

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

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Management's Discussion and Analysis of Financial Condition and Results of Operations (as of November 1, 2018)

(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 notes to the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2018, and the notes to the MD&A contained in the company's 2017 Annual Report.
- (2) The company presents information on gross premiums written and net premiums written throughout this MD&A. These two measures are used in the insurance industry and by management in evaluating operating results. Gross premiums written represents the total premiums on policies issued during a specified period, irrespective of the portion earned, and is an indicator of the volume of new business generated by the company. Net premiums written represents gross premiums written less amounts ceded to reinsurers and is considered a measure of the insurance risk that the company has chosen to retain from the new business it has generated.
- (3) The combined ratio is the traditional measure of underwriting results of property and casualty companies and is calculated by the company as the sum of the loss ratio (claims losses and loss adjustment expenses expressed as a percentage of net premiums earned) and the expense ratio (commissions, premium acquisition costs and other underwriting expenses expressed as a percentage of net premiums earned). Other ratios used by the company include the commission expense ratio (commissions expressed as a percentage of net premiums earned) and the accident year combined ratio (calculated in the same manner as the combined ratio but excluding the net favourable or adverse development of reserves established for claims that occurred in previous accident years). These ratios are calculated from information disclosed in note 17 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 and are used by management for comparisons to historical underwriting results and to the underwriting results of competitors and the broader property and casualty industry. These ratios do not have any standardized meanings under IFRS and may not be comparable to similar measures presented by other companies.
- (4) The company's long equity total return swaps allow the company to receive the total return on a notional amount of an equity index or individual equity (including dividends and capital gains or losses) in exchange for the payment of a floating rate of interest on the notional amount. Conversely, short equity total return swaps allow the company to pay the total return on a notional amount of an equity index or individual equity in exchange for the receipt of a floating rate of interest on the notional amount. Throughout this MD&A, the terms "total return swap expense" and "total return swap income" refer to the net interest and dividends paid and received respectively related to the company's long and short equity and equity index total return swaps. The company's consolidated interest and dividends includes total return swap expense and income.
- (5) In this MD&A the measures "pre-tax income (loss) before net gains (losses) on investments", "net realized gains (losses) on investments", and "net change in unrealized gains (losses) on investments" are each shown separately to present more meaningfully the results of the company's investment management strategies. The two measures "net realized gains (losses) on investments", and "net change in unrealized gains (losses) on investments" are derived from the details of net gains (losses) on investments as presented in note 5 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 and their sum is equal to "net gains on investments" as presented in the consolidated statement of earnings.
- (6) Ratios included in the Capital Resources and Management section of this MD&A include: net debt divided by total equity, net debt divided by net total capital and total debt divided by total capital. The company also calculates an interest coverage ratio and an interest and preferred share dividend distribution coverage ratio as a measure of its ability to service its debt and pay dividends to its preferred shareholders. These ratios are calculated from information contained within the company's unaudited interim consolidated financial statements.
- (7) Book value per basic share (also referred to as book value per share) is a performance measure calculated by the company as common shareholders' equity divided by the number of common shares outstanding.
- (8) References in this MD&A to the company's insurance and reinsurance operations do not include its run-off operations.

Business Developments

Acquisitions and Divestitures

For a full description of these transactions, see note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Sources of Income

Income in the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 is shown in the table that follows.

| | Third quarter | | First nine months | |
|---|----------------|---------|-------------------|----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net premiums earned - Insurance and Reinsurance | | | | |
| Northbridge | 292.0 | 272.5 | 835.2 | 749.3 |
| Odyssey Group | 741.7 | 637.2 | 2,067.2 | 1,722.9 |
| Crum & Forster | 498.0 | 468.4 | 1,457.2 | 1,377.1 |
| Zenith National | 206.4 | 211.5 | 602.1 | 599.1 |
| Brit | 392.9 | 381.2 | 1,172.2 | 1,125.1 |
| Allied World ⁽¹⁾ | 603.7 | 506.0 | 1,682.9 | 506.0 |
| Fairfax Asia | 47.3 | 83.5 | 143.4 | 244.7 |
| Other | 281.6 | 195.9 | 841.0 | 533.4 |
| | 3,063.6 | 2,756.2 | 8,801.2 | 6,857.6 |
| Run-off | 1.2 | 3.5 | 5.3 | 21.5 |
| | 3,064.8 | 2,759.7 | 8,806.5 | 6,879.1 |
| Interest and dividends | 193.7 | 151.5 | 582.6 | 387.0 |
| Share of profit of associates | 63.9 | 55.1 | 126.9 | 131.8 |
| Net gains on investments | 41.2 | 1,100.5 | 917.2 | 1,287.2 |
| Other ⁽²⁾ | 1,077.4 | 840.5 | 3,144.6 | 2,218.0 |
| | 4,441.0 | 4,907.3 | 13,577.8 | 10,903.1 |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

(2) Represents revenue earned by the Other reporting segment, which primarily comprises the revenue earned by Recipe (formerly Cara) and its subsidiaries The Keg, Pickle Barrel (acquired on December 1, 2017), St-Hubert and Original Joe's, Toys "R" Us Canada (acquired on May 31, 2018), Praktiker, Golf Town, Sporting Life, Kitchen Stuff Plus, William Ashley, Thomas Cook India and its subsidiaries Quess (de-consolidated on March 1, 2018) and Sterling Resorts, Dexterra (acquired on March 7, 2018), Grivalia Properties (consolidated on July 4, 2017), Fairfax Africa (since its initial public offering on February 17, 2017), Mosaic Capital (consolidated on January 26, 2017), Pethealth, Boat Rocker, and Fairfax India and its subsidiaries NCML, Fairchem (merged on March 14, 2017 with Privi Organics) and Saurashtra Freight (acquired on February 14, 2017).

Income of \$4,441.0 in the third quarter of 2018 decreased from \$4,907.3 in the third quarter of 2017 principally as a result of lower net gains on investments, partially offset by increases in net premiums earned and higher other revenue. Income of \$13,577.8 in the first nine months of 2018 increased from \$10,903.1 in the first nine months of 2017 principally as a result of increases in net premiums earned (including the consolidation of the net premiums earned of Allied World), other revenue and interest and dividends, partially offset by lower net gains on investments. An analysis of interest and dividends, share of profit of associates and net gains on investments for the third quarters and first nine months ended September 30, 2018 and 2017 is provided in the Investments section of this MD&A.

The year-over-year increase in net premiums earned by the company's insurance and reinsurance operations in the third quarter of 2018 reflected increases at Odyssey Group (\$104.5, 16.4%), Allied World (\$97.7, 19.3%), Insurance and Reinsurance – Other (\$85.7, 43.7%, inclusive of the consolidation of the \$63.5 and \$21.6 of net premiums earned by Fairfax Latam and Colonnade Insurance related to the insurance operations acquired from AIG in Latin America and the business and renewal rights of the insurance operations acquired from AIG in central and eastern Europe respectively), Crum & Forster (\$29.6, 6.3%), Northbridge (\$19.5, 7.2%, inclusive of the unfavourable effect of foreign currency translation) and Brit (\$11.7, 3.1%), partially offset by decreases at Fairfax Asia (\$36.2, 43.4%, reflecting the divestiture of First Capital on December 28, 2017) and Zenith National (\$5.1, 2.4%).

The year-over-year increase in net premiums earned by the company's insurance and reinsurance operations in the first nine months of 2018 reflected consolidation of the net premiums earned of Allied World (\$1,176.9 of incremental net premiums earned) and increases at Odyssey Group (\$344.3, 20.0%), Insurance and Reinsurance – Other (\$307.6, 57.7% inclusive of the consolidation of the \$187.2 and \$63.7 of net premiums earned by Fairfax Latam and Colonnade Insurance related to the insurance operations acquired from AIG in Latin America and the business and renewal rights of the insurance operations acquired from AIG in central and eastern Europe respectively), Northbridge (\$85.9, 11.5% including the favourable effect of foreign currency translation), Crum & Forster (\$80.1, 5.8%), Brit (\$47.1, 4.2%) and Zenith National (\$3.0, 0.5%), partially offset by a decrease at Fairfax Asia (\$101.3, 41.4% reflecting the divestiture of First Capital on December 28, 2017).

The increase in other revenue to \$1,077.4 and \$3,144.6 in the third quarter and first nine months of 2018 from \$840.5 and \$2,218.0 in the third quarter and first nine months of 2017 principally reflected increases at Thomas Cook India (increases of \$177.7 and \$627.8 primarily reflecting the adoption of IFRS 15 as described in the subsequent paragraph) and the consolidation of Dexterra (on March 7, 2018) and Toys "R" Us Canada (on May 31, 2018), partially offset by decreases at Quess (primarily reflecting its de-consolidation on March 1, 2018). The increase in the first nine months of 2018 also reflected an increase at Fairfax India (primarily reflecting the merger of Fairchem and Privi Organics on March 14, 2017) and the consolidation of Mosaic Capital (on January 26, 2017) and Grivalia Properties (on July 4, 2017).

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") introduced a single model for recognizing revenue from contracts with customers that replaced the previous revenue recognition guidance in IAS 18 *Revenue* and various related standards and interpretations. The company adopted IFRS 15 on January 1, 2018 in accordance with its modified retrospective transition provisions, which did not require comparative periods to be restated. Upon adoption of IFRS 15, Thomas Cook India determined that it should be reporting in other revenue the gross receipts from certain of its travel related businesses (and the associated cost of sales in other expenses). Prior to the adoption of IFRS 15, Thomas Cook India only reported the net commissions earned on this business as other revenue.

In order to better compare the third quarter and first nine months of 2018 to the third quarter and first nine months of 2017, the table which follows presents net premiums written by the company's insurance and reinsurance operations, excluding acquisitions or divestitures of companies that occurred in 2017 (comprised of Allied World (acquired July 6, 2017), First Capital (divested December 28, 2017) and various acquisitions within Insurance and Reinsurance - Other).

| | Third quarter | | | First nine months | | |
|--|----------------|----------------|-------------------------|-------------------|----------------|-------------------------|
| | 2018 | 2017 | % change year-over-year | 2018 | 2017 | % change year-over-year |
| Net premiums written - Insurance and Reinsurance | | | | | | |
| Northbridge | 284.6 | 256.9 | 10.8 | 861.4 | 770.2 | 11.8 |
| Odyssey Group | 705.8 | 662.3 | 6.6 | 2,185.5 | 1,878.1 | 16.4 |
| Crum & Forster | 514.1 | 477.0 | 7.8 | 1,510.4 | 1,403.3 | 7.6 |
| Zenith National | 166.8 | 174.9 | (4.6) | 637.5 | 676.8 | (5.8) |
| Brit | 424.5 | 385.3 | 10.2 | 1,220.1 | 1,154.1 | 5.7 |
| Allied World ⁽¹⁾ | 518.7 | 540.8 | (4.1) | — | — | — |
| Fairfax Asia ⁽²⁾ | 45.8 | 42.2 | 8.5 | 145.5 | 160.3 | (9.2) |
| Other ⁽³⁾ | 206.3 | 181.3 | 13.8 | 615.2 | 571.5 | 7.6 |
| | <u>2,866.6</u> | <u>2,720.7</u> | <u>5.4</u> | <u>7,175.6</u> | <u>6,614.3</u> | <u>8.5</u> |

(1) Excludes in the first nine months of 2018 and 2017: Allied World, which is included in the company's financial reporting with effect from July 6, 2017.

(2) Excludes in the third quarter and first nine months of 2017: First Capital, which was sold on December 28, 2017.

(3) Excludes in the third quarters and first nine months of 2018 and 2017: Fairfax Latam (comprised of the insurance operations acquired from AIG in Chile and Colombia (acquired July 31, 2017), Argentina (acquired September 30, 2017) and Uruguay (acquired January 31, 2018)) and the business and renewal rights of the insurance operations acquired from AIG in Central and Eastern Europe (Hungary, Czech Republic and Slovakia (acquired April 30, 2017), Bulgaria (acquired May 31, 2017), Poland (acquired June 30, 2017) and Romania (acquired October 31, 2017)). Also excluded from the first nine months of 2017 is the impact of the Bryte LPT. Refer to the Insurance and Reinsurance - Other section of this MD&A for additional information.

Northbridge's net premiums written increased by 10.8% and 11.8% in the third quarter and first nine months of 2018. In Canadian dollar terms, Northbridge's net premiums written increased by 15.9% and 10.3%, primarily due to price increases across the group and strong retention of renewal business.

Odyssey Group's net premiums written increased by 6.6% in the third quarter of 2018, primarily reflecting increases in U.S. Insurance (growth in automobile and U.S. crop lines of business) and EuroAsia (growth in commercial property and credit and bond lines of business), partially offset by decreases in North America (decreases in U.S. property treaty lines of business). Odyssey Group's net premiums written increased by 16.4% in the first nine months of 2018, primarily reflecting increases in all divisions with the majority of the increase related to U.S. Insurance (growth in automobile and U.S. crop lines of business), EuroAsia (growth in commercial property and credit and bond lines of business) and North America (growth in the accident and health line of business).

Crum & Forster's net premiums written increased by 7.8% and 7.6% in the third quarter and first nine months of 2018, primarily reflecting growth in accident and health, commercial transportation, commercial multi-peril and umbrella lines of business.

Zenith National's net premiums written decreased by 4.6% and 5.8% in the third quarter and first nine months of 2018, primarily reflecting price decreases.

Brit's net premiums written increased by 10.2% and 5.7% in the third quarter and first nine months of 2018, primarily reflecting increased contribution from underwriting initiatives launched in recent years, price increases (principally in property lines of business) and the favourable impact of foreign currency translation, partially offset by reductions in non-core lines of business through active portfolio management.

Allied World's net premiums written decreased by 4.1% in the third quarter of 2018, primarily reflecting a decrease in premium retention and decreases in the reinsurance segment, partially offset by growth in the insurance segment.

Net premiums written by Fairfax Asia (as adjusted) increased by 8.5% in the third quarter of 2018, primarily reflecting increased writings in commercial automobile and accident and health lines of business. Net premiums written by Fairfax Asia (as adjusted) decreased by 9.2% in the first nine months of 2018, primarily reflecting lower premium retention, partially offset by increased writings in commercial automobile and accident and health lines of business.

Net premiums written by the Insurance and Reinsurance – Other reporting segment (as adjusted) increased by 13.8% in the third quarter of 2018 (primarily due to increases at Advent and Group Re) and increased by 7.6% in the first nine months of 2018 (primarily due to increases at Advent and Polish Re).

Sources of Net Earnings

The following table presents the combined ratios and underwriting and operating results for each of the insurance and reinsurance operations and, as applicable, for run-off operations, as well as the earnings contributions from the Other reporting segment for the three and nine months ended September 30, 2018 and 2017. In this table, interest and dividends in the consolidated statements of earnings are presented separately as they relate to the insurance and reinsurance operating segments, and included in Run-off, Corporate overhead and other, and Other as they relate to those segments. Pre-tax income (loss) before net gains (losses) on investments, net realized gains on investments, pre-tax income including net realized gains on investments, and net change in unrealized gains (losses) on investments are each shown separately to present more meaningfully the results of the company's investment management strategies.

| | Third quarter | | First nine months | |
|--|---------------|---------------------|-------------------|---------------------|
| | 2018 | 2017 ⁽¹⁾ | 2018 | 2017 ⁽²⁾ |
| Combined ratios - Insurance and Reinsurance | | | | |
| Northbridge | 89.5% | 99.2% | 98.1% | 99.3% |
| Odyssey Group | 97.5% | 126.3% | 93.5% | 103.7% |
| Crum & Forster | 98.1% | 103.8% | 98.8% | 100.9% |
| Zenith National | 80.3% | 84.1% | 84.9% | 84.7% |
| Brit | 108.3% | 158.3% | 101.3% | 117.7% |
| Allied World ⁽³⁾ | 96.7% | 182.2% | 95.5% | 182.2% |
| Fairfax Asia | 98.5% | 82.0% | 100.9% | 87.0% |
| Other | 104.7% | 130.9% | 102.2% | 110.5% |
| Consolidated | 97.6% | 130.2% | 96.6% | 109.0% |
| Sources of net earnings | | | | |
| Underwriting - Insurance and Reinsurance | | | | |
| Northbridge | 30.6 | 2.1 | 15.9 | 5.5 |
| Odyssey Group | 18.5 | (167.8) | 133.9 | (64.1) |
| Crum & Forster | 9.7 | (17.7) | 18.2 | (11.8) |
| Zenith National | 40.7 | 33.6 | 90.7 | 91.9 |
| Brit | (32.5) | (222.2) | (14.9) | (199.2) |
| Allied World ⁽³⁾ | 19.9 | (415.8) | 75.2 | (415.8) |
| Fairfax Asia | 0.7 | 15.1 | (1.3) | 31.9 |
| Other | (13.4) | (60.3) | (18.6) | (55.8) |
| Underwriting profit (loss) | 74.2 | (833.0) | 299.1 | (617.4) |
| Interest and dividends - insurance and reinsurance | 139.2 | 114.5 | 400.8 | 281.3 |
| Share of profit of associates - insurance and reinsurance | 36.5 | 38.1 | 24.9 | 48.8 |
| Operating income (loss) | 249.9 | (680.4) | 724.8 | (287.3) |
| Run-off (excluding net gains on investments) | (49.2) | (15.4) | (102.3) | (95.1) |
| Other reporting segment | 65.7 | 101.6 | 244.8 | 92.0 |
| Interest expense | (84.8) | (96.3) | (259.9) | (235.9) |
| Corporate overhead and other | (2.6) | (66.6) | (113.8) | 39.2 |
| Pre-tax income (loss) before net gains (losses) on investments | 179.0 | (757.1) | 493.6 | (487.1) |
| Net realized gains on investments | 73.9 | 999.5 | 1,002.0 | 1,145.6 |
| Pre-tax income including net realized gains on investments | 252.9 | 242.4 | 1,495.6 | 658.5 |
| Net change in unrealized gains (losses) on investments | (32.7) | 101.0 | (84.8) | 141.6 |
| Pre-tax income | 220.2 | 343.4 | 1,410.8 | 800.1 |
| Income taxes | (71.0) | 26.8 | (139.7) | (42.0) |
| Net earnings | 149.2 | 370.2 | 1,271.1 | 758.1 |
| Attributable to: | | | | |
| Shareholders of Fairfax | 106.2 | 476.9 | 853.6 | 871.1 |
| Non-controlling interests | 43.0 | (106.7) | 417.5 | (113.0) |
| | 149.2 | 370.2 | 1,271.1 | 758.1 |
| Net earnings per share | \$ 3.46 | \$ 16.85 | \$ 29.74 | \$ 34.04 |
| Net earnings per diluted share | \$ 3.34 | \$ 16.42 | \$ 28.83 | \$ 33.13 |
| Cash dividends paid per share | \$ — | \$ — | \$ 10.00 | \$ 10.00 |

(1) The combined ratios in the third quarter of 2017 included combined ratio points arising from Hurricanes Harvey, Irma and Maria as follows: 35.0 for OdysseyRe, 5.9 for Crum & Forster, 59.7 for Brit, 76.1 for Allied World, 32.9 for Other - Insurance and reinsurance and 33.6 for Fairfax consolidated.

(2) The combined ratios in the first nine months of 2017 included combined ratio points arising from Hurricanes Harvey, Irma and Maria as follows: 13.0 for OdysseyRe, 2.1 for Crum & Forster, 20.2 for Brit, 76.1 for Allied World, 12.0 for Other - Insurance and reinsurance and 13.5 for Fairfax consolidated.

(3) Allied World is included in the company's financial reporting with effect from July 6, 2017.

The company's insurance and reinsurance operations produced underwriting profits of \$74.2 and \$299.1 (combined ratios of 97.6% and 96.6%) in the third quarter and first nine months of 2018 compared to underwriting losses of \$833.0 and \$617.4 (combined ratios of 130.2% and 109.0%) in the third quarter and first nine months of 2017. The decrease in the combined ratio in the third quarter of 2018 principally reflected lower current period catastrophe losses, higher net favourable prior year reserve development and an improvement in non-catastrophe loss experience related to the current accident year, partially offset by the impact of a higher commission expense ratio. The decrease in the combined ratio in the first nine months of 2018 principally reflected lower current period catastrophe losses.

The following table presents the components of the company's combined ratios for the three and nine months ended September 30, 2018 and 2017:

| | Third quarter | | First nine months | |
|---------------------------------------|----------------|----------------|-------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Underwriting profit (loss) | 74.2 | (833.0) | 299.1 | (617.4) |
| Loss & LAE - accident year | 69.8 % | 101.3 % | 66.6 % | 79.0 % |
| Commissions | 17.3 % | 14.9 % | 17.0 % | 17.3 % |
| Underwriting expense | 16.2 % | 17.2 % | 17.2 % | 17.1 % |
| Combined ratio - accident year | 103.3 % | 133.4 % | 100.8 % | 113.4 % |
| Net favourable development | (5.7)% | (3.2)% | (4.2)% | (4.4)% |
| Combined ratio - calendar year | 97.6 % | 130.2 % | 96.6 % | 109.0 % |

Net (favourable) adverse prior year reserve development for the three and nine months ended September 30, 2018 and 2017 was comprised as follows:

| | Third quarter | | First nine months | |
|---------------------------|----------------|---------------|-------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Insurance and Reinsurance | | | | |
| Northbridge | (37.1) | (31.2) | (71.7) | (65.2) |
| Odyssey Group | (66.3) | (42.7) | (152.2) | (110.0) |
| Crum & Forster | — | (3.0) | (0.1) | (6.6) |
| Zenith National | (22.6) | (15.9) | (59.3) | (61.7) |
| Brit | (18.9) | — | (27.8) | (7.9) |
| Allied World | (13.3) | 22.1 | (28.4) | 22.1 |
| Fairfax Asia | (5.7) | (6.3) | (16.3) | (31.6) |
| Other | (9.7) | (10.6) | (16.5) | (38.0) |
| | (173.6) | (87.6) | (372.3) | (298.9) |

Current period catastrophe losses for the three and nine months ended September 30, 2018 and 2017 were comprised as follows:

| | Third quarter | | | | First nine months | | | |
|--------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact |
| Typhoon Jebi | 75.5 | 2.5 | — | — | 75.5 | 0.9 | — | — |
| Hurricane Florence | 71.9 | 2.3 | — | — | 71.9 | 0.8 | — | — |
| Typhoon Mangkhut | 20.5 | 0.7 | — | — | 20.5 | 0.2 | — | — |
| Hurricane Irma | — | — | 403.3 | 14.6 | — | — | 403.3 | 5.9 |
| Hurricane Maria | — | — | 276.7 | 10.0 | — | — | 276.7 | 4.0 |
| Hurricane Harvey | — | — | 249.5 | 9.0 | — | — | 249.5 | 3.6 |
| Mexico earthquakes | — | — | 31.7 | 1.2 | — | — | 31.7 | 0.5 |
| Other | 47.1 | 1.5 | 55.7 | 2.1 | 144.1 | 1.6 | 140.1 | 2.1 |
| | 215.0 | 7.0 points | 1,016.9 | 36.9 points | 312.0 | 3.5 points | 1,101.3 | 16.1 points |

(1) Net of reinstatement premiums.

The commission expense ratio increased to 17.3% in the third quarter of 2018 from 14.9% in the third quarter of 2017, primarily reflecting the consolidation of Allied World (the release of acquisition accounting adjustments had reduced net premiums earned and commission expenses in the third quarter of 2017, resulting in a commission expense ratio that was generally lower than Fairfax's other operating companies, whereas those adjustments had a nominal impact on the third quarter of 2018 having been largely released in prior quarters). The commission expense ratio decreased to 17.0% in the first nine months of 2018 from 17.3% in the first nine months of 2017, primarily reflecting the consolidation of Allied World (the impact of the release of acquisition accounting adjustments as described in the preceding sentence that were weighted more in the first nine months of 2018 (affecting approximately six months) than the first nine months of 2017 (affecting approximately three months)). Each of the third quarter and first nine months of 2018 also reflected increases in the commission expense ratios at Fairfax Asia (decreased profit commission on reinsurance ceded following the divestiture of First Capital) and Odyssey Group (reflecting the combination of higher reinstatement premiums received in 2017 which carry no commissions (related to the 2017 catastrophe losses) and increased writings of proportional reinsurance in 2018).

The underwriting expense ratio decreased to 16.2% in the third quarter of 2018 from 17.2% in the third quarter of 2017, primarily reflecting decreases at Allied World (primarily related to expense rationalization efforts) and Odyssey Group (primarily reflecting increased net premiums earned relative to modest increases in underwriting expenses), partially offset by the impact of the consolidation of Fairfax Latam (primarily related to the impact on underwriting expenses of the macro economic conditions in Argentina, specifically very high inflation combined with U.S. dollar denominated underwriting expenses).

The underwriting expense ratio increased to 17.2% in the first nine months of 2018 from 17.1% in the first nine months of 2017, primarily reflecting the consolidation of Fairfax Latam (principally related to the macro economic conditions in Argentina as described in the preceding paragraph, and lower net premiums earned due to changes to Fairfax Latam's reinsurance structure subsequent to its acquisition by the company), partially offset by the impact of a lower underwriting expense ratio at Odyssey Group (primarily related to expense rationalization efforts).

Underwriting expenses in the third quarter of 2018 increased by \$24.1 or 5.1%, primarily reflecting increases at Fairfax Latam (described in the preceding paragraph), Brit (primarily reflecting incremental expenses incurred related to new underwriting initiatives and the unfavourable impact of foreign currency translation), and Odyssey Group and Crum & Forster commensurate with their increased business volumes, partially offset by a decrease at Allied World (primarily related to expense rationalization efforts).

Underwriting expenses in the first nine months of 2018 increased by \$68.0 or 6.5% (excluding underwriting expenses of Allied World and Fairfax Latam in the first nine months of 2018 and 2017), primarily reflecting increases at Odyssey Group and Crum & Forster commensurate with their increased business volumes, and Colonnade Insurance reflecting start-up costs associated with its operations.

Operating expenses as presented in the consolidated statement of earnings increased from \$564.0 and \$1,419.6 in the third quarter and first nine months of 2017 to \$581.9 and \$1,825.0 in the third quarter and first nine months of 2018, primarily reflecting increased underwriting expenses of the insurance and reinsurance operations as described in the preceding paragraph (including the year-over-year impact of the consolidation of the operating expenses of Allied World and Fairfax Latam) and increased subsidiary holding companies' corporate overhead. Fairfax corporate overhead in the third quarter and first nine months of 2018 included the benefit of \$20.0 related to the settlement of a lawsuit.

Other expenses as presented in the consolidated statement of earnings increased to \$1,027.4 and \$3,049.7 in the third quarter and first nine months of 2018 from \$784.0 and \$2,075.9 in the third quarter and first nine months of 2017 principally reflecting increases at Thomas Cook India (increases of \$175.6 and \$633.0 primarily reflecting the adoption of IFRS 15 as described in the Sources of Income section of this MD&A) and the consolidation of Dexterra (on March 7, 2018) and Toys "R" Us Canada (on May 31, 2018), partially offset by decreases at Quess (primarily reflecting its de-consolidation on March 1, 2018). The increase in the first nine months of 2018 also reflected increases at Fairfax India (primarily reflecting the impact of the merger of Fairchem and Privi Organics on March 14, 2017) and the consolidation of Mosaic Capital (on January 26, 2017) and Grivalia Properties (on July 4, 2017). Other expenses also included losses on repurchase of long term debt of \$58.9 in the first nine months of 2018.

The company reported net earnings attributable to shareholders of Fairfax of \$106.2 (net earnings of \$3.46 per basic share and \$3.34 per diluted share) in the third quarter of 2018 compared to net earnings attributable to shareholders of Fairfax of \$476.9 (net earnings of \$16.85 per basic share and \$16.42 per diluted share) in the third quarter of 2017. The company reported net earnings attributable to shareholders of Fairfax of \$853.6 (net earnings of \$29.74 per basic share and \$28.83 per diluted share) in the first nine months of 2018 compared to net earnings attributable to shareholders of Fairfax of \$871.1 (net earnings of \$34.04 per basic share and \$33.13 per diluted share) in the first nine months of 2017. The year-over-year decrease in profitability in the third quarter and first nine months of 2018 primarily reflected decreased net gains on investments and increased net earnings attributable to non-controlling interests, partially offset by increases in underwriting profit and interest and dividends.

Net Earnings by Reporting Segment

The company's sources of net earnings by reporting segment are set out below for the three and nine months ended September 30, 2018 and 2017. The intercompany adjustment for gross premiums written eliminates premiums on reinsurance ceded within the group, primarily to Odyssey Group and Group Re.

Quarter ended September 30, 2018

| Insurance and Reinsurance | | | | | | | | | | | | | | |
|--------------------------------------|-------------|---------------|----------------|-----------------|--------|-----------------------------|--------------|--------|--------------------|---------|--------|---------------------|------------------------------|--------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Eliminations and adjustments | Consolidated |
| Gross premiums written | 353.1 | 802.1 | 614.7 | 169.4 | 529.9 | 797.9 | 101.4 | 448.5 | 3,817.0 | (0.1) | — | — | (53.3) | 3,763.6 |
| Net premiums written | 284.6 | 705.8 | 514.1 | 166.8 | 424.5 | 518.7 | 45.8 | 300.6 | 2,960.9 | (0.1) | — | — | — | 2,960.8 |
| Net premiums earned | 292.0 | 741.7 | 498.0 | 206.4 | 392.9 | 603.7 | 47.3 | 281.6 | 3,063.6 | 1.2 | — | — | — | 3,064.8 |
| Underwriting profit (loss) | 30.6 | 18.5 | 9.7 | 40.7 | (32.5) | 19.9 | 0.7 | (13.4) | 74.2 | (62.7) | — | — | — | 11.5 |
| Interest and dividends | 16.0 | 33.2 | 15.3 | 8.4 | 13.7 | 32.7 | 6.6 | 13.3 | 139.2 | 9.6 | 4.2 | 5.1 | 35.6 | 193.7 |
| Share of profit (loss) of associates | 3.1 | 3.3 | 4.6 | 5.0 | 6.3 | 5.9 | (1.6) | 9.9 | 36.5 | 3.9 | 14.2 | 9.3 | — | 63.9 |
| Operating income (loss) | 49.7 | 55.0 | 29.6 | 54.1 | (12.5) | 58.5 | 5.7 | 9.8 | 249.9 | (49.2) | 18.4 | 14.4 | 35.6 | 269.1 |
| Net gains (losses) on investments | 33.6 | 22.5 | 48.5 | (4.6) | 5.0 | (0.7) | 10.2 | 5.9 | 120.4 | 7.1 | 9.4 | (95.7) | — | 41.2 |
| Other reporting segment | — | — | — | — | — | — | — | — | — | — | 47.3 | 0.3 | 2.4 | 50.0 |
| Interest expense | — | (1.1) | (0.5) | (0.8) | (3.6) | (5.8) | — | (1.4) | (13.2) | — | (24.0) | (47.6) | — | (84.8) |
| Corporate overhead and other | (2.5) | (5.7) | (7.6) | (2.1) | (2.3) | (13.5) | (1.8) | (4.2) | (39.7) | — | — | 22.4 | (38.0) | (55.3) |
| Pre-tax income (loss) | 80.8 | 70.7 | 70.0 | 46.6 | (13.4) | 38.5 | 14.1 | 10.1 | 317.4 | (42.1) | 51.1 | (106.2) | — | 220.2 |
| Income taxes | — | — | — | — | — | — | — | — | — | — | — | — | — | (71.0) |
| Net earnings | — | — | — | — | — | — | — | — | — | — | — | — | — | 149.2 |
| Attributable to: | | | | | | | | | | | | | | |
| Shareholders of Fairfax | | | | | | | | | | | | | | 106.2 |
| Non-controlling interests | | | | | | | | | | | | | | 43.0 |
| | | | | | | | | | | | | | | 149.2 |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

Quarter ended September 30, 2017

| Insurance and Reinsurance | | | | | | | | | | | | | | |
|--------------------------------------|-------------|---------------|----------------|-----------------|---------|-----------------------------|--------------|--------|--------------------|---------|--------|---------------------|------------------------------|--------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Eliminations and adjustments | Consolidated |
| Gross premiums written | 310.8 | 756.6 | 557.1 | 177.6 | 488.7 | 756.4 | 173.9 | 316.8 | 3,537.9 | — | — | — | (60.9) | 3,477.0 |
| Net premiums written | 256.9 | 662.3 | 477.0 | 174.9 | 385.3 | 540.8 | 71.7 | 210.6 | 2,779.5 | (0.3) | — | — | — | 2,779.2 |
| Net premiums earned | 272.5 | 637.2 | 468.4 | 211.5 | 381.2 | 506.0 | 83.5 | 195.9 | 2,756.2 | 3.5 | — | — | — | 2,759.7 |
| Underwriting profit (loss) | 2.1 | (167.8) | (17.7) | 33.6 | (222.2) | (415.8) | 15.1 | (60.3) | (833.0) | (26.6) | — | — | — | (859.6) |
| Interest and dividends | 13.4 | 26.3 | 8.2 | 5.6 | 9.3 | 33.4 | 8.1 | 10.2 | 114.5 | 5.8 | 29.0 | (4.6) | 6.8 | 151.5 |
| Share of profit (loss) of associates | (0.3) | 7.3 | 3.9 | 2.5 | 7.1 | 1.1 | 14.1 | 2.4 | 38.1 | 5.4 | 16.1 | (4.5) | — | 55.1 |
| Operating income (loss) | 15.2 | (134.2) | (5.6) | 41.7 | (205.8) | (381.3) | 37.3 | (47.7) | (680.4) | (15.4) | 45.1 | (9.1) | 6.8 | (653.0) |
| Net gains (losses) on investments | (12.9) | 104.2 | 72.9 | 1.7 | 11.9 | 10.4 | 942.2 | 20.7 | 1,151.1 | 16.9 | 10.2 | (77.7) | — | 1,100.5 |
| Other reporting segment | — | — | — | — | — | — | — | — | — | — | 56.5 | — | — | 56.5 |
| Interest expense | — | (0.8) | (0.4) | (0.8) | (3.1) | (7.6) | — | (1.3) | (14.0) | — | (21.3) | (61.0) | — | (96.3) |
| Corporate overhead and other | (1.6) | (4.3) | (6.3) | (2.0) | (2.3) | (12.9) | 1.7 | (6.4) | (34.1) | — | — | (23.4) | (6.8) | (64.3) |
| Pre-tax income (loss) | 0.7 | (35.1) | 60.6 | 40.6 | (199.3) | (391.4) | 981.2 | (34.7) | 422.6 | 1.5 | 90.5 | (171.2) | — | 343.4 |
| Income taxes | — | — | — | — | — | — | — | — | — | — | — | — | — | 26.8 |
| Net earnings | — | — | — | — | — | — | — | — | — | — | — | — | — | 370.2 |
| Attributable to: | | | | | | | | | | | | | | |
| Shareholders of Fairfax | | | | | | | | | | | | | | 476.9 |
| Non-controlling interests | | | | | | | | | | | | | | (106.7) |
| | | | | | | | | | | | | | | 370.2 |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

Nine months ended September 30, 2018

| Insurance and Reinsurance | | | | | | | | | | | | | | |
|--------------------------------------|-------------|---------------|----------------|-----------------|---------|-----------------------------|--------------|---------|--------------------|---------|---------|---------------------|------------------------------|----------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Eliminations and adjustments | Consolidated |
| Gross premiums written | 979.6 | 2,514.7 | 1,804.9 | 646.2 | 1,680.7 | 2,617.7 | 297.5 | 1,380.4 | 11,921.7 | 0.5 | — | — | (159.2) | 11,763.0 |
| Net premiums written | 861.4 | 2,185.5 | 1,510.4 | 637.5 | 1,220.1 | 1,882.2 | 145.5 | 934.4 | 9,377.0 | (0.3) | — | — | — | 9,376.7 |
| Net premiums earned | 835.2 | 2,067.2 | 1,457.2 | 602.1 | 1,172.2 | 1,682.9 | 143.4 | 841.0 | 8,801.2 | 5.3 | — | — | — | 8,806.5 |
| Underwriting profit (loss) | 15.9 | 133.9 | 18.2 | 90.7 | (14.9) | 75.2 | (1.3) | (18.6) | 299.1 | (131.8) | — | — | — | 167.3 |
| Interest and dividends | 51.4 | 106.2 | 45.8 | 23.7 | 37.6 | 83.0 | 15.6 | 37.5 | 400.8 | 32.3 | 9.7 | 30.6 | 109.2 | 582.6 |
| Share of profit (loss) of associates | (4.9) | 28.8 | 2.1 | (4.3) | (2.6) | (7.5) | (2.3) | 15.6 | 24.9 | (2.8) | 84.5 | 20.3 | — | 126.9 |
| Operating income (loss) | 62.4 | 268.9 | 66.1 | 110.1 | 20.1 | 150.7 | 12.0 | 34.5 | 724.8 | (102.3) | 94.2 | 50.9 | 109.2 | 876.8 |
| Net gains (losses) on investments | (10.3) | 58.8 | 19.3 | (10.6) | (2.0) | 11.9 | (116.1) | 15.4 | (33.6) | 2.0 | 874.2 | 74.6 | — | 917.2 |
| Other reporting segment | — | — | — | — | — | — | — | — | — | — | 150.6 | — | 3.2 | 153.8 |
| Interest expense | — | (3.0) | (1.6) | (2.5) | (10.7) | (20.1) | — | (4.1) | (42.0) | — | (66.3) | (151.6) | — | (259.9) |
| Corporate overhead and other | (5.8) | (19.8) | (17.9) | (6.1) | (10.9) | (42.6) | (6.6) | (10.8) | (120.5) | — | — | (44.2) | (112.4) | (277.1) |
| Pre-tax income (loss) | 46.3 | 304.9 | 65.9 | 90.9 | (3.5) | 99.9 | (110.7) | 35.0 | 528.7 | (100.3) | 1,052.7 | (70.3) | — | 1,410.8 |
| Income taxes | — | — | — | — | — | — | — | — | — | — | — | — | — | (139.7) |
| Net earnings | — | — | — | — | — | — | — | — | — | — | — | — | — | <u>1,271.1</u> |
| Attributable to: | | | | | | | | | | | | | | |
| Shareholders of Fairfax | | | | | | | | | | | | | | 853.6 |
| Non-controlling interests | | | | | | | | | | | | | | <u>417.5</u> |
| | | | | | | | | | | | | | | <u>1,271.1</u> |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

Nine months ended September 30, 2017

| Insurance and Reinsurance | | | | | | | | | | | | | | |
|--------------------------------------|-------------|---------------|----------------|-----------------|---------|-----------------------------|--------------|--------|--------------------|---------|--------|---------------------|------------------------------|----------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Eliminations and adjustments | Consolidated |
| Gross premiums written | 868.3 | 2,117.6 | 1,625.7 | 685.6 | 1,581.2 | 756.4 | 522.5 | 835.0 | 8,992.3 | 12.3 | — | — | (146.8) | 8,857.8 |
| Net premiums written | 770.2 | 1,878.1 | 1,403.3 | 676.8 | 1,154.1 | 540.8 | 257.9 | 575.0 | 7,256.2 | 11.9 | — | — | — | 7,268.1 |
| Net premiums earned | 749.3 | 1,722.9 | 1,377.1 | 599.1 | 1,125.1 | 506.0 | 244.7 | 533.4 | 6,857.6 | 21.5 | — | — | — | 6,879.1 |
| Underwriting profit (loss) | 5.5 | (64.1) | (11.8) | 91.9 | (199.2) | (415.8) | 31.9 | (55.8) | (617.4) | (124.0) | — | — | — | (741.4) |
| Interest and dividends | 38.5 | 95.8 | 25.9 | 17.3 | 22.9 | 33.4 | 20.9 | 26.6 | 281.3 | 22.4 | (79.6) | (4.8) | 167.7 | 387.0 |
| Share of profit (loss) of associates | 0.2 | 7.4 | 1.3 | (3.0) | 8.3 | 1.1 | 29.7 | 3.8 | 48.8 | 6.5 | 26.9 | 49.6 | — | 131.8 |
| Operating income (loss) | 44.2 | 39.1 | 15.4 | 106.2 | (168.0) | (381.3) | 82.5 | (25.4) | (287.3) | (95.1) | (52.7) | 44.8 | 167.7 | (222.6) |
| Net gains (losses) on investments | 33.7 | 173.1 | 2.4 | 19.5 | 68.8 | 10.4 | 962.7 | 48.1 | 1,318.7 | 78.8 | 6.8 | (117.1) | — | 1,287.2 |
| Other reporting segment | — | — | — | — | — | — | — | — | — | — | 144.7 | — | — | 144.7 |
| Interest expense | — | (2.4) | (1.3) | (2.5) | (9.1) | (7.6) | — | (3.6) | (26.5) | — | (43.4) | (166.0) | — | (235.9) |
| Corporate overhead and other | (5.8) | (18.5) | (16.1) | (6.1) | (6.9) | (12.9) | (2.0) | (10.8) | (79.1) | — | — | 73.5 | (167.7) | (173.3) |
| Pre-tax income (loss) | 72.1 | 191.3 | 0.4 | 117.1 | (115.2) | (391.4) | 1,043.2 | 8.3 | 925.8 | (16.3) | 55.4 | (164.8) | — | 800.1 |
| Income taxes | — | — | — | — | — | — | — | — | — | — | — | — | — | (42.0) |
| Net earnings | — | — | — | — | — | — | — | — | — | — | — | — | — | <u>758.1</u> |
| Attributable to: | | | | | | | | | | | | | | |
| Shareholders of Fairfax | | | | | | | | | | | | | | 871.1 |
| Non-controlling interests | | | | | | | | | | | | | | <u>(113.0)</u> |
| | | | | | | | | | | | | | | <u>758.1</u> |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

Net gains (losses) on investments for the three and nine months ended September 30, 2018 and 2017 for each of the insurance and reinsurance operations, run-off operations and Other reporting segment, as well as Corporate and Other, were comprised as shown in the following tables:

Quarter ended September 30, 2018

| Insurance and Reinsurance | | | | | | | | | | | | | |
|--|-------------|---------------|----------------|-----------------|------------|-----------------------------|--------------|------------|--------------------|------------|------------|---------------------|--------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Consolidated |
| Long equity exposures ⁽²⁾ | 46.1 | 15.1 | (3.1) | (2.5) | 3.1 | 4.9 | 37.2 | (10.3) | 90.5 | 11.1 | (13.7) | (93.8) | (5.9) |
| Short equity exposures | (0.1) | 30.4 | 53.9 | — | — | — | — | 6.6 | 90.8 | 6.7 | — | (3.3) | 94.2 |
| Bonds | (3.6) | (9.8) | (12.6) | (5.6) | (0.8) | (10.7) | 1.5 | (3.3) | (44.9) | (8.9) | 68.0 | 0.2 | 14.4 |
| U.S. treasury bond forwards | — | 1.4 | 9.1 | 3.1 | — | — | — | 0.2 | 13.8 | 5.2 | — | — | 19.0 |
| CPI-linked derivatives | 0.8 | (0.2) | (0.5) | (0.4) | 0.1 | — | — | (0.9) | (1.1) | — | — | (0.7) | (1.8) |
| Foreign currency | (10.9) | (14.6) | (0.3) | 0.4 | 2.4 | 4.6 | (29.2) | 12.4 | (35.2) | (6.9) | (43.6) | (5.3) | (91.0) |
| Other | 1.3 | 0.2 | 2.0 | 0.4 | 0.2 | 0.5 | 0.7 | 1.2 | 6.5 | (0.1) | (1.3) | 7.2 | 12.3 |
| Net gains (losses) on investments | 33.6 | 22.5 | 48.5 | (4.6) | 5.0 | (0.7) | 10.2 | 5.9 | 120.4 | 7.1 | 9.4 | (95.7) | 41.2 |

Quarter ended September 30, 2017

| Insurance and Reinsurance | | | | | | | | | | | | | |
|--|---------------|---------------|----------------|-----------------|-------------|-----------------------------|--------------|-------------|--------------------|-------------|-------------|---------------------|----------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Consolidated |
| Long equity exposures ⁽⁴⁾ | 30.0 | 115.7 | 23.5 | (6.7) | 16.2 | 3.0 | 7.8 | 24.0 | 213.5 | 24.8 | 10.9 | (8.4) | 240.8 |
| Short equity exposures | (13.5) | 7.9 | 3.8 | — | — | — | — | 1.6 | (0.2) | (7.4) | — | (46.9) | (54.5) |
| Bonds | (21.0) | 2.8 | 43.6 | 6.0 | (14.2) | (0.4) | 1.7 | 1.7 | 20.2 | 1.1 | 4.7 | (1.4) | 24.6 |
| U.S. treasury bond forwards | — | (0.6) | 0.1 | — | — | — | — | (0.1) | (0.6) | 0.2 | — | — | (0.4) |
| CPI-linked derivatives | (0.9) | (5.7) | (0.8) | (1.4) | (2.9) | — | — | (6.4) | (18.1) | (0.6) | — | (0.6) | (19.3) |
| Foreign currency | (9.1) | (17.8) | 1.5 | 3.4 | 13.0 | 7.8 | 2.3 | (0.9) | 0.2 | (1.2) | (5.7) | (20.4) | (27.1) |
| Other ⁽⁵⁾ | 1.6 | 1.9 | 1.2 | 0.4 | (0.2) | — | 930.4 | 0.8 | 936.1 | — | 0.3 | — | 936.4 |
| Net gains (losses) on investments | (12.9) | 104.2 | 72.9 | 1.7 | 11.9 | 10.4 | 942.2 | 20.7 | 1,151.1 | 16.9 | 10.2 | (77.7) | 1,100.5 |

Nine months ended September 30, 2018

| Insurance and Reinsurance | | | | | | | | | | | | | |
|--|---------------|---------------|----------------|-----------------|--------------|-----------------------------|----------------|-------------|--------------------|------------|--------------|---------------------|--------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Consolidated |
| Long equity exposures ⁽²⁾⁽³⁾ | 19.9 | 67.4 | 8.1 | 0.5 | 1.4 | 60.7 | (44.0) | 6.9 | 120.9 | 20.5 | 902.9 | 59.1 | 1,103.4 |
| Short equity exposures | 0.1 | 18.1 | 32.1 | — | — | — | — | 3.9 | 54.2 | 3.3 | — | (10.8) | 46.7 |
| Bonds | (9.8) | (35.6) | (50.9) | (13.3) | (3.8) | (33.7) | (9.0) | (19.9) | (176.0) | (23.4) | 67.7 | (3.5) | (135.2) |
| U.S. treasury bond forwards | 0.5 | 7.1 | 37.2 | 6.6 | 0.3 | — | — | 0.5 | 52.2 | 12.4 | — | 0.3 | 64.9 |
| CPI-linked derivatives | (1.6) | (0.3) | (0.8) | (2.0) | 0.1 | — | — | (10.2) | (14.8) | — | — | (6.2) | (21.0) |
| Foreign currency | (17.4) | 4.9 | (6.3) | (1.9) | (4.7) | (12.2) | (63.1) | 21.2 | (79.5) | (10.5) | (96.1) | 13.2 | (172.9) |
| Other | (2.0) | (2.8) | (0.1) | (0.5) | 4.7 | (2.9) | — | 13.0 | 9.4 | (0.3) | (0.3) | 22.5 | 31.3 |
| Net gains (losses) on investments | (10.3) | 58.8 | 19.3 | (10.6) | (2.0) | 11.9 | (116.1) | 15.4 | (33.6) | 2.0 | 874.2 | 74.6 | 917.2 |

Nine months ended September 30, 2017

| Insurance and Reinsurance | | | | | | | | | | | | | |
|--|-------------|---------------|----------------|-----------------|-------------|-----------------------------|--------------|-------------|--------------------|-------------|------------|---------------------|----------------|
| | Northbridge | Odyssey Group | Crum & Forster | Zenith National | Brit | Allied World ⁽¹⁾ | Fairfax Asia | Other | Ongoing operations | Run-off | Other | Corporate and Other | Consolidated |
| Long equity exposures ⁽⁴⁾ | 70.5 | 280.9 | 93.6 | 16.5 | 66.0 | 3.0 | 26.2 | 60.0 | 616.7 | 118.4 | 24.2 | 26.8 | 786.1 |
| Short equity exposures | (13.3) | (57.8) | (113.3) | — | — | — | — | (10.7) | (195.1) | (21.4) | — | (107.7) | (324.2) |
| Bonds | (19.1) | (5.3) | 79.6 | 2.4 | (10.5) | (0.4) | 9.8 | 10.0 | 66.5 | 2.7 | 5.7 | (1.5) | 73.4 |
| U.S. treasury bond forwards | (1.9) | (21.7) | (62.7) | (5.6) | (0.9) | — | — | (2.1) | (94.9) | (16.7) | — | (1.0) | (112.6) |
| CPI-linked derivatives | (3.6) | (16.4) | (3.5) | (3.6) | (6.1) | — | — | (11.1) | (44.3) | (1.6) | — | (1.4) | (47.3) |
| Foreign currency | (2.4) | (8.9) | 7.4 | 9.1 | 19.9 | 7.8 | (4.0) | (0.1) | 28.8 | (2.5) | (23.4) | (29.2) | (26.3) |
| Other ⁽⁵⁾ | 3.5 | 2.3 | 1.3 | 0.7 | 0.4 | — | 930.7 | 2.1 | 941.0 | (0.1) | 0.3 | (3.1) | 938.1 |
| Net gains (losses) on investments | 33.7 | 173.1 | 2.4 | 19.5 | 68.8 | 10.4 | 962.7 | 48.1 | 1,318.7 | 78.8 | 6.8 | (117.1) | 1,287.2 |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

(2) Corporate and Other includes the Seaspan forward contracts described in note 6 (Investments in Associates) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

(3) The Other reporting segment included a non-cash gain of \$889.9 from the de-consolidation of Quess. Refer to note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for additional details.

(4) Included net realized gains of \$51.3 across various reporting segments related to the re-measurement to fair value of Grivalia Properties (consolidated commencing July 4, 2017).

(5) The Fairfax Asia reporting segment included net realized gains of \$930.1 on the partial disposition of Fairfax Asia's investment in ICICI Lombard and the re-measurement to fair value of the remaining interest.

Components of Net Earnings

Underwriting and Operating Income

Set out and discussed below are the underwriting and operating results of Fairfax's insurance and reinsurance operations, Run-off and Other reporting segment for the three and nine months ended September 30, 2018 and 2017.

Northbridge

| | Cdn\$ | | Cdn\$ | | Cdn\$ | | Cdn\$ | |
|---------------------------------------|----------------|----------------|-------------------|----------------|----------------|----------------|-------------------|----------------|
| | Third quarter | | First nine months | | Third quarter | | First nine months | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Underwriting profit | 39.2 | 2.7 | 20.4 | 7.2 | 30.6 | 2.1 | 15.9 | 5.5 |
| Loss & LAE - accident year | 69.3 % | 76.5 % | 72.9 % | 73.6 % | 69.3 % | 76.5 % | 72.9 % | 73.6 % |
| Commissions | 16.6 % | 16.8 % | 16.9 % | 16.9 % | 16.6 % | 16.8 % | 16.9 % | 16.9 % |
| Underwriting expenses | 16.3 % | 17.4 % | 16.9 % | 17.5 % | 16.3 % | 17.4 % | 16.9 % | 17.5 % |
| Combined ratio - accident year | 102.2 % | 110.7 % | 106.7 % | 108.0 % | 102.2 % | 110.7 % | 106.7 % | 108.0 % |
| Net favourable development | (12.7)% | (11.5)% | (8.6)% | (8.7)% | (12.7)% | (11.5)% | (8.6)% | (8.7)% |
| Combined ratio - calendar year | 89.5 % | 99.2 % | 98.1 % | 99.3 % | 89.5 % | 99.2 % | 98.1 % | 99.3 % |
| Gross premiums written | 460.7 | 389.9 | 1,261.3 | 1,133.6 | 353.1 | 310.8 | 979.6 | 868.3 |
| Net premiums written | 371.9 | 320.8 | 1,109.0 | 1,005.5 | 284.6 | 256.9 | 861.4 | 770.2 |
| Net premiums earned | 381.2 | 342.2 | 1,075.4 | 978.3 | 292.0 | 272.5 | 835.2 | 749.3 |
| Underwriting profit | 39.2 | 2.7 | 20.4 | 7.2 | 30.6 | 2.1 | 15.9 | 5.5 |
| Interest and dividends | 20.8 | 16.9 | 66.1 | 50.3 | 16.0 | 13.4 | 51.4 | 38.5 |
| Share of profit (loss) of associates | 3.9 | (0.4) | (6.4) | 0.3 | 3.1 | (0.3) | (4.9) | 0.2 |
| Operating income | 63.9 | 19.2 | 80.1 | 57.8 | 49.7 | 15.2 | 62.4 | 44.2 |

The Canadian dollar strengthened relative to the U.S. dollar (measured using average foreign exchange rates) by 1.4% in the first nine months of 2018 compared to the first nine months of 2017. To avoid the distortion caused by foreign currency translation, the table above presents Northbridge's underwriting and operating results in both U.S. dollars and Canadian dollars (Northbridge's functional currency). The discussion which follows makes reference to those Canadian dollar figures unless indicated otherwise.

Northbridge reported underwriting profits of Cdn\$39.2 and Cdn\$20.4 (\$30.6 and \$15.9) and combined ratios of 89.5% and 98.1% in the third quarter and first nine months of 2018 compared to underwriting profits of Cdn\$2.7 and Cdn\$7.2 (\$2.1 and \$5.5) and combined ratios of 99.2% and 99.3% in the third quarter and first nine months of 2017. The increase in underwriting profit in the third quarter of 2018 principally reflected better non-catastrophe loss experience related to the current accident year (reflecting improvements in personal lines and commercial automobile lines of business) and increased net favourable prior year reserve development. The increase in underwriting profit in the first nine months of 2018 principally reflected better non-catastrophe loss experience related to the current accident year (reflecting lower frequency of large losses) and increased net favourable prior year reserve development, partially offset by an increase in current period catastrophe losses.

Net favourable prior year reserve development in the third quarter and first nine months of 2018 of Cdn\$48.2 and Cdn\$92.4 (\$37.1 and \$71.7; 12.7 and 8.6 combined ratio points) principally reflected better than expected emergence on automobile and casualty lines of business related to accident years 2006 to 2016. Net favourable prior year reserve development in the third quarter and first nine months of 2017 of Cdn\$39.8 and Cdn\$85.1 (\$31.2 and \$65.2; 11.5 and 8.7 combined ratio points) principally reflected better than expected emergence on automobile and casualty lines of business related to accident years 2008 to 2013.

The underwriting results in the third quarter and first nine months of 2018 included Cdn\$3.9 and Cdn\$22.0 (\$2.9 and \$17.1; 1.0 and 2.0 combined ratio points) of current period catastrophe losses principally related to several storms in Ontario and Quebec. The underwriting results in the third quarter and first nine months of 2017 included Cdn\$2.6 and Cdn\$9.0 (\$2.1 and \$6.9; 0.8 and 0.9 of a combined ratio point) of current period catastrophe losses.

Gross premiums written increased by 18.2% and 11.3% from Cdn\$389.9 and Cdn\$1,133.6 in the third quarter and first nine months of 2017 to Cdn\$460.7 and Cdn\$1,261.3 in the third quarter and first nine months of 2018, primarily reflecting price increases across the group and strong retention of renewal business. Net premiums written increased by 15.9% and 10.3% in the third quarter and first nine months of 2018, consistent with the growth in gross premiums written. Net premiums earned increased by 11.4% and 9.9% in the third quarter and first nine months of 2018 reflecting the growth in net premiums written during 2017 and 2018.

Interest and dividends increased to Cdn\$20.8 and Cdn\$66.1 (\$16.0 and \$51.4) in the third quarter and first nine months of 2018 from Cdn\$16.9 and Cdn\$50.3 (\$13.4 and \$38.5) in the third quarter and first nine months of 2017, principally reflecting lower total return swap expense and higher interest income earned (primarily due to purchases of short-dated Canadian government and U.S. treasury bonds in the first and second quarters of 2018).

Share of loss of associates of Cdn\$6.4 (\$4.9) in the first nine months of 2018 primarily reflected Northbridge's share of loss of Peak Achievement and Farmers Edge.

Cash provided by operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) increased to Cdn\$102.5 (\$79.6) in the first nine months of 2018 from Cdn\$94.5 (\$72.4) in the first nine months of 2017, primarily due to higher net premium collections, partially offset by higher net paid claims.

Odyssey Group⁽¹⁾

| | Third quarter | | First nine months | |
|---------------------------------------|----------------|----------------|-------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Underwriting profit (loss) | 18.5 | (167.8) | 133.9 | (64.1) |
| Loss & LAE - accident year | 77.0 % | 103.6 % | 70.1 % | 79.1 % |
| Commissions | 20.4 % | 19.7 % | 21.0 % | 20.4 % |
| Underwriting expenses | 9.0 % | 9.7 % | 9.8 % | 10.6 % |
| Combined ratio - accident year | 106.4 % | 133.0 % | 100.9 % | 110.1 % |
| Net favourable development | (8.9)% | (6.7)% | (7.4)% | (6.4)% |
| Combined ratio - calendar year | 97.5 % | 126.3 % | 93.5 % | 103.7 % |
| Gross premiums written | 802.1 | 756.6 | 2,514.7 | 2,117.6 |
| Net premiums written | 705.8 | 662.3 | 2,185.5 | 1,878.1 |
| Net premiums earned | 741.7 | 637.2 | 2,067.2 | 1,722.9 |
| Underwriting profit (loss) | 18.5 | (167.8) | 133.9 | (64.1) |
| Interest and dividends | 33.2 | 26.3 | 106.2 | 95.8 |
| Share of profit of associates | 3.3 | 7.3 | 28.8 | 7.4 |
| Operating income (loss) | 55.0 | (134.2) | 268.9 | 39.1 |

(1) These results differ from those published by Odyssey Group primarily due to differences between IFRS and U.S. GAAP and purchase accounting adjustments (principally goodwill and intangible assets) recorded by Fairfax related to the privatization of Odyssey Group in 2009.

Odyssey Group reported underwriting profits of \$18.5 and \$133.9 and combined ratios of 97.5% and 93.5% in the third quarter and first nine months of 2018 compared to underwriting losses of \$167.8 and \$64.1 and combined ratios of 126.3% and 103.7% in the third quarter and first nine months of 2017. The increase in underwriting profit in the third quarter and first nine months of 2018 principally reflected lower current period catastrophe losses (as set out in the table below) and higher net favourable prior year reserve development, partially offset by higher non-catastrophe loss experience related to the current accident year (primarily related to the impact of large losses).

| | Third quarter | | | | First nine months | | | |
|--------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact |
| Typhoon Jebi | 25.6 | 3.5 | — | — | 25.6 | 1.2 | — | — |
| Hurricane Florence | 7.5 | 1.0 | — | — | 7.5 | 0.4 | — | — |
| Typhoon Mangkhut | 6.0 | 0.8 | — | — | 6.0 | 0.3 | — | — |
| Hurricane Irma | — | — | 70.8 | 11.0 | — | — | 70.8 | 4.1 |
| Hurricane Maria | — | — | 102.6 | 16.0 | — | — | 102.6 | 5.9 |
| Hurricane Harvey | — | — | 51.6 | 8.0 | — | — | 51.6 | 3.0 |
| Mexico earthquakes | — | — | 8.2 | 1.3 | — | — | 8.2 | 0.5 |
| Other | 38.1 | 5.1 | 28.5 | 4.9 | 102.9 | 5.0 | 82.4 | 4.9 |
| | 77.2 | 10.4 points | 261.7 | 41.2 points | 142.0 | 6.9 points | 315.6 | 18.4 points |

(1) Net of reinstatement premiums.

Net favourable prior year reserve development (primarily related to property catastrophe loss reserves in each of 2018 and 2017) increased to \$66.3 and \$152.2 (8.9 and 7.4 combined ratio points) in the third quarter and first nine months of 2018 from \$42.7 and \$110.0 (6.7 and 6.4 combined ratio points) in the third quarter and first nine months of 2017.

Odyssey Group's commission expense ratio increased to 20.4% and 21.0% in the third quarter and first nine months of 2018 from 19.7% and 20.4% in the third quarter and first nine months of 2017 primarily reflecting the combination of higher reinstatement premiums received in 2017 which carry no commissions (related to the 2017 catastrophe losses) and increased writings of proportional reinsurance in 2018.

Odyssey Group's underwriting expense ratio decreased to 9.0% and 9.8% in the third quarter and first nine months of 2018 from 9.7% and 10.6% in the third quarter and first nine months of 2017 primarily reflecting increased net premiums earned relative to modest increases in underwriting expenses.

Gross premiums written and net premiums written increased by 6.0% and 6.6% in the third quarter of 2018 principally reflecting increases in U.S. Insurance (growth in automobile and U.S. crop lines of business) and EuroAsia (growth in commercial property and credit and bond lines of business), partially offset by decreases in North America (decreases in U.S. property treaty lines of business). Gross premiums written and net premiums written increased by 18.8% and 16.4% in first nine months of 2018 principally reflecting increases in all divisions with the majority of the increase related to U.S. Insurance (growth in automobile and U.S. crop lines of business), EuroAsia (growth in commercial property and credit and bond lines of business) and North America (growth in the accident and health line of business). Net premiums earned in the third quarter and first nine months of 2018 increased by 16.4% and 20.0% consistent with the growth in net premiums written during 2017 and 2018.

Interest and dividends increased to \$33.2 and \$106.2 in the third quarter and first nine months of 2018 from \$26.3 and \$95.8 in the third quarter and first nine months of 2017, primarily reflecting higher interest income earned (principally due to the impact of higher short term interest rates on cash and cash equivalents and higher interest income earned on purchases of short-dated U.S. treasury bonds in the first and second quarters of 2018) and increased total return swap income, partially offset by higher investment management and administration fees. Share of profit of associates of \$28.8 in the first nine months of 2018 primarily reflected Odyssey Group's share of net gains on sales of investment properties (located in Dublin, Ireland) by KWF LPs.

Cash provided by operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) increased to \$265.2 in the first nine months of 2018 from \$97.3 in the first nine months of 2017, primarily due to increased net premium volume, partially offset by higher net loss payments.

Crum & Forster

| | Third quarter | | First nine months | |
|---------------------------------------|---------------|----------------|-------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Underwriting profit (loss) | 9.7 | (17.7) | 18.2 | (11.8) |
| Loss & LAE - accident year | 63.9% | 69.5 % | 63.4% | 66.3 % |
| Commissions | 15.0% | 15.8 % | 15.6% | 15.7 % |
| Underwriting expenses | 19.2% | 19.1 % | 19.8% | 19.4 % |
| Combined ratio - accident year | 98.1% | 104.4 % | 98.8% | 101.4 % |
| Net favourable development | — | (0.6)% | — | (0.5)% |
| Combined ratio - calendar year | 98.1% | 103.8 % | 98.8% | 100.9 % |
| Gross premiums written | 614.7 | 557.1 | 1,804.9 | 1,625.7 |
| Net premiums written | 514.1 | 477.0 | 1,510.4 | 1,403.3 |
| Net premiums earned | 498.0 | 468.4 | 1,457.2 | 1,377.1 |
| Underwriting profit (loss) | 9.7 | (17.7) | 18.2 | (11.8) |
| Interest and dividends | 15.3 | 8.2 | 45.8 | 25.9 |
| Share of profit of associates | 4.6 | 3.9 | 2.1 | 1.3 |
| Operating income (loss) | 29.6 | (5.6) | 66.1 | 15.4 |

Crum & Forster reported underwriting profits of \$9.7 and \$18.2 and combined ratios of 98.1% and 98.8% in the third quarter and first nine months of 2018 compared to underwriting losses of \$17.7 and \$11.8 and combined ratios of 103.8% and 100.9% in the third quarter and first nine months of 2017. The increase in underwriting profits in the third quarter and first nine months of 2018 principally reflected lower current period catastrophe losses (as set out in the table below) and higher business volumes in more profitable lines of business. There was nominal net prior year reserve development in the third quarters and first nine months of 2018 and 2017.

| | Third quarter | | | | First nine months | | | |
|--------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact |
| Hurricane Florence | 3.0 | 0.6 | — | — | 3.0 | 0.2 | — | — |
| Hurricane Irma | — | — | 21.5 | 4.6 | — | — | 21.5 | 1.6 |
| Hurricane Maria | — | — | 1.0 | 0.2 | — | — | 1.0 | 0.1 |
| Hurricane Harvey | — | — | 5.0 | 1.1 | — | — | 5.0 | 0.4 |
| Other | 1.5 | 0.3 | 3.0 | 0.6 | 13.6 | 0.9 | 13.1 | 0.8 |
| | 4.5 | 0.9 points | 30.5 | 6.5 points | 16.6 | 1.1 points | 40.6 | 2.9 points |

(1) Net of reinstatement premiums.

Gross premiums written and net premiums written increased by 10.3% and 7.8% in the third quarter of 2018 and increased by 11.0% and 7.6% in the first nine months of 2018, principally reflecting growth in accident and health, commercial transportation, commercial multi-peril and umbrella lines of business. Net premiums earned increased by 6.3% and 5.8% in the third quarter and first nine months of 2018 reflecting the growth in net premiums written during 2017 and 2018.

Interest and dividends of \$15.3 and \$45.8 in the third quarter and first nine months of 2018 increased from \$8.2 and \$25.9 in the third quarter and first nine months of 2017, primarily due to lower total return swap expense and lower investment management and administration fees.

Cash provided by operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) of \$55.8 in the first nine months of 2018 decreased from \$89.9 in the first nine months of 2017 primarily due to higher net paid claims.

Zenith National ⁽¹⁾

| | Third quarter | | First nine months | |
|---------------------------------------|---------------|--------|-------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Underwriting profit | 40.7 | 33.6 | 90.7 | 91.9 |
| Loss & LAE - accident year | 56.4 % | 55.8 % | 58.1 % | 58.1 % |
| Commissions | 10.6 % | 10.3 % | 10.5 % | 10.3 % |
| Underwriting expenses | 24.3 % | 25.5 % | 26.2 % | 26.6 % |
| Combined ratio - accident year | 91.3 % | 91.6 % | 94.8 % | 95.0 % |
| Net favourable development | (11.0)% | (7.5)% | (9.9)% | (10.3)% |
| Combined ratio - calendar year | 80.3 % | 84.1 % | 84.9 % | 84.7 % |
| Gross premiums written | 169.4 | 177.6 | 646.2 | 685.6 |
| Net premiums written | 166.8 | 174.9 | 637.5 | 676.8 |
| Net premiums earned | 206.4 | 211.5 | 602.1 | 599.1 |
| Underwriting profit | 40.7 | 33.6 | 90.7 | 91.9 |
| Interest and dividends | 8.4 | 5.6 | 23.7 | 17.3 |
| Share of profit (loss) of associates | 5.0 | 2.5 | (4.3) | (3.0) |
| Operating income | 54.1 | 41.7 | 110.1 | 106.2 |

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

Zenith National reported underwriting profits of \$40.7 and \$90.7 and combined ratios of 80.3% and 84.9% in the third quarter and first nine months of 2018 compared to underwriting profits of \$33.6 and \$91.9 and combined ratios of 84.1% and 84.7% in the third quarter and first nine months of 2017. The decrease in the combined ratio in the third quarter of 2018 principally reflected higher net favourable prior year reserve development while the modest increase in the combined ratio in the first nine months of 2018 principally reflected lower net favourable prior year reserve development. Net favourable prior year reserve development of \$22.6 and \$59.3 (11.0 and 9.9 combined ratio points) in the third quarter and first nine months of 2018 (compared to \$15.9 and \$61.7 (7.5 and 10.3 combined ratio points) in the third quarter and first nine months of 2017), principally reflected net favourable emergence related to accident years 2015 through 2017. The estimated accident year loss and LAE ratio in the third quarter and first nine months of 2018 was comparable to that of the third quarter and first nine months of 2017 and reflected favourable loss development trends for accident year 2017 emerging in 2018, offset by modest earned price decreases and estimated loss trends for accident year 2018.

Net premiums earned decreased to \$206.4 in the third quarter of 2018 from \$211.5 in the third quarter of 2017, primarily reflecting earned price decreases. Net premiums earned increased to \$602.1 in the first nine months of 2018 from \$599.1 in the first nine months of 2017, primarily reflecting higher audit premiums (additional net premiums earned based on exposure reported by the insured), partially offset by earned price decreases.

Interest and dividends of \$8.4 and \$23.7 in the third quarter and first nine months of 2018 increased from \$5.6 and \$17.3 in the third quarter and first nine months of 2017, primarily reflecting higher total return swap income and higher interest income earned (principally reflecting purchases of short-dated U.S. treasury bonds in the first and second quarters of 2018). Share of loss of associates of \$4.3 in the first nine months of 2018 primarily reflected Zenith National's share of loss of Farmers Edge and a non-cash impairment charge related to Thai Re.

Cash provided by operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) increased to \$91.0 in the first nine months of 2018 from \$76.2 in the first nine months of 2017, primarily as a result of lower income taxes paid.

Brit

| | Third quarter | | First nine months | |
|---------------------------------------|----------------|----------------|-------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Underwriting loss | (32.5) | (222.2) | (14.9) | (199.2) |
| Loss & LAE - accident year | 70.3 % | 117.7% | 61.2 % | 76.4 % |
| Commissions | 28.9 % | 28.5% | 28.1 % | 27.7 % |
| Underwriting expenses | 13.9 % | 12.1% | 14.4 % | 14.3 % |
| Combined ratio - accident year | 113.1 % | 158.3% | 103.7 % | 118.4 % |
| Net favourable development | (4.8)% | — | (2.4)% | (0.7)% |
| Combined ratio - calendar year | 108.3 % | 158.3% | 101.3 % | 117.7 % |
| Gross premiums written | 529.9 | 488.7 | 1,680.7 | 1,581.2 |
| Net premiums written | 424.5 | 385.3 | 1,220.1 | 1,154.1 |
| Net premiums earned | 392.9 | 381.2 | 1,172.2 | 1,125.1 |
| Underwriting loss | (32.5) | (222.2) | (14.9) | (199.2) |
| Interest and dividends | 13.7 | 9.3 | 37.6 | 22.9 |
| Share of profit (loss) of associates | 6.3 | 7.1 | (2.6) | 8.3 |
| Operating income (loss) | (12.5) | (205.8) | 20.1 | (168.0) |

On July 5, 2018 Brit used the proceeds from a \$264.6 capital contribution from the company to purchase an 11.2% ownership interest from its minority shareholder (OMERS) for \$251.8 and to pay an accrued dividend of \$12.8 on the shares purchased. Subsequent to this transaction, the company's ownership interest in Brit was 88.0%.

Brit reported underwriting losses of \$32.5 and \$14.9 and combined ratios of 108.3% and 101.3% in the third quarter and first nine months of 2018 compared to underwriting losses of \$222.2 and \$199.2 and combined ratios of 158.3% and 117.7% in the third quarter and first nine months of 2017. The decrease in underwriting losses in the third quarter and first nine months of 2018 principally reflected lower current period catastrophe losses (as set out in the table below) and higher net favourable prior year reserve development, partially offset by increased non-catastrophe loss experience related to the current accident year (principally reflecting the impact of downward pressure on pricing experienced in recent years). The level of current period catastrophe losses in 2018, while significantly reduced over those experienced in 2017, were still the predominant driver of the underwriting losses in 2018.

| | Third quarter | | | | First nine months | | | |
|--------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact |
| Typhoon Jebi | 24.3 | 6.2 | — | — | 24.3 | 2.1 | — | — |
| Hurricane Florence | 30.8 | 7.8 | — | — | 30.8 | 2.6 | — | — |
| Typhoon Mangkhut | 6.0 | 1.5 | — | — | 6.0 | 0.5 | — | — |
| Hurricane Irma | — | — | 111.3 | 29.3 | — | — | 111.3 | 9.9 |
| Hurricane Maria | — | — | 54.2 | 14.2 | — | — | 54.2 | 4.8 |
| Hurricane Harvey | — | — | 61.2 | 16.2 | — | — | 61.2 | 5.5 |
| Mexico earthquakes | — | — | 14.4 | 3.8 | — | — | 14.4 | 1.3 |
| Other | 4.6 | 1.3 | 2.7 | 0.4 | 9.2 | 0.8 | 4.0 | 0.3 |
| | 65.7 | 16.8 points | 243.8 | 63.9 points | 70.3 | 6.0 points | 245.1 | 21.8 points |

(1) Net of reinstatement premiums.

Net favourable prior year reserve development of \$18.9 (4.8 combined ratio points) in the third quarter of 2018 primarily reflected better than expected emergence on the 2017 catastrophe losses. Net favourable prior year reserve development of \$27.8 (2.4 combined ratio points) in the first nine months of 2018 reflected better than expected emergence on energy and U.S. property lines of business, partially offset by reserve strengthening in the marine line of business. Net favourable prior year reserve development of 7.9 (0.7 of a combined ratio point) in the first nine months of 2017 primarily reflected better than expected emergence on casualty and property reinsurance and energy lines of business, partially offset by net reserve strengthening of \$13.1 resulting from a change in the Ogden discount rate that was effective from March 2017.

Brit's underwriting expense ratio increased to 13.9% in the third quarter of 2018 from 12.1% in the third quarter of 2017, primarily reflecting incremental expenses incurred related to new underwriting initiatives and the unfavourable impact of foreign currency translation.

Gross premiums written and net premiums written increased by 8.4% and 10.2% in the third quarter of 2018 and increased by 6.3% and 5.7% in the first nine months of 2018, principally reflecting increased contribution from underwriting initiatives launched in recent years, price increases (principally in property lines of business) and the favourable impact of foreign currency translation, partially offset by reductions in non-core lines of business through active portfolio management. Net premiums earned increased by 3.1% and 4.2% in the third quarter and first nine months of 2018 reflecting increased net premiums written during 2017 and 2018 primarily related to Brit's U.S. operations.

Interest and dividends of \$13.7 and \$37.6 in the third quarter and first nine months of 2018 increased from \$9.3 and \$22.9 in the third quarter and first nine months of 2017, primarily due to higher interest income earned (principally reflecting purchases of short-dated U.S. treasury bonds in the first and second quarters of 2018). Share of loss of associates of \$2.6 in the first nine months of 2018 primarily reflected Brit's share of loss of Peak Achievement.

Cash used in operating activities (excluding operating cash flow activity related to securities recorded at FVTPL) of \$44.9 in the first nine months of 2018 primarily reflected increased net underwriting cash outflow related to net paid losses on the 2017 catastrophe losses. This compares to cash provided by operating activities of \$11.7 in the first nine months of 2017.

Allied World⁽¹⁾

| | Third quarter | | First nine months | |
|---------------------------------------|---------------|---------------------|-------------------|---------------------|
| | 2018 | 2017 ⁽²⁾ | 2018 | 2017 ⁽²⁾ |
| Underwriting profit (loss) | 19.9 | (415.8) | 75.2 | (415.8) |
| Loss & LAE - accident year | 70.4 % | 154.3% | 69.8 % | 154.3% |
| Commissions | 11.6 % | 1.4% | 8.9 % | 1.4% |
| Underwriting expenses | 16.9 % | 22.1% | 18.5 % | 22.1% |
| Combined ratio - accident year | 98.9 % | 177.8% | 97.2 % | 177.8% |
| Net (favourable) adverse development | (2.2)% | 4.4% | (1.7)% | 4.4% |
| Combined ratio - calendar year | 96.7 % | 182.2% | 95.5 % | 182.2% |
| Gross premiums written | 797.9 | 756.4 | 2,617.7 | 756.4 |
| Net premiums written | 518.7 | 540.8 | 1,882.2 | 540.8 |
| Net premiums earned | 603.7 | 506.0 | 1,682.9 | 506.0 |
| Underwriting profit (loss) | 19.9 | (415.8) | 75.2 | (415.8) |
| Interest and dividends | 32.7 | 33.4 | 83.0 | 33.4 |
| Share of profit (loss) of associates | 5.9 | 1.1 | (7.5) | 1.1 |
| Operating income (loss) | 58.5 | (381.3) | 150.7 | (381.3) |

(1) These results differ from those published by Allied World primarily due to acquisition accounting adjustments recorded by Fairfax related to the acquisition of Allied World on July 6, 2017.

(2) Allied World is included in the company's financial reporting with effect from July 6, 2017.

As used herein, "Allied World" means Allied World Assurance Company Holdings, GmbH, the successor by merger to Allied World Assurance Company Holdings, AG ("Allied World AG"). On July 6, 2017 the company completed the acquisition of 94.6% of the outstanding shares of Allied World AG for purchase consideration of \$3,977.9, consisting of \$1,905.6 in cash and \$2,072.3 by the issuance of 4,799,497 subordinate voting shares. In addition, Allied World AG declared a special pre-closing cash dividend of \$5.00 per share (\$438.0). Contemporaneously with the closing of the acquisition of Allied World AG, Ontario Municipal Employees Retirement System ("OMERS"), the pension plan manager for government employees in the province of Ontario, Alberta Investment Management Corporation ("AIMCo"), an investment manager for pension, endowment and government funds in the province of Alberta, and certain other third parties (together, "the co-investors") invested \$1,580.0 for an indirect equity interest in Allied World AG. The remaining 5.4% of the outstanding shares of Allied World AG were acquired on August 17, 2017 for purchase consideration of \$229.0, consisting of \$109.7 in cash and \$119.3 by the issuance of 276,397 subordinate voting shares, in a merger transaction under Swiss law pursuant to which Allied World became the surviving entity. This merger resulted in the co-investors holding an indirect ownership interest in Allied World of 32.6%. The co-investors have a dividend in priority to the company, and the company will have the ability to purchase the shares owned by the co-investors over the seven years subsequent to the acquisition date. Allied World is a global property, casualty and specialty insurer and reinsurer.

On May 7, 2018 Allied World used the proceeds of a \$325.5 capital contribution from Fairfax to redeem all of its 5.50% senior notes due November 15, 2020 for cash consideration of \$325.5, including accrued interest and make-whole provision. On April 30, 2018 a dividend of \$61.3 was paid to Allied World's minority shareholders (OMERS, AIMCo and others).

Allied World reported underwriting profits of \$19.9 and \$75.2 and combined ratios of 96.7% and 95.5% in the third quarter and first nine months of 2018. The increase in underwriting profit in the third quarter of 2018 principally reflected decreased current period catastrophe losses as set out in the table below. Net favourable prior year reserve development of \$13.3 and \$28.4 (2.2 and 1.7 combined ratio points) in the third quarter and first nine months of 2018 primarily reflected better than expected emergence on the 2017 catastrophe losses. Net adverse prior year reserve development of \$22.1 (4.4 combined ratio points) in the third quarter and first nine months of 2017 primarily related to the insurance segment (primarily adverse development in the errors and omissions and excess casualty lines of business) and reinsurance segment (primarily adverse development on U.S. storms that occurred in 2015 and 2016).

| | Third quarter | | | | First nine months | | | |
|--------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2018 | | 2017 ⁽¹⁾ | | 2018 | | 2017 ⁽¹⁾ | |
| | Catastrophe losses ⁽²⁾ | Combined ratio impact | Catastrophe losses ⁽²⁾ | Combined ratio impact | Catastrophe losses ⁽²⁾ | Combined ratio impact | Catastrophe losses ⁽²⁾ | Combined ratio impact |
| Typhoon Jebi | 25.6 | 4.3 | — | — | 25.6 | 1.5 | — | — |
| Hurricane Florence | 27.6 | 4.6 | — | — | 27.6 | 1.7 | — | — |
| Typhoon Mangkhut | 8.5 | 1.4 | — | — | 8.5 | 0.5 | — | — |
| Hurricane Irma | — | — | 165.7 | 33.0 | — | — | 165.7 | 33.0 |
| Hurricane Maria | — | — | 108.3 | 21.0 | — | — | 108.3 | 21.0 |
| Hurricane Harvey | — | — | 112.0 | 22.1 | — | — | 112.0 | 22.1 |
| Other | — | — | 26.3 | 5.4 | — | — | 26.3 | 5.4 |
| | 61.7 | 10.3 points | 412.3 | 81.5 points | 61.7 | 3.7 points | 412.3 | 81.5 points |

(1) Allied World is included in the company's financial reporting with effect from July 6, 2017.

(2) Net of reinstatement premiums.

The commission expense ratio increased to 11.6% in the third quarter of 2018 from 1.4% in the third quarter of 2017, primarily due to the release of acquisition accounting adjustments that had reduced net premiums earned and commission expenses in the third quarter of 2017 resulting in a commission expense ratio that was generally lower than Fairfax's other operating companies. Acquisition accounting adjustments had a nominal impact on the third quarter of 2018 as they had been largely released in prior quarters.

The underwriting expense ratio decreased to 16.9% in the third quarter of 2018 from 22.1% in the third quarter of 2017, primarily due to expense rationalization efforts and increased net premiums earned.

Gross premiums written increased by 5.5% in the third quarter of 2018 primarily due to growth in the insurance segment of \$89.5, partially offset by a decrease of \$48.0 in the reinsurance segment. Net premiums written decreased by 4.1% in the third quarter of 2018 primarily due to a decrease in premium retention, partially offset by the growth in gross premiums written. Net premiums earned increased by 19.3% in the third quarter of 2018 primarily due to the growth in net premiums written during 2018 and the release of acquisition accounting adjustments that increased net premiums earned nominally in the third quarter of 2018 compared to a reduction in the third quarter of 2017.

Share of loss of associates of \$7.5 in the first nine months of 2018 primarily reflected Allied World's share of loss of Peak Achievement and Farmers Edge.

Fairfax Asia

| | Third quarter | | First nine months | |
|---------------------------------------|----------------|--------|-------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Underwriting profit (loss) | 0.7 | 15.1 | (1.3) | 31.9 |
| Loss & LAE - accident year | 74.6 % | 77.7 % | 73.5 % | 79.9 % |
| Commissions | 9.5 % | (9.7)% | 10.2 % | (1.6)% |
| Underwriting expenses | 26.4 % | 21.5 % | 28.6 % | 21.6 % |
| Combined ratio - accident year | 110.5 % | 89.5 % | 112.3 % | 99.9 % |
| Net favourable development | (12.0)% | (7.5)% | (11.4)% | (12.9)% |
| Combined ratio - calendar year | 98.5 % | 82.0 % | 100.9 % | 87.0 % |
| Gross premiums written | 101.4 | 173.9 | 297.5 | 522.5 |
| Net premiums written | 45.8 | 71.7 | 145.5 | 257.9 |
| Net premiums earned | 47.3 | 83.5 | 143.4 | 244.7 |
| Underwriting profit (loss) | 0.7 | 15.1 | (1.3) | 31.9 |
| Interest and dividends | 6.6 | 8.1 | 15.6 | 20.9 |
| Share of profit (loss) of associates | (1.6) | 14.1 | (2.3) | 29.7 |
| Operating income | 5.7 | 37.3 | 12.0 | 82.5 |

On December 28, 2017 the company completed the sale of its 97.7% interest in First Capital Insurance Limited ("First Capital") to Mitsui Sumitomo Insurance Company Limited of Tokyo, Japan ("Mitsui Sumitomo") for gross proceeds of \$1,683.3 and realized a net after-tax gain of \$1,018.6. The transaction was completed pursuant to an agreement with Mitsui Sumitomo to pursue a global strategic alliance. On July 1, 2018 Falcon entered into a 25% quota share reinsurance agreement to participate in the net underwriting result of First Capital's insurance portfolio.

On August 30, 2017 Pacific Insurance acquired the assets and liabilities of the general insurance business of Prudential Assurance Malaysia Berhad ("Prudential Assurance Malaysia") for \$2.3. Prudential Assurance Malaysia is a general insurer in Malaysia.

On July 6, 2017 the company sold a 12.2% equity interest in ICICI Lombard General Insurance Company Limited ("ICICI Lombard") to private equity investors for net proceeds of \$376.3 and recorded a net realized gain of \$223.3. On September 19, 2017 the company sold an additional 12.1% equity interest through participation in ICICI Lombard's initial public offering for net proceeds of \$532.2 and recorded a net realized gain of \$372.3. In the third quarter of 2017 the company's remaining 9.9% equity interest in ICICI Lombard was reclassified from the equity method of accounting to a common stock (included in holding company cash and investments in the Fairfax Asia reporting segment with a fair value of \$452.4 at September 30, 2018 (December 31, 2017 - \$549.0)).

Fairfax Asia reported an underwriting profit of \$0.7 and an underwriting loss of \$1.3 and combined ratios of 98.5% and 100.9% in the third quarter and first nine months of 2018 compared to underwriting profits of \$15.1 and \$31.9 and combined ratios of 82.0% and 87.0% in the third quarter and first nine months of 2017. The entities comprising Fairfax Asia produced combined ratios as set out in the following table:

| | Third quarter | | First nine months | |
|--|---------------|--------|-------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| First Capital ⁽¹⁾ | — | 45.6% | — | 57.8% |
| Falcon | 100.9% | 104.0% | 99.3% | 102.8% |
| Pacific Insurance | 93.3% | 116.6% | 102.9% | 104.3% |
| AMAG Insurance | 99.0% | 91.8% | 89.4% | 95.0% |
| Fairfirst Insurance | 97.8% | 96.2% | 99.9% | 99.4% |
| Fairfax Asia (excluding First Capital ⁽¹⁾) | 98.5% | 104.5% | 100.9% | 103.4% |

(1) The company divested its 97.7% interest in First Capital on December 28, 2017.

Fairfax Asia's underwriting results in the third quarter and first nine months of 2018 included the benefit of \$5.7 and \$16.3 (12.0 and 11.4 combined ratio points) of net favourable prior year reserve development, primarily related to commercial automobile, workers' compensation and property loss reserves. Fairfax Asia's underwriting profits in the third quarter and first nine months of 2017 included the benefit of \$6.3 and \$31.6 (7.5 and 12.9 combined ratio points) of net favourable prior year reserve development, primarily related to marine and property loss reserves (the first nine months of 2017 also included net favourable prior year reserve development related to commercial automobile and accident and health loss reserves).

Fairfax Asia's commission expense ratio was 9.5% and 10.2% in the third quarter and first nine months of 2018 compared to a commission income ratio of 9.7% and 1.6% in the third quarter and first nine months of 2017, with the year-over-year change primarily reflecting decreased profit commission on reinsurance ceded following the divestiture of First Capital. Fairfax Asia's underwriting expense ratio increased to 26.4% and 28.6% in the third quarter and first nine months of 2018 from 21.5% and 21.6% in the third quarter and first nine months of 2017, primarily reflecting lower net earned premium following the divestiture of First Capital.

The divestiture of First Capital affected gross premiums written, net premiums written and net premiums earned as set out in the following table:

| | Third quarter | | | | | |
|---|------------------------|----------------------|---------------------|------------------------|----------------------|---------------------|
| | 2018 | | | 2017 | | |
| | Gross premiums written | Net premiums written | Net premiums earned | Gross premiums written | Net premiums written | Net premiums earned |
| Fairfax Asia - as reported | 101.4 | 45.8 | 47.3 | 173.9 | 71.7 | 83.5 |
| First Capital | — | — | — | (88.5) | (29.5) | (32.0) |
| Fairfax Asia - as adjusted to exclude First Capital | <u>101.4</u> | <u>45.8</u> | <u>47.3</u> | <u>85.4</u> | <u>42.2</u> | <u>51.5</u> |
| Percentage change (year-over-year) | 18.7% | 8.5% | (8.2)% | | | |

| | First nine months | | | | | |
|---|------------------------|----------------------|---------------------|------------------------|----------------------|---------------------|
| | 2018 | | | 2017 | | |
| | Gross premiums written | Net premiums written | Net premiums earned | Gross premiums written | Net premiums written | Net premiums earned |
| Fairfax Asia - as reported | 297.5 | 145.5 | 143.4 | 522.5 | 257.9 | 244.7 |
| First Capital | — | — | — | (265.5) | (97.6) | (88.1) |
| Fairfax Asia - as adjusted to exclude First Capital | <u>297.5</u> | <u>145.5</u> | <u>143.4</u> | <u>257.0</u> | <u>160.3</u> | <u>156.6</u> |
| Percentage change (year-over-year) | 15.8% | (9.2)% | (8.4)% | | | |

Gross premiums written (as adjusted) increased by 18.7% and 15.8% in the third quarter and first nine months of 2018, principally reflecting increased writings in commercial automobile and accident and health lines of business. The increase in the third quarter of 2018 also included increased writings in property lines of business. Net premiums written (as adjusted) increased by 8.5% in the third quarter and decreased by 9.2% in the first nine months of 2018 reflecting the growth in gross premiums written offset by lower premium retention. Net premiums earned (as adjusted) decreased by 8.2% and 8.4% in the third quarter and first nine months of 2018, principally reflecting the normal lag of net premiums earned relative to net premiums written.

Interest and dividends of \$6.6 and \$15.6 in the third quarter and first nine months of 2018 decreased from \$8.1 and \$20.9 in the third quarter and first nine months of 2017, primarily due to the impact of the divestiture of First Capital. Share of loss of associates of \$1.6 and \$2.3 in the third quarter and first nine months of 2018 compared to share of profit of associates of \$14.1 and \$29.7 in the third quarter and first nine months of 2017 primarily reflected the absence of the share of profit of ICICI Lombard in 2018.

Insurance and Reinsurance - Other

| | Third quarter | | | | | | |
|---------------------------------------|----------------|-----------------|----------------|-----------------------|------------------------------------|---------------|----------------|
| | 2018 | | | | | | |
| | Group Re | Bryte Insurance | Advent | Fairfax Latin America | Fairfax Central and Eastern Europe | Inter-company | Total |
| Underwriting profit (loss) | 2.8 | 2.2 | (3.2) | (16.2) | 1.0 | — | (13.4) |
| Loss & LAE - accident year | 83.6 % | 66.5 % | 70.1 % | 66.9% | 61.6 % | — | 68.4 % |
| Commissions | 22.6 % | 15.7 % | 25.1 % | 3.8% | 20.2 % | — | 15.9 % |
| Underwriting expenses | 2.7 % | 18.6 % | 18.3 % | 42.1% | 23.2 % | — | 23.9 % |
| Combined ratio - accident year | 108.9 % | 100.8 % | 113.5 % | 112.8% | 105.0 % | — | 108.2 % |
| Net (favourable) adverse development | (17.2)% | (4.2)% | (7.3)% | 8.4% | (6.8)% | — | (3.5)% |
| Combined ratio - calendar year | 91.7 % | 96.6 % | 106.2 % | 121.2% | 98.2 % | — | 104.7 % |
| Gross premiums written | 36.6 | 89.7 | 82.8 | 187.2 | 55.2 | (3.0) | 448.5 |
| Net premiums written | 34.9 | 70.0 | 62.7 | 89.2 | 43.8 | — | 300.6 |
| Net premiums earned | 34.4 | 65.2 | 51.5 | 76.2 | 54.3 | — | 281.6 |
| Underwriting profit (loss) | 2.8 | 2.2 | (3.2) | (16.2) | 1.0 | — | (13.4) |
| Interest and dividends | (1.8) | 4.1 | 2.1 | 8.4 | 0.5 | — | 13.3 |
| Share of profit of associates | 9.8 | — | — | — | 0.1 | — | 9.9 |
| Operating income (loss) | 10.8 | 6.3 | (1.1) | (7.8) | 1.6 | — | 9.8 |

| | Third quarter | | | | | | |
|---------------------------------------|----------------|-----------------|---------------|-----------------------|------------------------------------|---------------|----------------|
| | 2017 | | | | | | |
| | Group Re | Bryte Insurance | Advent | Fairfax Latin America | Fairfax Central and Eastern Europe | Inter-company | Total |
| Underwriting profit (loss) | (12.7) | 4.3 | (44.5) | (3.5) | (3.9) | — | (60.3) |
| Loss & LAE - accident year | 169.1 % | 63.9 % | 150.1% | 56.3 % | 45.3% | — | 95.3 % |
| Commissions | 36.6 % | 13.2 % | 24.5% | (5.5)% | 22.9% | — | 19.0 % |
| Underwriting expenses | 1.1 % | 16.3 % | 21.0% | 64.7 % | 24.0% | — | 22.0 % |
| Combined ratio - accident year | 206.8 % | 93.4 % | 195.6% | 115.5 % | 92.2% | — | 136.3 % |
| Net (favourable) adverse development | (61.4)% | (0.3)% | — | 0.8 % | 18.7% | — | (5.4)% |
| Combined ratio - calendar year | 145.4 % | 93.1 % | 195.6% | 116.3 % | 110.9% | — | 130.9 % |
| Gross premiums written | 39.9 | 87.6 | 90.2 | 56.9 | 45.3 | (3.1) | 316.8 |
| Net premiums written | 26.4 | 68.3 | 51.4 | 26.1 | 38.4 | — | 210.6 |
| Net premiums earned | 28.4 | 62.9 | 46.5 | 21.7 | 36.4 | — | 195.9 |
| Underwriting profit (loss) | (12.7) | 4.3 | (44.5) | (3.5) | (3.9) | — | (60.3) |
| Interest and dividends | 0.3 | 4.0 | 0.6 | 4.8 | 0.5 | — | 10.2 |
| Share of profit (loss) of associates | 2.3 | — | (0.6) | — | 0.7 | — | 2.4 |
| Operating income (loss) | (10.1) | 8.3 | (44.5) | 1.3 | (2.7) | — | (47.7) |

| | First nine months | | | | | | |
|---------------------------------------|-------------------|-----------------|----------------|-----------------------|------------------------------------|---------------|----------------|
| | 2018 | | | | | | |
| | Group Re | Bryte Insurance | Advent | Fairfax Latin America | Fairfax Central and Eastern Europe | Inter-company | Total |
| Underwriting profit (loss) | 9.7 | 4.0 | (5.0) | (31.6) | 4.3 | — | (18.6) |
| Loss & LAE - accident year | 72.1 % | 66.4 % | 65.8 % | 63.8% | 47.6% | — | 62.9 % |
| Commissions | 23.3 % | 15.8 % | 25.8 % | 5.1% | 19.9% | — | 16.3 % |
| Underwriting expenses | 4.1 % | 18.2 % | 18.9 % | 44.7% | 24.8% | — | 25.0 % |
| Combined ratio - accident year | 99.5 % | 100.4 % | 110.5 % | 113.6% | 92.3% | — | 104.2 % |
| Net (favourable) adverse development | (9.1)% | (2.3)% | (7.1)% | 0.2% | 4.8% | — | (2.0)% |
| Combined ratio - calendar year | 90.4 % | 98.1 % | 103.4 % | 113.8% | 97.1% | — | 102.2 % |
| Gross premiums written | 101.9 | 274.5 | 231.2 | 573.0 | 208.5 | (8.7) | 1,380.4 |
| Net premiums written | 98.7 | 212.3 | 162.1 | 290.2 | 171.1 | — | 934.4 |
| Net premiums earned | 101.6 | 212.0 | 146.2 | 229.5 | 151.7 | — | 841.0 |
| Underwriting profit (loss) | 9.7 | 4.0 | (5.0) | (31.6) | 4.3 | — | (18.6) |
| Interest and dividends | (1.6) | 13.5 | 6.5 | 17.7 | 1.4 | — | 37.5 |
| Share of profit (loss) of associates | 12.5 | — | 3.4 | — | (0.3) | — | 15.6 |
| Operating income (loss) | 20.6 | 17.5 | 4.9 | (13.9) | 5.4 | — | 34.5 |

| | First nine months | | | | | | |
|---------------------------------------|-------------------|-----------------|----------------|-----------------------|------------------------------------|---------------|----------------|
| | 2017 | | | | | | |
| | Group Re | Bryte Insurance | Advent | Fairfax Latin America | Fairfax Central and Eastern Europe | Inter-company | Total |
| Underwriting profit (loss) | 1.4 | (1.6) | (44.3) | (3.2) | (8.1) | — | (55.8) |
| Loss & LAE - accident year | 101.6 % | 67.2 % | 92.4 % | 58.5 % | 50.4% | — | 76.3 % |
| Commissions | 29.5 % | 18.9 % | 23.8 % | 2.6 % | 21.0% | — | 20.9 % |
| Underwriting expenses | 5.3 % | 18.7 % | 20.8 % | 47.5 % | 24.7% | — | 20.4 % |
| Combined ratio - accident year | 136.4 % | 104.8 % | 137.0 % | 108.6 % | 96.1% | — | 117.6 % |
| Net (favourable) adverse development | (37.9)% | (3.9)% | (5.1)% | (1.7)% | 13.9% | — | (7.1)% |
| Combined ratio - calendar year | 98.5 % | 100.9 % | 131.9 % | 106.9 % | 110.0% | — | 110.5 % |
| Gross premiums written | 109.9 | 273.5 | 220.3 | 124.5 | 113.8 | (7.0) | 835.0 |
| Net premiums written | 92.9 | 176.0 | 146.2 | 57.8 | 102.1 | — | 575.0 |
| Net premiums earned | 91.2 | 175.2 | 138.7 | 46.9 | 81.4 | — | 533.4 |
| Underwriting profit (loss) | 1.4 | (1.6) | (44.3) | (3.2) | (8.1) | — | (55.8) |
| Interest and dividends | 0.9 | 12.6 | 3.7 | 8.2 | 1.2 | — | 26.6 |
| Share of profit (loss) of associates | 3.5 | — | (0.5) | — | 0.8 | — | 3.8 |
| Operating income (loss) | 5.8 | 11.0 | (41.1) | 5.0 | (6.1) | — | (25.4) |

On July 11, 2018 Advent announced that certain classes of its business would be transferred to Brit and Allied World with the remainder of Advent Syndicate 780 placed into run-off. Accordingly, in the third quarter of 2018, Advent's casualty, property binder and terrorism underwriting teams joined Brit. Advent's consumer products underwriting team was seconded to Allied World and will formally join Allied World on January 1, 2019. Lloyd's has approved Advent's plan to enter into run-off: Wentworth (included in Group Re in the tables above) assumed on a quota share reinsurance basis, 25% of Advent's net reserves and unearned premium for a premium of \$87.1 effective October 1, 2018; Brit will assume on a quota share basis, 100% of Advent's net unearned premium for the property binders, direct and facultty property and terrorism classes of business upon expiry of Advent's external reinsurance program on April 1, 2019; the majority of Advent's remaining employees will join RiverStone's Syndicate 3500 to facilitate the run-off; and, the capital supporting Advent's Syndicate 780 and RiverStone's Syndicate 3500 will be made interavailable. Effective January 1, 2019 Advent will be reported in the Run-off reporting segment. The decision to place Advent into run-off reflected the considerable strategic challenges facing Syndicate 780 as it has strived to build a significant presence in its target areas of business in an extremely competitive market place.

Fairfax Latin America is comprised of Fairfax Brasil (established by the company in 2010) and Fairfax Latam, which consists of the insurance operations acquired from AIG in Chile and Colombia (effective from July 31, 2017), Argentina (effective from September 30, 2017) and Uruguay (effective from January 31, 2018). Fairfax Latam continues to work through the legal, regulatory and operational requirements to complete the acquisition of the insurance operations of AIG in Venezuela.

Fairfax Central and Eastern Europe ("Fairfax CEE") is comprised of Colonnade Insurance and Polish Re (acquired in 2009). Colonnade Insurance includes the following: the business and renewal rights of the insurance operations acquired in 2016 from QBE in Hungary, Czech Republic and Slovakia; the business and renewal rights of the insurance operations acquired from AIG in Hungary, Czech Republic and Slovakia (effective from April 30, 2017), Bulgaria (effective from May 31, 2017), Poland (effective from June 30, 2017) and Romania (effective from October 31, 2017); and Colonnade Ukraine (acquired in 2015).

On May 12, 2017 Bryte Insurance completed a loss portfolio transfer with a third party reinsurer to transfer all liability for risks Bryte Insurance had insured as at December 31, 2016 and prior years (the "Bryte LPT"). The Bryte LPT replaced the reinsurance protection formerly provided by Zurich Insurance Company Ltd. ("Zurich Insurance") as all reinsurance treaties with Zurich Insurance were commuted as at December 31, 2016. The impact of the Bryte LPT decreased net premiums written and net premiums earned by \$32.2 and increased the underwriting loss by \$3.9 in the first nine months of 2017.

The Insurance and Reinsurance – Other segment produced underwriting losses of \$13.4 and \$18.6 and combined ratios of 104.7% and 102.2% in the third quarter and first nine months of 2018 compared to underwriting losses of \$60.3 and \$55.8 and combined ratios of 130.9% and 110.5% in the third quarter and first nine months of 2017. The decrease in underwriting losses in the third quarter and first nine months of 2018 principally reflected lower current period catastrophe losses (as set out in the table below), partially offset by an increase in non-catastrophe loss experience related to the current accident year. The first nine months of 2018 also reflected lower net favourable prior year reserve development.

| | Third quarter | | | | First nine months | | | |
|--------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|-----------------------------------|-----------------------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact | Catastrophe losses ⁽¹⁾ | Combined ratio impact |
| Hurricane Florence | 3.0 | 1.1 | — | — | 3.0 | 0.4 | — | — |
| Hurricane Irma | — | — | 33.9 | 17.2 | — | — | 33.9 | 6.3 |
| Hurricane Maria | — | — | 10.6 | 5.4 | — | — | 10.6 | 2.0 |
| Hurricane Harvey | — | — | 19.7 | 10.3 | — | — | 19.7 | 3.7 |
| Other | — | — | 2.3 | 1.1 | 1.3 | 0.1 | 16.6 | 3.2 |
| | <u>3.0</u> | <u>1.1</u> points | <u>66.5</u> | <u>34.0</u> points | <u>4.3</u> | <u>0.5</u> points | <u>80.8</u> | <u>15.2</u> points |

(1) Net of reinstatement premiums.

The underwriting results in the third quarter of 2018 included net favourable prior year reserve development of \$9.7 (3.5 combined ratio points), principally reflecting net favourable prior year reserve development at Group Re, Advent and Fairfax CEE, partially offset by net adverse prior year reserve development at Fairfax Latam (primarily related to long tail casualty coverages in Argentina due to macro economic conditions).

The underwriting results in the first nine months of 2018 included net favourable prior year reserve development of \$16.5 (2.0 combined ratio points), principally reflecting net favourable prior year reserve development at Advent, Group Re and Bryte Insurance, partially offset by net adverse prior year reserve development at Fairfax Latam (primarily related to long tail casualty coverages in Argentina due to the macro economic conditions) and Polish Re (primarily related to motor third party liability and property loss reserves).

The underwriting results in the third quarter and first nine months of 2017 included the benefit of net favourable prior year reserve development of \$10.6 and \$38.0 (5.4 and 7.1 combined ratio points), principally at Group Re and Bryte Insurance, partially offset by net adverse prior year reserve development at Polish Re (primarily related to motor third party liability and property loss reserves). The underwriting results in the first nine months of 2017 also included net favourable prior year reserve development at Advent.

The underwriting expense ratio increased to 23.9% and 25.0% in the third quarter and first nine months of 2018 from 22.0% and 20.4% in the third quarter and first nine months of 2017, principally due to the impact of the consolidation of Fairfax Latam (primarily related to the impact on underwriting expenses of the macro economic conditions in Argentina, specifically very high inflation combined with U.S. dollar denominated underwriting expenses), partially offset by a decrease in the underwriting expense ratio at Colonnade Insurance (primarily reflecting an increase in net premiums earned). The underwriting expense ratio of Fairfax Latam in the first nine months of 2018 was also impacted by lower net premiums earned due to changes to its reinsurance structure subsequent to its acquisition by the company.

The commission expense ratio decreased to 15.9% and 16.3% in the third quarter and first nine months of 2018 from 19.0% and 20.9% in the third quarter and first nine months of 2017, principally due to decreases at Group Re (primarily reflecting lower profit commissions) and Fairfax Latam (primarily reflecting the impact in the full third quarter and full first nine months of 2018 of Fairfax Latam's commission expense ratio which was generally lower than the other operating companies within this reporting segment). The decrease in the first nine months of 2018 also reflected decreases at Bryte Insurance (primarily reflecting the impact of the Bryte LPT in 2017 which reduced net premiums earned).

Excluding the year-over-year impacts of the acquisitions of Fairfax Latam and the business and renewal rights of the insurance operations of AIG in central and eastern Europe ("CEE") and the Bryte LPT, gross premiums written, net premiums written and net premiums earned in the third quarters and first nine months of 2018 and 2017 were as set out in the following table:

| | Third quarter | | | | | |
|--|------------------------|----------------------|---------------------|------------------------|----------------------|---------------------|
| | 2018 | | | 2017 | | |
| | Gross premiums written | Net premiums written | Net premiums earned | Gross premiums written | Net premiums written | Net premiums earned |
| Insurance and Reinsurance - Other - as reported | 448.5 | 300.6 | 281.6 | 316.8 | 210.6 | 195.9 |
| Fairfax Latam | (149.7) | (74.3) | (63.5) | (20.0) | (11.3) | (8.6) |
| Business and renewal rights of the insurance operations acquired from AIG in CEE | (30.6) | (20.0) | (21.6) | (22.3) | (18.0) | (8.5) |
| Insurance and Reinsurance - Other - as adjusted | <u>268.2</u> | <u>206.3</u> | <u>196.5</u> | <u>274.5</u> | <u>181.3</u> | <u>178.8</u> |
| Percentage change (year-over-year) | (2.3)% | 13.8% | 9.9% | | | |

| | First nine months | | | | | |
|--|------------------------|----------------------|---------------------|------------------------|----------------------|---------------------|
| | 2018 | | | 2017 | | |
| | Gross premiums written | Net premiums written | Net premiums earned | Gross premiums written | Net premiums written | Net premiums earned |
| Insurance and Reinsurance - Other - as reported | 1,380.4 | 934.4 | 841.0 | 835.0 | 575.0 | 533.4 |
| Fairfax Latam | (466.2) | (243.7) | (187.2) | (20.0) | (11.3) | (8.6) |
| Business and renewal rights of the insurance operations acquired from AIG in CEE | (108.0) | (75.5) | (63.7) | (29.6) | (24.4) | (11.1) |
| Bryte loss portfolio transfer | — | — | — | — | 32.2 | 32.2 |
| Insurance and Reinsurance - Other - as adjusted | <u>806.2</u> | <u>615.2</u> | <u>590.1</u> | <u>785.4</u> | <u>571.5</u> | <u>545.9</u> |
| Percentage change (year-over-year) | 2.6% | 7.6% | 8.1% | | | |

Gross premiums written (as adjusted) decreased by 2.3% in the third quarter of 2018, principally reflecting decreases at Advent (primarily related to the decision to place Advent into run-off) and Group Re (primarily related to the non-renewal of a third party commercial automobile treaty). Net premiums written (as adjusted) increased by 13.8% in the third quarter of 2018, principally reflecting increases at Advent (primarily related to increased premium retention on the accident and health line of business in 2018 and higher reinsurance reinstatement premiums and costs related to the 2017 catastrophe losses in 2017, partially offset by lower gross premiums written described above) and Group Re (primarily reflecting the purchase of less reinsurance in 2018, partially offset by lower gross premiums written).

Gross premiums written (as adjusted) increased by 2.6% in the first nine months of 2018, principally reflecting increases at Advent (primarily related to casualty reinsurance and property insurance lines of business, partially offset by the impact of the decision to place Advent into run-off) and Polish Re (primarily related to the property and agricultural reinsurance lines of business). Net premiums written (as adjusted) increased by 7.6% in the first nine months of 2018 principally reflecting increases at Advent (consistent with the increase in gross premiums written and higher reinstatement premiums related to the 2017 catastrophe losses in 2017) and Polish Re (consistent with the growth in gross premiums written). Net premiums earned (as adjusted) increased by 9.9% and 8.1% in the third quarter and first nine months of 2018 reflecting the growth in net premiums written during 2017 and 2018.

Interest and dividends of \$13.3 and \$37.5 in the third quarter and first nine months of 2018 increased from \$10.2 and \$26.6 in the third quarter and first nine months of 2017, principally reflecting the consolidation of the interest and dividends of Fairfax Latam and higher interest income earned (principally reflecting purchases of short-dated U.S. treasury bonds in the first and second quarters of 2018). Share of profit of associates increased to \$9.9 and \$15.6 in the third quarter and first nine months of 2018 from \$2.4 and \$3.8 in the third quarter and first nine months of 2017, principally reflecting the contribution from Seaspan (acquired on February 14, 2018).

Run-off

| | Third quarter | | First nine months | |
|--------------------------------------|---------------|--------|-------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| Gross premiums written | (0.1) | — | 0.5 | 12.3 |
| Net premiums written | (0.1) | (0.3) | (0.3) | 11.9 |
| Net premiums earned | 1.2 | 3.5 | 5.3 | 21.5 |
| Losses on claims | (33.0) | (2.7) | (48.0) | (63.6) |
| Operating expenses | (30.9) | (27.4) | (89.1) | (81.9) |
| Interest and dividends | 9.6 | 5.8 | 32.3 | 22.4 |
| Share of profit (loss) of associates | 3.9 | 5.4 | (2.8) | 6.5 |
| Operating loss | (49.2) | (15.4) | (102.3) | (95.1) |

Effective October 1, 2018 a portfolio of business comprised of UK employers' liability and public liability policies written by a UK insurer prior to 2001 was transferred to RiverStone (UK) through a Part VII transfer under the Financial Services and Markets Act 2000, as amended. Also effective October 1, 2018 certain latent claims related to policies issued by the same UK insurer between January 1, 2002 and December 31, 2014 were reinsured into RiverStone (UK). The combination of the two transactions, which will be reflected in the company's consolidated financial reporting in the fourth quarter of 2018, resulted in RiverStone (UK) assuming approximately \$562 of net insurance contract liabilities based on current reserve estimates and receiving cash consideration of approximately \$645.

Effective September 28, 2018, all of the assets and liabilities of RiverStone Insurance were transferred to RiverStone (UK) through a Part VII transfer under the Financial Services and Markets Act 2000, as amended. The company expects to wind-up RiverStone Insurance in 2019 as it simplifies its organizational structure. This transaction did not have any impact on the Run-off reporting segment or the company's consolidated financial reporting.

On July 11, 2018 Advent announced that certain classes of its business would be transferred to Brit and Allied World with the remainder of Advent Syndicate 780 placed into run-off. Effective January 1, 2019 Advent will be reported in the Run-off reporting segment. Refer to the Insurance and Reinsurance - Other section of this MD&A for additional details.

Run-off reported operating losses of \$49.2 and \$102.3 in the third quarter and first nine months of 2018 compared to operating losses of \$15.4 and \$95.1 in the third quarter and first nine months of 2017. Losses on claims of \$33.0 and \$48.0 in the third quarter and first nine months of 2018 principally reflected net adverse prior year reserve development related to asbestos loss reserves at U.S. Run-off. Losses on claims of \$63.6 in the first nine months of 2017 principally reflected net adverse prior year reserve development of \$51.7 at U.S. Run-off related to asbestos (a portion of which was offset by net premiums earned of \$10.1 in connection with the settlement of a specific asbestos claim) and other health hazards loss reserves.

Operating expenses increased to \$30.9 in the third quarter of 2018 from \$27.4 in the third quarter of 2017, primarily reflecting higher personnel and information technology expenses, the unfavourable effect of foreign currency translation and the impact in 2017 of a reduction of a profit sharing accrual related to an acquired portfolio of construction defect claims. Operating expenses increased to \$89.1 in the first nine months of 2018 from \$81.9 in the first nine months of 2017, primarily reflecting higher personnel, information technology and bad debt expenses, partially offset by lower purchased services and lower profit sharing payments made to a broker in connection with an acquired portfolio of construction defect claims.

Interest and dividends increased to \$9.6 and \$32.3 in the third quarter and first nine months of 2018 from \$5.8 and \$22.4 in the third quarter and first nine months of 2017, primarily as a result of lower total return swap expense. Share of loss of associates of \$2.8 in the first nine months of 2018 primarily reflected Run-off's share of a non-cash impairment charge related to Thai Re, partially offset by Run-off's share of net gains on sales of investment properties (located in Dublin, Ireland) by KWF LPs.

Other

| | Third quarter | | | | |
|---|---------------------------------------|------------------------------|----------------------------------|----------------------|-----------|
| | 2018 | | | | |
| | Restaurants and retail ⁽¹⁾ | Fairfax India ⁽²⁾ | Thomas Cook India ⁽³⁾ | Other ⁽⁴⁾ | Total |
| Revenue | 510.5 | 108.5 | 221.4 | 237.0 | 1,077.4 |
| Expenses | (490.0) | (105.8) | (223.8) | (210.5) | (1,030.1) |
| Pre-tax income (loss) before interest expense and other | 20.5 | 2.7 | (2.4) | 26.5 | 47.3 |
| Interest and dividends | 2.1 | (2.8) | — | 4.9 | 4.2 |
| Share of profit (loss) of associates | 0.7 | 13.4 | 3.9 | (3.8) | 14.2 |
| Net gains (losses) on investments | 0.2 | 29.9 | (17.9) | (2.8) | 9.4 |
| Pre-tax income (loss) before interest expense | 23.5 | 43.2 | (16.4) | 24.8 | 75.1 |

| | Third quarter | | | | |
|--|---------------------------------------|------------------------------|----------------------------------|----------------------|---------|
| | 2017 | | | | |
| | Restaurants and retail ⁽¹⁾ | Fairfax India ⁽²⁾ | Thomas Cook India ⁽³⁾ | Other ⁽⁴⁾ | Total |
| Revenue | 363.0 | 95.5 | 250.4 | 131.6 | 840.5 |
| Expenses | (336.3) | (89.6) | (242.9) | (115.2) | (784.0) |
| Pre-tax income before interest expense and other | 26.7 | 5.9 | 7.5 | 16.4 | 56.5 |
| Interest and dividends | 2.0 | 24.5 | — | 2.5 | 29.0 |
| Share of profit (loss) of associates | (0.1) | 16.4 | (0.1) | (0.1) | 16.1 |
| Net gains (losses) on investments | (5.0) | 3.6 | — | 11.6 | 10.2 |
| Pre-tax income before interest expense | 23.6 | 50.4 | 7.4 | 30.4 | 111.8 |

| | First nine months | | | | |
|--|---------------------------------------|------------------------------|----------------------------------|----------------------|-----------|
| | 2018 | | | | |
| | Restaurants and retail ⁽¹⁾ | Fairfax India ⁽²⁾ | Thomas Cook India ⁽³⁾ | Other ⁽⁴⁾ | Total |
| Revenue | 1,283.6 | 326.5 | 974.2 | 560.3 | 3,144.6 |
| Expenses | (1,223.2) | (316.1) | (957.2) | (497.5) | (2,994.0) |
| Pre-tax income before interest expense and other | 60.4 | 10.4 | 17.0 | 62.8 | 150.6 |
| Interest and dividends | 6.2 | (6.8) | — | 10.3 | 9.7 |
| Share of profit of associates | 0.2 | 63.0 | 4.4 | 16.9 | 84.5 |
| Net gains (losses) on investments | (1.0) | 27.6 | 855.4 | (7.8) | 874.2 |
| Pre-tax income before interest expense | 65.8 | 94.2 | 876.8 | 82.2 | 1,119.0 |

| | First nine months | | | | |
|--|---------------------------------------|------------------------------|----------------------------------|----------------------|-----------|
| | 2017 | | | | |
| | Restaurants and retail ⁽¹⁾ | Fairfax India ⁽²⁾ | Thomas Cook India ⁽³⁾ | Other ⁽⁴⁾ | Total |
| Revenue | 1,007.7 | 218.1 | 723.7 | 268.5 | 2,218.0 |
| Expenses | (939.4) | (205.8) | (689.3) | (238.8) | (2,073.3) |
| Pre-tax income before interest expense and other | 68.3 | 12.3 | 34.4 | 29.7 | 144.7 |
| Interest and dividends | 5.7 | (87.8) | — | 2.5 | (79.6) |
| Share of profit (loss) of associates | 0.1 | 30.4 | 0.2 | (3.8) | 26.9 |
| Net gains (losses) on investments | 0.4 | (4.8) | 1.0 | 10.2 | 6.8 |
| Pre-tax income (loss) before interest expense | 74.5 | (49.9) | 35.6 | 38.6 | 98.8 |

(1) Comprised primarily of Recipe (formerly Cara) and its subsidiaries The Keg, Pickle Barrel (acquired on December 1, 2017), St-Hubert and Original Joe's, Toys "R" Us Canada (acquired on May 31, 2018), Praktiker, Golf Town, Sporting Life, Kitchen Stuff Plus and William Ashley.

(2) Comprised of Fairfax India and its subsidiaries NCML, Fairchem (merged on March 14, 2017 with Privi Organics) and Saurashtra Freight (acquired on February 14, 2017). These results differ from those published by Fairfax India primarily due to Fairfax India's application of investment entity accounting under IFRS.

(3) Comprised of Thomas Cook India and its subsidiaries Qness (until its de-consolidation on March 1, 2018) and Sterling Resorts. These results differ from those published by Thomas Cook India primarily due to differences between IFRS and Indian GAAP, and acquisition accounting adjustments.

(4) Comprised primarily of Dexterra (acquired on March 7, 2018), Grivalia Properties (consolidated on July 4, 2017), Fairfax Africa (since its initial public offering on February 17, 2017), Mosaic Capital (consolidated on January 26, 2017), Pethealth and Boat Rocker.

Restaurants and retail

On August 31, 2018 the company, together with the respective non-controlling interests, contributed 100% of the ownership interests in Sporting Life and Golf Town to a new holding company. Subsequent to the reorganization, the company holds a controlling 65.1% interest in each of Sporting Life and Golf Town through the new holding company.

On May 31, 2018 the company acquired a 100% equity interest in Toys "R" Us (Canada) Ltd. ("Toys "R" Us Canada") from Toys "R" Us - Delaware, Inc. for cash consideration of \$41.0 (Cdn\$53.2) and an additional investment of \$193.7 (Cdn\$251.3) that Toys "R" Us Canada used to repay its debtor in possession financing loan. Toys "R" Us Canada is a specialty retailer of toys and baby products with 82 stores across Canada, recently generating over Cdn\$1 billion in revenue and Cdn\$100 in EBITDA annually.

During the second quarter of 2018 Cara changed its name to Recipe Unlimited Corporation ("Recipe").

On February 22, 2018 the company sold its 51.0% ownership interest in The Keg to Recipe for consideration of \$74.6 (Cdn\$94.7), comprised of cash consideration of \$7.9 (Cdn\$10.0) and 3,400,000 Recipe subordinate voting shares. The other shareholders of The Keg sold their 49.0% ownership interest to Recipe for \$82.7 (Cdn\$105.0), comprised of cash of \$74.8 (Cdn\$95.0) and 401,284 Recipe subordinate voting shares. Recipe may be required to pay up to an additional \$23.6 (Cdn\$30.0) of cash consideration to the other shareholders of The Keg, contingent on the achievement of certain financial objectives within the first three years subsequent to closing. The transaction increased the company's equity interest in Recipe to 43.2% from 40.2% at December 31, 2017.

On December 1, 2017 Recipe acquired a 100% equity interest in Pickle Barrel Restaurants Inc. ("Pickle Barrel") for purchase consideration of \$16.9 (Cdn\$21.5). Pickle Barrel operates restaurants and provides catering services in the province of Ontario.

The year-over-year increases in the revenue and expenses of Restaurants and retail in the third quarter and first nine months of 2018 primarily reflected Recipe's acquisition of Pickle Barrel on December 1, 2017, the consolidation of Toys "R" Us Canada on May 31, 2018 and growth in business volumes at Recipe, Sporting Life, Golf Town and Praktiker.

Fairfax India

On October 19, 2018 Fairfax India invested \$60.2 (4.4 billion Indian rupees) in common shares and warrants of The Catholic Syrian Bank Limited ("CS Bank"), and committed to further invest approximately \$104 (7.7 billion Indian rupees) in common shares and warrants of CS Bank over the next 12 to 18 months. Once completed, Fairfax India will have a 51.0% equity interest in CS Bank on a fully diluted basis. CS Bank, established in 1920, is a private company headquartered in Thrissur, India, offering banking services through 421 branches and 264 automated teller machines across India.

On May 16, 2018 Fairfax India acquired an additional 6.0% of the outstanding shares of Bangalore International Airport Limited ("Bangalore Airport") from Siemens Project Ventures GmbH for cash consideration of \$67.4 (4.6 billion Indian rupees). The transaction increased the company's equity interest in Bangalore Airport to 54.0%.

Pursuant to the company's investment advisory agreement with Fairfax India, on March 9, 2018 the company received a performance fee of \$114.4 for the period January 30, 2015 to December 31, 2017 in the form of 7,663,685 newly issued Fairfax India subordinate voting shares, which increased the company's equity interest in Fairfax India to 33.6% from 30.2% at December 31, 2017.

The year-over-year increases in the revenue and expenses of Fairfax India in the third quarter and first nine months of 2018 primarily reflected the growth in business volume at NCML. The increase in the first nine months of 2018 also reflected the impact of the merger of Fairchem and Privi Organics on March 14, 2017. Interest and dividends in the third quarter of 2017 included a reduction in the accrual of performance fees payable to Fairfax of \$22.6 (nil in the third quarter of 2018). Interest and dividends in the first nine months of 2017 included an accrual of performance fees payable to Fairfax of \$84.3 (nil in the first nine months of 2018). A performance fee was accrued in 2017 for the period January 30, 2015 to September 30, 2017 as Fairfax India's common shareholders' equity at September 30, 2017 surpassed a specified hurdle for that period, and represents an intercompany transaction that is eliminated on consolidation. The increase in share of profit of associates in the first nine months of 2018 primarily reflected increased contribution from Bangalore Airport (acquired March 24, 2017) and IIFL Holdings. The increase in net gains on investments in the third quarter and first nine months of 2018 primarily reflected higher net gains on corporate bonds, partially offset by foreign exchange movements on Fairfax India's U.S. dollar debt as a result of the strengthening of the U.S. dollar relative to the Indian rupee. The increase in net gains on investments in the third quarter of 2018 was also partially offset by net losses on common stocks.

Thomas Cook India

On March 1, 2018 Thomas Cook India entered into a strategic agreement with the founder of Qess Corp Limited ("Qess") that resulted in Qess becoming an associate of Thomas Cook India whereas it was previously a consolidated subsidiary. Accordingly, the company re-measured the carrying value of Qess to its fair value of \$1,109.5, recognized a non-cash gain of \$889.9 and commenced applying the equity method of accounting.

The year-over-year decreases in the revenue and expenses of Thomas Cook India in the third quarter of 2018 primarily reflected the de-consolidation of Quess on March 1, 2018, partially offset by increased revenue and expenses at Thomas Cook India (reflecting the adoption of IFRS 15 as described in the Sources of Income section of this MD&A). The year-over-year increases in the revenue and expenses of Thomas Cook India in the first nine months of 2018 primarily reflected increased revenue and expenses at Thomas Cook India (reflecting the adoption of IFRS 15), partially offset by the de-consolidation of Quess on March 1, 2018. Net gains on investments in the first nine months of 2018 included the non-cash gain of \$889.9 recognized on de-consolidation of Quess.

Other

On June 18, 2018 Fairfax Africa completed a bought deal public offering of 12,300,000 subordinate voting shares at a price of \$12.25 per share, resulting in net proceeds of \$148.3 after commission and expenses, to provide financing for the acquisition of additional African Investments. The company acquired 4,100,000 subordinate voting shares for \$50.2 through the public offering, and an additional 645,421 subordinate voting shares for \$7.6 through open market purchases.

On March 7, 2018 the company acquired the services business carried on in Canada by Carillion Canada Inc. and certain affiliates thereof relating to facilities management of airports, commercial and retail properties, defense facilities, select healthcare facilities and on behalf of oil, gas and mining clients. The acquired business was subsequently renamed Dexterra Integrated Facilities Management ("Dexterra"). Dexterra is an infrastructure services company that provides asset management and operations solutions to industries and governments.

On July 4, 2017 the company acquired control of Grivalia Properties REIC ("Grivalia Properties") by increasing its equity interest to 52.6% through the acquisition of an additional 10.3% equity interest from Eurobank Ergasias S.A. for cash consideration of \$100.0 (€88.0) and commenced consolidation. Grivalia Properties is a real estate investment company listed on the Athens Stock Exchange.

On February 17, 2017 the company acquired 22,715,394 multiple voting shares in a private placement and 2,500,000 subordinate voting shares as part of the initial public offering of Fairfax Africa Holdings Corporation ("Fairfax Africa") for total cash consideration of \$252.2. The company also contributed its 39.6% indirect interest in AFGRI Proprietary Limited ("AFGRI") with a fair value of \$72.8 to Fairfax Africa in exchange for 7,284,606 multiple voting shares. Through its initial public offering, private placements and exercise of the over-allotment option by the underwriters, Fairfax Africa raised net proceeds of \$493.3 after issuance costs and expenses, inclusive of the contribution of the investment in AFGRI. Following those transactions, the company's \$325.0 (\$10.00 per share) investment represented 98.8% of the voting rights and 64.2% of the equity interest in Fairfax Africa. Fairfax Africa was established, with the support of Fairfax, to invest in public and private equity securities and debt instruments of African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa.

On January 26, 2017 the company invested \$114.5 (Cdn\$150.0) in securities of Mosaic Capital Corporation ("Mosaic Capital") issued through a private placement comprised of: (i) Cdn\$100.0 principal amount of 6.00% senior preferred securities; (ii) Cdn\$50.0 principal amount of 5.00% senior secured debentures; and (iii) warrants entitling the company to acquire up to 17,026,106 common shares of Mosaic Capital at a price of Cdn\$8.81 per common share at any time until January 26, 2024 (the "Mosaic Capital warrants"). The company's Mosaic Capital warrants represent a potential voting interest of approximately 62% (assuming all holders of Mosaic Capital convertible securities, including the company, exercised their options to convert), giving the company the ability to control Mosaic Capital.

The year-over-year increases in the revenue and expenses of Other in the third quarter and first nine months of 2018 reflected the consolidation of Dexterra (on March 7, 2018). The increase in the first nine months of 2018 also reflected the consolidation of Mosaic Capital (on January 26, 2017) and Grivalia Properties (on July 4, 2017). The increase in share of profit of associates in the first nine months of 2018 reflected the contribution from Atlas Mara (acquired August 31, 2017), partially offset by increased share of loss of AFGRI, at Fairfax Africa. The decreases in net gains on investments in the third quarter and first nine months of 2018 reflected net losses on short term investments and common stock at Fairfax Africa.

Investments

Interest and Dividends

Interest and dividends of \$193.7 and \$582.6 in the third quarter and first nine months of 2018 increased from \$151.5 and \$387.0 in the third quarter and first nine months of 2017, primarily reflecting increases in interest income from the reinvestment of cash and short term investments into short-dated U.S. treasury bonds (net purchases of \$6,620.4 during the first nine months of 2018), total return swap income (described below), increases in interest income earned on short term investments due to increased holdings during the first half of 2018 and higher yields earned on short-term corporate and government securities throughout the first nine months of 2018, partially offset by lower interest income earned as a result of sales of municipal bonds in 2017 and in the first nine months of 2018. The increase in the first nine months of 2018 also reflected the consolidation of the interest and dividends of Allied World (\$49.6 of incremental interest and dividends earned).

Total return swap income of \$3.4 and \$13.4 in the third quarter and first nine months of 2018 compared to total return swap expense of \$16.9 and \$44.8 in the third quarter and first nine months of 2017 reflected closures of short equity total return swaps in the fourth quarter of 2017 and in the first and third quarters of 2018, and increased dividend income earned on long equity total return swaps in the third quarter and first nine months of 2018.

Share of Profit of Associates

Share of profit of associates increased to \$63.9 in the third quarter of 2018 from \$55.1 in the third quarter of 2017, primarily reflecting increased share of profit of Eurolife and Resolute, and contributions from Seaspan (acquired on February 14, 2018), partially offset by the impact of the reclassification of ICICI Lombard to common stock in the third quarter of 2017, decreased share of profit of Bangalore Airport and a non-cash impairment charge related to Astarta (\$10.8).

Share of profit of associates decreased to \$126.9 in the first nine months of 2018 from \$131.8 in the first nine months of 2017, primarily reflecting non-cash impairment charges related to Thai Re (\$33.2) and Astarta (\$10.8), the impact of the reclassification of ICICI Lombard to common stock in the third quarter of 2017, share of loss of APR Energy (compared to share of profit in the first nine months of 2017), increased share of loss of Farmers Edge and Peak Achievement, and decreased share of profit of Eurolife and Astarta, partially offset by the company's share of profit from sales of investment properties (located in Dublin, Ireland) by three KWF LPs (\$73.6), share of profit of Resolute (compared to share of loss in the first nine months of 2017) and contributions from Atlas Mara (acquired August 31, 2017), Bangalore Airport (acquired March 24, 2017) and Seaspan (acquired on February 14, 2018).

Net Gains (Losses) on Investments

Net gains (losses) on investments for the three and nine months ended September 30, 2018 and 2017 were comprised as follows:

| | Third quarter | | | | | |
|---|-----------------------------|---|-----------------------------------|-----------------------------|---|-----------------------------------|
| | 2018 | | | 2017 | | |
| | 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 | 34.5 | (43.8) | (9.3) | 40.2 | 52.0 | 92.2 |
| Preferred stocks - convertible | 5.1 | (2.2) | 2.9 | — | (0.5) | (0.5) |
| Bonds - convertible | — | 56.8 | 56.8 | 5.1 | 59.6 | 64.7 |
| Other equity derivatives ⁽¹⁾⁽²⁾⁽³⁾ | 15.4 | (89.3) | (73.9) | (36.7) | 69.8 | 33.1 |
| Gain on disposition of associates ⁽⁴⁾⁽⁶⁾ | 17.6 | — | 17.6 | 51.3 | — | 51.3 |
| Long equity exposures | 72.6 | (78.5) | (5.9) | 59.9 | 180.9 | 240.8 |
| Equity hedges and short equity exposures ⁽²⁾ | (49.2) | 143.4 | 94.2 | (1.7) | (52.8) | (54.5) |
| Net equity exposures | 23.4 | 64.9 | 88.3 | 58.2 | 128.1 | 186.3 |
| Bonds | 44.1 | (29.7) | 14.4 | 29.0 | (4.4) | 24.6 |
| CPI-linked derivatives | — | (1.8) | (1.8) | — | (19.3) | (19.3) |
| U.S. treasury bond forwards | (6.6) | 25.6 | 19.0 | (47.4) | 47.0 | (0.4) |
| Other derivatives | 0.1 | 4.9 | 5.0 | (0.4) | 0.1 | (0.3) |
| Foreign currency ⁽⁹⁾ | 12.8 | (103.8) | (91.0) | 29.5 | (56.6) | (27.1) |
| Other ⁽³⁾⁽⁷⁾ | 0.1 | 7.2 | 7.3 | 930.6 | 6.1 | 936.7 |
| Net gains (losses) on investments | 73.9 | (32.7) | 41.2 | 999.5 | 101.0 | 1,100.5 |
| Net gains (losses) on bonds is comprised as follows: | | | | | | |
| Government bonds | (19.4) | (14.5) | (33.9) | (3.5) | (5.6) | (9.1) |
| U.S. states and municipalities | 66.8 | (77.7) | (10.9) | 27.5 | 57.2 | 84.7 |
| Corporate and other | (3.3) | 62.5 | 59.2 | 5.0 | (56.0) | (51.0) |
| | 44.1 | (29.7) | 14.4 | 29.0 | (4.4) | 24.6 |

| | First nine months | | | | | |
|---|-----------------------------|---|-----------------------------------|-----------------------------|---|-----------------------------------|
| | 2018 | | | 2017 | | |
| | 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 ⁽⁸⁾ | 154.6 | (63.8) | 90.8 | 85.5 | 422.6 | 508.1 |
| Preferred stocks - convertible | 5.1 | (2.7) | 2.4 | — | (1.1) | (1.1) |
| Bonds - convertible | (0.2) | (27.3) | (27.5) | 4.8 | 205.6 | 210.4 |
| Other equity derivatives ⁽¹⁾⁽²⁾⁽³⁾ | 76.8 | 41.4 | 118.2 | (19.9) | 37.3 | 17.4 |
| Gain on disposition of associates ⁽⁴⁾⁽⁶⁾ | 29.6 | — | 29.6 | 51.3 | — | 51.3 |
| Gain on de-consolidation of non-insurance subsidiary ⁽⁵⁾ | 889.9 | — | 889.9 | — | — | — |
| Long equity exposures | 1,155.8 | (52.4) | 1,103.4 | 121.7 | 664.4 | 786.1 |
| Equity hedges and short equity exposures ⁽²⁾ | (248.0) | 294.7 | 46.7 | (104.0) | (220.2) | (324.2) |
| Net equity exposures | 907.8 | 242.3 | 1,150.1 | 17.7 | 444.2 | 461.9 |
| Bonds | 105.2 | (240.4) | (135.2) | 402.9 | (329.5) | 73.4 |
| CPI-linked derivatives | — | (21.0) | (21.0) | — | (47.3) | (47.3) |
| U.S. treasury bond forwards | 39.1 | 25.8 | 64.9 | (191.1) | 78.5 | (112.6) |
| Other derivatives | 0.1 | 23.6 | 23.7 | (8.4) | 8.0 | (0.4) |
| Foreign currency ⁽⁹⁾ | (22.4) | (150.5) | (172.9) | (6.9) | (19.4) | (26.3) |
| Other ⁽³⁾⁽⁷⁾ | (27.8) | 35.4 | 7.6 | 931.4 | 7.1 | 938.5 |
| Net gains (losses) on investments | 1,002.0 | (84.8) | 917.2 | 1,145.6 | 141.6 | 1,287.2 |
| Net gains (losses) on bonds is comprised as follows: | | | | | | |
| Government bonds | (69.1) | (69.3) | (138.4) | 8.1 | 35.7 | 43.8 |
| U.S. states and municipalities | 183.4 | (229.0) | (45.6) | 385.5 | (327.6) | 57.9 |
| Corporate and other | (9.1) | 57.9 | 48.8 | 9.3 | (37.6) | (28.3) |
| | 105.2 | (240.4) | (135.2) | 402.9 | (329.5) | 73.4 |

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

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

(3) Includes the Seaspan forward contracts described in note 6 (Investments in Associates) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

(4) During the third quarter of 2018 the company sold its equity accounted investment in Navacord Inc. for net proceeds of \$58.8 (Cdn\$76.3) and recorded a net realized gain of \$17.6 (Cdn\$22.7).

(5) On March 1, 2018 Thomas Cook India entered into a strategic agreement with the founder of Qess that resulted in Qess becoming an associate of Thomas Cook India whereas it was previously a consolidated subsidiary. Accordingly, the company re-measured the carrying value of Qess to its fair value of \$1,109.5, recognized a non-cash gain of \$889.9 and commenced applying the equity method of accounting.

- (6) During the third quarter of 2017 the company acquired control of Grivalia Properties by increasing its equity interest to 52.7% and commenced consolidating Grivalia Properties in the Other reporting segment. As a result the company re-measured its equity accounted carrying value of Grivalia Properties to fair value and recorded a net realized gain of \$51.3.
- (7) During the third quarter of 2017 the company sold a 24.3% equity interest in ICICI Lombard for net proceeds of \$908.5 and recorded a net realized gain of \$595.6. The company's remaining 9.9% equity interest in ICICI Lombard was re-classified to common stock measured at FVTPL and re-measured to fair value for a net realized gain of \$334.5.
- (8) During the second quarter of 2017 the company increased its ownership interest and potential voting interest in EXCO Resources, Inc. ("EXCO") and commenced applying the equity method of accounting, resulting in unrealized losses of \$121.6 on EXCO being reclassified to realized losses with a net impact of nil in the consolidated statement of earnings.
- (9) Foreign currency losses on investing activities in the third quarter and first nine months of 2018 primarily reflected depreciation of the Indian rupee and the euro against the U.S. dollar.

Net equity exposures: Net losses on long equity exposures of \$5.9 in the third quarter of 2018 was primarily comprised of net losses on equity warrant forward contracts entered into with Seaspan (\$87.0) and common stocks (\$9.3), partially offset by net gains on convertible bonds (\$56.8). Net gains on long equity exposures of \$1,103.4 in the first nine months of 2018 was primarily comprised of a net realized gain recorded on the re-measurement of Quess (\$889.9), net gains on equity warrant forward contracts entered into with Seaspan (\$117.7) and net gains on common stocks (\$90.8), partially offset by net losses on convertible bonds (\$27.5). Net gains on short equity exposures of \$94.2 and \$46.7 in the third quarter and first nine months of 2018 was primarily comprised of net gains on short equity total return swaps held for investment purposes. The company recorded net gains of \$186.3 and \$461.9 on its net equity exposures in the third quarter and first nine months of 2017.

Within the interim consolidated financial statements for the three and nine months ended September 30, 2018, refer to note 7 (Short Sales and Derivatives) for details of the company's equity and equity index total return swaps, and to note 16 (Financial Risk Management, under the heading Market Price Fluctuations) for a tabular analysis summarizing the net effect of the company's equity and equity-related holdings (long exposures net of short exposures) on the company's financial position and results of operations.

Bonds: Net gains on bonds of \$14.4 in the third quarter of 2018 was primarily comprised of net gains on corporate and other bonds (\$59.2), partially offset by net losses on U.S. treasury bonds (\$18.7), U.S. state and municipal bonds (\$10.9) and Indian government bonds (\$8.0). Net losses on bonds of \$135.2 in the first nine months of 2018 was primarily comprised of net losses on U.S. treasury bonds (\$74.8), U.S. state and municipal bonds (\$45.6) and Indian government bonds (\$33.7), partially offset by net gains on corporate and other bonds (\$48.8). The company recorded net gains on bonds of \$24.6 and \$73.4 in the third quarter and first nine months of 2017.

CPI-linked derivatives: The company's CPI-linked derivative contracts produced net unrealized losses of \$1.8 and \$21.0 in the third quarter and first nine months of 2018 (\$19.3 and \$47.3 in the third quarter and first nine months of 2017). Additional details are provided in note 7 (Short Sales and Derivatives, under the heading CPI-linked derivative contracts) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Foreign currency: Net losses on foreign currency of \$91.0 and \$172.9 in the third quarter and first nine months of 2018 primarily reflected the impact of depreciation of the Indian rupee and the euro against the U.S. dollar on investments denominated in those currencies. Net losses on foreign currency of \$27.1 and \$26.3 in the third quarter and first nine months of 2017 primarily reflected the impact of appreciation of the euro, Canadian dollar and the British pound against the U.S. dollar on underwriting activities.

Interest Expense

Consolidated interest expense decreased to \$84.8 in the third quarter of 2018 from \$96.3 in the third quarter of 2017 reflecting the redemption on June 15, 2018 of \$500.0 principal amount of 5.80% senior notes due 2021, the redemption on December 29, 2017 of Cdn\$388.4 principal amount of 7.50% senior notes due 2019, lower borrowings on the holding company credit facility year-over-year, the redemption on April 30, 2018 of Cdn\$267.3 principal amount of 7.25% senior notes due 2020, the repayment on December 13, 2017 of purchase consideration payable upon maturity and the repayment on April 15, 2018 of \$144.2 principal amount of 7.375% senior notes upon maturity, partially offset by the issuance on April 17, 2018 of \$600.0 principal amount of 4.85% unsecured senior notes due 2028, the issuance of €750.0 principal amount of 2.75% unsecured senior notes due 2028 on March 29, 2018 (€600.0) and May 18, 2018 (€150.0), and the issuance on December 4, 2017 of Cdn\$650.0 principal amount of 4.25% unsecured senior notes due 2027.

Consolidated interest expense increased to \$259.9 in the first nine months of 2018 from \$235.9 in the first nine months of 2017 primarily due to the consolidation of the interest expense of Allied World (commencing July 6, 2017) and Grivalia Properties (commencing July 4, 2017), increased borrowings at the non-insurance companies (including Fairfax India, Grivalia Properties and Recipe), and the impact of the same factors that affected the third quarter of 2018 (as described in the preceding paragraph).

Consolidated interest expense in the third quarter and first nine months of 2018 of \$84.8 and \$259.9 (2017 - \$96.3 and \$235.9) was primarily attributable to interest expense at the holding company of \$47.6 and \$151.6 (2017 - \$61.0 and \$166.0). Interest expense by reporting segment is set out in the Sources of Net Earnings section of this MD&A.

Corporate Overhead and Other

Corporate overhead and other consists of the expenses of all of the group holding companies, net of investment management and administration fees earned by the holding company and interest and dividends earned on holding company cash and investments.

| | Third quarter | | First nine months | |
|---|---------------|-------------|-------------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Fairfax corporate overhead | 15.6 | 30.2 | 97.7 | 91.6 |
| Subsidiary holding companies' corporate overhead | 13.1 | 7.1 | 38.7 | 24.1 |
| Subsidiary holding companies' non-cash intangible asset amortization ⁽¹⁾ | 26.6 | 27.0 | 81.8 | 55.0 |
| Holding company interest and dividends | (5.1) | 4.6 | (30.6) | 4.8 |
| Holding company share of (profit) loss of associates | (9.3) | 4.5 | (20.3) | (49.6) |
| Investment management and administration fees and other | (38.3) | (6.8) | (112.4) | (167.7) |
| Loss on repurchase of long term debt | — | — | 58.9 | 2.6 |
| | 2.6 | 66.6 | 113.8 | (39.2) |

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

Fairfax corporate overhead decreased from \$30.2 in the third quarter of 2017 to \$15.6 in the third quarter of 2018 primarily reflecting a benefit of \$20.0 related to the settlement of a lawsuit. Fairfax corporate overhead increased from \$91.6 in the first nine months of 2017 to \$97.7 in the first nine months of 2018 primarily reflecting increases in employee compensation expense and consulting fees, partially offset by a benefit of \$20.0 related to the settlement of a lawsuit.

Subsidiary holding companies' corporate overhead increased from \$7.1 and \$24.1 in the third quarter and first nine months of 2017 to \$13.1 and \$38.7 in the third quarter and first nine months of 2018, primarily reflecting increases in charitable donations and restructuring costs, partially offset by non-recurrence of costs related to business acquisitions in 2017. The increase in the first nine months of 2018 also reflected the consolidation of the corporate overhead of Allied World and higher legal and consulting fees.

Subsidiary holding companies' non-cash intangible asset amortization increased from \$55.0 in the first nine months of 2017 to \$81.8 in the first nine months of 2018, primarily due to amortization of intangible assets at Allied World.

Holding company interest and dividends included total return swap income of \$1.8 and \$5.6 in the third quarter and first nine months of 2018, compared to total return swap expense of \$6.0 and \$13.6 in the third quarter and first nine months of 2017. Excluding the impact of total return swap income and expense, holding company interest and dividends increased from \$1.4 and \$8.8 in the third quarter and first nine months of 2017 to \$3.3 and \$25.0 in the third quarter and first nine months of 2018, primarily reflecting increased interest income on U.S. treasury bonds. The increase in the first nine months of 2018 was partially offset by a decrease in dividend income.

Holding company share of loss of associates of \$4.5 in the third quarter of 2017 compared to share of profit of associates of \$9.3 in the third quarter of 2018 reflected an increase in share of profit of Eurolife. Holding company share of profit of associates of \$49.6 in the first nine months of 2017 decreased to \$20.3 in the first nine months of 2018, reflecting a decrease in share of profit of Eurolife.

Investment management and administration fees increased from \$6.8 in the third quarter of 2017 to \$38.0 in the third quarter of 2018, primarily reflecting a non-recurring reduction of the accrual of performance fees payable to Fairfax by Fairfax India of \$22.6 in the third quarter of 2017 and incremental investment management fees earned on the investment portfolios of Allied World. Investment management and administration fees decreased from \$167.7 in the first nine months of 2017 to \$112.4 in the first nine months of 2018, primarily reflecting an accrual of performance fees payable to Fairfax by Fairfax India of \$84.3 in the first nine months of 2017 (nil in the first nine months of 2018), partially offset by incremental investment management fees earned on the investment portfolios of Allied World.

Loss on repurchase of long term debt of \$58.9 in the first nine months of 2018 was primarily comprised of a loss of \$19.6 (Cdn\$25.1) related to the redemption on April 30, 2018 of the company's \$207.3 (Cdn\$267.3) principal amount of 7.25% senior notes due June 22, 2020 and a loss of \$38.2 related to the redemption on June 15, 2018 of the company's \$500.0 principal amount of 5.80% senior notes due May 15, 2021.

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

Income Taxes

For details of the provision for income taxes in the third quarters and first nine months of 2018 and 2017, refer to note 13 (Income Taxes) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Consolidated Balance Sheet Summary

The assets and liabilities reflected in the company's consolidated balance sheet at September 30, 2018 compared to December 31, 2017 were primarily impacted by the de-consolidation of Quess and the consolidation of Toys "R" Us Canada (acquired May 31, 2018) and Dexterra (acquired March 7, 2018). Effective March 1, 2018 Quess ceased to be a consolidated subsidiary and was subsequently reported as an investment in associate with a carrying value of \$1,001.9 at September 30, 2018. Refer to note 15 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for additional details.

Holding company cash and investments decreased to \$1,715.2 (\$1,701.8 net of \$13.4 of holding company short sale and derivative obligations) at September 30, 2018 from \$2,368.4 (\$2,356.9 net of \$11.5 of holding company short sale and derivative obligations) at December 31, 2017, primarily reflecting cash used to redeem long term debt and net unrealized depreciation of common stocks, partially offset by increases in the fair value of equity warrant forward contracts. Significant cash movements at the Fairfax holding company level during the third quarter and first nine months of 2018 are as set out in the Financial Condition section of this MD&A under the heading Liquidity.

Insurance contract receivables increased by \$588.2 to \$5,275.1 at September 30, 2018 from \$4,686.9 at December 31, 2017, primarily reflecting increased business volumes (principally at Odyssey Group and Allied World).

Portfolio investments comprise investments carried at fair value and equity accounted investments, the aggregate carrying value of which was \$37,450.7 (\$37,396.1 net of subsidiary short sale and derivative obligations) at September 30, 2018 compared to \$37,013.2 (\$36,898.5 net of subsidiary short sale and derivative obligations) at December 31, 2017. The increase of \$497.6 principally reflected the change in accounting for Quess and net unrealized appreciation of common stocks and derivatives, partially offset by net unrealized depreciation of bonds and the unfavourable impact of foreign currency translation (principally the strengthening of the U.S. dollar relative to the Indian rupee, euro and Canadian dollar, as measured using spot foreign exchange rates), in addition to specific factors which caused movements in portfolio investments as discussed in the paragraphs below.

Subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) decreased by \$8,420.0 primarily reflecting the reinvestment of cash and short term investments into short-dated U.S. treasury bonds (net purchases of \$6,620.4), Canadian government bonds (net purchases of \$877.8) and U.S. corporate bonds (net purchases of \$1,890.7), partially offset by sales of U.S. state and municipal bonds (net proceeds of \$1,764.7) where the proceeds were retained in cash or invested in short term investments.

Bonds (including bonds pledged for short sale derivative obligations) increased by \$7,382.2 primarily reflecting the reinvestment of cash and short term investments into short-dated U.S. treasury bonds (net purchases of \$6,620.4), Canadian government bonds (net purchases of \$877.8) and U.S. corporate bonds (net purchases of \$1,890.7) and investment in certain private placement corporate debt securities, partially offset by sales of U.S. state and municipal bonds (net proceeds of \$1,764.7).

Investments in associates increased by \$1,244.9 primarily reflecting the change in accounting for Quess, share of profit of associates (\$126.9), an investment in Seaspan (\$278.0) and additional investments in Bangalore Airport (\$67.4, by Fairfax India), AFGRI (\$26.1, by Fairfax Africa) and a joint arrangement (\$17.5, by Grivalia Properties), partially offset by the divestiture of Navacord Inc.

Derivatives and other invested assets, net of short sale and derivative obligations, increased by \$281.1 primarily reflecting investments in various equity warrants, investments in U.S. and Canadian real estate, reduced net payables to counterparties to U.S. treasury bond forward contracts and increased net receivables from counterparties to equity total return swaps, partially offset by net unrealized depreciation of equity warrants and CPI-linked derivative contracts.

Recoverable from reinsurers increased by \$215.0 to \$8,027.5 at September 30, 2018 from \$7,812.5 at December 31, 2017, primarily reflecting an increase in reinsurers' share of unearned premium due to higher business volumes (principally at Odyssey Group, Brit and Allied World).

Deferred income taxes decreased by \$18.6 to \$362.2 at September 30, 2018 from \$380.8 at December 31, 2017, primarily due to the utilization of losses and tax credits in the U.S., partially offset by the consolidation of the deferred tax asset of Toys "R" Us Canada and an increase in timing differences in the U.S.

Goodwill and intangible assets decreased by \$315.4 to \$5,757.1 at September 30, 2018 from \$6,072.5 at December 31, 2017, primarily as a result of the de-consolidation of Quess (which resulted in the de-recognition of goodwill related to Quess and its subsidiaries), the impact of foreign currency translation (principally the strengthening of the U.S. dollar relative to the Canadian dollar) and amortization of intangible assets, partially offset by goodwill related to the acquisition of Dexterra.

Other assets decreased by \$208.0 to \$4,620.3 at September 30, 2018 from \$4,828.3 at December 31, 2017, primarily as a result of the de-consolidation of Quess, partially offset by the consolidation of the other assets of Toys "R" Us Canada and Dexterra.

Provision for losses and loss adjustment expenses decreased by \$616.8 to \$27,994.0 at September 30, 2018 from \$28,610.8 at December 31, 2017, primarily due to payment of claims related to 2017 catastrophe losses (principally related to Hurricanes Harvey, Irma and Maria and the California wildfires), Run-off's continued progress settling its claim liabilities, prior year reserve releases (principally at Odyssey Group, Northbridge, Zenith National, Allied World and Brit) and the impact on loss reserves of the strengthening of the U.S. dollar relative to most foreign currencies, partially offset by premium growth (principally at Odyssey Group, Brit and Colonnade Insurance).

Non-controlling interests decreased by \$340.2 to \$4,260.7 at September 30, 2018 from \$4,600.9 at December 31, 2017, primarily reflecting the impacts of Brit's purchase of an 11.2% ownership interest from its minority shareholder (\$224.5), Recipe's purchase of the non-controlling interests in The Keg (\$79.0), net unrealized foreign currency translation losses (\$223.0) and common stock dividends paid to non-controlling interests (\$155.2), partially offset by non-controlling interests' share of net earnings and the impacts of Fairfax Africa's secondary offering and the change in accounting for Quess (increased non-controlling interests by \$80.6, comprised of the non-controlling interests' 33.0% share of the \$889.9 non-cash re-measurement gain (\$293.1), partially offset by the de-recognition of Quess' non-controlling interests (\$212.5)). For further details refer to note 11 (Total Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Financial Risk Management

There were no significant changes to the company's types of risk exposures or the processes used by the company for managing those risk exposures at September 30, 2018 compared to those identified at December 31, 2017 and disclosed in the company's 2017 Annual Report, other than as outlined in note 16 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Financial Condition

Capital Management

For a detailed analysis, refer to note 16 (Financial Risk Management, under the heading Capital Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Liquidity

Holding company cash and investments at September 30, 2018 totaled \$1,715.2 (\$1,701.8 net of \$13.4 of holding company short sale and derivative obligations) compared to \$2,368.4 (\$2,356.9 net of \$11.5 of holding company short sale and derivative obligations) at December 31, 2017.

Significant cash and investment movements at the holding company level during the first nine months of 2018 included the following inflows: net proceeds of \$896.5 from the issuance of €750.0 principal amount of 2.75% unsecured senior notes due March 29, 2028 and \$594.2 from the issuance of \$600.0 principal amount of 4.85% unsecured senior notes due April 17, 2028, dividends received from Odyssey Group (\$100.0) and Northbridge (\$65.6), and collection of the remaining net proceeds from the sale of First Capital (\$83.3). Significant outflows during the first nine months of 2018 included the following: a capital contribution of \$264.6 to Brit applied towards the purchase of an 11.2% ownership interest from its minority shareholder (OMERS) for \$251.8 and to pay an accrued dividend of \$12.8 on the shares purchased, redemptions of \$500.0 principal amount of 5.80% senior notes due May 15, 2021 and \$207.3 (Cdn\$267.3) principal amount of 7.25% senior notes due June 22, 2020, a capital contribution of \$325.5 to Allied World applied towards the redemption of all of its 5.50% senior notes due November 15, 2020, the payment of \$317.0 of common and preferred share dividends, the repayment of \$144.2 principal amount of 7.375% senior notes on maturity and the purchase price paid to acquire Dexterra.

The carrying value of holding company cash and investments was also affected by the following: receipt of investment management and administration fees, disbursements for corporate overhead expenses, repurchases of subordinate voting shares for treasury, normal course issuer bid activities, capital contributions to subsidiary operations, and changes in the fair value of holding company investments.

The company believes that holding company cash and investments, net of holding company short sale and derivative obligations, at September 30, 2018 of \$1,701.8 provides adequate liquidity to meet the holding company's remaining known obligations in 2018. The holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries, investment income on its holdings of cash and investments, and dividends from its insurance and reinsurance subsidiaries. To further augment its liquidity, the holding company can draw upon its \$2.0 billion unsecured revolving credit facility (for further details of the credit facility, refer to note 15 (Borrowings) to the consolidated financial statements for the year ended December 31, 2017).

The holding company's remaining known significant commitments for 2018 consist of payments relating to interest expense, corporate overhead, preferred share dividends, income taxes, and other investment related activities.

During the first nine months of 2018 subsidiary cash and short term investments (including cash and short term investments pledged for short sale and derivative obligations) decreased by \$8,420.0 primarily reflecting the reinvestment of cash and short term investments into short-dated U.S. treasury bonds, partially offset by net sales of long dated U.S. state and municipal bonds.

Highlights in the first nine months of 2018 (with comparisons to the first nine months of 2017) of major components of cash flow are presented in the following table:

| | <u>First nine months</u> | |
|--|--------------------------|-----------------------|
| | <u>2018</u> | <u>2017</u> |
| Operating activities | | |
| Cash provided by (used in) operating activities before the undernoted | 296.2 | (391.6) |
| Net sales (purchases) of investments classified at FVTPL | (1,231.0) | 3,717.2 |
| Investing activities | | |
| Net purchases of investments in associates | (281.4) | (21.0) |
| Purchases of subsidiaries, net of cash acquired | (157.0) | (1,034.8) |
| Sale of subsidiary, net of cash divested | 71.4 | — |
| De-consolidation of subsidiary | (67.7) | — |
| Net purchases of premises and equipment and intangible assets | (212.4) | (224.5) |
| Increase in restricted cash for purchase of associate | — | (162.0) |
| Financing activities | | |
| Net proceeds from borrowings - holding company and insurance and reinsurance companies | 1,490.7 | — |
| Repayments of borrowings - holding company and insurance and reinsurance companies | (1,296.6) | (26.8) |
| Net proceeds from borrowings - non-insurance companies | 605.5 | 454.0 |
| Repayments of borrowings - non-insurance companies | (651.7) | (248.0) |
| Net borrowings from revolving credit facilities and short term loans - non-insurance companies | 39.1 | 194.9 |
| Decrease (increase) in restricted cash related to financing activities | 132.1 | (150.3) |
| Purchases of subordinate voting shares for treasury | (169.8) | (129.9) |
| Purchases of subordinate voting shares for cancellation | (70.1) | — |
| Issuance of subsidiary common shares to non-controlling interests | 103.1 | 2,257.9 |
| Purchases of subsidiary shares from non-controlling interests | (353.0) | (136.2) |
| Common and preferred share dividends paid | (317.0) | (270.5) |
| Dividends paid to non-controlling interests | (155.2) | (60.1) |
| Increase (decrease) in cash and cash equivalents during the period | <u>(2,224.8)</u> | <u>3,768.3</u> |

Excluding net purchases and sales of investments classified at FVTPL, cash provided by operating activities of \$296.2 in 2018 compared to cash used in operating activities of \$391.6 in 2017 principally reflected higher net premium collections, partially offset by higher net paid losses and higher income taxes paid. Refer to note 19 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for details of net purchases and sales of investments classified at FVTPL.

Net purchases of investments in associates of \$281.4 in 2018 primarily reflected an investment in Seaspan, increased investments in Bangalore Airport (by Fairfax India), Thai Re, AFGRI (by Fairfax Africa) and a joint arrangement (by Grivalia Properties), partially offset by distributions received from the company's insurance and non-insurance associates and joint arrangements (inclusive of net cash distributions received from the liquidation of three KWF LPs) and net proceeds received on sale of the company's equity interest in Navacord Inc. (\$58.8). Net purchases of investments in associates of \$21.0 in 2017 primarily reflected investments in Farmers Edge, Astarta, Sigma, Bangalore Airport (by Fairfax India), Atlas Mara (by Fairfax Africa) and an increased investment in APR Energy, partially offset by net proceeds received on the sale of a 24.3% equity interest in ICICI Lombard (\$908.5) and distributions received from the company's insurance and non-insurance associates and joint arrangements. Purchases of subsidiaries, net of cash acquired of \$157.0 in 2018 primarily related to the acquisitions of Toys "R" Us Canada and Dexterra. Purchases of subsidiaries, net of cash acquired of \$1,034.8 in 2017 primarily related to the acquisitions of Allied World and the insurance operations of AIG in Chile, Colombia and Argentina, an increased investment in Grivalia Properties and the acquisition of Saurashtra Freight by Fairfax India.

Net proceeds from borrowings - holding company and insurance and reinsurance companies of \$1,490.7 in 2018 primarily reflected net proceeds from offerings of €750.0 principal amount of 2.75% unsecured senior notes due March 29, 2028 and \$600.0 principal amount of 4.85% unsecured senior notes due April 17, 2028. Repayment of borrowings - holding company and insurance and reinsurance companies of \$1,296.6 in 2018 primarily reflected the company's redemption of its \$500.0 principal amount of 5.80% senior notes due May 15, 2021 and the remaining \$207.3 (Cdn\$267.3) principal amount of 7.25% senior notes due June 22, 2020, Allied World's redemption of its remaining \$291.8 principal amount of senior notes due November 15, 2020, the company's repayment of \$144.2 principal amount of its 7.375% senior notes on maturity, the repurchases of \$20.6 principal amount of senior notes due 2022 and 2024 and Brit's repayment of \$45.0 on its revolving credit facility.

Net proceeds from borrowings - non-insurance companies of \$605.5 in 2018 primarily reflected the net proceeds received from Fairfax India's \$550.0 one-year floating rate term loan due June 28, 2019. Repayment of borrowings - non-insurance companies of \$651.7 in 2018 primarily reflected Fairfax India's repayment of its \$400.0 one-year floating rate term loan due July 10, 2018 and Toys "R" Us Canada's repayment of its \$195.9 (Cdn\$254.2) principal amount of debtor in possession financing. Net borrowings from revolving credit facilities and short term loans - non-insurance companies of \$39.1 in 2018 primarily reflected Toys "R" Us Canada's draw on its revolving credit facility, Recipe's (formerly Cara's) borrowings to finance its acquisition of The Keg and Quess' borrowings prior to its de-consolidation, partially offset by Fairfax Africa's repayment of its term loan (\$150.0). Net proceeds from borrowings - non-insurance companies of \$454.0 in 2017 primarily reflected net proceeds from Fairfax India's term loan (\$400.0) to fund its investments. Repayment of borrowings - non-insurance companies of \$248.0 in 2017 primarily reflected Fairfax India's repayment of its previous term

loan (\$225.0). Net borrowings from revolving credit facilities and short term loans by non-insurance companies of \$194.9 in 2017 primarily reflected the proceeds from Fairfax Africa's previous term loan (\$150.0).

Purchases of subordinate voting shares for treasury in 2018 and 2017 were for the company's share-based payment awards. Issuance of subsidiary common shares to non-controlling interests of \$103.1 in 2018 primarily reflected Fairfax Africa's secondary public offering. Issuance of subsidiary common shares to non-controlling interests of \$2,257.9 in 2017 primarily reflected certain co-investors acquiring an indirect equity interest in Allied World, the public offerings by Fairfax Africa and Fairfax India and the issuance of common shares by Quess. Purchases of subsidiary shares from non-controlling interests of \$353.0 in 2018 primarily reflected Brit's purchase of its common shares from its minority shareholder (OMERS), Recipe's (formerly Cara's) acquisition of the non-controlling interests in The Keg, and open market purchases of Fairfax Africa. Purchases of subsidiary shares from non-controlling interests of \$136.2 in 2017 primarily reflected Mosaic Capital's redemption of certain of its preferred shares and other equity instruments.

Dividends paid to non-controlling interests of \$155.2 in 2018 primarily reflected the dividend paid by Allied World to its minority shareholders (OMERS, AIMCo and others), the dividend paid by Brit to its minority shareholder (OMERS), and dividends paid by Grivalia Properties and Recipe (formerly Cara). Dividends paid to non-controlling interests of \$60.1 in 2017 primarily reflected the dividend paid by Brit to its minority shareholder (OMERS).

Book Value Per Share

Common shareholders' equity at September 30, 2018 was \$12,359.9 or \$451.52 per basic share (excluding the unrecorded \$491.6 excess of fair value over the carrying value of investments in associates and certain consolidated subsidiaries) compared to \$12,475.6 or \$449.55 per basic share (excluding the unrecorded \$1,233.0 excess of fair value over the carrying value of investments in associates and certain consolidated subsidiaries) at December 31, 2017, representing an increase per basic share in the first nine months of 2018 of 0.4% (an increase of 2.7% adjusted to include the \$10.00 per common share dividend paid in the first quarter of 2018). During the first nine months of 2018 the number of basic shares decreased primarily as a result of repurchases of 135,318 subordinate voting shares for cancellation and net repurchases of 241,552 subordinate voting shares for treasury (for use in the company's share-based payment awards). At September 30, 2018 there were 27,374,203 common shares effectively outstanding.

| | September 30, 2018 | | | December 31, 2017 | | |
|---|--------------------|-------------------------------|---|-------------------|-------------------------------|---|
| | Fair value | Carrying value ⁽¹⁾ | Excess (deficiency) of fair value over carrying value | Fair value | Carrying value ⁽¹⁾ | Excess (deficiency) of fair value over carrying value |
| Insurance and reinsurance associates | 768.2 | 691.2 | 77.0 | 783.1 | 711.0 | 72.1 |
| Non-insurance associates ⁽²⁾ | 2,203.8 | 1,925.9 | 277.9 | 1,978.3 | 1,713.1 | 265.2 |
| Recipe (formerly Cara) | 604.1 | 583.5 | 20.6 | 486.3 | 519.5 | (33.2) |
| Grivalia Properties | 475.1 | 554.0 | (78.9) | 568.6 | 573.2 | (4.6) |
| Thomas Cook India | 762.9 | 908.1 | (145.2) | 996.6 | 449.7 | 546.9 |
| Fairfax India | 763.1 | 483.3 | 279.8 | 666.4 | 448.4 | 218.0 |
| Fairfax Africa | 424.2 | 363.8 | 60.4 | 460.2 | 291.6 | 168.6 |
| | 6,001.4 | 5,509.8 | 491.6 | 5,939.5 | 4,706.5 | 1,233.0 |

(1) The carrying values of Recipe (formerly Cara), Grivalia Properties, Thomas Cook India, Fairfax India and Fairfax Africa represent their respective hypothetical carrying values under the equity method of accounting.

(2) Excludes investments in associates held by Thomas Cook India, Fairfax India, Fairfax Africa and Grivalia Properties.

On September 28, 2018 the company commenced its normal course issuer bid by which it is authorized, until expiry of the bid on September 27, 2019, to acquire up to 2,612,802 subordinate voting shares, 601,588 Series C preferred shares, 398,361 Series D preferred shares, 396,713 Series E preferred shares, 357,204 Series F preferred shares, 743,295 Series G preferred shares, 256,704 Series H preferred shares, 1,046,555 Series I preferred shares, 153,444 Series J preferred shares, 950,000 Series K preferred shares and 920,000 Series M preferred shares, representing approximately 10% of the public float in respect of the subordinate voting shares and 10% of the public float in respect of each series of preferred shares. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available by contacting the Corporate Secretary of the company.

Contingencies and Commitments

For a full description of these matters, see note 14 (Contingencies and Commitments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Comparative Quarterly Data (unaudited)

| | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 | December 31, 2016 |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|
| Income ⁽¹⁾ | 4,441.0 | 4,210.4 | 4,926.4 | 5,321.5 | 4,907.3 | 3,258.2 | 2,737.6 | 1,774.7 |
| Net earnings (loss) | 149.2 | 83.9 | 1,038.0 | 856.8 | 370.2 | 312.6 | 75.3 | (704.2) |
| Net earnings (loss) attributable to shareholders of Fairfax | 106.2 | 63.1 | 684.3 | 869.5 | 476.9 | 311.6 | 82.6 | (701.5) |
| Net earnings (loss) per share | \$ 3.46 | 1.88 | \$ 24.27 | \$ 30.87 | \$ 16.85 | \$ 13.04 | \$ 3.11 | \$ (30.77) |
| Net earnings (loss) per diluted share | \$ 3.34 | 1.82 | \$ 23.60 | \$ 30.06 | \$ 16.42 | \$ 12.67 | \$ 3.03 | \$ (30.77) |

(1) Periods prior to 2018 have not been restated for the adoption of IFRS 15 *Revenue from Contracts with Customers* on January 1, 2018 as described in note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Operating results at the company's insurance and reinsurance operations continue to be affected by a difficult competitive environment. Individual quarterly results have been (and may in the future be) affected by losses from significant natural or other catastrophes, by reserve releases and strengthenings and by settlements or commutations, the occurrence of which are not predictable, and have been (and are expected to continue to be) significantly impacted by net gains or losses on investments, the timing of which are not predictable.

Forward-Looking Statements

Certain statements contained herein may constitute forward-looking statements and are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fairfax to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: a reduction in net earnings if our loss reserves are insufficient; underwriting losses on the risks we insure that are higher or lower than expected; the occurrence of catastrophic events with a frequency or severity exceeding our estimates; changes in market variables, including interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect our investment portfolio; 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 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; an impairment in the carrying value of our goodwill and indefinite-lived intangible assets; our failure to realize deferred income tax assets; technological or other change which adversely impacts demand, or the premiums payable, for the insurance coverages we offer; disruptions of our information technology systems; and assessments and shared market mechanisms which may adversely affect our insurance subsidiaries. Additional risks and uncertainties are described in our most recently issued Annual Report which is available at www.fairfax.ca and in our Supplemental and Base Shelf Prospectus (under "Risk Factors") filed with the securities regulatory authorities in Canada, which is available on SEDAR at www.sedar.com. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements.

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