(197.6)	(170.0)
Discounting of losses and ceded losses on claims recorded in the period	(108.7)	(30.5)	(302.3)	(128.0)	(11.4)	(17.2)	(422.4)	(175.7)
Changes in the risk adjustment and other	(12.0)	(10.9)	(21.2)	7.1	(10.7)	12.0	(43.9)	8.2
<b>Underwriting profit</b>	<b>90.0</b>	<b>109.3</b>	<b>205.5</b>	<b>203.8</b>	<b>18.3</b>	<b>11.3</b>	<b>313.8</b>	<b>324.4</b>

(1) As presented in note 15 (Segmented Information) to the interim consolidated financial statements for the three months ended March 31, 2023.

**Excess (deficiency) of fair value over carrying value** – These pre-tax amounts, while not included in the calculation of book value per basic share, are regularly reviewed by management as an indicator of investment performance for the company's non-insurance associates and market traded consolidated non-insurance subsidiaries that are considered to be portfolio investments.

	March 31, 2023			December 31, 2022		
	Fair value	Carrying value	Excess (deficiency) of fair value over carrying value	Fair value	Carrying value	Excess (deficiency) of fair value over carrying value
Non-insurance associates	5,732.3	5,333.9	398.4	5,684.3	5,418.0	266.3
Non-insurance companies	1,031.7	991.0	40.7	1,052.9	1,009.2	43.7
	<b>6,764.0</b>	<b>6,324.9</b>	<b>439.1</b>	<b>6,737.2</b>	<b>6,427.2</b>	<b>310.0</b>

### Non-insurance associates included in the performance measure

The fair values and carrying values of non-insurance associates used in the determination of this performance measure are the IFRS fair values and carrying values included in the consolidated balance sheets as at March 31, 2023 and December 31, 2022, and excludes investments in associates held by the company's consolidated non-insurance companies as those amounts are already included in the carrying values of the consolidated non-insurance companies used in this performance measure.

	March 31, 2023		December 31, 2022	
	Fair value	Carrying value	Fair value	Carrying value
Investments in associates as presented on the consolidated balance sheets	7,139.4	6,035.4	6,772.9	6,093.1
Less:				
Insurance and reinsurance investments in associates <sup>(1)</sup>	1,387.8	675.3	1,069.0	649.1
Associates held by consolidated non-insurance companies <sup>(2)</sup>	19.3	26.2	19.6	26.0
Non-insurance associates included in the performance measure	<u>5,732.3</u>	<u>5,333.9</u>	<u>5,684.3</u>	<u>5,418.0</u>

(1) As presented in note 6 (Investments in Associates) to the unaudited interim consolidated financial statements for the three months ended March 31, 2023.

(2) Principally comprised of associates held by Thomas Cook India (including its share of Quess), Dexterra Group and Boat Rocker.

### Non-insurance companies included in the performance measure

The fair values of market traded consolidated non-insurance companies are calculated as the company's pro rata ownership share of each subsidiary's market capitalization as determined by traded share prices at the financial statement date. The carrying value of each subsidiary represents Fairfax's share of that subsidiary's net assets, calculated as the subsidiary's total assets, less total liabilities and non-controlling interests. Carrying value is included in shareholders' equity attributable to shareholders of Fairfax in the company's consolidated balance sheets as at March 31, 2023 and December 31, 2022, as shown in the table below which reconciles the consolidated balance sheet of the market traded non-insurance companies to that of the Non-insurance companies reporting segment included in the company's consolidated balance sheet.

	March 31, 2023			December 31, 2022		
	Market traded non-insurance companies	All other non-insurance companies <sup>(2)</sup>	Total non-insurance companies <sup>(1)</sup>	Market traded non-insurance companies	All other non-insurance companies <sup>(2)</sup>	Total non-insurance companies <sup>(1)</sup>
Portfolio investments	2,114.3	55.6	2,169.9	2,099.4	19.9	2,119.3
Deferred income tax assets	30.0	22.9	52.9	37.5	17.0	54.5
Goodwill and intangible assets	761.1	1,532.4	2,293.5	759.9	1,524.5	2,284.4
Other assets <sup>(3)</sup>	1,314.0	2,940.1	4,254.1	1,279.2	2,874.0	4,153.2
Total assets	<u>4,219.4</u>	<u>4,551.0</u>	<u>8,770.4</u>	<u>4,176.0</u>	<u>4,435.4</u>	<u>8,611.4</u>
Accounts payable and accrued liabilities <sup>(3)</sup>	974.8	1,562.3	2,537.1	929.4	1,583.7	2,513.1
Derivative obligations	—	56.3	56.3	—	58.2	58.2
Deferred income tax liabilities	31.3	220.9	252.2	28.5	223.9	252.4
Borrowings - non-insurance companies	836.9	1,242.7	2,079.6	845.8	1,151.1	1,996.9
Total liabilities	<u>1,843.0</u>	<u>3,082.2</u>	<u>4,925.2</u>	<u>1,803.7</u>	<u>3,016.9</u>	<u>4,820.6</u>
Shareholders' equity attributable to shareholders of Fairfax <sup>(4)</sup>	<b>991.0</b>	1,184.0	2,175.0	<b>1,009.2</b>	1,091.2	2,100.4
Non-controlling interests	1,385.4	284.8	1,670.2	1,363.1	327.3	1,690.4
Total equity	<u>2,376.4</u>	<u>1,468.8</u>	<u>3,845.2</u>	<u>2,372.3</u>	<u>1,418.5</u>	<u>3,790.8</u>
Total liabilities and equity	<u>4,219.4</u>	<u>4,551.0</u>	<u>8,770.4</u>	<u>4,176.0</u>	<u>4,435.4</u>	<u>8,611.4</u>

(1) Non-insurance companies reporting segment as presented in the Segmented Balance Sheet in this MD&A.

(2) Portfolio investments includes intercompany debt securities issued by a non-insurance company to Fairfax affiliates which are eliminated on consolidation.

(3) Other assets includes due from affiliates, and accounts payable and accrued liabilities includes due to affiliates.

(4) Bolded figures represent the carrying values of the market traded non-insurance subsidiaries.

**Cash provided by (used in) operating activities (excluding operating cash flow activity related to investments recorded at FVTPL)** is presented in this MD&A for each of the largest property and casualty insurance and reinsurance subsidiaries as management believes this measure to be a useful estimate of cash generated or used by a subsidiary's underwriting activities. This measure is a component of cash provided by (used in) operating activities as presented in the consolidated statement of cash flows, the most directly comparable IFRS measure.

	<u>First quarter</u>	
	<u>2023</u>	<u>2022</u>
Cash provided by (used in) operating activities (excluding operating cash flow activity related to investments recorded at FVTPL):		
North American Insurers and Global Insurers and Reinsurers	1,112.7	1,126.8
All other reporting segments	43.4	(34.9)
Net purchases of investments classified at FVTPL	<u>(2,281.1)</u>	<u>(2,073.2)</u>
Cash used in operating activities as presented in the consolidated statement of cash flows	<u>(1,125.0)</u>	<u>(981.3)</u>

**Intercompany shareholdings** - On the segmented balance sheets intercompany shareholdings of insurance and reinsurance subsidiaries are presented as "**Investments in Fairfax insurance and reinsurance affiliates**", intercompany shareholdings of non-insurance subsidiaries are included in "Portfolio investments" and total intercompany shareholdings of subsidiaries are presented as "**Investments in Fairfax affiliates**" in the "Capital" section. Intercompany shareholdings of subsidiaries are carried at cost in the segmented balance sheets as management believes that provides a better comparison of operating performance over time, whereas those shareholdings are eliminated upon consolidation in the consolidated financial statements with no directly comparable IFRS measure.

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