

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 August 3, 2023)

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

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

- (1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the unaudited interim consolidated financial statements for the three and six months ended June 30, 2023, and the notes to the MD&A in the company's 2022 Annual Report.
- (2) In this MD&A, Life Insurance and Run-off is included in references to the insurance and reinsurance companies and excluded in references to the property and casualty insurance and reinsurance companies.
- (3) The company presents information on gross premiums written and net premiums written throughout its MD&A. Gross premiums written represents the total premiums on policies issued by the company during a specified period, irrespective of the portion ceded or earned, and is an indicator of the volume of new business generated. Net premiums written represents gross premiums written less amounts ceded to reinsurers and is considered a measure of the new business volume and insurance risk that the company has chosen to retain from new business generated. These measures are used in the insurance industry and by the company primarily to evaluate business volumes, including related trends, and the management of insurance risk.
- (4) Management analyzes and assesses the underlying insurance and reinsurance companies, and the financial position of the consolidated company, in various ways. Certain of the measures and ratios provided in this interim report, which have been used consistently and disclosed regularly in the company's Annual Reports and interim financial reporting, do not have a prescribed meaning under International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and may not be comparable to similar measures presented by other companies. Please refer to the Glossary of Non-GAAP and Other Financial Measures at the end of this MD&A for details of the company's measures and ratios, which include:

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

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

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

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

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

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

- It has resulted in considerable changes to the recognition, measurement, presentation and disclosure of the company's insurance and reinsurance operations – the most significant being the discounting of the company's net insurance liabilities and the addition of a risk adjustment for uncertainty.
- This new accounting standard has not changed the way management evaluates the performance of its insurance and reinsurance operations. The company remains focused on underwriting profit on an undiscounted basis with strong reserving and all of the property and casualty insurance and reinsurance operations continue to use the traditional volume measures of gross premiums written, net premiums written and combined ratios to manage the business.
- A reconciliation from insurance service result presented within Note 16 (Segmented Information) to the interim consolidated financial statements to underwriting profit, a metric historically presented within the company's MD&A, is included within the Overview of Consolidated Performance and Components of Net Earnings sections of this MD&A for each of the company's property and casualty insurance and reinsurance reporting segments.
- In accordance with the transitional provisions of IFRS 17, the cumulative effect of initially applying IFRS 17 was recognized as an adjustment to retained earnings in the opening consolidated balance sheet as at January 1, 2022 and each prior period presented in the interim consolidated financial statements was restated.
- Refer to Note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three and six months ended June 30, 2023 and to the Accounting and Disclosure Matters section at the end of this MD&A, under the heading Adoption of IFRS 17 Insurance Contracts, for additional details.

Impact on Consolidated Financial Statements

Common Shareholders' Equity and Book value per basic share

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

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

- The effect of initially applying IFRS 17 was an increase in common shareholders' equity of \$150.2 as presented in the table above which was recognized as an adjustment to retained earnings in the opening consolidated balance sheet as at January 1, 2022.
- The cumulative effect of initially applying IFRS 17 was an increase in common shareholders' equity of \$2,439.6 (an increase in book value per basic share of \$104.60), as presented in the table above, and was principally comprised of (i) the impact on the January 1, 2022 consolidated balance sheet of \$150.2 recognized in retained earnings, and (ii) the increase in consolidated net earnings attributable to shareholders of Fairfax for the full year of 2022 of \$2,227.0.

- The risk adjustment for non-financial risk represents the compensation that the company requires for bearing uncertainty with respect to both the amount and the timing of cash flows that arise from non-financial risk from the insurance contracts and reinsurance contract assets held. The risk adjustment is measured at each of the company's insurance and reinsurance subsidiaries, reflecting their estimates of uncertainty, diversification benefits and expected favourable and unfavourable outcomes. For reinsurance contract assets held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the company to the reinsurer. The company aggregates the sum of risk adjustments across insurance and reinsurance subsidiaries and does not redistribute further benefits of diversification achieved at a consolidated level between subsidiaries. The resulting amount of the calculated risk adjustment corresponds to a consolidated confidence level at June 30, 2023 of 83.9% (December 31, 2022 - 84.0%; and January 1, 2022 - 84.4%).

Consolidated Statement of Earnings for the second quarter and first six months of 2022

The table below summarizes the measurement adjustments to the restated net earnings (loss) attributable to shareholders of Fairfax in the second quarter and first six months of 2022:

| | 2022 | |
|---|-----------------------|-------------------------|
| | Second quarter | First six months |
| Net loss attributable to shareholders of Fairfax as previously reported (net loss per diluted share of \$37.59 and \$32.71) | (881.4) | (755.9) |
| IFRS 17 measurement adjustments: | | |
| Discounting of provision for losses and loss adjustment expenses recognized in insurance service result | 377.2 | 574.8 |
| Discounting of provision for losses and loss adjustment expenses recognized in net finance income | 730.1 | 1,149.1 |
| Inclusion of a specific risk adjustment for non-financial risk for provision for losses and loss adjustment expenses and other recognized in insurance service result | (80.0) | (125.8) |
| Foreign exchange and other measurement adjustments | 188.6 | 274.2 |
| Deferred income taxes | (251.2) | (387.4) |
| Non-controlling interests | (115.3) | (172.3) |
| | <u>849.4</u> | <u>1,312.6</u> |
| Net earnings (loss) attributable to shareholders of Fairfax as restated (net loss per diluted share of \$1.83 and net earnings per diluted share of \$20.96) | <u>(32.0)</u> | <u>556.7</u> |

| Measurement adjustments | Analysis |
|--|---|
| Effects of discounting in Insurance Service Result | Discounting losses and ceded losses on claims recorded in the period: cash flows are discounted using risk-free yield curves, adjusted to reflect the characteristics of the cash flows and the liquidity of the insurance contracts and reinsurance contract assets held. The company determines the yield curves using commercially available currency-specific rates and illiquidity premiums. During the first six months of 2022 the duration of the company's current accident year net reserves required the majority be discounted using rates that ranged from the 1-year euro yield curve at 0.21% to the 5-year U.S. dollar yield curve at 2.81%. |
| Net finance income (expense) from insurance contracts and reinsurance contract assets held | Changes in the carrying amounts of insurance and reinsurance contracts arising from the effects of the time value of money. The sources of the insurance finance income and expense arise from the effects of discounting the fulfillment cash flows within the LRC under the GMM and the LIC under all measurement models at current rates. Reflects the benefit of the change in discount rates during the first six months of 2022 as the change in the interest rate environment was more pronounced in 2022 compared to the transition adjustment recorded in retained earnings as at January 1, 2022, which was partially offset by interest accretion from unwinding of the discount. |
| Deferred income taxes and other | Primarily comprised of the above noted items tax effected at the underlying operating companies' statutory tax rates and the allocation of the net earnings impact to non-controlling interests at Allied World, Odyssey Group and Brit. |

Overview of Consolidated Performance for the second quarter and first six months of 2023

Net earnings attributable to shareholders of Fairfax

Property and Casualty Insurance and Reinsurance Operations

Underwriting Performance

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

- The insurance service result of the property and casualty insurance and reinsurance operations increased from \$822.0 in the second quarter of 2022 to \$1,144.3 in the second quarter of 2023, primarily reflecting a greater benefit from discounting losses on claims due to increased average discount rates in the period, resulting in reduced losses on claims included within the insurance service result, increased business volumes (net insurance revenue increased by 6.2%) and lower current period catastrophe losses in the second quarter of 2023.
- The insurance service result of the property and casualty insurance and reinsurance operations increased from \$1,483.9 in the first six months of 2022 to \$2,122.0 in the first six months of 2023, primarily reflecting a greater benefit from discounting losses on claims due to increased average discount rates in the period resulting in reduced losses on claims included within the insurance service result and recoveries of insurance service expenses in the consolidated statement of earnings, increased business volumes (net insurance revenue increased by 8.3%) and prudent expense management, partially offset by marginally higher current period catastrophe losses in the first six months of 2023.
- The table below presents the insurance service result for the property and casualty insurance and reinsurance operations reconciled to underwriting profit (loss), a key performance measure used by the company and the property and casualty industry in which it operates. The reconciling adjustments are (i) other insurance operating expenses as presented on the consolidated statement of earnings, (ii) the effects of discounting of losses and ceded losses on claims recorded in the period, and (iii) the effects of the risk adjustment and other, which are presented in insurance service expenses and recoveries of insurance service expenses. Other insurance operating expenses are adjusted to derive underwriting profit (loss) as the company measures the performance of management at all property and casualty insurance and reinsurance operations in the decentralized structure on disciplined underwriting profitability which includes prudent expense management on all expenses incurred, including those that are not considered directly attributable to insurance contracts.

| | Second quarter | | | | | | | |
|---|-------------------------|--------------------------------|---------------------------------------|---------------|-------------------------|--------------------------------|---------------------------------------|---------------|
| | 2023 | | | | 2022 | | | |
| | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total |
| Insurance service result | 249.2 | 820.4 | 74.7 | 1,144.3 | 260.7 | 503.8 | 57.5 | 822.0 |
| Other insurance operating expenses | (77.1) | (79.0) | (37.8) | (193.9) | (75.8) | (75.5) | (33.0) | (184.3) |
| Discounting of losses and ceded losses on claims recorded in the period | (89.2) | (497.3) | (19.6) | (606.1) | (49.4) | (236.8) | (26.4) | (312.6) |
| Changes in the risk adjustment and other | 2.8 | (17.4) | 7.8 | (6.8) | (16.4) | (2.8) | (4.2) | (23.4) |
| Underwriting profit (loss) | 85.7 | 226.7 | 25.1 | 337.5 | 119.1 | 188.7 | (6.1) | 301.7 |
| Combined ratios⁽¹⁾ | 94.7 % | 93.3 % | 95.3 % | 93.9 % | 92.1 % | 94.0 % | 101.3 % | 94.1 % |
| | First six months | | | | | | | |
| | 2023 | | | | 2022 | | | |
| | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total |
| Insurance service result | 525.0 | 1,445.7 | 151.3 | 2,122.0 | 472.3 | 902.9 | 108.7 | 1,483.9 |
| Other insurance operating expenses | (142.2) | (175.3) | (74.0) | (391.5) | (136.7) | (149.9) | (67.7) | (354.3) |
| Discounting of losses and ceded losses on claims recorded in the period | (197.9) | (799.6) | (31.0) | (1,028.5) | (79.9) | (364.8) | (43.6) | (488.3) |
| Changes in the risk adjustment and other | (9.2) | (38.6) | (2.9) | (50.7) | (27.3) | 4.3 | 7.8 | (15.2) |
| Underwriting profit | 175.7 | 432.2 | 43.4 | 651.3 | 228.4 | 392.5 | 5.2 | 626.1 |
| Combined ratios⁽¹⁾ | 94.4 % | 93.4 % | 95.8 % | 93.9 % | 92.3 % | 93.4 % | 99.4 % | 93.6 % |

(1) A performance measure of underwriting profit (loss).

- The consolidated combined ratios of the property and casualty insurance and reinsurance operations were 93.9% and 93.9%, producing underwriting profits of \$337.5 and \$651.3 in the second quarter and first six months of 2023, compared to combined ratios of 94.1% and 93.6% and underwriting profits of \$301.7 and \$626.1 in the second quarter and first six months of 2022, primarily reflecting the same factors as noted above for the insurance service result except for the benefit from discounting losses on claims which had the effect of further improving the insurance service result in the second quarter and first six months of 2023. The continued strong underwriting performance by reporting segment was as follows:

| | Second quarter | | | | | | | |
|--|------------------------|----------------------|-----------------|---------------------|------------------------|----------------------|-----------------|----------------------------|
| | 2023 | | | | 2022 | | | |
| | Gross Premiums Written | Net Premiums Written | Combined ratios | Underwriting profit | Gross Premiums Written | Net Premiums Written | Combined ratios | Underwriting profit (loss) |
| North American Insurers | | | | | | | | |
| Northbridge | 699.0 | 625.5 | 93.2 % | 33.8 | 659.1 | 596.6 | 87.2 % | 60.8 |
| Crum & Forster | 1,323.2 | 985.0 | 95.0 % | 45.8 | 1,118.8 | 917.6 | 94.4 % | 48.2 |
| Zenith National | 174.8 | 179.0 | 96.6 % | 6.1 | 164.7 | 168.1 | 94.4 % | 10.1 |
| | <u>2,197.0</u> | <u>1,789.5</u> | <u>94.7 %</u> | <u>85.7</u> | <u>1,942.6</u> | <u>1,682.3</u> | <u>92.1 %</u> | <u>119.1</u> |
| Global Insurers and Reinsurers | | | | | | | | |
| Allied World | 1,872.2 | 1,312.9 | 91.0 % | 102.3 | 1,789.3 | 1,195.4 | 92.2 % | 81.9 |
| Odyssey Group | 1,887.3 | 1,602.3 | 94.3 % | 87.7 | 1,759.1 | 1,543.9 | 94.9 % | 72.4 |
| Brit | 1,113.8 | 871.4 | 94.8 % | 36.7 | 1,091.9 | 782.2 | 94.7 % | 34.4 |
| | <u>4,873.3</u> | <u>3,786.6</u> | <u>93.3 %</u> | <u>226.7</u> | <u>4,640.3</u> | <u>3,521.5</u> | <u>94.0 %</u> | <u>188.7</u> |
| International Insurers and Reinsurers | 918.1 | 558.3 | 95.3 % | 25.1 | 677.0 | 454.8 | 101.3 % | (6.1) |
| Property and casualty insurance and reinsurance | 7,988.4 | 6,134.4 | 93.9 % | 337.5 | 7,259.9 | 5,658.6 | 94.1 % | 301.7 |
| | | | | | | | | |
| | First six months | | | | | | | |
| | 2023 | | | | 2022 | | | |
| | Gross Premiums Written | Net Premiums Written | Combined ratios | Underwriting profit | Gross Premiums Written | Net Premiums Written | Combined ratios | Underwriting profit |
| North American Insurers | | | | | | | | |
| Northbridge | 1,205.3 | 1,068.6 | 92.2 % | 75.8 | 1,133.8 | 1,027.7 | 87.3 % | 120.0 |
| Crum & Forster | 2,478.8 | 1,840.3 | 94.9 % | 92.5 | 2,155.4 | 1,750.9 | 94.6 % | 90.4 |
| Zenith National | 432.1 | 438.8 | 97.9 % | 7.4 | 423.7 | 425.6 | 94.9 % | 18.0 |
| | <u>4,116.2</u> | <u>3,347.7</u> | <u>94.4 %</u> | <u>175.7</u> | <u>3,712.9</u> | <u>3,204.2</u> | <u>92.3 %</u> | <u>228.4</u> |
| Global Insurers and Reinsurers | | | | | | | | |
| Allied World | 3,755.8 | 2,773.7 | 91.4 % | 192.7 | 3,541.1 | 2,529.7 | 92.2 % | 156.2 |
| Odyssey Group | 3,396.1 | 3,011.9 | 95.3 % | 136.7 | 3,176.2 | 2,863.9 | 94.4 % | 153.4 |
| Brit | 2,008.9 | 1,515.4 | 92.8 % | 102.8 | 1,977.3 | 1,412.4 | 93.3 % | 82.9 |
| | <u>9,160.8</u> | <u>7,301.0</u> | <u>93.4 %</u> | <u>432.2</u> | <u>8,694.6</u> | <u>6,806.0</u> | <u>93.4 %</u> | <u>392.5</u> |
| International Insurers and Reinsurers | 1,804.4 | 1,105.1 | 95.8 % | 43.4 | 1,468.2 | 945.7 | 99.4 % | 5.2 |
| Property and casualty insurance and reinsurance | 15,081.4 | 11,753.8 | 93.9 % | 651.3 | 13,875.7 | 10,955.9 | 93.6 % | 626.1 |

- Net premiums written by the property and casualty insurance and reinsurance operations increased by 8.4% and 7.3% to \$6,134.4 and \$11,753.8 in the second quarter and first six months of 2023 from \$5,658.6 and \$10,955.9 in the second quarter and first six months of 2022 respectively, while gross premiums written increased by 10.0% and 8.7%, principally reflecting increased business volumes, continued rate increases across most lines of business and strong customer retention at each of the company's property and casualty insurance and reinsurance reporting segments.
- Current period catastrophe losses on an undiscounted basis in the second quarter and first six months of 2023 were \$134.8 and \$326.7 or 2.4 and 3.0 combined ratio points, principally reflecting exposure to the earthquake in Turkey compared to \$165.0 and \$295.2 or 3.2 and 3.0 combined ratio points in the second quarter and first six months of 2022 which primarily reflected the impact of Australian floods and Brazil drought.

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

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

| | Second quarter | | First six months | |
|---|----------------|----------------|------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| <i>Net finance income (expense) from insurance contracts and reinsurance contract assets held as presented in the consolidated statement of earnings:</i> | | | | |
| Net finance income (expense) from insurance contracts | (585.3) | 932.3 | (811.1) | 1,445.9 |
| Net finance income (expense) from reinsurance contract assets held | 161.3 | (202.2) | 223.7 | (296.8) |
| Net finance income (expense) from insurance contracts and reinsurance contract assets held | (424.0) | 730.1 | (587.4) | 1,149.1 |
| <i>Effects of discounting for future periods and risk adjustment and other recognized in Insurance Service Result:</i> | | | | |
| Discounting of losses and ceded losses on claims recorded in the period | 618.3 | 300.4 | 1,033.2 | 470.4 |
| Changes in the risk adjustment and other | 26.9 | 45.1 | 85.8 | 96.9 |
| Effects included in Insurance Service Result | 645.2 | 345.5 | 1,119.0 | 567.3 |
| Total net benefit | 221.2 | 1,075.6 | 531.6 | 1,716.4 |

During the second quarter and first six months of 2023 the company recorded a total net benefit of \$221.2 and \$531.6, principally relating to the net benefit of discounting losses and ceded losses on claims, amounting to \$618.3 and \$1,033.2 (recognized in the insurance service result as a reduction to losses and ceded losses on claims), partially offset by net finance expense from insurance contracts and reinsurance contract assets held recognized during the second quarter and first six months of 2023 of \$424.0 and \$587.4 respectively. The net finance expense during the second quarter of 2023 of \$424.0 predominantly consisted of interest accretion resulting from the unwinding of the effects from discounting associated with net claim payments made during the second quarter of \$347.2 and the effect of changes in discount rates during the same period. The net finance expense during the first six months of 2023 of \$587.4 predominantly consisted of interest accretion resulting from the unwinding of the effects from discounting associated with net claim payments made during the first six months of 2023 of \$678.2, partially offset by the effect of changes in discount rates during the same period.

During the second quarter and first six months of 2022 the company recorded a total net benefit of \$1,075.6 and \$1,716.4, principally relating to the net finance income from insurance contracts and reinsurance contract assets held of \$730.1 and \$1,149.1 and the benefit of discounting of losses and ceded losses on claims of \$300.4 and \$470.4 (recognized in insurance service result) respectively. The net finance income recorded during the second quarter and first six months of 2022 primarily reflects the benefit of changes in discount rates of \$776.5 and \$1,240.7, as the change in the interest rate environment was more pronounced in the first six months of 2022 compared to in the first six months of 2023, partially offset by the interest accretion as a result of the unwinding of the effects from discounting of \$46.4 and \$91.6 respectively.

Refer to Note 4 (Critical Accounting Estimates and Judgments) to the interim consolidated financial statements for the three and six months ended June 30, 2023 for additional details on the discount rates applied on losses on claims recorded in the period.

Non-insurance companies

Operating income (loss) - Non-insurance companies

- Operating income of the Non-insurance companies reporting segment increased to \$36.9 in the second quarter of 2023 from \$7.5 in the second quarter of 2022. Excluding the impact of Fairfax India's performance fees to Fairfax (an accrual of \$35.6 in the second quarter of 2023 and a reversal of \$47.0 in the second quarter of 2022), which are offset upon consolidation, and the impact of a non-cash impairment charge recorded in the second quarter of 2022 of \$109.2 related to the company's investment in Farmers Edge, operating income marginally increased to \$72.5 in the second quarter of 2023 from \$69.7 in the second quarter of 2022, principally reflecting higher business volume at Thomas Cook India and higher share of profit of associates at Fairfax India.
- The company's investments in non-insurance associates and market traded consolidated non-insurance subsidiaries are primarily held in the insurance and reinsurance companies' investment portfolios and as such are managed and reviewed by management as part of portfolio investment performance. Refer to the heading Financial Condition within this section of the MD&A for additional details on the pre-tax excess of fair value over the carrying value of investments in non-insurance associates and market traded consolidated non-insurance subsidiaries of \$760.8 at June 30, 2023 that the company considers to be portfolio investments and is not reflected in the company's book value per basic share.

Investment Performance

Interest and dividends

- Interest and dividends of \$464.6 and \$846.9 in the second quarter and first six months of 2023 significantly increased compared to \$203.1 and \$372.0 in the second quarter and first six months of 2022, with higher interest income earned principally due to a general increase in sovereign bond yields, net purchases of U.S. treasury and Canadian government bonds during 2022 and net purchases of first mortgage loans and other government bonds during 2022 and the first six months of 2023, partially offset by higher total return swap expense paid on long equity total return swaps.
- At June 30, 2023 the company's insurance and reinsurance companies held portfolio investments of \$55.2 billion (excluding Fairfax India's portfolio of \$2.0 billion), of which approximately \$6.5 billion was in cash and short term investments and \$5.8 billion in short-dated U.S. treasuries. During the first six months of 2023 the company used cash and net proceeds from sales and maturities of U.S. treasury and other government short-term investments and short dated U.S. treasuries to purchase \$6.4 billion of U.S. treasuries with maturities between 3 to 5 years and net purchases of first mortgage loans of \$2.0 billion with maturities less than 3 years, which will benefit interest and dividend income in the remainder of 2023.
- During the second quarter of 2023 the company, in partnership with Kennedy Wilson, acquired \$1.8 billion of first mortgage loans from Pacific Western Bank; the average annual return on the capital deployed with the loans is expected to exceed 10%. The company's fixed income portfolio is conservatively positioned with effectively 74% of the fixed income portfolio invested in government bonds and only 15% in corporate bonds, primarily short-dated.

Share of profit of associates

- Share of profit of associates increased to \$269.2 in the second quarter of 2023 from \$265.7 in the second quarter of 2022, primarily reflecting the company's increased share of profit of EXCO (\$46.2 compared to share of loss of \$38.5) and Eurobank (\$130.5 compared to \$118.7), partially offset by decreased share of profit of Poseidon (formerly Atlas; \$6.3 compared to \$72.0) and the disposition of Resolute on March 1, 2023 (nil compared to \$66.5).
- Share of profit of associates increased to \$603.0 in the first six months of 2023 from \$446.3 in the first six months of 2022 primarily reflecting the company's increased share of profit of EXCO (\$115.4 compared to share of loss of \$0.5), Eurobank (\$225.1 compared to \$149.4) and Gulf Insurance (\$52.8 compared to \$19.0), partially offset by decreased share of profit of Poseidon (\$56.4 compared to \$121.7) and Resolute (nil compared to \$78.2).
- On March 1, 2023 Domtar Corporation acquired all outstanding common shares of Resolute for a combination of cash consideration of \$20.50 and a Contingent Value Right ("CVR") per Resolute common share, valued at \$1.42 per share. The company received total consideration of \$665.6 and recorded a realized gain of \$44.2.
- On March 28, 2023 a consortium composed of the company, the Washington Family, David Sokol, Chairman of the Board of Directors of Atlas, and Ocean Network Express Pte. Ltd. (collectively, the "Consortium") acquired all of the outstanding common shares of Atlas, other than those shares owned by the Consortium and by Prem Watsa, Fairfax's CEO, at a cash purchase price of \$15.50, plus payment of all ordinary course quarterly dividends up until closing of the transaction. The company did not purchase any additional interest not already owned by the Consortium upon closing of the transaction and continues to apply the equity method of accounting to its interest in Atlas through its interest in Poseidon Corp., the entity formed by the Consortium that acquired Atlas. Subsequent to the closing of the transaction the company acquired an additional 678,021 shares of Poseidon from Mr. Watsa as described in Note 6 (Investments in Associates) to the interim consolidated financial statements for the three and six months ended June 30, 2023.
- On May 9, 2023 Fairfax India entered into an agreement to acquire an additional 3.0% equity interest in Bangalore International Airport Limited ("Bangalore Airport") from Siemens Project Ventures GmbH ("Siemens"). The transaction closed on June 21, 2023 whereby Fairfax India paid cash consideration of \$75.0 to increase its equity interest to 57.0%. Fairfax India also agreed to acquire an additional 7.0% equity interest in Bangalore Airport from Siemens for additional cash consideration of approximately \$175, subject to certain performance conditions by Bangalore Airport and other closing conditions, which are expected to be assessed subsequent to October 31, 2023. At June 30, 2023 the company continued to apply the equity method of accounting and expects to continue to apply the same method of accounting to its interest in Bangalore Airport on closing of the additional 7.0% equity interest due to extensive Indian government regulation of, and participation in, Bangalore Airport's relevant activities.

Refer to Note 6 (Investments in Associates) to the interim consolidated financial statements for the three and six months ended June 30, 2023 for additional details on these transactions.

Net gains (losses) on investments

- Net losses on investments of \$342.1 in the second quarter and net gains on investments of \$429.1 in the first six months of 2023 consisted of the following:

| | 2023 | | | | | |
|------------------|---------------------|---|-----------------------------------|-----------------------------|--------------------------------|-----------------------------------|
| | Second quarter | | | First six months | | |
| | Net realized losses | Net change in unrealized gains (losses) | Net gains (losses) on investments | Net realized gains (losses) | Net change in unrealized gains | Net gains (losses) on investments |
| Equity exposures | (82.0) | 245.7 | 163.7 | 90.7 | 483.4 | 574.1 |
| Bonds | (72.5) | (332.8) | (405.3) | (404.4) | 318.1 | (86.3) |
| Other | (51.0) | (49.5) | (100.5) | (114.1) | 55.4 | (58.7) |
| | <u>(205.5)</u> | <u>(136.6)</u> | <u>(342.1)</u> | <u>(427.8)</u> | <u>856.9</u> | <u>429.1</u> |

- Net gains on equity exposures of \$163.7 and \$574.1 in the second quarter and first six months of 2023 were primarily comprised of net gains on common stocks (\$41.6 and \$342.7), equity derivatives (\$79.8 and \$115.9, inclusive of net gains of \$144.9 and \$284.7 on equity total return swaps that the company continued to hold on Fairfax subordinate voting shares), and convertible bonds and preferred stocks (\$26.7 and \$58.9). Also the first six months of 2023 included realized gains on the disposition of the company's equity accounted investment in Resolute (\$44.2 primarily related to the CVR which provides holders with the right to a share of any future softwood lumber duty deposit refunds).
- Net losses on bonds of \$405.3 in the second quarter of 2023 were principally comprised of net losses on U.S. treasuries of \$318.9 and net losses of \$64.7 on U.S. treasury bond forward contracts. Net losses on bonds of \$86.3 in the first six months of 2023 were principally comprised of net losses on U.S. treasuries of \$102.0, partially offset by net gains of \$43.6 on corporate and other bonds. The company's fixed income portfolio duration increased from approximately 1.6 years at December 31, 2022 to approximately 2.4 years at June 30, 2023, with \$12.3 billion remaining invested in cash and principally short-dated investments (comprised of cash, short term investments and the bond portfolio invested in short-dated U.S treasuries), enabling the company to benefit significantly from increased interest income in the remainder of 2023 and providing an opportunity for the portfolio to be deployed into longer-dated bonds.

Gain on Sale of Insurance Subsidiary

- On May 10, 2023 Brit sold Ambridge Group ("Ambridge"), its Managing General Underwriter operations, to Amynta Group. The company received \$379.0 as part of the transaction, comprised of cash of \$265.8 and a promissory note with a fair value of \$113.2. An additional \$100.0 may be receivable subject to a clawback based on 2023 performance targets of Ambridge. As a result of the sale, the company recorded a pre-tax gain of \$259.1 as gain on sale of insurance subsidiary in the consolidated statements of earnings (an after-tax gain of \$259.1) and deconsolidated assets and liabilities with carrying values of \$309.3 and \$191.3 respectively.

Financial Condition

- Maintaining an emphasis on financial soundness, the company held \$1,120.1 of cash and investments at the holding company at June 30, 2023 compared to \$1,345.8 at December 31, 2022, with the \$2.0 billion unsecured revolving credit facility fully undrawn. In the second quarter of 2023, Brit paid a special dividend of \$275.0 to the holding company as a result of the sale of Ambridge. Holding company cash and investments, as previously described, supports the company's decentralized structure and enables the company to deploy capital efficiently to its insurance and reinsurance companies.
- At June 30, 2023 the excess of fair value over carrying value of investments in non-insurance associates and market traded consolidated non-insurance subsidiaries was \$760.8 compared to \$310.0 at December 31, 2022. The pre-tax excess of \$760.8 is not reflected in the company's book value per share, but is regularly reviewed by management as an indicator of investment performance. Refer to the Financial Condition section of this MD&A, under the heading Book Value Per Basic Share, for details.
- The company's total debt to total capital ratio, excluding non-insurance companies, improved to 22.5% at June 30, 2023 compared to 23.7% at December 31, 2022, reflecting strong net earnings in the first six months of 2023, with no significant holding company debt maturities until 2024.
- On June 23, 2023 the company purchased shares from minority shareholders of Allied World for cash consideration of \$30.6, increasing its ownership interest in Allied World from 82.9% to 83.4%. Concurrently, certain terms of the Allied World shareholders agreement were amended to extend the company's option to purchase the remaining interests of the minority shareholders in Allied World at certain dates from September 2024 to September 2026.
- There were no other significant acquisitions or divestitures that closed during the first six months of 2023. The following transactions are anticipated to close in 2023:

- **Acquisition of additional interest in Gulf Insurance** - On April 19, 2023 the company entered into an agreement pursuant to which it will acquire all of the shares of Gulf Insurance Group K.S.C.P. (“Gulf Insurance”) under the control of KIPCO and certain of its affiliates, representing 46.3% of the equity of Gulf Insurance. On closing of the transaction, expected to close in the second half of 2023, the company anticipates it will consolidate the assets and liabilities of Gulf Insurance, increasing its equity interest from 43.7% to a controlling interest of 90.0%, and expects it will record a pre-tax gain of approximately \$290, with changes in the company's carrying value of its equity accounted investment in Gulf Insurance, up until date of closing, impacting the pre-tax gain.

Refer to Note 13 (Acquisitions and Divestitures) to the interim consolidated financial statements for the three and six months ended June 30, 2023 for additional details on the above transaction.

- **Obtaining controlling interest in Digit Insurance** - Digit, Go Digit Insurance Limited ("Digit Insurance") and the company continue to explore all avenues under applicable law to achieve the company’s majority ownership of Digit through conversion of the company’s holdings in compulsory convertible preferred shares issued by Digit. At June 30, 2023 the company’s ownership interest in Digit remained unchanged at 49.0% and as a result the company has not recorded any gains on its equity accounted investment in Digit during the period.
- Common shareholders’ equity increased by \$1,576.8 to \$19,357.1 at June 30, 2023 from \$17,780.3 at December 31, 2022, primarily reflecting:
 - net earnings attributable to shareholders of Fairfax of \$1,984.4, partially offset by
 - payments of common and preferred share dividends of \$269.8, and
 - purchases of 179,744 subordinate voting shares for cancellation for cash consideration of \$114.9, or \$639.24 per share.
- Book value per basic share was \$834.28 at June 30, 2023 compared to \$762.28 at December 31, 2022, representing an increase per basic share in the first six months of 2023 of 9.4% (an increase of 10.8% adjusted to include the \$10.00 per common share dividend paid in the first quarter of 2023). At June 30, 2023 there were 23,202,070 common shares effectively outstanding.

Sources of Income

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

| | Second quarter | | First six months | |
|---|----------------|----------------|------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net premiums written: | | | | |
| North American Insurers | 1,789.5 | 1,682.3 | 3,347.7 | 3,204.2 |
| Global Insurers and Reinsurers | 3,786.6 | 3,521.5 | 7,301.0 | 6,806.0 |
| International Insurers and Reinsurers | 558.3 | 454.8 | 1,105.1 | 945.7 |
| Property and Casualty Insurance and Reinsurance | 6,134.4 | 5,658.6 | 11,753.8 | 10,955.9 |
| Life insurance and Run-off | 65.5 | 46.4 | 109.2 | 91.8 |
| Consolidated net premiums written | 6,199.9 | 5,705.0 | 11,863.0 | 11,047.7 |
| Net insurance revenue: | | | | |
| North American Insurers | 1,685.0 | 1,564.2 | 3,292.5 | 3,054.2 |
| Global Insurers and Reinsurers | 3,131.0 | 2,967.7 | 6,148.9 | 5,657.6 |
| International Insurers and Reinsurers | 527.7 | 498.2 | 1,033.8 | 957.3 |
| Property and Casualty Insurance and Reinsurance | 5,343.7 | 5,030.1 | 10,475.2 | 9,669.1 |
| Life insurance and Run-off | 49.1 | 35.5 | 76.8 | 69.2 |
| Eliminations and adjustments | (0.7) | (1.7) | — | — |
| Consolidated net insurance revenue | 5,392.1 | 5,063.9 | 10,552.0 | 9,738.3 |
| Interest and dividends | 464.6 | 203.1 | 846.9 | 372.0 |
| Share of profit of associates | 269.2 | 265.7 | 603.0 | 446.3 |
| Net gains (losses) on investments | (342.1) | (1,416.7) | 429.1 | (1,611.9) |
| Gain on sale of insurance subsidiary | 259.1 | — | 259.1 | — |
| Non-insurance revenue | 1,559.6 | 1,449.2 | 3,118.0 | 2,515.5 |
| Total income | 7,602.5 | 5,565.2 | 15,808.1 | 11,460.2 |

Income of \$7,602.5 in the second quarter of 2023 increased from \$5,565.2 in the second quarter of 2022 principally as a result of lower net losses on investments, increases in net insurance revenue, non-insurance revenue and interest and dividends, and the gain on sale of insurance subsidiary of \$259.1 related to Brit's sale of Ambridge.

Income of \$15,808.1 in the first six months of 2023 increased from \$11,460.2 in the first six months of 2022 principally as a result of net gains on investments compared to net losses on investments in the prior period, increases in net insurance revenue, non-insurance revenue, interest and dividends and share of profit of associates, and the gain on sale of insurance subsidiary of \$259.1 related to Brit's sale of Ambridge.

The increase in net insurance revenue in the second quarter and first six months of 2023 of \$328.2 (6.5%) and \$813.7 (8.4%) principally reflected increased business volumes, continued rate increases across most lines of business and strong customer retention at each of the company's property and casualty insurance and reinsurance reporting segments. Refer to Components of Net Earnings in this MD&A for details by reporting segment.

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

The increase in non-insurance revenue to \$1,559.6 in the second quarter of 2023 from \$1,449.2 in the second quarter of 2022 principally reflected higher business volumes at Thomas Cook India. The increase in non-insurance revenue to \$3,118.0 in the first six months of 2023 from \$2,515.5 in the first six months of 2022 principally reflected significantly higher business volumes at AGT and Thomas Cook India.

Sources of Net Earnings

The table below presents the sources of the company's net earnings for the three and six months ended June 30, 2023 and 2022 using amounts presented in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023, set out in a format the company believes assists in understanding the composition and management of the company. The table shows separately the combined ratio and insurance service result for each of the Property and Casualty Insurance and Reinsurance reporting segments. Operating income (loss) as presented for the Property and Casualty Insurance and Reinsurance, Life insurance and Run-off and Non-insurance companies reporting segments includes interest and dividends and share of profit of associates, and excludes net gains (losses) on investments which are considered a less predictable source of investment income. Also excluded is net finance income (expense) from insurance contracts and reinsurance contract assets held which represents the effects of the time value of money.

| | Second quarter | | First six months | |
|--|----------------|--------------|------------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| Combined ratios - Property and Casualty Insurance and Reinsurance | | | | |
| North American Insurers | 94.7% | 92.1% | 94.4% | 92.3% |
| Global Insurers and Reinsurers | 93.3% | 94.0% | 93.4% | 93.4% |
| International Insurers and Reinsurers | 95.3% | 101.3% | 95.8% | 99.4% |
| Consolidated | 93.9% | 94.1% | 93.9% | 93.6% |
| Sources of net earnings | | | | |
| Operating income - Property and Casualty Insurance and Reinsurance: | | | | |
| Insurance service result: | | | | |
| North American Insurers | 249.2 | 260.7 | 525.0 | 472.3 |
| Global Insurers and Reinsurers | 820.4 | 503.8 | 1,445.7 | 902.9 |
| International Insurers and Reinsurers | 74.7 | 57.5 | 151.3 | 108.7 |
| Insurance service result | 1,144.3 | 822.0 | 2,122.0 | 1,483.9 |
| Other insurance operating expenses | (193.9) | (184.3) | (391.5) | (354.3) |
| | 950.4 | 637.7 | 1,730.5 | 1,129.6 |
| Interest and dividends | 407.4 | 155.6 | 718.9 | 266.1 |
| Share of profit of associates | 168.6 | 188.0 | 386.3 | 315.5 |
| Operating income - Property and Casualty Insurance and Reinsurance | 1,526.4 | 981.3 | 2,835.7 | 1,711.2 |
| Operating income - Life insurance and Run-off | 6.3 | 61.9 | 9.7 | 106.5 |
| Operating income - Non-insurance companies | 36.9 | 7.5 | 36.3 | 34.6 |
| Net finance income (expense) from insurance contracts and reinsurance contract assets held | (424.0) | 730.1 | (587.4) | 1,149.1 |
| Net gains (losses) on investments | (342.1) | (1,416.7) | 429.1 | (1,611.9) |
| Gain on sale of insurance subsidiary | 259.1 | — | 259.1 | — |
| Interest expense | (130.4) | (108.8) | (254.7) | (212.7) |
| Corporate overhead and other | 12.4 | (42.8) | (14.1) | (59.1) |
| Earnings before income taxes | 944.6 | 212.5 | 2,713.7 | 1,117.7 |
| Provision for income taxes | (115.5) | (163.2) | (480.6) | (369.6) |
| Net earnings | 829.1 | 49.3 | 2,233.1 | 748.1 |
| Attributable to: | | | | |
| Shareholders of Fairfax | 734.4 | (32.0) | 1,984.4 | 556.7 |
| Non-controlling interests | 94.7 | 81.3 | 248.7 | 191.4 |
| | 829.1 | 49.3 | 2,233.1 | 748.1 |
| Net earnings (loss) per share | \$ 31.10 | \$ (1.83) | \$ 84.30 | \$ 22.45 |
| Net earnings (loss) per diluted share | \$ 28.80 | \$ (1.83) | \$ 78.18 | \$ 20.96 |
| Cash dividends paid per share | \$ — | \$ — | \$ 10.00 | \$ 10.00 |

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

| | Second quarter | | | | | | | |
|--|-------------------------|--------------------------------|---------------------------------------|-----------|-------------------------|--------------------------------|---------------------------------------|---------|
| | 2023 | | | | 2022 | | | |
| | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total |
| Insurance service result | 249.2 | 820.4 | 74.7 | 1,144.3 | 260.7 | 503.8 | 57.5 | 822.0 |
| Other insurance operating expenses | (77.1) | (79.0) | (37.8) | (193.9) | (75.8) | (75.5) | (33.0) | (184.3) |
| Discounting of losses and ceded losses on claims recorded in the period | (89.2) | (497.3) | (19.6) | (606.1) | (49.4) | (236.8) | (26.4) | (312.6) |
| Changes in the risk adjustment and other | 2.8 | (17.4) | 7.8 | (6.8) | (16.4) | (2.8) | (4.2) | (23.4) |
| Underwriting profit (loss) | 85.7 | 226.7 | 25.1 | 337.5 | 119.1 | 188.7 | (6.1) | 301.7 |
| Interest and dividends | 106.6 | 249.7 | 51.1 | 407.4 | 49.2 | 80.1 | 26.3 | 155.6 |
| Share of profit of associates | 37.5 | 98.8 | 32.3 | 168.6 | 53.2 | 118.6 | 16.2 | 188.0 |
| Adjusted operating income - Property and Casualty Insurance and Reinsurance | 229.8 | 575.2 | 108.5 | 913.5 | 221.5 | 387.4 | 36.4 | 645.3 |
| Combined ratios | 94.7 % | 93.3 % | 95.3 % | 93.9 % | 92.1 % | 94.0 % | 101.3 % | 94.1 % |
| | First six months | | | | | | | |
| | 2023 | | | | 2022 | | | |
| | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total | North American Insurers | Global Insurers and Reinsurers | International Insurers and Reinsurers | Total |
| Insurance service result | 525.0 | 1,445.7 | 151.3 | 2,122.0 | 472.3 | 902.9 | 108.7 | 1,483.9 |
| Other insurance operating expenses | (142.2) | (175.3) | (74.0) | (391.5) | (136.7) | (149.9) | (67.7) | (354.3) |
| Discounting of losses and ceded losses on claims recorded in the period | (197.9) | (799.6) | (31.0) | (1,028.5) | (79.9) | (364.8) | (43.6) | (488.3) |
| Changes in the risk adjustment and other | (9.2) | (38.6) | (2.9) | (50.7) | (27.3) | 4.3 | 7.8 | (15.2) |
| Underwriting profit | 175.7 | 432.2 | 43.4 | 651.3 | 228.4 | 392.5 | 5.2 | 626.1 |
| Interest and dividends | 198.3 | 428.5 | 92.1 | 718.9 | 85.4 | 137.6 | 43.1 | 266.1 |
| Share of profit of associates | 92.3 | 226.4 | 67.6 | 386.3 | 93.3 | 200.1 | 22.1 | 315.5 |
| Adjusted operating income - Property and Casualty Insurance and Reinsurance | 466.3 | 1,087.1 | 203.1 | 1,756.5 | 407.1 | 730.2 | 70.4 | 1,207.7 |
| Combined ratios | 94.4 % | 93.4 % | 95.8 % | 93.9 % | 92.3 % | 93.4 % | 99.4 % | 93.6 % |

The increase in the insurance service result from the company's property and casualty insurance and reinsurance operations in the second quarter and first six months of 2023 of \$322.3 and \$638.1 or 39.2% and 43.0% was principally attributable to the North American Insurers and Global Insurers and Reinsurers reporting segments, primarily reflecting a greater benefit from discounting losses on claims due to higher discount rates in the period resulting in reduced losses on claims included within the insurance service result and recoveries of insurance service expenses in the consolidated statement of earnings, increased business volumes and prudent expense management, partially offset by higher current period catastrophe losses as shown in the table below.

The company's property and casualty insurance and reinsurance operations produced an underwriting profit of \$337.5 and \$651.3 (combined ratio of 93.9% and 93.9%) in the second quarter and first six months of 2023 compared to an underwriting profit of \$301.7 and \$626.1 (combined ratio of 94.1% and 93.6%) in the second quarter and first six months of 2022, primarily reflecting the same factors as noted above in insurance service result except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the second quarter and first six months of 2023.

The following table presents the components of the company's combined ratios, a performance measure of underwriting profit, for the three and six months ended June 30, 2023 and 2022:

| | Second quarter | | First six months | |
|--|----------------|--------|------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| Underwriting profit - Property and Casualty Insurance and Reinsurance | 337.5 | 301.7 | 651.3 | 626.1 |
| Losses on claims - accident year | 65.4 % | 65.7 % | 65.0 % | 64.3 % |
| Commissions | 16.8 % | 16.5 % | 16.6 % | 16.6 % |
| Underwriting expenses | 13.0 % | 12.8 % | 13.3 % | 13.4 % |
| Combined ratio - accident year | 95.2 % | 95.0 % | 94.9 % | 94.3 % |
| Net favourable reserve development | (1.3)% | (0.9)% | (1.0)% | (0.7)% |
| Combined ratio - calendar year | 93.9 % | 94.1 % | 93.9 % | 93.6 % |

Net (favourable) adverse prior year reserve development, on an undiscounted basis, for the three and six months ended June 30, 2023 and 2022 were comprised as follows:

| | Second quarter | | First six months | |
|---|----------------|--------|------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| Property and Casualty Insurance and Reinsurance | | | | |
| North American Insurers | (31.9) | (20.2) | (47.1) | (32.5) |
| Global Insurers and Reinsurers | (4.3) | 23.3 | 5.5 | 15.5 |
| International Insurers and Reinsurers | (35.5) | (51.0) | (60.4) | (52.8) |
| Net favourable prior year reserve development | (71.7) | (47.9) | (102.0) | (69.8) |

Current period catastrophe losses, on an undiscounted basis, for the three and six months ended June 30, 2023 and 2022 were comprised as follows:

| | Second quarter | | | | First six months | | | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| | Losses ⁽¹⁾ | Combined ratio impact | Losses ⁽¹⁾ | Combined ratio impact | Losses ⁽¹⁾ | Combined ratio impact | Losses ⁽¹⁾ | Combined ratio impact |
| Turkey Earthquake | 7.4 | 0.1 | — | — | 100.9 | 0.9 | — | — |
| Australian Floods | — | — | 21.7 | 0.4 | — | — | 63.5 | 0.6 |
| Other | 127.4 | 2.3 | 143.3 | 2.8 | 225.8 | 2.1 | 231.7 | 2.4 |
| Total catastrophe losses | 134.8 | 2.4 points | 165.0 | 3.2 points | 326.7 | 3.0 points | 295.2 | 3.0 points |

(1) Net of reinstatement premiums.

The commission expense ratio increased to 16.8% in the second quarter of 2023 from 16.5% in the second quarter of 2022, principally reflecting increases in the Global Insurers and Reinsurers reporting segment (primarily reflecting increased net average commissions at each operating company in the Global Insurers and Reinsurers reporting segment, principally due to changes in the mix of business written), partially offset by decreases in the North American Insurers reporting segment (primarily reflecting decreased average commissions in surplus and specialty, and accident and health lines at Crum & Forster).

An analysis of interest and dividends, share of profit of associates and net gains (losses) on investments for the three and six months ended June 30, 2023 and 2022 is provided in the Overview of Consolidated Performance section at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

An analysis of net finance income (expense) from insurance contracts and reinsurance contract assets held for the three and six months ended June 30, 2023 and 2022 is provided in the Overview of Consolidated Performance section at the beginning of this MD&A.

Net earnings attributable to shareholders of Fairfax was \$734.4 (net earnings of \$31.10 per basic share and \$28.80 per diluted share) in the second quarter of 2023 and \$1,984.4 (net earnings of \$84.30 per basic share and \$78.18 per diluted share) in the first six months of 2023 compared to a net loss of \$32.0 (net loss of \$1.83 per basic and diluted share) in the second quarter of 2022 and net earnings of \$556.7 (net earnings of \$22.45 per basic share and \$20.96 per diluted share) in the first six months of 2022. The improvement in profitability in the second quarter and first six months of 2023 principally reflected increased insurance service result, lower net losses on investments in the quarter and net gains on investments in the first six months of 2023, gain on sale of Ambridge by Brit and increases in interest and dividends and share of profit of associates, partially offset by net finance expense from insurance contracts and reinsurance contract assets held compared to income in the comparative periods and higher provision for income taxes in the first six months of 2023.

Components of Net Earnings

Underwriting and Operating Income

Presented below are the insurance service result, reconciled to underwriting profit, of the property and casualty insurance and reinsurance reporting segments, the insurance service result of Life Insurance and Run-off and the operating income (loss) of the Non-insurance companies reporting segment, for the three and six months ended June 30, 2023 and 2022. Interest and dividends, share of profit (loss) of associates and net gains (losses) on investments by reporting segment for the three and six months ended June 30, 2023 and 2022 are provided in the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

North American Insurers

| | Second quarter | | First six months | |
|---|----------------|---------------|------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Loss & LAE - accident year | 64.3 % | 60.3 % | 63.5 % | 60.0 % |
| Commissions | 15.4 % | 16.0 % | 15.4 % | 16.3 % |
| Underwriting expenses | 17.0 % | 17.1 % | 17.0 % | 17.1 % |
| Combined ratio - accident year | 96.7 % | 93.4 % | 95.9 % | 93.4 % |
| Net favourable reserve development | (2.0) % | (1.3) % | (1.5) % | (1.1) % |
| Combined ratio - calendar year | 94.7 % | 92.1 % | 94.4 % | 92.3 % |
| | | | | |
| Gross premiums written | 2,197.0 | 1,942.6 | 4,116.2 | 3,712.9 |
| Net premiums written | 1,789.5 | 1,682.3 | 3,347.7 | 3,204.2 |
| Net insurance revenue | 1,685.0 | 1,564.2 | 3,292.5 | 3,054.2 |
| | | | | |
| Insurance service result | 249.2 | 260.7 | 525.0 | 472.3 |
| Other insurance operating expenses | (77.1) | (75.8) | (142.2) | (136.7) |
| Discounting of losses and ceded losses on claims recorded in the period | (89.2) | (49.4) | (197.9) | (79.9) |
| Changes in the risk adjustment and other | 2.8 | (16.4) | (9.2) | (27.3) |
| Underwriting profit | 85.7 | 119.1 | 175.7 | 228.4 |

North American Insurers reported an insurance service result of \$249.2 and \$525.0 in the second quarter and first six months of 2023 compared with an insurance service result of \$260.7 and \$472.3 in the second quarter and first six months of 2022. The decrease in the second quarter of 2023 of \$11.5 primarily reflected marginal decreases at both Zenith National and Northbridge, reflecting modest increases in the risk adjustment and net commissions at Zenith National and increased current accident year losses (primarily in property and personal lines of business) and the weakening of the Canadian dollar relative to the U.S. dollar at Northbridge. The increase in the insurance service result of \$52.7 in the first six months of 2023 principally reflected an increased benefit from discounting losses on claims in the period due to higher average discount rates, resulting in reduced losses on claims and recoveries of insurance service expenses, continued growth in net insurance revenue primarily at Crum & Forster (including rate increases across most lines of business) relative to modest increases in underwriting expenses and increased net favourable prior year reserve development at Northbridge, partially offset by increased current period losses for each operating company in the North American Insurers reporting segment.

North American Insurers produced underwriting profits of \$85.7 and \$175.7 and combined ratios of 94.7% and 94.4% in the second quarter and first six months of 2023 compared to underwriting profits of \$119.1 and \$228.4 and combined ratios of 92.1% and 92.3% in the second quarter and first six months of 2022. The decrease in underwriting profitability in the second quarter and first six months of 2023 primarily reflected the same factors as noted above in insurance service result except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the first six months of 2023.

The commission expense ratio decreased to 15.4% in both the second quarter and first six months of 2023 from 16.0% and 16.3% in the second quarter and first six months of 2022, primarily reflecting decreased average commissions in surplus and specialty, and accident and health lines at Crum & Forster. The decrease in the commission expense ratio in the second quarter of 2023 was partially offset by an increase in the commission expense ratio at Northbridge, primarily from changes in the mix of business written including decreased business volumes in certain auto lines which attract lower average commissions.

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

| | Combined ratios | | | | Underwriting profit | | | |
|--------------------------------|-----------------|---------------|------------------|---------------|---------------------|--------------|------------------|--------------|
| | Second quarter | | First six months | | Second quarter | | First six months | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Northbridge | 93.2 % | 87.2 % | 92.2 % | 87.3 % | 33.8 | 60.8 | 75.8 | 120.0 |
| Crum & Forster | 95.0 % | 94.4 % | 94.9 % | 94.6 % | 45.8 | 48.2 | 92.5 | 90.4 |
| Zenith National | 96.6 % | 94.4 % | 97.9 % | 94.9 % | 6.1 | 10.1 | 7.4 | 18.0 |
| North American Insurers | 94.7 % | 92.1 % | 94.4 % | 92.3 % | 85.7 | 119.1 | 175.7 | 228.4 |

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

| | Gross premiums written | | | | Net insurance revenue | | | |
|--------------------------------|------------------------|----------------|------------------|----------------|-----------------------|----------------|------------------|----------------|
| | Second quarter | | First six months | | Second quarter | | First six months | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Northbridge | 699.0 | 659.1 | 1,205.3 | 1,133.8 | 506.3 | 485.3 | 984.7 | 960.7 |
| Crum & Forster | 1,323.2 | 1,118.8 | 2,478.8 | 2,155.4 | 996.1 | 896.7 | 1,948.9 | 1,739.5 |
| Zenith National | 174.8 | 164.7 | 432.1 | 423.7 | 182.6 | 182.2 | 358.9 | 354.0 |
| North American Insurers | 2,197.0 | 1,942.6 | 4,116.2 | 3,712.9 | 1,685.0 | 1,564.2 | 3,292.5 | 3,054.2 |

Gross premiums written increased by 13.1% and 10.9% in the second quarter and first six months of 2023 primarily reflecting increased business volumes at Crum & Forster (primarily accident and health lines of business) and Northbridge (primarily property lines of business) and rate increases across most lines of business with the exception of workers' compensation business, primarily at Zenith National, which continues to experience rate decreases.

Net premiums written increased by 6.4% and 4.5% in the second quarter and first six months of 2023 reflecting the growth in gross premiums written, partially offset by decreased net retention in certain accident and health lines of business and the effect of a fronting arrangement on Crum & Forster's pet business following the sale of Pet Insurance Group and Pethealth at Crum & Forster whereby no business was retained. Net insurance revenue increased by 7.7% and 7.8% in the second quarter and first six months of 2023, principally reflecting the increase in net premiums written during 2023 and 2022.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) decreased to \$257.0 in the first six months of 2023 from \$547.2 in the first six months of 2022, primarily reflecting increased net claims paid and net taxes paid, partially offset by increased premium collections at Crum & Forster.

Global Insurers and Reinsurers

| | Second quarter | | First six months | |
|---|----------------|--------------|------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| Loss & LAE - accident year | 66.1 % | 67.0% | 65.9 % | 66.1 % |
| Commissions | 17.1 % | 16.4% | 16.8 % | 16.6 % |
| Underwriting expenses | 10.2 % | 9.9% | 10.6 % | 10.4 % |
| Combined ratio - accident year | 93.4 % | 93.3% | 93.3 % | 93.1 % |
| Net (favourable) adverse reserve development | (0.1)% | 0.7% | 0.1 % | 0.3 % |
| Combined ratio - calendar year | 93.3 % | 94.0% | 93.4 % | 93.4 % |
| Gross premiums written | 4,873.3 | 4,640.3 | 9,160.8 | 8,694.6 |
| Net premiums written | 3,786.6 | 3,521.5 | 7,301.0 | 6,806.0 |
| Net insurance revenue | 3,131.0 | 2,967.7 | 6,148.9 | 5,657.6 |
| Insurance service result | 820.4 | 503.8 | 1,445.7 | 902.9 |
| Other insurance operating expenses | (79.0) | (75.5) | (175.3) | (149.9) |
| Discounting of losses and ceded losses on claims recorded in the period | (497.3) | (236.8) | (799.6) | (364.8) |
| Changes in the risk adjustment and other | (17.4) | (2.8) | (38.6) | 4.3 |
| Underwriting profit | 226.7 | 188.7 | 432.2 | 392.5 |

Global Insurers and Reinsurers insurance service result of \$820.4 and \$1,445.7 in the second quarter and first six months of 2023 increased by \$316.6 and \$542.8 primarily reflecting an increased benefit from discounting losses on claims in the period due to higher average discount rates, resulting in reduced losses on claims and recoveries of insurance service expenses, growth in net insurance revenue at each operating company (with the exception of Brit in the second quarter of 2023) in the Global Insurers and Reinsurers reporting segment (including rate increases across most lines of business) relative to modest increases in underwriting expenses. These increases were partially offset by increased current period catastrophe losses (as set out in the table below), primarily at Odyssey Group related to attritional catastrophe losses and the earthquake in Turkey.

Global Insurers and Reinsurers produced underwriting profits of \$226.7 and \$432.2 and combined ratios of 93.3% and 93.4% in the second quarter and first six months of 2023 compared to underwriting profits of \$188.7 and \$392.5 and combined ratios of 94.0% and 93.4% in the second quarter and first six months of 2022. The increase in underwriting profit in the second quarter and first six months of 2023 principally reflected the same factors as noted above in insurance service result except for the benefit from discounting losses on claims which had the effect of improving the insurance service result in the second quarter and first six months of 2023.

The commission expense ratio increased to 17.1% and 16.8% in the second quarter and first six months of 2023 from 16.4% and 16.6% in the second quarter and first six months of 2022, primarily reflecting increased net average commissions at each operating company in the Global Insurers and Reinsurers reporting segment (with the exception of Odyssey Group in the first six months of 2023 which experienced a marginal decrease in net average commissions), principally due to changes in the mix of business written.

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

| | Combined ratios | | | | Underwriting profit | | | |
|---------------------------------------|-----------------|---------------|------------------|---------------|---------------------|--------------|------------------|--------------|
| | Second quarter | | First six months | | Second quarter | | First six months | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Allied World | 91.0 % | 92.2 % | 91.4 % | 92.2 % | 102.3 | 81.9 | 192.7 | 156.2 |
| Odyssey Group | 94.3 % | 94.9 % | 95.3 % | 94.4 % | 87.7 | 72.4 | 136.7 | 153.4 |
| Brit | 94.8 % | 94.7 % | 92.8 % | 93.3 % | 36.7 | 34.4 | 102.8 | 82.9 |
| Global Insurers and Reinsurers | 93.3 % | 94.0 % | 93.4 % | 93.4 % | 226.7 | 188.7 | 432.2 | 392.5 |

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

| | Second quarter | | | | First six months | | | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| | Losses ⁽¹⁾ | Combined ratio impact | Losses ⁽¹⁾ | Combined ratio impact | Losses ⁽¹⁾ | Combined ratio impact | Losses ⁽¹⁾ | Combined ratio impact |
| Turkey earthquake | 6.5 | 0.2 | — | — | 96.8 | 1.5 | — | — |
| Australian floods | — | — | 21.7 | 0.7 | — | — | 63.5 | 1.1 |
| Other | 100.1 | 3.0 | 63.0 | 2.0 | 184.8 | 2.8 | 132.7 | 2.2 |
| Total catastrophe losses | 106.6 | 3.2 points | 84.7 | 2.7 points | 281.6 | 4.3 points | 196.2 | 3.3 points |

(1) Net of reinstatement premiums.

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

| | Gross premiums written | | | | Net insurance revenue | | | |
|---------------------------------------|------------------------|----------------|------------------|----------------|-----------------------|----------------|------------------|----------------|
| | Second quarter | | First six months | | Second quarter | | First six months | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Allied World | 1,872.2 | 1,789.3 | 3,755.8 | 3,541.1 | 1,206.9 | 1,100.3 | 2,373.9 | 2,133.2 |
| Odyssey Group | 1,887.3 | 1,759.1 | 3,396.1 | 3,176.2 | 1,327.3 | 1,246.8 | 2,508.4 | 2,374.6 |
| Brit | 1,113.8 | 1,091.9 | 2,008.9 | 1,977.3 | 596.8 | 620.6 | 1,266.6 | 1,149.8 |
| Global Insurers and Reinsurers | 4,873.3 | 4,640.3 | 9,160.8 | 8,694.6 | 3,131.0 | 2,967.7 | 6,148.9 | 5,657.6 |

Gross premiums written increased by 5.0% and 5.4% in the second quarter and first six months of 2023, primarily reflecting increased business volumes at Allied World (primarily the Global Reinsurance segment across all major lines of business) and Odyssey Group (primarily relating to U.S. property reinsurance and U.S. casualty treaty) as a result of the continued favourable pricing environment in reinsurance. Net premiums written increased by 7.5% and 7.3% in the second quarter and first six months of 2023, reflecting the growth in gross premiums written at all operating companies, and increased net retention at Allied World (primarily in global professional liability lines) and the non-renewal of certain property catastrophe quota share retro programs, partially offset by increased cessions at Odyssey Group (primarily related to U.S. crop business). Net insurance revenue increased by 5.5% and 8.7% in the second quarter and first six months of 2023, principally reflecting the increase in net premiums written during 2023 and 2022.

Cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL) increased to \$1,765.1 in the first six months of 2023 from \$1,442.3 in the first six months of 2022, primarily reflecting increased net premium collections at each of the operating companies within the Global Insurers and Reinsurers reporting segment, partially offset by cash received on a portfolio transfer at Odyssey Group in the first six months of 2022, and increased net claims paid at each of the operating companies within the Global Insurers and Reinsurers reporting segment.

During the first six months of 2023 the subsidiaries comprising the Global Insurers and Reinsurers reporting segment paid aggregate dividends of \$135.6 (2022 - \$177.7) to non-controlling interests. On June 23, 2023 the company purchased shares of Allied World from minority shareholders for cash consideration of \$30.6, increasing its ownership interest in Allied World from 82.9% to 83.4%.

International Insurers and Reinsurers

| | Second quarter | | First six months | |
|---|-----------------------|----------------|-------------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Loss & LAE - accident year | 63.5 % | 74.1 % | 63.6 % | 66.6 % |
| Commissions | 18.7 % | 18.8 % | 18.4 % | 18.1 % |
| Underwriting expenses | 19.9 % | 19.8 % | 19.6 % | 20.5 % |
| Combined ratio - accident year | 102.1 % | 112.7 % | 101.6 % | 105.2 % |
| Net favourable reserve development | (6.8)% | (11.4)% | (5.8)% | (5.8)% |
| Combined ratio - calendar year | 95.3 % | 101.3 % | 95.8 % | 99.4 % |
| Gross premiums written | 918.1 | 677.0 | 1,804.4 | 1,468.2 |
| Net premiums written | 558.3 | 454.8 | 1,105.1 | 945.7 |
| Net insurance revenue | 527.7 | 498.2 | 1,033.8 | 957.3 |
| Insurance service result | 74.7 | 57.5 | 151.3 | 108.7 |
| Other insurance operating expenses | (37.8) | (33.0) | (74.0) | (67.7) |
| Discounting of losses and ceded losses on claims recorded in the period | (19.6) | (26.4) | (31.0) | (43.6) |
| Changes in the risk adjustment and other | 7.8 | (4.2) | (2.9) | 7.8 |
| Underwriting profit (loss) | 25.1 | (6.1) | 43.4 | 5.2 |

International Insurers and Reinsurers reporting segment's insurance service result of \$74.7 in the second quarter of 2023 increased by \$17.2 primarily reflecting an increase in the insurance service result at Fairfax Latin America (principally related to catastrophe losses in Fairfax Brasil's agricultural business line in the second quarter of 2022 and no catastrophe losses in the second quarter of 2023 and an improved net benefit from discounting losses on claims) and at Bryte Insurance (principally higher net favourable prior year reserve development and an improved net benefit from discounting losses on claims), partially offset by a decrease in insurance service result at Fairfax Asia. The insurance service result of \$151.3 in the first six months of 2023 increased by \$42.6 primarily reflecting an increase in the insurance service result at Fairfax Latin America (principally related to the same factors as noted for the second quarter of 2023) and at Bryte Insurance (principally higher net favourable prior year reserve development), partially offset by a decrease in insurance service result at Fairfax Asia (principally lower net favourable prior year reserve development at Singapore Re).

International Insurers and Reinsurers reporting segment reported underwriting profits of \$25.1 and \$43.4 and combined ratios of 95.3% and 95.8% in the second quarter and first six months of 2023 compared to an underwriting loss of \$6.1 and an underwriting profit of \$5.2 and combined ratios of 101.3% and 99.4% in the second quarter and first six months of 2022. The increase in underwriting profit in the second quarter and first six months of 2023 principally reflected the same factors as above in insurance service result except for the net benefit from discounting losses on claims which improved the insurance service result in the second quarter and first six months of 2023, partially offset by decreased underwriting profit at Fairfax Central and Eastern Europe (primarily a higher attritional loss ratio).

The commission expense ratio of 18.7% in the second quarter of 2023 was comparable to the commission expense ratio of 18.8% in the second quarter of 2022, while in the first six months of 2023 the commission expense ratio increased to 18.4% from 18.1% in the first six months of 2022, primarily reflecting higher commission expense at Group Re.

The underwriting expense ratio of 19.9% in the second quarter of 2023 was comparable to the underwriting expense ratio of 19.8% in the second quarter of 2022, and the first six months of 2023 benefited with a ratio of 19.6% compared to 20.5% in the first six months of 2022, primarily reflecting increased net insurance revenue relative to modest increases in other underwriting expenses at Fairfax Asia and Fairfax Central and Eastern Europe.

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

| | Combined ratios | | | | Underwriting profit (loss) | | | |
|--|-----------------|----------------|------------------|---------------|----------------------------|--------------|------------------|------------|
| | Second quarter | | First six months | | Second quarter | | First six months | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Group Re | 96.0 % | 96.9 % | 96.9 % | 95.5 % | 5.1 | 3.2 | 7.4 | 8.6 |
| Bryte Insurance | 94.0 % | 110.4 % | 98.4 % | 106.0 % | 4.1 | (7.7) | 2.3 | (8.8) |
| Fairfax Asia | 98.4 % | 91.7 % | 95.6 % | 91.1 % | 1.3 | 5.4 | 7.9 | 12.4 |
| Fairfax Latin America | 95.3 % | 125.4 % | 94.9 % | 117.2 % | 4.6 | (21.9) | 9.9 | (29.7) |
| Fairfax Central and Eastern Europe | 93.2 % | 84.6 % | 94.5 % | 90.6 % | 9.3 | 16.4 | 14.0 | 21.1 |
| Eurolife General | 95.7 % | 110.0 % | 94.0 % | 94.4 % | 0.7 | (1.5) | 1.9 | 1.6 |
| International Insurers and Reinsurers | 95.3 % | 101.3 % | 95.8 % | 99.4 % | 25.1 | (6.1) | 43.4 | 5.2 |

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

| | Gross premiums written | | | | Net insurance revenue | | | |
|--|------------------------|--------------|------------------|----------------|-----------------------|--------------|------------------|--------------|
| | Second quarter | | First six months | | Second quarter | | First six months | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Group Re | 44.8 | 30.1 | 83.2 | 63.8 | 116.2 | 97.6 | 206.6 | 169.0 |
| Bryte Insurance | 106.5 | 98.6 | 209.9 | 208.2 | 71.0 | 78.7 | 147.6 | 161.2 |
| Fairfax Asia | 266.1 | 166.4 | 562.1 | 383.5 | 77.0 | 67.9 | 160.3 | 133.0 |
| Fairfax Latin America | 315.6 | 262.5 | 570.6 | 518.1 | 113.7 | 130.1 | 237.2 | 239.7 |
| Fairfax Central and Eastern Europe | 162.9 | 100.8 | 333.7 | 255.7 | 128.6 | 103.9 | 242.6 | 213.7 |
| Eurolife General | 22.2 | 18.6 | 44.9 | 38.9 | 21.2 | 20.0 | 39.5 | 40.7 |
| International Insurers and Reinsurers | 918.1 | 677.0 | 1,804.4 | 1,468.2 | 527.7 | 498.2 | 1,033.8 | 957.3 |

Gross premiums written increased by 35.6% and 22.9% in the second quarter and first six months of 2023, principally reflecting increases at Fairfax Asia (primarily at Singapore Re due to increases in renewals, rate increases and new business and at Pacific Insurance across its property, motor, engineering and accident lines) and at Fairfax Central and Eastern Europe (primarily at Polish Re across its property and agricultural lines of business and at Colonnade Insurance). Net premiums written increased by 22.8% and 16.9% in the second quarter and first six months of 2023 consistent with the growth in gross premiums written. Net insurance revenue increased by 5.9% and 8.0% in the second quarter and first six months of 2023, principally reflecting the increase in net premiums written during 2022 and 2023 which are not yet reflected in net insurance revenue due to timing lag in recognition.

Life Insurance and Run-off

| | Second quarter | | | | | |
|---------------------------------|----------------|---------------|---------------|-------------|-------------|-------------|
| | 2023 | | | 2022 | | |
| | Eurolife | Run-off | Total | Eurolife | Run-off | Total |
| Net premiums written | 52.3 | 13.2 | 65.5 | 46.1 | 0.3 | 46.4 |
| Insurance revenue | 33.8 | 17.6 | 51.4 | 30.7 | 5.6 | 36.3 |
| Insurance service expenses | (22.1) | (70.9) | (93.0) | (18.0) | 0.6 | (17.4) |
| Net reinsurance result | (0.8) | 10.1 | 9.3 | (0.6) | 4.1 | 3.5 |
| Insurance service result | 10.9 | (43.2) | (32.3) | 12.1 | 10.3 | 22.4 |

| | First six months | | | | | |
|---------------------------------|------------------|---------------|---------------|------------|-------------|-------------|
| | 2023 | | | 2022 | | |
| | Eurolife | Run-off | Total | Eurolife | Run-off | Total |
| Net premiums written | 96.0 | 13.2 | 109.2 | 91.5 | 0.3 | 91.8 |
| Insurance revenue | 59.5 | 20.7 | 80.2 | 59.6 | 10.8 | 70.4 |
| Insurance service expenses | (47.2) | (82.0) | (129.2) | (52.0) | 7.1 | (44.9) |
| Net reinsurance result | (1.4) | 26.4 | 25.0 | (0.1) | 0.9 | 0.8 |
| Insurance service result | 10.9 | (34.9) | (24.0) | 7.5 | 18.8 | 26.3 |

Eurolife primarily underwrites traditional life insurance policies (endowments, deferred annuities, whole life and term life), group benefits including retirement benefits, and accident and health insurance policies. Eurolife's insurance revenue of \$59.5 in the first six months of 2023 primarily consisted of traditional life insurance policies (whole life and term life), group benefits including retirement benefits, and accident and health insurance policies. Eurolife's insurance service expenses of \$47.2 in the first six months of 2023 primarily consisted of net policy holder benefits and losses on claims, net commission expense and other underwriting expenses.

Run-off manages the company's run-off businesses in the U.S and continues to manage essentially all of the company's latent reserves. Run-off's insurance service expenses of \$70.9 and \$82.0 in the second quarter and first six months of 2023 included net adverse prior year reserve development of \$70.7 on an undiscounted basis primarily related to latent hazard claims stemming from recent incremental increases in litigation activity and its associated costs.

Non-insurance companies

Second quarter

| | 2023 | | | | | 2022 | | | | |
|---|------------------------|---------------|-------------------|----------------------|----------------------|------------------------|---------------|-------------------|----------------------|----------------------|
| | Restaurants and retail | Fairfax India | Thomas Cook India | Other ⁽¹⁾ | Total ⁽²⁾ | Restaurants and retail | Fairfax India | Thomas Cook India | Other ⁽¹⁾ | Total ⁽²⁾ |
| Revenue | 469.3 | 66.3 | 251.7 | 772.3 | 1,559.6 | 469.3 | 62.2 | 128.4 | 789.3 | 1,449.2 |
| Expenses | (430.2) | (62.4) | (240.1) | (795.0) | (1,527.7) | (426.4) | (53.5) | (126.2) | (903.2) | (1,509.3) |
| Pre-tax income (loss) before interest expense and other | 39.1 | 3.9 | 11.6 | (22.7) | 31.9 | 42.9 | 8.7 | 2.2 | (113.9) | (60.1) |
| Interest and dividends | 2.4 | (40.7) | — | 0.3 | (38.0) | 2.6 | 42.7 | — | (5.5) | 39.8 |
| Share of profit (loss) of associates | — | 43.2 | (0.2) | — | 43.0 | — | 27.6 | (0.1) | 0.3 | 27.8 |
| Operating income (loss) | 41.5 | 6.4 | 11.4 | (22.4) | 36.9 | 45.5 | 79.0 | 2.1 | (119.1) | 7.5 |

First six months

| | 2023 | | | | | 2022 | | | | |
|---|------------------------|---------------|-------------------|----------------------|----------------------|------------------------|---------------|-------------------|----------------------|----------------------|
| | Restaurants and retail | Fairfax India | Thomas Cook India | Other ⁽¹⁾ | Total ⁽²⁾ | Restaurants and retail | Fairfax India | Thomas Cook India | Other ⁽¹⁾ | Total ⁽²⁾ |
| Revenue | 848.3 | 134.4 | 438.5 | 1,696.8 | 3,118.0 | 816.8 | 107.1 | 212.7 | 1,378.9 | 2,515.5 |
| Expenses | (801.7) | (132.8) | (425.6) | (1,793.8) | (3,153.9) | (759.8) | (99.3) | (212.6) | (1,512.6) | (2,584.3) |
| Pre-tax income (loss) before interest expense and other | 46.6 | 1.6 | 12.9 | (97.0) | (35.9) | 57.0 | 7.8 | 0.1 | (133.7) | (68.8) |
| Interest and dividends | 4.9 | (29.8) | — | 0.7 | (24.2) | 4.8 | 40.6 | — | (5.4) | 40.0 |
| Share of profit (loss) of associates | — | 96.0 | (0.1) | 0.5 | 96.4 | — | 62.2 | 0.2 | 1.0 | 63.4 |
| Operating income (loss) | 51.5 | 67.8 | 12.8 | (95.8) | 36.3 | 61.8 | 110.6 | 0.3 | (138.1) | 34.6 |

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

(2) Amounts as presented in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Restaurants and retail

The increase in revenue and expenses of Restaurants and retail in the first six months of 2023 primarily reflected higher business volumes at Recipe, principally due to no COVID-19 related restrictions in the first six months of 2023 compared to the first six months of 2022. The increase in expenses in the second quarter and first six months of 2023 reflected higher costs of sales relating to food inflation and compensation expense at Recipe which marginally negatively impacted the pre-tax income before interest expense and other results year over year.

Fairfax India

The increase in revenue and expenses of Fairfax India in the second quarter and first six months of 2023 primarily reflected the consolidation of Jaynix and Maxop by Fairfax India during 2022, partially offset by decreased revenues and expenses at Fairchem Organics principally due to lower costs of sales and a corresponding decrease in sales prices.

Interest and dividends included the impact of Fairfax India's performance fees to Fairfax which was an accrual of \$35.6 and \$21.1 in the second quarter and first six months of 2023 compared to a reversal of performance fee payable of \$47.0 and \$50.1 in the second quarter and first six months of 2022. The period from January 1, 2021 to December 31, 2023 (the "third calculation period") is the next consecutive three-year period after December 31, 2020 for which a performance fee will be accrued, and if applicable, will be settled within 30 days after Fairfax India issues its annual audited consolidated financial statements for the year ended December 31, 2023.

Thomas Cook India

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

Other

The decrease in revenue and expenses of Other in the second quarter of 2023 primarily reflected lower business volume at AGT, the impact of a non-cash impairment charge recorded in the second quarter of 2022 of \$109.2 related to the company's investment in Farmers Edge and the deconsolidation of Pethealth (deconsolidated on October 31, 2022), partially offset by the consolidation of Grivalia Hospitality (on July 5, 2022).

The increase in revenue and expenses of Other in the first six months of 2023 primarily reflected higher business volumes at AGT, Boat Rocker and Dexterra Group and the consolidation of Grivalia Hospitality (on July 5, 2022), partially offset by the deconsolidation of Pethealth (deconsolidated on October 31, 2022) and the impact of a non-cash impairment charge related to the company's investment in Farmers Edge in the first six months of 2022.

Investments

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

Net Gains (Losses) on Investments

Net gains (losses) on investments for the three and six months ended June 30, 2023 and 2022 were comprised as follows:

| | Second quarter | | | | | |
|--|-----------------------------|---|-----------------------------------|-----------------------------|---|-----------------------------------|
| | 2023 | | | 2022 | | |
| | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments |
| Common stocks | (5.2) | 46.8 | 41.6 | 47.6 | (693.4) | (645.8) |
| Bonds and preferred stock - convertible | — | 26.7 | 26.7 | 10.3 | (106.3) | (96.0) |
| Other equity derivatives ⁽¹⁾⁽²⁾⁽³⁾ | (92.4) | 172.2 | 79.8 | 126.8 | (262.8) | (136.0) |
| Disposition of non-insurance associates | 15.6 | — | 15.6 | — | — | — |
| Other | — | — | — | 4.0 | — | 4.0 |
| Long equity exposures and financial effects | (82.0) | 245.7 | 163.7 | 188.7 | (1,062.5) | (873.8) |
| Bonds | (30.6) | (310.0) | (340.6) | (44.7) | (400.2) | (444.9) |
| U.S. treasury bond forward contracts | (41.9) | (22.8) | (64.7) | 80.9 | (49.4) | 31.5 |
| Total bonds | (72.5) | (332.8) | (405.3) | 36.2 | (449.6) | (413.4) |
| Foreign currency | (45.7) | (9.5) | (55.2) | 156.9 | (233.8) | (76.9) |
| Other | (5.3) | (40.0) | (45.3) | 18.4 | (71.0) | (52.6) |
| Net gains (losses) on investments | (205.5) | (136.6) | (342.1) | 400.2 | (1,816.9) | (1,416.7) |

| | First six months | | | | | |
|--|-----------------------------|---|-----------------------------------|-----------------------------|---|-----------------------------------|
| | 2023 | | | 2022 | | |
| | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments |
| Common stocks | 10.3 | 332.4 | 342.7 | 84.0 | (490.8) | (406.8) |
| Bonds and preferred stocks - convertible | — | 58.9 | 58.9 | 11.7 | (200.1) | (188.4) |
| Other equity derivatives ⁽¹⁾⁽²⁾⁽³⁾ | 23.8 | 92.1 | 115.9 | 168.0 | (190.6) | (22.6) |
| Disposition of non-insurance associates | 59.7 | — | 59.7 | 2.3 | — | 2.3 |
| Other | (3.1) | — | (3.1) | 4.6 | — | 4.6 |
| Long equity exposures and financial effects | 90.7 | 483.4 | 574.1 | 270.6 | (881.5) | (610.9) |
| Bonds | (357.9) | 344.4 | (13.5) | (43.0) | (964.5) | (1,007.5) |
| U.S. treasury bond forward contracts | (46.5) | (26.3) | (72.8) | 100.2 | (0.2) | 100.0 |
| Total bonds | (404.4) | 318.1 | (86.3) | 57.2 | (964.7) | (907.5) |
| Foreign currency | (84.8) | 39.2 | (45.6) | 203.6 | (236.0) | (32.4) |
| Other | (29.3) | 16.2 | (13.1) | 10.7 | (71.8) | (61.1) |
| Net gains (losses) on investments | (427.8) | 856.9 | 429.1 | 542.1 | (2,154.0) | (1,611.9) |

- (1) Other equity derivatives include long equity total return swaps, equity warrants and options and the Asset Value Loan Notes ("AVLNs") entered with RiverStone Barbados.
- (2) Amounts recorded in net realized gains (losses) include net gains (losses) on total return swaps where the counterparties are required to cash-settle monthly or quarterly the market value movement since the previous reset date notwithstanding that the total return swap positions remain open subsequent to the cash settlement.
- (3) On April 6, 2022 the company acquired 25.0 million Atlas common shares by exercising its equity warrants in Atlas with a strike price of \$8.05 per share for aggregate cash consideration of \$201.3 and recognized a net loss on investment of \$37.2 (realized gains of \$58.6, of which \$95.8 was recorded as unrealized gains in prior years) on derecognition of the equity warrants.

Long equity exposure and financial effects: During the second quarter and first six months of 2023 the company's long equity exposures produced net gains of \$163.7 and \$574.1 compared to the second quarter and first six months of 2022 long equity exposures that produced net losses of \$873.8 and \$610.9. Net gains on long equity exposures of \$163.7 in the second quarter of 2023 were primarily comprised of net gains on long equity total return swaps (\$44.4), common stocks (\$41.6), convertible bonds and preferred stocks (\$26.7) and the AVLNs entered with RiverStone Barbados (\$24.8). Net gains on long equity exposures of \$574.1 in the first six months of 2023 were primarily comprised of net gains on common stocks (\$342.7), convertible bonds and preferred stocks (\$58.9), the AVLNs entered with RiverStone Barbados (\$49.4), long equity total return swaps (\$48.1) and realized gains on the disposition of Resolute (\$44.2).

Net losses on long equity exposures of \$873.8 in the second quarter of 2022 were primarily comprised of net losses on common stocks (\$645.8), the AVLNs entered with RiverStone Barbados (\$135.4), equity warrants and options (\$96.7), and convertible bonds and preferred stocks (\$96.0), partially offset by net gains on long equity total return swaps (\$77.2). Net losses on long equity exposures of

\$610.9 in the first six months of 2022 were primarily comprised of net losses on common stocks (\$406.8), the AVLNs entered with RiverStone Barbados (\$204.7), convertible bonds and preferred stocks (\$188.4) and equity warrants and options (\$16.2), partially offset by net gains on long equity total return swaps (\$179.9).

Bonds: Net losses on bonds of \$405.3 in the second quarter of 2023 (2022 - \$413.4) were primarily comprised of net losses on U.S. treasury bonds (\$318.9) and the company's investment in U.S. treasury bond forward contracts that produced net losses of \$64.7 in the second quarter of 2023 (2022 - net gains of \$31.5). Net losses on bonds of \$86.3 in the first six months of 2023 (2022 - \$907.5) were primarily comprised of net losses on U.S. treasury bonds (\$102.0) and the company's investment in U.S. treasury bond forward contracts that produced net losses of \$72.8 in the first six months of 2023 (2022 - net gains of \$100.0), partially offset by net gains on corporate and other bonds (\$43.6) and Greek government bonds (\$31.6).

Foreign currency: Net losses on foreign currency in the second quarter and first six months of 2023 of \$55.2 and \$45.6 (2022 - \$76.9 and \$32.4) were comprised of net losses on underwriting activities of \$58.5 and \$56.3 and foreign currency contracts of \$31.7 and \$40.5, partially offset by foreign currency net gains on investing activities of \$35.0 and \$51.2 (principally related to strengthening of the Brazilian real relative to the U.S. dollar).

Interest Expense

Interest expense as presented in the consolidated statement of earnings for the three and six months ended June 30, 2023 and 2022 was comprised as follows:

| | Second quarter | | First six months | |
|---|----------------|--------------|------------------|--------------|
| | 2023 | 2022 | 2023 | 2022 |
| Interest expense on borrowings: | | | | |
| Holding company | 67.2 | 60.9 | 134.2 | 122.4 |
| Insurance and reinsurance companies | 15.4 | 14.8 | 30.2 | 30.3 |
| Non-insurance companies ⁽¹⁾ | 35.2 | 21.5 | 64.7 | 36.2 |
| | <u>117.8</u> | <u>97.2</u> | <u>229.1</u> | <u>188.9</u> |
| Interest expense on lease liabilities: ⁽²⁾ | | | | |
| Holding company and insurance and reinsurance companies | 3.6 | 3.5 | 7.2 | 7.1 |
| Non-insurance companies | 9.0 | 8.1 | 18.4 | 16.7 |
| | <u>12.6</u> | <u>11.6</u> | <u>25.6</u> | <u>23.8</u> |
| Interest expense | <u>130.4</u> | <u>108.8</u> | <u>254.7</u> | <u>212.7</u> |

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

(2) Represents accretion of lease liabilities using the effective interest method.

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

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

Interest expense by reporting segment is set out in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Corporate Overhead and Other

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

| | Second quarter | | First six months | |
|---|----------------|--------|------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| Fairfax corporate overhead | 47.1 | 38.7 | 118.7 | 81.6 |
| Subsidiary holding companies' corporate overhead | 19.7 | 14.0 | 32.1 | 27.0 |
| Subsidiary holding companies' non-cash intangible asset amortization and goodwill impairment charges ⁽¹⁾ | 23.2 | 23.0 | 45.7 | 45.9 |
| Corporate and other expenses ⁽²⁾ | 90.0 | 75.7 | 196.5 | 154.5 |
| Holding company interest and dividends | 12.4 | (2.4) | 5.5 | (18.8) |
| Holding company share of profit of associates | (35.8) | (40.0) | (77.1) | (49.3) |
| Investment management and administration fees and other (income) expense ⁽³⁾ | (79.0) | 9.5 | (110.8) | (27.3) |
| | (12.4) | 42.8 | 14.1 | 59.1 |

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

(2) Presented as Corporate and other expenses in the consolidated statement of earnings, and as Corporate overhead and other in note 16 (Segmented Information), to the interim consolidated financial statements for the three and six months ended June 30, 2023.

(3) Presented as a consolidation elimination in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Fairfax corporate overhead increased to \$47.1 and \$118.7 in the second quarter and first six months of 2023 from \$38.7 and \$81.6 in the second quarter and first six months of 2022, primarily reflecting higher employee compensation expenses. The increase in the first six months of 2023 also reflected increases in charitable donations.

Investment management and administration fees and other income of \$79.0 and \$110.8 in the second quarter and first six months of 2023 (2022 - expense of \$9.5 and income of \$27.3) included the impact of Fairfax India's performance fees to Fairfax which were an accrual of fee income of \$35.6 and \$21.1 in the second quarter and first six months of 2023 compared to a reversal of fee income accrual of \$47.0 and \$50.1 in the second quarter and first six months of 2022.

Excluding the impact of the Fairfax India's performance fees, investment management and administration fees and other income was \$43.4 and \$89.7 in the second quarter and first six months of 2023 compared to \$37.5 and \$77.4 in the second quarter and first six months of 2022, reflecting increased fees earned by Hamblin Watsa due to the growth in the underlying investment portfolio that it manages on behalf of the insurance, reinsurance and run-off subsidiaries of Fairfax.

Interest and dividends, share of profit of associates and net gains (losses) on investments attributable to the Corporate and Other reporting segment are set out in the Overview of Consolidated Performance at the beginning of this MD&A, under the heading Investment Performance, and in the Investments section of this MD&A.

Income Taxes

Details of the provision for income taxes in the second quarters and first six months of 2023 and 2022 are provided in note 14 (Income Taxes) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Segmented Balance Sheet

The company's segmented balance sheets as at June 30, 2023 and December 31, 2022 present the assets, liabilities and non-controlling interests in each of the company's reporting segments in accordance with the company's IFRS accounting policies and includes, where applicable, acquisition accounting adjustments principally related to goodwill and intangible assets which arose on initial acquisition of the subsidiaries or on a subsequent step acquisition. Certain of the company's subsidiaries hold equity interests in other Fairfax subsidiaries ("affiliates") which are carried at cost. Affiliated insurance and reinsurance balances are not shown separately and are eliminated in "Corporate and eliminations".

| | June 30, 2023 | | | | | December 31, 2022 | | | | |
|--|---|----------------------------|-------------------------|---|-----------------|---|----------------------------|-------------------------|---|-----------------|
| | Property and casualty insurance and reinsurance companies | Life insurance and Run-off | Non-insurance companies | Corporate and eliminations ⁽³⁾ | Consolidated | Property and casualty insurance and reinsurance companies | Life insurance and Run-off | Non-insurance companies | Corporate and eliminations ⁽³⁾ | Consolidated |
| Assets | | | | | | | | | | |
| Holding company cash and investments | 264.7 | — | — | 855.4 | 1,120.1 | 316.6 | — | — | 1,029.2 | 1,345.8 |
| Insurance contract receivables | 785.9 | 15.6 | — | — | 801.5 | 636.2 | 12.7 | — | — | 648.9 |
| Portfolio investments ⁽¹⁾ | 52,282.3 | 4,204.7 | 2,208.3 | (1,077.1) | 57,618.2 | 49,038.9 | 4,275.5 | 2,119.3 | (1,109.0) | 54,324.7 |
| Insurance contract assets | 52.7 | — | — | (52.7) | — | 46.4 | — | — | (46.4) | — |
| Reinsurance contract assets held | 10,403.4 | 417.7 | — | (1,057.5) | 9,763.6 | 10,348.5 | 413.2 | — | (1,070.2) | 9,691.5 |
| Deferred income tax assets | (61.9) | 0.6 | 61.4 | 140.5 | 140.6 | (40.6) | (6.4) | 54.5 | 129.8 | 137.3 |
| Goodwill and intangible assets | 3,339.1 | 7.0 | 2,290.0 | 0.7 | 5,636.8 | 3,396.8 | 7.5 | 2,284.4 | 0.3 | 5,689.0 |
| Due from affiliates | 224.5 | 571.9 | — | (796.4) | — | 206.3 | 364.1 | — | (570.4) | — |
| Other assets | 1,716.5 | 1,012.8 | 4,219.9 | 275.3 | 7,224.5 | 1,673.7 | 832.5 | 4,153.2 | 321.9 | 6,981.3 |
| Investments in Fairfax insurance and reinsurance affiliates ⁽²⁾ | 167.2 | 29.3 | — | (196.5) | — | 167.1 | 29.3 | — | (196.4) | — |
| Total assets | 69,174.4 | 6,259.6 | 8,779.6 | (1,908.3) | 82,305.3 | 65,789.9 | 5,928.4 | 8,611.4 | (1,511.2) | 78,818.5 |
| Liabilities | | | | | | | | | | |
| Accounts payable and accrued liabilities | 1,592.1 | 259.5 | 2,469.8 | 287.1 | 4,608.5 | 1,901.8 | 257.6 | 2,430.7 | 216.5 | 4,806.6 |
| Derivative obligations | 309.1 | — | 50.4 | 55.9 | 415.4 | 113.5 | — | 58.2 | 19.3 | 191.0 |
| Deferred income tax liabilities | 593.6 | 57.0 | 248.1 | 131.4 | 1,030.1 | 516.7 | 43.2 | 252.4 | 55.7 | 868.0 |
| Insurance contract payable | 851.2 | 627.1 | — | — | 1,478.3 | 785.4 | 617.3 | — | — | 1,402.7 |
| Insurance contract liabilities | 38,308.9 | 4,058.4 | — | (1,026.0) | 41,341.3 | 36,967.8 | 4,009.2 | — | (1,070.4) | 39,906.6 |
| Reinsurance contract liabilities held | 78.2 | (0.5) | — | (77.7) | — | 37.6 | (0.2) | — | (37.4) | — |
| Due to affiliates | 117.4 | 116.0 | 106.2 | (339.6) | — | 17.1 | 0.4 | 82.4 | (99.9) | — |
| Borrowings - holding company and insurance and reinsurance companies | 742.6 | — | — | 5,944.1 | 6,686.7 | 733.4 | — | — | 5,887.6 | 6,621.0 |
| Borrowings - non-insurance companies | — | — | 2,118.9 | 7.2 | 2,126.1 | — | — | 1,996.9 | 7.0 | 2,003.9 |
| Total liabilities | 42,593.1 | 5,117.5 | 4,993.4 | 4,982.4 | 57,686.4 | 41,073.3 | 4,927.5 | 4,820.6 | 4,978.4 | 55,799.8 |
| Equity | | | | | | | | | | |
| Shareholders' equity attributable to shareholders of Fairfax | 24,293.8 | 1,142.1 | 2,147.4 | (6,890.7) | 20,692.6 | 22,504.1 | 1,000.9 | 2,100.4 | (6,489.6) | 19,115.8 |
| Non-controlling interests | 2,287.5 | — | 1,638.8 | — | 3,926.3 | 2,212.5 | — | 1,690.4 | — | 3,902.9 |
| Total equity | 26,581.3 | 1,142.1 | 3,786.2 | (6,890.7) | 24,618.9 | 24,716.6 | 1,000.9 | 3,790.8 | (6,489.6) | 23,018.7 |
| Total liabilities and total equity | 69,174.4 | 6,259.6 | 8,779.6 | (1,908.3) | 82,305.3 | 65,789.9 | 5,928.4 | 8,611.4 | (1,511.2) | 78,818.5 |

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

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

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

Financial Risk Management

There were no significant changes to the company's risk exposures or the processes used by the company for managing those risk exposures at June 30, 2023 compared to those identified at December 31, 2022 and disclosed in the company's 2022 Annual Report, other than as described in note 15 (Financial Risk Management) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Financial Condition

Capital Management

See note 15 (Financial Risk Management, under the heading "Capital Management") to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Liquidity

Operating, investing and financing cash flow activities discussed below are presented in the consolidated statement of cash flows to the interim consolidated financial statements for the three and six months ended June 30, 2023, except for "cash provided by operating activities (excluding operating cash flow activity related to investments recorded at FVTPL)" which is presented in the Glossary of Non-GAAP and Other Financial Measures at the end of this MD&A.

Operating activities for the six months ended June 30, 2023 and 2022

Cash provided by operating activities (excluding operating cash flow activity related to investments classified at FVTPL) increased to \$2,137.6 in 2023 from \$1,959.9 in 2022, principally reflecting higher net premium collections and higher interest and dividends received, partially offset by higher net paid losses and higher income taxes paid.

Investing activities for the six months ended June 30, 2023 and 2022

Sales of investments in associates of \$774.3 in 2023 primarily reflected proceeds from the sale of the company's investment in Resolute for cash consideration of \$622.5 (\$20.50 per Resolute common share).

Purchases of investments in associates of \$310.4 in 2023 primarily reflected increased investment in Atlas common shares through the exercise of equity warrants for cash consideration of \$78.7, purchases of certain securities held through AVLNs entered with RiverStone Barbados, and an additional investment in Bangalore Airport by Fairfax India for cash consideration of \$75.0. Purchases of investments in associates of \$253.2 in 2022 primarily reflected increased investment in Atlas common shares through the exercise of equity warrants with a strike price of \$8.05 per share for aggregate cash consideration of \$201.3.

Proceeds from sale of insurance subsidiaries, net of cash divested, of \$128.7 in 2023 primarily reflected Brit's sale of Ambridge.

Financing activities for the six months ended June 30, 2023 and 2022

Purchases of subsidiary shares from non-controlling interests of \$119.1 in 2023 primarily reflected the company's purchase of Allied World shares from minority shareholders for cash consideration of \$30.6 and purchases of common shares under normal course issuer bids by Fairfax India.

Purchases of subsidiary shares from non-controlling interests of \$138.0 in 2022 primarily reflected the company's acquisition of additional common shares of Fairfax India from non-controlling interests and purchases of common shares under normal course issuer bids by Fairfax India.

Holding company

Holding company cash and investments at June 30, 2023 was \$1,120.1 (\$1,064.2 net of \$55.9 of holding company derivative obligations) compared to \$1,345.8 (\$1,326.4 net of \$19.4 of holding company derivative obligations) at December 31, 2022.

Significant cash and investment transactions during the first six months of 2023 included the payment of common and preferred share dividends of \$269.8, purchases of 179,744 subordinate voting shares for cancellation for cash consideration of \$114.9, capital contributions to U.S. Run-off of \$85.0 and purchases of Allied World shares from minority shareholders for cash consideration of \$30.6, partially offset by dividends received from the insurance and reinsurance companies of \$354.0 (inclusive of a special dividend of \$275.0 paid by Brit to the holding company as a result of Brit's receipt of the net proceeds from its sale of Ambridge, its Managing General Underwriter operations).

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

The company believes that holding company cash and investments, net of holding company derivative obligations, at June 30, 2023 of \$1,064.2 provides adequate liquidity to meet the holding company's remaining known commitments in 2023. The holding company expects to continue to receive investment management and administration fees from its insurance and reinsurance subsidiaries and from Fairfax India, 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.

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

Additionally, pursuant to the sale of RiverStone Barbados in 2021, the company, through financial instruments referred to as AVLNs, has guaranteed the value of certain securities held by the purchaser and certain affiliates thereof until such time that the securities are purchased by or sold at the direction of Hamblin Watsa, of which \$366.5 remain held at June 30, 2023 and are required to be purchased or sold prior to the end of 2023.

Insurance and reinsurance companies

During the first six months of 2023 subsidiary cash and short term investments (including cash and short term investments pledged for derivative obligations) decreased by \$2,908.1 primarily due to deployment of cash and re-investments of net proceeds on sales and maturities of U.S. treasury short-term investments into certain other government bonds and net purchases of first mortgage loans.

Book Value Per Basic Share

Book Value Per Basic Share

Common shareholders' equity at June 30, 2023 was \$19,357.1 or \$834.28 per basic share compared to \$17,780.3 or \$762.28 per basic share at December 31, 2022, representing an increase per basic share in the first six months of 2023 of 9.4% (an increase of 10.8% adjusted for the \$10.00 per common share dividend paid in the first quarter of 2023). During the first six months of 2023 the number of basic shares decreased primarily as a result of purchases of 179,744 subordinate voting shares for cancellation, partially offset by net share-based payment awards of 56,509 subordinate voting shares from treasury. At June 30, 2023 there were 23,202,070 common shares effectively outstanding.

Excess (deficiency) of fair value over adjusted carrying value

The table below presents the pre-tax excess (deficiency) of fair value over adjusted carrying value of investments in non-insurance associates and certain consolidated non-insurance subsidiaries the company considers to be portfolio investments. Those amounts, while not included in the calculation of book value per basic share, are regularly reviewed by management as an indicator of investment performance. The aggregate pre-tax excess of fair value over adjusted carrying value of these investments at June 30, 2023 was \$760.8 (December 31, 2022 - \$310.0).

| | June 30, 2023 | | | December 31, 2022 | | |
|---|----------------|-------------------------|--|-------------------|-------------------------|--|
| | Fair value | Adjusted carrying value | Excess (deficiency) of fair value over adjusted carrying value | Fair value | Adjusted carrying value | Excess (deficiency) of fair value over adjusted carrying value |
| Non-insurance associates ⁽¹⁾ : | | | | | | |
| Eurobank | 1,965.9 | 1,770.6 | 195.3 | 1,344.5 | 1,507.6 | (163.1) |
| Poseidon (formerly Atlas) ⁽²⁾ | 2,046.3 | 1,642.5 | 403.8 | 1,864.7 | 1,506.3 | 358.4 |
| Quess | 280.9 | 485.8 | (204.9) | 222.2 | 447.1 | (224.9) |
| All other | 1,830.9 | 1,627.6 | 203.3 | 2,252.9 | 1,957.0 | 295.9 |
| | <u>6,124.0</u> | <u>5,526.5</u> | <u>597.5</u> | <u>5,684.3</u> | <u>5,418.0</u> | <u>266.3</u> |
| Non-insurance companies ⁽³⁾ : | | | | | | |
| Fairfax India | 666.8 | 538.6 | 128.2 | 585.3 | 517.0 | 68.3 |
| Thomas Cook India | 316.9 | 219.7 | 97.2 | 292.8 | 214.0 | 78.8 |
| Other ⁽⁴⁾ | 174.2 | 236.3 | (62.1) | 174.8 | 278.2 | (103.4) |
| | <u>1,157.9</u> | <u>994.6</u> | <u>163.3</u> | <u>1,052.9</u> | <u>1,009.2</u> | <u>43.7</u> |
| | <u>7,281.9</u> | <u>6,521.1</u> | <u>760.8</u> | <u>6,737.2</u> | <u>6,427.2</u> | <u>310.0</u> |

(1) The fair values and adjusted carrying values of non-insurance associates represent their fair values and carrying values as presented in note 6 (Investments in Associates) to the interim consolidated financial statements for the three and six months ended June 30, 2023, and excludes investments in associates held by Fairfax India (including Bangalore Airport), Thomas Cook India (including its share of Quess), Dexterra Group and Boat Rocker.

- (2) *On March 28, 2023 Poseidon was privatized and as a result the company estimated the fair value of its interest in Poseidon at June 30, 2023 to be \$2,046.3 based on the cash purchase price of \$15.50 per Atlas Corp common share pursuant to the transaction described in note 6 (Investments in Associates) to the company's interim consolidated financial statements for the three and six months ended June 30, 2023.*
- (3) *The fair values of the company's investments in market traded non-insurance companies - Fairfax India, Thomas Cook India, Dexterra Group, Boat Rocker and Farmers Edge - are calculated as the company's pro rata ownership share of each subsidiary's market capitalization, as determined by traded share prices at the financial statement date. The adjusted carrying value of each subsidiary represents its total equity as included in the company's interim consolidated financial statements for the three and six months ended June 30, 2023, less the subsidiary's non-controlling interests as included in note 12 (Total Equity) to those interim consolidated financial statements.*
- (4) *Comprised of Dexterra Group, Boat Rocker and Farmers Edge.*

Normal course issuer bid

Following the expiry on September 29, 2022 of its then current normal course issuer bid, on September 30, 2022 the company commenced a normal course issuer bid pursuant to which it is authorized, until expiry of the bid on September 29, 2023, to acquire up to 2,381,484 subordinate voting shares, 751,034 Series C preferred shares, 178,415 Series D preferred shares, 543,613 Series E preferred shares, 179,629 Series F preferred shares, 771,984 Series G preferred shares, 228,015 Series H preferred shares, 1,042,010 Series I preferred shares, 157,989 Series J preferred shares, 950,000 Series K preferred shares and 919,600 Series M preferred shares, representing approximately 10% of the public float in respect of the subordinate voting shares and each series of preferred shares. Decisions regarding any future purchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available by contacting the Corporate Secretary of the company.

Accounting and Disclosure Matters

Internal Control Over Financial Reporting

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

Adoption of IFRS 17 Insurance Contracts

The company's adoption of IFRS 17 on January 1, 2023 is described in note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three and six months ended June 30, 2023. The supplemental financial information below summarizes the reclassification and measurement adjustments applied to the restated consolidated balance sheets as at January 1, 2022 and December 31, 2022, and to the restated consolidated statement of earnings for the six months ended June 30, 2022.

INFORMATION ON CONSOLIDATED BALANCE SHEET

as at January 1, 2022

(US\$ millions)

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

INFORMATION ON CONSOLIDATED BALANCE SHEET

as at December 31, 2022

(US\$ millions)

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

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

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

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

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

INFORMATION ON CONSOLIDATED STATEMENT OF EARNINGS

 for the six months ended June 30, 2022
 (US\$ millions except per share amounts)

| Financial statement line under IFRS 4 | Notes | As previously reported | Reclassification adjustments | Measurement adjustments | Restated | Financial statement line under IFRS 17 |
|--|---------|------------------------|------------------------------|-------------------------|--------------|--|
| Gross premiums written | | 13,970.6 | (13,970.6) | — | — | <i>No longer presented in the consolidated statements of earnings, refer to the company's MD&A</i> |
| Net premiums written | | 11,047.7 | (11,047.7) | — | — | |
| | | | | | | Insurance |
| Gross premiums earned | 1 | 12,497.7 | (675.3) | (62.8) | 11,759.6 | Insurance revenue |
| | 2 | | (10,607.9) | 747.6 | (9,860.3) | Insurance service expense |
| | | | | | 1,899.3 | Net insurance result |
| Premiums ceded to reinsurers | 3 | (2,578.7) | 491.1 | 66.3 | (2,021.3) | Cost of reinsurance |
| | 4 | | 1,899.2 | (266.8) | 1,632.4 | Recoveries of insurance service expenses |
| | | | | | (388.9) | Net reinsurance result |
| | | | | | 1,510.4 | Insurance service result |
| | 5 | | (395.1) | 82.9 | (312.2) | Other insurance operating expense |
| | 6 | | — | 1,445.9 | 1,445.9 | Net finance income from insurance contracts |
| | 6 | | — | (296.8) | (296.8) | Net finance expense from reinsurance contract assets held |
| | | | | | 2,347.3 | |
| Net premiums earned | | 9,919.0 | | | | |
| Losses on claims, gross | 2 | (8,153.3) | 8,153.3 | — | — | |
| Losses on claims, ceded to reinsurers | 4 | 1,876.3 | (1,876.3) | — | — | |
| Losses on claims, net | | (6,277.0) | | | | |
| Operating expenses | 2, 5 | (1,518.1) | 1,518.1 | — | — | |
| Commissions, net | 1, 2, 3 | (1,647.4) | 1,647.4 | — | — | |
| | | | | | | Investment income |
| Interest and dividends | | 372.0 | — | — | 372.0 | Interest and dividends |
| Share of profit of associates | | 440.7 | — | 5.6 | 446.3 | Share of profit of associates |
| Net losses on investments | | (1,762.3) | — | 150.4 | (1,611.9) | Net losses on investments |
| | | | | | (793.6) | |
| | | | | | | Other revenue and expenses |
| Other revenue | | 2,515.5 | — | — | 2,515.5 | Non-insurance revenue |
| Other expenses | | (2,584.3) | — | — | (2,584.3) | Non-insurance expenses |
| Interest expense | | (212.7) | — | — | (212.7) | Interest expense |
| | | | (154.5) | — | (154.5) | Corporate and other expenses |
| | | | | | (436.0) | |
| Earnings (loss) before income taxes | | (754.6) | — | 1,872.3 | 1,117.7 | Earnings before income taxes |
| (Provision for) recovery of income taxes | | 17.8 | — | (387.4) | (369.6) | Provision for income taxes |
| Net earnings (loss) | | (736.8) | — | 1,484.9 | 748.1 | Net earnings |
| | | | | | | Attributable to: |
| Shareholders of Fairfax | | (755.9) | — | 1,312.6 | 556.7 | Shareholders of Fairfax |
| Non-controlling interests | | 19.1 | — | 172.3 | 191.4 | Non-controlling interests |
| | | (736.8) | — | 1,484.9 | 748.1 | |
| Net earnings (loss) per share | | \$ (32.71) | | | \$ 22.45 | |
| Net earnings (loss) per diluted share | | \$ (32.71) | | | \$ 20.96 | |

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

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

Quarterly Data⁽¹⁾

| | June 30, 2023 | March 31, 2023 | December 31, 2022 | September 30, 2022 | June 30, 2022 | March 31, 2022 | December 31, 2021 | September 30, 2021 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| | | | | | Restated | Restated | | |
| Income | 7,602.5 | 8,205.6 | 9,720.5 | 6,844.6 | 5,565.2 | 5,895.0 | 6,928.3 | 6,710.4 |
| Net earnings (loss) | 829.1 | 1,404.0 | 2,102.9 | (79.3) | 49.3 | 698.8 | 987.7 | 576.1 |
| Net earnings (loss) attributable to shareholders of Fairfax | 734.4 | 1,250.0 | 1,978.2 | (75.1) | (32.0) | 588.7 | 931.3 | 462.4 |
| Net earnings (loss) per share | \$ 31.10 | \$ 53.17 | \$ 84.09 | \$ (3.65) | \$ (1.83) | \$ 24.23 | \$ 35.66 | \$ 17.43 |
| Net earnings (loss) per diluted share | \$ 28.80 | \$ 49.38 | \$ 78.33 | \$ (3.65) | \$ (1.83) | \$ 22.67 | \$ 33.64 | \$ 16.44 |

(1) Quarterly data for periods prior to 2023, with the exception of the quarters ended March 31, 2022 and June 30, 2022, have not been restated for the adoption of IFRS 17 on January 1, 2023 which is described in note 3 (Summary of Significant Accounting Policies) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

Operating results at the company's insurance and reinsurance companies have been, and may continue to be, affected by the economic uncertainty caused by increased inflationary pressures and heightened interest rates. Individual quarterly results have been (and may in the future be) affected by losses from significant natural or other catastrophes, by favourable or adverse reserve development and by settlements or commutations, the occurrence of which are not predictable, and have been (and are expected to continue to be) significantly affected by net gains or losses on investments, the timing of which are not predictable.

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

Forward-Looking Statements

Certain statements contained herein may constitute forward-looking statements and are made pursuant to the “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities regulations. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fairfax to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to: our ability to complete acquisitions and other strategic transactions on the terms and timeframes contemplated, and to achieve the anticipated benefits therefrom; a reduction in net earnings if our loss reserves are insufficient; underwriting losses on the risks we insure that are higher than expected; the occurrence of catastrophic events with a frequency or severity exceeding our estimates; changes in market variables, including unfavourable changes in interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect our investment portfolio; the cycles of the insurance market and general economic conditions, which can substantially influence our and our competitors’ premium rates and capacity to write new business; insufficient reserves for asbestos, environmental and other latent claims; exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements; exposure to credit risk in the event our insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to us or failure by our insureds to reimburse us for deductibles that are paid by us on their behalf; our inability to maintain our long term debt ratings, the inability of our subsidiaries to maintain financial or claims paying ability ratings and the impact of a downgrade of such ratings on derivative transactions that we or our subsidiaries have entered into; risks associated with implementing our business strategies; the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated by us; risks associated with any use we may make of derivative instruments; the failure of any hedging methods we may employ to achieve their desired risk management objective; a decrease in the level of demand for insurance or reinsurance products, or increased competition in the insurance industry; the impact of emerging claim and coverage issues or the failure of any of the loss limitation methods we employ; our inability to access cash of our subsidiaries; our inability to obtain required levels of capital on favourable terms, if at all; the loss of key employees; our inability to obtain reinsurance coverage in sufficient amounts, at reasonable prices or on terms that adequately protect us; the passage of legislation subjecting our businesses to additional adverse requirements, supervision or regulation, including additional tax regulation, in the United States, Canada or other jurisdictions in which we operate; risks associated with applicable laws and regulations relating to sanctions and corrupt practices in foreign 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; operational, financial reporting and other risks associated with IFRS 17; impairment of the carrying value of our goodwill, indefinite-lived intangible assets or investments in associates; our failure to realize deferred income tax assets; technological or other change which adversely impacts demand, or the premiums payable, for the insurance coverages we offer; disruptions of our information technology systems; assessments and shared market mechanisms which may adversely affect our insurance subsidiaries; risks associated with the global pandemic caused by COVID-19 and the conflict in Ukraine; and risks associated with recent events in the banking sector. Additional risks and uncertainties are described in our most recently issued Annual Report, which is available at www.fairfax.ca, and in our Base Shelf Prospectus (under “Risk Factors”) filed with the securities regulatory authorities in Canada, which is available on SEDAR at www.sedar.com. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.

Glossary of Non-GAAP and Other Financial Measures

Management analyzes and assesses the underlying insurance and reinsurance companies, and the financial position of the consolidated company, through various measures and ratios. Certain of those measures and ratios, which have been used consistently and disclosed regularly in the company's Annual Reports and interim financial reporting, do not have a prescribed meaning under IFRS and may not be comparable to similar measures presented by other companies.

Supplementary Financial Measures

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

Book value per basic share – The company considers book value per basic share a key performance measure as one of the company's stated objectives is to build long term shareholder value by compounding book value per basic share by 15% annually over the long term. This measure is calculated by the company as common shareholders' equity divided by the number of common shares effectively outstanding. Those amounts are presented in the consolidated balance sheet and note 12 (Total Equity, under the heading "Common stock") respectively to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2023. **Increase or decrease in book value per basic share** is calculated as the percentage change in book value per basic share from the end of the last annual reporting period to the end of the current reporting period. **Increase or decrease in book value per basic share adjusted for the \$10.00 per common share dividend** is calculated in the same manner except that it assumes the annual \$10.00 per common share dividend paid in the first quarter of 2023 was not paid and book value per basic share at the end of the current reporting period would be higher as a result.

Equity exposures – **Long equity exposures** refers to the company's long positions in equity and equity-related instruments held for investment purposes, and **long equity exposures and financial effects** refers to the aggregate position and performance of the company's long equity exposures. Long equity exposures exclude the company's insurance and reinsurance investments in associates, joint ventures, and other equity and equity-related holdings which are considered long-term strategic holdings. These measures are presented and explained in note 15 (Financial Risk Management, under the heading "Market risk") to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2023.

Capital Management Measures

Net debt, net total capital, total capital, net debt divided by total equity, net debt divided by net total capital and total debt divided by total capital are measures and ratios used by the company to assess the amount of leverage employed in its operations. The company also uses an **interest coverage ratio** and an **interest and preferred share dividend distribution coverage ratio** to measure its ability to service its debt and pay dividends to its preferred shareholders. These measures and ratios are calculated using amounts presented in the company's unaudited interim consolidated financial statements for the three and six months ended June 30, 2023, both including and excluding the relevant balances of consolidated non-insurance companies, and are presented and explained in note 15 (Financial Risk Management, under the heading "Capital Management") thereto.

Total of Segments Measures

Property and casualty insurance and reinsurance – References in this MD&A to the company's property and casualty insurance and reinsurance operations do not include the company's life insurance and run-off operations. The company believes this aggregation of reporting segments to be helpful in evaluating the performance of its core property and casualty insurance and reinsurance companies and has historically disclosed measures on this basis including net premiums written, net premiums earned, underwriting profit (loss) and operating income (loss), consistent with the information presented in note 16 (Segmented Information) to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2023. References to “**insurance and reinsurance**” operations includes property and casualty insurance and reinsurance, life insurance and run-off operations.

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

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

for the three and six months ended June 30, 2023, except for net finance income (expense) from insurance contracts and reinsurance contract assets held, which is comprised of figures from the consolidated statement of earnings as described above.

| | Second quarter | | First six months | |
|--|----------------|----------------|------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Insurance service result: | | | | |
| Property and casualty insurance and reinsurance | 1,144.3 | 822.0 | 2,122.0 | 1,483.9 |
| Life insurance and Run-off | (32.3) | 22.4 | (24.0) | 26.3 |
| Eliminations and adjustments | (0.5) | (1.7) | 0.3 | 0.2 |
| Insurance service result | 1,111.5 | 842.7 | 2,098.3 | 1,510.4 |
| Other insurance operating expenses | (205.4) | (167.8) | (451.5) | (312.2) |
| Non-insurance companies: | | | | |
| Non-insurance revenue | 1,559.6 | 1,449.2 | 3,118.0 | 2,515.5 |
| Non-insurance expenses | (1,527.5) | (1,509.3) | (3,150.6) | (2,584.3) |
| Investments: | | | | |
| Interest and dividends | 464.6 | 203.1 | 846.9 | 372.0 |
| Share of profit of associates | 269.2 | 265.7 | 603.0 | 446.3 |
| Operating income | 1,672.0 | 1,083.6 | 3,064.1 | 1,947.7 |
| Net finance income (expense) from insurance contracts and reinsurance contract assets held | (424.0) | 730.1 | (587.4) | 1,149.1 |
| Net gains (losses) on investments | (342.1) | (1,416.7) | 429.1 | (1,611.9) |
| Gain on sale of insurance subsidiary | 259.1 | — | 259.1 | — |
| Interest expense | (130.4) | (108.8) | (254.7) | (212.7) |
| Corporate and other expenses | (90.0) | (75.7) | (196.5) | (154.5) |
| Earnings before income taxes | 944.6 | 212.5 | 2,713.7 | 1,117.7 |

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

Non-GAAP Financial Measures and Ratios

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

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

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

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

Property and casualty insurance and reinsurance ratios – The **combined ratio** is the traditional performance measure of underwriting results of property and casualty companies and is calculated by the company as the sum of the **loss ratio** (claims losses and loss adjustment expenses expressed as a percentage of net premiums earned), the **commission expense ratio** (commissions expressed as a percentage of net premiums earned) and the **underwriting expense ratio** (other underwriting expenses, including premium acquisition costs, expressed as a percentage of net premiums earned). Other ratios used by the company include the **accident year loss ratio** (claims losses and loss adjustment expenses excluding the net favourable or adverse development of reserves established for claims that occurred in previous accident years, expressed as a percentage of net premiums earned), and the **accident year combined ratio** (the sum of the accident year loss ratio and the expense ratio). The ratios described are derived from information disclosed in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023 and adjusted principally to remove the effects of discounting for net claims incurred in the current period, the change in the

risk adjustment and other insurance operating expenses. These ratios are used by the company for comparisons to historical underwriting results, to the underwriting results of competitors and to the broader property and casualty industry, as well as for evaluating the performance of individual operating companies. The company may also refer to **combined ratio points**, which expresses a loss that is a component of losses on claims, net, such as a catastrophe loss or net favourable or adverse prior year reserve development, as a percentage of net premiums earned during the same period.

The tables below present the amounts used in the calculation of the property and casualty insurance and reinsurance ratios and reconciles insurance revenue to net premiums earned. Refer to the Sources of Net Earnings section of the MD&A for a reconciliation of insurance service result to underwriting profit (loss) for the property and casualty insurance and reinsurance reporting segments.

| | Second quarter | | | | | | | |
|---|-------------------------|----------------|--------------------------------|----------------|---------------------------------------|----------------|---|----------------|
| | North American Insurers | | Global Insurers and Reinsurers | | International Insurers and Reinsurers | | Property and Casualty Insurance and Reinsurance | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Reconciliation of net premiums earned: | | | | | | | | |
| Insurance revenue ⁽¹⁾ | 2,007.2 | 1,775.4 | 3,900.4 | 3,647.4 | 825.6 | 756.2 | 6,733.2 | 6,179.0 |
| Cost of reinsurance ⁽¹⁾ | (322.2) | (211.2) | (769.4) | (679.7) | (297.9) | (258.0) | (1,389.5) | (1,148.9) |
| Net insurance revenue | 1,685.0 | 1,564.2 | 3,131.0 | 2,967.7 | 527.7 | 498.2 | 5,343.7 | 5,030.1 |
| Adjust for: net ceding commissions on reinsurance assumed and other | (80.2) | (47.9) | 257.0 | 164.1 | 2.2 | (49.7) | 179.0 | 66.5 |
| Net premiums earned | 1,604.8 | 1,516.3 | 3,388.0 | 3,131.8 | 529.9 | 448.5 | 5,522.7 | 5,096.6 |
| Total underwriting expenses, net: | | | | | | | | |
| Losses on claims - accident year | 1,032.0 | 914.4 | 2,240.9 | 2,099.7 | 335.8 | 332.5 | 3,608.7 | 3,346.6 |
| Net (favourable) adverse reserve development | (31.9) | (20.2) | (4.4) | 23.3 | (35.5) | (51.0) | (71.8) | (47.9) |
| Losses on claims - calendar year | 1,000.1 | 894.2 | 2,236.5 | 2,123.0 | 300.3 | 281.5 | 3,536.9 | 3,298.7 |
| Commissions | 246.4 | 242.5 | 579.9 | 512.3 | 98.9 | 84.6 | 925.2 | 839.4 |
| Other underwriting expenses | 272.6 | 260.5 | 344.9 | 307.8 | 105.6 | 88.5 | 723.1 | 656.8 |
| Total underwriting expenses, net | 1,519.1 | 1,397.2 | 3,161.3 | 2,943.1 | 504.8 | 454.6 | 5,185.2 | 4,794.9 |
| Underwriting profit (loss) | 85.7 | 119.1 | 226.7 | 188.7 | 25.1 | (6.1) | 337.5 | 301.7 |
| Combined ratio | 94.7 % | 92.1 % | 93.3 % | 94.0 % | 95.3 % | 101.3 % | 93.9 % | 94.1 % |

(1) As presented in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

| | First six months | | | | | | | |
|---|-------------------------|----------------|--------------------------------|----------------|---------------------------------------|---------------|---|----------------|
| | North American Insurers | | Global Insurers and Reinsurers | | International Insurers and Reinsurers | | Property and Casualty Insurance and Reinsurance | |
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Reconciliation of net premiums earned: | | | | | | | | |
| Insurance revenue ⁽¹⁾ | 3,918.4 | 3,483.7 | 7,557.2 | 6,946.4 | 1,597.9 | 1,424.2 | 13,073.5 | 11,854.3 |
| Cost of reinsurance ⁽¹⁾ | (625.9) | (429.5) | (1,408.3) | (1,288.8) | (564.1) | (466.9) | (2,598.3) | (2,185.2) |
| Net insurance revenue | 3,292.5 | 3,054.2 | 6,148.9 | 5,657.6 | 1,033.8 | 957.3 | 10,475.2 | 9,669.1 |
| Adjust for: net ceding commissions on reinsurance assumed and other | (158.7) | (89.6) | 423.9 | 302.4 | 4.0 | (52.7) | 269.2 | 160.1 |
| Net premiums earned | 3,133.8 | 2,964.6 | 6,572.8 | 5,960.0 | 1,037.8 | 904.6 | 10,744.4 | 9,829.2 |
| Total underwriting expenses, net: | | | | | | | | |
| Losses on claims - accident year | 1,988.5 | 1,778.7 | 4,330.8 | 3,940.9 | 659.7 | 602.5 | 6,979.0 | 6,322.1 |
| Net (favourable) adverse reserve development | (47.1) | (32.5) | 5.4 | 15.5 | (60.4) | (52.8) | (102.1) | (69.8) |
| Losses on claims - calendar year | 1,941.4 | 1,746.2 | 4,336.2 | 3,956.4 | 599.3 | 549.7 | 6,876.9 | 6,252.3 |
| Commissions | 484.1 | 482.3 | 1,103.7 | 989.8 | 191.1 | 163.9 | 1,778.9 | 1,636.0 |
| Other underwriting expenses | 532.6 | 507.7 | 700.7 | 621.3 | 204.0 | 185.8 | 1,437.3 | 1,314.8 |
| Total underwriting expenses, net | 2,958.1 | 2,736.2 | 6,140.6 | 5,567.5 | 994.4 | 899.4 | 10,093.1 | 9,203.1 |
| Underwriting profit | 175.7 | 228.4 | 432.2 | 392.5 | 43.4 | 5.2 | 651.3 | 626.1 |
| Combined ratio | 94.4 % | 92.3 % | 93.4 % | 93.4 % | 95.8 % | 99.4 % | 93.9 % | 93.6 % |

(1) As presented in note 16 (Segmented Information) to the interim consolidated financial statements for the three and six months ended June 30, 2023.

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

| | June 30, 2023 | | | December 31, 2022 | | |
|--------------------------|----------------|----------------|---|-------------------|----------------|---|
| | Fair value | Carrying value | Excess (deficiency) of fair value over carrying value | Fair value | Carrying value | Excess (deficiency) of fair value over carrying value |
| Non-insurance associates | 6,124.0 | 5,526.5 | 597.5 | 5,684.3 | 5,418.0 | 266.3 |
| Non-insurance companies | 1,157.9 | 994.6 | 163.3 | 1,052.9 | 1,009.2 | 43.7 |
| | <u>7,281.9</u> | <u>6,521.1</u> | <u>760.8</u> | <u>6,737.2</u> | <u>6,427.2</u> | <u>310.0</u> |

Non-insurance associates included in the performance measure

The fair values and carrying values of non-insurance associates used in the determination of this performance measure are the IFRS fair values and carrying values included in the consolidated balance sheets as at June 30, 2023 and December 31, 2022, and excludes investments in associates held by the company's consolidated non-insurance companies as those amounts are already included in the carrying values of the consolidated non-insurance companies used in this performance measure.

| | June 30, 2023 | | December 31, 2022 | |
|---|----------------|----------------|-------------------|----------------|
| | Fair value | Carrying value | Fair value | Carrying value |
| Investments in associates as presented on the consolidated balance sheets | 7,495.9 | 6,230.9 | 6,772.9 | 6,093.1 |
| Less: | | | | |
| Insurance and reinsurance investments in associates ⁽¹⁾ | 1,351.5 | 678.2 | 1,069.0 | 649.1 |
| Associates held by consolidated non-insurance companies ⁽²⁾ | 20.4 | 26.2 | 19.6 | 26.0 |
| Non-insurance associates included in the performance measure | <u>6,124.0</u> | <u>5,526.5</u> | <u>5,684.3</u> | <u>5,418.0</u> |

(1) As presented in note 6 (Investments in Associates) to the unaudited interim consolidated financial statements for the three and six months ended June 30, 2023.

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

Non-insurance companies included in the performance measure

The fair values of market traded consolidated non-insurance companies are calculated as the company's pro rata ownership share of each subsidiary's market capitalization as determined by traded share prices at the financial statement date. The carrying value of each subsidiary represents Fairfax's share of that subsidiary's net assets, calculated as the subsidiary's total assets, less total liabilities and non-controlling interests. Carrying value is included in shareholders' equity attributable to shareholders of Fairfax in the company's consolidated balance sheets as at June 30, 2023 and December 31, 2022, as shown in the table below which reconciles the consolidated balance sheet of the market traded non-insurance companies to that of the Non-insurance companies reporting segment included in the company's consolidated balance sheet.

| | June 30, 2023 | | | December 31, 2022 | | |
|---|---------------------------------------|--|--|---------------------------------------|--|--|
| | Market traded non-insurance companies | All other non-insurance companies ⁽²⁾ | Total non-insurance companies ⁽¹⁾ | Market traded non-insurance companies | All other non-insurance companies ⁽²⁾ | Total non-insurance companies ⁽¹⁾ |
| Portfolio investments | 2,179.1 | 29.2 | 2,208.3 | 2,099.4 | 19.9 | 2,119.3 |
| Deferred income tax assets | 27.9 | 33.5 | 61.4 | 37.5 | 17.0 | 54.5 |
| Goodwill and intangible assets | 735.7 | 1,554.3 | 2,290.0 | 759.9 | 1,524.5 | 2,284.4 |
| Other assets ⁽³⁾ | 1,336.7 | 2,883.2 | 4,219.9 | 1,279.2 | 2,874.0 | 4,153.2 |
| Total assets | <u>4,279.4</u> | <u>4,500.2</u> | <u>8,779.6</u> | <u>4,176.0</u> | <u>4,435.4</u> | <u>8,611.4</u> |
| Accounts payable and accrued liabilities ⁽³⁾ | 1,029.6 | 1,546.4 | 2,576.0 | 929.4 | 1,583.7 | 2,513.1 |
| Derivative obligations | — | 50.4 | 50.4 | — | 58.2 | 58.2 |
| Deferred income tax liabilities | 27.5 | 220.6 | 248.1 | 28.5 | 223.9 | 252.4 |
| Borrowings - non-insurance companies | 844.0 | 1,274.9 | 2,118.9 | 845.8 | 1,151.1 | 1,996.9 |
| Total liabilities | <u>1,901.1</u> | <u>3,092.3</u> | <u>4,993.4</u> | <u>1,803.7</u> | <u>3,016.9</u> | <u>4,820.6</u> |
| Shareholders' equity attributable to shareholders of Fairfax ⁽⁴⁾ | 994.6 | 1,152.8 | 2,147.4 | 1,009.2 | 1,091.2 | 2,100.4 |
| Non-controlling interests | 1,383.7 | 255.1 | 1,638.8 | 1,363.1 | 327.3 | 1,690.4 |
| Total equity | <u>2,378.3</u> | <u>1,407.9</u> | <u>3,786.2</u> | <u>2,372.3</u> | <u>1,418.5</u> | <u>3,790.8</u> |
| Total liabilities and equity | <u>4,279.4</u> | <u>4,500.2</u> | <u>8,779.6</u> | <u>4,176.0</u> | <u>4,435.4</u> | <u>8,611.4</u> |

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

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

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

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

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

| | First six months | |
|--|-------------------------|------------------|
| | 2023 | 2022 |
| Cash provided by (used in) operating activities (excluding operating cash flow activity related to investments recorded at FVTPL): | | |
| North American Insurers and Global Insurers and Reinsurers | 2,022.1 | 1,989.5 |
| All other reporting segments | 115.5 | (29.6) |
| Net purchases of investments classified at FVTPL | (3,483.4) | (6,016.2) |
| Cash used in operating activities as presented in the consolidated statement of cash flows | (1,345.8) | (4,056.3) |

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

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