FAIRFAX FINANCIAL HOLDINGS LTD/ CAN
Form F-10
September 25, 2009

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As filed with the Securities and Exchange Commission on September 25, 2009.

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM F-10
REGISTRATION STATEMENT
UNDER THE
SECURITIES ACT OF 1933

FAIRFAX FINANCIAL HOLDINGS LIMITED
(Exact name of Registrant as specified in its charter)

Canada	**6331**	**Not Applicable**
(Province or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7 (416) 367-4941
(Address and telephone number of Registrant s principal executive offices)
CT CORPORATION SYSTEM
111 Eighth Avenue, 13th Floor, New York, NY 10011
(212) 894-8700
(Name, address and telephone number of agent for service in the United States)

Copies to:

Eric P. Salsberg Vice President, Corporate Affairs Fairfax Financial Holdings Limited 95 Wellington Street West, Suite 800 Toronto, Ontario, Canada M5J 2N7 Telephone (416) 367-4941	Christopher J. Cummings Shearman & Sterling LLP Commerce Court West 199 Bay Street, Suite 4405 Toronto, Ontario, Canada M5L 1E8 Telephone (416) 360-8484	David A. Chaikof Torys LLP 70 Wellington Street West, Suite 3000 Box 270, TD Centre Toronto, Ontario, Canada M5K 1N2 Telephone (416) 865-0040

Approximate date of commencement of proposed sale of the securities to the public:
From time to time after the effective date of this Registration Statement as determined by market conditions.
Province of Ontario, Canada
(Principal jurisdiction regulating this offering)

It is proposed that this filing shall become effective (check appropriate box):

A. þ Upon filing with the Commission, pursuant to Rule 467(a) (if in connection with an offering being made contemporaneously in the United States and Canada).

B. o At some future date (check the appropriate box below):

1. o pursuant to Rule 467(b) on ( ) at ( ) (designate a time not sooner than 7 calendar days after filing).

2. o pursuant to Rule 467(b) on ( ) at ( ) (designate a time 7 calendar days or sooner after filing) because the securities regulatory authority in the review jurisdiction has issued a receipt or notification

of clearance on ( ).

3. o pursuant to Rule 467(b) as soon as practicable after notification of the Commission by the Registrant or the Canadian securities regulatory authority of the review jurisdiction that a receipt or notification of clearance has been issued with respect hereto.

4. o after the filing of the next amendment to this Form (if preliminary material is being filed).

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to the home jurisdiction s shelf prospectus offering procedures, check the following box. þ

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee
Subordinate Voting Shares				
Preferred Shares				
Debt securities				
Subscription Receipts				
Warrants				
Share purchase contracts				
Units(3)				
Total	$2,000,000,000		$2,000,000,000	$111,600

(1) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended. The initial public offering price of any debt securities denominated in any foreign currencies or currency units shall be the U.S. dollar equivalent thereof based on the prevailing exchange rates at the respective times such

securities are first offered. With respect to debt securities issued at an offering price less than the principal amount at maturity, the amount to be registered will be equal to the aggregate offering price.

(2) Exclusive of accrued interest, if any.

(3) The aggregate initial offering price of the securities registered pursuant to this registration statement will not exceed $2,000,000,000. Such amount represents such indeterminate principal amount of debt securities or number of subordinate voting shares, preferred shares, subscription receipts, warrants, share purchase contracts and units of Fairfax Financial Holdings Limited, as may, from time to time, be issued at indeterminate prices, including

such indeterminate principal amount of debt securities or number of subordinate voting shares or preferred shares as may be issued upon conversion or exchange of any debt securities or preferred shares that provide for conversion or exchange into such securities or upon exchange of subscription receipts or exercise of warrants for such securities or upon settlement of share purchase contracts for subordinate voting shares or preferred shares.

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PART I
INFORMATION REQUIRED TO BE DELIVERED TO OFFEREES OR PURCHASERS

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This short form base shelf prospectus has been filed under legislation in each of the provinces and territories of Canada that permits certain information about these securities to be determined after this prospectus has become final and that permits the omission from this prospectus of that information. The legislation requires the delivery to purchasers of a prospectus supplement containing the omitted information within a specified period of time after agreeing to purchase any of these securities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form base shelf 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. ***Information has been incorporated by reference in this 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 office of our Corporate Secretary at Suite 800, 95 Wellington Street West, Toronto, Ontario, Canada, M5J 2N7, (416) 367-4941, and are also available electronically at www.sedar.com.*

SHORT FORM BASE SHELF PROSPECTUS

NEW ISSUE

September 25, 2009

FAIRFAX FINANCIAL HOLDINGS LIMITED

US$2,000,000,000

Subordinate Voting Shares

Preferred Shares

Debt Securities

Subscription Receipts

Warrants

Share Purchase Contracts

Units

We may offer from time to time, during the 25 month period that this prospectus, including any amendments hereto, remains effective, up to US$2,000,000,000 of the securities listed above in one or more series or issuances and their total offering price, in the aggregate, will not exceed US$2,000,000,000. Our securities may be offered separately or together, in amounts, at prices and on terms to be determined based on market conditions and set forth in an accompanying shelf prospectus supplement.

We will provide the specific terms of any securities we actually offer in supplements to this prospectus. You should read this prospectus and any applicable prospectus supplement carefully before you invest. This prospectus may not be used to offer securities unless accompanied by a prospectus supplement. Any net proceeds we expect to receive from the issue of our securities will be set forth in a prospectus supplement.

We will not offer exchangeable preferred shares, warrants, share purchase contracts, or units comprised of one or more of the foregoing for sale separately to any member of the public in Canada unless the offering is in connection with and forms part of the consideration for an acquisition or merger transaction or unless the prospectus supplement containing the specific terms of the exchangeable preferred shares, warrants, share purchase contracts or units comprised of one or more of the foregoing, as the case may be, to be offered separately is first approved for filing by the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada where the exchangeable preferred shares, warrants, share purchase contracts, or units comprised of one or more of the foregoing, as the case may be, will be offered for sale.

This prospectus does not qualify for issuance debt securities in respect of which the payment of principal and/or interest may be determined, in whole or in part, by reference to one or more underlying interests including, for example, an equity or debt security, a statistical measure of economic or financial performance including, but not limited to, any currency, consumer price or mortgage index, or the price or value of one or more commodities, indices or other items, or any other item or formula, or any combination or basket of the foregoing items.

Our outstanding Subordinate Voting Shares are listed for trading on the Toronto Stock Exchange and the New York Stock Exchange under the symbol FFH.

Investing in our securities involves risks. See Risk Factors.

Our head and registered office is at Suite 800, 95 Wellington Street West, Toronto, Ontario, M5J 2N7.

We are permitted to prepare this prospectus in accordance with Canadian disclosure requirements, which are different from those of the United States. We prepare our financial statements in accordance with Canadian generally accepted accounting principles, and are subject to Canadian auditing and auditor independence standards. Our financial statements may not be comparable to financial statements of U.S. companies.

Owning the securities may subject you to tax consequences both in the United States and Canada. This prospectus or any applicable prospectus supplement may not describe these tax consequences fully. You should read the tax discussion in any applicable prospectus supplement.

Your ability to enforce civil liabilities under the U.S. federal securities laws may be affected adversely because we are incorporated in Canada, most of our officers and directors and certain of the experts named in this prospectus are Canadian residents, and many of our assets are located in Canada.

Neither the U.S. Securities and Exchange Commission nor any state or provincial or territorial securities regulator has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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You should rely only on the information contained in or incorporated by reference into this prospectus or any prospectus supplement. References to this prospectus include documents incorporated by reference herein. See Documents Incorporated by Reference. The information in or incorporated by reference into this prospectus is current only as of its date. We have not authorized anyone to provide you with information that is

different. This document may only be used where it is legal to offer these securities.

ENFORCEABILITY OF CERTAIN CIVIL LIABILITIES

We are a corporation organized under the laws of Canada and some of our assets are located in, and most of our directors and most of our officers are residents of, Canada. As a result, it may be difficult for U.S. investors to effect service of process within the United States upon our directors or officers, or to realize in the United States upon judgments of courts of the United States predicated upon civil liability of such directors or officers under U.S. federal securities laws. We have been advised by Torys LLP, our Canadian counsel, that a judgment of a U.S. court predicated solely upon civil liability under such laws would probably be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. We have also been advised by such counsel, however, that there is substantial doubt whether an action could be brought in Canada in the first instance on the basis of liability predicated solely upon such laws.

PRESENTATION OF OUR FINANCIAL INFORMATION

As the majority of our operations are in the United States or conducted in U.S. dollars, we report our consolidated financial statements in U.S. dollars in order to provide more meaningful information to users of our financial statements. In this prospectus, except where otherwise indicated, all dollar amounts are expressed in U.S. dollars, references to $, US$ and dollars are to U.S. dollars, and references to Cdn$ are to Canadian dollars.

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP, which differ from generally accepted accounting principles in the United States, or U.S. GAAP. For a discussion of the material differences between Canadian GAAP and U.S. GAAP as they relate to our financial statements, see note 20 to our audited consolidated financial statements for the year ended December 31, 2008, and note 15 to our unaudited interim consolidated financial statements for the six months ended June 30, 2009, incorporated by reference in this prospectus.

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EXCHANGE RATE DATA

The following table sets forth, for each period indicated, the low and high exchange rates for Canadian dollars expressed in United States dollars, the exchange rate at the end of such period and the average of such exchange rates for each day during such period, based on the noon rate of exchange as reported by the Bank of Canada for the conversion of Canadian dollars into United States dollars:

	Year Ended December 31,					Six Months Ended June 30,	
	2004	**2005**	**2006**	**2007**	**2008**	**2008**	**2009**
Low	0.7159	0.7872	0.8528	0.8437	0.7711	0.9686	0.7692
High	0.8493	0.8690	0.9099	1.0905	1.0289	1.0289	0.9236
Period End	0.8308	0.8577	0.8581	1.0120	0.8166	0.9817	0.8602
Average	0.7697	0.8259	0.8820	0.9348	0.9441	0.9929	0.8291

On September 24, 2009, the noon buying rate was Cdn$1.00 = US$0.9200.

FORWARD-LOOKING STATEMENTS

Any statements made by us or on our behalf may include forward-looking statements that reflect our current views with respect to future events and financial performance. The words believe, anticipate, project, expect, plan, in predict, estimate, will likely result, will seek to or will continue and similar expressions identify forward-lookin statements. These forward-looking statements relate to, among other things, our plans and objectives for future operations and underwriting profits. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We are under no obligation to update or alter such forward-looking statements as a result of new information, future events or otherwise, except as may be required by applicable securities laws. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors, which we describe in more detail elsewhere in this prospectus, or in documents incorporated by reference herein, include, but are not limited to:

- a reduction in net income if our loss reserves are insufficient;
- underwriting losses on the risks we insure that are higher or lower than expected;
- the occurrence of catastrophic events with a frequency or severity exceeding our estimates;
- the cycles of the insurance market, which can substantially influence our and our competitors premium rates and capacity to write new business;
- changes in economic conditions, including interest rates and the securities markets, which could negatively affect our investment portfolio;
- insufficient reserves for asbestos, environmental and other latent claims;
- exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements;
- exposure to credit risk in the event our insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to us or failure by our insureds to reimburse us for deductibles that are paid by us on their behalf;
- an inability to realize our investment objectives;
- risks associated with implementing our business strategies;
- the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated by us;

- the failure of any of the loss limitation methods we employ;
- inability of our subsidiaries to maintain financial or claims-paying ability ratings;
- a decrease in the level of demand for reinsurance or insurance products, or increased competition in the insurance industry;
- our inability to obtain reinsurance coverage in sufficient amounts, at reasonable prices or on terms that adequately protect us;
- our inability to access our subsidiaries cash;
- our inability to obtain required levels of capital on favorable terms, if at all;
- loss of key employees;
- the passage of legislation subjecting our businesses to additional supervision or regulation, including additional tax regulation, in the United States, Canada or other jurisdictions in which we operate;
- risks associated with government investigations of, and litigation related to, insurance industry practices;
- risks associated with the current purported class action litigation;
- risks associated with our pending civil litigation;
- the influence exercisable by our significant shareholder;
- adverse fluctuations in foreign currency exchange rates;
- our failure to realize future income tax assets;
- our dependence on independent brokers over whom we exercise little control;
- assessments and shared market mechanisms which may adversely affect our U.S. insurance subsidiaries; and
- an impairment in the carrying value of our goodwill.

See Risk Factors for a further discussion of these risks and uncertainties.

THE COMPANY

Unless the context otherwise requires, the terms Fairfax , Company , we , us and our refer to Fairfax Financial Holdings Limited and its subsidiaries; the term OdysseyRe refers to our public reinsurance business; the term Group Re refers to our wholly-owned reinsurance business, Group Re and its subsidiaries; the term Crum & Forster refers to our wholly-owned U.S. property and casualty insurance business, Crum & Forster Holdings Corp. and its subsidiaries; the term Northbridge refers to our wholly-owned Canadian property and casualty insurance business, Northbridge Financial Corporation and its subsidiaries; the term Hamblin Watsa refers to our wholly-owned investment management subsidiary, Hamblin Watsa Investment Counsel Ltd., the term Polish Re refers to our wholly-owned Polish reinsurance and insurance company Polskie Towarzystwo Reasekuracji Spólka Akcyjna and the term Advent refers to Advent Capital (Holdings) Plc., a public company in which we hold a controlling interest. All references in this prospectus to $, US$ or dollars refer to United States dollars and all references to Cdn$ refer to Canadian dolla unless otherwise indicated.

We are a financial services holding company primarily engaged in property and casualty insurance and reinsurance. We are incorporated under the *Canada Business Corporations Act*. We operate through a decentralized operating structure, with autonomous management teams applying a focused underwriting strategy to our markets. We seek to differentiate ourselves by combining disciplined underwriting with the investment of our assets on a total return basis, which we believe provides above-average returns over the long-term. We provide a full range of property and casualty products, maintaining a diversified portfolio of risks across classes of business, geographic regions, and types of insureds. We have been under current management since September 1985. Our principal executive offices are located at 95 Wellington Street West, Suite 800, Toronto, Ontario, M5J 2N7, Canada. Our telephone number is (416) 367-4941.

We conduct our business through the following segments, with each of our continuing operations maintaining a strong position in its respective markets.

Our reinsurance business is conducted through OdysseyRe, Group Re, Advent and Polish Re. OdysseyRe is a U.S.-based underwriter of a full range of property and casualty reinsurance on a worldwide basis. We have a majority interest in OdysseyRe, whose common stock is traded on the New York Stock Exchange under the symbol ORH and have announced that we are proposing to acquire all of the outstanding common stock of OdysseyRe that we do not already own. Group Re primarily constitutes the participation by our wholly-owned subsidiaries CRC (Bermuda) Reinsurance Limited, and Wentworth Insurance Company Ltd. (based in Barbados) in the reinsurance of Fairfax s subsidiaries by quota share or through participation in those subsidiaries third party reinsurance programs on the same terms and pricing as the third party reinsurers. Since 2004, Group Re has also written third party business. Advent, based in the U.K., was included in our reinsurance segment effective from our acquisition of a majority interest in Advent on September 11, 2008 and is a reinsurance and insurance company, operating through Syndicate 780 and 3330 at Lloyd s, focused on specialty property reinsurance and insurance risks. Advent s shares are listed on the London Stock Exchange. Following a successful offer to acquire the shares of Advent that we did not currently own, we have commenced the process to acquire all remaining Advent shares pursuant to the compulsory acquisition provision of U.K. law. Polish Re, based in Warsaw, Poland was included in our reinsurance segment effective from its date of acquisition on January 7, 2009 and writes reinsurance business in the Central and Eastern European regions.

Our insurance business is conducted through Northbridge (Canadian insurance), Crum & Forster (U.S. insurance) and Fairfax Asia (Asian insurance). OdysseyRe also conducts insurance business through its U.S. Insurance and London Market divisions. Northbridge provides commercial and personal lines property and casualty insurance primarily in Canada through a wide range of distribution channels. We completed a going-private transaction on February 20, 2009 pursuant to which we acquired all of the outstanding shares of Northbridge we did not already own and Northbridge became a wholly-owned subsidiary of Fairfax. Crum & Forster, based in the U.S., provides a full range of commercial property and casualty insurance, which targets specialty classes of business that emphasize strong technical underwriting expertise. We own all of the equity of Crum & Forster. OdysseyRe provides a range of professional and specialty liability insurance in the United States and internationally through its U.S. Insurance and London Market divisions. Fairfax Asia is comprised of our 98%-owned, Singapore based First Capital subsidiary which writes property and casualty insurance primarily to Singapore markets and our wholly-

owned, Hong Kong based Falcon Insurance subsidiary which writes property and casualty insurance to niche markets in Hong Kong.

Our runoff business primarily includes our discontinued business that did not meet our underwriting criteria or strategic objectives and selected business previously written by our other subsidiaries that was put under dedicated runoff management. In addition, our runoff segment also includes third-party runoff operations that we have acquired, which we believe will provide us with the opportunity to earn attractive returns on our invested capital.

Our invested assets are managed by our wholly-owned investment management subsidiary, Hamblin Watsa. Hamblin Watsa has managed our invested assets since September 1985 and emphasizes a conservative investment philosophy, seeking to invest our assets on a total return basis, which includes realized and unrealized gains over the long-term, using a value-oriented approach.

Recent Developments

Proposed Acquisition of Minority Stake in OdysseyRe

On September 4, 2009, we announced that we were proposing to acquire all of the outstanding shares of common stock of OdysseyRe that we do not currently own for $60.00 per share of common stock in cash. We currently own approximately 72.6% of all outstanding shares of common stock of OdysseyRe.

Prior to this announcement, we previously advised the board of directors of OdysseyRe that we wished to explore a potential transaction in which we would acquire all of the outstanding shares of OdysseyRe common stock we did not already own. We were advised that the board of directors of OdysseyRe had formed a special committee of independent directors to evaluate our proposal and that the special committee had engaged independent financial and legal advisors. Directors of OdysseyRe affiliated with us did not participate in the evaluation of the proposal.

On September 18, 2009, we announced that we had signed a merger agreement pursuant to which we would, through a wholly-owned subsidiary, as soon as practicable, commence a tender offer to acquire all of the outstanding shares of common stock of OdysseyRe that we do not currently own for $65.00 in cash per share (the OdysseyRe Offer), representing total cash consideration of approximately $1.0 billion. The board of directors of OdysseyRe, following the recommendation of the special committee, unanimously (with one member absent) resolved to recommend that OdysseyRe s minority stockholders tender their shares in the OdysseyRe Offer. Marshfield Associates, Inc., which currently has management and control over approximately 2.7 million shares representing the largest block held by OdysseyRe s minority stockholders, has agreed to tender the shares over which it has control to the OdysseyRe Offer.

On September 23, 2009, we announced that we had commenced the OdysseyRe Offer. The OdysseyRe Offer and withdrawal rights are scheduled to expire at 12:00 midnight, New York City time, on October 21, 2009, unless the offer is extended.

The price of $65.00 per share in cash represents a 29.8% premium over the closing price on September 4, 2009 and a 33.4% premium over the 30-day average closing price for the period ending on September 4, 2009.

In addition to customary conditions, the OdysseyRe Offer is irrevocably subject to there having been validly tendered and not withdrawn a majority of the outstanding OdysseyRe shares that are held by stockholders that are not affiliated with OdysseyRe (including Fairfax and its subsidiaries and the directors and executive officers of each of OdysseyRe and Fairfax). The OdysseyRe Offer is not subject to a financing condition. Promptly following the OdysseyRe Offer, we will consummate a second-step merger in accordance with the merger agreement pursuant to which, subject to limited exceptions, non-tendering holders of OdysseyRe common stock would be entitled to receive the price per share paid by Fairfax in the offer. Following the purchase of shares in the OdysseyRe Offer and subsequent merger, we would own 100% of the common stock of OdysseyRe.

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If the OdysseyRe Offer is completed, there would be no changes in OdysseyRe s strategic or operating philosophy. Under the leadership of Andy Barnard, President and Chief Executive Officer of OdysseyRe, OdysseyRe would continue to operate its business exactly as it has always been run.

We have advised OdysseyRe that our sole interest is in acquiring the shares of common stock of OdysseyRe that we do not currently own and that we have no interest in a disposition of our controlling interest in OdysseyRe.

We intend to use the net proceeds from the public offering of subordinate voting shares completed September 11, 2009 (as described below), together with available cash on hand, to complete the OdysseyRe Offer. There can be no assurance that we will be able to complete the OdysseyRe Offer or that we will be able to complete it on the currently proposed terms.

Public Offering of Subordinate Voting Shares

On September 11, 2009, we announced the completion of a public offering of 2,881,844 subordinate voting shares at a price of $347.00 per share, for gross proceeds of approximately $1.0 billion and net proceeds, after commissions and expenses, of $983.0 million. We intend to use the net proceeds from the offering, together with available cash on hand, to complete the OdysseyRe Offer. If we are unsuccessful in completing the OdysseyRe Offer, we intend to use the net proceeds of the offering of subordinate voting shares to augment our cash position, to increase short-term investments and marketable securities held at the holding company, to retire outstanding debt and other corporate obligations from time to time, and for general corporate purposes.

Going-Private Transaction for Advent

On July 17, 2009, we announced a formal offer to acquire all of the outstanding common shares of Advent, other than those shares not already owned by us and our affiliates, for 220 U.K. pence in cash per common share. At the time, we owned approximately 66.7% of Advent s outstanding common shares. The aggregate cash consideration payable under the transaction for the 33.3% of the Advent shares that we did not already own was approximately $56.5 (£34.3 million). On September 2, 2009, we announced that we had received valid acceptances representing 97.6% of the outstanding shares of Advent not already owned by us and our affiliates. We have now commenced the process to acquire all remaining Advent shares pursuant to the compulsory acquisition provisions of U.K. law.

RISK FACTORS

An investment in our securities involves risk. You should carefully consider the following risk factors, as well as the other information contained in and incorporated by reference into this prospectus, before deciding whether to invest in our securities. Any of the following risks could materially adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition or results of operations.

Overview

We operate with a holding company structure. The holding company controls our operating insurance and reinsurance companies, each of which must comply with applicable insurance regulations of the jurisdictions in which it operates. Each company must maintain reserves for losses and loss adjustment expenses to cover the risks it has underwritten. The reserves of one of our insurance or reinsurance companies are not available to be applied against the risks underwritten by other of our companies. The financial condition and results of operations of each of the insurance and reinsurance companies we control are included in our consolidated financial statements and, generally, losses incurred by any of our companies directly impact our consolidated results. Although a severe loss incurred by one company should not have any adverse effect on any of our other companies, such loss, even though not material to us when our financial condition is viewed as a whole, could have an adverse effect on us because it could affect adversely how our other companies are treated by others, including rating agencies and insurance regulators.

If our actual claims exceed our claim reserves, our financial condition and results of operations could be adversely affected.

We maintain reserves to cover our estimated ultimate unpaid liability for losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. Our success is dependent upon our ability to accurately assess the risks associated with the businesses that we reinsure or insure. If we fail to accurately assess the risks we assume, we may fail to establish appropriate premium rates and our reserves may be inadequate to cover our losses, which could have a material adverse effect on our financial condition and reduce our net income.

At December 31, 2008, we had net unpaid loss and loss adjustment expense reserves of approximately $11.0 billion.

Reserves do not represent an exact calculation of liability, but instead represent estimates at a given point in time involving actuarial and statistical projections of our expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of claim reserves is an inherently uncertain process. We utilize both proprietary and commercially available actuarial models, as well as historical insurance industry loss development patterns, to assist in the establishment of appropriate claim reserves.

In contrast to casualty losses, which frequently can be determined only through lengthy and unpredictable litigation, non-casualty property losses tend to be reported promptly and usually are settled within a shorter period of time. Nevertheless, for both casualty and property losses, actual claims and claim expenses ultimately paid may deviate, perhaps substantially, from the reserve estimates reflected in our financial statements. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis.

If our claim reserves are determined to be inadequate, we will be required to increase claim reserves with a corresponding reduction in our net income in the period in which the deficiency is rectified. It is possible that claims in respect of events that have occurred could exceed our claim reserves and have a material adverse effect on our results of operations in a particular period and/or our financial condition. For the year ended December 31, 2008, we increased our loss and loss adjustment expense reserves relating to prior periods by $55.4 million primarily attributable to losses related to the commutation of a reinsurance treaty and settlement of an asbestos-related lawsuit at Crum & Forster and development on primary worker s compensation business at our U.S. runoff segment, partially offset by net favorable development at Northbridge primarily reflecting better than expected loss emergence across most lines of business, favorable development in worker s compensation and general liability lines of business at Crum & Forster and net favorable development in the London Market, U.S. Insurance and EuroAsia divisions of OdysseyRe in its professional liability and miscellaneous property lines of business.

Even though most insurance contracts have policy limits, the nature of property and casualty insurance and reinsurance is such that losses can exceed policy limits for a variety of reasons and could very significantly exceed the premiums received on the underlying policies. When this occurs, our financial results are adversely affected.

Unpredictable catastrophic events could reduce our net income.

Our insurance and reinsurance operations expose us to claims arising out of catastrophes. We have experienced, and will in the future experience, catastrophe losses which may materially reduce our profitability or harm our financial condition. Catastrophes can be caused by various events, including natural events such as hurricanes, windstorms, earthquakes, hailstorms, severe winter weather and fires, and unnatural events such as terrorist attacks and riots. The incidence and severity of catastrophes are inherently unpredictable.

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The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas, and most of our past natural catastrophe-related claims have resulted from severe storms. Catastrophes can cause losses in a variety of property and casualty lines. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon our net income and financial condition.

Claims resulting from natural or man-made catastrophic events could cause substantial volatility in our financial results for any fiscal quarter or year and could materially reduce our profitability or harm our financial condition. Our ability to write new business could also be affected. We believe that increases in the value and geographic concentration of insured property, climate change and the effects of inflation could increase the severity of claims from catastrophic events in the future. In addition, certain jurisdictions have from time to time passed legislation that has the effect of limiting the ability of insurers to manage catastrophe risk, such as legislation prohibiting insurers from withdrawing from catastrophe-prone areas. In addition, following catastrophes, there are sometimes legislative initiatives and court decisions which seek to expand insurance coverage for catastrophe claims beyond the original intent of the policies.

The cycles of the insurance and reinsurance industries may cause fluctuations in our results.

Historically, we have experienced fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of capacity, general economic conditions and other factors. Demand for insurance and reinsurance is influenced significantly by underwriting results of primary insurers and prevailing general economic conditions.

The property and casualty insurance business historically has been characterized by periods of intense price competition due to excess underwriting capacity, as well as periods when shortages of underwriting capacity have permitted attractive premium levels. We expect to continue to experience the effects of this cyclicality, which, during down periods, could harm our financial condition, profitability or cash flows.

In the reinsurance industry, the supply of reinsurance is related to prevailing prices and levels of surplus capacity that, in turn, may fluctuate in response to changes in rates of return being realized. It is possible that premium rates or other terms and conditions of trade could vary in the future, that the present level of demand will not continue because the larger insurers created by the consolidation discussed below may require less reinsurance or that the present level of supply of reinsurance could increase as a result of capital provided by recent or future market entrants or by existing reinsurers. If any of these events transpire, our results of operations in our reinsurance business could be adversely affected.

Our portfolio holdings are subject to fluctuations in the market which could negatively affect their value.

We hold bonds and other debt instruments, common stocks, preferred stocks, equity-related securities and derivative securities in our portfolio. The market value of bonds, other debt instruments and preferred stocks fluctuates with changes in interest rates and credit outlook. The market value of common stocks and equity-related securities is exposed to fluctuations in the stock market and to liquidity risk. Risks associated with investments in derivative securities include market risk, interest rate risk, liquidity risk and credit risk. Our use of derivatives is primarily for general protection against declines in the fair value of the Company s financial assets and is governed by the Company s investment policies. Equities, equity-related securities and derivative securities are volatile or extremely volatile, with the result that their market value and their liquidity may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known upon their disposition.

Our business could be harmed because of our potential exposure for asbestos, environmental and other latent claims.

We have established loss reserves for asbestos and environmental and other latent claims. There is a high degree of uncertainty with respect to future exposure from such claims because of: significant issues surrounding the liabilities of the insurers, including us; risks inherent in major litigation, including more aggressive environmental and asbestos-related litigation against insurers, including us; and diverging legal interpretations and judgments in different jurisdictions. These uncertainties include, among other things:

- the extent of coverage under insurance policies;
- whether or not particular claims are subject to an aggregate limit;
- whether multiple policies issued to the same insured will be triggered by a particular claim;
- the number of occurrences involved in particular claims; and
- new theories of insured and insurer liability.

Insurers generally, including us, experienced an increase in the number of asbestos-related claims from 2001 through 2003 likely due to, among other things, the introduction by several states of tort reform statutes that impact asbestos litigation and resulted in plaintiffs rushing to file claims before the effective date of new legislation. The increase in such claims also led to an increase in the number of entities seeking bankruptcy protection as a result of asbestos-related liabilities.

Increasingly, policyholders have been asserting that their claims for asbestos-related insurance are not subject to aggregate limits on coverage and that each individual bodily injury claim should be treated as a separate occurrence under the policy. We expect this trend to continue. Although it is difficult to predict whether these policyholders will be successful on either of these issues, to the extent either issue is resolved in their favor, our coverage obligations under the policies at issue would be materially increased and bounded only by the applicable per occurrence limits and the number of asbestos bodily injury claims made by the policyholders. Accordingly, it is difficult to predict the ultimate size of the claims for coverage not subject to aggregate limits.

In addition, proceedings have been launched directly against insurers, including us, challenging insurers conduct in respect of asbestos claims, including in some cases with respect to previous settlements. Some plaintiffs have also advanced claims against us as defendants in asbestos personal injury cases that are close to trial. We anticipate the filing of other direct actions against insurers, including us, in the future. Particularly in light of jurisdictional issues, it is difficult to predict the outcome of these proceedings, including whether the plaintiffs will be able to sustain these actions against insurers based on novel legal theories of liability.

Similarly, as a result of various regulatory efforts aimed at environmental remediation, companies in the insurance industry, including us, continue to be involved in litigation involving policy coverage and liability issues with respect to environmental claims. In addition to regulatory pressures, the results of court decisions affecting the industry s coverage positions continue to be inconsistent and have expanded coverage beyond its original intent. Accordingly, the ultimate responsibility and liability for environmental remediation costs remains uncertain.

In addition to asbestos and environmental pollution, we face exposure to other types of mass tort or health hazard claims, including claims related to exposure to potentially harmful products or substances, such as breast implants, pharmaceutical products, chemical products, lead-based pigments, noise-induced hearing loss, tobacco, mold and welding fumes. Establishing claim and claim adjustment expense reserves for mass tort claims is subject to uncertainties because of many factors, including expanded theories of liability and disputes concerning medical causation with respect to certain diseases.

Given the factors described above, it is not presently possible to quantify with a high degree of certainty the ultimate exposure or range of exposure represented by asbestos, environmental and other latent claims and related litigation. We have established reserves that represent our best estimate of ultimate claims and claim adjustment expenses based upon known facts and current law. Our gross asbestos reserves were $1.3 billion at December 31, 2008 and our gross reserves for environmental and other latent claims were $508.1 million. Our asbestos reserves, net of reinsurance but excluding vendor indemnities, were $719.1 million at December 31, 2008 and our reserves for environmental and other latent claims, net of reinsurance but excluding vendor indemnities, were $235.5 million. However, these claims and related litigation, particularly if current trends continue, could result in liability exceeding these reserves by an amount that could be material to our operating results and financial condition in future periods.

We cannot assure you that our reinsurers and certain insureds will pay us on a timely basis or at all.

Reinsurance is an arrangement in which an insurance company, called the ceding company, transfers insurance risk to another insurer, called the reinsurer, which accepts the risk in return for a premium payment. Although reinsurance makes the assuming reinsurer liable to us to the extent of the risk ceded, we are not relieved of our primary liability to our insureds. As of June 30, 2009, we had a total of approximately $4.1 billion recoverable from reinsurers. We cannot assure you that our reinsurers will pay our reinsurance claims on a timely basis or at all. As well, we bear credit risk with respect to our reinsurers (including retrocessionaires), both with respect to receivables reflected on our balance sheet as well as to contingent liabilities with respect to reinsurance protection on future claims. If reinsurers are unwilling or unable to pay us amounts due under reinsurance contracts, we will incur unexpected losses and our cash flow will be adversely affected.

We write certain insurance policies, such as large deductible policies (policies where the insured retains a specific amount of any potential loss), in which the insured must reimburse us for certain losses. Accordingly, we bear credit risk on these policies and cannot assure you that our insureds will pay us on a timely basis or at all. In the ordinary course of business we are sometimes unable to collect all amounts billed to insureds, generally due to disputes on audit of retrospectively rated policies and, in some cases, due to insureds having filed for bankruptcy protection. In addition, if an insured files for bankruptcy, we may be unable to recover on assets such insured may have pledged to us as collateral. We reserve for uncollectible amounts in the period the collection issues become known. The inability to collect amounts due to us reduces our net income and cash flow, and the ability of our insurance and reinsurance subsidiaries to pay dividends or make other distributions to us.

If we are unable to realize our investment objectives, our business, financial condition or results of operations may be adversely affected.

Investment returns are an important part of our overall profitability and our operating results depend in part on the performance of our investment portfolio. Accordingly, fluctuations in the fixed income or equity markets could impair our profitability, financial condition or cash flows. We derive our investment income from interest and dividends, together with net gains on investments. The portion derived from net gains on investments generally fluctuates from year to year. For the six months ended June 30, 2009 and for the years ended December 31, 2008, 2007 and 2006, net gains on investments accounted for approximately 23.8%, 81.3%, 68.3% and 51.4%, respectively, of our total investment income (including net gains on investments). Net gains on investments are typically a less predictable source of investment income than interest and dividends, particularly in the short term.

The return on our portfolio and the risks associated with our investments are also affected by our asset mix, which can change materially depending on market conditions. Investments in cash or short term investments generally produce a lower return than other investments. At June 30, 2009, 18.4%, or $3.6 billion, of our invested assets were held in cash and short term investments pending our identification of suitable opportunities for reinvestment in line with our long-term value-oriented investment philosophy. Fairfax holds significant investments in equities and equity-related securities. As at June 30, 2009, the company had aggregate equity holdings with fair value of $5,534.8 million (common stocks of $4,797.3 million plus investments, at equity of $737.5 million) and aggregate equity-related holdings comprised of warrants, short equity total return swaps and long equity total return swaps with a fair value of $135.3 million. The market values and the liquidity of these investments are volatile and vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over the long term.

The volatility of our claims submissions may force us to liquidate securities, which may cause us to incur capital losses. If we structure our investments improperly relative to our liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Realized investment losses resulting from an other than temporary decline in value could significantly decrease our net income.

The ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. General economic conditions can adversely affect the markets for interest-rate-sensitive securities,

including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. General economic conditions, stock market conditions and many other factors can also adversely affect the equities markets and, consequently, the value of the equity securities we own. In addition, defaults by third parties who fail to pay or perform on their obligations could reduce our investment income and net gains on investment or result in investment losses. We may not be able to realize our investment objectives, which could reduce our net income significantly and adversely affect our business, financial condition or results of operations.

The failure of any of the loss limitation methods we employ could have a material adverse effect on our financial condition or our results of operations.

Unlike most businesses, the insurance and reinsurance business can have enormous costs that can significantly exceed the premiums received on the underlying policies. We seek to limit our loss exposure by employing a variety of policy limits and other terms and conditions and through prudent underwriting of each program written. We also seek to limit our loss exposure by geographic diversification. We cannot be sure that any of these loss limitation methods will be effective. There can be no assurance that various provisions of our policies, such as limitations or exclusions from coverage or choice of forum, will be enforceable in the manner we intend, thus substantially increasing the potential exposure we face under such policies.

If our insurance and reinsurance subsidiaries are unable to maintain financial strength ratings, it may be more difficult for them to renew policies or retain business or write new business.

Third-party rating agencies assess and rate the claims-paying ability of reinsurers and insurers based upon the criteria of such rating agencies. Periodically the rating agencies evaluate our insurance companies to confirm that they continue to meet the criteria of the ratings previously assigned to them. The claims-paying ability ratings assigned by rating agencies to reinsurance or insurance companies represent independent opinions of financial strength and ability to meet policyholder obligations, and are not directed toward the protection of investors. These claims-paying ability ratings are not ratings of securities or recommendations to buy, hold or sell any security and are not applicable to the securities offered by this prospectus.

A.M. Best has assigned an A rating (the third highest of fifteen ratings) to each of OdysseyRe, Northbridge and Crum & Forster. Financial strength ratings are used by insurers and reinsurance and insurance intermediaries as an important means of assessing the financial strength and quality of insurers and reinsurers. A downgrade in these ratings could lead to a significant reduction in the number of insurance policies our insurance subsidiaries write.

The ratings by these agencies of our insurance subsidiaries may be based on a variety of factors, some of which are outside of our control, including, but not limited to, the financial condition of us and our subsidiaries and affiliates, the financial condition or actions of parties from which our insurance subsidiaries have obtained reinsurance, and factors relating to the sectors in which such persons conduct business, and the statutory surplus of our insurance subsidiaries, which is adversely affected by underwriting losses and dividends paid by them. A downgrade of any of the debt or other ratings of Fairfax, or of any of Fairfax s subsidiaries or affiliates, or a deterioration in the financial markets view of any of these entities, could have a negative impact on the claims-paying ability ratings of our insurance subsidiaries.

We operate in a highly competitive environment which could make it more difficult for us to attract and retain business.

The property and casualty insurance industry and the reinsurance industry are both highly competitive, and we believe that they will remain highly competitive in the foreseeable future. Competition in our industry is based on many factors, including premiums charged and other terms and conditions offered, products and services provided, financial ratings assigned by independent rating agencies, speed of claims payment, reputation, selling effort, perceived financial strength and the experience of the insurer or reinsurer in the line of insurance or reinsurance to be written. We compete, and will continue to compete, with major U.S. and non-U.S. insurers and reinsurers, as well as certain underwriting syndicates, some of which have greater financial, marketing and management resources than we do, and there is no assurance that we will be able to successfully retain or attract business.

Some insurance industry participants are consolidating to enhance their market power. These entities may try to use their market power to negotiate price reductions for our products and services. If competitive pressures compel us to reduce our prices, our operating margins would decrease. As the insurance industry consolidates, competition for customers will become more intense and the importance of acquiring and properly servicing each customer will become greater. We could incur greater expenses relating to customer acquisition and retention, further reducing our operating margins. In addition, insurance companies that merge may be able to spread their risks across a larger capital base so that they require less reinsurance.

We may be unable to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us.

We use reinsurance arrangements, including reinsurance of our own reinsurance business purchased from other reinsurers, referred to as retrocessionaires, to help manage our exposure to property and casualty risks. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect our business volume and profitability. Many reinsurance companies have begun to exclude certain coverages from, or alter terms in, the policies that we purchase from them. Some exclusions are with respect to risks which we cannot exclude in policies we write due to business or regulatory constraints, such as coverage with respect to acts of terrorism, mold and cyber risk. In addition, reinsurers are imposing terms, such as lower per occurrence and aggregate limits, on primary insurers that are inconsistent with corresponding terms in the policies written by these primary insurers. As a result, our insurance subsidiaries, like other primary insurance companies, increasingly are writing insurance policies which to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose us to greater risk and greater potential losses. If we cannot obtain adequate reinsurance protection for the risks we underwrite, we may be exposed to greater losses from those risks or we may be forced to reduce the amount of business we underwrite, which will reduce our revenues. As a result, our inability to obtain adequate reinsurance protection could have a material adverse effect on our financial condition and operations.

The rates charged by reinsurers and the availability of reinsurance to the company s subsidiaries will generally reflect the recent loss experience of the company and of the industry in general. For example, the significant hurricane losses in 2004 and 2005 caused the prices for catastrophe reinsurance protection in Florida to increase significantly in 2006. Rather than incurring increased costs of reinsurance by virtue of purchasing more reinsurance or by virtue of these higher rates, in the following year the company elected to decrease its direct catastrophe exposure in that region, therefore requiring the purchase of a reduced amount of catastrophe reinsurance. In 2007 reinsurance rates stabilized while primary rates continued to decrease, increasing the cost of reinsurance for Fairfax s operating companies on a relative basis. Significant catastrophe losses incurred by reinsurers in 2008 have made and may continue to make catastrophe exposed reinsurance more expensive in the future.

In addition, although our current reinsurance program is primarily maintained with reinsurers rated A (Excellent) or better by A.M. Best, a reinsurer s insolvency or inability or unwillingness to make timely payments under the terms of its reinsurance agreements with us could have a material adverse effect on us.

We are a holding company, and we may not have access to the cash that is needed to meet our financial obligations.

We are a holding company and conduct substantially all our business through our subsidiaries and receive substantially all our earnings from them. Therefore, in the event of the insolvency or liquidation of a subsidiary, following payment by such subsidiary of its liabilities, the subsidiary may not have sufficient remaining assets to make payments to us as a shareholder or otherwise. In the event of a default by a subsidiary under a credit agreement or other indebtedness, its creditors could accelerate the debt, prior to such subsidiary distributing amounts to us that we could use to make payments on our outstanding debt. In addition, if we caused a subsidiary to pay a dividend to us to make payment on our outstanding debt, and the dividend were determined to be improperly paid, holders of our outstanding debt would be required to return the payment to the subsidiary s creditors. As of June 30, 2009, our subsidiaries had approximately $930.2 million of indebtedness.

Although substantially all of our operations are conducted through our subsidiaries, none of our subsidiaries is obligated to make funds available to us for payment on our outstanding debt. Accordingly, our ability to meet our financial obligations, including to make payments on our outstanding debt, is dependent on the distribution of earnings from our subsidiaries. The ability of our subsidiaries to pay dividends to us in the future will depend on their statutory surplus, on earnings and on regulatory restrictions. The ability of our subsidiaries to pay dividends or make distributions or returns of capital to us is subject to restrictions set forth in the insurance laws and regulations of Canada, the United States, Ireland, the United Kingdom, Poland, Hong Kong and Singapore and is affected by our subsidiaries credit agreements, indentures, rating agencies, the discretion of insurance regulatory authorities and capital support agreements with our subsidiaries. No assurance can be given that some or all of our operating subsidiaries jurisdictions will not adopt statutory provisions more restrictive than those currently in effect. Our subsidiaries may incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by our subsidiaries to us. We cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to meet our financial obligations, including to fund payments on our outstanding debt when due.

Our inability to obtain additional capital in the future as required could have a material adverse effect on our financial condition.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that the funds generated by our business are insufficient to fund future operations, we may need to raise additional funds through equity or debt financings. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. The cost and availability of debt financing is affected by credit ratings. Our senior unsecured debt at the holding company level is rated BBB- by Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc., Ba1 by Moody s Investors Service Inc., bbb by A.M. Best Company, BB+ by Fitch Ratings Ltd. and BBB (low) by DBRS Limited. Our ability to raise additional capital may be adversely affected by our credit ratings. If we cannot obtain adequate capital or if we fail to refinance our existing debt as it comes due, our business, operating results and financial condition could be adversely affected.

Our business could be adversely affected by the loss of one or more key employees.

We are substantially dependent on a small number of key employees, including our Chairman and significant shareholder, Mr. Prem Watsa, and the senior managers of our operating subsidiaries. We believe that the experiences and reputations in our industry of these individuals are important factors in our ability to attract new business. At the subsidiary level, we have entered into employment agreements with our key employees. Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of these key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations. We do not currently maintain key employee insurance with respect to any of our employees.

Our operations could be adversely affected as a result of regulatory, political, economic or other influences in the insurance and reinsurance industries.

The insurance and reinsurance industries are highly regulated and are subject to changing political, economic and regulatory influences. These factors affect the practices and operation of insurance and reinsurance organizations. Federal, state and provincial governments in the United States and Canada, as well as governments in foreign jurisdictions in which we do business, have periodically considered programs to reform or amend the insurance systems at both the federal and local levels.

Such changes could adversely affect our subsidiaries financial results, including their ability to pay dividends, cause us to make unplanned modifications of products or services, or result in delays or cancellations of