Prospectus Supplement

(To Prospectus dated April 9, 1996)

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered hereunder have not been and will not be qualified for sale under the securities laws of Canada and, subject to certain exceptions, may not be offered or sold in Canada.

Fairfax Financial Holdings Limited

US$125,000,000

8.30% Notes due April 15, 2026

Interest payable April 15 and October 15

Issue price: 99.302%

The 8.30% Notes due April 15, 2026 (the "Notes") will bear interest from April 19, 1996 at the rate of 8.30% per annum, payable semi-annually on April 15 and October 15, commencing October 15, 1996. The Notes will not be redeemable prior to maturity and will not be subject to any sinking fund. See "Description of Notes." The Notes will be represented by a Global Note registered in the name of a nominee of The Depository Trust Company as the Depositary. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by the Depositary and its participants. Except as provided in the accompanying Prospectus, Notes in definitive form will not be issued.

This offering is made by a Canadian issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this Prospectus Supplement and the accompanying Prospectus in accordance with the disclosure requirements of its home jurisdiction. Prospective investors should be aware that such requirements are different from those in the United States. The consolidated financial statements incorporated herein and in the accompanying Prospectus have been prepared in accordance with Canadian generally accepted accounting principles and are subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies.

Prospective investors should be aware that the acquisition of the Notes may have tax consequences both in the United States and in Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein or in the accompanying Prospectus. See "Canadian Federal Income Tax Considerations" in the accompanying Prospectus for a general discussion of certain Canadian income tax consequences.

The enforcement by investors of civil liabilities under the federal securities laws of the United States may be affected adversely by the fact that the Company is incorporated or organized under the laws of Canada, that some or all of its officers and directors may be residents of Canada, that some or all of the experts named in the Registration Statement may be residents of Canada and that all or a substantial portion of the assets of the Company and said persons may be located outside the United States.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to public (1)	Underwriting commission (2)	Proceeds to Company (1)(3)
Per Note	99.302%	.875%	98.427%
Total	US$124,127,500	US$1,093,750	US$123,033,750

(1) Plus accrued interest, if any, from April 19, 1996.

(2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended. See "Underwriting".

(3) Before deducting expenses payable by the Company, estimated at US$300,000.

The Notes are offered, subject to prior sale, when, as and if accepted by the Underwriters and subject to approval of certain legal matters by Davis Polk & Wardwell, counsel for the Underwriters. It is expected that delivery of the Notes will be made on or about April 19, 1996 through the facilities of The Depository Trust Company, against payment therefor in immediately available funds.

J.P. Morgan & Co.

CS First Boston

Deutsche Morgan Grenfell

April 16, 1996

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

DURING THIS OFFERING, CERTAIN PERSONS AFFILIATED WITH PERSONS PARTICIPATING IN THE DISTRIBUTION MAY ENGAGE IN TRANSACTIONS FOR THEIR OWN ACCOUNTS OR FOR THE ACCOUNTS OF OTHERS IN THE NOTES PURSUANT TO EXEMPTIONS FROM RULES 10b-6, 10b-7 AND 10b-8 UNDER THE SECURITIES EXCHANGE ACT OF 1934.

This Prospectus Supplement is deemed to be incorporated by reference into the accompanying Prospectus of Fairfax Financial Holdings Limited dated April 9, 1996 (the "Prospectus"), solely for the purpose of the Notes issued hereunder. Other documents are also incorporated or deemed to be incorporated by reference into the accompanying Prospectus and reference should be made to the accompanying Prospectus for full particulars. See "Documents Incorporated by Reference" and "Available Information" in the accompanying Prospectus.

Any statement contained in this Prospectus Supplement or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Prospectus Supplement to the extent that a statement contained in this Prospectus Supplement or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes that statement. Any statement so modified or superseded shall not constitute a part of this Prospectus Supplement, except as so modified or superseded.

TABLE OF CONTENTS

Prospectus Supplement

	Page
Exchange Rate Data	S-3
Use of Proceeds	S-3
Capitalization	S-4
Selected Pro Forma Consolidated Financial Data	S-5
Pro Forma Interest and Asset Coverages	S-6
Description of Notes	S-7
Underwriting	S-7
Pro Forma Consolidated Financial Statements of the Company as at and for the Year Ended December 31, 1995	Annex 1
Prospectus	
Exchange Rate Data	3
The Company	4
Recent Developments	6
Regulatory Environment	10
Use of Proceeds	11
Capitalization	11
Selected Historical Consolidated Financial Data	12
Interest and Asset Coverages	13
Changes in Share and Loan Capital Structure	13
Description of Notes	14
Canadian Federal Income Tax Considerations	21
Plan of Distribution	21
Legal Matters	22
Auditors	22
Documents Incorporated by Reference	22
Available Information	23
Documents Filed as Part of the Registration Statement	24
Audited Consolidated Financial Statements of the Company as at and for the Years Ended December 31, 1995 and 1994	Annex A
Pro Forma Consolidated Financial Statements of the Company as at and for the Year Ended December 31, 1995	Annex B
Audited Consolidated Financial Statements of Skandia America Reinsurance Corporation as at December 31, 1995 and 1994 and for the Years Ended December 31, 1995, 1994 and 1993	Annex C

As used in this Prospectus Supplement, unless the context otherwise requires, the "Company" or "Fairfax" refers to Fairfax Financial Holdings Limited. All other capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the accompanying Prospectus. The pro forma financial statements of the Company prepared in accordance with Canadian GAAP as at and for the year ended December 31, 1995, which give effect to the acquisition of Skandia America Reinsurance Corporation ("SARC") and the issuance of the Notes offered hereby, together with the related notes, assumptions and adjustments, are reproduced as Annex I to this Prospectus Supplement.

EXCHANGE RATE DATA

The Company publishes its consolidated financial statements in Canadian dollars. All dollar references in this Prospectus Supplement are to Canadian dollars unless otherwise specifically indicated. On April 16, 1996 the inverse of the Noon Buying Rate was US$0.7366 per $1.00.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Notes will be used, together with approximately $163.3 million of net proceeds from the Equity Offering (as defined) (US$120.3 million, based on the inverse of the Noon Buying Rate on April 16, 1996), to pay the purchase price for SARC of approximately US$230 million, with the remaining balance to be added to the working capital of the Company. See "Recent Developments — Purchase of Skandia America Reinsurance Corporation" in the accompanying Prospectus. Pending such use, such net proceeds are expected to be invested in short-term marketable investments. After such use, the Company would have approximately $87 million in cash and short-term investments at the holding company level. The Company believes that it is desirable to maintain a certain level of liquid funds for general corporate purposes which are not intended to be used for acquisitions, and that the foregoing amount of cash and short-term investments is within a range which the Company currently believes is appropriate.

The SARC acquisition is subject to various closing conditions, including obtaining the necessary insurance and other regulatory approvals on terms satisfactory to the Company. If the SARC acquisition is not completed, the net proceeds from the Equity Offering and from the sale of the Notes will be used for general corporate purposes, which might include the acquisition of other insurance companies, although no specific acquisition other than SARC has been identified. Pending such use, the Company expects it would invest such proceeds in short-term marketable investments.

As used in this Prospectus Supplement, unless the context otherwise requires, the "Company" or "Fairfax" refers to Fairfax Financial Holdings Limited. All other capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the accompanying Prospectus. The pro forma financial statements of the Company prepared in accordance with Canadian GAAP as at and for the year ended December 31, 1995, which give effect to the acquisition of Skandia America Reinsurance Corporation ("SARC") and the issuance of the Notes offered hereby, together with the related notes, assumptions and adjustments, are reproduced as Annex I to this Prospectus Supplement.

EXCHANGE RATE DATA

The Company publishes its consolidated financial statements in Canadian dollars. All dollar references in this Prospectus Supplement are to Canadian dollars unless otherwise specifically indicated. On April 16, 1996 the inverse of the Noon Buying Rate was US$0.7366 per $1.00.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Notes will be used, together with approximately $163.3 million of net proceeds from the Equity Offering (as defined) (US$120.3 million, based on the inverse of the Noon Buying Rate on April 16, 1996), to pay the purchase price for SARC of approximately US$230 million, with the remaining balance to be added to the working capital of the Company. See "Recent Developments — Purchase of Skandia America Reinsurance Corporation" in the accompanying Prospectus. Pending such use, such net proceeds are expected to be invested in short-term marketable investments. After such use, the Company would have approximately $87 million in cash and short-term investments at the holding company level. The Company believes that it is desirable to maintain a certain level of liquid funds for general corporate purposes which are not intended to be used for acquisitions, and that the foregoing amount of cash and short-term investments is within a range which the Company currently believes is appropriate.

The SARC acquisition is subject to various closing conditions, including obtaining the necessary insurance and other regulatory approvals on terms satisfactory to the Company. If the SARC acquisition is not completed, the net proceeds from the Equity Offering and from the sale of the Notes will be used for general corporate purposes, which might include the acquisition of other insurance companies, although no specific acquisition other than SARC has been identified. Pending such use, the Company expects it would invest such proceeds in short-term marketable investments.

CAPITALIZATION

The following table sets forth at December 31, 1995, the consolidated cash and short-term investments, short-term debt and capitalization of the Company, both actual and as adjusted to give effect to the Equity Offering and the sale of the Notes. The information presented below should be read in conjunction with the "Selected Historical Consolidated Financial Data" set forth in the accompanying Prospectus, and the 1995 Consolidated Financial Statements set forth in Annex A to the accompanying Prospectus.

	December 31, 1995 (1)	
	Actual	As adjusted
	(millions)	
Cash and short-term investments (including subsidiary cash and short-term investments of $256.7 million)	$327.0	$ 657.7(2)
Short-term debt (Lindsey Morden) (3)	$ 7.6	$ 7.6
Capitalization		
Long-term debt		
7¾% Notes due December 15, 2003 (US$100,000,000)	$136.5	$ 136.5
7¾% Note due December 15, 2003	25.0	25.0
8¼% Notes due October 1, 2015 (US$100,000,000)	136.5	136.5
Notes offered hereby (US$125,000,000)	—	170.6
Revolving credit facilities (4)	—	—
Lindsey Morden loans (3)	12.2	12.2
Total long-term debt	310.2	480.8
Shareholders' equity		
Capital stock	225.3	388.6
Retained earnings	247.3	247.3
Total shareholders' equity	472.6	635.9(5)
Total capitalization	$782.8	$1,116.7

(Totals may not add due to rounding.)

(1) For purposes of the capitalization table, all US dollar amounts have been translated into Canadian dollars on the basis of US$1.00 = $1.3645, being the rate of exchange as reported by the Bank of Canada as at Friday, December 29, 1995.

(2) Net proceeds from the Equity Offering of $163.3 million and from the sale of the Notes of $167.4 million (US$122.7 million) will be added to cash and short-term investments until the closing of the SARC acquisition, when $313.8 million (US$230 million) will be applied to the purchase price for SARC. See "Use of Proceeds" above and "Recent Developments" in the accompanying Prospectus.

(3) Consists of bank loans of Lindsey Morden and its subsidiaries which are secured by a general assignment of accounts receivable and claims in process, and an unsecured note of Lindsey Morden due in 1997.

(4) The Company has unsecured, committed, long-term revolving bank facilities under which a maximum of $215 million can be borrowed.

(5) Capital stock was increased by $163.3 million as a result of the issuance of 1,100,000 subordinate voting shares in the Equity Offering. Upon completion of the SARC acquisition, SARC's shareholder's equity will be eliminated and the excess of SARC's shareholder's equity over the purchase price will be allocated to provision for claims.

SELECTED PRO FORMA CONSOLIDATED FINANCIAL DATA

Set forth below are selected unaudited pro forma consolidated financial data of the Company for the year ended December 31, 1995 which have been derived from the Company's Pro Forma Consolidated Financial Statements as at and for the year ended December 31, 1995 giving effect to the acquisition of SARC and the issuance of the Notes offered hereby. See Annex I to this Prospectus Supplement.

	December 31, 1995 (1)
	(millions) (unaudited)
Earnings Data:	
Revenue	
Premiums earned	$ 914.2
Claims fees	154.9
Interest and dividends	181.3
Realized gains on investments	142.6
	1,393.1
Expenses	
Losses on claims	770.8
Operating expenses	351.5
Interest expense	35.4
Commissions, net	156.7
	1,314.5
Earnings before income taxes	78.6
Recovery of income taxes	(1.8)
Earnings from operations	80.4
Non-controlling interest (2)	(2.0)
Net earnings	$ 78.4
Balance Sheet Data (at period end):	
Total assets	$4,376.6
Cash and investments	448.6
Net debt (3)	380.7
Shareholders' equity	635.9

(Totals may not add due to rounding.)

(1) See the notes to the Pro Forma Consolidated Financial Statements set forth in Annex I to this Prospectus Supplement, explaining the basis of presentation, pro forma assumptions and pro forma adjustments.

(2) Consists of interests of shareholders other than the Company in Lindsey Morden.

(3) Total debt (net of cash in the holding company) with Lindsey Morden equity accounted.

PRO FORMA INTEREST AND ASSET COVERAGES

The pro forma interest and asset coverages set forth below have been prepared and included in this Prospectus Supplement in accordance with Canadian disclosure requirements. These coverages have been calculated using the interest and exchange rates appropriate for the relevant date or period.

Interest Coverage

After giving effect to the issuance of the Notes offered hereby, the pro forma consolidated interest requirements for long-term debt of the Company for the 12-month period ended December 31, 1995 were $35.4 million. The consolidated earnings of the Company available for the payment of interest for such period were $117.1 million, or approximately 3.31 times the pro forma annual interest requirements for such period.

Coverage of the interest on the Notes will depend on the earnings of the Company's subsidiaries, on the Company's ability to receive funds from its subsidiaries through dividends or other payments and on the ability of the Company to raise capital from external sources. Certain of the Company's subsidiaries, as regulated insurance companies, are subject to restrictions imposed by law on their ability to pay dividends. See "The Company" in the accompanying Prospectus. After giving effect to the SARC acquisition, excluding the effect of the non-recurring stop loss reinsurance transaction referred to in note (4) to the pro forma financial statements reproduced as Annex I to this Prospectus Supplement but otherwise on the pro forma basis reflected in such Annex I, the consolidated earnings of the Company available for the payment of interest for the 12-month period ended December 31, 1995 would have increased to $196.6 million and the Company's interest coverage ratio for that period would have increased to 5.55 times. See Annex I to this Prospectus Supplement.

Asset Coverage

After giving effect to the Equity Offering and the issuance of the Notes offered hereby, the pro forma consolidated net tangible assets of the Company as at December 31, 1995 were as follows:

	December 31, 1995 (millions)
Total consolidated assets	$2,332.9
Adjustments:	
Goodwill	(46.4)
Total consolidated net assets	2,286.5
Less:	
Provision for claims	912.7
Unearned premiums	431.5
Short-term debt	7.6
Other liabilities	179.4
Adjusted consolidated net assets	755.3
Less:	
Non-controlling interest	18.9
Consolidated net tangible assets after the above adjustments	736.4
Net proceeds from the Equity Offering	163.3
Net proceeds from the issuance of the Notes	167.6
Consolidated net tangible assets after the above adjustments and after giving effect to the Equity Offering and the issuance of the Notes	$1,067.3
Aggregate consolidated long-term debt after giving effect to the Equity Offering and the issuance of the Notes	$ 480.8

After giving effect to the Equity Offering and the issuance of the Notes offered hereby, the Company's pro forma consolidated net tangible assets as at December 31, 1995 would be 2.22 times the aggregate pro forma consolidated long-term indebtedness of the Company.

DESCRIPTION OF NOTES

The following description of the particular terms and provisions of the Notes supplements, and to the extent inconsistent therewith replaces, the description of the Notes set forth in the accompanying Prospectus under "*Description of Notes*" and should be read in conjunction with such description.

The Notes will be limited to US$125,000,000 in aggregate principal amount. The Notes will bear interest from April 19, 1996 at the rate of 8.30% per annum, and will mature on April 15, 2026. Interest will be payable semi-annually on April 15 and October 15, commencing October 15, 1996, to the persons in whose names the Notes are registered at the close of business on the preceding April 1 and October 1, respectively. Principal of and interest on the Notes will be payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. The Notes will not be redeemable prior to maturity and will not be subject to any sinking fund.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement dated April 16, 1996 (the "Underwriting Agreement") relating to the Notes, the Company has agreed to sell to each of the Underwriters named below, severally, and each of the Underwriters has severally agreed to purchase, the principal amount of the Notes set forth opposite its name below:

Name	Principal Amount of Notes
J.P. Morgan Securities Inc.	US$ 43,000,000
CS First Boston Corporation	41,000,000
Deutsche Morgan Grenfell/C. J. Lawrence Inc.	41,000,000
Total	US$125,000,000

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the Notes if any are taken.

The Underwriters initially propose to offer the Notes directly to the public at the public offering price set forth on the cover page of this Prospectus Supplement and to certain dealers at such price less a concession not in excess of .50% of the principal amount of the Notes. The Underwriters may allow, and such dealers may re-allow, a concession not in excess of .25% of the principal amount of the Notes to certain other dealers. After the initial public offering, the public offering price and such concessions may be changed.

The Company does not intend to apply for listing of the Notes on a national securities exchange, but has been advised by the Underwriters that they intend to make a market in the Notes. The Underwriters are not obligated, however, to make a market in the Notes and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

In the ordinary course of their respective businesses, the Underwriters or their affiliates have engaged and may in the future engage in commercial and investment banking transactions with the Company.

The Notes have not been and will not be qualified for sale under the securities laws of Canada or any province or territory of Canada. The Notes may not be offered or sold, directly or indirectly, in Canada, or to or for the benefit of any resident thereof, in violation of the securities laws of Canada or any province or territory thereof.

ANNEX I

PRO FORMA CONSOLIDATED
FINANCIAL STATEMENTS
OF
FAIRFAX FINANCIAL HOLDINGS LIMITED

Year Ended December 31, 1995

COMPILATION REPORT

To the directors of
FAIRFAX FINANCIAL HOLDINGS LIMITED

We have reviewed as to compilation only the accompanying pro forma consolidated balance sheet as at December 31, 1995 and pro forma consolidated statements of earnings and changes in cash resources for the year then ended of Fairfax Financial Holdings Limited which have been prepared by the Company for inclusion in the accompanying prospectus supplement relating to the sale and issue of Notes. In our opinion, the pro forma consolidated balance sheet and pro forma consolidated statements of earnings and changes in cash resources have been properly compiled to give effect to the proposed transaction and the assumptions described in note 2 hereto.

(signed) COOPERS & LYBRAND
Chartered Accountants

Toronto, Ontario
April 16, 1996

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Balance Sheet as at December 31, 1995
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Consolidated Balance Sheet
	(US $000)	($000)	($000)	($000)	($000)
Assets					
Cash and short term investments	—	—	70,354	163,300 3(b) (314,406) 3(c) 167,560 3(h)	86,808
Accounts receivable	169,694	231,666	400,153		631,819
Claims in process	—	—	15,390		15,390
Income taxes refundable	11,855	16,184	18,530		34,714
Prepaid expenses	—	—	12,575		12,575
	181,549	247,850	517,002		781,306
Portfolio Investments					
Subsidiary cash and short term investments	77,007	105,130	256,677		361,807
Bonds	1,038,599	1,417,895	799,507		2,217,402
Preferred stocks	6,019	8,217	154,646		162,863
Common stocks	87,352	119,253	386,907		506,160
Other investments	7,496	10,234	—		10,234
Total	1,216,473	1,660,729	1,597,737		3,258,466
Investment in unconsolidated subsidiary	37,124	50,682	—	(50,682) 3(a)	—
Deferred income taxes	52,684	71,924	34,163		106,087
Reinsurance recoverable	499,116	681,393	—	(681,393) 3(d)	—
Deferred premium acquisition costs	18,261	24,930	84,859		109,789
Capital assets	—	—	33,763		33,763
Goodwill	—	—	46,449		46,449
Other assets	14,652	20,003	18,878	1,900 3(h)	40,781
	2,019,859	2,757,511	2,332,851	(713,721)	4,376,641

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Balance Sheet as at December 31, 1995 (continued)
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Consolidated Balance Sheet
	(US $000)	($000)	($000)	($000)	($000)
Liabilities					
Bank indebtedness	—	—	7,621		7,621
Accounts payable and accrued liabilities	149,527	204,134	168,404	20,478 3(c)	393,016
Premium deposits	—	—	10,929		10,929
	149,527	204,134	186,954	20,478	411,566
Provision for claims	1,395,705	1,905,416	912,655	134,428 3(c) (660,264) 3(d)	2,292,235
Unearned premiums	93,735	127,967	431,533	(21,129) 3(d)	538,371
Long term debt	—	—	310,236	169,460 3(h)	479,696
	1,489,440	2,033,383	1,654,424	(377,505)	3,310,302
Non-controlling interest	—	—	18,919		18,919
Shareholders' Equity					
Capital stock	7,500	10,239	225,295	163,300 3(b) (10,239) 3(c)	388,595
Additional paid-in capital	289,763	395,584	—	(50,682) 3(c) (344,902) 3(c)	—
Net unrealized gain on investments	47,471	64,807	—	(64,807) 3(c)	—
Cumulative translation adjustment	(702)	(958)	—	958 3(c)	—
Retained earnings	36,860	50,322	247,259	(50,322) 3(c)	247,259
	380,892	519,994	472,554	(356,694)	635,854
	2,019,859	2,757,511	2,332,851	(713,721)	4,376,641

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Statement of Earnings for the Year Ended December 31, 1995
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Consolidated Statement of Earnings
	(US $000)	($000)	($000)	($000)	($000)
Revenue					
Premiums earned	106,440	146,100	829,340	(61,254) 3(f)	914,186
Claims fees	—	—	154,914		154,914
Interest and dividends	67,017	91,988	89,354		181,342
Realized gains on investments	51,518	70,714	71,912		142,626
Equity in net loss of unconsolidated subsidiary	(3,373)	(4,630)	—	4,630 3(e)	—
	221,602	304,172	1,145,520	(56,624)	1,393,068
Expenses					
Losses on claims	153,308	210,431	614,059	(53,660) 3(f)	770,830
Operating expenses	35,637	48,915	304,969	(2,360) 3(g)	351,524
Interest expense	—	—	21,171	14,240 3(h)	35,411
Commissions, net	52,214	71,669	109,404	(24,357) 3(f)	156,716
	241,159	331,015	1,049,603	(66,137)	1,314,481
Earnings (loss) before income taxes	(19,557)	(26,843)	95,917	9,513	78,587
Provision for (recovery of) income taxes	(5,722)	(7,854)	6,455	5,867 3(f) (6,265) 3(h)	(1,797)
Earnings (loss) from operations	(13,835)	(18,989)	89,462	9,911	80,384
Non-controlling interest	—	—	(1,965)		(1,965)
Net earnings (loss)	(13,835)	(18,989)	87,497	9,911	78,419
Pro forma consolidated earnings per share 3(i)					$7.83

The pro forma consolidated statement of earnings excludes the impact on revenues and expenses related to certain purchase price adjustments on the acquisition of SARC as discussed in note 2(d) to these statements. This statement is not intended to reflect the results of operations that would have actually occurred had the transaction been effected on January 1, 1995, nor the results which may be obtained in the future.

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Statement of Changes in Cash Resources for the Year Ended December 31, 1995
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Statement of Changes in Cash Resources
	(US $000)	($000)	($000)	($000)	($000)
Operating Activities					
Earnings (loss) from operations	(13,835)	(18,989)	89,462	(61,254) 3(f)	75,754
				53,660 3(f)	
				24,357 3(f)	
				(5,867) 3(f)	
				2,360 3(g)	
				(14,240) 3(h)	
				6,265 3(h)	
Amortization	(925)	(1,270)	12,699		11,429
Deferred income taxes	(2,720)	(3,733)	(805)		(4,538)
Gains on investments	(51,518)	(70,714)	(71,912)		(142,626)
	(68,998)	(94,706)	29,444	5,281	(59,981)
Equity in net loss of unconsolidated subsidiary	3,373	4,630	—	(4,630) 3(e)	—
Decrease in provision for claims	(54,321)	(74,561)	(9,019)		(83,580)
Increase in unearned premiums	9,761	13,398	14,215		27,613
Decrease (increase) in cash funds resulting from changes in other operating working capital items	86,283	118,433	(36,246)	4,630 3(e)	86,817
Cash resources provided by operating activities	(23,902)	(32,806)	(1,606)	5,281	(29,131)
Investing Activities					
Investments — net sales (purchases)	(88,493)	(121,465)	9,576	50,682 3(a)	(61,207)
Purchase of capital assets	—	—	(13,200)		(13,200)
Investment in Skandia	—	—	—	(314,406) 3(c)	(314,406)
Other assets	(4,102)	(5,630)	—		(5,630)
	(92,595)	(127,095)	(3,624)	(263,724)	(394,443)
Financing Activities					
Net capital stock transactions	—	—	(6,892)	163,300 3(b)	156,408
Dividends	(2,500)	(3,432)	—		(3,432)
Increase (decrease) in long term debt	—	—	69,742	169,460 3(h)	239,202
Increase in non-controlling interest	—	—	(361)		(361)
	(2,500)	(3,432)	62,489	332,760	391,817
Increase (decrease) in cash resources	(118,997)	(163,333)	57,259	74,317	(21,757)
Cash resources — beginning of year	196,004	268,463	262,151		530,614
Cash resources — end of year	77,007	105,130	319,410	74,317	498,857

Cash resources consist of cash and short term investments less bank indebtedness.

FAIRFAX FINANCIAL HOLDINGS LIMITED

Notes to the Pro Forma Consolidated Balance Sheet and
Pro Forma Consolidated Statements of Earnings
and Changes in Cash Resources as at and for the year ended December 31, 1995
(unaudited)

(1) Basis of Presentation

The pro forma consolidated balance sheet and pro forma consolidated statements of earnings and changes in cash resources have been prepared using the following information:

(a) audited consolidated financial statements of Fairfax Financial Holdings Limited ("Fairfax") for the fiscal year ended December 31, 1995, which are included and incorporated by reference in this Prospectus;

(b) audited consolidated financial statements of Skandia America Reinsurance Corporation ("SARC") for the fiscal year ended December 31, 1995, which are included in this Prospectus; and

(c) such other supplementary information as was considered necessary to reflect the proposed transaction in these pro forma financial statements.

The consolidated balance sheet of SARC as at December 31, 1995 has been translated into Canadian dollars at the December 31, 1995 exchange rate of $1.3652 per US$1.00. The consolidated statements of earnings and changes in cash resources have been translated using the average exchange rate for 1995 of $1.3726 per US$1.00.

The pro forma consolidated financial statements of Fairfax should be read in conjunction with the consolidated financial statements, including notes thereto, of Fairfax and SARC.

The pro forma consolidated statement of earnings is not intended to reflect the results of operations that would have actually occurred had the transaction been effected on January 1, 1995, nor the results which may be obtained in the future.

Certain of the financial statement items of SARC have been reclassified to conform to the presentation format used by Fairfax, including the elimination of the gross-up of SARC's reinsurance recoverables described in note 3(d) below.

(2) Pro Forma Assumptions

(a) The acquisition by Fairfax, pursuant to a stock purchase agreement dated February 20, 1996, of all of the issued and outstanding shares of SARC, subject to various closing conditions including applicable regulatory approvals, for US$230.3 million, cash.

(b) Effective December 31, 1995, SARC's ultimate parent entered into a stop loss reinsurance agreement with SARC. Pursuant to the agreement, SARC ceded premiums of US$60.5 million for an aggregate limit of US$175.0 million in excess of its December 31, 1995 reserves for unpaid losses and allocated loss adjustment expenses and potentially uncollectible reinsurance recoverables, subject to an annual aggregate limit of US$17.5 million. If the annual aggregate limit is not fully utilized, the unused portion is carried forward to subsequent years. No cessions had been made pursuant to this agreement as of December 31, 1995.

(c) The acquisition of SARC has been accounted for using the purchase method. Fairfax expects to finance the aggregate purchase price of US$230.3 million using the proceeds of an equity offering (as described below) and the net proceeds from the sale of the Notes offered hereby.

FAIRFAX FINANCIAL HOLDINGS LIMITED

Notes to the Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statements of Earnings and Changes in Cash Resources as at and for the year ended December 31, 1995 (unaudited) — (continued)

The purchase price accounting, based on information available as of December 31, 1995, is estimated as follows:

	US $000	$000
Total assets	2,019,859	2,757,511
less: investment in unconsolidated subsidiary	(37,124)	(50,682)
Adjusted assets at fair value	1,982,735	2,706,829
Total liabilities	1,638,967	2,237,517
Provision for operating leases in excess of market rates and other	15,000	20,478
Adjusted liabilities at fair values	1,653,967	2,257,995
Net assets at fair value	328,768	448,834
Purchase price	230,300	314,406
Excess of net assets over purchase price	98,468	134,428

The excess of net assets acquired over the purchase price paid represents negative goodwill. It has been allocated to provision for claims and will be amortized to income pro rata based on the related payout of pre-acquisition losses, calculated on an ultimate loss basis.

(d) The pro forma consolidated statement of earnings has not been adjusted to reflect the amortization of the negative goodwill because the timing of the payout of pre-acquisition losses is not objectively determinable. The amortization of the difference between fair value and amortized cost of fixed income securities has also not been reflected in the pro forma consolidated statement of earnings as the amortization period is not objectively determinable on a pro forma basis as it is affected by changes in the composition of the portfolio which occurred during 1995 and because the terms of certain securities allow prepayment prior to maturity dates.

(e) The issuance of 1,100,000 subordinate voting shares for net cash proceeds (after underwriters' fees and expenses of issue) of $163.3 million (the "Equity Offering") pursuant to an underwritten private placement on March 26, 1996.

(f) The issuance of US$125 million aggregate principal amount of Notes pursuant to this Prospectus Supplement for estimated net proceeds of $167.6 million (US$122.7 million).

(3) Pro Forma Adjustments (in $000's)

The pro forma adjustments contained in these pro forma consolidated financial statements are based on estimates and assumptions by management of Fairfax based on available information. The adjustments for the actual acquisition may differ as a result of changes arising from evaluation of fair values of SARC's net assets by Fairfax after the effective date of acquisition. The following adjustments have been made to reflect the proposed transactions:

(a) To reflect the transfer to the vendor of the investment in unconsolidated subsidiary, for no consideration to SARC. However, SARC will be protected from any current or future liability relating to the unconsolidated subsidiary.

(b) To reflect the issuance of 1,100,000 subordinate voting shares in the Equity Offering, for net cash proceeds of $163,300.

Notes to the Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statements of Earnings and Changes in Cash Resources as at and for the year ended December 31, 1995 (unaudited) — (continued)

(c) To reflect the acquisition of SARC for $314,406 (which is expected to be financed with the net proceeds from the sale of the Notes and net cash proceeds from the Equity Offering). SARC's shareholders' equity has been eliminated, with the excess of the shareholders' equity over the purchase price being allocated as set out in note 2(c) above.

(d) To eliminate the gross-up of reinsurance recoverables of $681,393 (recorded by SARC in accordance with US generally accepted accounting principles) to conform with Fairfax's basis of presentation (prepared in accordance with Canadian generally accepted accounting principles).

(e) The investment in unconsolidated subsidiary will be transferred to the vendor from SARC prior to closing. Accordingly, the loss from subsidiary of $4,630 has been excluded from the pro forma consolidated statement of earnings.

(f) To eliminate contracts written by SARC with affiliated companies which were sold by the vendor on December 1, 1995, which contracts expired and were not renewed:

	US $000	$000
Premiums earned	44,626	61,254
Losses on claims	39,094	53,660
Commissions (net)	17,745	24,357
Underwriting loss	(12,213)	(16,763)
Tax effect	4,275	5,867

(g) To reflect the annual amortization of the provision for operating leases in excess of market rates of $2,360 (US$1,730).

(h) To reflect the issuance of the Notes for gross proceeds of $169,460 (US$124,128) and the related costs of issue of $1,900 (US$1,394) pursuant to this Prospectus Supplement. The estimated annual interest requirement in respect of the Notes will be $14,240 (US$10,375) and has been reflected in the pro forma statement of earnings less related income taxes of $6,265 (US$4,565).

(i) The pro forma consolidated earnings per share has been calculated based on the pro forma net earnings of $78,419 and Fairfax's weighted average number of outstanding shares for 1995 adjusted for the issuance of 1,100,000 subordinate voting shares pursuant to the Equity Offering as if they had been issued at the beginning of the year ended December 31, 1995.

(4) Stop Loss Reinsurance (in $000's)

Effective December 31, 1995, SARC entered into a reinsurance agreement with its then ultimate parent whereby SARC ceded $82,600 (US $60,500) of premiums for excess of loss coverage of $238,900 (US $175,000) net of the related tax effect of $28,900 (US $21,200). The premiums ceded were recorded as an expense by SARC in the year ended December 31, 1995 and have not been adjusted in the pro forma consolidated statement of earnings. This type of arrangement is not expected to recur.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. The securities offered hereunder have not been and will not be qualified for sale under the securities laws of Canada and, subject to certain exceptions, may not be offered or sold in Canada. Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Company at Suite 800, 95 Wellington Street West, Toronto, Ontario M5J 2N7, telephone (416) 367-4941.

This short form prospectus has been filed under procedures in the Province of Ontario which permit certain information with respect to these securities to be determined after the prospectus has become final and permit the omission from this prospectus of such information. Such procedures require the delivery to purchasers of a prospectus or prospectus supplement containing this omitted information within a specified period of time after agreeing to purchase any of these securities.

Fairfax Financial Holdings Limited

US$125,000,000

Notes

Notes (the "Notes") of the Company may be offered hereunder in one or more series in aggregate principal amount up to US$125,000,000 (or the equivalent in Canadian dollars). Notes of any series may be offered in such amount and with such terms as may be determined in light of market conditions. The specific designation, aggregate principal amount, denomination (which may be in United States or Canadian dollars), maturity, rate and time of payment of interest, any terms for redemption at the option of the Company or the holders, any terms for sinking fund payments, any listing on a securities exchange, the initial public offering price and any other terms in connection with the offering and sale of each series of Notes in respect of which this Prospectus is being delivered (the "Offered Securities") will be set forth in a supplement to this prospectus relating thereto (a "Prospectus Supplement").

Each series of the Notes will be represented by a Global Note registered in the name of a nominee of The Depository Trust Company as the Depositary. Beneficial interests in a Global Note will be shown on, and transfers thereof will be effected only through, records maintained by the Depositary and its participants. Except as provided herein or in a Prospectus Supplement, Notes in definitive form will not be issued. Settlement for the Notes will be made in immediately available funds.

The Company may sell Notes to or through underwriters or dealers or directly to investors or through agents. The Prospectus Supplement relating to each series of Offered Securities will identify each person who may be deemed to be an underwriter with respect to such series and will set forth the terms of the offering of such series, including, to the extent applicable, the initial public offering price, the proceeds to the Company, the underwriting discounts or commissions, and any other discounts or concessions to be allowed or reallowed to dealers. The managing underwriter or underwriters with respect to each series sold to or through underwriters will be named in the related Prospectus Supplement.

The Company is a Canadian issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this Prospectus in accordance with the disclosure requirements of its home country. Prospective investors should be aware that such requirements are different from those of the United States. Certain of the financial statements included or incorporated herein have been prepared in accordance with Canadian generally accepted accounting principles and are subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies.

Prospective investors should be aware that the acquisition of the Notes may have tax consequences both in the United States and in Canada. Such consequences for investors who are resident in, or citizens of, the United States may not be described fully herein or in a Prospectus Supplement. See "Canadian Federal Income Tax Considerations" for a general discussion of certain Canadian income tax consequences.

The enforcement by investors of civil liabilities under the federal securities laws may be affected adversely by the fact that the Company is incorporated under the laws of Canada, that some or all of its officers and directors may be residents of Canada, that some or all of the experts named in the registration statement may be residents of Canada and that all or a substantial portion of the assets of the Company and said persons may be located outside the United States.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

J.P. Morgan & Co.

CS First Boston

Deutsche Morgan Grenfell

The date of this Prospectus is April 9, 1996

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

DURING THIS OFFERING, CERTAIN PERSONS AFFILIATED WITH PERSONS PARTICIPATING IN THE DISTRIBUTION MAY ENGAGE IN TRANSACTIONS FOR THEIR OWN ACCOUNTS OR FOR THE ACCOUNTS OF OTHERS IN THE NOTES PURSUANT TO EXEMPTIONS FROM RULES 10b-6, 10b-7 AND 10b-8 UNDER THE SECURITIES EXCHANGE ACT OF 1934.

No person has been authorized to give any information or to make any representations other than those contained or incorporated by reference in this Prospectus or a Prospectus Supplement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Prospectus and any Prospectus Supplement do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which they relate or any offer to sell or the solicitation of any offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus or any Prospectus Supplement nor any sale made hereunder shall, in any circumstances, create any implication that there has been no change in the affairs of the Company since the date thereof or that the information contained therein is correct as of any time subsequent to its date.

TABLE OF CONTENTS

	Page
Exchange Rate Data	3
The Company	4
Recent Developments	6
Regulatory Environment	10
Use of Proceeds	11
Capitalization	11
Selected Historical Consolidated Financial Data	12
Interest and Asset Coverages	13
Changes in Share and Loan Capital Structure	13
Description of Notes	14
Canadian Federal Income Tax Considerations	21
Plan of Distribution	21
Legal Matters	22
Auditors	22
Documents Incorporated by Reference	22
Available Information	23
Documents Filed as Part of the Registration Statement	24
Certificate of the Company	25
Annex A — Audited Consolidated Financial Statements of the Company as at and for the Years Ended December 31, 1995 and 1994	A-1
Annex B — Pro Forma Consolidated Financial Statements of the Company as at and for the Year Ended December 31, 1995	B-1
Annex C — Audited Consolidated Financial Statements of Skandia America Reinsurance Corporation as at December 31, 1995 and 1994 and for the Years Ended December 31, 1995, 1994 and 1993	C-1

EXCHANGE RATE DATA

The Company publishes its consolidated financial statements in Canadian dollars. All dollar references in this Prospectus are to Canadian dollars unless otherwise specifically indicated. The following table sets forth certain exchange rates based on the noon buying rate in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"). Such rates are set forth as United States dollars per $1.00 and are the inverse of rates quoted by the Federal Reserve Bank of New York for Canadian dollars per US$1.00.

	Year Ended December 31				
	1995	1994	1993	1992	1991
Highest exchange rate during period	0.7510	0.7634	0.8051	0.8757	0.8926
Lowest exchange rate during period	0.7025	0.7110	0.7423	0.7761	0.8587
Exchange rate at end of period	0.7329	0.7131	0.7557	0.7865	0.8652
Average exchange rate during period	0.7289	0.7321	0.7754	0.8242	0.8727

On April 8, 1996 the inverse of the Noon Buying Rate was US$0.7363 per $1.00.

As used in this Prospectus, unless the context otherwise requires, the "Company" or "Fairfax" refers to Fairfax Financial Holdings Limited. The audited consolidated financial statements of the Company prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and the notes thereto, as at and for the years ended December 31, 1995 and 1994, together with the auditors' report thereon, are reproduced as Annex A to this Prospectus and are referred to herein as the "1995 Consolidated Financial Statements". The pro forma financial statements of the Company prepared in accordance with Canadian GAAP as at and for the year ended December 31, 1995, which give effect to the acquisition of Skandia America Reinsurance Corporation ("SARC") but not to the issuance of any Notes, together with related notes, assumptions and adjustments, are reproduced as Annex B to this Prospectus. The audited consolidated financial statements of SARC, prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"), as at December 31, 1995 and 1994 and for the years ended December 31, 1995, 1994 and 1993, are reproduced as Annex C to this Prospectus.

THE COMPANY

Fairfax Financial Holdings Limited (the "Company" or "Fairfax") is a financial services holding company which, through its subsidiaries, is engaged primarily in property and casualty insurance, and also in investment management, insurance claims management and life insurance.

At December 31, 1995, on a consolidated basis, the Company had total assets of approximately $2.3 billion and shareholders' equity of approximately $473 million. For the year ended December 31, 1995, on a consolidated basis, the Company's total revenue was approximately $1.1 billion and the Company's net earnings were approximately $87.5 million. The subordinate voting shares of the Company are listed on The Toronto Stock Exchange under the symbol "FFH". At April 8, 1996, the Company had a market capitalization of approximately $1.8 billion.

The following briefly describes the Company's material operating subsidiaries, all of which are wholly-owned except as noted below.

Commonwealth Insurance Company ("Commonwealth"), acquired in November 1990, offers commercial property and oil and gas insurance in Canada, the United States and internationally, and commercial casualty insurance in Canada. In 1995, Commonwealth's net premiums written totaled $87.9 million. Commonwealth has been in business since 1947. At year-end 1995 there were 138 employees.

Federated Insurance Company of Canada and **Federated Life Insurance Company of Canada** (together, "Federated") were acquired in January 1990. The two companies market a broad range of insurance products in Canada, primarily for commercial customers. In 1995, Federated's net premiums written totaled $57.6 million, consisting of $47.2 million of property and casualty business and $10.4 million of life and group health and disability products. Federated has been in the property and casualty business since 1920. At year-end 1995 there were 246 employees.

Lombard General Insurance Company of Canada and **Lombard Insurance Company** (formerly known as The Continental Insurance Company of Canada Inc. and Continental Insurance Limited) (together, "Lombard"), acquired in November 1994, write a complete range of commercial and personal insurance products in Canada. In 1995, Lombard's net premiums written totaled $351.6 million. Lombard commenced business in 1904. At year-end 1995 there were 716 employees.

Markel Insurance Company of Canada ("Markel") is one of the principal trucking insurance companies in Canada and has provided the Canadian trucking industry with a continuous market for this class of insurance since 1951. Markel also insures small amounts of property and casualty risks. In 1995, Markel's net premiums written totaled $79.7 million. At year-end 1995 there were 90 employees.

Ranger Insurance Company ("Ranger"), acquired in 1993, specializes in writing property and casualty insurance to niche markets in the United States such as propane distributors, petroleum and gas marketers and agri-products. In 1995, Ranger's net premiums written totaled US$131.4 million. Ranger has been in business since 1923. At year-end 1995 there were 295 employees.

Hamblin Watsa Investment Counsel Ltd. ("Hamblin Watsa"), acquired in 1992, provides discretionary investment management, primarily to pension funds and insurance companies, including the insurance subsidiaries of the Company. Hamblin Watsa was founded in 1984 and at year-end managed approximately $2.3 billion. At year-end 1995 there were 16 employees.

Lindsey Morden Group Inc. (formerly known as Morden & Helwig Group Inc.) ("Lindsey Morden"), through its subsidiaries, is engaged in providing claims adjusting, appraisal and loss management services to a wide variety of insurance companies and self-insured organizations across Canada and the United States. In 1995, revenue totaled $154.9 million. Lindsey Morden was established in 1923 and acquired by the Company in 1986. At year-end 1995, Lindsey Morden had 1,625 employees throughout the group located in 287 offices. Lindsey Morden is a public corporation listed on The Toronto Stock Exchange under the symbol "LM". The Company owns shares representing approximately 57% of the equity of Lindsey Morden.

The Company is a holding company and is a legal entity separate and distinct from its subsidiaries. The Company's ability to make required principal and interest payments with respect to its indebtedness, including the Notes, and to pay its operating expenses depends on the earnings of its subsidiaries, on its ability to receive funds from its subsidiaries through dividends or other payments and on the ability of the Company to raise capital from external sources. The principal subsidiaries of the Company are regulated insurance companies and are subject to restrictions which prohibit them, without special approval, from paying in any year dividends in excess of 75% of their average annual profits for the preceding three-year period, as regards the Canadian insurance companies, and dividends in excess of the greater of (i) 10% of surplus as at the preceding December 31, and (ii) the excess of the net income (excluding realized capital gains) for the three-year period ended on the preceding December 31 over dividends paid during such three-year period, as regards Ranger. Total amounts available to the Company from its regulated insurance companies in 1996 are approximately $40 million without special approval.

The Company has been under its present management since September 1985 when a group of investors, led by V. Prem Watsa, the Chairman and Chief Executive Officer of the Company, acquired control. Principally through the indirect 50.005% ownership interest of Mr. Watsa and his family in The Sixty Two Investment Company Limited (the remainder of that corporation's shares are owned by the Company), Mr. Watsa controls multiple voting shares and subordinate voting shares of the Company representing approximately 66% of the total voting power of the Company. As a result, Mr. Watsa has sufficient voting power to elect the entire Board of Directors of the Company and effectively to determine the outcome of any corporate transaction or other matter submitted to the shareholders for approval other than matters which require by law a separate vote of the minority shareholders or of the holders of a particular class of shares.

Fairfax was incorporated under the laws of Canada by letters patent dated March 13, 1951. The articles of the Company have been amended from time to time. The Company's original name, Markel Service of Canada Limited, was subsequently changed to Markel Financial Holdings Limited and, in May 1987, to Fairfax Financial Holdings Limited. The registered and sole office of the Company is located at 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7.

Reinsurance

Fairfax's philosophy is to minimize collectibility risk with regard to its insurance subsidiaries' reinsurance by dealing with reinsurers who, after individual analysis by Fairfax, are believed to be financially strong or who provide access to sufficient trust funds to support their obligations. Fairfax's aggregate losses over the last five years on account of uncollectible reinsurance were less than $1 million. At December 31, 1995, the exposure of Fairfax's insurance subsidiaries to reinsurance by Lloyd's aggregated less than $20 million, all of which is supported by trust funds backing the reinsurer's obligations.

Investments

The Company's investments as at December 31, 1995 totaled $1,597.7 million and were classified as follows:

	Carrying Value (millions)	% of Portfolio
Cash and short-term investments	$ 256.7	16%
U.S. government bonds	75.7	5
Canadian government bonds	212.8	13
Provincial government bonds	81.0	5
Municipal government bonds	39.0	2
U.S. corporate bonds	204.9	13
Canadian corporate bonds	104.3	7
Asset secured bonds	34.6	2
Convertible bonds	47.2	3
Preferred stock	154.6	10
Common stock	386.9	24
Total investments	$1,597.7	100%

Taxation of Unrealized Gains

The Canadian government has passed legislation which became effective commencing in Fairfax's 1994 fiscal year to annually tax unrealized stock gains in financial institutions' investment portfolios. Fairfax gave effect to this legislation in preparing its 1994 and 1995 consolidated financial statements. Although Fairfax feels that the taxation of unrealized gains is seriously wrong in principle, it anticipates that it will, if necessary, be able to arrange its affairs so as not to be materially adversely affected by this legislation. Notwithstanding this legislation, Fairfax does not intend to respond to this legislation by changing its investment strategy of having common stock constituting a meaningful portion of its investment portfolio.

Reserves

Fairfax reviews the provisions for claims of its insurance subsidiaries quarterly and annually, and these claims reserves are certified annually by external actuaries. However, the statement of reserves is an estimate at a certain time of future payments for claims insured, and while Fairfax attempts to state these reserves conservatively, there is no guarantee that reserve estimates will not vary over time or that the ultimate payments for claims incurred will not exceed the reserves currently established.

RECENT DEVELOPMENTS

Equity Offering

On March 26, 1996, the Company issued 1,100,000 of its subordinate voting shares at an issue price of $155 per share by way of an underwritten private placement offering (the "Equity Offering"). The Equity Offering provided net proceeds to the Company of approximately $163.3 million, which will be used, together with the net proceeds from the sale of the Notes, to pay the purchase price for SARC, with the remaining balance to be added to the working capital of the Company.

Purchase of Skandia America Reinsurance Corporation

On February 21, 1996, the Company announced it had agreed, conditionally, to purchase SARC. The definitive agreement providing for this purchase contemplates an escrow closing date of April 22, 1996 pending receipt of insurance and other regulatory approvals. Completion of the purchase of SARC by the Company is subject to various closing conditions, including the Company arranging the necessary financing to complete the purchase, the Company being satisfied with its due diligence review of SARC and receipt of applicable insurance and other regulatory approvals on terms acceptable to the Company. Although the Company expects to complete the SARC acquisition on the terms outlined herein, there can be no assurance that it will do so, or that the closing will occur by April 22, 1996. If the closing has not occurred on or before April 22, 1996, the definitive agreement provides that the Company will deposit the purchase price into an escrow account pending closing. At such date, the only closing condition remaining shall be receipt of applicable insurance and other regulatory approvals. If such approvals have not been obtained and closing has not occurred by August 30, 1996, the definitive agreement shall terminate unless this date is extended by the parties.

The purchase price for SARC is approximately US$230 million. SARC will, prior to closing, transfer Capital Assurance Company, Inc. and its wholly owned subsidiary Capital Alliance Insurance Co., Inc. (collectively, "Capital Assurance") on a basis that would provide no consideration to SARC but would protect SARC from any current or future liability relating to Capital Assurance (the "Capital Assurance Transfer"). All financial information relating to SARC herein contained, except in the audited consolidated financial statements of SARC and except where otherwise specifically noted, reflects such transfer. The ultimate parent company of SARC, Skandia Insurance Company Ltd (publ) ("Skandia"), has, effective December 31, 1995, entered into a reinsurance agreement with SARC with a maximum aggregate limit of US$175 million as protection against the possibility of an ultimate shortfall in reserves including reserves for uncollectible reinsurance (other than uncollectible reinsurance from Skandia or its affiliates) as of December 31, 1995 (the "Skandia Reinsurance Agreement"). The Skandia Reinsurance Agreement, which will be secured by marketable securities held in trust or letters of credit, is payable on a claims incurred basis, after adverse development in excess of the premium of US$60.5 million, and on a claims paid basis for amounts up to such premium. Losses are ceded to the Skandia Reinsurance Agreement subject to a maximum amount ceded of US$17.5 million in any one year except that any amount not used in a given year can be carried forward to increase the maximum allowable cession in subsequent years.

It is a condition of closing that certain other arrangements pursuant to which Skandia and certain Skandia affiliates provide indemnification or stop loss reinsurance protection to SARC (the "Parental Reinsurance Agreement") be continued and that Skandia provide a parental support agreement in relation to certain continuing obligations. The Parental Reinsurance Agreement is fully secured by marketable securities of approximately US$168 million held in trust.

Following the closing, Hamblin Watsa will be retained by SARC to manage its investment portfolio. It is anticipated that this portfolio will be managed by Hamblin Watsa on the same basis as it manages the investment portfolios of the other insurance subsidiaries of the Company.

Description of SARC

The description of SARC contained herein (including the pro forma consolidated financial statements of the Company, to the extent derived from the SARC financial statements, and the consolidated financial statements of SARC, as set forth in Annex B and Annex C, respectively, to this Prospectus) has been derived from information provided to the Company by SARC. The Company has no reason, based on its initial investigations and its review of other available information, to question the material accuracy of this description or to believe that there are material omissions therefrom.

SARC, a successor to the business commenced by Skandia in the United States in 1900, is one of the oldest reinsurers in the United States, specializing in the underwriting of property and casualty reinsurance marketed through reinsurance brokers. SARC provides reinsurance on both a treaty and facultative basis. Based on a statutory policyholders' surplus of US$312.8 million (including Capital Assurance) at December 31, 1995 as filed with U.S. insurance regulatory authorities, SARC was the 16th largest reinsurer and 10th largest broker market reinsurer in the United States. SARC is a licensed, approved or accredited reinsurer in 49 of the 50 United States, Washington, D.C. and Puerto Rico. SARC is rated "A− (Excellent)" by A.M. Best Company, Inc. ("A.M. Best"), an insurance rating agency. A.M. Best's ratings are subject to change or withdrawal at its discretion. A.M. Best's ratings are not a measure of protection afforded investors and do not address the merits of, or the risk inherent in, an investment in the Notes.

SARC is a well established underwriter in the broker sector of the reinsurance market. Over its 95-year operating history, SARC has established a strong market presence, including long-standing relationships with the major reinsurance brokers as well as insurance company clients and business prospects. These long-standing relationships as well as a strong financial position, underwriting expertise and a focus on client service have enabled SARC to gain access to the reinsurance programs of a broad range of insurance companies.

At December 31, 1995, after giving effect to the Capital Assurance Transfer, SARC had US GAAP stockholder's equity of US$343.8 million, and statutory policyholders' surplus of US$283.5 million. For the year ended December 31, 1995, SARC had adjusted US GAAP pre-tax operating income of US$36.1 million (see note (2) to the table on page 9 of this Prospectus).

Treaty reinsurance is the reinsurance of a specified type or category of risks which are defined in a reinsurance agreement between the ceding company and the reinsurer. A ceding company is one which reinsures its own liability with another company. SARC's treaty reinsurance business, which accounted for US$135.4 million or 76.6% of SARC's total 1995 adjusted consolidated net premiums written of US$176.7 million (see note (1) to the first table on page 8 of this Prospectus), focuses primarily on casualty risks. SARC's treaty underwriters target ceding company clients that have a demonstrated expertise in a particular line or class of business (such as non-standard auto or workers' compensation) or that focus on a selected geographic region.

Facultative reinsurance is the reinsurance of all or part of the insurance coverage provided by a single policy, with separate negotiation for each policy reinsured. SARC's facultative reinsurance business, which accounted for US$40.4 million or 22.9% of SARC's total 1995 adjusted consolidated net premiums written, focuses exclusively on casualty risks. SARC's facultative underwriters have developed significant expertise in reinsuring general liability risks, with particular strengths in the premises and construction liability areas.

SARC's other sources of underwriting revenue are from its wholly-owned subsidiaries, Hudson Insurance Company ("Hudson") and Skandia Canada Reinsurance Company ("Skandia Canada"). Hudson and Skandia Canada accounted for US$0.7 million (0.4%) and US$0.2 million (0.1%), respectively, of SARC's total 1995 adjusted consolidated net premiums written. Hudson is licensed in nine states of the United States and is an approved, non-admitted insurance carrier in eight states of the United States. Skandia Canada ceased underwriting business in 1992. In addition to administering the run-off of its own business, Skandia Canada also administers the run-off of another Skandia affiliate.

Set forth below is financial data of SARC in respect of its mix of business based on net premiums written for the three years ended December 31, 1995.

Business Segment	Year Ended December 31 1995	1994 (thousands)	1993
Treaty:			
Multiline	US$ 31,685	US$ 39,119	US$ 34,440
Casualty	30,586	42,495	63,519
Property	10,773	7,247	(6,141)
Affiliated Companies	61,702(1)	36,569	26,864
Surety & Financial Guarantee	825	1,649	(6,849)
Finite Risk Reinsurance	143	(2,134)	(3,374)
Aviation and Ocean Marine	31	259	3,810
Alternative Risk Transfer	(283)	1,205	11,661
Total	135,462(1)	126,409	123,930
Facultative:			
Casualty	40,666	37,704	41,470
Property	(280)	(128)	(1,200)
Total	40,386	37,576	40,270
Hudson Insurance Company	696	10,582	11,727
Skandia Canada Reinsurance Company	158	2,525	2,319
Total	US$176,702(1)	US$177,092	US$178,246

(1) Adjusted to add back the US$60.5 million premium related to the Skandia Reinsurance Agreement.

At December 31, 1995, the market value of SARC's investment portfolio consisted of US$1,038.6 million (85.9%) of investment grade fixed income securities, 98.5% of which were rated A or higher by Moody's Investor Services; US$77.0 million (6.4%) of cash, cash equivalents and short-term investments; and US$93.4 million (7.7%) of equity securities. SARC has no investments in non-investment grade fixed income securities, collateralized mortgage obligations, derivative securities, equity real estate or mortgages.

Set forth below is financial data of SARC in respect of its investment results for the three years ended December 31, 1995.

	Year Ended December 31 1993	1994 (millions)	1995
Average Investments (1)	US$1,268.5	US$1,174.7	US$1,155.6
Net Investment Income (2)	US$ 74.7	US$ 68.2	US$ 67.0
Effective Yield (3)	5.9%	5.8%	5.8%
Realized Capital Gains	US$ 46.8	US$ 19.3	US$ 51.5
Total Return (4)	9.6%	7.4%	10.3%

(1) Average of the beginning and ending amounts of investments for the period at market value, including operating cash.

(2) After investment expenses, excluding realized capital gains.

(3) Net investment income for the period divided by average investments for the same period.

(4) The sum of net investment income and realized capital gains for the period divided by average investments for the same period.

Set forth below is the summary financial data of SARC as of and for each of the years in the three-year period ended December 31, 1995. The summary annual financial data have been derived from SARC's historical financial statements and the related notes thereto, and prepared in accordance with US GAAP. Accordingly, the summary financial data presented below include Capital Assurance, except where otherwise specifically noted.

	Year Ended December 31		
	1995	1994	1993
		(thousands)	
Consolidated Statement of Operations Data			
Gross premiums written	US$ 212,638	US$ 249,045	US$ 303,906
Net premiums written	116,202	177,092	178,246
Net premiums earned	106,440	177,383	259,019
Net investment income	67,017	68,248	74,655
Pre-tax income (loss) before realized capital gains	(71,075)	14,574	(106)
Realized capital gains	51,518	19,306	46,832
Pre-tax income (loss)	(19,557)	33,880	46,726
Net income (loss) excluding realized capital gains (1)	(47,321)	8,544	4,539
Net income (loss)	(13,835)	21,093	34,980
Adjusted pre-tax operating income (2)	36,060	35,493	21,590
Consolidated Balance Sheet Data			
Cash and invested assets	US$1,208,977	US$1,091,772	US$1,254,783
Total assets	2,019,859	2,034,991	2,269,547
Gross unpaid losses and loss adjustment expenses	1,395,705	1,516,309	1,623,713
Net unpaid losses and loss adjustment expenses	912,066	965,452	1,016,910
Stockholder's equity	380,892	327,863	407,829
Consolidated Underwriting Ratios			
Loss ratio	144.0%	89.9%	90.6%
Expense ratio	68.0	35.3	36.6
Combined ratio	212.0%	125.2%	127.2%
Adjusted Consolidated Underwriting Ratios (3)			
Loss ratio	80.6%	84.5%	85.2%
Expense ratio	44.7	37.9	37.5
Combined ratio	125.3%	122.4%	122.7%

(1) Excludes realized capital gains, net of taxes of 35%.

(2) Adjusted pre-tax operating income excludes the following non-recurring items: the results for Capital Assurance, discontinued affiliated business, realized gains (losses), prior accident years' losses incurred related to nonaffiliated business, provision for potentially uncollectible reinsurance and the premium related to the Skandia Reinsurance Agreement.

(3) After giving effect to the relevant adjustments in note (2).

The decrease in gross premiums written from 1993 to 1994 relates primarily to Skandia's decision taken in 1992 to significantly downsize SARC's book of business. The decrease in gross premiums written from 1994 to 1995 relates primarily to SARC's decision to effectively cease to participate in one treaty due to terms that were unacceptable to SARC.

SARC and Hudson are Delaware corporations and their principal insurance regulator is the State of Delaware Commissioner of Insurance. At the end of 1995, SARC and its wholly-owned subsidiaries had 206 employees.

SARC and its principal subsidiaries, which are regulated insurance companies, are subject to restrictions which prohibit them, without special approval, from paying in any year dividends in excess of those limits applicable to Ranger. See "The Company". Absent the Capital Assurance Transfer, dividends available from SARC in 1996 would have been approximately US$31 million. The Capital Assurance Transfer will result in payment of an extraordinary dividend by SARC of approximately US$29.3 million. As a result of the payment of such extraordinary dividend, no further dividends may be paid by SARC for the twelve month period following the Capital Assurance Transfer without special approval.

Reserves for Asbestos Related and Environmental Pollution Claims

Many property and casualty insurance companies and reinsurers, including SARC, have been exposed to asbestos-related and environmental pollution claims. Reserves for such claims cannot be estimated with traditional reserving techniques. Because of inconsistent court decisions in federal and state jurisdictions and the wide variation among insureds with respect to underlying facts and coverage, a high degree of uncertainty exists with respect to these claims as to liabilities of ceding companies and, consequently, reinsurance coverage. See note 16 to the audited consolidated financial statements of SARC attached as Annex C to this Prospectus for information on the reserves for asbestos related and environmental pollution claims.

Financial Statements of SARC

Attached as Annex C to this Prospectus are audited consolidated financial statements of SARC prepared in accordance with US GAAP, together with the notes thereto, as at December 31, 1995 and 1994 and for the years ended December 31, 1995, 1994 and 1993. **All of the amounts expressed in Annex C are expressed in US dollars.** These financial statements should be read without reference to the line items referring to SARC's Capital Assurance subsidiaries (referred to in such financial statements as an unconsolidated subsidiary), because these subsidiaries are not being purchased by the Company.

REGULATORY ENVIRONMENT

The activities of the Company's insurance subsidiaries in Canada are governed by the *Insurance Companies Act* (the "ICA"), which is administered by the Office of the Superintendent of Financial Institutions ("OSFI"). The Canadian insurance subsidiaries are also subject to regulatory, supervisory and administrative powers of insurance regulatory authorities in each of the provinces of Canada. The ICA and OSFI require insurance companies to meet certain capital requirements and to maintain adequate levels of reserves for actuarial liabilities, unearned premiums, losses and other matters. The ICA imposes restrictions upon certain transfers of an insurance company's shares, places restrictions on the issuance and redemption of shares and on the declaration of dividends, and grants broad powers to OSFI for the administration and enforcement of the ICA.

The ICA has established rules for corporate governance, including rules pertaining to related party transactions, which are generally restricted except in limited circumstances, and investments, which require an insurance company to establish investment policies which are reviewed by OSFI and to follow prudent investment standards which impose a limitation on the amounts that may be invested in real property, equities and commercial loans.

The activities of Ranger are governed by the insurance laws of the State of Delaware, which are administered by the Delaware Commissioner of Insurance. Ranger is also subject to regulatory, supervisory and administrative powers of insurance regulatory authorities in each of the other states, and the District of Columbia, in the United States. The foregoing statements relating to the Canadian insurance regulatory environment affecting the Company's insurance subsidiaries in Canada are essentially equally applicable to the United States insurance regulatory environment which affects Ranger.

To date, the Company has not been adversely affected by such regulation; however, there can be no assurance that such regulation will not impose burdensome conditions on its insurance subsidiaries' business in the future.

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement relating to a series of Notes, the net proceeds to the Company from the sale of the Notes will be used, together with approximately $163.3 million of net proceeds from the Equity Offering (US$120.2 million, based on the inverse of the Noon Buying Rate on April 8, 1996), to pay the purchase price for SARC of approximately US$230 million, with the remaining balance to be added to the working capital of the Company. See "Recent Developments — Purchase of Skandia America Reinsurance Corporation". Pending such use, such net proceeds are expected to be invested in short-term marketable investments.

The SARC acquisition is subject to various closing conditions, including obtaining the necessary insurance and other regulatory approvals on terms satisfactory to the Company. If the SARC acquisition is not completed, the net proceeds of the Equity Offering and, unless otherwise indicated in a Prospectus Supplement relating to a series of Notes, the net proceeds from the sale of the Notes will be used for general corporate purposes, which might include the acquisition of other insurance companies, although no specific acquisition other than SARC has been identified. Pending such use, the Company expects it would invest such proceeds in short-term marketable investments.

CAPITALIZATION

The following table sets forth at December 31, 1995, the consolidated cash and short-term investments, short-term debt and capitalization of the Company, both actual and as adjusted to give effect to the Equity Offering. The information presented below should be read in conjunction with the "Selected Historical Consolidated Financial Data" appearing elsewhere herein, and the 1995 Consolidated Financial Statements set forth in Annex A to this Prospectus.

	December 31, 1995 (1)	
	Actual	As adjusted
	(millions)	
Cash and short-term investments	$327.0	$490.3(2)
Short-term debt (Lindsey Morden) (3)	$ 7.6	$ 7.6
Capitalization		
Long-term debt		
7¾% Notes due December 15, 2003 (US$100,000,000)	$136.5	$136.5
7¾% Note due December 15, 2003	25.0	25.0
8¼% Notes due October 1, 2015 (US$100,000,000)	136.5	136.5
Revolving credit facilities (4)	—	—
Lindsey Morden loans (3)	12.2	12.2
Total long-term debt	310.2	310.2
Shareholders' equity		
Capital stock	225.3	388.6
Retained earnings	247.3	247.3
Total shareholders' equity	472.6	635.9(5)
Total capitalization	$782.8	$946.1

(Totals may not add due to rounding.)

(1) For purposes of the capitalization table, all US dollar amounts have been translated into Canadian dollars on the basis of US$1.00 = $1.3645, being the rate of exchange as reported by the Bank of Canada as at Friday, December 29, 1995.

(2) Net proceeds from the Equity Offering of $163.3 million will be added to cash and short-term investments until the closing of the SARC acquisition, when such amount will be applied to the purchase price for SARC. See "Use of Proceeds" and "Recent Developments".

(3) Consists of bank loans of Lindsey Morden and its subsidiaries which are secured by a general assignment of accounts receivable and claims in process, and an unsecured note of Lindsey Morden due in 1997.

(4) The Company has unsecured, committed, long-term revolving bank facilities under which a maximum of $215 million can be borrowed.

(5) Capital stock was increased by $163.3 million as a result of the issuance of 1,100,000 subordinate voting shares in the Equity Offering. Upon completion of the SARC acquisition, SARC's shareholder's equity will be eliminated and the excess of SARC's shareholder's equity over the purchase price will be allocated to provision for claims.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

Set forth below are selected historical consolidated financial data of the Company for the five years ended December 31, 1995, which have been derived from the Company's audited consolidated financial statements. The financial statements from which the selected historical consolidated financial data have been derived have been prepared in accordance with Canadian generally accepted accounting principles, and thus may not be comparable to financial statements of United States companies. The data set forth below should be read in conjunction with the 1995 Consolidated Financial Statements and the related notes set forth in Annex A to this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the year ended December 31, 1995", which is referred to herein under item (b) in "Documents Incorporated by Reference."

	Year ended December 31				
	1995 (1)	1994 (1)	1993 (1)	1992	1991
			(millions)		
Earnings Data:					
Revenue					
Premiums earned	$ 829.3	$ 400.6	$ 150.8	$118.9	$ 90.5
Claims fees	154.9	156.1	142.1	139.8	123.0
Interest and dividends	89.4	58.2	23.3	24.0	26.1
Realized gains (losses) on investments	71.9	20.0	27.8	3.4	(4.5)
Other income	—	—	—	0.8	15.0
	1,145.5	634.9	344.0	286.8	250.0
Expenses					
Losses on claims	614.1	296.6	109.4	90.9	54.3
Operating expenses	305.0	240.7	174.9	177.4	154.8
Interest expense	21.2	13.2	6.4	7.7	8.8
Commissions, net	109.4	38.4	6.6	3.9	(0.4)
	1,049.6	588.9	297.3	279.9	217.5
Earnings before income taxes	95.9	46.0	46.7	7.0	32.5
Provision for (recovery of) income taxes	6.5	7.4	12.9	(3.3)	9.8
Earnings from operations	89.4	38.6	33.7	10.3	22.6
Non-controlling interest (2)	(2.0)	(0.5)	(0.4)	(0.3)	(0.1)
Net earnings	$ 87.5	$ 38.1	$ 33.3	$ 10.0	$ 22.5
Balance Sheet Data (at period end):					
Total assets	$2,332.9	$2,173.4	$1,200.3	$590.5	$516.6
Cash and investments	1,668.1	1,551.3	848.8	396.2	341.2
Net debt (3)	227.6	225.3	132.4	68.2	51.3
Shareholders' equity	472.6	391.9	279.5	143.8	116.8

(Totals may not add due to rounding.)

(1) The Company acquired Ranger effective December 31, 1993 and acquired Lombard effective November 30, 1994.

(2) Consists of interests of shareholders other than the Company in Lindsey Morden.

(3) Total debt (beginning in 1995, net of cash in the holding company) with Lindsey Morden equity accounted.

INTEREST AND ASSET COVERAGES

The interest and asset coverages set forth below have been prepared and included in this Prospectus in accordance with Canadian disclosure requirements. These coverages have been calculated using the interest and exchange rates appropriate for the relevant date or period.

Interest Coverage

The consolidated interest requirements for long-term debt of the Company for the 12-month period ended December 31, 1995 was $21.2 million. The consolidated earnings of the Company available for the payment of interest for such period was $117.1 million, or approximately 5.53 times the annual interest requirements for such period.

Coverage of the interest on the Notes will depend on the earnings of the Company's subsidiaries, on the Company's ability to receive funds from its subsidiaries through dividends or other payments and on the ability of the Company to raise capital from external sources. Certain of the Company's subsidiaries, as regulated insurance companies, are subject to restrictions imposed by law on their ability to pay dividends. See "The Company".

Asset Coverage

The pro forma consolidated net tangible assets of the Company as at December 31, 1995 were as follows:

	December 31, 1995 (millions)
Total consolidated assets	$2,332.9
Adjustments:	
Goodwill	(46.4)
Total net consolidated assets	2,286.5
Less:	
Provision for claims	912.7
Unearned premiums	431.5
Short-term debt	7.6
Other liabilities	179.4
Adjusted consolidated net assets	755.3
Less:	
Non-controlling interests	18.9
Consolidated net tangible assets after the above adjustments	736.4
Net proceeds from Equity Offering	163.3
Consolidated net tangible assets after the above adjustments and after giving effect to the Equity Offering	$ 899.7
Aggregate consolidated long-term debt	$ 310.2

After giving effect to the Equity Offering, the Company's pro forma consolidated net tangible assets as at December 31, 1995 would be 2.90 times the aggregate consolidated long-term indebtedness of the Company.

CHANGES IN SHARE AND LOAN CAPITAL STRUCTURE

There have been no material changes in the share or loan capital structure of the Company since December 31, 1995, except that, as described under "Recent Developments — Equity Offering", the Company completed an offering of 1,100,000 subordinate voting shares on March 26, 1996.

DESCRIPTION OF NOTES

The following description sets forth certain general terms and provisions of the Notes. The particular terms and provisions of the series of Notes offered by a Prospectus Supplement, and the extent to which the general terms and provisions described below may apply thereto, will be described in such Prospectus Supplement.

The Notes will be issued under an indenture (the "Indenture"), dated as of December 1, 1993, among the Company, Bank of Montreal Trust Company (the "U.S. Trustee") and The R-M Trust Company (the "Canadian Trustee" and, together with the U.S. Trustee, the "Trustees"). The following summary of certain provisions of the Indenture does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the Indenture. Whenever reference is made to particular sections of the Indenture or terms that are defined therein, such sections or defined terms are incorporated herein by reference as a part of such summaries, which are qualified in their entirety by such reference. The Indenture is subject to the provisions of the *Canada Business Corporations Act* and, consequently, is exempt from certain provisions of the *Trust Indenture Act of 1939*, as amended, by virtue of Rule 4d-9 thereunder.

The Indenture provides that, in addition to the Notes offered hereby, which are to be issued as one or more separate series under the Indenture, securities of other series may be issued thereunder without limitation as to aggregate principal amount. (Section 301). The securities of other series may have such terms and provisions not inconsistent with the Indenture as the Company may determine from time to time. The securities of any series issued under the Indenture, including the Notes, are referred to herein as "Securities".

General

The Notes offered under this Prospectus and any applicable Prospectus Supplement **will be limited to US$125 million** (or the equivalent in Canadian dollars) **in aggregate principal amount. The Notes will be direct, unsecured obligations of the Company and will rank equally and ratably with all other unsecured and unsubordinated indebtedness of the Company.** The Notes will rank among themselves equally and ratably without preference or priority. The Indenture permits the Company from time to time, without notice to or the consent of the holders of any series of Securities issued under the Indenture, to create and issue further Notes of a series ranking *pari passu* with the Notes of such series offered under this Prospectus and any applicable Prospectus Supplement in all respects (or in all respects except for the payment of interest accruing prior to the issue date of such further Notes or except for the first payment of interest following the issue date of such further Notes) and so that such further Notes shall be consolidated and form a single series with, and shall have the same terms as to status, redemption or otherwise as, the Notes of such series offered under this Prospectus and any applicable Prospectus Supplement. (Section 301)

The applicable Prospectus Supplement will set forth the following terms relating to the Offered Securities: (1) the title of the Offered Securities; (2) any limit on the aggregate principal amount of the Offered Securities; (3) the date or dates, if any, on which the principal of the Offered Securities is payable; (4) the rate or rates at which the Offered Securities will bear interest, if any, the date or dates from which any such interest will accrue and on which any such interest will be payable; (5) any mandatory or optional redemption or sinking fund provisions, including the period or periods within which the price or prices at which and the terms and conditions upon which the Offered Securities may be redeemed or purchased at the option of the Company or otherwise; (6) the denominations in which any of the Offered Securities will be issuable if other that denominations of US$1,000 and any multiple thereof; (7) if other than United States dollars, the currency in which the Offered Securities are denominated and/or in which the payment of the principal of and any premium and interest on the Offered Securities will or may be payable; and (8) any other terms of the Offered Securities, including covenants and additional Events of Default.

The Notes will be issued in denominations of US$1,000 and integral multiples thereof. The Notes will initially be issued in the form of a fully registered global note (a "Global Note") which will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (the "Depositary"), and registered in the name of the Depositary's nominee. Except as described under "Concerning the Depositary", Notes in definitive form will not be issued. Unless and until it is exchanged in whole for Notes in definitive registered form, a Global Note may not be transferred except as a whole by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor of the Depositary or a nominee of such successor.

The nominee of the Depositary, as holder of record of the Global Note, will be entitled to receive payments of principal and interest by wire transfer of same day funds for payment to beneficial owners in accordance with the Depositary's procedures. In the event that Notes are issued in definitive form, principal and interest will be payable at the office or agency of the Company to be maintained in The City of New York; *provided, however,* that at the option of the Company payment of interest may be made by mailing a check for such interest, payable to or upon the written order of the person entitled thereto, to the address of such person as it appears in the register of holders of Notes or by transfer to an account maintained by the payee located inside the United States. Transfers of Notes issued in definitive form will be registrable and such Notes will also be exchangeable at such office or agency. The Company's office or agency in The City of New York will initially be the corporate trust office of the U.S. Trustee at 77 Water Street, New York, New York 10005.

The provisions of the Indenture do not contain any provisions that would limit the ability of the Company to incur indebtedness or that would afford holders of Notes protection in the event of a highly leveraged or similar transaction involving the Company.

Certain Covenants

Limitation on Liens on Capital Stock of Restricted Subsidiaries. The Indenture provides that the Company may not, and may not permit any Subsidiary to, create, assume, incur or suffer to exist any Lien, other than a Purchase Money Lien, upon any capital stock, whether owned on the date of the Indenture or thereafter acquired, of any Restricted Subsidiary, to secure any Obligation (other than the Securities) of the Company, any Subsidiary or any other Person, without in any such case making effective provision whereby all of the outstanding Securities shall be directly secured equally and ratably with such Obligation; *provided, however,* that this restriction will not apply to (i) Liens on the capital stock of any Restricted Subsidiary securing Obligations outstanding from time to time under any bank credit facility, *provided* that the principal amount of all such Obligations secured by Liens on the capital stock of any Restricted Subsidiary, at the time of each incurrence of any portion of any such Obligation, does not exceed 15% of the sum of (A) the Company's consolidated shareholders' equity at the end of the most recently completed fiscal quarter of the Company immediately preceding such incurrence for which financial statements are or are required to be available and (B) the aggregate principal amount of all Obligations which are outstanding under any bank credit facility immediately after giving effect to such incurrence and which are secured by Liens on the capital stock of a Restricted Subsidiary, and (ii) Liens securing Obligations from the Company to any wholly-owned Restricted Subsidiary or from any wholly-owned Restricted Subsidiary to the Company or any other wholly-owned Restricted Subsidiary. (Section 1005) This provision will not restrict any other property of the Company or its Subsidiaries. Pursuant to clause (i) above, as of December 31, 1995, the Company could have secured by Liens on the capital stock of Restricted Subsidiaries up to $70.9 million of Obligations under bank credit facilities, without providing security to the holders of the Notes. In fact, however, all of the Company's bank credit facilities are unsecured.

The Indenture defines "Lien" as any mortgage, pledge, hypothecation, lien, encumbrance, charge or security interest of any kind; "Obligation" as indebtedness for money borrowed or indebtedness evidenced by a bond, note, debenture or other evidence of indebtedness; "Purchase Money Lien" as (i) any mortgage, pledge, hypothecation, lien, encumbrance, charge or security interest of any kind upon any capital stock of any Restricted Subsidiary acquired after the date of the Indenture if such Purchase Money Lien is for the purpose of financing, and does not exceed, the cost to the Company or any Subsidiary of acquiring the capital stock of such Restricted Subsidiary and such financing is effected concurrently with, or within six months after, the date of such acquisition, and (ii) any extension, renewal or refinancing of any Purchase Money Lien so long as the principal amount of obligations secured thereby shall not exceed the original principal amount of obligations so secured at the time of such extension, renewal or refinancing; "Restricted Subsidiary" as any Subsidiary that is a licensed insurance company, other than any licensed insurance company that the Board of Directors, in good faith, determines is not, individually or together with any other licensed insurance company as to which a similar determination has been made, material to the business of the Company and its Subsidiaries, considered as a whole; and "Subsidiary" as a corporation or business trust, a majority of the outstanding voting stock of which is owned, directly or indirectly, by the Company or one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. (Section 101). On the date hereof, the Restricted Subsidiaries of the Company are Commonwealth, Continental, Federated, Markel and Ranger. Assuming that the purchase of SARC is completed, SARC would become a Restricted Subsidiary under the Indenture.

Waiver of Certain Covenants. The Company may omit in any particular instance to comply with any term, provision or condition of the foregoing covenants if the holders of at least a majority of all Securities issued under the Indenture and then outstanding waive compliance in such instance with such term, provision or condition. (Section 1006)

Amalgamation, Consolidation, Merger, Conveyance, Transfer or Lease. The Indenture provides that the Company may not amalgamate or consolidate with or merge into any other corporation or convey, transfer or lease its properties and assets substantially as an entirety to any other Person, unless, (i) the corporation formed by such consolidation or amalgamation or into which the Company is merged or the Person which shall have acquired or leased such properties or assets shall be a corporation, partnership or trust organized under the laws of Canada or any province thereof or the United States, any state thereof or the District of Columbia and shall expressly assume the Company's obligation for the due and punctual payment of the principal of (and premium, if any, on) and interest on all the outstanding Securities issued under the Indenture and the performance and observance of every covenant of the Indenture on the part of the Company to be performed or observed, (ii) immediately after giving effect to such transaction, no Event of Default or event that after notice or passage of time or both would be an Event of Default shall have occurred and be continuing and (iii) certain other conditions are met. (Section 801)

Events of Default

The following constitute Events of Default with respect to the Notes under the Indenture: (a) a default for 30 days in the payment of any interest on any Note; (b) a default in the payment of the principal of any Note when due; (c) a default in the performance, or breach, of any other covenant or warranty in the Indenture (other than a covenant or warranty included in the Indenture solely for the benefit of one or more series of Securities other than the Notes) which default or breach continues for a period of 60 days after notice; (d) default in the payment, at the stated maturity, of any indebtedness for money borrowed by the Company in excess of US$10,000,000, or the acceleration of indebtedness for money borrowed by the Company in excess of US$10,000,000, if such indebtedness has not been discharged, or such acceleration has not been rescinded or annulled, within 10 days after written notice has been given by either Trustee, or the holders of at least 25% in principal amount of the outstanding Securities, as provided in the Indenture; and (e) certain events of bankruptcy, insolvency or reorganization. (Section 501)

If an Event of Default relating to a default in payment of principal of (or premium, if any, on) or interest on any series of Securities issued under the Indenture, or to a default in the performance, or breach, of any other covenant or warranty of the Company applicable to the Securities of such series but not applicable to all outstanding Securities issued under the Indenture, or to a default in the payment, at stated maturity, of, or to the acceleration of, any indebtedness for money borrowed shall have occurred and be continuing, either Trustee or the holders of not less than 25% in principal amount of Securities of that series then outstanding may then declare the principal of all Securities of that series to be due and payable immediately. If an Event of Default relating to a default in the performance, or breach, of any other covenant or warranty in the Indenture applicable to all Securities issued thereunder and then outstanding shall have occurred and be continuing, either Trustee or the holders of not less than 25% in principal amount of all Securities issued under the Indenture and then outstanding (treated as one class) may declare the principal amount of all the Securities then outstanding to be due and payable immediately. If an Event of Default described in clause (e) above with respect to any series of Securities issued under the Indenture shall occur, the principal amount of all the Securities of that series will automatically, and without any action by either Trustee or any holder, become immediately due and payable. In each case, the holders of a majority in principal amount of the outstanding Securities of that series or all series, as the case may be, may under certain circumstances rescind and annul such declaration by written notice to the Company and the Trustees. In the event of a declaration of acceleration because an Event of Default specified in clause (d) above has occurred and is continuing, such declaration of acceleration shall be automatically annulled if the indebtedness which is the subject of such Event of Default has been discharged or the holders thereof have rescinded their declaration of acceleration in respect of such indebtedness, and written notice of such discharge or rescission is given to either Trustee by the Company and countersigned by the holders of such indebtedness or their representative, within 30 days after such declaration of acceleration in respect of the Notes, and no other Event of Default has occurred during such 30-day period which has not been cured or waived during such period. (Section 502)

The holders of not less than a majority in principal amount of the outstanding Securities of the applicable series, in the case of an Event of Default applicable to such series but not to all outstanding Securities, or a majority in principal amount of the outstanding Securities of all series, in the case of an Event of Default applicable to all outstanding Securities, may waive any past default and its consequences, except a default in respect of the payment of the principal of (or premium, if any, on) or interest on any Security or in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Security affected thereby. (Section 513)

The Indenture provides that the Trustees shall be under no obligation to exercise any of the rights or powers vested in them by the Indenture at the request or direction of holders of Securities unless such holders shall have offered to the Trustees reasonable funding, security and indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. (Section 604) Subject to such provisions for the indemnification of the Trustees, the holders of not less than a majority in principal amount of the Securities of any series (with respect to any remedy, trust or power relating to any default in payment of principal (or premium, if any, on) or interest on the Securities of such series or any default in the performance or breach of any other covenant or warranty of the Company applicable to the Securities of such series but not applicable to all outstanding Securities issued under the Indenture) or the holders of not less than a majority in principal amount of all Securities issued under the Indenture and then outstanding (treated as one class) (with respect to any other remedy, trust or power) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustees, or exercising any trust or power conferred on the Trustees, with respect to such Securities. (Section 512)

Discharge, Defeasance and Covenant Defeasance

The Company may discharge certain obligations to holders of Notes which have not already been delivered to the Trustees for cancellation and which have either become due and payable or are by their terms due and payable within one year by irrevocably depositing with one of the Trustees trust funds in an amount sufficient to pay at maturity the principal of and interest on the Notes. (Section 401)

The Company may, at its option, and at any time, elect to have its obligations discharged with respect to all outstanding Notes ("defeasance"). Such defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes and to have satisfied its other obligations with respect to the Notes under the Indenture, except for (i) the rights of the holders of outstanding Notes to receive, solely from the trust fund described below, payments in respect of the principal of and interest on such Notes when such payments are due, (ii) the Company's obligations with respect to the Notes relating to the issuance of temporary Notes, the registration, transfer and exchange of Notes, the replacement of mutilated, destroyed, lost or stolen Notes, the maintenance of an office or agency in The City of New York, the holding of money for security payments in trust and statements as to compliance with the Indenture, (iii) the Company's obligations in connection with the rights, powers, trusts, duties and immunities of the Trustees and (iv) the defeasance provisions of the Indenture. In addition, the Company may, at its option and at any time, elect to be released from its obligations with respect to certain of its covenants under the Indenture (including those described under "— Limitation on Liens on Capital Stock of Restricted Subsidiaries" ("covenant defeasance") and any omission to comply with such obligations shall not constitute a default or an Event of Default with respect to the Notes. (Sections 1402 and 1403)

In order to exercise either defeasance or covenant defeasance with respect to the Notes, (i) the Company must irrevocably deposit with one of the Trustees, in trust, for the benefit of the holders of the Notes, cash in US dollars, certain United States government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of and interest on the outstanding Notes on the stated maturity of such principal or instalment of interest; (ii) in the case of defeasance, the Company shall have delivered to the Trustees an opinion of counsel in the United States stating that (x) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (y) since the date of this Prospectus, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred; (iii) in the case of covenant defeasance, the Company shall have delivered to the Trustees an opinion of counsel in the United States to the effect that the holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; (iv) in the case of defeasance or covenant defeasance, the Company shall have delivered to the Trustees an opinion of counsel in Canada to the effect that holders of the outstanding Notes will not recognize income, gain or loss for Canadian federal or provincial income tax or other tax purposes as a result of such defeasance or covenant defeasance, as applicable, and will be subject to Canadian federal or provincial income tax and other tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance, as applicable, had not occurred (which condition may not be waived by any holder of Notes or the Trustees); and (v) the Company must comply with certain other conditions. (Section 1404)

Modification

The Indenture provides that the Company and the Trustees may enter into supplemental indentures without the consent of the holders of the Notes or the holders of the Securities of any other series to: (a) evidence the succession of another Person to the Company and the obligations assumed by such successor under the Indenture; (b) add to the covenants of the Company for the benefit of the holders of the Securities of any series or surrender any right or power conferred upon the Company by the Indenture; (c) add Events of Default for the benefit of the holders of the Securities of any series; (d) add to or change any provisions of the Indenture to facilitate the issuance of Securities of any series in bearer form; (e) change or eliminate any provisions of the Indenture, provided that any such change or elimination shall become effective only when there is no Security issued under the Indenture then outstanding of any series created prior thereto which is entitled to the benefit of such provision; (f) secure any series of Securities; (g) establish the form and terms of any series of Securities; (h) evidence the acceptance of appointment by a successor Trustee under the Indenture and provide for or facilitate the administration of one or more trusts under the Indenture by one or more Trustees; (i) close the Indenture with respect to the authentication and delivery of additional series of Securities or cure any ambiguity, correct or supplement any inconsistency or make any other provision with respect to matters or questions arising under the Indenture, provided that such action does not adversely affect the interests of the holders of Securities of any series in any material respect and (j) supplement any of the provisions of the Indenture to the extent necessary to permit or facilitate the defeasance or discharge of any series of Securities, provided such action does not adversely affect the interests of the holders of Securities of any series in any material respect. (Section 901)

The Indenture also contains provisions permitting the Company and the Trustees, with the consent of the holders of not less than a majority in principal amount of all Securities issued under the Indenture then outstanding and affected (treated as one class), to add any provisions to, change in any manner or eliminate any of the provisions of, the Indenture or modify in any manner the rights of the holders of Securities under the Indenture; *provided* that the Company and the Trustees may not, without the consent of the holder of each outstanding Security affected thereby, among other things: (a) change the stated maturity of the principal of or any instalment of interest on any Security, (b) reduce the principal amount of or the rate of interest on, or premium payable upon the redemption of, any such Security, (c) reduce the amount of the principal of an original issue discount Security that would be due and payable upon a declaration of acceleration of the maturity thereof, (d) adversely affect any right of repayment at the option of the holder of any Security, (e) change the place or currency of payment of principal of, or any premium or interest on, any such Security, (f) impair the right to institute suit for the enforcement of any such payment on any Security when due, (g) reduce the percentage in principal amount of Securities of any series whose consent is necessary to modify or amend the Indenture or to waive compliance with certain provisions of the Indenture or certain defaults and their consequences or (h) modify the foregoing requirements. (Section 902)

Concerning the Depositary

The following is based on information furnished by the Depositary:

The Depositary will act as securities depository for the Notes. The Notes will be used as fully registered securities registered in the name of Cede & Co. (the Depositary's partnership nominee). One fully registered Global Note will be issued for the Notes, in the aggregate principal amount of such issue, and will be deposited with the Depositary. If, however, the aggregate principal amount of the issue exceeds US$200,000,000, one Global Note will be issued with respect to each US$200,000,000 of principal amount and an additional Global Note will be issued with respect to any principal amount of such issue in excess thereof.

The Depositary is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the United States Securities Exchange Act of 1934, as amended. The Depositary holds securities that its participants ("Participants") deposit with the Depositary. The Depositary also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changed in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants ("Direct Participants") include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. The Depositary is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the Depositary's system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participant"). The rules applicable to the Depositary and its Participants are on file with the Securities and Exchange Commission.

Purchases of Notes under the Depositary's system must be made by or through Direct Participants, which will receive a credit for such Notes on the Depositary's records. The ownership interest of each actual purchaser of each Note represented by a Global Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from the Depositary of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in a Global Note representing Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners of a Global Note representing Notes will not receive Notes in definitive form representing their ownership interests therein, except in the event that use of the book-entry system for such Notes is discontinued or upon the occurrence of certain other events described herein.

To facilitate subsequent transfers, all Global Notes representing Notes which are deposited with the Depositary are registered in the name of the Depositary's nominee, Cede & Co. The deposit of Global Notes with the Depositary and their registration in the name of Cede & Co. effect no change in beneficial ownership. The Depositary has no knowledge of the actual Beneficial Owners of the Global Notes representing the Notes; the Depositary's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by the Depositary to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Notes are being redeemed, the Depositary's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither the Depositary nor Cede & Co. will consent or vote with respect to the Global Notes representing the Book-Entry Notes. Under its usual procedures, the Depositary mails an omnibus proxy (an "Omnibus Proxy") to the Company as soon as possible after the applicable record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the applicable record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Global Notes representing the Notes will be made to the Depositary. The Depositary's practice is to credit Direct Participants' accounts on the applicable payment date in accordance with their respective holdings shown on the Depositary's records unless the Depositary has reason to believe that is will not receive payment on such date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of the Depositary, the Trustees or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to the Depositary is the responsibility of the Company or the Trustees, disbursement of such payments to Direct Participants shall be the responsibility of the

Depositary, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants. Neither the Company nor the Trustees will have any responsibility or liability for the disbursements of payments in respect of ownership interests in the Notes by the Depositary or the Direct or Indirect Participants or for maintaining or reviewing any records of the Depositary or the Direct or Indirect Participants relating to ownership interests in the Notes or the disbursement of payments in respect thereof.

A Beneficial Owner shall give notice to elect to have its Notes repaid by the Company, through its Participant, to the Trustees, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant's interest in the Global Note or Global Notes representing such Notes, on the Depositary's records, to the Trustees. The requirement for physical delivery of Notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the Global Note or Global Notes representing such Notes are transferred by Direct Participants on the Depositary's records.

The Depositary may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Company or the Trustees. Under such circumstances, and in the event that a successor securities depository is not obtained, Notes in definitive form are required to be printed and delivered. The Company may decide to discontinue use of the system of book-entry transfers through the Depositary (or a successor securities depository).

The information in this section concerning the Depositary and the Depositary's system has been obtained from sources that the Company believes to be reliable, but is subject to any changes to the arrangements between the Company and the Depositary and any changes to such procedures that may be instituted unilaterally by the Depositary.

Enforceability of Judgments

Since a substantial portion of the Company's assets are outside the United States, any judgment obtained in the United States against the Company, including any judgment with respect to the payment of principal or interest on the Notes offered under this Prospectus and any applicable Prospectus Supplement, may not be collectible within the United States.

The Company has been informed by its Canadian counsel, Tory Tory DesLauriers & Binnington, that the laws of the Province of Ontario permit an action to be brought in a court of competent jurisdiction in that province on any final and conclusive judgment *in personam* of any federal or state court located in The City of New York (a "New York Court") that is not impeachable as void or voidable under the internal laws of the State of New York for a sum certain if: (i) the court rendering such judgment had jurisdiction over the judgment debtor, as recognized by the courts of Ontario (and submission by the Company in the Indenture to the jurisdiction of the New York Court will be sufficient for this purpose); (ii) such judgment was not obtained by fraud or in a manner contrary to natural justice and the enforcement thereof would not be inconsistent with public policy, as such term is understood under the laws of Ontario; (iii) the enforcement of such judgment does not constitute, directly or indirectly, the enforcement of foreign revenue or penal laws; and (iv) the action to enforce such judgment is commenced within six years of the date of such judgment. In the opinion of such counsel, there are currently no reasons under the law of Ontario for avoiding recognition of said judgments of New York Courts under the Indenture or on the Notes based upon public policy. The Company has been advised by such counsel that there is doubt as to the enforceability in Canada by a court in original actions, or in actions to enforce judgments of United States courts, of civil liabilities predicated solely upon the United States federal securities laws.

Consent to Jurisdiction

The Indenture provides that the Company will irrevocably appoint CT Corporation System, 1633 Broadway, New York, New York 10019 as its authorized agent for service of process in any legal action or proceeding arising out of or relating to the Indenture or the Notes for actions brought under federal or state securities laws or for actions brought by either Trustee in any New York Court, and will irrevocably submit to the jurisdiction of the New York Courts for such purposes. (Section 1501)

Governing Law

The Indenture is and the Notes will be governed by and construed in accordance with the laws of the State of New York. (Section 111)

Concerning the U.S. Trustee

The parent of Bank of Montreal Trust Company, the U.S. Trustee under the Indenture, is a Canadian chartered bank which currently has a commitment to lend up to $60 million under the Company's $215 million unsecured revolving bank credit facilities.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes the material Canadian federal income tax consequences to a holder of Notes who is a non-resident of Canada if, as anticipated, the Company will not be obliged to pay any portion of the principal amount of any Notes within five years from their respective dates of issue (otherwise than consequent upon an Event of Default or if the terms of the Notes become unlawful, or are changed, by virtue of legislation or the decision of an applicable governmental authority). This summary is based on the current provisions of the *Income Tax Act* (Canada) (the "Act") and the regulations thereunder, counsel's understanding of the current administrative practices of Revenue Canada, Taxation, and all specific proposals to amend the Act and the regulations announced by the Minister of Finance prior to the date hereof. This summary does not otherwise take into account or anticipate changes in the law, whether by judicial, governmental or legislative decision or action, nor does it take into account tax legislation or considerations of any province or territory of Canada or any jurisdiction other than Canada. This summary is of a general nature only and is not intended to be, and should not be interpreted as, legal or tax advice to any particular holder of Notes.

The payment by the Company of interest or principal on the Notes to a holder who is a non-resident of Canada and with whom the Company deals at arm's length within the meaning of the Act at the time of making the payment will be exempt from Canadian withholding tax. For the purposes of the Act, related persons (as therein defined) are deemed not to deal at arm's length and it is a question of fact whether persons who are not related to each other deal at arm's length.

No other tax on income (including taxable capital gains) will be payable under the Act in respect of the holding, redemption or disposition of the Notes or the receipt of interest thereon by holders who are neither residents nor deemed to be residents of Canada for the purposes of the Act and who do not use or hold and are not deemed to use or hold the Notes in carrying on business in Canada for the purposes of the Act, except that in certain circumstances holders who are non-resident insurers carrying on an insurance business in Canada and elsewhere may be subject to such taxes.

PLAN OF DISTRIBUTION

The Company may sell Notes to or through underwriters or dealers, including J.P. Morgan Securities Inc., CS First Boston Corporation and Deutsche Morgan Grenfell/C. J. Lawrence Inc., and also may sell Notes directly to purchasers or through agents.

The distribution of Notes of any series may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at prices to be negotiated with purchasers.

In connection with the sale of Notes, underwriters may receive compensation from the Company or from purchasers of Notes for whom they may act as agents in the form of discounts, concessions or commissions. Underwriters, dealers and agents that participate in the distribution of Notes may be deemed to be underwriters and any discounts or commissions received by them from the Company and any profit on the resale of Notes by them may be deemed to be underwriting discounts and commissions under the United States Securities Act of 1933 (the "Securities Act"). Any such person that may be deemed to be an underwriter with respect to Notes of any series will be identified in the Prospectus Supplement relating to such series.

The Prospectus Supplement relating to each series of Notes will also set forth the terms of the offering of the Notes of such series, including, to the extent applicable, the initial offering price, the proceeds to the Company, the underwriting discounts or commissions, and any other discounts or concessions to be allowed or reallowed to dealers. Underwriters with respect to each series sold to or through underwriters will be named in the Prospectus Supplement relating to such series.

Under agreements which may be entered into by the Company, underwriters, dealers and agents who participate in the distribution of Notes may be entitled to indemnification by the Company against certain liabilities, including liabilities under the Securities Act.

The Notes will not be qualified for sale under the securities laws of Canada or any province or territory of Canada, unless a Prospectus Supplement indicates otherwise with respect to a particular series of Notes. Each underwriter and each dealer participating in the distribution of any series of Notes must agree that it will not offer to sell, directly or indirectly, any such Notes acquired by it in connection with such distribution, in Canada or to residents of Canada in contravention of the securities laws of Canada or any province or territory thereof.

Each series of Notes will be a new issue of securities with no established trading market. Unless otherwise specified in a Prospectus Supplement relating to a series of Notes, the Notes will not be listed on any securities exchange. Certain broker-dealers may make a market in the Notes, but will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given that any broker-dealer will make a market in the Notes of any series or as to the liquidity of the trading market for the Notes of any series.

In the ordinary course of their respective businesses, J.P. Morgan Securities Inc., CS First Boston Corporation and Deutsche Morgan Grenfell/C. J. Lawrence Inc. or their affiliates have engaged and may in the future engage in commercial banking and investment banking transactions with the Company.

LEGAL MATTERS

Legal matters in connection with the issue and sale of the Notes offered under this Prospectus and any applicable Prospectus Supplement will be passed upon for the Company by Tory Tory DesLauriers & Binnington, Toronto, with respect to matters of Canadian law, and by Shearman & Sterling, Toronto and New York, with respect to matters of United States law.

AUDITORS

The auditors of the Company are Coopers & Lybrand, Chartered Accountants, 145 King Street West, Toronto, Ontario, Canada M5H 1V8. The consolidated balance sheets of the Company as at December 31, 1995 and 1994 and the consolidated statements of earnings, retained earnings and changes in cash resources for each of the two years in the period ended December 31, 1995 included and incorporated by reference in this Prospectus have been so included and incorporated in reliance upon the report of Coopers & Lybrand, independent chartered accountants, given on the authority of that firm as experts in accounting and auditing.

The consolidated financial statements of SARC as at December 31, 1995 and 1994 and for the years ended December 31, 1995, 1994 and 1993 included in this Prospectus have been so included in reliance upon the report of Coopers & Lybrand L.L.P., independent certified public accountants, given on the authority of that firm as experts in accounting and auditing.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Company, filed with the Ontario Securities Commission, are specifically incorporated herein by reference and form an integral part of this Prospectus:

(a) the comparative consolidated financial statements of the Company and the notes thereto as at and for the years ended December 31, 1995 and 1994, together with the auditors' report thereon (attached as Annex A to this Prospectus);

(b) the Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the year ended December 31, 1995;

(c) the Annual Information Form of the Company dated May 16, 1995;

(d) the Management's Discussion and Analysis of Financial Condition and Results of Operations of Lindsey Morden for the year ended December 31, 1994, which is incorporated by reference in the Annual Information Form of Lindsey Morden referred to in (e) below;

(e) the Annual Information Form of Lindsey Morden dated May 4, 1995;

(f) Management's Information Circular dated March 1, 1996 sent in connection with the Company's annual meeting of shareholders to be held on April 17, 1996;

(g) the material change report dated February 29, 1996 regarding the Company's agreement to acquire SARC and the material change report dated March 7, 1996 regarding the Company's offering of 1,100,000 subordinate voting shares; and

(h) the pro forma financial statements of the Company and certain financial statements of SARC (attached as Annex B and Annex C, respectively, to this Prospectus).

Any documents of the type referred to in the preceding paragraphs, and any material change reports (excluding confidential material change reports), filed by the Company with the various securities commissions or similar authorities in the provinces of Canada after the date of this Prospectus and prior to the termination of this offering will be deemed to be incorporated by reference into this Prospectus.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference in this Prospectus will be deemed to be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein, or in any subsequently filed document which also is or is deemed to be incorporated by reference herein, modifies or replaces that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modified or superseded. The making of a modifying or superseding statement will not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstance in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Upon a new Annual Information Form and annual financial statements being filed with and, where required, accepted by the Ontario Securities Commission during the currency of this Prospectus, the previous Annual Information form, the previous annual financial statements and all interim financial statements, material change reports and information circulars filed prior to the commencement of the then current fiscal year will be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Notes hereunder.

A Prospectus Supplement containing the specific terms of an offering of Notes will be delivered to purchasers of such Notes together with this Prospectus and will be deemed to be incorporated into this Prospectus as of the date of such Prospectus Supplement and only for purposes of the offering of Notes covered by that Prospectus Supplement.

Where the Company updates its disclosure of asset and interest coverage ratios by a Prospectus Supplement, the Prospectus Supplement filed with applicable securities regulatory authorities that contains the most recent updated disclosure of asset and interest coverage ratios and any Prospectus Supplement supplying any additional or updated information the Company may elect to include (provided that such information does not describe a material change that has not already been the subject of a material change report or a prospectus amendment) will be delivered to purchasers of Notes together with this Prospectus and will be deemed to be incorporated into this Prospectus as of the date of the Prospectus Supplement.

AVAILABLE INFORMATION

Information has been incorporated by reference in this Prospectus from documents filed with the Ontario Securities Commission. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of the Company, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7, telephone (416) 367-4941. The Company's registered office is located at the above-mentioned address.

The Company has filed with the Securities and Exchange Commission (the "Commission") under the Securities Act a Registration Statement on Form F-9 relating to the Notes and of which this Prospectus is a part. This Prospectus does not contain all of the information set forth in such Registration Statement, to which reference is made for further information.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 and in accordance therewith files reports and other information with the Commission. Under a multijurisdictional disclosure system adopted by the United States, such reports and other information may be prepared in accordance with the disclosure requirements of Canada, which requirements are different from those of the United States. Such reports and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549; Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and Seven World Trade Center (13th Floor), New York, New York 10048; and copies of such material may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates.

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the Commission as part of the Registration Statement of which this Prospectus forms a part: resolutions of the Board of Directors of the Company dated March 29, 1996; the comparative consolidated financial statements of the Company and the notes thereto as at and for the years ended December 31, 1995 and 1994, together with the auditors' report thereon (attached as Annex A to this Prospectus); Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company for the year ended December 31, 1995; the Annual Information Form of the Company dated May 16, 1995; Management's Discussion and Analysis of Financial Condition and Results of Operations of Lindsey Morden for the year ended December 31, 1994; the Annual Information Form of Lindsey Morden dated May 4, 1995; Management's Information Circular dated March 1, 1996 sent in connection with the Company's annual meeting of shareholders to be held on April 17, 1996; the material change report dated February 29, 1996 regarding the Company's agreement to acquire SARC; the material change report dated March 7, 1996 regarding the Company's offering of 1,100,000 subordinate voting shares; the pro forma financial statements of the Company and certain financial statements of SARC (attached as Annex B and Annex C, respectively, to this Prospectus); consent of Coopers & Lybrand; consent of Coopers & Lybrand L.L.P.; consent of Tory Tory DesLauriers & Binnington; consent of Shearman & Sterling; powers of attorney; Indenture; and the Statement of Eligibility on Form T-1 of Bank of Montreal Trust Company.

CERTIFICATE OF THE COMPANY

Dated: April 9, 1996

The foregoing, together with the documents incorporated herein by reference, as of the date of each supplement hereto, will constitute full, true and plain disclosure of all material facts relating to the securities offered by this prospectus and such supplement as required by the securities laws of the Province of Ontario.

(Signed) V. PREM WATSA Chairman and Chief Executive Officer	(Signed) JOHN C. VARNELL Vice President and Chief Financial Officer

On behalf of the Board of Directors

(Signed) JOHN C. PUDDINGTON Director	(Signed) KENNETH R. POLLEY Director

ANNEX A

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS
OF
FAIRFAX FINANCIAL HOLDINGS LIMITED

Years Ended December 31, 1995 and 1994

Consolidated Financial Statements

for the years ended December 31, 1995 and 1994

Consolidated Balance Sheets

as at December 31, 1995 and 1994

	1995 *($000)*	1994 *($000)*
Assets		
Cash and short term investments	70,354	7,242
Accounts receivable	400,153	365,430
Claims in process	15,390	14,842
Income taxes refundable	18,530	9,845
Prepaid expenses	12,575	10,189
	517,002	407,548
Portfolio investments		
Subsidiary cash and short term investments	256,677	263,784
Bonds (market value – $821,244; 1994 – $775,564)	799,507	793,113
Preferred stocks (market value – $160,298; 1994 – $158,053)	154,646	159,388
Common stocks (market value – $373,990; 1994 – $314,484)	386,907	326,568
Total (market value – $1,612,209; 1994 – $1,511,885)	1,597,737	1,542,853
Deferred premium acquisition costs	84,859	82,656
Deferred income taxes	34,163	39,908
Capital assets (note 2)	33,763	29,832
Goodwill	46,449	51,388
Other assets	18,878	19,226
	2,332,851	2,173,411

Signed on behalf of the Board

V. P. Watsa

Director, V. Prem Watsa

Director, Robbert Hartog

	1995	1994
	($000)	*($000)*
Liabilities		
Bank indebtedness (note 3)	7,621	8,875
Accounts payable and accrued liabilities	168,404	168,245
Premium deposits	10,929	7,541
	186,954	184,661
Provision for claims	912,655	921,674
Unearned premiums	431,533	417,318
Long term debt (note 4)	310,236	240,494
	1,654,424	1,579,486
Non-controlling interest	18,919	17,315

Shareholders' Equity		
Capital stock (note 5)	225,295	227,803
Retained earnings	247,259	164,146
	472,554	391,949
	2,332,851	2,173,411

Consolidated Statements of Earnings

for the years ended December 31, 1995 and 1994

	1995 ($000)	1994 ($000)
Revenue		
Premiums earned	829,340	400,559
Claims fees	154,914	156,093
Interest and dividends	89,354	58,219
Realized gains on investments	71,912	20,026
	1,145,520	634,897
Expenses		
Losses on claims	614,059	296,641
Operating expenses	304,969	240,695
Interest expense	21,171	13,195
Commissions, net	109,404	38,407
	1,049,603	588,938
Earnings before income taxes	95,917	45,959
Provision for income taxes (note 7)	6,455	7,347
Earnings from operations	89,462	38,612
Non-controlling interest	(1,965)	(507)
Net earnings	87,497	38,105
Net earnings per share (note 11)	$9.79	$4.66

Consolidated Statements of Retained Earnings

for the years ended December 31, 1995 and 1994

	1995 ($000)	1994 ($000)
Retained earnings – beginning of year	164,146	126,041
Net earnings for the year	87,497	38,105
Excess over stated value of shares purchased for cancellation (note 5)	(4,384)	–
Retained earnings – end of year	247,259	164,146

Consolidated Statements of Changes in Cash Resources

for the years ended December 31, 1995 and 1994

	1995 ($000)	1994 ($000)
Operating activities		
Earnings from operations	89,462	38,612
Amortization	12,699	9,429
Deferred income taxes	(805)	4,219
Gains on investments	(71,912)	(20,026)
	29,444	32,234
Increase (decrease) in provision for claims	(9,019)	15,825
Increase in unearned premiums	14,215	15,048
Decrease in cash funds resulting from changes in other operating working capital items	(36,246)	(46,619)
Cash resources provided by (used in) operating activities	(1,606)	16,488
Investing activities		
Investments – net sales (purchases)	9,576	(139,151)
Purchase of capital assets	(13,200)	(5,118)
Purchase of subsidiary, net of cash acquired	-	(54,956)
	(3,624)	(199,225)
Financing activities		
Net capital stock transactions (note 5)	(6,892)	74,365
Increase in long term debt, net (note 4)	69,742	93,744
Change in non-controlling interest	(361)	(638)
	62,489	167,471
Increase (decrease) in cash resources	57,259	(15,266)
Cash resources – beginning of year	262,151	277,417
Cash resources – end of year	319,410	262,151

Cash resources consist of cash and short term investments less bank indebtedness.

Notes To Consolidated Financial Statements

for the years ended December 31, 1995 and 1994
(in $000s except per share amounts and as otherwise indicated)

1. Summary of Significant Accounting Policies

Business operations

The company is a financial services holding company which through its subsidiaries is engaged in the insurance of property, casualty and life risks, investment management and the provision of claims adjusting, appraisal and loss management services in Canada and the United States.

Principles of consolidation

The consolidated financial statements include the accounts of the company and all of its subsidiaries: Markel Insurance Company of Canada, Federated Insurance Holdings of Canada Ltd., Commonwealth Insurance Company, Wentworth Insurance Company Ltd., Ranger Insurance Company, Lombard General Insurance Company of Canada (formerly The Continental Insurance Company of Canada Inc.), CRC (Bermuda) Reinsurance Limited and Hamblin Watsa Investment Counsel Ltd., all 100% owned; and Lindsey Morden Group Inc. (formerly Morden & Helwig Group Inc.), 57% equity and 92% voting interest. Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition. Divestitures are included up to the date of disposal.

Premiums

Insurance premiums are taken into income evenly throughout the terms of the related policies. As premium deposits secure the payment of premiums and are refundable, they are not taken into income unless default in payment of premiums occurs.

Claims in process

The company records its inventory of claims in process at its estimated value at year-end, based on a determination of the claims in process at year-end through a complete physical count of related files. Claims adjustment fees arising therefrom are accounted for on an estimated percentage-of-completion basis.

Deferred premium acquisition costs

The costs incurred in acquiring insurance premiums are deferred, to the extent that they are considered recoverable, and amortized over the same period as the related premiums are taken into income.

Investments

Bonds are carried at amortized cost providing for the amortization of the discount or premium on a straight line basis to maturity. Preferred and common stocks are carried at cost. When there has been a loss in value of an investment that is other than temporary, the investment is written down to its estimated net realizable value. Such writedowns are reflected in realized gains (losses) on investments. At December 31, 1995 the aggregate provision for losses on investments was $8.9 million (1994 – $6.9 million).

Investment income

Investment income is recorded as it accrues. Dividends are recorded as income on the record date. Gains and losses realized on the disposal of investments are taken into income on the date of disposal.

Provision for claims

Claim provisions are established by the case method as claims are reported. The provisions are subsequently adjusted as additional information on the estimated amount of a claim becomes known during the course of its settlement. A provision is also made for management's calculation of the future development of claims including claims incurred but not reported based on the volume of business currently in force and the historical experience on claims.

Translation of foreign currencies

Assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Income and expenses are translated at the exchange rates in effect at the date incurred. Realized gains and losses on foreign exchange are recognized in the statements of earnings.

The operations of the company's subsidiaries in the United States are self-sustaining. As a result, the assets and liabilities of these subsidiaries are translated at the year-end rates of exchange. Revenue and expenses are translated at the average rate of exchange for the years. The unrealized gains and losses, if material, which result from translation would be deferred and included in shareholders' equity under a caption "currency translation adjustment".

The company enters into foreign currency contracts from time to time to hedge the foreign currency exposure related to its net investments in self-sustaining foreign operations. Such contracts are translated at the year-end rates of exchange and a corresponding adjustment, if material, would be included in the currency translation adjustment account in shareholders' equity.

Goodwill

The difference between purchase cost and the fair value of the net assets of acquired businesses is amortized on a straight line basis over their estimated useful life which ranges from 10 years for Hamblin Watsa Investment Counsel Ltd. and Ranger Insurance Company to 40 years for Lindsey Morden Group Inc. The company assesses the continuing value of goodwill based on the underlying cash flows and operating results of the subsidiaries.

2. Capital Assets

	1995 ($000)	1994 ($000)
Land and buildings	5,302	5,360
Furniture and equipment	55,924	45,197
Leasehold improvements	9,582	4,147
Automobiles under capital lease	968	1,044
	71,776	55,748
Accumulated amortization	38,013	25,916
	33,763	29,832

Amortization for the year was $9,269 (1994 - $5,755).

3. Bank Indebtedness

Bank indebtedness is $7,621 (1994 - $8,875) for which a general assignment of accounts receivable and claims in process of subsidiaries of Lindsey Morden Group Inc. have been pledged as security. Interest expense on bank indebtedness amounted to $1,200 (1994 - $1,071).

4. Long Term Debt

The long term debt at December 31 consists of the following balances:

	1995 ($000)	1994 ($000)
Fairfax unsecured senior notes of US$100 million at 7.75% due December 15, 2003	136,520	140,280
Fairfax unsecured senior notes of US$100 million at 8.25% due October 1, 2015	136,520	–
Fairfax unsecured senior note at 7.75% due December 15, 2003	25,000	25,000
Fairfax unsecured bank term credits due December 30, 1999 at short term BA rates of 6.10% per annum at December 31, 1994	–	60,000
Long term debt of Lindsey Morden Group Inc. at an average annual rate of 8.01% during 1995 (1994 – 7.25%)	12,196	15,214
	310,236	240,494

Interest expense on long term debt amounted to $19,971 (1994 - $12,124).

Principal repayments on these loans are due as follows:

	($000)
1996	1,672
1997	12,077
1998	119
1999	–
2000	–
Thereafter	298,040
	311,908
Less: current portion	1,672
	310,236

5. Capital Stock

Authorized capital

The authorized share capital of the company consists of an unlimited number of preferred shares issuable in series, an unlimited number of multiple voting shares carrying ten votes per share and an unlimited number of subordinate voting shares carrying one vote per share.

Issued capital

	1995		**1994**	
	number	*($000)*	*number*	*($000)*
Subordinate voting shares	8,120,658	239,317	8,205,758	241,825
Multiple voting shares	1,548,000	5,000	1,548,000	5,000
	9,668,658	244,317	9,753,758	246,825
Interest in shares held through ownership interest in shareholder	(799,230)	(19,022)	(799,230)	(19,022)
Net effectively outstanding	8,869,428	225,295	8,954,528	227,803

On October 12, 1994 the company issued 1,000,000 subordinate voting shares at $76 per share, for net proceeds of $74,365.

In 1995, under the terms of a normal course issuer bid approved by The Toronto Stock Exchange, the company purchased and cancelled 85,100 subordinate voting shares for an aggregate cost of $6,892, of which $4,384 was charged to retained earnings.

6. Reinsurance

The company follows the policy of underwriting and reinsuring contracts of insurance, which generally limits the liability of the individual insurance companies to a maximum amount on any one loss of $500 to $2,500, varying by line of business. Reinsurance is generally placed on an excess of loss basis in several layers. This reinsurance does not relieve the company of its primary obligation to the policyholders. As at December 31, 1995 provision for claims reflects recoveries from reinsurers of $469,565 (1994 – $408,566). During the year the company ceded $349,932 (1994 – $188,740) of premium income and $318,789 (1994 – $227,929) of claims incurred.

7. Income Taxes

The provision for income taxes differs from the statutory marginal rate as certain sources of income are exempt from tax or are taxed at other than the marginal rate.

A reconciliation of income tax calculated at the statutory marginal tax rate with the income tax provision at the effective tax rate in the financial statements is summarized in the following table:

	1995 *($000)*	**1994** *($000)*
Provision for taxes at statutory marginal income tax rate	41,583	21,798
Non-taxable investment income	(8,689)	(9,743)
Recovery of claims on non-taxable purchase price adjustment	–	(3,732)
Income earned outside Canada	(3,451)	(246)
Utilization of prior years' losses and other	(22,988)	(730)
Provision for income taxes	6,455	7,347

As at December 31, 1995 tax losses were insignificant.

8. Statutory Requirements - Insurance Subsidiaries

Payments of dividends by the company's insurance subsidiaries are governed by insurance statutes and regulations.

9. Contingencies and Commitments

Subsidiaries of the company are defendants in several damage suits and have been named as third party in other suits. The uninsured exposure to the company is not considered to be material.

The company may under certain circumstances be obligated to purchase loans to officers and directors of the company and its subsidiaries from a Canadian chartered bank totalling $11,135 (1994 - $8,728) for which 399,092 (1994 - 478,292) subordinate voting shares of the company with a year-end market value of $39,111 (1994 - $32,045) have been pledged as security.

At December 31, 1995 the company had net foreign currency contracts outstanding to sell the equivalent of US$80 million, primarily to hedge future earnings from U.S. subsidiaries and U.S. portfolio investments in Canadian subsidiaries.

10. Operating Leases

Aggregate future commitments at December 31, 1995 under operating leases relating to premises, automobiles and equipment for various terms up to ten years are as follows:

	($000)
1996	30,200
1997	24,500
1998	19,300
1999	13,800
2000	12,100
Thereafter	31,100
	131,000

11. Earnings per Share

Fully diluted and basic earnings per share are the same in 1995 and 1994. Basic earnings per share are $9.79 for 1995 and $4.66 for 1994. The weighted average number of shares for 1995 was 8,933,098 (1994 – 8,173,706).

12. Acquisitions

Effective November 30, 1994 the company purchased Lombard General Insurance Company of Canada (then The Continental Insurance Company of Canada) of Toronto, Ontario. The purchase price of $155 million was paid $130 million cash and a $25 million 7.75% note due December 15, 2003. At November 30, 1994 Lombard had $904 million in total assets and $741 million in total liabilities, at fair values. The vendor has agreed to indemnify Fairfax, to a maximum of $40 million, for any inadequacy in Lombard's provision for claims as at December 31, 1993, any of Lombard's reinsurance relating to the period up to December 31, 1993 which subsequently becomes unrecoverable, and any defaults under the purchase agreement. Certain of the vendor's marketable bonds have been pledged as security for this indemnity. The vendor may be entitled to additional consideration of up to $10 million based on future years' results and 50% of any redundancy in Lombard's provision for claims as at December 31, 1993.

Lombard is engaged in the property and casualty insurance business in Canada. Net premiums earned for the year ended December 31, 1994 amounted to $390 million.

13. Segmented Information

The company is a financial services holding company which through its subsidiaries is engaged in the insurance of property, casualty and life risks, investment management (included in "Corporate") and the provision of claims adjusting and appraisal and loss management services in Canada and the United States.

(a) *Industry segments*

	Insurance		Claims Adjusting, Appraisal and Loss Management		Corporate and Consolidation Adjustments		Consolidated	
	1995 ($000)	*1994 ($000)*	*1995 ($000)*	*1994 ($000)*	*1995 ($000)*	*1994 ($000)*	*1995 ($000)*	*1994 ($000)*
Revenue	985,916	478,995	154,914	156,093	4,690	(151)	1,145,520	634,897
Earnings before income taxes	102,920	59,006	8,083	3,036	(15,086)	(16,083)	95,917	45,959
Identifiable assets	2,155,779	2,041,614	96,836	95,908	80,236	35,889	2,332,851	2,173,411
Amortization	7,691	4,357	3,618	3,682	1,390	1,390	12,699	9,429
Interest expense	–	–	2,875	2,822	18,296	10,373	21,171	13,195

(b) *Geographic segments*

	Canada		United States		Total	
	1995 ($000)	*1994 ($000)*	*1995 ($000)*	*1994 ($000)*	*1995 ($000)*	*1994 ($000)*
Revenue	766,783	269,877	378,737	365,020	1,145,520	634,897
Earnings before income taxes	54,640	26,576	41,277	19,383	95,917	45,959
Identifiable assets	1,591,038	1,437,151	741,813	736,260	2,332,851	2,173,411
Amortization	10,552	7,348	2,147	2,081	12,699	9,429
Interest expense	20,415	12,408	756	787	21,171	13,195

CRC (Bermuda) Reinsurance is included in the Canadian segment and Wentworth Insurance is included in the United States segment.

14. Subsequent Event

On February 21, 1996 the company announced that it had agreed to purchase Skandia America Reinsurance Corporation for about US$230 million cash. At December 31, 1995 Skandia had US$1.3 billion in total assets and shareholders' equity of US$344 million. Skandia is engaged in the property and casualty reinsurance business in the United States and Canada, and gross premiums written in 1995 were US$205 million. Completion of the purchase is subject to various closing conditions including applicable regulatory approvals.

February 7, 1996 (February 21,1996 as to note 14)

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Fairfax Financial Holdings Limited as at December 31, 1995 and 1994 and the consolidated statements of earnings, retained earnings and changes in cash resources for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
Toronto, Ontario

February 7, 1996

Valuation Actuary's Report

Coopers & Lybrand has valued the policy liabilities of the subsidiary insurance companies of Fairfax Financial Holdings Limited in its consolidated balance sheet at December 31, 1995 and their change as reflected in its consolidated statement of earnings for the year then ended in accordance with accepted actuarial practice except as described in the following paragraph.

Under accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Pursuant to the authority granted by the Insurance Companies Act, the Superintendent of Financial Institutions has directed that the valuation of some policy liabilities not reflect the time value of money. Our valuation complies with that directive.

In our opinion the valuation is appropriate, except as noted in the previous paragraph, and the consolidated financial statements fairly present its results.

Coopers & Lybrand

Coopers & Lybrand
Richard Gauthier, FCIA, FCAS
Toronto, Ontario

ANNEX B

PRO FORMA CONSOLIDATED
FINANCIAL STATEMENTS
OF
FAIRFAX FINANCIAL HOLDINGS LIMITED

Year Ended December 31, 1995

COMPILATION REPORT

To the directors of
FAIRFAX FINANCIAL HOLDINGS LIMITED

We have reviewed as to compilation only the accompanying pro forma consolidated balance sheet as at December 31, 1995 and pro forma consolidated statements of earnings and changes in cash resources for the year then ended of Fairfax Financial Holdings Limited which have been prepared by the Company for inclusion in the accompanying prospectus relating to the sale and issue of Notes. In our opinion, the pro forma consolidated balance sheet and pro forma consolidated statements of earnings and changes in cash resources have been properly compiled to give effect to the proposed transaction and the assumptions described in note 2 hereto.

(signed) COOPERS & LYBRAND
Chartered Accountants

Toronto, Ontario
April 9, 1996

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Balance Sheet as at December 31, 1995
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Consolidated Balance Sheet
	(US $000)	($000)	($000)	($000)	($000)
Assets					
Cash and short term investments	—	—	70,354	163,300 3(b) (314,406) 3(c)	(80,752)
Accounts receivable	169,694	231,666	400,153		631,819
Claims in process	—	—	15,390		15,390
Income taxes refundable	11,855	16,184	18,530		34,714
Prepaid expenses	—	—	12,575		12,575
	181,549	247,850	517,002		613,746
Portfolio Investments					
Subsidiary cash and short term investments	77,007	105,130	256,677		361,807
Bonds	1,038,599	1,417,895	799,507		2,217,402
Preferred stocks	6,019	8,217	154,646		162,863
Common stocks	87,352	119,253	386,907		506,160
Other investments	7,496	10,234	—		10,234
Total	1,216,473	1,660,729	1,597,737		3,258,466
Investment in unconsolidated subsidiary	37,124	50,682	—	(50,682) 3(a)	—
Deferred income taxes	52,684	71,924	34,163		106,087
Reinsurance recoverable	499,116	681,393	—	(681,393) 3(d)	—
Deferred premium acquisition costs	18,261	24,930	84,859		109,789
Capital assets	—	—	33,763		33,763
Goodwill	—	—	46,449		46,449
Other assets	14,652	20,003	18,878		38,881
	2,019,859	2,757,511	2,332,851	(883,181)	4,207,181

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Balance Sheet as at December 31, 1995 (continued)
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Consolidated Balance Sheet
	(US $000)	($000)	($000)	($000)	($000)
Liabilities					
Bank indebtedness	—	—	7,621		7,621
Accounts payable and accrued liabilities	149,527	204,134	168,404	20,478 3(c)	393,016
Premium deposits	—	—	10,929		10,929
	149,527	204,134	186,954	20,478	411,566
Provision for claims	1,395,705	1,905,416	912,655	134,428 3(c) (660,264) 3(d)	2,292,235
Unearned premiums	93,735	127,967	431,533	(21,129) 3(d)	538,371
Long term debt	—	—	310,236		310,236
	1,489,440	2,033,383	1,654,424	(546,965)	3,140,842
Non-controlling interest	—	—	18,919		18,919
Shareholders' Equity					
Capital stock	7,500	10,239	225,295	163,300 3(b) (10,239) 3(c)	388,595
Additional paid-in capital	289,763	395,584	—	(50,682) 3(c) (344,902) 3(c)	—
Net unrealized gain on investments	47,471	64,807	—	(64,807) 3(c)	—
Cumulative translation adjustment	(702)	(958)	—	958 3(c)	—
Retained earnings	36,860	50,322	247,259	(50,322) 3(c)	247,259
	380,892	519,994	472,554	(356,694)	635,854
	2,019,859	2,757,511	2,332,851	(883,181)	4,207,181

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Statement of Earnings for the Year Ended December 31, 1995
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Consolidated Statement of Earnings
	(US $000)	($000)	($000)	($000)	($000)
Revenue					
Premiums earned	106,440	146,100	829,340	(61,254) 3(f)	914,186
Claims fees	—	—	154,914		154,914
Interest and dividends	67,017	91,988	89,354		181,342
Realized gains on investments	51,518	70,714	71,912		142,626
Equity in net loss of unconsolidated subsidiary	(3,373)	(4,630)	—	4,630 3(e)	—
	221,602	304,172	1,145,520	(56,624)	1,393,068
Expenses					
Losses on claims	153,308	210,431	614,059	(53,660) 3(f)	770,830
Operating expenses	35,637	48,915	304,969	(2,360) 3(g)	351,524
Interest expense	—	—	21,171		21,171
Commissions, net	52,214	71,669	109,404	(24,357) 3(f)	156,716
	241,159	331,015	1,049,603	(80,377)	1,300,241
Earnings (loss) before income taxes	(19,557)	(26,843)	95,917	23,753	92,827
Provision for (recovery of) income taxes	(5,722)	(7,854)	6,455	5,867 3(f)	4,468
Earnings (loss) from operations	(13,835)	(18,989)	89,462	17,886	88,359
Non-controlling interest	—	—	(1,965)		(1,965)
Net earnings (loss)	(13,835)	(18,989)	87,497	17,886	86,394
Pro forma consolidated earnings per share 3(h)					$8.63

The pro forma consolidated statement of earnings excludes the impact on revenues and expenses related to certain purchase price adjustments on the acquisition of SARC as discussed in note 2(d) to these statements. This statement is not intended to reflect the results of operations that would have actually occurred had the transaction been effected on January 1, 1995, nor the results which may be obtained in the future.

FAIRFAX FINANCIAL HOLDINGS LIMITED

Pro Forma Consolidated Statement of Changes in Cash Resources for the Year Ended December 31, 1995
(in Canadian dollars unless otherwise stated)
(unaudited)

	SARC		Fairfax	Pro Forma Adjustments	Pro Forma Statement of Changes in Cash Resources
	(US $000)	*($000)*	*($000)*	*($000)*	*($000)*
Operating Activities					
Earnings (loss) from operations	(13,835)	(18,989)	89,462	(61,254) 3(f) 53,660 3(f) 24,357 3(f) (5,867) 3(f) 2,360 3(g)	83,729
Amortization	(925)	(1,270)	12,699		11,429
Deferred income taxes	(2,720)	(3,733)	(805)		(4,538)
Gains on investments	(51,518)	(70,714)	(71,912)		(142,626)
	(68,998)	(94,706)	29,444	13,256	(52,006)
Equity in net loss of unconsolidated subsidiary	3,373	4,630	—	(4,630) 3(e)	—
Decrease in provision for claims	(54,321)	(74,561)	(9,019)		(83,580)
Increase in unearned premiums	9,761	13,398	14,215		27,613
Decrease (increase) in cash funds resulting from changes in other operating working capital items	86,283	118,433	(36,246)	4,630 3(e)	86,817
Cash resources provided by operating activities	(23,902)	(32,806)	(1,606)	13,256	(21,156)
Investing Activities					
Investments — net sales (purchases)	(88,493)	(121,465)	9,576	50,682 3(a)	(61,207)
Purchase of capital assets	—	—	(13,200)		(13,200)
Investment in Skandia	—	—	—	(314,406) 3(c)	(314,406)
Other assets	(4,102)	(5,630)	—		(5,630)
	(92,595)	(127,095)	(3,624)	(263,724)	(394,443)
Financing Activities					
Net capital stock transactions	—	—	(6,892)	163,300 3(b)	156,408
Dividends	(2,500)	(3,432)	—		(3,432)
Increase (decrease) in long term debt	—	—	69,742		69,742
Increase in non-controlling interest	—	—	(361)		(361)
	(2,500)	(3,432)	62,489	163,300	222,357
Increase (decrease) in cash resources	(118,997)	(163,333)	57,259	(87,168)	(193,242)
Cash resources — beginning of year	196,004	268,463	262,151		530,614
Cash resources — end of year	77,007	105,130	319,410	(87,168)	337,372

Cash resources consist of cash and short term investments less bank indebtedness.

FAIRFAX FINANCIAL HOLDINGS LIMITED

Notes to the Pro Forma Consolidated Balance Sheet and
Pro Forma Consolidated Statements of Earnings
and Changes in Cash Resources as at and for the year ended December 31, 1995
(unaudited)

(1) Basis of Presentation

The pro forma consolidated balance sheet and pro forma consolidated statements of earnings and changes in cash resources have been prepared using the following information:

(a) audited consolidated financial statements of Fairfax Financial Holdings Limited ("Fairfax") for the fiscal year ended December 31, 1995, which are included and incorporated by reference in this Prospectus;

(b) audited consolidated financial statements of Skandia America Reinsurance Corporation ("SARC") for the fiscal year ended December 31, 1995, which are included in this Prospectus; and

(c) such other supplementary information as was considered necessary to reflect the proposed transaction in these pro forma financial statements.

The consolidated balance sheet of SARC as at December 31, 1995 has been translated into Canadian dollars at the December 31, 1995 exchange rate of $1.3652 per US$1.00. The consolidated statements of earnings and changes in cash resources have been translated using the average exchange rate for 1995 of $1.3726 per US$1.00.

The pro forma consolidated financial statements of Fairfax should be read in conjunction with the consolidated financial statements, including notes thereto, of Fairfax and SARC.

The pro forma consolidated statement of earnings is not intended to reflect the results of operations that would have actually occurred had the transaction been effected on January 1, 1995, nor the results which may be obtained in the future.

Certain of the financial statement items of SARC have been reclassified to conform to the presentation format used by Fairfax, including the elimination of the gross-up of SARC's reinsurance recoverables described in note 3(d) below.

(2) Pro Forma Assumptions

(a) The acquisition by Fairfax, pursuant to a stock purchase agreement dated February 20, 1996, of all of the issued and outstanding shares of SARC, subject to various closing conditions including applicable regulatory approvals, for US$230.3 million, cash.

(b) Effective December 31, 1995, SARC's ultimate parent entered into a stop loss reinsurance agreement with SARC. Pursuant to the agreement, SARC ceded premiums of US$60.5 million for an aggregate limit of US$175.0 million in excess of its December 31, 1995 reserves for unpaid losses and allocated loss adjustment expenses and potentially uncollectible reinsurance recoverables, subject to an annual aggregate limit of US$17.5 million. If the annual aggregate limit is not fully utilized, the unused portion is carried forward to subsequent years. No cessions had been made pursuant to this agreement as of December 31, 1995.

(c) The acquisition of SARC has been accounted for using the purchase method. Fairfax expects to finance the aggregate purchase price of US$230.3 million using the proceeds of an equity offering (as described below) and the net proceeds from the sale of the Notes offered hereby.

Notes to the Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statements of Earnings and Changes in Cash Resources as at and for the year ended December 31, 1995 (unaudited) — (continued)

The purchase price accounting, based on information available as of December 31, 1995, is estimated as follows:

	US $000	$000
Total assets	2,019,859	2,757,511
less: investment in unconsolidated subsidiary	(37,124)	(50,682)
Adjusted assets at fair value	1,982,735	2,706,829
Total liabilities	1,638,967	2,237,517
Provision for operating leases in excess of market rates and other	15,000	20,478
Adjusted liabilities at fair values	1,653,967	2,257,995
Net assets at fair value	328,768	448,834
Purchase price	230,300	314,406
Excess of net assets over purchase price	98,468	134,428

The excess of net assets acquired over the purchase price paid represents negative goodwill. It has been allocated to provision for claims and will be amortized to income pro rata based on the related payout of pre-acquisition losses, calculated on an ultimate loss basis.

(d) The pro forma consolidated statement of earnings has not been adjusted to reflect the amortization of the negative goodwill because the timing of the payout of pre-acquisition losses is not objectively determinable. The amortization of the difference between fair value and amortized cost of fixed income securities has also not been reflected in the pro forma consolidated statement of earnings as the amortization period is not objectively determinable on a pro forma basis as it is affected by changes in the composition of the portfolio which occurred during 1995 and because the terms of certain securities allow prepayment prior to maturity dates.

(e) The issuance of 1,100,000 subordinate voting shares for net cash proceeds (after underwriters' fees and expenses of issue) of $163.3 million (the "Equity Offering") pursuant to an underwritten private placement on March 26, 1996.

(3) Pro Forma Adjustments (in $000's)

The pro forma adjustments contained in these pro forma consolidated financial statements are based on estimates and assumptions by management of Fairfax based on available information. The adjustments for the actual acquisition may differ as a result of changes arising from evaluation of fair values of SARC's net assets by Fairfax after the effective date of acquisition. The following adjustments have been made to reflect the proposed transactions:

(a) To reflect the transfer to the vendor of the investment in unconsolidated subsidiary, for no consideration to SARC. However, SARC will be protected from any current or future liability relating to the unconsolidated subsidiary.

(b) To reflect the issuance of 1,100,000 subordinate voting shares in the Equity Offering, for net cash proceeds of $163,300.

(c) To reflect the acquisition of SARC for $314,406 (which is expected to be financed with the net proceeds from the sale of the Notes and net cash proceeds from the Equity Offering). SARC's shareholders' equity has been eliminated, with the excess of the shareholders' equity over the purchase price being allocated as set out in note 2(c) above.

Notes to the Pro Forma Consolidated Balance Sheet and Pro Forma Consolidated Statements of Earnings and Changes in Cash Resources as at and for the year ended December 31, 1995 (unaudited) — (continued)

(d) To eliminate the gross-up of reinsurance recoverables of $681,393 (recorded by SARC in accordance with US generally accepted accounting principles) to conform with Fairfax's basis of presentation (prepared in accordance with Canadian generally accepted accounting principles).

(e) The investment in unconsolidated subsidiary will be transferred to the vendor from SARC prior to closing. Accordingly, the loss from subsidiary of $4,630 has been excluded from the pro forma consolidated statement of earnings.

(f) To eliminate contracts written by SARC with affiliated companies which were sold by the vendor on December 1, 1995, which contracts expired and were not renewed:

	US $000	$000
Premiums earned	44,626	61,254
Losses on claims	39,094	53,660
Commissions (net)	17,745	24,357
Underwriting loss	(12,213)	(16,763)
Tax effect	4,275	5,867

(g) To reflect the annual amortization of the provision for operating leases in excess of market rates of $2,360 (US$1,730).

(h) The pro forma consolidated earnings per share has been calculated based on the pro forma net earnings of $86,394 and Fairfax's weighted average number of outstanding shares for 1995 adjusted for the issuance of 1,100,000 subordinate voting shares pursuant to the Equity Offering as if they had been issued at the beginning of the year ended December 31, 1995.

(4) Stop Loss Reinsurance (in $000's)

Effective December 31, 1995, SARC entered into a reinsurance agreement with its then ultimate parent whereby SARC ceded $82,600 (US $60,500) of premiums for excess of loss coverage of $238,900 (US $175,000) net of the related tax effect of $28,900 (US $21,200). The premiums ceded were recorded as an expense by SARC in the year ended December 31, 1995 and have not been adjusted in the pro forma consolidated statement of earnings. This type of arrangement is not expected to recur.

ANNEX C

AUDITED CONSOLIDATED FINANCIAL STATEMENTS *OF* SKANDIA AMERICA REINSURANCE CORPORATION

As at December 31, 1995 and 1994 and for the Years Ended December 31, 1995, 1994 and 1993

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholder and Board of Directors
of Skandia America Reinsurance Corporation

We have audited the accompanying consolidated balance sheets of Skandia America Reinsurance Corporation and Subsidiaries as of December 31, 1994 and 1995 and the related consolidated statements of operations, stockholder's equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Skandia America Reinsurance Corporation and Subsidiaries at December 31, 1994 and 1995 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with accounting principles generally accepted in the United States.

Coopers & Lybrand L.L.P.

Coopers & Lybrand L.L.P.

New York, New York
February 28, 1996

SKANDIA AMERICA REINSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31,
(In thousands, except share amounts)

	1994	1995
ASSETS		
Investments:		
Fixed income securities at fair value (amortized cost $814,870 and $1,002,765, respectively)	$ 762,294	$1,038,599
Equity securities:		
Common stocks, at fair value (cost $105,897 and $57,297, respectively)	130,928	87,352
Preferred stocks, at fair value (cost $2,560 and $5,631, respectively)	2,546	6,019
Short-term investments, at cost which approximates fair value	-	37,470
Other invested assets, at fair value (cost $2,808 and $6,938, respectively)	2,808	7,496
Total investments	898,576	1,176,936
Cash and cash equivalents	196,004	39,537
Investment income due and accrued	12,459	13,557
Reinsurance balances receivable	150,115	127,469
Reinsurance recoverable on loss payments	41,016	18,581
Reinsurance recoverable on unpaid losses	550,857	483,639
Prepaid reinsurance premiums	29,636	15,477
Funds held by ceding insurers	10,411	10,087
Deferred acquisition costs	20,301	18,261
Current federal and foreign income taxes	-	11,855
Deferred federal and foreign income taxes	78,560	52,684
Investment in unconsolidated subsidiary	34,003	37,124
Other assets	13,053	14,652
Total assets	$2,034,991	$2,019,859
LIABILITIES		
Unpaid losses and loss adjustment expenses	$1,516,309	$1,395,705
Unearned premiums	98,128	93,735
Reinsurance balances payable	34,024	85,907
Funds held under reinsurance contracts	23,714	23,765
Current federal and foreign income taxes	4,211	-
Other liabilities	30,742	39,855
Total liabilities	1,707,128	1,638,967
STOCKHOLDER'S EQUITY		
Common stock, $300 par value; 25,000 shares authorized, issued and outstanding	7,500	7,500
Additional paid-in capital	289,763	289,763
Unrealized net (depreciation) appreciation of investments, net of deferred income tax (benefit) provision of $(9,370) and $22,723, respectively	(21,321)	47,471
Cumulative translation adjustments	(1,274)	(702)
Retained earnings	53,195	36,860
Total stockholder's equity	327,863	380,892
Total liabilities and stockholder's equity	$2,034,991	$2,019,859

See accompanying notes.

SKANDIA AMERICA REINSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31,
(In thousands)

	1993	1994	1995
REVENUE			
Gross premiums written	$303,906	$249,045	$212,638
Ceded premiums written	125,660	71,953	96,436
Net premiums written	178,246	177,092	116,202
Decrease (increase) in unearned premiums	80,773	291	(9,762)
Net premiums earned	259,019	177,383	106,440
Net investment income	74,655	68,248	67,017
Net realized investment gains	46,832	19,306	51,518
Equity in net loss of unconsolidated subsidiary	-	(2,169)	(3,373)
Total revenue	380,506	262,768	221,602
EXPENSES			
Losses and loss adjustment expenses	234,703	159,514	153,308
Commissions and brokerage	72,784	45,604	52,214
General expenses	21,896	17,044	20,195
Other expenses, net	4,397	6,726	15,442
Total expenses	333,780	228,888	241,159
Income (loss) before income taxes	46,726	33,880	(19,557)
Federal and foreign income tax provision (benefit):			
Current	22,928	6,287	(3,002)
Deferred	(11,182)	6,500	(2,720)
Total federal and foreign income tax provision (benefit)	11,746	12,787	(5,722)
NET INCOME (LOSS)	$ 34,980	$ 21,093	$(13,835)

See accompanying notes.

SKANDIA AMERICA REINSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
Years Ended December 31,
(In thousands)

	1993	1994	1995
COMMON STOCK			
Balance, beginning of year	$ 2,500	$ 7,500	$ 7,500
Change in par value	5,000	-	-
Balance, end of year	7,500	7,500	7,500
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	255,459	289,763	289,763
Change in par value of common stock	(5,000)	-	-
Contribution of common stock of unconsolidated subsidiary	39,304	-	-
Balance, end of year	289,763	289,763	289,763
UNREALIZED NET APPRECIATION (DEPRECIATION) OF INVESTMENTS, NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	53,923	67,808	(21,321)
Net increase (decrease) during the year	13,885	(89,129)	68,792
Balance, end of year	67,808	(21,321)	47,471
CUMULATIVE TRANSLATION ADJUSTMENTS			
Balance, beginning of year	897	(344)	(1,274)
Net (decrease) increase during the year	(1,241)	(930)	572
Balance, end of year	(344)	(1,274)	(702)
RETAINED EARNINGS			
Balance, beginning of year	67,122	43,102	53,195
Net income (loss)	34,980	21,093	(13,835)
Dividends	(59,000)	(11,000)	(2,500)
Balance, end of year	43,102	53,195	36,860
TOTAL STOCKHOLDER'S EQUITY	$407,829	$327,863	$380,892

See accompanying notes.

SKANDIA AMERICA REINSURANCE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31,
(In thousands)

	1993	1994	1995
OPERATING ACTIVITIES			
Net income (loss)	$ 34,980	$ 21,093	$ (13,835)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Reinsurance balances and funds held, net	32,061	6,494	97,448
Unearned premiums	(80,773)	(291)	9,762
Unpaid losses and loss adjustment expenses	1,164	(49,751)	(54,321)
Federal and foreign income taxes	(2,227)	4,114	(22,277)
Other assets and liabilities, net	17,705	(10,593)	6,350
Deferred acquisition costs	24,927	1,640	2,040
Net realized investment gains	(46,832)	(19,306)	(51,518)
Equity in net loss of unconsolidated subsidiary	-	2,169	3,373
Bond premium amortization, net	(883)	(245)	(925)
Net cash used in operating activities	(19,878)	(44,676)	(23,903)
INVESTING ACTIVITIES			
Maturities of fixed income securities	104,761	55,940	53,241
Sales of fixed income securities	761,856	383,132	358,822
Purchases of fixed income securities	(794,554)	(279,509)	(594,823)
Sales of equity securities	82,371	70,901	144,713
Purchases of equity securities	(90,105)	(53,658)	(50,446)
Purchases of other invested assets	-	(2,808)	(4,130)
Decrease (increase) in short-term investments	77,590	14,400	(37,470)
Purchase of minority interest of consolidated subsidiary	(18,053)	-	-
Net cash provided by (used in) investing activities	123,866	188,398	(130,093)
FINANCING ACTIVITIES			
Capital contribution	3,500	9,106	-
Dividends	(59,000)	(11,000)	(2,500)
Net cash used in financing activities	(55,500)	(1,894)	(2,500)
Effect of foreign exchange rate changes on cash flows	(34)	78	29
Increase (decrease) in cash and cash equivalents	48,454	141,906	(156,467)
Cash and cash equivalents, beginning of year	5,644	54,098	196,004
Cash and cash equivalents, end of year	$ 54,098	$196,004	$ 39,537

	1993
Noncash financing activity:	
Capital contribution of common stock of unconsolidated subsidiary	$ 39,304

See accompanying notes.

1. Organization

Skandia America Reinsurance Corporation (the Company) is a Delaware corporation which is a wholly owned subsidiary of Skandia America Corporation (SAC) which is a wholly owned subsidiary of Skandia U.S. Holding Corporation (SUSHC), a Delaware holding company. SUSHC is wholly owned by Skandia Insurance Company Ltd (publ) (SICL) of Stockholm, Sweden (see Note 17).

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Company and its wholly owned subsidiaries, Hudson Insurance Company (HIC), Skandia Canada Reinsurance Company (SCRC) and American-European Reinsurance Corporation (AERC) which was dissolved during December 1994 (prior to July 1, 1993, the Company owned 54.01% of AERC). The Company's investment in Capital Assurance Company, Inc. (CACI), a wholly owned insurance subsidiary, is reflected in the consolidated financial statements in accordance with the equity method of accounting since the Company does not exercise significant control over the operations of CACI.

2. Nature of Operations and Certain Significant Estimates

The Company is principally engaged in the business of property and casualty reinsurance. The profitability of the property and casualty reinsurance industry has been highly cyclical. The Company's business risks are generally consistent with that of the industry. The Company's profitability and the cyclical trends in the industry can be affected significantly by volatile and unpredictable developments, including changes in what management believes to be a propensity of juries to return large awards, the occurrence of natural disasters, competitive pressures on pricing (premium rates), fluctuations in interest rates, which affect market prices of investments and the income generated from those investments, and other changes in the investment environment, such as changes in economic conditions that increase default rates on fixed income investments, and by general economic conditions and trends, such as inflationary pressures, that may tend to affect the size of losses experienced by ceding primary insurers.

The preparation of the consolidated financial statements requires management to make estimates and assumptions, which could differ from actual results, that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities.

The reserves for losses and loss adjustment expenses are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates are based on assumptions related to the ultimate cost to settle such claims. The Company's reserves for losses and loss adjustment expenses are determined in accordance with sound actuarial practices and management believes that such reserves are adequate. The inherent uncertainties of estimating reserves are greater for reinsurers than for primary insurers, due to the diversity of development patterns among different types of reinsurance contracts and the necessary reliance on ceding companies for information regarding reported claims. As a result, there can be no assurance that the ultimate liability will not exceed amounts reserved with a resulting adverse affect on the Company.

3. Summary of Significant Accounting Policies

Significant accounting policies followed by the Company are summarized below:

(a) Intercompany accounts and transactions are eliminated in consolidation.

(b) Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities", requires that fixed income securities be categorized as either "held to maturity", "trading" or "available for sale." Securities classified as "held to maturity" are recorded at amortized cost, and securities classified as "trading" and " available for sale" are recorded at their fair values. Equity securities are required to be classified as either "trading" or "available for sale." The statement placed limitations on a Company's ability to categorize securities as "held to maturity."

All of the Company's fixed income securities, which include bonds, notes and redeemable preferred stocks; and equity securities, which include common and non-redeemable preferred stocks, are categorized as "available for sale", in order to provide the flexibility to respond to various factors, including changes in market conditions and tax planning considerations, and are recorded at their fair value based on quoted market prices. Accordingly, unrealized appreciation or depreciation of the Company's fixed income and equity securities, net of applicable deferred income taxes, is excluded from income, and recorded as a separate component of stockholder's equity. Short-term investments are carried at cost, which approximates fair value.

Realized investment gains or losses are determined on the basis of average cost. Investment income is recorded as earned.

(c) Premiums are taken into income over the terms of the related insurance policies and reinsurance contracts or certificates. Unearned premiums are established for the unexpired portion of insurance policies and reinsurance contracts or certificates. Such unearned premiums are computed by pro rata methods based on statistical data or reports received from ceding companies. Premium adjustments on deposit contracts and audit premiums are accrued on an estimated basis throughout the contract or policy term. Prepaid reinsurance premiums are reported as assets.

(d) Acquisition costs, consisting principally of commissions and brokerage expenses incurred on business written under insurance policies and reinsurance contracts or certificates, are deferred and amortized over the period in which the related premiums are earned. Commission adjustments are accrued based on premiums and losses recorded by the Company. Deferred acquisition costs are limited to their estimated realizable value which considers anticipated losses and loss adjustment expenses and estimated remaining costs of servicing the contracts or certificates, all based on historical experience, and anticipated investment income.

(e) The reserve for unpaid losses and loss adjustment expenses is based on reports and individual case estimates received from ceding companies. Generally accepted actuarial methodologies are utilized to determine a reserve for losses incurred but not reported on the basis of historical experience and other estimates. The reserves are reviewed continually during the year and changes in estimates are reflected in operating results currently. Accordingly, losses and loss adjustment expenses are charged to income as incurred. Reinsurance recoverables on unpaid losses and loss adjustment expenses are reported as assets. The Company does not discount any loss reserves to take into account future investment income.

(f) The Company, and its United States subsidiaries, are included in the federal income tax return as part of a consolidated tax group with SUSHC and its other eligible subsidiaries. The federal income tax provision is allocated to each of the companies in the consolidated group, pursuant to a written agreement, on the basis of each company's separate return taxable income.

Deferred federal income taxes are provided for temporary differences between the financial statement and tax bases assets and liabilities. Such differences relate principally to deferred acquisition costs, unearned premiums and unpaid losses and loss adjustment expenses.

(g) The Company translates the financial statements of SCRC to United States dollars by translating balance sheet accounts at the balance sheet date exchange rate and income statement accounts at the average exchange rate for the year. Translation gains or losses are recorded as a separate component of stockholder's equity.

(h) The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

4. Investments

The composition of the investment portfolio, which is carried at fair value, as of December 31, 1994 follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
Bonds				
United States government and government agencies and authorities	$ 96,797	$ 232	$ 3,613	$ 93,416
States, municipalities and political subdivisions	18,732	94	1	18,825
Foreign governments	80,243	926	3,756	77,413
Public utilities	23,034	228	896	22,366
Convertible	5,134	261	-	5,395
Mortgage-backed securities	279,651	406	20,776	259,281
All other corporate	295,369	497	26,675	269,191
Redeemable preferred stocks	15,910	612	115	16,407
Total fixed income securities	814,870	3,256	55,832	762,294
Equity securities:				
Common stocks				
Public utilities	3,348	205	-	3,553
Banks, trusts and insurance companies	16,550	843	341	17,052
Industrial, miscellaneous and all other	85,999	27,767	3,443	110,323
Total common stocks	105,897	28,815	3,784	130,928
Non-redeemable preferred stocks	2,560	95	109	2,546
Total equity securities	108,457	28,910	3,893	133,474
Other invested assets	2,808	-	-	2,808
Total	$926,135	$32,166	$59,725	$898,576

The composition of the investment portfolio, which is carried at fair value, as of December 31, 1995 follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
Bonds				
United States government and government agencies and authorities	$ 98,183	$ 1,830	$ 35	$ 99,978
States, municipalities and political subdivisions	21,653	250	-	21,903
Foreign governments	86,238	5,678	14	91,902
Public utilities	64,651	2,134	-	66,785
Convertible	1,960	290	-	2,250
Mortgage-backed securities	362,211	13,207	304	375,114
All other corporate	358,064	12,340	945	369,459
Redeemable preferred stocks	9,805	1,403	-	11,208
Total fixed income securities	1,002,765	37,132	1,298	1,038,599
Equity securities:				
Common stocks				
Public utilities	1,371	448	-	1,819
Banks, trusts and insurance companies	11,444	4,096	27	15,513
Industrial, miscellaneous and all other	44,482	25,975	437	70,020
Total common stocks	57,297	30,519	464	87,352
Non-redeemable preferred stocks	5,631	388	-	6,019
Total equity securities	62,928	30,907	464	93,371
Short-term investments	37,470	-	-	37,470
Other invested assets	6,938	558	-	7,496
Total	$1,110,101	$68,597	$1,762	$1,176,936

As of December 31, 1994 and 1995, 96.7% and 98.5%, respectively, of the fair value of the Company's bonds were United States government securities or rated A or higher by Moody's Investors Service, Inc. ("Moody's"). The remaining bonds were rated Baa by Moody's. The fair value of fixed income and equity securities are based on the quoted market prices of the investments as of the close of business on December 31 of the respective years.

The amortized cost and fair value (both in thousands) of fixed income securities as of December 31, 1995, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 32,590	$ 32,918
Due after one year through five years	224,859	234,045
Due after five years through ten years	355,005	366,608
Due after ten years	28,100	29,914
Subtotal	640,554	663,485
Mortgage-backed securities	362,211	375,114
Total fixed income securities	$1,002,765	$1,038,599

The contractual maturities of mortgage-backed securities range from thirteen to thirty years.

The components of net investment income for the years ended December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Interest on fixed income securities	$81,173	$63,845	$68,834
Dividends on equity securities	1,344	1,730	1,652
Interest on short-term investments	2,136	6,148	6,019
Other	3,196	3,121	2,949
Gross investment income	87,849	74,844	79,454
Investment expenses	(13,194)	(6,596)	(12,437)
Net investment income	$74,655	$68,248	$67,017

The components of gross and net realized investment gains for the years ended December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Fixed income securities:			
Gains	$33,128	$ 9,472	$ 4,826
Losses	6,841	9,280	2,033
Net	26,287	192	2,793
Equity securities:			
Gains	26,794	25,500	54,785
Losses	6,249	6,386	6,060
Net	20,545	19,114	48,725
Fixed income and equity securities:			
Gains	59,922	34,972	59,611
Losses	13,090	15,666	8,093
Net	$46,832	$19,306	$51,518

Changes in unrealized net appreciation (depreciation) on investments, and the related tax effect, for the years ended December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Fixed income securities	$ 8,514	$(102,956)	$ 88,410
Equity securities	12,523	(27,343)	5,426
Other invested assets	-	-	555
Subtotal	21,037	(130,299)	94,391
Provision (benefit) for deferred income taxes	7,152	(44,302)	32,093
Subtotal	13,885	(85,997)	62,298
Investments of unconsolidated subsidiary (net of deferred income taxes)	-	(3,132)	6,494
Net change in unrealized net appreciation (depreciation) of investments reflected in stockholder's equity	$13,885	$ (89,129)	$ 68,792

Fixed income securities carried at $36.9 million as of December 31, 1995 were on deposit with various state regulatory authorities to comply with insurance laws.

The Company's cash and cash equivalents are maintained principally with one bank. The Company controls this risk by utilizing a high credit quality financial institution. Additionally, in accordance with the insurance laws of the State of Delaware, insurance and reinsurance companies are restricted as to the types of investments they may purchase and concentration of risk they may accept in any one issuer or group of issuers. The Company complies with such laws which ensure that the concentration of risk in its investment portfolio is at an acceptable and authorized level.

5. Investment in Unconsolidated Subsidiary

The Company's investment in CACI, reflected on the basis of the equity method of accounting, as of December 31, 1994 and 1995 follows (in thousands):

	1994	1995
Investment in unconsolidated subsidiary, beginning of year	$39,304	$34,003
Change in unrealized net (depreciation) appreciation of investments, net of deferred income taxes	(3,132)	6,494
Net loss	(2,169)	(3,373)
Total investment in unconsolidated subsidiary, end of year	$34,003	$37,124

The respective unaudited assets (principally investments), liabilities (principally unpaid losses and loss adjustment expenses and unearned premiums) and stockholders equity for CACI as of December 31, 1994 and 1995 follows (in thousands):

	1994	1995
Total assets	$140,247	$153,915
Total liabilities	106,244	116,791
Total stockholder's equity	$ 34,003	$ 37,124

The summarized unaudited statements of operations for CACI for the years ended December 31, 1994 and 1995 follows (in thousands):

	1994	1995
Total revenue	$31,514	$47,054
Total expenses (including taxes)	33,683	50,427
Net loss	$(2,169)	$(3,373)

6. Retrocessions

The Company utilizes retrocessional agreements principally to increase aggregate premium capacity, to reduce and spread the risk of loss on insurance and reinsurance underwritten and to limit its exposure with respect to multiple claims arising from a single occurrence. There is a contingent liability with respect to reinsurance which would become an ultimate liability of the Company in the event that such reinsuring companies are unable, at some later date, to meet their obligations under the reinsurance agreements in force. Reinsurance recoverables are recorded as assets, based on the Company's evaluation of the retrocessionaires' ability to meet their obligations under the retrocession agreement. Premiums written and earned, losses and loss adjustment expenses, and commissions and brokerage are stated net of reinsurance ceded in the consolidated statement of operations. Direct, assumed, ceded and net amounts (in thousands and inclusive of amounts in Notes 7 and 8) for these items follows:

	1993			
	Direct	Assumed	Ceded	Net
Premiums written	$13,339	$290,567	$125,660	$178,246
Premiums earned	12,403	375,944	129,328	259,019
Losses and loss adjustment expenses	20,432	314,683	100,412	234,703
Commissions and brokerage	5,236	94,713	27,165	72,784

	1994			
	Direct	Assumed	Ceded	Net
Premiums written	$11,874	$237,171	$71,953	$177,092
Premiums earned	12,134	248,928	83,679	177,383
Losses and loss adjustment expenses	9,270	227,297	77,053	159,514
Commissions and brokerage	4,588	57,354	16,338	45,604

	1995			
	Direct	Assumed	Ceded	Net
Premiums written	$ 7,742	$204,896	$ 96,436	$116,202
Premiums earned	8,640	208,358	110,558	106,440
Losses and loss adjustment expenses	13,861	164,881	25,434	153,308
Commissions and brokerage	2,635	57,704	8,125	52,214

The Company has established a reserve for potentially uncollectible reinsurance recoverables. The reserve is based upon an evaluation of each retrocessionaire and estimates related to collectibility of individual balances. The reserve as of December 31, 1994 and 1995 was $45.0 million and $29.9 million, respectively, and has been netted against reinsurance recoverable on loss payments. During 1995, the Company wrote-off $30.0 million of uncollectible reinsurance recoverables on paid and unpaid losses against the reserve for potentially uncollectible reinsurance recoverables, and reflected an expense (and a corresponding increase to the reserve for potentially uncollectible reinsurance recoverables) of $14.9 million in the statement of operations for the year ended December 31, 1995. The provision recognized in the consolidated statements of operations in other expenses, net for 1993, and 1994 was $6.0 million and $5.9 million, respectively. The Company had total reinsurance recoverables, net of reinsurance payables, of $46.8 million due from TIG Reinsurance Company, which is rated "A (Excellent)" by A.M. Best Company, Inc., as of December 31, 1995.

Two reinsurance brokers generated business representing 14.0% and 13.0% of the Company's gross premiums written for the year ended December 31, 1995.

7. Stop Loss Reinsurance Agreements

Effective December 31, 1995, the Company entered into a stop loss reinsurance agreement with SICL (the "1995 Stop Loss Agreement"). Pursuant to the agreement, the Company ceded premium of $60.5 million for an aggregate limit of $175.0 million (subject to an annual aggregate limit of $17.5 million) in excess of its December 31, 1995 reserve for unpaid losses and allocated loss adjustment expenses and potentially uncollectible reinsurance recoverables. If the annual aggregate limit is not fully utilized, the unused portion is carried forward to subsequent years. The $60.5 million premium related to this agreement was expensed in 1995 and is included in ceded premiums written in the table in Note 8. No loss recoveries have been recorded pursuant to this agreement as of December 31, 1995.

The Company is the beneficiary of stop loss reinsurance coverage from SICL for losses incurred for accident years 1987 and prior, for all lines of business excluding medical malpractice (the "1988 Stop Loss Agreement"). Included in the reinsurance recoverable on unpaid losses in the table in Note 8 is $233.2 million, $180.4 million and $160.6 million as of December 31, 1993, 1994 and 1995, respectively, related to this stop loss agreement. No additional amounts can be ceded to this agreement. The 1988 Stop Loss Agreement is fully secured by marketable securities held in trust.

8. Related Party Transactions

The Company and its subsidiaries have entered into various reinsurance arrangements with their affiliates. The approximate amounts, which exclude the 1995 amounts related to the companies sold by SAC as discussed on the next page, included in (deducted from) income, expense, assets and liabilities in the accompanying consolidated financial statements, with respect to reinsurance assumed and ceded follows (in thousands):

	1993	1994	1995
Assumed:			
Premiums written	$105,296	$97,092	$ 1,009
Losses and loss adjustment expenses	100,453	99,585	(3,104)
Commissions and brokerage	30,292	21,980	162
Reinsurance balances receivable	25,758	20,386	20
Unpaid losses and loss adjustment expenses	84,251	94,080	8,396
Unearned premiums	55,756	48,928	58
Ceded:			
Premiums written	33,054	17,488	74,372
Losses and loss adjustment expenses	19,987	8,539	1,219
Commissions and brokerage	12,268	2,394	2,887
Reinsurance balances payable	12,031	6,735	63,788
Reinsurance recoverable on loss payments	15,813	23,914	7,585
Reinsurance recoverable on unpaid losses	278,037	221,783	183,463
Prepaid reinsurance premiums	14,181	7,965	6,000

Certain contracts previously written by the Company with affiliated companies which were sold by SAC on December 1, 1995, expired and were not renewed. The results, excluding the effects of investment income, of these expired contracts included in the statements of operations for the years ended December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Net premiums written	$18,996	$35,797	$ 60,067
Net premiums earned	$ 4,597	$31,638	$ 44,626
Losses and loss adjustment expenses	3,571	24,767	39,094
Commissions and brokerage	1,471	8,558	17,745
Underwriting loss	$ (445)	$(1,687)	$(12,213)

Investment management agreements have been entered into between the Company and its subsidiaries and Skandia Investment Management, Inc. (SIMI), a wholly owned subsidiary of SUSHC. Pursuant to the agreements, basic and incentive fees, based upon total invested assets, are paid to SIMI. For 1993, 1994 and 1995 $6.4 million, $1.8 million and $6.1 million, respectively, of such fees are included in investment expenses.

Current federal and foreign income taxes are payable to SUSHC of $3.5 million as of December 31, 1994, and a recoverable is due from SUSHC of $11.9 million as of December 31, 1995.

Included in the consolidated balance sheets are amounts receivable from parent, subsidiaries and affiliate of $1.4 million and $0.2 million as of December 31, 1994 and 1995, respectively, and payable to parent, subsidiaries and affiliate of $8.1 million and $7.9 million as of December 31, 1994 and 1995, respectively.

The Company has issued guarantees of financial performance relating to certain subsidiaries and affiliated companies of SICL in order to facilitate the operations of such subsidiaries and affiliated companies. The guarantees are fully counter-indemnified by Skandia Holding AB, a subsidiary of SICL. In the event and to the extent collateral may be required in respect of the counter-indemnification, Skandia Holding AB is contractually obligated to provide immediately such collateral. The aggregate value of such guarantees cannot be reasonably estimated.

In the fourth quarter of 1992, SICL decided to reduce its worldwide exposure to non-life reinsurance business. As a result, the Company reduced its premium volume and redirected its operations to focus on casualty treaty and facultative operations. Costs related to the redirection, including workforce and office space reductions, were borne by the Company. The accrued liability which is included in other liabilities related to these expenses was $13.3 million and $0.1 million as of December 31, 1993 and 1994, respectively.

SAC entered into an agreement with SARC whereby SAC agreed to contribute $12.6 million of additional capital to SARC to reimburse the $19.1 million of total redirection expense, net of the related $6.5 million tax benefit recognized by the Company in 1992. The capital contribution was paid in 1993 ($3.5 million) and 1994 ($9.1 million).

9. Employee Benefits

The Company maintains a qualified, noncontributory, defined benefit pension plan (the Plan) covering substantially all employees who have reached age twenty-one and who have completed one year of service. Contributions to the Plan are based on the maximum amounts that can be deducted for federal income tax purposes using actuarial cost methods and assumptions different from those used for financial reporting.

The amortization period for unrecognized pension costs and credits, including prior service costs, if any, and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits. Actuarial gains and losses result when actual experience differs from that assumed or when actuarial assumptions are changed.

The following tables set forth the Plan's funded status and amounts recognized in the Company's consolidated financial statements as of December 31, 1994 and 1995 (in thousands):

	1994	1995
Actuarial present value of accumulated benefit obligation, including vested benefits of $13,567 and $15,236, respectively	$13,860	$15,656
Actuarial present value of projected benefit obligation for service rendered to date	$18,229	$20,647
Plan assets at fair value	14,136	15,356
Projected benefit obligation in excess of Plan assets	4,093	5,291
Unrecognized net actuarial gain	1,259	1,386
Unamortized prior service cost	729	653
Unrecognized transitional asset	347	313
Accrued pension cost included in other liabilities	$ 6,428	$ 7,643

Net pension cost for the years ended December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Service cost	$1,532	$1,528	$1,084
Interest cost	1,405	1,499	1,303
Return on assets	(1,590)	(351)	(2,718)
Net amortization and deferral	585	(870)	1,531
Net pension cost	$1,932	$1,806	$1,200
Weighted average discount rate	7.00%	7.25%	7.00%
Rate of increase of future compensation levels	6.00%	6.00%	5.66%
Expected long term rate of return on Plan assets	7.75%	7.75%	7.75%

The Company also maintains non-qualified excess benefit plans that provide officers and certain employees with defined retirement benefits in excess of qualified plan limits imposed by federal tax law. The following tables set forth the amounts recognized in the Company's consolidated financial statements as of December 31, 1994 and 1995 (in thousands):

	1994	1995
Actuarial present value of accumulated benefit obligation and minimum liability	$6,381	$6,552
Actuarial present value of projected benefit obligation for service rendered to date	$6,578	$7,171
Unrecognized net actuarial loss	(2,366)	(2,710)
Unamortized prior service cost	(483)	(419)
Unrecognized transitional obligation	(1,041)	(949)
Actuarial pension cost	$2,688	$3,093
Minimum liability included in other liabilities	$6,381	$6,552

The Company established a trust fund, included in other invested assets, in the amount of $2.8 million and $3.3 million as of December 31, 1994 and 1995, respectively, related to the non-qualified plans.

The related net pension cost for these excess benefit plans for the years ended December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Service cost	$ 64	$ 75	$ 219
Interest cost	471	454	506
Net amortization and deferral	396	381	294
Net pension cost	$931	$910	$1,019

The Company also maintains a defined contribution profit sharing plan for all eligible employees. Each year the board of directors may authorize payment of an amount equal to a percentage of each participant's basic annual earnings based on the experience of the Company for that year. These amounts are credited to the employee's account maintained by an insurance carrier, which has contracted to provide benefits under the plan. No contributions were made in 1993, 1994 and 1995.

The Company also maintains a deferred compensation plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute up to 10% of annual compensation on a pre-tax basis. The Company has a matching contribution of 50% of an employee's pre-tax contribution up to a maximum employer contribution of 3% of annual salary, after considering salary limits for certain employees. The Company contributed $0.3 million, $0.3 million and $0.2 million to this plan in 1993, 1994 and 1995, respectively.

The Company's cost for providing postretirement benefits other than pensions is accounted for in accordance with SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions". The accumulated unfunded liability, included in other liabilities, is $1.9 million and $2.2 million as of December 31, 1994 and 1995, respectively.

Certain officers of the Company participate in a Long-Term Incentive Plan (LTIP), instituted in 1993. Under the terms of the LTIP, the Company contributes amounts based upon the achievement of certain performance targets. The LTIP is paid over a three year period. The Company incurred $3.8 million and $0.7 million of expense related to the LTIP in 1993 and 1994, respectively. A $4.5 million and $3.5 million accrual related to the LTIP is included in other liabilities as of December 31, 1994 and 1995, respectively. During 1995, the Company established a trust fund in the amount of $3.9 million for this plan, which is included in other invested assets.

10. Federal and Foreign Income Taxes

Pre-tax operating income (loss) from domestic companies was $42.8 million, $30.3 million and $(23.5) million in 1993, 1994 and 1995, respectively. Pre-tax operating income from SCRC was $3.9 million, $3.6 million and $3.9 million in 1993, 1994 and 1995, respectively.

The components of the federal and foreign income tax provision (benefit) follows (in thousands):

	1993	1994	1995
Current:			
United States	$21,228	$ 4,905	$(4,012)
Foreign	1,700	1,382	1,010
Total current income taxes	22,928	6,287	(3,002)
Deferred:			
United States	(11,529)	6,423	(3,580)
Foreign	347	77	860
Total deferred income taxes	(11,182)	6,500	(2,720)
Total federal and foreign income tax provision (benefit)	$11,746	$12,787	$(5,722)

Deferred federal and foreign income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Components of deferred federal and foreign income tax assets (liabilities) follows (in thousands):

	1994	1995
Unpaid losses and loss adjustment expenses	$74,277	$71,674
Unearned premiums	4,502	5,211
Reserve for potentially uncollectible reinsurance	5,077	10,153
Pension accrual	4,359	6,313
Other	2,317	1,505
Total deferred tax assets	90,532	94,856
Deferred acquisition costs	(6,902)	(6,209)
Reinsurance balances receivable	(14,285)	(13,016)
Other	(155)	(224)
Total deferred tax liabilities	(21,342)	(19,449)
Net deferred tax assets	69,190	75,407
Deferred tax on unrealized net depreciation (appreciation) of investments	9,370	(22,723)
Deferred federal and foreign income tax asset	$78,560	$52,684

The following table reconciles federal and foreign income taxes at the statutory federal income tax rate to the Company's tax provision (benefit) (in thousands):

	1993		1994		1995	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income taxes computed on pre-tax operating income (loss)	$16,354	35%	$11,858	35%	$(6,845)	35%
Increase (decrease) in income taxes resulting from:						
Dividend received deduction	(634)	(2)	(599)	(2)	(578)	3
Equity in net loss of unconsolidated subsidiary	-	-	737	3	1,181	(6)
Foreign taxes , net	795	2	(920)	(3)	507	(3)
Other, net	(4,769)	(10)	1,711	5	13	-
Total federal and foreign income tax provision (benefit)	$11,746	25%	$12,787	38%	$(5,722)	29%

United States federal income and foreign withholding taxes have not been provided on $10.2 million of undistributed earnings of subsidiaries outside of the United States as of December 31, 1995. Under United States tax laws, these earnings are not subject to such taxes until distributed as dividends.

The Company paid United States federal and foreign income taxes of $16.1 million, $13.4 million and $16.1 million in 1993, 1994 and 1995, respectively.

11. Commitments and Contingencies

The Company and its subsidiaries lease office space and furniture and equipment under long-term leases expiring through the year 2004. Minimum annual rentals follows (in thousands):

1996	$ 5,277
1997	4,848
1998	4,773
1999	4,775
2000	4,725
2001 and thereafter	16,155
Total	$40,553

The amounts above are reduced by space subleased to other companies providing for an aggregate minimum rental recovery of $7.5 million.

Rental expense, before sublease income, under these operating leases was $6.8 million, $7.2 million and $6.8 million in 1993, 1994 and 1995, respectively. The Company recovered $1.7 million, $1.9 million and $1.7 million in 1993, 1994 and 1995, respectively, from subleases.

The Company has been named as defendant in various litigations in the ordinary course of business. In management's opinion, the outcome of these suits, individually or collectively, is not likely to result in judgments which would be material to the financial condition of the Company.

12. Dividend Restrictions, Statutory Information and Capitalization

In accordance with the insurance laws of the State of Delaware, the Company is restricted to paying dividends out of that part of its available and accumulated funds derived from realized net profits and realized gains, determined under statutory accounting practices. In addition, Delaware insurance law restricts such companies from paying an extraordinary dividend without prior notice to and approval from the commissioner of insurance. An extraordinary dividend is one which, during any twelve month period, exceeds the greater of 10% of the insurer's policyholder's surplus as of the preceding December 31, or statutory net income, without regard to net realized investment gains, for the prior calendar year. As of December 31, 1994 and 1995, the Company had available and accumulated or earned surplus of $59.8 million and $53.6 million. The maximum amount of dividend which may be paid in 1996 without prior approval is $31.2 less the amount of any dividends paid during the previous twelve months.

The following is the consolidated statutory basis net income (loss) and policyholder's surplus of the Company for the years ended and as of December 31, 1993, 1994 and 1995 follows (in thousands):

	1993	1994	1995
Net income (loss)	$ 45,008	$ 29,343	$(27,456)
Policyholder's surplus	325,517	312,836	312,756

For statutory accounting purposes, the Company discounts the liabilities for unpaid losses and loss adjustment expenses related to medical malpractice business on a non-tabular basis using an interest rate of 6%. The discount rate is based upon the historical and current yield on the investment portfolio. The discounting of these reserves differs from prescribed practices and is a permitted accounting practice approved by the Insurance Department of the State of Delaware. The amount of discount deducted from the statutory liability for unpaid losses and loss adjustment expenses was $18.8 million and $13.5 million as of December 31, 1994 and 1995, respectively. The related statutory liability, net of discount, was $53.2 million and $42.5 million as of December 31, 1994 and 1995, respectively. The liability for unpaid losses and loss adjustment expenses as reported in the accompanying consolidated financial statements is not discounted.

The statutory provision for potentially uncollectible reinsurance recoverables due from unauthorized companies is reduced to the extent collateral is held by the Company or HIC. Pursuant to an indemnification agreement between SAC and the Company and SAC and HIC, SAC provides letters of credit (LOC) and/or cash in respect of uncollateralized balances due from unauthorized reinsurers. The use of such collateral provided by SAC is a permitted accounting practice approved by the Insurance Department of the State of Delaware.

As of December 31, 1994 and 1995, $38.2 million and $29.5 million, respectively, of statutory funds held under reinsurance contracts related to cash collateral provided by SAC in regard to the above mentioned indemnification agreements. SAC has also provided a $90.0 million LOC to the Company and a $2.5 million LOC to HIC as of December 31, 1995, of which approximately $41.9 million has been used as collateral in regard to the indemnification agreements. The indemnification agreements do not affect the reinsurance recoverable balances as reported in the accompanying consolidated financial statements.

In December 1993, the National Association of Insurance Commissioners adopted a model risk-based capital regulation (the "RBC Act"), effective beginning with the 1994 fiscal year, which requires insurance companies to calculate and report information under a risk-based capital formula which measures statutory capital and surplus needs based on the risks in a company's mix of business and investment portfolio. Based on the calculations as of December 31, 1994 and 1995, the Company exceeds all of the capital levels prescribed in the RBC Act.

During 1993, the Company increased the par value of its common stock from $100 per share to $300 per share with the amount of shares authorized and outstanding remaining at 25.0 thousand. The resulting $5.0 million increase in common stock was transferred from additional paid-in capital.

On November 1, 1993, SAC contributed 100% of the common shares ($39.3 million at historical book value) of CACI to the Company. CACI was previously owned by Skandia Direct Operations Corporation, a subsidiary of SUSHC.

13. Financial Guarantee Reinsurance

The Company's assumed financial guarantee reinsurance exposure to loss, in the event of nonperformance by the underlying insured and assuming underlying collateral proved to be of no value, was $0.7 billion and $0.5 billion as of December 31, 1994 and 1995, respectively. It is the responsibility of the ceding insurer to collect and maintain collateral under financial guarantee reinsurance.

As of December 31, 1995 such reinsurance in-force had a remaining maturity term of 1 to 38 years. The approximate distribution of the estimated debt service (principal and interest) of bonds, by type, for 1994 and 1995 follows (in millions):

	1994	1995
Municipal obligations:		
General obligation bonds	$321	$245
Special revenue bonds	239	209
Industrial development bonds	95	59
Corporate obligations	57	36
Total	$712	$549

Geographic distribution of the debt service has not been provided to the Company by its cedants.

14. Minority Interest and AERC Transaction

For the year ended December 31, 1993, other expenses, net included $(0.7) million, related to the minority interest in AERC's net income. In 1993, the Company acquired all of the shares of AERC (which was dissolved in December 1994) previously held by the minority shareholders for $18.1 million, thereby increasing its 54.01% ownership to 100%.

15. Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses follows (in thousands):

	1993	1994	1995
Gross unpaid losses and loss adjustment expenses, beginning of year	$1,723,213	$1,623,713	$1,516,309
Less ceded unpaid losses and loss adjustment expenses	705,208	606,803	550,857
Net unpaid losses and loss adjustment expenses, beginning of year	1,018,005	1,016,910	965,452
Losses and loss adjustment expenses incurred related to:			
Current year	217,720	149,564	140,520
Prior years	16,983	9,950	12,788
Total losses and loss adjustment expenses incurred	234,703	159,514	153,308
Paid losses and loss adjustment expenses related to:			
Current year	36,264	35,275	30,394
Prior years	197,276	173,989	177,235
Total paid losses and loss adjustment expenses	233,540	209,264	207,629
Effects of exchange rate changes	(2,258)	(1,708)	935
Net unpaid losses and loss adjustment expenses, end of year	1,016,910	965,452	912,066
Add ceded unpaid losses and loss adjustment expenses	606,803	550,857	483,639
Gross unpaid losses and loss expenses, end of year	$1,623,713	$1,516,309	$1,395,705

16. Asbestos and Environmental Loss and Loss Adjustment Expenses

The Company has exposure to asbestos and environmental pollution claims. Exposure arises from reinsurance contracts under which the Company has assumed liabilities, on an indemnity or assumption basis, from ceding companies primarily in connection with general liability insurance policies issued by such cedants. The Company's estimate of its ultimate liability for such exposures includes case basis reserves and a provision for liabilities incurred but not reported. Case basis reserves are a combination of reserves reported to the Company by ceding companies and additional case reserves determined by the Company's dedicated asbestos and environmental claims unit based on claims audits of cedants. The provision for liabilities incurred but not reported is established based on various methods such as loss development, market share and frequency and severity.

Estimation of ultimate liabilities for these exposures is unusually difficult due to outstanding issues such as whether coverage exists, definition of an occurrence, determination of ultimate damages and allocation of such damages to financially responsible parties. The determination of ultimate liabilities for waste site pollution exposure is especially uncertain due to the potential for an amendment to the Superfund Law proposed by various business groups, environmental groups and government agencies.

The benefit of the 1988 Stop Loss Agreement (see Note 7) is applied to the Company's total reserve base. Such benefit is not allocated to specific types of exposures. Accordingly, any such benefit pertaining to asbestos and environmental exposures is not readily identifiable.

The Company's asbestos and environmental reserve development, gross of reinsurance and net of unaffiliated reinsurance, for the years ended December 31, 1993, 1994 and 1995 is set forth in the table below (in thousands):

Asbestos	1993	1994	1995
Gross unpaid losses and loss adjustment expenses, beginning of year	$91,062	$ 96,150	$103,578
Less ceded unpaid losses and loss adjustment expenses	53,408	59,203	61,700
Net unpaid losses and loss adjustment expenses, beginning of year	37,654	36,947	41,878
Net losses and loss adjustment expenses incurred	2,604	9,984	4,362
Net paid losses and loss adjustment expenses	3,311	5,053	10,665
Net unpaid losses and loss adjustment expenses, end of year	36,947	41,878	35,575
Add ceded unpaid losses and loss adjustment expenses	59,203	61,700	59,136
Gross unpaid losses and loss expenses, end of year	$96,150	$103,578	$ 94,711

Environmental	1993	1994	1995
Gross unpaid losses and loss adjustment expenses, beginning of year	$30,926	$33,425	$38,127
Less ceded unpaid losses and loss adjustment expenses	-	-	-
Net unpaid losses and loss adjustment expenses, beginning of year	30,926	33,425	38,127
Net losses and loss adjustment expenses incurred	3,827	8,684	7,048
Net paid losses and loss adjustment expenses	1,328	3,982	1,896
Net unpaid losses and loss adjustment expenses, end of year	33,425	38,127	43,279
Add ceded unpaid losses and loss adjustment expenses	-	-	-
Gross unpaid losses and loss expenses, end of year	$33,425	$38,127	$43,279

17. Subsequent Event

On February 21, 1996, SAC entered into an agreement to sell the Company and its subsidiaries HIC and SCRC to Fairfax Financial Holdings Limited, a Canadian financial services holding company, subject to various conditions, including regulatory approval. Prior to the closing of this transaction, the shares of CACI will be transferred from the Company. If such shares were transferred as of December 31, 1995, stockholder's equity as of such date would be reduced by $37.1 million.

PRINTED IN CAN
BOWNE