

FAIRFAX FINANCIAL HOLDINGS LTD/ CAN
Form F-4
February 15, 2017

As filed with the Securities and Exchange Commission on February 15, 2017

Registration No. 333-

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form F-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Fairfax Financial Holdings Limited

(Exact name of registrant as specified in its charter)

Not Applicable

(Translation of registrant name into English)

Canada

(State or other jurisdiction of
incorporation or organization)

6331

(Primary Standard Industrial
Classification Code Number)

**95 Wellington Street West
Suite 800**

**Toronto, Ontario Canada
M5J 2N7**

1 (416) 367-4941

(Address, including zip code, and telephone number, including
area code, of Registrant's principal executive offices)

Not Applicable

(I.R.S. Employer
Identification Number)

CT Corporation System

**111 Eighth Avenue, 13th Floor
New York, NY 10011**

U.S.A.

(212) 894-8700

(Name, address, including zip code, and telephone number, including
area code, of agent of service)

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Approximate date of commencement of proposed sale of the securities to the public:

As soon as practicable after this Registration Statement becomes effective and all other conditions to consummation of the transaction described in this prospectus have been satisfied or waived.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered ⁽¹⁾	Proposed maximum offering price per unit	Proposed maximum aggregate offering price ⁽²⁾	Amount of registration fee ⁽³⁾
Subordinate voting shares, no par value	8,652,428	N/A	4,213,584,243	488,354.41

Notes:

- (1) Represents the maximum number of Fairfax subordinate voting shares estimated to be issuable upon the completion of the Transactions for Allied World shares as described herein.
- (2) Pursuant to Rule 457(c) and Rule 457(f), and solely for the purpose of calculating the registration fee, the market value of the securities to be offered was calculated as (a) the product of 87,174,599 Allied World shares, par value CHF 4.10 per share, and (ii) the average high and low sales prices of Allied World shares as reported on the NYSE on February 10, 2017, equal to \$53.335, less (b) \$435,872,995, the estimated maximum aggregate amount of cash to be paid in the offer in exchange for such securities.
- (3) Calculated in accordance with Rule 457(f) under the Securities Act as the product of the maximum aggregate offering price and \$115.90 per \$1,000,000 of securities registered.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. Fairfax may not complete the exchange offer and issue these securities until the registration statement filed with the U.S. Securities and Exchange Commission is effective. This prospectus is not an offer to sell or a solicitation to sell these securities in any jurisdiction where such offer, sale or solicitation is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 15, 2017

**Offer to Exchange
Each
Registered Share
of**

**For
Subordinate Voting Shares of Fairfax Financial Holdings Limited and \$5.00 Cash**

**by
Fairfax Financial Holdings (Switzerland) GmbH
an indirect wholly-owned subsidiary of
Fairfax Financial Holdings Limited**

Fairfax Financial Holdings Limited, a corporation incorporated under the laws of Canada ("Fairfax"), through Fairfax Financial Holdings (Switzerland) GmbH, a limited liability company incorporated under the laws of Switzerland and an indirect wholly-owned subsidiary of Fairfax ("FFH Switzerland"), is offering to acquire all of the outstanding registered ordinary shares, par value CHF 4.10 per share (the "Allied World shares"), of Allied World Assurance Company Holdings, AG, a corporation limited by shares incorporated under the laws of Switzerland ("Allied World"), upon the terms and subject to the conditions set out in this prospectus and in the related letter of transmittal, which terms and conditions are referred to in this prospectus together, as each may be amended or supplemented from time to time, as the "Offer."

Pursuant to the Agreement and Plan of Merger, dated December 18, 2016, between Fairfax and Allied World (as amended and supplemented by one or more joinders to be executed by FFH Switzerland, Fairfax (Switzerland) (as defined below) and 1102952 B.C. Unlimited Liability Company, the "Merger Agreement"), Allied World shareholders are being offered a combination of cash and stock consideration for their Allied World shares. For each Allied World share held, Allied World shareholders are being offered (i) cash consideration of \$5.00, without interest (the "Cash Consideration"), (ii) a special cash dividend of \$5.00, without interest, payable as soon as possible after the Acceptance Time (as defined below) to holders of Allied World shares as of immediately prior to the Acceptance Time (the "Special Dividend"), which is being paid outside of the Offer, but conditioned upon the Offer, (iii) a portion of the stock consideration in fully paid and nonassessable subordinate voting shares of Fairfax ("Fairfax shares" or "subordinate voting shares") having a value of \$14.00 based on the closing price of the Fairfax shares on December 16, 2016, being 0.030392 of a Fairfax share (the "Fixed Exchange Stock Consideration") and (iv) the remaining portion of the stock consideration equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days immediately preceding the trading day before the date on which FFH Switzerland first accepts tendered Allied World shares for exchange (the "Acceptance Time"), converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax share) (the "Fixed Value Stock Consideration" and, together with the Cash Consideration and the Fixed Exchange Stock Consideration, the "Offer Consideration"). If this volume weighted average price of Fairfax shares during this period is greater than or equal to \$485.65 per Fairfax share, the Fixed Value Stock Consideration will be fixed at an exchange ratio of 0.061772 Fairfax shares for each Allied World share. If this volume weighted average price of Fairfax shares during this period is less than or equal to \$435.65 per Fairfax share, the Fixed Value Stock Consideration will be fixed at an exchange ratio of 0.068862 Fairfax shares for each Allied World share. Additionally, on or before March 3, 2017, Fairfax has the option to increase on a dollar-for-dollar basis the amount of Cash Consideration from \$5.00 to an amount not to exceed \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration (such option, the "Cash Election") and which, together with the Special Dividend, would provide holders of Allied World shares a total of up to \$40.00 cash.

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If, following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland) GmbH, a limited liability company incorporated under the laws of Switzerland ("Fairfax (Switzerland)") and a direct wholly-owned subsidiary of FFH Switzerland, initiate a squeeze-out merger under Swiss law (the "Merger" and, together with the Offer and the Special Dividend, the "Transactions"), pursuant to a merger agreement to be entered into by Allied World, FFH Switzerland and Fairfax (Switzerland) (the "Swiss Merger Agreement"), whereby any remaining Allied World shareholders (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland)), which will not receive any compensation for any Allied World shares directly or indirectly held by them) will receive cash and Fairfax shares equal to the Offer Consideration in exchange for such Allied World shares (the "Merger Consideration").

As at February 10, 2017, the latest practicable date prior to the date of this prospectus, the total value of the consideration being offered by Fairfax was \$54.20, based on the closing price of CAD\$610.84 for the Fairfax shares on the TSX on that date (and assuming the volume weighted average price for the 20-day period prior to the Acceptance Time referenced above is equal to such amount) and a noon exchange rate of CAD\$1.00 = \$0.7649, as published by the Bank of Canada on that date.

ALLIED WORLD'S BOARD OF DIRECTORS HAS UNANIMOUSLY DETERMINED THAT THE MERGER AGREEMENT AND THE OFFER ARE ADVISABLE AND FAIR TO AND IN THE BEST INTERESTS OF ALLIED WORLD, HAS APPROVED THE MERGER AGREEMENT AND RECOMMENDS THAT ALLIED WORLD SHAREHOLDERS TENDER THEIR ALLIED WORLD SHARES INTO THE OFFER.

The completion of the Offer is subject to certain conditions, including that at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) are tendered in the Offer. Fairfax and FFH Switzerland may not, without the prior written consent of Allied World, amend, modify or waive the minimum tender condition below 90 percent (unless all other conditions to the Offer have been satisfied or, to the extent legally permitted, waived, in which case Fairfax may elect to waive the minimum tender condition down to 66²/₃ percent). A detailed description of the terms and conditions of the Offer appears under "The Offer Terms of the Offer" and "The Offer Conditions to the Offer" in this prospectus.

THE OFFER WILL COMMENCE ON [•], 2017. THE OFFER, AND YOUR RIGHT TO WITHDRAW ALLIED WORLD SHARES YOU TENDER IN THE OFFER, WILL EXPIRE AT 10:00 A.M. NEW YORK CITY TIME ON [•], 2017, UNLESS THE EXPIRATION TIME OF THE OFFER IS EXTENDED. SHARES TENDERED PURSUANT TO THE OFFER MAY BE WITHDRAWN AT ANY TIME PRIOR TO THE EXPIRATION OF THE OFFER, BUT NOT DURING ANY SUBSEQUENT OFFERING PERIOD.

The Allied World shares are listed on the New York Stock Exchange (the "NYSE"). The Fairfax shares are listed on the TSX. The TSX has conditionally approved for listing the Fairfax shares to be issued as partial consideration to Allied World shareholders. Listing will be subject to Fairfax satisfying customary listing conditions of the TSX.

FOR A DISCUSSION OF RISK FACTORS THAT YOU SHOULD CAREFULLY CONSIDER IN EVALUATING THE OFFER AND THE OTHER TRANSACTIONS, SEE "RISK FACTORS" BEGINNING ON PAGE 38 OF THIS PROSPECTUS.

THIS PROSPECTUS CONTAINS DETAILED INFORMATION CONCERNING THE OFFER FOR ALLIED WORLD SHARES AND THE PROPOSED ACQUISITION OF ALLIED WORLD. FAIRFAX RECOMMENDS THAT YOU READ THIS PROSPECTUS CAREFULLY.

THIS PROSPECTUS IS NOT AN OFFER TO SELL SECURITIES AND IS NOT A SOLICITATION OF AN OFFER TO BUY SECURITIES, NOR SHALL THERE BE ANY SALE OR PURCHASE OF SECURITIES PURSUANT HERETO, IN ANY JURISDICTION IN WHICH SUCH OFFER, SALE OR SOLICITATION IS NOT PERMITTED OR WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE LAWS OF ANY SUCH JURISDICTION.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED IN CONNECTION WITH THE OFFER OR THE OTHER TRANSACTIONS OR HAS PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.

The date of this prospectus is _____, 2017.

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IMPORTANT INFORMATION

This prospectus is not an offer to sell securities and is not a solicitation of an offer to buy securities, nor shall there be any sale or purchase of securities pursuant hereto, in any jurisdiction in which such offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the laws of any such jurisdiction. If you are in any doubt as to your eligibility to participate in the Offer, you should contact your professional advisor immediately.

ABOUT THIS DOCUMENT

This document, which forms part of a registration statement on Form F-4 filed with the Securities and Exchange Commission (the "SEC") by Fairfax, constitutes a prospectus of Fairfax under Section 5 of the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Fairfax shares to be delivered to Allied World shareholders pursuant to the Transactions.

Fairfax and Allied World have not authorized anyone to give information or make any representations about the Transactions, Fairfax or Allied World that is different from, or in addition to, that contained in this prospectus or in any of the materials incorporated by reference in this prospectus. Fairfax and Allied World take no responsibility for, and can provide no assurance as to the reliability of, any information that others may give you.

The information contained or incorporated in this prospectus is accurate only as of the date of this prospectus or the applicable incorporated document unless the information specifically indicates that another date applies, and neither the mailing of this prospectus to shareholders nor the issue of Fairfax shares in the Offer should create any implication to the contrary.

Incorporation of Certain Information by Reference

The SEC allows Fairfax to "incorporate by reference" into this prospectus the following documents and all annual reports on Form 40-F and all current reports on Form 6-K that Fairfax subsequently files with the SEC and all annual reports on Form 10-K, all quarterly reports on Form 10-Q and all current reports on Form 8-K that Allied World subsequently files with the SEC (other than, in each case, documents or information deemed to have been furnished and not filed in accordance with the SEC rules) pursuant to Section 13(a), 13(c) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), until the completion of the Transactions:

Fairfax's Annual Report on Form 40-F for the fiscal year ended December 31, 2015, filed on March 11, 2016;

Fairfax's Reports on Form 6-K furnished on March 4, 2016, March 11, 2016 (Acc. No: 0001047469-16-011045), March 11, 2016 (Acc. No: 0001047469-16-011044), April 28, 2016 (except Exhibit 99.1), June 3, 2016, July 29, 2016 (except Exhibit 99.1), August 26, 2016, September 2, 2016, September 26, 2016, November 4, 2016 (except Exhibit 99.1), November 15, 2016, December 6, 2016, December 14, 2016, December 16, 2016, January 6, 2017, January 17, 2017, January 27, 2017, February 2, 2017, February 6, 2017 and February 9, 2017;

Allied World's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed on February 22, 2016;

Allied World's Definitive Proxy Statement on Schedule 14A for the fiscal year ended December 31, 2015, filed on March 11, 2016;

Allied World's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, filed on April 19, 2016;

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Allied World's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, filed on July 21, 2016;

Allied World's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, filed on October 31, 2016; and

Allied World's Current Reports on Form 8-K filed on January 7, 2016, February 25, 2016, April 25, 2016, June 16, 2016, July 22, 2016, August 2, 2016, December 20, 2016, December 23, 2016, January 14, 2017 and February 1, 2017 (Acc. No: 0001104659-17-005513).

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

Fairfax will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You may obtain copies of those documents by sending your request in writing to Fairfax at the following address: Fairfax Financial Holdings Limited, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or by telephoning Fairfax at 1 (416) 367-4941, and to Allied World at the following address: Allied World Assurance Company Holdings, AG, Gubelstrasse 24, Park Tower, 15th Floor, 6300 Zug, Switzerland or by telephoning Allied World at +41 41 768 1080.

In order to receive timely delivery of these documents, Allied World shareholders must make such a request no later than five U.S. business days before the then-scheduled Expiration Time of the Offer. The Expiration Time of the Offer is currently 10:00 a.m., New York City time on [•], 2017 (4:00 p.m. Zug time on [•], 2017), but the actual deadline may change if the Offer is extended.

CURRENCIES

In this prospectus, unless otherwise specified or the context otherwise requires:

"CHF" and "Swiss Franc" each refer to the lawful currency of the Swiss Confederation;

"CAD\$" and "Canadian dollar" each refer to the Canadian dollar; and

"\$" and "US dollar" each refer to the US dollar.

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HELPFUL INFORMATION

Certain Defined Terms

Unless otherwise specified or if the context so requires, in this prospectus:

"Acceptance Time" refers to the date on which FFH Switzerland first accepts tendered Allied World shares for exchange.

"Allied World" refers to Allied World Assurance Company Holdings, AG, a corporation limited by shares incorporated under the laws of Switzerland.

"Allied World shares" refers to the registered ordinary shares of Allied World, par value CHF 4.10.

"Articles Amendment" refers to the amendment of Allied World's articles of association to permit a holder of 10 percent or more of the Allied World shares to register its Allied World shares on Allied World's shareholder register with full voting rights for all shares held by such holder (or any of its affiliates or controlled persons as defined in Article 14 of Allied World's articles of association).

"Board Modification" refers to the election by Allied World shareholders of the individuals designated by Fairfax to the board of directors of Allied World in accordance with the terms of the Merger Agreement.

"business day" means any day other than a Saturday, Sunday or other day on which the banking institutions in New York, Toronto or the canton of Zug, Switzerland are obligated by law or executive order to be closed.

"Cash Consideration" means \$5.00 cash, without interest, being offered for each Allied World share. On or before March 3, 2017, Fairfax has the option to increase on a dollar-for-dollar basis the amount of Cash Consideration from \$5.00 to an amount not to exceed \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration.

"Cash Election" refers to Fairfax's option to increase on a dollar-for-dollar basis the amount of Cash Consideration from \$5.00 to an amount not to exceed \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration.

"Expiration Time" refers to the time the Offer will expire, currently expected to be 10:00 a.m., New York City time, on [•], 2017 (4:00 p.m. Zug time on [•], 2017), unless extended.

"Fairfax" refers to Fairfax Financial Holdings Limited, a corporation incorporated under the laws of Canada.

"Fairfax Group" refers to Fairfax together with its subsidiaries, which, for the avoidance of doubt, will include Allied World upon completion of the Offer.

"Fairfax shares" and "subordinate voting shares" refer to the fully paid and nonassessable subordinate voting shares of Fairfax.

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"Fairfax (Switzerland)" refers to Fairfax (Switzerland) GmbH, a limited liability company incorporated under the laws of Switzerland and a direct wholly-owned subsidiary of FFH Switzerland and an indirect wholly-owned subsidiary of Fairfax.

"FFH Switzerland" refers to Fairfax Financial Holdings (Switzerland) GmbH, a limited liability company incorporated under the laws of Switzerland and an indirect wholly-owned subsidiary of Fairfax.

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"Fixed Exchange Stock Consideration" means the portion of the stock consideration in Fairfax shares having a value of \$14.00 based on the closing price of Fairfax shares as of December 16, 2016, payable at a fixed exchange ratio of 0.030392, being offered to shareholders of Allied World for each Allied World share held.

"Fixed Value Stock Consideration" means the portion of the stock consideration in Fairfax shares equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax share). On or before March 3, 2017, Fairfax has the option to increase on a dollar-for-dollar basis the amount of the Cash Consideration from \$5.00 to an amount not exceeding \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration.

"IFRS" refers to International Financial Reporting Standards, as issued by the International Accounting Standards Board.

"Merger" refers to the squeeze-out merger under Swiss law to be consummated by Fairfax, through Fairfax (Switzerland), following the completion of the Offer, pursuant to the Swiss Merger Agreement.

"Merger Agreement" refers to the Agreement and Plan of Merger by and between Fairfax and Allied World, dated December 18, 2016, as the same may be amended from time to time.

"Merger Consideration" refers to an amount in cash and Fairfax shares equal to the Offer Consideration.

"Minimum Tender Condition" refers to the condition to the completion of the Offer that there will have been validly tendered in accordance with the terms of the Offer (other than Allied World shares tendered by guaranteed delivery where actual delivery has not occurred), prior to the Expiration Time (as it may be extended pursuant to the terms of the Merger Agreement) and not withdrawn, a number of Allied World shares that, together with any Allied World shares then directly or indirectly owned by Fairfax, FFH Switzerland or Fairfax (Switzerland), represents at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World).

"Offer" refers to the exchange offer to acquire all of the outstanding Allied World shares pursuant to the Merger Agreement and on the terms and conditions set out in this prospectus.

"Offer Consideration" refers to, collectively: (i) the Cash Consideration; (ii) the Fixed Exchange Stock Consideration; plus (iii) the Fixed Value Stock Consideration.

"Special Dividend" refers to a dividend of \$5.00 in cash per share, to be paid, without interest, by Allied World as soon as possible after, but in any event within 15 business days after, the Acceptance Time, to each holder of Allied World shares as of immediately prior to the Acceptance Time.

"Swiss Merger Agreement" refers to the merger agreement to be entered into by Allied World, FFH Switzerland and Fairfax (Switzerland) giving effect (subject to registration with the competent commercial register) to and governing the Merger.

"Transactions" refers, collectively, to the Offer, the Merger and the Special Dividend.

"US GAAP" refers to those accounting principles generally accepted in the United States.

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QUESTIONS AND ANSWERS ABOUT THE OFFER

*The following are some of the questions that you, as an Allied World shareholder, may have regarding the Offer along with answers to those questions. These questions and answers, as well as the following summary, are not meant to be a substitute for the information contained or incorporated by reference in the remainder of this prospectus or the annexes to this prospectus, and this information is qualified in its entirety by the more detailed descriptions and explanations contained therein. **Fairfax urges you to carefully read this prospectus, including any documents incorporated by references, and its annexes in their entirety prior to making any decision as whether to tender your Allied World shares in the Offer.***

Q. Who is making the Offer?

A. Fairfax is making the Offer to purchase all of the outstanding Allied World shares through its indirect wholly-owned subsidiary, FFH Switzerland. Pursuant to the Merger Agreement, Fairfax has agreed to cause all members of its group, including FFH Switzerland, to comply with all of Fairfax's obligations in connection with the Offer.

Q. Who is Fairfax?

A. Fairfax is a holding company which, through its subsidiaries (Fairfax together with its subsidiaries, the "Fairfax Group," which, for the avoidance of doubt, will include Allied World upon completion of the Offer), is engaged in property and casualty insurance and reinsurance and investment management. Fairfax's registered and head office is located at 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7.

For the year ended December 31, 2015, Fairfax's consolidated revenue was \$9.6 billion and its net earnings were \$642 million. For the nine months ended September 30, 2016, Fairfax's consolidated revenue was \$7.5 billion and its net earnings were \$309.5 million. As of September 30, 2016, Fairfax had total assets of \$44.1 billion. As at December 31, 2015, Fairfax had 36 employees at the holding company and in the aggregate approximately 23,540 full-time employees.

Q. Who is FFH Switzerland?

A. FFH Switzerland is an indirect wholly-owned subsidiary of Fairfax. All quotas of FFH Switzerland are owned by 1102952 B.C. Unlimited Liability Company, a direct wholly-owned subsidiary of Fairfax. FFH Switzerland's registered office is located at c/o LacMont AG, Hofstrasse 1a, 6300 Zug, Switzerland. FFH Switzerland was formed for the purpose of the Transactions and has not conducted, and does not expect to conduct, any business other than in connection with its organization and the consummation of the Transactions.

Q. Who is Fairfax (Switzerland)?

A. Fairfax (Switzerland) is an indirect wholly-owned subsidiary of Fairfax. All quotas of Fairfax (Switzerland) are owned by FFH Switzerland. Fairfax (Switzerland)'s registered office is located at c/o LacMont AG, Hofstrasse 1a, 6300 Zug, Switzerland. Fairfax (Switzerland) was formed for the purpose of the Transactions and has not conducted, and does not expect to conduct, any business other than in connection with its organization and the consummation of the Transactions.

Q. Why is Fairfax seeking to acquire all of the outstanding Allied World shares?

A. Fairfax, through FFH Switzerland, is offering to acquire all of the outstanding Allied World shares in order to acquire 100 percent of the issued share capital of Allied World. Fairfax believes that Allied World's growing international reach is highly complementary to Fairfax's existing worldwide

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operations, and that the Transactions will provide a number of strategic opportunities, including diversification of the Fairfax Group's risk portfolio.

Q.

What consideration is being offered for my Allied World shares?

A.

Allied World shareholders are being offered a combination of cash and stock consideration for their Allied World shares. For each Allied World share held, Allied World shareholders are being offered (i) cash consideration of \$5.00, without interest (the "Cash Consideration"), (ii) a special cash dividend of \$5.00, without interest, payable as soon as possible after the Acceptance Time to holders of Allied World shares as of immediately prior to the Acceptance Time (the "Special Dividend"), which is being paid outside of the Offer, but conditioned upon the Offer, (iii) a portion of the stock consideration in Fairfax shares having a value of \$14.00 based on the closing price of Fairfax as of December 16, 2016, payable at a fixed exchange ratio of 0.030392 (the "Fixed Exchange Stock Consideration") and (iv) the remaining portion of the stock consideration equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the date on which FFH Switzerland first accepts tendered Allied World shares for exchange (the "Acceptance Time"), converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax share) (the "Fixed Value Stock Consideration" and, together with the Cash Consideration and the Fixed Exchange Stock Consideration, the "Offer Consideration"). If this volume weighted average price of Fairfax shares during this period is greater than or equal to \$485.65 per Fairfax share, this portion of the consideration will be fixed at an exchange ratio of 0.061772 Fairfax shares for each share of Allied World. If this volume weighted average price of Fairfax shares during this period is less than or equal to \$435.65 per Fairfax share, this portion of the consideration will be fixed at an exchange ratio of 0.068862 Fairfax shares for each share of Allied World. Additionally, on or before March 3, 2017, Fairfax has the option to increase on a dollar-for-dollar basis the amount of the Cash Consideration from \$5.00 to an amount not exceeding \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration (such option, the "Cash Election") and which, together with the Special Dividend, would provide holders of Allied World shares a total of up to \$40.00 cash. Fairfax may elect to fund the Cash Election by an equity or debt issuance or by bringing in one or more third party co-investors. See "The Merger Agreement Offer Consideration."

The aggregate purchase price payable in connection with the Transactions is approximately \$4.9 billion, or \$54.00 per Allied World share based on the closing price per Fairfax share of CAD\$614.45 on December 16, 2016 on the TSX, and represents a premium of 18 percent to the closing price of \$45.77 per Allied World share on December 16, 2016, being the last business day preceding the announcement of the Offer.

Q.

What will I receive if I accept the Offer?

A.

Allied World shareholders who validly tender and do not withdraw their Allied World shares prior to the Expiration Time (as defined below), or during any Subsequent Offering Period (as defined below), will receive the Offer Consideration plus the Special Dividend. If the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent is no less than \$435.65 and no greater than \$485.65 per Fairfax share, the total number of Fairfax shares to be paid and issued pursuant to the

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Offer will not be fixed. In such circumstances, the actual number of Fairfax shares that Allied World shareholders who tender their shares will be entitled to receive for each Allied World share cannot be determined before the end of the Offer period. The Offer allows for Fairfax to elect, on or before March 3, 2017, to replace on a dollar-for-dollar basis a portion of the stock consideration with cash in an amount up to \$30.00 per Allied World share, for a total cash consideration of up to \$40.00 per Allied World share (including the Special Dividend).

The exchange ratio in relation to a portion of the Offer Consideration payable in stock is not fixed, and may fluctuate depending on the market price of Fairfax shares. Therefore, the dollar value of the Fairfax shares that holders of Allied World shares will receive upon completion of the Offer will depend on the market value of the Fairfax shares and the exchange rate of Canadian dollars to US dollars at the time of completion of the Offer.

Q.

How will the Cash Consideration component of the Offer Consideration be financed?

A.

The Cash Consideration component of the Offer Consideration (up to approximately \$435.9 million) will be financed through Fairfax's existing cash resources, the cash proceeds from the potential sale of non-core businesses that Fairfax has no ability to control long-term and the indirect sale of approximately 21% of the Allied World shares to OMERS, the pension plan for Ontario's municipal employees, which sale will be effected contemporaneously with the closing of the Offer. Fairfax is in ongoing discussions with several additional third parties to also participate in the Transactions.

Q.

What are the most significant conditions to the Offer?

A.

The Offer is subject to a number of conditions, including there being validly tendered in accordance with the terms of the Offer prior to the Expiration Time, a number of Allied World shares (that have not been validly withdrawn) that, together with any Allied World shares then directly or indirectly owned by Fairfax, FFH Switzerland and Fairfax (Switzerland), represents at least 90 percent or more of all outstanding Allied World shares (excluding Allied World shares held by Allied World) (which we refer to as the "Minimum Tender Condition"), antitrust and other regulatory approvals having been obtained, Fairfax shareholders having approved the issuance of the new Fairfax shares (if required), the conditional approval for listing on the TSX of the new Fairfax shares to be issued in the Transactions, the Articles Amendment and the Board Modification having been effected and the Special Dividend having been approved and declared by Allied World's shareholders.

Fairfax reserves the right to waive, in whole or in part, subject to certain exceptions, any condition to the Offer. Fairfax may waive the Minimum Tender Condition down to $66\frac{2}{3}$ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) only if the other conditions to the Offer have been satisfied or (if permitted under the Merger Agreement) waived.

The Offer is not subject to any financing condition.

See "The Offer Conditions to the Offer" for additional information.

Q.

Is Fairfax's financial condition relevant to my decision to tender into the Offer?

A.

Yes. Allied World's shares validly tendered and accepted for payment in the Offer will be exchanged for cash and Fairfax shares. You should consider Fairfax's financial condition before you decide to become a holder of Fairfax's shares by tendering your Allied World shares in the Offer.

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Q. Does Fairfax's board of directors support the Offer?

A. Yes. Fairfax's board of directors has unanimously:

determined that it is in the best interests of Fairfax to enter into the Merger Agreement and consummate the Transactions, including the issuance of Fairfax shares in the Transactions;

approved the Merger Agreement and authorized and approved the issuance of Fairfax shares in the Transactions; and

recommended that the shareholders of Fairfax approve the issuance of Fairfax shares in the Transactions.

Q. Does Allied World's board of directors support the Offer?

A. Yes. Allied World's board of directors has unanimously:

approved the Merger Agreement and authorized and approved the Offer and the Special Dividend; and

determined that the form, terms and provisions of the Merger Agreement, the performance by Allied World of its obligations thereunder and the consummation by Allied World of the transactions contemplated thereby, including the Merger, are advisable and fair to and in the best interests of Allied World.

Allied World's board of directors has also unanimously (subject to its ability to effect a recommendation withdrawal in accordance with the terms of the Merger Agreement):

resolved to recommend that the shareholders of Allied World approve the Articles Amendment, the Board Modification (unless waived by Fairfax), the Special Dividend and the forgoing of the \$0.26 quarterly dividend payable in the first quarter of 2017;

resolved to recommend that the shareholders of Allied World accept the Offer and tender their Allied World shares into the Offer; and

resolved to recommend that the shareholders of Allied World approve the Merger.

Q. Can the interests of the Allied World directors and executive officers differ from Allied World shareholders generally?

A. Yes. Allied World's directors and executive officers may have interests in the Offer and the other Transactions that are different from, or in addition to, those of Allied World's shareholders generally. These interests include, among others, certain directors or executive officers continuing as managing officers of Fairfax (Switzerland) following the closing of the Transactions; continued indemnification and insurance for directors and executive officers with respect to claims arising out of or from services provided to Allied World; accelerated vesting of certain Allied World restricted share units ("Allied World RSUs") and performance-based restricted share units ("Allied World PRSUs"), and payments to executive officers upon the closing of the Transactions pursuant to the Allied World Assurance Company (U.S.) Inc. Second Amended and Restated Supplemental Executive Retirement Plan (the "SERP") or continuation of compensation and benefits for a predetermined notice period in accordance with the terms of their existing

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employment agreements in the event a notice of termination is delivered by Allied World (or Fairfax) following the closing of the Transactions.

For a discussion of Allied World's directors' and executive officers' interests in the Transactions that may differ from and be in addition to your interests as a shareholder, see the section "Interests of Allied World, FFH Switzerland and Fairfax and their Directors and Officers."

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Q. Will Allied World's directors and executive officers participate in the Offer?

A. Yes. The directors and executive officers of Allied World, who control approximately 3.0 percent of the outstanding Allied World shares, entered into a voting agreement with Fairfax and Allied World, dated December 18, 2016, pursuant to which they have agreed to tender their Allied World shares in the Offer (the "Allied World Shareholder Voting Agreement"). Pursuant to the Allied World Shareholder Voting Agreement, the directors and executive officers of Allied World also agreed to irrevocably grant and appoint Fairfax, and any designee of Fairfax, as their proxy to vote their Allied World shares in favor of the Articles Amendment, Board Modification (unless waived by Fairfax) and the Special Dividend at one or more meetings of the Allied World shareholders called for such purpose.

Q. What will happen to my outstanding Allied World Stock-Based Awards in the Offer?

A. The Offer does not extend to Allied World stock options ("Allied World Options") or other stock-based awards.

Treatment of Allied World Options at the Acceptance Time

At the Acceptance Time, each Allied World Option granted by Allied World under any Allied World share option or other equity-related award plan, agreement or program (collectively, the "Allied World Share Plans") that is outstanding and unexercised immediately before or as of the Acceptance Time, whether or not exercisable and whether or not vested, will be cancelled and automatically converted into the right to receive an amount in cash equal to the product of the excess, if any, of the sum obtained by adding the cash consideration in the Offer, the Special Dividend and an amount in cash equal to the product obtained by multiplying the number of Fairfax shares issuable as stock consideration in the Offer and the volume weighted average price per Fairfax share on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted into US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period (the "Equity Award Consideration") over the exercise price per share of Allied World shares subject to such Allied World Option and the total number of Allied World shares subject to such Allied World Option. For each Allied World Option, if the applicable exercise price per share of Allied World shares equals or exceeds the Equity Award Consideration, such Allied World Option will be cancelled without payment of any consideration, and all rights with respect to such Allied World Option will terminate as of the Acceptance Time.

Treatment of Allied World RSUs and Other Stock-Based Awards at the Acceptance Time

At the Acceptance Time, each Allied World restricted share and each Allied World RSU granted by Allied World under an Allied World Share Plan (each an "Allied World Restricted Award") and each award of any kind granted, held, outstanding or payable under the Allied World Share Plans, other than Allied World Options and Allied World Restricted Awards (each an "Other Allied World Award") subject to time vesting conditions will, without any further action on the part of the holder, become fully vested immediately prior to the Acceptance Time. Each Allied World Restricted Award and each Other Allied World Award subject to performance vesting conditions (each, a "Performance Award") will, without any further action on the part of the holder, become fully vested immediately prior to the Acceptance Time, subject to the following rules: for each Performance Award for which the applicable performance period is completed as of immediately prior to the Acceptance Time, the number of Performance Awards that will vest as of immediately prior to the Acceptance Time shall be based on actual performance; and for each Performance Award for which the applicable performance period is not completed as of immediately prior to the Acceptance Time, notwithstanding anything to the contrary in any agreement, plan or

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arrangement covering such Performance Award, the number of Performance Awards that will vest as of immediately prior to the Acceptance Time will be based on the target of the applicable Performance Award (as reasonably determined by the compensation committee of the Allied World board of directors prior to the Acceptance Time). Each Performance Award that does not vest under the circumstances set out in the previous sentence will be cancelled and terminated without consideration immediately prior to the Acceptance Time.

Each Allied World Restricted Award and Other Allied World Award that vests in accordance with the Merger Agreement will, without any further action on the part of the holder, be cancelled as of the Acceptance Time and automatically converted into the right to receive an amount in cash equal to the product obtained by multiplying the Equity Award Consideration and the total number of Allied World shares subject to such Allied World Restricted Award or Other Allied World Award, as applicable, or, to the extent that an Other Allied World Award is denominated in cash, rather than in Allied World shares, the cash amount payable pursuant to such Other Allied World Award, as determined in accordance with the Merger Agreement.

Allied World Employee Stock Purchase Plan

Prior to the Acceptance Time, subsequent offering periods under Allied World's employee stock purchase plan ("Allied World ESPP") will be suspended and terminated following the Acceptance Time. Allied World shares purchased under the Allied World ESPP will be treated as Allied World shares for all purposes of the Merger Agreement, including with respect to the Offer.

Fairfax or one of its subsidiaries will pay to holders of Allied World Options, Allied World Restricted Awards and Other Allied World Awards the cash amounts due, less such amounts required to be withheld or deducted under the U.S. Internal Revenue Code of 1986, as amended (the "Code") or any provision of state, local or foreign law with respect to the vesting of the award or making of such payment, on the first payroll date following the Acceptance Time. To the extent amounts are withheld or deducted, such withheld amounts will be treated for the purposes of the Merger Agreement as having been paid to the holders of Allied World Options, Allied World Restricted Awards and Other Allied World Awards in respect of which such deducting and withholding was made.

Q.

How do I accept the Offer?

A.

Allied World shareholders whose shares are registered in the share register of Allied World, referred to as registered holders, must return a properly completed and duly executed letter of transmittal. If you hold your Allied World shares through a financial intermediary, broker, dealer, commercial bank, trust company or other entity, you should instruct your financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares to tender your Allied World shares to the exchange agent by means of delivery through the book-entry confirmation facilities of The Depository Trust Company ("DTC"), before the expiration of the Offer.

Q.

When does the Offer expire, and under what circumstances will the Offer be extended?

A.

The Offer will expire at 10:00 a.m., New York City time, on [•], 2017 (4:00 p.m. Zug time on [•], 2017) (the "Expiration Time"), unless the Offer is extended in accordance with U.S. tender offer rules and the terms of the Merger Agreement, as set out herein.

If one or more conditions to the Offer set out in the Merger Agreement and described in this prospectus under "The Offer Conditions to the Offer" is not satisfied or, to the extent permitted under the Merger Agreement, waived, FFH Switzerland will extend the period of time for which the Offer is open for successive periods of 10 business days each or such other number of business

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days as Fairfax and Allied World may agree in order to permit the satisfaction of the conditions to the Offer, until all the conditions set out in "The Offer Conditions to the Offer" have been satisfied or waived, provided that neither Fairfax nor FFH Switzerland will be required to extend the Offer beyond August 18, 2017, except in limited circumstances, as provided for in the Merger Agreement.

FFH Switzerland will extend the Offer for any period required by any rule, regulation, interpretation or position of the SEC or its staff or the NYSE applicable to the Offer or any period required by law.

In the event that the Offer is extended for any reason, the Offer will remain open for acceptance until the expiration of the relevant extension period. Any extension of the Offer period will be announced by Fairfax and/or FFH Switzerland by the issuance of a press release by no later than 9:00 a.m. New York City time on the next U.S. business day following the previously scheduled Expiration Time.

During any extension, any Allied World shares validly tendered and not properly withdrawn will remain subject to purchase in the Offer, subject to the right of each Allied World shareholder to withdraw the Allied World shares that such holder has previously tendered. See "How do I withdraw previously tendered Allied World shares" below.

Q.

Will there be a subsequent offering period?

A.

Pursuant to the Merger Agreement, following the expiration of the Offer, FFH Switzerland may elect to provide one or more subsequent offering periods (each, a "Subsequent Offering Period") in accordance with U.S. tender offer rules and other applicable law. If FFH Switzerland elects to provide for a Subsequent Offering Period, the Subsequent Offering Period will be conducted on the same terms as the Offer, but the Allied World shares properly tendered during the Subsequent Offering Period will not be permitted to be withdrawn and will be accepted without any minimum tender condition.

Q.

How will I know if the Offer is extended?

A.

Fairfax and/or FFH Switzerland will announce any extension of the Offer by issuing a press release by no later than 9:00 a.m. New York City time on the next U.S. business day following the previously scheduled Expiration Time.

Subject to the requirements of the U.S. tender offer rules (including U.S. tender offer rules that require that any material changes to an Offer be promptly disseminated to shareholders in a manner reasonably designed to inform them of such change) and without limiting the manner in which Fairfax and/or FFH Switzerland may choose to make any public announcement, it will have no obligation to communicate any public announcement other than as described above.

Q.

When will I be notified of the results of the Offer?

A.

Unless the Offer period is extended, Fairfax and/or FFH Switzerland will make a public announcement no later than 9:00 a.m. New York City time on the next U.S. business day following the previously scheduled Expiration Time, stating whether (i) the conditions to the Offer have been satisfied or waived or (ii) the Offer is terminated, as a result of any of the conditions to the Offer not having been satisfied or waived.

In accordance with the U.S. tender offer rules, any extension of the Offer period will be announced by no later than 9:00 a.m. New York City time on the next U.S. business day after the previously scheduled Expiration Time. Fairfax and/or FFH Switzerland will announce the final results of the Offer, including whether all of the conditions to the Offer have been satisfied or

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waived and whether Fairfax will cause FFH Switzerland to accept the tendered Allied World shares for exchange, as promptly as practicable following the scheduled Expiration Time.

Q. If I do not tender my Allied World shares prior to the Expiration Time, will I have another opportunity to tender my Allied World shares into the Offer?

A. No. Upon the expiration of the Offer, including any extension thereof, Fairfax will cause FFH Switzerland to accept for exchange and will exchange all Allied World shares validly tendered and not properly withdrawn pursuant to the terms of the Offer. Pursuant to the Merger Agreement, following the expiration of the Offer, FFH Switzerland may elect to provide one or more Subsequent Offering Periods in accordance with U.S. tender offer rules and other applicable law. However, there is no guarantee that FFH Switzerland will elect to provide a Subsequent Offering Period. **Therefore, Allied World shareholders who wish to tender their Allied World shares into the Offer and receive Offer Consideration must tender their Allied World shares prior to the Expiration Time.** Following the completion of the Offer, any remaining, non-tendering Allied World shareholder will be a minority shareholder of Allied World. See "If I decide not to tender, what will happen to my Allied World shares?" below and "Risk Factors Risks related to the Offer The Offer may adversely affect the liquidity and value of non-tendered Allied World shares" and "Risk Factors Risks related to the Offer If Fairfax initiates a squeeze-out merger under Swiss law, remaining Allied World shareholders will have their shares exchanged for the Merger Consideration."

Q. If I do not tender my Allied World shares prior to the Expiration Time, will I still be able to receive the Special Dividend?

A. Yes. If the Offer is completed, the Special Dividend will be payable to all holders of outstanding Allied World shares as of immediately prior to the Acceptance Time. If the Offer is not completed, the Special Dividend will not be paid to any Allied World shareholders.

Q. After I tender my Allied World shares, may I change my mind and withdraw them?

A. Yes. You may withdraw your Allied World shares at any time before the Expiration Time and at any time after the Expiration Time until FFH Switzerland accepts the Allied World shares for exchange. Once FFH Switzerland accepts Allied World shares for exchange pursuant to the Offer, all withdrawal rights will terminate and you will not be able to withdraw any tendered Allied World shares. During any Subsequent Offering Period, if any, Allied World shareholders will not be able to withdraw their Allied World shares once they are tendered.

Q. How do I withdraw previously tendered Allied World shares?

A. If you tendered your Allied World shares by delivering a letter of transmittal to the exchange agent, you may withdraw your Allied World shares by delivering to the exchange agent a properly completed and duly executed notice of withdrawal, guaranteed by an eligible guarantor institution (if the letter of transmittal requires a signature guarantee) before the Expiration Time or before FFH Switzerland accepts the Allied World shares for exchange.

If you tendered your Allied World shares by means of the book-entry confirmation facilities of DTC, you may withdraw your Allied World shares by instructing your financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares to cause the DTC participant through which your Allied World shares were tendered to deliver a notice of withdrawal to the exchange agent through the book-entry confirmation facilities of DTC before the Expiration Time or before FFH Switzerland accepts the Allied World shares for exchange.

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See "The Offer Withdrawal Rights" for more information about the procedures for withdrawing your previously tendered Allied World shares.

Q.

Do I need to do anything if I want to retain my Allied World shares?

A.

No. If you want to retain your Allied World shares, you do not need to take any action.

Q.

If I decide not to tender into the Offer, what will happen to my Allied World shares?

A.

If you decide not to tender into the Offer, you will continue to own your Allied World shares in their current form. However, if the Offer is completed, the amount of publicly held Allied World shares may be so few that there may no longer be an active trading market for Allied World shares. The absence of an active trading market, and corresponding lack of analyst coverage, could reduce the liquidity and, consequently, the market value of your Allied World shares.

Following the completion of the Offer, to the extent permitted under applicable law and stock exchange regulations, Fairfax intends to delist the Allied World shares from the NYSE. Following delisting of the Allied World shares from the NYSE and provided that the criteria for deregistration are met, Fairfax intends to cause Allied World to make a filing with the SEC requesting that Allied World's reporting obligations under the Exchange Act be terminated. Deregistration would substantially reduce the information required to be furnished by Allied World to its shareholders and to the SEC and would make certain provisions of the Exchange Act no longer applicable to Allied World.

Following the completion of the Offer, provided Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate the Merger under Swiss law whereby any remaining Allied World shareholders (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them) will receive the Merger Consideration.

Upon completion of the Merger, Allied World will cease to exist and all Allied World shares will be cancelled.

For a description of Fairfax's plans and proposals for Allied World, the potential effects of the Offer and the associated risks, see "Plans and Proposals for Allied World" and "Risk Factors Risks related to the Offer The Offer may adversely affect the liquidity and value of non-tendered Allied World shares."

Q.

What is the Minimum Tender Condition and can it be waived?

A.

The Minimum Tender Condition is 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World). Fairfax may only waive the Minimum Tender Condition with the prior written approval of Allied World, unless all other conditions to the Offer have been satisfied or waived, in which circumstances Fairfax may elect to waive the Minimum Tender Condition down to 66²/₃ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) and consummate the Offer.

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Q. How will the acceptance levels impact Fairfax's plans for Allied World and tendering and non-tendering Allied World shareholders?

A. If, following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate a squeeze-out merger under Swiss law whereby any remaining Allied World shareholders will have their Allied World shares cancelled and, except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them, receive the Merger Consideration.

The SEC has adopted Rule 13e-3 under the Exchange Act, which is applicable to certain "going private" transactions, and which may under certain circumstances be applicable to the Merger or any other transaction or series of transactions that occur after completion of the Offer by which Fairfax attempts to acquire the remaining outstanding Allied World shares unless an exemption applies. Fairfax believes that Rule 13e-3 will not be applicable to the Merger because it is anticipated that the Merger will be effected within one year following the consummation of the Offer and, in the Merger, Allied World shareholders will receive the Merger Consideration, which is the same as the Offer Consideration. If an exemption does not apply, such transaction or series of transactions would be subject to US federal securities law (including Rule 13e-3) and Fairfax would be required to file a Schedule 13E-3 with the SEC that would describe, among other things, the reasons for the "going private" transaction, the relationship of the parties involved, the source(s) of financing, the process used to determine the valuation or price paid to minority shareholders and detailed disclosures as to the fairness of any such transaction to minority shareholders.

In the event that the Acceptance Time occurs but, as of immediately prior to the Acceptance Time, the number of Allied World shares validly tendered in the Offer and not withdrawn, together with any Allied World Shares then directly or indirectly owned by Fairfax or FFH Switzerland, represents less than 90% of all outstanding Allied World shares (excluding Allied World shares held by Allied World), Fairfax has agreed to use its reasonable best efforts to consummate the Merger within two years of the Acceptance Time. However, it is possible that Fairfax may not be able to acquire 100 percent (or at least 90 percent) of all outstanding Allied World shares (excluding Allied World shares held by Allied World) in a timely manner, or at all. In addition, any acquisition that takes place after the completion of the Offer may be the subject of litigation, and a court may delay the acquisition or prohibit the acquisition from occurring on the terms described in this prospectus, or at all. Accordingly, non-tendering Allied World shareholders may not receive any consideration for their Allied World shares, and the liquidity and value of any Allied World shares that remain outstanding could be negatively affected.

Following the completion of the Offer, any remaining, non-tendering Allied World shareholder will be a minority shareholder of Allied World with a limited ability, if any, to influence the outcome on any matters that are or may be subject to shareholder approval, including the election of directors, the issuance of shares or other equity securities, the payment of dividends and the acquisition or disposition of substantial assets.

See "Plans and Proposals for Allied World" and "Risk Factors Risks related to the Offer The Offer may adversely affect the liquidity and value of non-tendered Allied World shares."

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Q. If my Allied World shares are acquired in the Offer, how will my rights as an Allied World shareholder change?

A. The rights of Allied World shareholders are governed by Swiss law and Allied World's articles of association. If your Allied World shares are acquired in the Offer, you will become a holder of Fairfax shares. Your rights as a holder of Fairfax shares will be governed by Canadian law and by Fairfax's articles of incorporation. For a discussion of the differences in such rights of holders, see "Comparison of Shareholders' Rights."

Q. Do I have appraisal rights under the Offer with respect to the Allied World shares?

A. No. Allied World shareholders are not entitled under Swiss law or otherwise to appraisal rights with respect to the Offer. However, if following the completion of the Offer, Fairfax has acquired or controls, directly or indirectly, at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares, and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate a squeeze-out merger under Swiss law. In connection with such Merger, Allied World shareholders can exercise appraisal rights under Article 105 of the Swiss Merger Act by filing a suit against the surviving company with the competent Swiss civil court at the registered office of the surviving company or of Allied World. The suit must be filed by Allied World shareholders within two months after the Merger resolution has been published in the Swiss Official Gazette of Commerce. Allied World shareholders who tender all of their Allied World shares in the Offer, and who do not acquire Allied World shares thereafter, will not be able to file a suit to exercise appraisal rights. If such a suit is filed by non-tendering Allied World shareholders, the court will determine whether the compensation established in the Merger was adequate and the amount of compensation due to the relevant Allied World shareholder, if any, and such court's determination will benefit all remaining Allied World shareholders. The filing of an appraisal suit will not prevent completion of the Merger.

Q. What happens if the Offer is not completed?

A. If the Offer is not completed:

and you tendered your Allied World shares by delivering a letter of transmittal, your Allied World shares will be returned to you promptly following the announcement that the Offer has not been completed; or

you tendered your Allied World shares by book-entry transfer, your Allied World shares will be credited to an account maintained at the original book-entry transfer facility to which the Allied World shares were tendered.

Under no circumstances will Fairfax or FFH Switzerland pay, or otherwise agree to be responsible for the payment of, interest or other fees, expenses or other costs of holders Allied World shares if the Offer is not completed.

In addition, if the Offer is not completed, the Special Dividend will not be paid and the \$0.26 dividend for the first quarter of 2017 will be reinstated (to the extent Allied World's shareholders have already approved forgoing such dividend as contemplated by the Merger Agreement).

Q. What percentage of Fairfax shares will be owned by the former Allied World shareholders after the Offer is completed?

A. If all of the issued and outstanding Allied World shares are validly tendered and exchanged pursuant to the terms of the Offer (assuming an exchange ratio for the Fixed Value Stock

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Consideration of 0.063222, which corresponds to the closing price of Fairfax shares on the TSX as of February 10, 2017), the former Allied World shareholders, other than Allied World, will own approximately 26.2 percent of the Fairfax shares representing approximately 15.2 percent of the total voting rights, and holders of existing Fairfax shares, other than Fairfax, will own approximately 73.8 percent of the Fairfax shares representing approximately 43.0 percent of the total voting rights.

Q. Will I have to pay any transaction fees or brokerage commissions?

A. You will not have to pay any transaction fees or brokerage commissions if:

your Allied World shares are registered in your name and you tender them to the exchange agent; or

you instruct your financial intermediary, broker, dealer, commercial bank, trust company or other entity to tender your Allied World shares, subject to the policies of such financial intermediary, broker, dealer, commercial bank, trust company or other entity.

Q. What are the U.S. federal income tax consequences of the Offer for Allied World shareholders?

A. Provided that no Cash Election is made, Allied World and Fairfax intend that the Transactions will qualify as a tax-deferred reorganization within the meaning of Section 368(a) of the Code (such tax-deferred reorganization, a "Reorganization"). As described more fully below in "Material Tax Consequences Material U.S. Federal Income Tax Considerations U.S. Federal Income Tax Consequences of the Transactions", if Fairfax makes any Cash Election, the Transactions may not qualify as a Reorganization. Whether the Transactions qualify as a Reorganization depends on the application of complex U.S. federal income tax laws and certain facts which cannot be determined until after the Transactions are completed.

Subject to the Passive Foreign Investment Company ("PFIC") rules discussed below under "Material Tax Consequences Material U.S. Federal Income Tax Considerations PFIC Considerations", if the Transactions fail to qualify as a Reorganization, a U.S. Holder (as defined in "Material Tax Consequences Material U.S. Federal Income Tax Consequences") that exchanges its Allied World shares for the Offer Consideration will recognize gain or loss equal to the difference between (i) the sum of (a) the fair market value of the Fairfax shares received, (b) the amount of cash consideration received pursuant to the Offer, and (c) any cash received in lieu of fractional shares of Fairfax shares and (ii) the U.S. Holder's adjusted tax basis in the Allied World shares exchanged. If the Transactions qualify as a Reorganization, then a U.S. Holder generally will recognize gain only to the extent of the amount of any cash received pursuant to the Offer, including cash received in lieu of fractional shares, and will not recognize any loss.

For more information on the U.S. federal income tax consequences of the Offer, see "Material Tax Consequences Material U.S. Federal Income Tax Considerations." You should consult your own tax advisor on the tax consequences to you of tendering your Allied World shares in the Offer.

Q. What is the market value of the Allied World shares as of a recent date?

A. As of February 10, 2017, the latest practicable date before the date of this prospectus, the closing price of the Allied World shares reported on the NYSE was \$53.37 per Allied World share.

Q. Where can I find more information about Fairfax and Allied World?

A. You can find more information about Fairfax and Allied World by reading this prospectus and from various sources described in this prospectus under "Where You Can Find Additional Information."

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Q. Who can answer my questions?

A. If you have any questions about the Offer, or if you need to request additional copies of this prospectus or other documents, you should contact the information agent at the following address and telephone number:

[•]

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SUMMARY

The following summary highlights material information contained or incorporated by reference in this prospectus. It does not contain all of the information that may be important to you. In particular, you should read the documents attached to this prospectus which are made part of this prospectus and the documents incorporated by reference into this prospectus. This summary and the balance of this prospectus contain forward-looking statements about events that are not certain to occur as described, or at all, and you should not place undue reliance on those statements. Please carefully read the section "Cautionary Statement Regarding Forward-Looking Statements." You are urged to read carefully this entire document (including the annexes) and other documents that are referred to or incorporated by reference in this prospectus in order to fully understand the transactions contemplated by the Merger Agreement. See "Where You Can Find Additional Information." Most items in this summary include a page reference directing you to a more complete description of those items.

The Companies

FFH Switzerland (see page 137)

FFH Switzerland is an indirect wholly-owned subsidiary of Fairfax. All outstanding quotas of FFH Switzerland are owned by 1102952 B.C. Unlimited Liability Company, a direct wholly owned subsidiary of Fairfax. FFH Switzerland's registered office is located at c/o LacMont AG, Hofstrasse 1a, 6300 Zug, Switzerland. FFH Switzerland was formed for the purpose of the Transactions and has not conducted, and does not expect to conduct, any business other than in connection with its organization and the consummation of the Transactions.

Fairfax (Switzerland)

Fairfax (Switzerland) is an indirect wholly-owned subsidiary of Fairfax. All outstanding quotas of Fairfax (Switzerland) are owned by FFH Switzerland. Fairfax (Switzerland)'s registered office is located at c/o LacMont AG, Hofstrasse 1a, 6300 Zug, Switzerland. Fairfax (Switzerland) was formed for the purpose of the Transactions and has not conducted, and does not expect to conduct, any business other than in connection with its organization and the consummation of the Transactions.

Fairfax

Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Fairfax is incorporated under the Canada Business Corporations Act. Fairfax operates through a decentralized operating structure, with autonomous management teams applying a focused underwriting strategy to its markets. The Fairfax Group seeks to differentiate itself by combining disciplined underwriting with the investment of its assets on a total return basis, which it believes provides above-average returns over the long-term. The Fairfax Group provides a full range of property and casualty products, maintaining a diversified portfolio of risks across classes of business, geographic regions, and types of insureds. Fairfax has been under current management since September 1985. Fairfax's principal executive offices are located at Suite 800, 95 Wellington Street West, Toronto, Ontario, M5J 2N7, Canada. Fairfax's telephone number is (416) 367-4941.

The Fairfax shares are traded on the TSX under the symbol "FFH."

Allied World

Allied World is a Swiss-based holding company headquartered in Switzerland, whose subsidiaries provide innovative property, casualty and specialty insurance and reinsurance solutions to clients

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worldwide. Allied World was formed in Bermuda in 2001 and has continued to maintain significant insurance and reinsurance operations there following its redomestication to Switzerland in 2010.

Allied World has its registered office and principal executive office located at Gubelstrasse 24, Park Tower, 15th Floor, 6300 Zug, Switzerland. Its telephone number at that address is +41-41-768-1080.

Additional information about Allied World is contained in its public filings, which are incorporated by reference herein. See "Where You Can Find Additional Information" on page 225.

Allied World shares are traded on the NYSE under the symbol "AWH."

Risk Factors (see page 38)

In deciding whether to tender your Allied World shares in the Offer, you should carefully consider the risks described under "Risk Factors."

Background to and Reasons for the Transactions (see page 70)

Fairfax's Reasons for the Transactions (see page 79)

For more information regarding the factors considered by the Fairfax board of directors in reaching its decision to approve the Merger Agreement and the transactions contemplated by the Merger Agreement, see "Background to and Reasons for the Transactions Fairfax's Reasons for the Transactions."

Allied World's Reasons for the Transactions (see page 85)

For more information regarding the factors considered by the Allied World board of directors in reaching its decision to make the recommendation to the Allied World shareholders that they tender their Allied World shares in the Offer, see "Background to and Reasons for the Transactions Allied World's Reasons for the Transactions."

Opinion of Allied World's Financial Advisor (see page 88)

In connection with the Offer and the Merger, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BofA Merrill Lynch"), Allied World's financial advisor, delivered to Allied World's board of directors a written opinion, dated December 18, 2016, as to the fairness, from a financial point of view and as of the date of the opinion, of the Offer Consideration and the Merger Consideration to be received by Allied World shareholders in the Offer and the Merger (after giving effect to the Special Dividend). The full text of the written opinion, dated December 18, 2016, of BofA Merrill Lynch, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B to this prospectus and is incorporated by reference herein in its entirety. **BofA Merrill Lynch provided its opinion to Allied World's board of directors (in its capacity as such) for the benefit and use of Allied World's board of directors in connection with and for purposes of its evaluation of the Offer and the Merger from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the Offer and the Merger and no opinion or view was expressed as to the relative merits of the Transactions (including the Special Dividend) in comparison to other strategies or transactions that might be available to Allied World or in which Allied World might engage or as to the underlying business decision of Allied World to proceed with or effect the Transactions (including the Special Dividend). BofA Merrill Lynch's opinion does not address any other aspect of the Offer and the Merger and does not constitute a recommendation to any Allied World shareholder as to whether any such Allied World shareholder should tender its Allied**

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World shares in the Offer, or as to how any Allied World shareholder should vote or act in connection with the Merger or any related matter.

Plans and Proposals for Allied World (see page 100)

If, following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate a squeeze-out merger under Swiss law whereby any remaining Allied World shareholders will have their Allied World shares cancelled and, except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them, receive the Merger Consideration.

The SEC has adopted Rule 13e-3 under the Exchange Act, which is applicable to certain "going private" transactions, and which may under certain circumstances be applicable to the Merger or any other transaction or series of transactions that occur after completion of the Offer by which Fairfax attempts to acquire the remaining outstanding Allied World shares unless an exemption applies. Fairfax believes that Rule 13e-3 will not be applicable to the Merger because it is anticipated that the Merger will be effected within one year following the consummation of the Offer and, in the Merger, Allied World shareholders will receive the Merger Consideration, which is the same as the Offer Consideration. If an exemption does not apply, such transaction or series of transactions would be subject to US federal securities law (including Rule 13e-3) and Fairfax would be required to file a Schedule 13E-3 with the SEC that would describe, among other things, the reasons for the "going private" transaction, the relationship of the parties involved, the source(s) of financing, the process used to determine the valuation or price paid to minority shareholders and detailed disclosures as to the fairness of any such transaction to minority shareholders.

In the event that the Acceptance Time occurs but, as of immediately prior to the Acceptance Time, the number of Allied World shares validly tendered in the Offer and not withdrawn, together with any Allied World Shares then directly or indirectly owned by Fairfax or FFH Switzerland, represents less than 90% of all outstanding Allied World shares (excluding Allied World shares held by Allied World), Fairfax has agreed to use its reasonable best efforts to consummate the Merger within two years of the Acceptance Time. However, it is possible that Fairfax may not be able to acquire 100 percent (or at least 90 percent) of all outstanding Allied World shares (excluding Allied World shares held by Allied World) in a timely manner, or at all. In addition, any acquisition that takes place after the completion of the Offer may be the subject of litigation, and a court may delay the acquisition or prohibit the acquisition from occurring on the terms described in this prospectus, or at all. Accordingly, non-tendering Allied World shareholders may not receive any consideration for such Allied World shares, and the liquidity and value of any Allied World shares that remain outstanding could be negatively affected.

See "Plans and Proposals for Allied World."

Delisting and Deregistration (see page 103)

Following the completion of the Offer, to the extent permitted under applicable law and stock exchange regulations, Fairfax intends to delist the Allied World shares from the NYSE. Delisting from the NYSE will adversely affect the liquidity of the Allied World shares and may reduce the value as a result. Following delisting of the Allied World shares from the NYSE and provided that the criteria for deregistration are met, Fairfax intends to cause Allied World to make a filing with the SEC requesting

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that Allied World's reporting obligations under the Exchange Act be terminated. Deregistration would substantially reduce the information required to be furnished by Allied World to its shareholders and to the SEC and would make certain provisions of the Exchange Act no longer applicable to Allied World.

The Offer (see page 105)

Fairfax, through FFH Switzerland, is offering to acquire all of the outstanding Allied World shares (excluding Allied World shares held by Allied World) pursuant to an offer to exchange made to all Allied World shareholders.

Allied World shareholders are being offered a combination of cash and stock consideration for their Allied World shares. For each Allied World share held, Allied World shareholders are being offered (i) cash consideration of \$5.00, without interest (the "Cash Consideration"), (ii) a special cash dividend of \$5.00, without interest, payable as soon as possible after the Acceptance Time (as defined below) to holders of Allied World shares as of immediately prior to the Acceptance Time (the "Special Dividend"), which is being paid outside of the Offer, but conditioned upon the Offer, (iii) a portion of the stock consideration in Fairfax shares having a value of \$14.00 based on the closing price of Fairfax as of December 16, 2016, payable at a fixed exchange ratio of 0.030392 (the "Fixed Exchange Stock Consideration") and (iv) the remaining portion of the stock consideration equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the date on which FFH Switzerland first accepts tendered Allied World shares for exchange (the "Acceptance Time"), converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax share) (the "Fixed Value Stock Consideration" and, together with the Cash Consideration and the Fixed Exchange Stock Consideration, the "Offer Consideration"). If this volume weighted average price of Fairfax shares during this period is greater than or equal to \$485.65 per Fairfax share, this portion of the consideration will be fixed at an exchange ratio of 0.061772 Fairfax shares for each share of Allied World. If this volume weighted average price of Fairfax shares during this period is less than or equal to \$435.65 per Fairfax share, this portion of the consideration will be fixed at an exchange ratio of 0.068862 Fairfax shares for each share of Allied World. Additionally, on or before March 3, 2017, Fairfax has the option to increase on a dollar-for-dollar basis the amount of the Cash Consideration from \$5.00 to an amount not exceeding \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration (such option, the "Cash Election") and which, together with the Special Dividend, would provide holders of Allied World shares a total of up to \$40.00 cash. Fairfax may elect to fund the Cash Election by an equity or debt issuance or by bringing in one or more third party co-investors.

The exchange ratio in relation to the Fixed Exchange Stock Consideration portion of the Offer Consideration is not fixed and will vary depending on fluctuations in the market price of Fairfax shares or in currency exchange rates. Therefore, the dollar value of the Fairfax shares that Allied World shareholders will receive upon completion of the Offer will depend on the market value of Fairfax shares and the exchange rate of Canadian dollars to US dollars at the Acceptance Time.

Timing of the Offer (see page 105)

The Offer will commence on [•], 2017 and will expire at 10:00 a.m., New York City time, on [•], 2017 (4:00 p.m. Zug time on [•], 2017). If one or more of the conditions to the Offer are not satisfied or, to the extent legally permitted, waived, FFH Switzerland will extend the period of time for which the Offer is open for successive periods of 10 business days (or such other number of business days as Fairfax and Allied World agree) until all the conditions to the Offer have been

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satisfied or waived. However, neither Fairfax nor FFH Switzerland will be required to extend the Offer beyond August 18, 2017, except in limited circumstances, as provided for in the Merger Agreement.

FFH Switzerland may, following the expiration of the Offer, elect to provide one or more Subsequent Offering Periods of at least three business days in length following the Expiration Time and acceptance for exchange of Allied World shares tendered in the Offer. A Subsequent Offering Period would be an additional period of time, following the first exchange of Allied World shares in the Offer, during which Allied World shareholders could tender Allied World shares not tendered in the Offer.

Withdrawal Rights (see page 106)

Allied World shareholders may withdraw their Allied World shares at any time before the Expiration Time and at any time before FFH Switzerland accepts Allied World shares for exchange pursuant to the Offer. Allied World shareholders will not be entitled to withdraw any Allied World shares tendered in any Subsequent Offering Period.

Conditions to the Offer (see page 108)

The Offer is subject to the following conditions. Neither Fairfax nor FFH Switzerland will be obliged to purchase any Allied World shares validly tendered (or defectively tendered and such defect is waived by FFH Switzerland) in the Offer and not properly withdrawn if the following conditions have not been satisfied, or to the extent legally permitted, waived (some of which have been satisfied, as noted below).

- (i) There having been validly tendered in accordance with the terms of the Offer (other than Allied World shares tendered by guaranteed delivery where actual delivery has not occurred), prior to the scheduled expiration of the Offer (as it may be extended pursuant to the terms of the Merger Agreement) and not properly withdrawn, a number of Allied World shares that, together with any Allied World shares then directly or indirectly owned by Fairfax, FFH Switzerland or Fairfax (Switzerland), represents at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World). The Minimum Tender Condition may not be waived by Fairfax without Allied World's written approval unless all other conditions to the closing of the Offer (excluding the Minimum Tender Condition and conditions to be satisfied at the closing of the Offer) have been satisfied or waived (if such waiver is permitted under the terms of the Merger Agreement), in which case Fairfax, in its sole and absolute discretion, may waive the Minimum Tender Condition down to $66\frac{2}{3}$ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World).
- (ii) The absence of (i) any order or preliminary or permanent injunction of a court of competent jurisdiction, including any temporary restraining order, that is in effect, (ii) any law enacted, issued, promulgated, enforced or entered by any governmental entity, and (iii) any pending action instituted or initiated by any federal governmental entity, in each case that does or would prevent, prohibit or make illegal the consummation of the Offer, the Merger or the other transactions contemplated by the Merger Agreement.
- (iii) The new Fairfax shares to be issued in the Offer having been conditionally approved for listing on the TSX, subject to the satisfaction by Fairfax of customary listing conditions of the TSX (which has been obtained).
- (iv) The registration statement on Form F-4 of which this prospectus forms a part having been declared effective under the Securities Act and any applicable blue sky securities filings, permits or approvals being made or received in accordance with applicable law, and the absence of (i) any stop order by the SEC or any state securities administrator suspending the

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effectiveness of such registration statement and (ii) any pending proceedings by the SEC or any state securities administrator seeking such a stop order.

- (v) The (i) expiration or termination of any applicable waiting period (and any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the "HSR Act"), (ii) receipt of certain insurance regulatory approvals and antitrust and competition approvals in the United States, Cyprus, Germany, Malta, the European Union, Pakistan, Canada and South Africa (the "Transaction Approvals") and any additional antitrust approvals that Fairfax and Allied World jointly determine are advisable and warranted (the "Additional Antitrust Approvals"), and (iii) making of any other notices, reports and filings required to be made by Allied World, Fairfax or any of their respective subsidiaries with, and the receipt of any other consents, registrations, approvals, permits and authorizations required to be obtained from, any governmental entity in connection with the execution, delivery and consummation of the Merger Agreement, the Offer, the Merger and the other transactions contemplated by the Merger Agreement (except for any failure that would not, individually or in the aggregate, render the Offer or the Merger or any of the other Transactions illegal or result in a Material Adverse Effect (as defined in the Merger Agreement) with respect to Fairfax or Allied World, or subject Allied World or its affiliates, or any of their respective directors, officers, employees or representatives, to any criminal liability).
- (vi) The absence of any terms in the Transaction Approvals and Additional Antitrust Approvals that, individually or in the aggregate, result in or would reasonably expected to result in any action requiring the divestiture, sale, transfer or licensing of, or limiting Fairfax's freedom of action with respect to, or ability to retain, any assets, businesses or properties of Allied World, Fairfax, FFH Switzerland or Fairfax (Switzerland), or any of their respective subsidiaries (other than assets, businesses or properties that are *de minimis* in the aggregate to Fairfax and its subsidiaries taken as a whole after giving effect to the Transactions).
- (vii) The absence of any criminal liability on the part of Allied World or any of its affiliates, or any of their respective directors, officers, employees or representatives, resulting from any Transaction Approval or Additional Antitrust Approval.
- (viii) The declaration by Allied World shareholders of the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017.
- (ix) The approval by Allied World shareholders of the amendment to Allied World's articles of association to permit a holder of 10 percent or more of the Allied World shares to register its Allied World shares in Allied World's shareholder register with full voting rights for all shares held by such holder (or any of its affiliates or controlled persons as defined in Article 14 of Allied World's articles of association) (the "Articles Amendment") and, unless waived by Fairfax, the election by Allied World shareholders of the individuals designated by Fairfax to the board of directors of Allied World in accordance with the terms of the Merger Agreement (the "Board Modification"), each of which shall be in full force and effect.
- (x) The approval by Fairfax shareholders of the issuance of Fairfax shares pursuant to the Merger Agreement, if required by applicable law.
- (xi) The Allied World board of directors having resolved to register FFH Switzerland and/or any other company controlled and designated by Fairfax in the share register of Allied World as shareholder(s) with voting rights with respect to all Allied World shares Fairfax or any of its subsidiaries has acquired or may acquire (with respect to Allied World shares to be acquired in the Offer subject to all other conditions to the Offer having been satisfied or waived),

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and/or FFH Switzerland and/or any other company controlled and designated by Fairfax having been registered in the share register of Allied World as shareholder(s) with voting rights with respect to all Allied World shares acquired.

- (xii) Subject to certain exceptions, the representations and warranties of Allied World pursuant to the Merger Agreement remaining true and correct as of the expiration of the Offer as though made on and as of the expiration of the Offer (except as would not have an Allied World Material Adverse Effect (as defined in the Merger Agreement)), and the receipt by Fairfax of a certificate from Allied World as to the satisfaction of such condition.
- (xiii) The performance and compliance, in all material respects, of Allied World's obligations, agreements and covenants to be performed and complied with under the Merger Agreement, and the receipt by Fairfax of a certificate from Allied World as to the satisfaction of such condition.
- (xiv) Since December 18, 2016, the absence of any events, circumstances, developments, changes and effects that, individually or in the aggregate with other such events, circumstances, developments, changes and effects had, or would reasonably be expected to have, a Material Adverse Effect on Allied World.
- (xv) The Offer having not otherwise been terminated with the prior written consent of Allied World.

The conditions to the Offer are for the sole benefit of Fairfax and FFH Switzerland and, to the extent legally permitted and subject to the terms of the Merger Agreement, may be waived by Fairfax or FFH Switzerland (either in whole or in part), at any time and from time to time, in the sole and absolute discretion of Fairfax and FFH Switzerland. Notice of any such waiver will be given in the manner prescribed by applicable law. However, Fairfax and FFH Switzerland may not, without the prior written consent of Allied World, amend, modify or waive the Minimum Tender Condition below 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) unless all other conditions to the Offer have been satisfied, or will be satisfied on the closing of the Merger, or waived, to the extent such waiver is permitted under the Merger Agreement, in which case Fairfax may elect to waive the Minimum Tender Condition down to $66\frac{2}{3}$ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) as described above. In addition, Fairfax cannot waive the conditions described above under items (ii) through (x) (except item (vi)) above without the prior written consent of Allied World in its sole and absolute discretion.

Settlement of the Offer (see page 113)

If the conditions to the Offer have been satisfied or, to the extent legally permitted, waived, the consideration payable to tendering Allied World shareholders whose Allied World shares are accepted for exchange will be calculated by the exchange agent. Fairfax shares will be issued, and cash will be paid, to tendering Allied World shareholders promptly following the Acceptance Time.

Treatment of Allied World Options and Other Stock-Based Awards (see page 118)

The Offer does not extend to Allied World Options or other stock-based awards. However, if the Offer is consummated, holders of Allied World Options or other stock-based awards will receive the consideration described below.

At the Acceptance Time, each Allied World Option granted by Allied World under any Allied World Share Plan that is outstanding and unexercised immediately before or as of the Acceptance Time, whether or not exercisable and whether or not vested, will be cancelled and automatically

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converted into the right to receive an amount in cash equal to the product of the excess, if any, of the Equity Award Consideration over the exercise price per share of Allied World shares subject to such Allied World Option and the total number of Allied World shares subject to such Allied World Option. For each Allied World Option, if the applicable exercise price per share of Allied World shares equals or exceeds the Equity Award Consideration, such Allied World Option will be cancelled without payment of any consideration, and all rights with respect to such Allied World Option will terminate as of the Acceptance Time.

At the Acceptance Time, each Allied World Restricted Award and each Other Allied World Award subject to time vesting conditions will, without any further action on the part of the holder, become fully vested immediately prior to the Acceptance Time. Each Performance Award will, without any further action on the part of the holder, become fully vested immediately prior to the Acceptance Time, subject to the following rules: for each Performance Award for which the applicable performance period is completed as of immediately prior to the Acceptance Time, the number of Performance Awards that will vest as of immediately prior to the Acceptance Time will be based on actual performance; and, for each Performance Award for which the applicable performance period is not completed as of immediately prior to the Acceptance Time, notwithstanding anything to the contrary in any agreement, plan or arrangement covering such Performance Award, the number of Performance Awards that will vest as of immediately prior to the Acceptance Time will be based on the target of the applicable Performance Award (as reasonably determined by the compensation committee of the Allied World board of directors prior to the Acceptance Time). Each Performance Award that does not vest under the circumstances set out in the previous sentence will be cancelled and terminated without consideration immediately prior to the Acceptance Time.

Each Allied World Restricted Award and Other Allied World Award that vests in accordance with the Merger Agreement will, without any further action on the part of the holder, be cancelled as of the Acceptance Time and automatically converted into the right to receive an amount in cash equal to the product obtained by multiplying the Equity Award Consideration and the total number of Allied World shares subject to such Allied World Restricted Award or Other Allied World Award, as applicable, or, to the extent that an Other Allied World Award is denominated in cash, rather than in Allied World shares, the cash amount payable pursuant to such Other Allied World Award, as determined in accordance with the Merger Agreement.

Prior to the Acceptance Time, subsequent offering periods under the Allied World ESPP will be suspended and terminated following the Acceptance Time. Each Allied World share purchased under the Allied World ESPP will be treated as an Allied World share for all purposes of the Merger Agreement, including with respect to the Offer.

Fairfax or one of its subsidiaries will pay to holders of Allied World Options, Allied World Restricted Awards and Other Allied World Awards the cash amounts due, less such amounts required to be withheld or deducted under the Code or any provision of state, local or foreign law with respect to the vesting of the award or making of such payment, on the first payroll date following the Acceptance Time. To the extent amounts are withheld or deducted, such withheld amounts will be treated for the purposes of the Merger Agreement as having been paid to the holders of Allied World Options, Allied World Restricted Awards and Other Allied World Awards in respect of which such deduction and withholding was made.

Regulatory Matters (see page 114)

The Offer is conditional on the receipt of approval from insurance regulatory and competition authorities of certain jurisdictions and of antitrust clearance from the regulatory authorities of certain jurisdictions. In particular, the Offer is subject to approval by insurance regulatory authorities in the

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United States (including in Arkansas, Delaware and New Hampshire), as well as in Australia, Ireland and the United Kingdom, as well as by Lloyd's. Further, antitrust consents or confirmations were sought from, among others, the FTC, the Antitrust Division of the U.S. Department of Justice and antitrust authorities in certain other jurisdictions. On January 17, 2017, Fairfax filed notification and report forms with the FTC and the Antitrust Division of the U.S. Department of Justice under the HSR Act. On January 27, 2017, the request for early termination of the waiting period was granted by the FTC and the Antitrust Division of the U.S. Department of Justice.

Accounting Treatment (see page 114)

The acquisition of the Allied World shares will be accounted for using the acquisition method under the International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS").

Appraisal Rights (see page 114)

Allied World shareholders are not entitled under Swiss law or otherwise to appraisal rights with respect to the Offer. However, if, following the completion of the Offer, Fairfax has acquired or controls, directly or indirectly, at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares, and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate a squeeze-out merger under Swiss law. In connection with the Merger, Allied World shareholders will be able to exercise appraisal rights under Article 105 of the Swiss Merger Act by filing a suit against the surviving company with the competent Swiss civil court at the registered office of the surviving company or of Allied World. The suit must be filed by Allied World shareholders within two months after the Merger resolution has been published in the Swiss Official Gazette of Commerce. Allied World shareholders who tender all of their Allied World shares in the Offer, and who do not acquire Allied World shares thereafter, will not be able to file a suit to exercise appraisal rights. If such a suit is filed by non-tendering Allied World shareholders, the court will determine whether the compensation established in the Merger was inadequate and the amount of compensation due to the relevant Allied World shareholder, if any, and such court's determination will benefit all remaining Allied World shareholders. The filing of an appraisal suit will not prevent completion of the Merger.

Material U.S. Federal Income Tax Consequences (see page 163)

Provided that following the completion of the Transactions the value of the Fairfax shares constitutes at least 40% of the total value of the consideration received by Allied World shareholders, Allied World and Fairfax intend that the Transactions will qualify as a Reorganization. As described more fully in "Material Tax Consequences Material U.S. Federal Income Tax Considerations U.S. Federal Income Tax Consequences of the Transactions", if Fairfax makes a Cash Election in an amount sufficient to cause the stock component of the Offer Consideration to constitute less than 40% of the aggregate fair market value of the Offer Consideration, the Transactions may not qualify as a Reorganization. Whether the Transactions qualify as a Reorganization depends on the application of complex U.S. federal income tax laws and certain facts which cannot be determined until after the Transactions are completed.

Subject to the PFIC rules discussed under "Material Tax Consequences Material U.S. Federal Income Tax Considerations PFIC Considerations", if the Transactions fail to qualify as a Reorganization, a U.S. Holder (as defined in "Material Tax Consequences Material U.S. Federal Income Tax Consequences") that exchanges its Allied World shares for the Offer Consideration will

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recognize gain or loss equal to the difference between (i) the sum of (a) the fair market value of the Fairfax shares received, (b) the amount of cash consideration received pursuant to the Offer, and (c) any cash received in lieu of fractional shares of Fairfax shares and (ii) the U.S. Holder's adjusted tax basis in the Allied World shares exchanged. If the Transactions qualify as a Reorganization, then a U.S. Holder generally will recognize gain only to the extent of the amount of any cash received pursuant to the Offer, including cash received in lieu of fractional shares, and will not recognize any loss.

For more information on the U.S. federal income tax consequences of the Offer, see "Material Tax Consequences Material U.S. Federal Income Tax Considerations." You should consult your own tax advisor on the tax consequences to you of tendering your Allied World shares in the Offer.

Comparison of Shareholders' Rights (see page 186)

Allied World shareholders receiving Fairfax shares will have different rights once they become Fairfax shareholders than they do as holders of Allied World shares. The rights of a holder of Fairfax shares will be governed by Canadian law and by Fairfax's articles of incorporation. For a discussion of the differences in such rights of holders, see "Comparison of Shareholders' Rights."

Interests of Allied World's Directors and Executive Officers (see page 214)

In considering the recommendation of Allied World's board of directors that you tender your Allied World shares in the Offer, you should be aware that all or some of Allied World's directors and executive officers may have interests in the Offer and the other transactions contemplated by the Merger Agreement (including the Merger) that are different from, or in addition to, those of Allied World shareholders generally. These interests include, but are not limited to, the treatment of Allied World RSUs or Allied World PRSUs held by Allied World directors and executive officers, payments to executive officers upon the closing of the Transactions pursuant to the SERP or continuation of compensation and benefits for a predetermined notice period in accordance with the terms of their existing employment agreements in the event a notice of termination is delivered by Allied World (or Fairfax) following the closing of the Transactions. The members of Allied World's board of directors were aware of and considered these interests, among other matters, in evaluating and negotiating the Merger Agreement and the Offer, and in making their recommendation to shareholders. For more information on these interests, see "Interests of Allied World, FFH Switzerland and Fairfax and their Directors and Officers."

Interests of Fairfax, FFH Switzerland and their Directors and Executive Officers (see page 219)

The interests of Fairfax, FFH Switzerland and, to the best knowledge of Fairfax and FFH Switzerland, any of their current directors and executive officers, in the Offer are set out in "Interests of Allied World, FFH Switzerland and Fairfax and their Directors and Officers." In addition, the ownership of each of Fairfax's directors and executive officers in Fairfax shares is set out in "Security Ownership of Certain Beneficial Holders of Fairfax."

Additional Information (see page 225)

If you have any questions about the Offer, or if you need to request additional copies of this prospectus or other documents, you should contact the information agent at the following address and telephone number:

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**SELECTED HISTORICAL
CONSOLIDATED FINANCIAL DATA OF FAIRFAX**

The following table summarizes selected historical consolidated financial information of Fairfax and is derived from the historical consolidated financial statements of Fairfax that were prepared in accordance with IFRS for the fiscal years ended December 31, 2015, 2014, 2013, 2012 and 2011. The information as at and for each of the years in the five-year period ended December 31, 2015 has been derived from the audited consolidated financial statements of Fairfax, the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, as filed with the SEC. The following table also summarizes the selected historical financial information of Fairfax as at and for the nine months ended September 30, 2016 and 2015, which has been derived from the unaudited interim consolidated financial statements of Fairfax and the notes thereto as furnished to the SEC on Form 6-K. Such unaudited interim consolidated financial statements include, in the opinion of Fairfax's management, all normal recurring adjustments considered necessary for a fair presentation of the results of operations and financial conditions of Fairfax. Historical results are not necessarily indicative of any results to be expected in the future.

The information set out below is only a summary that you should read together with (i) the audited consolidated financial statements of Fairfax and the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Fairfax's Annual Report on Form 40-F for the fiscal year ended December 31, 2015 and (ii) the unaudited interim consolidated financial statements of Fairfax and the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations included in exhibits to Fairfax's Form 6-K furnished to the SEC for the nine-months ended September 30, 2016, each of which is incorporated by reference into this prospectus. The selected historical financial information of Fairfax as at and for the years ended December 31, 2013, 2012 and 2011, have been derived from Fairfax's audited consolidated financial statements for such years, which have not been incorporated by reference into this prospectus. See the section "Where You Can Find Additional Information."

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Selected Consolidated Statement of Earnings Data	Nine months ended September 30,			Year ended December 31,			2011
	2016	2015	2015	2014	2013	2012	
	(\$ millions, except share and per share amounts)						
Revenue							
Gross premiums written	\$ 7,290.2	\$ 6,453.3	\$ 8,665.8	\$ 7,459.9	\$ 7,227.1	\$ 7,398.3	\$ 6,743.5
Net premiums written	\$ 6,133.8	\$ 5,610.0	\$ 7,520.5	\$ 6,301.8	\$ 6,036.2	\$ 6,194.1	\$ 5,607.9
Gross premiums earned	\$ 6,794.6	\$ 6,234.9	\$ 8,581.7	\$ 7,358.2	\$ 7,294.0	\$ 7,294.8	\$ 6,541.4
Premiums ceded to reinsurers	(1,015.8)	(899.3)	(1,210.7)	(1,142.0)	(1,216.7)	(1,209.9)	(1,114.5)
Net premiums earned	\$ 5,778.8	\$ 5,335.6	\$ 7,371.0	\$ 6,216.2	\$ 6,077.3	\$ 6,084.9	\$ 5,426.9
Interest and dividends	418.9	367.1	512.2	403.8	376.9	409.3	705.3
Share of profit of associates	56.8	161.1	172.9	105.7	96.7	15.0	1.8
Net gains (losses) on investments	(129.9)	(59.1)	(259.2)	1,736.2	(1,564.0)	642.6	691.2
Other revenue	1,400.3	1,328.5	1,783.5	1,556.0	958.0	871.0	649.8
	\$ 7,524.9	\$ 7,133.2	\$ 9,580.4	\$ 10,017.9	\$ 5,944.9	\$ 8,022.8	\$ 7,475.0
Expenses							
Losses on claims, gross	\$ 4,187.1	\$ 3,649.5	\$ 5,098.4	\$ 4,427.4	\$ 4,615.6	\$ 5,265.5	\$ 5,541.4
Losses on claims ceded to reinsurers	(733.4)	(410.4)	(712.0)	(633.1)	(945.3)	(1,022.9)	(956.1)
Losses on claims, net	\$ 3,453.7	\$ 3,239.1	\$ 4,386.4	\$ 3,794.3	\$ 3,670.3	\$ 4,242.6	\$ 4,585.3
Operating expenses	1,157.8	1,061.9	1,480.1	1,227.2	1,185.0	1,132.1	1,148.3
Commissions, net	987.1	837.7	1,177.3	959.9	969.2	920.0	795.4
Interest expense	175.5	163.4	219.0	206.3	211.2	208.2	214.0
Other expenses	1,340.2	1,280.7	1,703.1	1,492.3	910.3	870.9	740.7
	\$ 7,114.3	\$ 6,582.8	\$ 8,955.9	\$ 7,680.0	\$ 6,946.0	\$ 7,373.8	\$ 7,483.7
Earnings (loss) before income taxes	\$ 410.6	\$ 550.4	\$ 624.5	\$ 2,337.9	\$ (1,001.1)	\$ 649.0	\$ (8.7)
Provision for (recovery of) income taxes	101.1	41.5	(17.5)	673.3	(436.6)	114.0	(56.5)
Net earnings (loss)	\$ 309.5	\$ 508.9	\$ 642.0	\$ 1,664.6	\$ (564.5)	\$ 535.0	\$ 47.8
Attributable to:							
Shareholders of Fairfax	\$ 189.0	\$ 464.3	\$ 567.7	\$ 1,633.2	\$ (573.4)	\$ 526.9	\$ 45.1
Non-controlling interests	120.5	44.6	74.3	31.4	8.9	8.1	2.7
	\$ 309.5	\$ 508.9	\$ 642.0	\$ 1,664.6	\$ (564.5)	\$ 535.0	\$ 47.8
Net earnings (loss) per share	\$ 6.78	\$ 19.50	\$ 23.67	\$ 74.43	\$ (31.15)	\$ 22.95	\$ (0.31)
Net earnings (loss) per diluted share	\$ 6.62	\$ 19.07	\$ 23.15	\$ 73.01	\$ (31.15)	\$ 22.68	\$ (0.31)
Cash dividends paid per share	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00
Shares outstanding (000) (weighted average)	22,973	22,014	22,070	21,186	20,360	20,327	20,405

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Selected Consolidated Balance Sheet Data	As at September 30,			As at December 31,			
	2016	2015	2015	2014	2013	2012	2011
	(\$ millions)						
Assets							
Holding company cash and investments	\$ 1,126.6	\$ 1,176.2	\$ 1,276.5	\$ 1,244.3	\$ 1,296.7	\$ 1,169.2	\$ 1,026.7
Insurance contract receivables	3,221.2	2,900.0	2,546.5	1,931.7	2,017.0	1,945.4	1,735.4
Portfolio investments	28,535.0	28,157.7	27,832.5	25,109.2	23,833.3	25,163.2	23,466.0
Deferred premium acquisition costs	694.4	489.1	532.7	497.6	462.4	463.1	415.9
Recoverable from reinsurers	4,126.9	4,324.1	3,890.9	3,982.1	4,974.7	5,290.8	4,198.1
Deferred income taxes	462.2	365.6	463.9	460.4	1,015.0	607.6	628.2
Goodwill and intangible assets	3,630.3	3,228.6	3,214.9	1,558.3	1,311.8	1,321.2	1,115.2
Other assets	2,296.3	2,023.6	1,771.1	1,347.6	1,047.9	984.9	821.4
Total assets	\$ 44,092.9	\$ 42,664.9	\$ 41,529.0	\$ 36,131.2	\$ 35,958.8	\$ 36,945.4	\$ 33,406.9
Liabilities							
Accounts payable and accrued liabilities	2,826.7	134.4	2,555.9	2,029.1	1,800.4	1,877.7	1,656.2
Income taxes payable	19.7	2,811.9	85.8	118.3	80.1	70.5	21.4
Short sale and derivative obligations	203.9	83.3	92.9	160.8	268.4	238.2	170.2
Funds withheld payable to reinsurers	436.1	73.7	322.8	461.5	461.2	439.7	412.6
Insurance contract liabilities	23,643.1	720.2	23,101.2	20,438.7	21,893.7	22,376.2	19,719.5
Long term debt holding company and insurance and reinsurance companies	3,419.8	3,067.5	3,067.5	3,042.4	2,949.8	2,996.0	3,017.0
Long term debt non-insurance companies	789.6	284.0	284.0	136.6	44.7	52.6	1.5
Total liabilities	\$ 31,338.9	\$ 26,835.4	\$ 29,510.1	\$ 26,387.4	\$ 24,862.4	\$ 25,372.7	\$ 22,737.0
Equity							
Total equity	\$ 12,754.0	\$ 12,006.0	\$ 12,018.9	\$ 9,743.8	\$ 8,460.5	\$ 8,894.5	\$ 8,408.5
Total liabilities and equity	\$ 44,092.9	\$ 42,664.9	\$ 41,529.0	\$ 36,131.2	\$ 35,958.8	\$ 36,945.4	\$ 33,406.9

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**SELECTED HISTORICAL
CONSOLIDATED FINANCIAL DATA OF ALLIED WORLD**

The following table sets forth selected historical consolidated financial data of Allied World under those accounting principles generally accepted in the United States ("US GAAP"). This data is derived from Allied World's Consolidated Financial Statements as of and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, the unaudited quarterly financial statements as of and for the nine months ended September 30, 2016 and 2015, which in the opinion of management include all adjustments necessary for a fair statement of the results for the unaudited interim periods, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations for each annual and interim period. This selected financial data should be read in conjunction with Allied World's Consolidated Financial Statements and related Notes included elsewhere in Allied World's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and Allied World's quarterly report on Form 10-Q for the quarter ended September 30, 2016, each of which is incorporated by reference in this prospectus. The selected historical financial data of Allied World as at and for the years ended December 31, 2013, 2012 and 2011, have been derived from Allied World's audited consolidated financial statements for such years, which have not been incorporated by reference into this prospectus. See "Where You Can Find More Information".

The information set out below is only a summary that you should read together with (i) the audited consolidated financial statements of Allied World and the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Allied World's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and (ii) the unaudited interim consolidated financial statements of Allied World and the notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations on Form 10-Q filed with the SEC for the quarter ended September 30, 2016, each of which is incorporated by reference into this prospectus. The selected historical financial information of Allied World as at and for the years ended December 31, 2013, 2012 and 2011, have been derived from Allied World's audited consolidated financial statements for such years, which have not been incorporated by reference into this prospectus. See the section "Where You Can Find Additional Information."

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Allied World's consolidated financial statements are presented in accordance with US GAAP. For additional information, see Allied World's financial statements and the accompanying notes incorporated by reference into this prospectus.

	Nine Months Ended September 30		Year Ended December 31,					2011 ⁽¹⁾
	2016	2015	2015	2014	2013	2012		
(\$ millions except share and per share amounts)								
Summary Statement of Operations Data:								
Gross premiums written	\$ 2,394.1	\$ 2,460.6	\$ 3,093.0	\$ 2,935.4	\$ 2,738.7	\$ 2,329.3	\$ 1,935.5	
Net premiums written	\$ 1,810.5	\$ 1,983.2	\$ 2,448.0	\$ 2,322.0	\$ 2,120.5	\$ 1,837.8	\$ 1,533.8	
Net premiums earned	\$ 1,767.1	\$ 1,865.6	\$ 2,488.4	\$ 2,182.7	\$ 2,005.9	\$ 1,748.9	\$ 1,457.0	
Net investment income	159.7	133.0	182.1	176.9	157.6	167.1	195.9	
Net realized investment gains (losses)	104.0	(88.8)	(127.6)	89.0	59.5	306.4	10.1	
Other income	7.6	2.5	3.5	2.1			101.7	
Total revenues	\$ 2,038.4	\$ 1,912.3	\$ 2,546.4	\$ 2,450.7	\$ 2,223.0	\$ 2,222.4	\$ 1,764.7	
Net losses and loss expenses	1,114.1	1,173.6	1,586.3	1,199.2	1,123.2	1,139.3	959.2	
Total expenses	1,738.0	1,828.3	2,456.7	1,929.9	1,795.2	1,711.0	1,459.2	
Income before income taxes	\$ 300.4	\$ 84.0	\$ 89.7	\$ 520.8	\$ 427.8	\$ 511.4	\$ 305.5	
Income tax expense	4.3	1.8	5.8	30.5	9.8	18.4	31.0	
Net income	\$ 296.1	\$ 82.2	\$ 83.9	\$ 490.3	\$ 418.0	\$ 493.0	\$ 274.5	

Per Share Data:

Basic earnings per share ⁽²⁾	\$ 3.34	\$ 0.88	\$ 0.91	\$ 5.03	\$ 4.08	\$ 4.56	\$ 2.40
Diluted earnings per share ⁽²⁾	\$ 3.29	\$ 0.87	\$ 0.89	\$ 4.92	\$ 3.98	\$ 4.43	\$ 2.31
Dividends paid per share ⁽²⁾	\$ 0.78	\$ 0.71	\$ 1.230	\$ 0.784	\$ 0.458	\$ 0.625	\$ 0.250
Shares outstanding (000) (weighted average)	88,692	93,068	92,530	97,538	102,465	108,171	114,280

	Nine Months Ended September 30		Year Ended December 31,				
	2016	2015	2015	2014	2013	2012	2011 ⁽¹⁾
Selected Ratios:							
Loss and loss expense ratio	63.0%	62.9%	63.7%	54.9%	56.0%	65.1%	65.8%
Acquisition cost ratio	14.6%	15.0%	15.1%	13.5%	12.6%	11.8%	11.5%
General and administrative expense ratio	17.3%	16.7%	16.3%	16.8%	17.6%	17.6%	18.6%
Expense ratio	31.9%	31.7%	31.4%	30.3%	30.2%	29.4%	30.1%
Combined ratio	94.9%	94.6%	95.1%	85.2%	86.2%	94.5%	95.9%

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	As at September 30			As at December 31,				2011 ⁽¹⁾
	2016	2015	2015	2014	2013	2012	2011 ⁽¹⁾	
	(\$ millions)							
Summary Balance Sheet Data:								
Cash and cash equivalents	\$ 773.8	\$ 603.8	\$ 608.0	\$ 589.3	\$ 531.9	\$ 681.9	\$ 634.0	
Investments	8,485.1	8,179.8	8,571.2	7,868.7	7,712.0	7,933.9	7,406.6	
Reinsurance recoverable	1,550.7	1,449.8	1,480.0	1,340.3	1,234.5	1,141.1	1,002.9	
Total assets ⁽³⁾	13,542.4	13,195.5	13,511.9	12,418.8	11,942.3	12,025.7	11,117.8	
Reserve for losses and loss expenses	6,665.8	6,436.6	6,456.2	5,881.2	5,766.5	5,645.5	5,225.1	
Unearned premiums	1,785.2	1,835.5	1,683.3	1,555.3	1,396.3	1,218.0	1,078.4	
Total debt ⁽³⁾	817.3	820.2	1,315.9	815.3	795.0	794.0	793.5	
Total shareholders' equity	3,615.9	3,555.4	3,532.5	3,778.2	3,519.8	3,326.3	3,149.0	

(1) Other income for the year ended December 31, 2011 include termination fees (net of expenses) of \$101.7 million relates to the termination of the previously announced merger agreement with Transatlantic.

(2) On May 1, 2014, the Allied World shareholders approved a 3-for-1 stock split of Allied World shares. All historical per share amounts reflect the effect of the stock split.

(3) The total assets and total debt presented above have been adjusted to reflect the adoption of Accounting Standards Update 2015-03, "Interest-Imputation of Interest" (Subtopic 835-30: Simplifying the Presentation of Debt Issuance Costs) (ASU 2015-03). ASU 2015-03 amends existing guidance on the presentation of debt issuance costs in the balance sheets to be recorded as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. Under existing US GAAP, capitalized debt issuance costs were capitalized as an asset. As a result of the adoption of ASU 2015-03, debt issuance costs previously included in total assets have been reclassified as a reduction to total debt. The amounts reclassified as at September 30, 2015, December 31, 2014, 2013, 2012 and 2011 were \$2.1 million, \$2.7 million, \$3.5 million, \$4.2 million and \$4.4 million, respectively.

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**SUMMARY UNAUDITED *PRO FORMA* CONDENSED
COMBINED FINANCIAL INFORMATION**

The following unaudited *pro forma* condensed combined financial information was prepared using the acquisition method of accounting for business combinations under IFRS, with Fairfax being the accounting and legal acquirer, and is intended to illustrate the effect of the Transactions, assuming 100 percent of Allied World shares are exchanged in the Transactions. Provided that following the completion of the Transactions the value of the Fairfax shares constitutes at least 40% of the total value of the consideration received by Allied World shareholders, Fairfax and Allied World intend that the Offer and Merger be treated as a single integrated transaction and qualify as a Reorganization within the meaning of Section 368(a) of the Code. For Canadian tax purposes, Fairfax, FFH Switzerland, Fairfax (Switzerland) and Allied World intend that the Merger qualify as a foreign merger within the meaning of Subsection 87(8.1) of the *Income Tax Act* (Canada) (the "Tax Act").

The tables below set out unaudited *pro forma* condensed combined financial information for Fairfax that has been adjusted to reflect the effect of the Transactions on the balance sheet of Fairfax as at September 30, 2016 as if the Transactions had occurred on that date and to reflect the effect of the Transactions on the income statement of Fairfax for the year ended December 31, 2015, and nine months ended September 30, 2016, as if the Transactions had occurred on January 1, 2015 and assuming all Allied World shares have been exchanged in the Transactions. The information presented below should be read in conjunction with the information contained in the sections under "Risk Factors", "Cautionary Statement Regarding Forward-Looking Statements", "Selected Historical Consolidated Financial Data of Fairfax", "Selected Historical Consolidated Financial Data of Allied World", "Business of Fairfax", "Business of Allied World", "Unaudited *Pro Forma* Condensed Combined Financial Information", and the consolidated financial statements of Fairfax and Allied World and the accompanying notes incorporated by reference in this prospectus.

The Allied World financial information has been reconciled to Fairfax's IFRS accounting policies solely for purposes of the preparation of the unaudited *pro forma* condensed combined financial information presented herein.

The unaudited *pro forma* condensed combined financial information has been presented in accordance with SEC Regulation S-X Article 11 for illustrative purposes only and reflects estimates made by Fairfax's management that it considers reasonable. It does not purport to represent what Fairfax's actual results of operations or financial condition would have been had the Transactions occurred on the dates indicated, nor is it necessarily indicative of future results of operations or financial condition. In addition to the matters noted above, the unaudited *pro forma* condensed combined financial information does not reflect the effect of any cost or revenue synergies associated with the Transactions.

The unaudited *pro forma* condensed combined financial information and related *pro forma* adjustments are preliminary and are based upon available information and certain assumptions described in the notes to the unaudited *pro forma* condensed combined financial information that Fairfax's management believes are reasonable under the circumstances. See "Unaudited *Pro Forma* Condensed Combined Financial Information" and the related notes to the unaudited *pro forma* condensed combined financial information, which describes the *pro forma* adjustments. Detailed valuations have not yet been obtained and, accordingly, the fair value adjustments reflect Fairfax's management's preliminary estimates and are subject to change once detailed analyses are performed and as additional information becomes available. These adjustments may be material. Since the Transactions have not been completed, Fairfax's access to information to make such estimates is limited and therefore certain market-based assumptions were used when data was not available. However, Fairfax's management believes the fair values recognized are based on reasonable estimates and assumptions based on currently available information. A final determination of the fair value of assets

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acquired and liabilities assumed will be based on the actual assets and liabilities of Allied World that exist as of the closing date of the Transactions and, therefore, cannot be finalized prior to the completion of the Transactions. In addition, the evaluation of the consideration to be paid by Fairfax upon the completion of the Transactions will be partly determined based on the closing price of Fairfax shares on the closing date of the Transactions.

See "Unaudited *Pro Forma* Condensed Combined Financial Information" for an explanation of the basis of preparation of this data.

Summary Unaudited *Pro Forma* Condensed Combined Statement of Earnings for the nine months ended September 30, 2016 and for the year ended December 31, 2015

(unaudited US \$ millions except share and per share amounts)

	Nine Months Ended September 30, 2016	Year Ended December 31, 2015
Revenue		
Gross premiums written	\$ 9,684.3	\$ 11,748.8
Net premiums written	7,944.3	9,968.5
Gross premiums earned	9,089.4	11,700.6
Premiums ceded to reinsurers	(1,543.5)	(1,841.2)
Net premiums earned	7,545.9	9,859.4
Interest and dividends	573.0	691.5
Share of profit of associates	62.4	175.7
Net gains (losses) on investments	(21.0)	(398.1)
Other revenue	1,407.9	1,787.0
	\$ 9,568.2	\$ 12,115.5
Expenses		
Losses on claims, gross	\$ 5,571.4	\$ 7,012.8
Losses on claims ceded to reinsurers	(1,003.6)	(1,040.1)
Losses on claims, net	4,567.8	5,972.7
Operating expenses	1,470.6	1,886.2
Commissions, net	1,244.8	1,552.7
Interest expense	228.8	280.4
Other expenses	1,345.2	1,709.3
	8,857.2	11,401.3
Earnings before income taxes	711.0	714.2
Provision for (recovery of) income taxes	105.4	(11.7)
Net earnings	\$ 605.6	\$ 725.9
Attributable to:		
Shareholders of Fairfax Group	\$ 424.0	\$ 634.3
Non-controlling interests	181.6	91.6
	\$ 605.6	\$ 725.9

Net earnings per share	\$	13.43	\$	20.88
Net earnings per diluted share	\$	13.17	\$	20.52
Shares outstanding (000) (weighted average) basic		29,110		28,206
Shares outstanding (000) (weighted average) diluted		29,675		28,701

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	As at September 30, 2016
Assets	
Holding company cash and investments	\$ 501.0
Insurance contract receivables	4,378.4
Portfolio investments	37,457.9
Deferred premium acquisition costs	694.4
Recoverable from reinsurers	6,255.4
Deferred income taxes	515.2
Goodwill and intangible assets	5,401.9
Other assets	2,507.3
Total assets	\$ 57,711.5
Liabilities	
Accounts payable and accrued liabilities	\$ 3,221.4
Income taxes payable	22.6
Short sale and derivative obligations	206.1
Funds withheld payable to reinsurers	694.5
Insurance contract liabilities	31,936.4
Long term debt holding company and insurance and reinsurance companies	4,300.3
Long term debt non-insurance companies	789.6
Total liabilities	\$ 41,170.9
Equity	
Common shareholders' equity	\$ 12,219.6
Preferred stock	1,335.4
Shareholders' equity attributable to shareholders of Fairfax Group	13,555.0
Non-controlling interests	2,985.6
Total equity	16,540.6
Total liabilities and equity	\$ 57,711.5

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UNAUDITED COMPARATIVE HISTORICAL AND *PRO FORMA* SHARE INFORMATION

The following table includes per share information for Fairfax and Allied World on a historical basis, on an unaudited *pro forma* combined basis for the Fairfax Group and equivalent information per Allied World share, assuming 100 percent of the Allied World shares are exchanged for Fairfax shares and cash at an exchange ratio of 0.070552 Fairfax shares and cash of \$16.50 for each Allied World share, in addition to the Special Dividend paid by Allied World of \$5.00 per share.

The information set out below should be read in conjunction with the unaudited interim consolidated financial statements and related notes of Fairfax for the nine months ended September 30, 2016, the audited consolidated financial statements and related notes of Fairfax for the year ended December 31, 2015, the unaudited condensed consolidated financial statements and related notes of Allied World for the nine months ended September 30, 2016, and the audited consolidated financial statements and related notes of Allied World for the year ended December 31, 2015, which are incorporated by reference in this prospectus, and financial information contained in the section "Unaudited *Pro Forma* Condensed Combined Financial Information." See "Where You Can Find Additional Information."

The following unaudited *pro forma* per share information has been prepared in accordance with the rules and regulations of the SEC, and is presented for informational purposes only. You should not rely on the unaudited *pro forma* combined amounts as being necessarily indicative of the results of operations that would have been reported by Fairfax had the Transactions been in effect during 2015 or that may be reported in the future. The unaudited *pro forma* combined per share information, although helpful in illustrating the financial characteristics of Fairfax under one set of assumptions, does not reflect the benefits of any cost savings, opportunities to earn additional revenue or other factors that may result as a consequence of the Transactions, or the impact of the remaining transaction-related costs for Fairfax and Allied World. These transaction-related costs have been accounted for in the unaudited *pro forma* condensed combined balance sheet as at September 30, 2016, but not in the unaudited *pro forma* condensed combined statements of earnings for the nine months ended September 30, 2016 and for the year ended December 31, 2015. Accordingly, the unaudited *pro forma* information does not attempt to predict or suggest future results. See "Unaudited *Pro Forma* Condensed Combined Financial Information" for a more complete discussion.

Information presented in the tables below reflects the following:

The historical per subordinate voting and registered share information of Fairfax and Allied World, respectively, has been extracted from the consolidated financial statements of Fairfax and Allied World incorporated by reference in this prospectus.

The historical book value per share is computed by dividing, in the case of Fairfax, common shareholders' equity by the number of Fairfax common shares in issue, and, in the case of Allied World, the total Allied World shareholders' equity by the number of Allied World shares in issue, both as at September 30, 2016 and December 31, 2015, as applicable.

Unaudited *pro forma* combined basic earnings per share is based on the combined results of Fairfax and Allied World. Allied World's US GAAP results have been reconciled to Fairfax's IFRS accounting policies for purposes of presentation in the unaudited *pro forma* condensed combined financial information.

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Unaudited *pro forma* combined amounts are presented as if the Transactions had been effective as at January 1, 2015 for the statements of earnings and as at September 30, 2016 for the balance sheet presented based on the acquisition method.

	As at and for the nine months ended September 30, 2016	As at and for the year ended December 31, 2015
Fairfax Historical		
Historical per common share:		
Basic earnings	\$ 6.78	\$ 23.67
Diluted earnings	\$ 6.62	\$ 23.15
Dividend ⁽¹⁾	\$ 10.00	\$ 10.00
Book value	\$ 406.65	\$ 403.01
Allied World Historical		
Historical per registered share:		
Basic earnings	\$ 3.34	\$ 0.91
Diluted earnings	\$ 3.29	\$ 0.89
Dividend ⁽¹⁾	\$ 0.78	\$ 1.23
Book value	\$ 41.57	\$ 38.84
Unaudited Pro Forma Combined Historical		
Unaudited <i>pro forma</i> combined per Fairfax common share:		
Basic earnings	\$ 13.43	\$ 20.88
Diluted earnings	\$ 13.17	\$ 20.52
Dividend ⁽²⁾	\$ 10.00	\$ 10.00
Book value ⁽³⁾	\$ 419.78	N/A
Unaudited Pro Forma Allied World Equivalent⁽⁴⁾ Historical		
Unaudited <i>pro forma</i> Allied World equivalent per registered share:		
Basic earnings	\$ 0.95	\$ 1.47
Diluted earnings	\$ 0.93	\$ 1.45
Dividend	\$ 0.71	\$ 0.71
Book value	\$ 29.62	N/A

Notes:

- (1) Fairfax's dividend per common share for the nine months ended September 30, 2016 and for the year ended December 31, 2015 represents an annual dividend of \$10.00 per share paid in the month of January in each of 2016 and 2015. Allied World's dividend per registered share for the nine months ended September 30, 2016 represents an interim dividend of \$0.78 per share and for the year ended December 31, 2015 represents a final dividend of \$0.52 per share and an interim dividend of \$0.71 per share.
- (2) Unaudited *pro forma* combined dividend per common share reflects Fairfax's historical dividend per subordinate voting share for the nine months ended September 30, 2016 and the year ended December 31, 2015.
- (3) Unaudited *pro forma* combined book value as at September 30, 2016 is calculated by dividing *pro forma* combined common shareholders' equity of \$12,219.6 million by the *pro forma* number of Fairfax common shares in issue of 29,333,251, including 6,136,251 new Fairfax shares to be issued as part of the Offer.
- (4) Unaudited *pro forma* Allied World Equivalent figures are derived by multiplying the respective unaudited *pro forma* combined historical per share amounts by the assumed share exchange ratio of 0.070552 Fairfax shares per Allied World share to illustrate those unaudited *pro forma* combined historical amounts on a pre-exchange per share basis.

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The Fairfax shares are listed on the TSX under the symbols "FFH" and "FFH.U." The Allied World shares are listed on the NYSE under the symbol "AWH."

The table below sets out the closing price per share of Fairfax shares on the TSX and of Allied World shares on the NYSE on (a) December 16, 2016, the last full trading day prior to the public announcement of the signing of the Merger Agreement, and (b) February 10, 2017 the last practicable trading day prior to the date of this prospectus. The table below also presents the implied equivalent value per share for Allied World shares in US dollars.

The implied equivalent value of an Allied World share was calculated as the sum of (1) the Cash Consideration (being \$5.00), (2) the Fixed Exchange Stock Consideration (being the product of the closing market price per Fairfax share on the applicable date multiplied by 0.030392 translating that amount into US dollars), (3) the Fixed Value Stock Consideration (being \$30.00), and (4) the Special Dividend of \$5.00.

	Fairfax shares	Allied World shares	Implied equivalent
	(CAD\$)	(\$)	value per share
Date:			(\$)
December 16, 2016	614.45	45.77	54.00
February 10, 2017	610.84	52.71	54.20

In calculating the implied equivalent value per Allied World share, amounts in Canadian dollars have been translated into US dollars at a rate of \$1.3338 per Canadian dollar, the noon exchange rate published by the Bank of Canada on December 16, 2016, and \$1.3074 per Canadian dollar, the noon exchange rate published by the Bank of Canada on February 10, 2017.

The market prices of Fairfax shares and Allied World shares are likely to fluctuate prior to the Expiration Time and cannot be predicted. Fairfax urges you to obtain current market information regarding Fairfax shares and Allied World shares.

See "Comparative Per Share Market Price and Dividend Information" for further information about historical market prices of these securities.

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RISK FACTORS

In addition to general investment risks and other information included or incorporated by reference in this prospectus, including the matters described in "Cautionary Statement Regarding Forward-Looking Statements," you should carefully consider the risks described in the documents incorporated by reference in this prospectus, including those in Fairfax's Annual Report on Form 40-F for the year ended December 31, 2015, Allied World's Annual Report on Form 10-K for the year ended December 31, 2015 and Allied World's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, and the following risks before deciding whether to tender your shares in the Offer. Any of the following risks could materially adversely affect the Fairfax Group's business, financial condition or results of operations. Additional risks and uncertainties not currently known to the Fairfax Group or that the Fairfax Group currently does not consider to be material may also materially and adversely affect the Fairfax Group's business, financial condition or results of operations.

Risks related to the Businesses of the Fairfax Group

If the Fairfax Group's actual claims exceed its claim reserves, the financial condition and results of operations of the Fairfax Group could be adversely affected.

The Fairfax Group maintains reserves to cover 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. The success of the Fairfax Group is dependent upon the ability to accurately assess the risks associated with the businesses that the Fairfax Group reinsures or insures. If the Fairfax Group fails to accurately assess the risks assumed, it may fail to establish appropriate premium rates and its reserves may be inadequate to cover its losses, which could have a material adverse effect on the financial condition of the Fairfax Group and reduce its net earnings.

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 the Fairfax Group's expectations of the ultimate settlement and administration costs of claims incurred. Establishing an appropriate level of claim reserves is an inherently uncertain process. The Fairfax Group utilizes 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, 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 the financial statements of Fairfax and Allied World. Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic and social inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis.

If the Fairfax Group's claim reserves are determined to be inadequate, it will be required to increase claim reserves with a corresponding reduction in its net earnings in the period in which the deficiency is rectified. It is possible that claims in respect of events that have occurred could exceed the Fairfax Group's claim reserves and have a material adverse effect on its results of operations in a particular period and/or its financial condition.

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 significantly exceed the premiums received on the underlying policies. When this occurs, the financial results of the Fairfax Group are adversely affected.

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Unpredictable catastrophic events could reduce our net earnings.

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

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. Catastrophes can cause losses in a variety of property and casualty lines, including losses relating to business interruptions occurring in the same geographic area as the catastrophic event or in the other geographic areas. It is possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon the Fairfax Group's financial condition, profitability or cash flows.

Claims resulting from natural or man-made catastrophic events could cause substantial volatility in the Fairfax Group's financial results for any fiscal quarter or year and could materially reduce the Fairfax Group's profitability or harm its financial condition. The Fairfax Group's ability to write new business could also be affected. Fairfax believes that increases in the value and geographic concentration of insured property, higher construction costs due to labor and raw material shortages following a significant catastrophe event, and climate change could increase the severity of claims from catastrophic events in the future.

The Fairfax Group's portfolio holdings are subject to fluctuations in the market which could negatively affect their value. If the Fairfax Group is unable to realize its investment objectives, the Fairfax Group's business, financial condition or results of operations may be adversely affected.

Investment returns are an important part of the Fairfax Group's overall profitability and its operating results depend in part on the performance of its investment portfolio. The Fairfax Group holds bonds and other debt instruments, common stocks, preferred stocks, equity-related securities and derivative securities in its portfolio.

Accordingly, fluctuations in the fixed income or equity markets could impair the Fairfax Group's financial condition, profitability or cash flows of the Fairfax Group. The Fairfax Group derives its investment income from interest and dividends, together with net gains or losses on investments. The portion derived from net gains or losses on investments generally fluctuates from year to year. However, 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 the Fairfax Group's portfolio and the risks associated with its investments are also affected by 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. The market value of bonds, other debt instruments and preferred stocks fluctuates with changes in interest rates and credit quality, and is exposed to liquidity risks. The market value of common stocks and equity-related securities is exposed to fluctuations in the stock market and to liquidity risk. 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 or settlement.

The uncertainty around the ultimate amount and the timing of the Fairfax Group's claim payments may force it to liquidate securities, which may cause it to incur losses. If the Fairfax Group's structures

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its investments improperly relative to its liabilities, it may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Realized and unrealized investment losses resulting from a decline in value could significantly decrease the Fairfax Group's net earnings.

The ability to achieve the Fairfax Group's investment objectives is affected by general economic conditions that are beyond its 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 the control of the Fairfax Group. 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 owned by the Fairfax Group. In addition, defaults by third parties who fail to pay or perform on their obligations could reduce the Fairfax Group's investment income and net gains on investment or result in investment losses. The Fairfax Group may not be able to realize its investment objectives, which could reduce its net earnings significantly and adversely affect its business, financial condition or results of operations.

The cycles of the insurance and reinsurance industries and general economic conditions may cause fluctuations in the operating results of the Fairfax Group.

Historically, the Fairfax Group has 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. Factors such as changes in the level of employment, wages, consumer spending, business investment and government spending, the volatility and strength of the global capital markets and inflation or deflation all affect the business and economic environment and, ultimately, the demand for insurance and reinsurance products, and therefore may affect the Fairfax Group's net earnings, financial position or cash flows.

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. The Fairfax Group expects to continue to experience the effects of this cyclical nature, which, during down periods, could significantly reduce the amount of premium the Fairfax Group writes and could harm its 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 insurers, including the larger insurers created by industry consolidation, 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, the profitability of the Fairfax Group's reinsurance business could be adversely affected.

The Fairfax Group's business could be harmed because of its potential exposure to asbestos, environmental and other latent claims.

The Fairfax Group has 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 the Fairfax Group; risks

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inherent in major litigation, including more aggressive environmental and asbestos-related litigation against insurers, including the Fairfax Group; 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 the Fairfax Group, experienced an increase in the number of asbestos-related claims from 2001 through 2003 likely due to, among other things, the introduction by several U.S. 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.

As a result of tort reform, both legislative and judicial, there has been a decrease in mass asbestos plaintiff screening efforts over the past few years and a decline in the number of unimpaired plaintiffs filing claims. The majority of claims now being filed and litigated continues to relate to mesothelioma, lung cancer or impaired asbestosis cases. This reduction in new filings has focused the litigants on the more seriously injured plaintiffs. While initially there was a concern that such a focus would exponentially increase the settlement value of asbestos cases involving malignancies, this has not been the case. Expense has increased somewhat as a result of this trend, however, primarily due to the fact that the malignancy cases are often more heavily litigated than the non-malignancy cases.

Similarly, as a result of various regulatory efforts aimed at environmental remediation, companies in the insurance industry, including the Fairfax Group, 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, the Fairfax Group faces 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, tobacco, hepatitis C, head trauma and in utero exposure to diethylstilbestrol ("DES"). Tobacco, although a significant potential risk to the Fairfax Group, has not presented significant actual exposure to date. Although still a risk due to occasional unfavorable court decisions, lead pigment has had some favorable underlying litigation developments resulting in this hazard presenting less of a risk to the Fairfax Group. The Fairfax Group is monitoring claims alleging breast cancer as a result of in utero exposure to DES, a synthetic estrogen supplement prescribed to prevent miscarriages or premature births. Historically, DES exposure cases involved alleged injuries to the reproductive tract. More recently filed cases are now alleging a link between DES exposure and breast cancer. As a result of its historical underwriting profile and its focus on excess liability coverage for Fortune 500-type entities, the Fairfax Group's runoff business faces the bulk of these potential exposures within the Fairfax Group. 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. The Fairfax Group has established reserves that represent its best

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estimate of ultimate claims and claim adjustment expenses based upon known facts and current law. 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 the Fairfax Group's financial condition, profitability or cash flows in future periods.

The Fairfax Group cannot assure you that its reinsurers and certain insureds will pay it on a timely basis or at all.

Most insurance and reinsurance companies reduce their exposure to any individual claim by reinsuring amounts in excess of their maximum desired retention. Reinsurance is an arrangement in which an insurer, called the cedant, 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 the Fairfax Group to the extent of the risk ceded, the Fairfax Group, as cedant, is not relieved of its primary liability to its insureds. The Fairfax Group cannot assure you that its reinsurers will pay their respective reinsurance claims on a timely basis or at all. As well, the Fairfax Group bears credit risk with respect to its reinsurers (including retrocessionaires), both with respect to receivables reflected on its balance sheet as well as to contingent liabilities with respect to reinsurance protection on future claims. If reinsurers are unwilling or unable to pay the Fairfax Group amounts due under reinsurance contracts, the Fairfax Group will incur unexpected losses and the Fairfax Group's results of operations, financial position or cash flows will be adversely affected.

The Fairfax Group is exposed to credit risk in the event its insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to it or failure by its insureds to reimburse it for deductibles that are paid by the Fairfax Group on their behalf.

The Fairfax Group writes 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 the Fairfax Group for certain losses. Accordingly, the Fairfax Group bears credit risk on these policies and cannot assure you that its insureds will pay it on a timely basis or at all. In the ordinary course of business the Fairfax Group is 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, the Fairfax Group may be unable to recover on assets such insured may have pledged as collateral. The Fairfax Group reserves for uncollectible amounts in the period the collection issues become known. The inability to collect amounts due to the Fairfax Group reduces its net earnings and cash flow, and the ability of its insurance and reinsurance subsidiaries to pay dividends or make other distributions.

In accordance with industry practice, customers of the Fairfax Group often pay the premiums for their policies to brokers for payment over to the Fairfax Group. These premiums are considered paid when received by the broker and, thereafter, the customer is no longer liable to the Fairfax Group for those amounts, whether or not the Fairfax Group has actually received the premiums from the broker. Consequently, the Fairfax Group assumes a degree of credit risk associated with reliance on brokers in connection with the settlement of insurance balances.

Further, as is customary in the reinsurance industry, the Fairfax Group's reinsurance companies frequently pay amounts owing in respect of claims under their policies to reinsurance brokers, for payment over to the ceding insurers. In the event that a broker fails to make such a payment, depending on the jurisdiction, the Fairfax Group's reinsurance companies might remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums for such policies to reinsurance brokers for payment over to the Fairfax Group's reinsurance companies, such premiums will be deemed to have been paid and the ceding insurer will no longer be liable for those amounts, whether or not the Fairfax Group's reinsurance companies have actually

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received such premiums. Consequently, in connection with the settlement of reinsurance balances, the Fairfax Group assumes a degree of credit risk associated with brokers around the world.

If the insurance and reinsurance subsidiaries of the Fairfax Group are unable to maintain financial strength ratings, it may be more difficult for them to renew policies, retain business or write new business and a downgrade of the credit rating of the Fairfax Group may affect the cost and availability of financing.

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 the Fairfax Group's 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.

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 the insurance subsidiaries of the Fairfax Group write and could cause early termination of contracts written by the reinsurance subsidiaries of the Fairfax Group or a requirement for them to post collateral at the direction of their counterparts. As well, if the Fairfax Group's current or potential customers were to raise their minimum required financial strength or claims paying ratings above the ratings held by the Fairfax Group or its insurance and reinsurance subsidiaries, or if they were to materially increase their collateral requirements, the demand for the Fairfax Group's products could be reduced, its premiums could decline, and the Fairfax Group's profitability could be adversely affected.

The ratings of the insurance and reinsurance subsidiaries of the Fairfax Group by these agencies may be based on a variety of factors, some of which are outside of the control of the Fairfax Group, including, but not limited to, the financial condition of the members of the Fairfax Group and their respective subsidiaries and affiliates, the financial condition or actions of parties from which their respective insurance subsidiaries have obtained reinsurance, and factors relating to the sectors in which such persons conduct business, and the statutory surplus of the insurance and reinsurance subsidiaries of the Fairfax Group, which is adversely affected by underwriting losses and dividends paid by them. A downgrade of any of the debt or other ratings of the entities in the Fairfax Group, or of any of their 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 the insurance and reinsurance subsidiaries.

A downgrade of Fairfax's long term debt ratings by the major rating agencies could require Fairfax and/or its subsidiaries to accelerate their cash settlement obligations for certain derivative transactions to which they are a party, and could result in the termination of certain other derivative transactions.

In addition, a downgrade of the credit rating of a member of the Fairfax Group may affect the cost and availability of financing. Ratings are subject to periodic review at the discretion of each respective rating agency and may be revised downward or revoked at their sole discretion. Rating agencies may also increase their scrutiny of rated companies, revise their rating standards or take other action.

The Fairfax Group may not be successful in achieving its strategic objectives.

The Fairfax Group may periodically and opportunistically acquire other insurance and reinsurance companies or execute other strategic initiatives developed by management. Although the Fairfax Group undertakes due diligence prior to the completion of an acquisition, it is possible that unanticipated

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factors could arise and there is no assurance that the anticipated financial or strategic objectives following an integration effort or the implementation of a strategic initiative will be achieved, which could adversely affect the Fairfax Group's financial condition, profitability or cash flows.

The Fairfax Group may periodically explore opportunities to make strategic investments in all or part of certain businesses or companies. Acquisitions may involve a number of special risks, including failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on the Fairfax Group's business, results of operations and financial position. The Fairfax Group cannot be sure that any acquired businesses will achieve the anticipated revenues, income and synergies. Failure on the Fairfax Group's part to manage its acquisition strategy successfully could have a material adverse effect on its business, results of operations and financial position. The Fairfax Group cannot be sure that it will be able to identify appropriate targets, profitably manage additional businesses or successfully integrate any acquired business into its operations.

The Fairfax Group may hold derivative instruments, which could result in significant losses and volatility of its operating results.

The Fairfax Group may hold significant investments in derivative instruments and the market value and liquidity of these investments are volatile or extremely volatile and may vary dramatically up or down in short periods, and their ultimate value will therefore only be known upon their disposition or settlement. The Fairfax Group's use of derivative instruments is primarily for general protection against declines in the fair value of their respective financial assets. The Fairfax Group may use derivative instruments to manage or reduce risks or as a cost-effective way to synthetically replicate the investment characteristics of an otherwise permitted investment. A replication derivative exposes the Fairfax Group to the same risks that it would have incurred if it had acquired the otherwise permitted investment directly. The Fairfax Group use of derivative instruments may include, without limitation: interest rate swaps, credit default swaps, total return swaps, warrants, options, forwards, futures and consumer price index-linked contracts.

The Fairfax Group's use of derivative instruments is governed by their respective investment policies and exposes it to a number of risks, including credit risk, interest rate risk, liquidity risk, inflation risk, market risk and counterparty risk. Counterparty risk is the risk that the other party to a derivative instrument will default on its contractual obligations. If the counterparties to the Fairfax Group's derivative instruments fail to honor their obligations under the derivative instrument agreements, the Fairfax Group may lose the value of its derivative instruments. This failure could have an adverse effect on the Fairfax Group's financial condition and results of operations.

The Fairfax Group endeavors to limit counterparty risk through diligent selection of counterparties to its derivative instruments and through the terms of agreements negotiated with its counterparties. Pursuant to these agreements, the Fairfax Group and the counterparties are required to deposit eligible collateral in collateral accounts for either the benefit of the Fairfax Group or the counterparty depending on the then current fair value or change in the fair value of the derivative contract. The Fairfax Group's obligation to collateralize liabilities related to its derivative instruments may adversely affect its liquidity by causing it to sell portfolio investments under potentially unfavorable market conditions to enable the Fairfax Group to comply with the terms of the collateral requirements of its derivative instruments and ultimately to fulfill its obligations to its counterparties. In addition, the terms of the Fairfax Group's derivative instrument agreements typically permit its counterparties to terminate the derivative contracts prior to maturity if the Fairfax Group's financial strength ratings are downgraded below a pre-determined level. Such a termination could have a material adverse effect on the Fairfax Group's financial condition and results of operations.

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The Fairfax Group may not be able to realize its investment objectives with respect to derivative instruments, which could have a material adverse effect upon its financial position, profitability or cash flows.

The methods the Fairfax Group will employ to hedge risks associated with certain of its financial instruments may fail to achieve their desired risk management objectives.

The Fairfax Group may use derivative instruments to manage or reduce its exposure to credit risk and various market risks, including interest rate risk, equity market risk, inflation/deflation risk and foreign currency risk. The Fairfax Group's hedging strategies may be implemented to hedge risks associated with a specific financial instrument, asset or liability or at a macro level to hedge systemic financial risk and the impact of potential future economic crisis and credit related problems on its operations and the value of its financial assets. The Fairfax Group has typically used credit default swaps, total return swaps and consumer price index-linked derivative instruments to hedge macro level risks.

The Fairfax Group's derivative instruments may expose it to basis risk, notwithstanding that the principal use of derivative instruments is to hedge exposures to various risks. Basis risk is the risk that the fair value or cash flows of derivative instruments applied as economic hedges will not experience changes in exactly the opposite directions from those of the underlying hedged exposure. This imperfect correlation between the derivative instrument and underlying hedged exposure creates the potential for excess gains or losses in a hedging strategy which may adversely impact the net effectiveness of the hedge and may diminish the financial viability of maintaining the hedging strategy and therefore adversely impact the Fairfax Group's financial condition, profitability or cash flows.

The Fairfax Group operates in a highly competitive environment which could make it more difficult for it to attract and retain business.

The property and casualty insurance industry and the reinsurance industry are both highly competitive, and the Fairfax Group believes that they will remain highly competitive in the foreseeable future. Competition in these industries is based on many factors, including premiums charged and other terms and conditions offered, products and services provided, commission structure, 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. The Fairfax Group competes, and will continue to compete, with a large number of Canadian, U.S. and foreign insurers and reinsurers, as well as certain underwriting syndicates, some of which have greater financial, marketing and management resources than the Fairfax Group, and there is no assurance that the Fairfax Group will be able to successfully retain or attract business.

The Fairfax Group is also aware that other financial institutions, such as banks, are now able to offer services similar to those offered by the Fairfax Group's reinsurance subsidiaries. In addition, in recent years alternative products from capital market participants have been created that are intended to compete with reinsurance products. The Fairfax Group is unable to predict the extent to which these new, proposed or potential initiatives may affect the demand for its products or the risks that may be available for it to consider underwriting.

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 the Fairfax Group's products and services. If competitive pressures compel the Fairfax Group to reduce its prices, its 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. The Fairfax Group could incur greater expenses relating to customer acquisition and

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retention, further reducing its 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.

Emerging claim and coverage issues, or the failure of any of the loss limitation methods the Fairfax Group will employ, could adversely affect the Fairfax Group's business, financial condition or 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. The Fairfax Group seeks to limit loss exposure by employing a variety of policy limits and other terms and conditions and through prudent underwriting of each program written. The Fairfax Group also seeks to limit loss exposure by geographic diversification. The Fairfax Group cannot be sure that any of these loss limitation methods will be effective. There can be no assurance that various provisions of the Fairfax Group's policies, such as limitations or exclusions from coverage or choice of forum, will be enforceable in the manner intended, thus substantially increasing the potential exposure faced under such policies.

The provision for claims is an estimate and may be found to be deficient, perhaps very significantly, in the future as a result of unanticipated frequency or severity of claims or for a variety of other reasons including unpredictable jury verdicts, expansion of insurance coverage to include exposures not contemplated at the time of policy issue (as was the case with asbestos and pollution exposures) and extreme weather events. As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues can have a negative effect on the Fairfax Group's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. Recent examples of emerging claims and coverage issues include:

continuing changes in the litigation climate surrounding asbestos claims, including tort reform efforts in various jurisdictions;

increases in the number and size of claims relating to construction defects, which often present complex coverage and damage valuation questions;

changes in interpretation of the named insured provision with respect to the uninsured/underinsured motorist coverage in commercial automobile policies;

breakthroughs in health care technology, which often lead to increasingly expensive treatments affecting workers compensation exposures; and

a growing trend in the United States of plaintiffs targeting property and casualty insurers in purported class action litigation relating to claim-handling, premium calculation and billing, and other practices, particularly with respect to the handling of personal lines automobile and homeowners claims.

The effects of these and other unforeseen emerging claims and coverage issues are extremely hard to predict and could harm the Fairfax Group's business.

The full effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. As a result, the full extent of the Fairfax Group's liability under its coverages, and in particular its casualty insurance policies and reinsurance contracts, may not be known for many years after a policy or contract is issued. The Fairfax Group's exposure to this uncertainty will grow as the Fairfax Group's "long-tail" casualty businesses grow, because in these lines of business claims can typically be made for many years, making them more susceptible to these trends than in the property insurance business, which is more typically "short-tail." In addition, the Fairfax Group could be adversely affected by the growing trend of plaintiffs targeting participants in the property-liability insurance industry in purported class action litigation relating to claims handling and other.

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Fairfax is a holding company, and as a result, may not have access to the cash that is needed to meet its financial obligations.

Fairfax is a holding company and conducts substantially all of its business through its subsidiaries and receives substantially all of its earnings from them. Fairfax controls its 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 the Fairfax Group's insurance or reinsurance companies are not available to be applied against the risks underwritten by other of the Fairfax Group's companies. The financial condition and results of operations of each of the insurance and reinsurance companies controlled by Fairfax are included in Fairfax's consolidated financial statements and, generally, losses incurred by any of the Fairfax Group's companies directly impact Fairfax's consolidated results. Although a severe loss incurred by one company should not have any adverse effect on any of the Fairfax Group's other companies, such loss, even though not material to the Fairfax Group when its financial condition is viewed as a whole, could have an adverse effect on the Fairfax Group because it could affect adversely how the Fairfax Group's other companies are treated by others, including rating agencies and insurance regulators.

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 Fairfax 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 Fairfax that could be used to make payments on outstanding debt. In addition, if Fairfax caused a subsidiary to pay a dividend to it in order to make payment on Fairfax's outstanding debt, and the dividend were determined to be improperly paid, holders of Fairfax's outstanding debt would be required to return the payment to the subsidiary's creditors. As of September 30, 2016, Fairfax's subsidiaries had approximately \$1,233.5 million principal amount of indebtedness.

Although substantially all of the Fairfax Group's operations are conducted through their subsidiaries, none of their subsidiaries are obligated to make funds available to Fairfax for payment on Fairfax's outstanding debt. Accordingly, Fairfax's ability to meet its financial obligations, including to make payments on its outstanding debt, is dependent on the distribution of earnings from subsidiaries. The ability of the subsidiaries of Fairfax to pay dividends to Fairfax in the future will depend on their statutory surplus, on earnings and on regulatory restrictions. The ability of the subsidiaries of Fairfax to pay dividends or make distributions or returns of capital is subject to restrictions set out in the insurance laws and regulations of Canada, the United States, the United Kingdom, Barbados, Poland, Hong Kong, Indonesia, Singapore, Malaysia, Sri Lanka, Brazil, Bermuda and Switzerland and other jurisdictions (in each case, including the provinces, states or other jurisdictions therein) and is affected by the credit agreements and indentures of the subsidiaries, capital support agreements with the subsidiaries and the criteria of third party rating agencies that assess and rate the claims paying ability of the subsidiaries. No assurance can be given that some or all of Fairfax's operating subsidiaries' jurisdictions will not adopt statutory provisions more restrictive than those currently in effect. Following the Transactions, the Fairfax Group's 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 the Fairfax Group's subsidiaries to Fairfax. Fairfax cannot assure you that the agreements governing the current and future indebtedness of its subsidiaries will permit its subsidiaries to provide Fairfax with sufficient dividends, distributions or loans to meet Fairfax's financial obligations, including to fund payments on its outstanding debt when due.

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Fairfax's inability to obtain additional capital in the future as required could have a material adverse effect on its financial condition.

Fairfax's future capital requirements depend on many factors, including its ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. Fairfax's liquidity needs could increase materially and rapidly for a variety of reasons, many of which are outside of its control. For example, Fairfax's insurance subsidiaries may require it to make additional investments in the event that their regulatory capital levels decline below desired levels as a result of future impairments of investment securities, catastrophe losses or other conditions, including changes in regulatory capital requirements. To the extent that the funds generated by Fairfax's businesses are insufficient to fund future operations, Fairfax 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 Fairfax. The cost and availability of debt financing is affected by credit ratings. Fairfax's ability to raise additional capital may be adversely affected by the credit ratings of its entities. If Fairfax cannot obtain adequate capital or if it fails to refinance its existing debt as it comes due, Fairfax's business, financial condition and profitability could be adversely affected.

Fairfax's ability and/or the ability of its subsidiaries to obtain additional financing for working capital, capital expenditures or acquisitions in the future may also be limited under the terms of Fairfax's \$600 million unsecured revolving credit facility entered into by Fairfax and a syndicate of lenders (the "Credit Facility"). The Credit Facility contains various covenants that place restrictions on, among other things, Fairfax's ability or the ability of its subsidiaries to incur additional indebtedness, to create liens or other encumbrances and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facility contains certain financial covenants that require Fairfax to maintain a ratio of consolidated debt to consolidated capitalization of not more than 0.35:1 and to maintain consolidated shareholders' equity of not less than \$7.5 billion. A failure to comply with the obligations and covenants under the Credit Facility could result in an event of default under such agreement which, if not cured or waived, could permit acceleration of indebtedness, including other indebtedness of Fairfax or its subsidiaries. If such indebtedness were to be accelerated, there can be no assurance that Fairfax's assets would be sufficient to repay that indebtedness in full.

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

Fairfax is substantially dependent on a small number of key employees, including its Chairman and significant shareholder, Mr. Prem Watsa and the senior management of Fairfax and its operating subsidiaries. Fairfax believes that the experiences and reputations in its industry of the abovementioned individuals are important factors in its ability to attract new business. Fairfax's operating subsidiaries have also entered into employment agreements with key employees. Fairfax's success has been, and will be, dependent on its ability to retain the services of its 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 the business operations of Fairfax. Fairfax does not currently maintain key employee insurance with respect to any of its employees.

The Fairfax Group may be unable to obtain reinsurance coverage at reasonable prices or on terms that adequately protect the Fairfax Group.

The Fairfax Group uses reinsurance arrangements, including reinsurance of its own reinsurance business purchased from other reinsurers, referred to as retrocessionaires, to help manage 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 business volume and profitability. Many reinsurance companies have begun to exclude certain coverages from, or alter terms in, the policies that the Fairfax Group purchases from them. Some exclusions are with respect to risks

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which the Fairfax Group cannot exclude in policies the Fairfax Group writes 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, the Fairfax Group's 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 the Fairfax Group to greater risk and greater potential losses. If the Fairfax Group cannot obtain adequate reinsurance protection for the risks it underwrites, it may be exposed to greater losses from those risks or may be forced to reduce the amount of business it underwrites, which will reduce the Fairfax Group's revenues. As a result, the Fairfax Group's inability to obtain adequate reinsurance protection could have a material adverse effect on its financial condition and operations.

The rates charged by reinsurers and the availability of reinsurance to the Fairfax Group's subsidiaries will generally reflect the recent loss experience of Fairfax 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. In 2011, the insurance industry experienced the second highest number of insured losses in history, primarily due to numerous catastrophes. The significant catastrophe losses incurred by reinsurers worldwide resulted in higher costs for reinsurance protection in 2012. Currently there exists excess capital within the reinsurance market due to favorable operating results of reinsurers and alternative forms of reinsurance capacity entering the market. As a result, the market has become very competitive with prices decreasing for most lines of business. Each of Fairfax's subsidiaries continues to evaluate the relative costs and benefits of accepting more risk on a net basis, reducing exposure on a direct basis, and paying additional premiums for reinsurance.

The operations of the Fairfax Group 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 the Fairfax Group does business, have periodically considered programs to reform or amend the insurance systems at both the federal and local levels. For example, regulatory capital guidelines may change for the Fairfax Group's European operations due to Solvency II; the Dodd-Frank Act creates a new framework for regulation of over-the-counter derivatives in the United States which could increase the cost of the Fairfax Group's use of derivatives for investment and hedging purposes; the activities of the International Association of Insurance Supervisors is expected to lead to additional regulatory oversight of Fairfax as a financial services holding company; and the Canadian and U.S. insurance regulators' Own Risk and Solvency Assessment initiatives have required the Fairfax Group's North American operations to perform self-assessments of the capital available to support their business risks.

Such initiatives could adversely affect the Fairfax Group's subsidiaries' financial results, including their ability to pay dividends, cause the Fairfax Group to make unplanned modifications of products or services, or result in delays or cancellations of sales of products and services by insurers or reinsurers. Insurance industry participants may respond to changes by reducing their investments or postponing investment decisions, including investments in the Fairfax Group's products and services. The Fairfax Group cannot predict the future impact of changing law or regulation on its operations; any changes could have a material adverse effect on the Fairfax Group or the insurance industry in general.

The Fairfax Group's insurance and reinsurance operations (including those located in foreign jurisdictions) are subject to the tax laws and regulations, and value added tax and other indirect taxes,

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in the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation and regulations that could increase the amount of taxes that the Fairfax Group pay or impact the sales of the Fairfax Group's products. An increase to tax rates in the countries in which the entities in the Fairfax Group operate could have an adverse effect on its financial condition and results of operations.

Certain business practices of the insurance industry have been the subject of negative publicity and investigations by government authorities and the subject of class action litigation.

From time to time, the insurance industry has been subject to investigations, litigation and regulatory activity by various insurance, governmental and enforcement authorities, concerning certain practices within the industry. The Fairfax Group sometimes receives inquiries and informational requests from insurance departments in certain states in which its insurance subsidiaries operate. From time to time, consumer advocacy groups or the media also focus attention on certain insurance industry practices. The Fairfax Group cannot predict at this time the effect that investigations, litigation and regulatory activity or negative publicity from consumers or the media will have on the insurance or reinsurance industry or its business, or whether activities or practices currently thought to be lawful will be characterized in the future as unlawful or will become subject to negative scrutiny from consumer advocacy groups or the media. The Fairfax Group's involvement in any investigations and related lawsuits would cause it to incur legal costs and, if an entity in the Fairfax Group were found to have violated any laws, it could be required to pay fines and damages, perhaps in material amounts. In addition, the Fairfax Group could be materially adversely affected by the negative publicity for the insurance industry related to any such proceedings, and by any new industry-wide regulations or practices that may result from such proceedings or publicity. It is possible that future investigations or related regulatory developments will mandate changes in industry practices in a fashion that increases the Fairfax Group's costs of doing business or requires the Fairfax Group to alter aspects of the manner in which it conducts its business.

Political and other developments in foreign jurisdictions in which the entities in the Fairfax Group operate could adversely affect the business and assets of the entities in the Fairfax Group.

The Fairfax Group's international operations are regulated in various jurisdictions with respect to licensing requirements, currency, amount and type of security deposits, amount and type of reserves, amount and type of local investment and other matters. International operations and assets held abroad may be adversely affected by political and other developments in foreign countries, including possibilities of tax changes, nationalization and changes in regulatory policy, as well as by consequences of hostilities and unrest. The risks of such occurrences and their overall effect upon the Fairfax Group vary from country to country and cannot easily be predicted.

The entities in the Fairfax Group may be subject to regulatory proceedings or significant litigation, which will be expensive and time consuming and, if decided against the entities in the Fairfax Group, could require payment of substantial judgments or settlements.

The entities in the Fairfax Group may, from time to time, become party to a variety of legal claims and regulatory proceedings, including, but not limited to: disputes over coverage or claims adjudication; disputes regarding sales practices, disclosures, premium refunds, licensing, regulatory compliance and compensation arrangements; disputes with agents, brokers or network providers over compensation and termination of contracts and related claims; regulatory actions relating to consumer pressure in relation to benefits realized by insurers; disputes with taxing authorities regarding tax liabilities and tax assets; regulatory proceedings and litigation related to acquisitions or divestitures made or proposed by the Fairfax Group or its subsidiaries or in connection with companies in which the Fairfax Group holds an investment; and disputes relating to certain businesses acquired or disposed of by the Fairfax Group.

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The existence of such claims against the Fairfax Group or its affiliates, directors or officers could have various adverse effects, including negative publicity and the incurrence of significant legal expenses defending claims, even those without merit.

On July 26, 2006, Fairfax filed a lawsuit seeking \$6 billion in damages from a number of defendants who, the complaint (as subsequently amended) alleges, participated in a stock market manipulation scheme involving Fairfax's shares. The complaint, filed in Superior Court, Morris County, New Jersey, alleges violations of various state laws, including the New Jersey Racketeer Influenced and Corrupt Organizations Act, pursuant to which treble damages may be available. On September 12, 2012, before trial, and consequently without having heard or made any determination on the facts, the Court dismissed the lawsuit on legal grounds. In October 2012, Fairfax filed an appeal of this dismissal, as Fairfax believes that the legal basis for the dismissal is incorrect. The appeal was heard on October 17, 2016, and the decision was reserved. The ultimate outcome of any litigation is uncertain. The financial effects, if any, of this lawsuit cannot be practicably determined at this time and Fairfax's consolidated financial statements include no anticipated recovery from the lawsuit.

The Autorité des marchés financiers (the "AMF"), the securities regulatory authority in the Province of Quebec, is conducting an investigation of Fairfax, its Chief Executive Officer, V. Prem Watsa, and its President, Paul Rivett. The investigation concerns the possibility of illegal insider trading and/or tipping (not involving any personal trading by the individuals) in connection with the December 15, 2011 takeover offer by Resolute Forest Products Inc. ("Resolute") for shares of Fibrek Inc. ("Fibrek").

Except as set out below, further details concerning the investigation are, by law, not permitted to be disclosed. The AMF has authorized Fairfax to make the above-mentioned disclosure. Fairfax and its management are solely responsible for the content of the disclosure set out in the three following paragraphs; the AMF has not in any way endorsed that content.

Resolute's above-mentioned takeover offer was made to all Fibrek shareholders, including Fairfax. Fairfax agreed in that transaction to a hard lock-up agreement with Resolute whereby Fairfax agreed to tender its shares of Fibrek, representing approximately 26 percent of Fibrek's outstanding shares, to the Resolute takeover offer at the same price as all other Fibrek shareholders. At the time of the Resolute takeover offer for Fibrek, Fairfax's position in Fibrek was valued at approximately CAD\$32 million, representing less than 1/6 of 1% of Fairfax's total invested assets at that time.

Fibrek actively opposed the Resolute takeover offer. In 2012, the Fibrek transaction was the subject of numerous regulatory hearings in Quebec and court proceedings relating to Fibrek's anti-takeover tactics and the hard lock-ups given by various selling shareholders, including Fairfax. Allegations were made in those hearings concerning the possibility of non-compliance with the takeover bid rules. Resolute's takeover offer was allowed to proceed and resulted in Resolute acquiring Fibrek.

Fairfax believes it has an unblemished record for honesty and integrity and is fully cooperating with the AMF's investigation. Fairfax continues to be confident that in connection with the Resolute takeover offer, it had no material non-public information, that it did not engage in illegal insider trading or tipping, and that there is no reasonable basis for any proceedings in this connection. To the best of Fairfax's knowledge, the AMF investigation is still ongoing. If the AMF commences legal proceedings, which could be administrative or penal, no assurance can be given at this time by Fairfax as to the outcome.

Technological or other changes could adversely impact demand, or the premiums payable, for the insurance coverages the Fairfax Group offers.

Technological changes could have unpredictable effects on the insurance and reinsurance business. It is expected that new services and technologies will continue to emerge that will affect the demand

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for insurance and reinsurance products and services, the premiums payable, the profitability of such products and services and the risks associated with underwriting certain lines of business, including new lines of business. Failure to understand evolving technologies, or to position the Fairfax Group in the appropriate direction, or to deploy new products and services in a timely way that considers customer demand and competitor activities could have an adverse impact on the Fairfax Group's business, financial condition, profitability or cash flows. Fairfax maintains an innovation working group comprised of members with diverse backgrounds from across its global subsidiaries to regularly assess new services and technologies that that may be applicable or disruptive to the insurance and reinsurance industries.

The Fairfax Group's computer and data processing systems may fail or be perceived to be insecure, which could adversely affect its business and damage its customer relationships.

The Fairfax Group's businesses are highly dependent upon the successful and uninterrupted functioning of its computer and data processing systems. The Fairfax Group relies on these systems to perform actuarial and other modeling functions necessary for writing business, to process and make claim payments and to process and summarize investment transactions. The Fairfax Group has a highly trained staff that is committed to the continual development and maintenance of these systems. Third parties provide certain of the key components of the Fairfax Group's business infrastructure such as voice and data communications and network access. Given the high volume of transactions processed daily, the Fairfax Group is reliant on such third party provided services to successfully deliver their products and services. Despite the contingency plans of the Fairfax Group and those of the third party service providers, the failure of these systems could interrupt the Fairfax Group's operations or materially impact the Fairfax Group's ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, a system failure could result in the loss of existing or potential business relationships, or compromise the Fairfax Group's ability to pay claims in a timely manner. This could result in a material adverse effect on the Fairfax Group's business results.

In addition, a security breach of the Fairfax Group's computer systems could damage the entities' reputations or result in liability. The Fairfax Group retains confidential information regarding its business dealings in its computer systems, including, in some cases, confidential personal information regarding the insureds. The Fairfax Group may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Any well-publicized compromise of security could deter people from conducting transactions that involve transmitting confidential information to the Fairfax Group's systems. Therefore, it is critical that these facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Despite the implementation of security measures, including the Fairfax Group's implementation of a data security program specific to confidential personal information, this infrastructure may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, the Fairfax Group could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information.

Fairfax's significant shareholder may substantially influence its direction and operations.

Mr. Prem Watsa, Fairfax's Chairman and Chief Executive Officer, owns, directly or indirectly, or exercises control or direction over shares representing 42.7 percent of the voting power of Fairfax's outstanding shares. Amendments were made to the terms of the multiple voting shares (as defined in "Description of Fairfax Shares and Articles of Incorporation"), which are controlled by Mr. Watsa, in August 2015 having the effect of preserving the voting power represented by the multiple voting shares at 41.8 percent even if additional subordinate voting shares are issued in the future. Mr. Watsa has the ability to substantially influence certain actions requiring shareholder approval, including approving a business combination or consolidation, liquidation or sale of assets, electing members of the board of directors and adopting amendments to the articles of incorporation and by-laws. As a shareholder,

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Mr. Watsa may have different interests than you have and therefore may make decisions that are adverse to your interests. The terms of the multiple voting shares may also have the effect of limiting the likelihood of an unsolicited take-over bid or merger proposal or a proxy contest for the removal of directors. As a result, Fairfax's shareholders may be deprived of an opportunity to sell their shares at a premium over prevailing market prices and it may be difficult for shareholders to replace Fairfax's directors and management.

The Fairfax Group may be adversely affected by foreign currency fluctuations.

The reporting currency of the Fairfax Group is the US dollar. A portion of the premiums and expenses of the Fairfax Group is denominated in foreign currencies and a portion of the assets (including investments) and loss reserves of the Fairfax Group is also denominated in foreign currencies. The Fairfax Group may, from time to time, experience losses resulting from fluctuations in the values of foreign currencies (including when the foreign currency assets and liabilities are hedged) which could adversely affect the Fairfax Group's financial condition, profitability or cash flows.

The Fairfax Group relies on independent brokers over whom they exercise little control, which exposes the Fairfax Group to certain risks.

The Fairfax Group does business with a large number of independent brokers on a non-exclusive basis and cannot rely on their commitment to the Fairfax Group's insurance and reinsurance products. Moreover, in some markets the Fairfax Group operates pursuant to "open market" arrangements in which they have no formal relationships with brokers who place the Fairfax Group's risk in these markets. The profitability of the Fairfax Group depends, in part, on the marketing efforts of independent brokers and the Fairfax Group's ability to offer insurance products and maintain financial ratings that meet the requirements and preferences of such brokers and their policyholders.

Because the majority of the Fairfax Group's brokers are independent, the Fairfax Group has only limited ability to exercise control over them. In the event that an independent broker to whom the Fairfax Group has granted binding authority exceeds its authority by binding the Fairfax Group on a risk which does not comply with the respective underwriting guidelines, the Fairfax Group may be at risk for that policy until it receives the application and effects a cancellation. Although to date the Fairfax Group has not experienced a material loss from improper use of binding authority of its brokers, any improper use of such authority may result in losses that could have a material adverse effect on the Fairfax Group's business, results of operations and financial condition.

If the value of the Fairfax Group's goodwill and indefinite-lived intangible assets is impaired the Fairfax Group would be required to write down the value of such assets.

A portion of the Fairfax Group's assets are comprised of goodwill and indefinite-lived intangible assets which have arisen principally from various acquisitions made by Fairfax or its operating subsidiaries. The Fairfax Group tests the carrying value of goodwill and indefinite-lived intangible assets for impairment at least annually or more often if events or circumstances indicate there may be an impairment. Should it be identified that the value of goodwill and indefinite-lived intangible assets is impaired, the Fairfax Group would be required to write down the value of such assets to their fair value. Continued profitability of the Fairfax Group's acquired businesses is a key driver for there to be no impairment in the carrying value of the Fairfax Group's goodwill and indefinite-lived intangible assets.

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The failure to realize deferred income tax assets could lead to a reduction or tax authorities may take differing positions from the Fairfax Group, either of which could adversely affect the Fairfax Group's results of operations.

Realization of deferred income tax assets is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and temporary differences exist. Failure to achieve projected levels of profitability could lead to a reduction in the Fairfax Group's deferred income tax asset if it is no longer probable that the amount of the asset will be realized.

The Fairfax Group is subject to income taxes in Canada, the United States and many foreign jurisdictions where it operates, and its determination of tax liability is subject to review by applicable domestic and foreign tax authorities. While the Fairfax Group believes its tax positions to be reasonable, where its interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Assessments and other surcharges for guaranty funds and second-injury funds and other mandatory pooling arrangements may reduce the profitability of the Fairfax Group's insurance subsidiaries.

Virtually all U.S. states require insurers licensed to do business in their state to bear a portion of the loss suffered by some insureds as the result of impaired or insolvent insurance companies. Many states also have laws that establish second-injury funds to provide compensation to injured employees for aggravation of a prior condition or injury, which are funded by either assessments based on paid losses or premium surcharge mechanisms. In addition, as a condition to the ability to conduct business in various jurisdictions, the Fairfax Group's insurance subsidiaries are required to participate in mandatory property and casualty shared market mechanisms or pooling arrangements, which provide various types of insurance coverage to individuals or other entities that otherwise are unable to purchase that coverage from private insurers. The effect of these assessments and mandatory shared-market mechanisms or changes in them could reduce the profitability of the Fairfax Group's U.S. insurance subsidiaries in any given period or limit their ability to grow their business. Similarly, the Fairfax Group's Canadian insurance subsidiaries contribute to mandatory guaranty funds that protect insureds in the event of a Canadian property and casualty insurer becoming insolvent.

It may be difficult to effect service of process or enforce judgments against Fairfax or its officers and directors.

Fairfax is incorporated pursuant to the laws of Canada. In addition, certain of its directors and officers reside outside the United States, and all or a substantial portion of Fairfax's assets and the assets of its directors and officers are located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon Fairfax or those persons, or to recover against Fairfax or those persons on the judgments of U.S. courts, including judgments predicated upon civil liability provisions of the U.S. federal securities laws.

Fairfax has been advised by Swiss counsel that there is doubt as to whether Swiss courts would enforce (i) judgments of U.S. courts obtained in actions against Allied World or its directors and officers predicated upon the civil liability provisions of the U.S. federal securities laws or (ii) original actions brought in Switzerland against Allied World or its directors and officers predicated solely upon U.S. federal securities laws. Further, Fairfax has been advised by Swiss counsel that there is no treaty in effect between the United States and Switzerland providing for the enforcement of judgments of U.S. courts and there are grounds upon which Swiss courts may not enforce such judgments. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Swiss courts as contrary to Swiss public policy.

Risks related to the Transactions

If all conditions are not satisfied or, to the extent permitted by law, waived, the Transactions may not proceed.

The completion of the Offer, and therefore the Merger, is subject to the satisfaction or waiver of a number of conditions as set out in the Merger Agreement. There can be no assurance as to when these conditions will be satisfied or waived, if at all, or that other events will not intervene to delay or result in the failure to complete the Transactions.

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Fairfax and Allied World have made various filings and submissions and are pursuing all required consents, orders and approvals in accordance with the Merger Agreement. No assurance can be given, however, that the required consents, orders and approvals will be obtained or that the required conditions to the completion of the Transactions will be satisfied. Even if all such consents, orders and approvals are obtained and such conditions are satisfied, no assurance can be given as to the terms, conditions and timing of such consents, orders and approvals. For example, these consents, orders and approvals may impose conditions on or require divestitures relating to the divisions, operations or assets of Fairfax or Allied World or may impose requirements, limitations or costs or place restrictions on the conduct of Fairfax's or Allied World's business, and if such consents, orders and approvals require an extended period of time to be obtained, such extended period of time could increase the chance that an adverse event occurs with respect to Fairfax or Allied World. Such extended period of time also may increase the chance that other adverse effects with respect to Fairfax or Allied World could occur, such as the loss of key personnel. As a result of these conditions, Fairfax and Allied World cannot provide assurance that the Offer and/or the Merger will be completed on the terms or timeline currently contemplated, or at all. For more information, see "The Offer Conditions to the Offer."

The Fairfax Group may not realize all of the anticipated benefits of the Transactions.

Fairfax believes that the Transactions will provide benefits to the Fairfax Group as described elsewhere in this prospectus. However, there is a risk that some or all of the expected benefits of the Transactions may fail to materialize, or may not occur within the time periods anticipated. The realization of such benefits may be affected by a number of factors, including regulatory considerations and decisions, many of which are beyond the control of Fairfax and Allied World. The past financial performance of each of Fairfax and Allied World may not be indicative of their future financial performance. The diversion of management's attention and any delays or difficulties encountered in connection with the Transactions and the coordination of the two companies' operations could have an adverse effect on the business, financial results, financial condition or the price of Fairfax's shares following the Transactions. The coordination process may also result in additional and unforeseen expenses. Failure to realize all of the anticipated benefits of the Transactions could have a material adverse effect on the Fairfax Group's business, financial condition and results of operations.

There will be substantial transaction costs incurred in connection with the Transactions.

Fairfax and Allied World have incurred and expect to incur significant transaction fees and other costs associated with completing the Transactions. These fees and costs are substantial and include financial advisory, legal and accounting fees and expenses. Such fees and costs may be required to be paid even if the Transactions are not completed. Furthermore, the Merger Agreement provides for certain payments upon termination of the Merger Agreement under specified circumstances. Among other things, if the Merger Agreement is terminated by Allied World or Fairfax as a result of an adverse change in the recommendation of the other party's board of directors, Allied World may be required to pay to Fairfax, or Fairfax may be required to pay to Allied World, a termination fee of \$196 million.

Fairfax and Allied World may be targets of securities class action and derivative lawsuits which could result in substantial costs and may delay or prevent the Transactions from being completed.

Securities class action lawsuits and derivative lawsuits are often brought against companies that have entered into merger agreements. Even if the lawsuits are without merit, defending against these claims can result in substantial costs and divert management time and resources. An adverse judgment could result in monetary damages, which could have a negative impact on the Fairfax Group's liquidity and financial condition. Additionally, if a plaintiff is successful in obtaining an injunction prohibiting consummation of the Transactions, then that injunction may delay or prevent the Transactions from

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being completed. Currently, neither Fairfax nor Allied World is aware of any securities class action lawsuits or derivative lawsuits being filed in connection with the Transactions.

An impairment of goodwill or other intangible assets would adversely affect the Fairfax Group's business, financial condition and results of operations.

Upon completion of the Transactions, a significant portion of the difference between the purchase price and the fair value of Allied World's net assets at that date may be recorded as goodwill. In addition, other intangible assets may be recorded as a result of the purchase price allocation. Under IFRS, goodwill and intangible assets with indefinite lives are not amortized but are tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets with a finite life are amortized on a straight-line basis over their estimated useful lives and reviewed for impairment whenever there is an indication of impairment. In particular, if the Fairfax Group's business does not develop as expected, impairment charges may be incurred in the future which could be significant and which could have an adverse effect on the Fairfax Group's business, financial condition and results of operations.

The unaudited pro forma condensed combined financial information may not be an indication of the Fairfax Group's financial condition or results of operations following the Transactions.

The unaudited *pro forma* condensed combined financial information contained in this prospectus has been prepared using the consolidated historical financial statements of Fairfax and Allied World, and is presented for illustrative purposes only and should not be considered to be an indication of the results of operations or financial condition of the Fairfax Group following the Transactions. Certain adjustments and assumptions have been made regarding the Fairfax Group after giving effect to the Transactions. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with accuracy. These assumptions may not prove to be accurate, and other factors may affect the Fairfax Group's results of operations or financial condition following the Transactions. Moreover, the *pro forma* condensed combined financial information does not reflect all costs that are expected to be incurred by the Fairfax Group in connection with the Transactions. For these and other reasons, the historical and *pro forma* condensed combined financial information included in this prospectus does not necessarily reflect the Fairfax Group's results of operations and financial condition and the actual financial condition and results of operations of the Fairfax Group following the Transactions may not be consistent with, or evident from, this *pro forma* financial information.

The projections and forecasts presented in this prospectus may not be an indication of the actual results of the Transactions or the Fairfax Group's future results.

This prospectus contains projections and forecasts prepared by Allied World's management. Fairfax does not endorse any of the forecasts, projections or estimates prepared by Allied World of the business and financial performance of Allied World that may be included in this prospectus. The prospective financial information included in this prospectus was prepared by, and is the responsibility of, Allied World's management.

None of the projections and forecasts included in this prospectus have been prepared with a view towards public disclosure or towards complying with generally accepted accounting principles and such projections and forecasts are subject to numerous uncertainties and assumptions, including in respect of industry performance, general business, economic, regulatory, market and financial conditions and other future events, as well as matters specific to Allied World's business, including revenues, the expected profitability of ongoing projects and future project awards, liquidity, the outcomes of litigation and legal proceedings and recoveries from customers for claims, all of which are difficult to predict and many of which are beyond Allied World's and Fairfax's control. Such projections and forecasts will also not be

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updated. As such, these projections and forecasts may be inaccurate and should not be relied upon as an indicator of actual past or future results.

Some of Allied World's directors and executive officers may have financial interests in the Transactions that are different from or are in addition to those of Allied World shareholders generally.

Some of Allied World's directors and executive officers may have financial interests in the Transactions that are different from, or are in addition to, those of Allied World's shareholders generally. These interests could have affected their decision to support or approve the Offer. Such interests have been included in "Interests of Allied World, FFH Switzerland and Fairfax and Their Directors and Officers Interests of Allied World's Directors and Officers in the Offer."

Risks related to the Offer

Because the market price of Fairfax shares and the exchange rate of Canadian dollars to US dollars may fluctuate, Allied World shareholders cannot be sure of the value of the Offer Consideration they will receive.

Upon completion of the Offer, each Allied World share will be converted into the right to receive cash and Fairfax shares. Fairfax is not issuing a fixed number of Fairfax shares as part of the Offer. The exchange ratio in relation to the stock portion of the Offer Consideration is not fixed and may vary significantly depending on fluctuations in the market price of Fairfax shares or in the exchange rate of Canadian dollars to US dollars. Stock price changes may result from a variety of factors, including changes in Fairfax's or Allied World's respective businesses, operations or prospects, regulatory considerations and general business, market, industry or economic conditions. The exchange ratio will not be adjusted to reflect any changes in the market value of Fairfax shares, the comparative value of the Canadian dollar and the US dollar or market value of the Allied World shares.

Allied World shareholders who do not tender their Allied World shares prior to the Expiration Time, including any extension of the Offer, will not have another opportunity to tender their Allied World shares into the Offer and may become a minority shareholder of Allied World.

Allied World shareholders who wish to tender their Allied World shares into the Offer and receive the Offer Consideration must tender their Allied World shares prior to the Expiration Time or during any Subsequent Offering Period. Upon the expiration of the Offer, including any extension thereof, Fairfax will cause FFH Switzerland to accept for exchange and will exchange all Allied World shares validly tendered and not properly withdrawn pursuant to the terms of the Offer. In addition, Fairfax will cause FFH Switzerland to accept for exchange and will exchange all Allied World shares validly tendered in any Subsequent Offering Period. However, there can be no assurance that FFH Switzerland will provide for a Subsequent Offering Period.

It is possible that Fairfax may not be able to acquire 100 percent of the outstanding Allied World shares in the Offer. Pursuant to Swiss law, Fairfax must own 90 percent or more of all outstanding Allied World shares (excluding Allied World shares held by Allied World) to implement a squeeze-out merger of the remaining outstanding Allied World shares. If the conditions to implement a squeeze-out merger under Swiss law are satisfied, Fairfax will, indirectly through Fairfax (Switzerland), initiate the Merger whereby any remaining Allied World shareholders (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them) will receive the Merger Consideration. In the event that the Offer is successful, but the squeeze-out merger is not completed, any non-tendering Allied World shareholder will be a minority shareholder of Allied World with a limited ability, if any, to influence the outcome on any matters that are or may be subject to shareholder approval, including the election of directors and the payment of dividends. Accordingly, non-tendering Allied World shareholders may not receive any consideration for such Allied World shares, and the liquidity and value of any Allied World shares that remain outstanding could be negatively affected. For a further

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discussion, see " The Offer may adversely affect the liquidity and value of non-tendered Allied World shares" and " If Fairfax initiates a squeeze-out merger under Swiss law, remaining Allied World shareholders will have their shares exchanged for the Merger Consideration" and "The Offer Effect of the Offer on the Market for Allied World Shares."

After completion of the Offer, former Allied World shareholders will own a smaller percentage of Fairfax than they currently own of Allied World.

After the completion of the Offer, former Allied World shareholders will own a smaller percentage of Fairfax than they currently own of Allied World. If all of the issued and outstanding Allied World shares are validly tendered and exchanged pursuant to the terms of the Offer (assuming an exchange ratio for the Fixed Value Stock Consideration of 0.063222, which corresponds to the closing price of Fairfax shares on the TSX as of February 10, 2017), the former Allied World shareholders, other than Allied World, will own approximately 26.2 percent of the Fairfax shares representing approximately 15.2 percent of the total voting rights, and holders of existing Fairfax shares, other than Fairfax, will own approximately 73.8 percent of the Fairfax shares representing approximately 43.0 percent of the total voting rights. As a result, former Allied World shareholders would be a minority of the Fairfax shareholders with limited ability, if any, to influence the outcome on any matters that are or may be subject to shareholder approval, including the appointment of directors, the issuance of shares or other equity securities, the payment of dividends and the acquisition or disposition of substantial assets.

The Offer may adversely affect the liquidity and value of non-tendered Allied World shares.

It is possible that Fairfax may not be able to acquire 100 percent of the outstanding Allied World shares in a timely manner, or at all. The Minimum Tender Condition for the Offer is 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World). In certain circumstances, Fairfax may elect to waive the Minimum Tender Condition down to 66²/₃ percent. Thus, at the completion of the Offer, it is possible that Fairfax may own more than 66²/₃ percent but less than 90 percent of the Allied World voting rights. Pursuant to Swiss law, Fairfax must own 90 percent or more of all outstanding Allied World shares (excluding Allied World shares held by Allied World) to implement a squeeze-out merger of the remaining outstanding Allied World shares. In the event that the Offer is successful, but not all of the Allied World shares are tendered in the Offer, the number of shareholders and the number of Allied World shares held by individual holders will be greatly reduced. In these circumstances, the liquidity of, and market for, those remaining publicly held Allied World shares could be adversely affected by the lack of an active trading market and lack of analyst coverage.

The Allied World shares are currently listed on the NYSE. Depending upon the number of Allied World shares purchased in the Offer, the Allied World shares may no longer meet the requirements for continued listing and may be delisted from the NYSE. Moreover, to the extent permitted under applicable law and stock exchange regulations, as soon as practicable following completion of the Offer, Fairfax intends to cause the delisting of the Allied World shares from the NYSE and, if possible, terminate the registration of Allied World shares and Allied World's reporting obligations under the Exchange Act. If the Allied World shares are delisted, the liquidity of, and market for, those remaining publicly held Allied World shares could be adversely affected by the lack of an active trading market and lack of analyst coverage. Additionally, deregistration would substantially reduce the information required to be furnished by Allied World to its shareholders and to the SEC and would make certain provisions of the Exchange Act no longer applicable to Allied World.

It is possible that the Allied World shares could be traded in over-the-counter markets and that price quotations would be reported by other sources. The extent of the public market for the Allied World shares and the availability of market quotations would depend upon the number of holders and/or the aggregate market value of the Allied World shares remaining at such time, the interest in maintaining a market in the Allied World shares on the part of securities firms and the possible

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termination of registration of Allied World shares and Allied World's reporting obligations under the Exchange Act. If such registration is terminated, Allied World would cease filing periodic reports with the SEC, which could further impact the value of the Allied World shares. To the extent the availability of such continued listings or quotations depends on steps taken by Fairfax or by Allied World, Fairfax or Allied World may or may not take such steps. Therefore, you should not rely on any such listing or quotation being available following completion of the Offer.

If Fairfax initiates a squeeze-out merger under Swiss law, remaining Allied World shareholders will have their shares exchanged for the Merger Consideration.

If, following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate the Merger whereby any remaining Allied World shareholders (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them) will receive the Merger Consideration. If there is a delay in effecting the Merger, the liquidity and value of any remaining Allied World shares may be reduced. Upon the completion of the Merger, Allied World will cease to exist and Allied World shares will be cancelled. The consideration payable (in cash or otherwise) for each Allied World share (except for any Allied World shares directly or indirectly held by Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation) cancelled in the Merger is governed by Article 8 paragraph 2 of the Swiss Merger Act. However, in no event will Allied World shareholders receive any shares of the surviving entity following the Merger. There can be no assurance whether or when the Merger will occur, or that the consideration offered in the Merger, which will be the same as the Offer Consideration, will be considered adequate (in form or value) as contemplated by the Swiss Merger Act.

Allied World shareholders may decide to sell their Allied World shares and/or Fairfax shares, which could cause a decline in their market prices.

Some Allied World shareholders may decide they do not want to own shares of a company that has its primary listing outside the United States. This could result in the sale of Allied World shares prior to the completion of the Offer or the Merger or the sale of Fairfax shares received in the Offer or the Merger after the completion of the Offer or the Merger, as the case may be. These sales, or the prospects of such sales in the future, could adversely affect the market price for Allied World shares, and the ability to sell Allied World shares in the market, before the Offer is completed, as well as Fairfax shares before and after the Offer or Merger is completed. This could, in turn, adversely affect the dollar value of the Fairfax shares that Allied World shareholders will receive upon completion of the Offer or the Merger.

There will be material differences between your current rights as a holder of Allied World shares and the rights you can expect as a holder of Fairfax shares.

Upon completion of the Transactions, Allied World shareholders will no longer be shareholders of Allied World, a corporation incorporated under the laws of Switzerland, but will be shareholders of Fairfax, a corporation incorporated under the laws of Canada. There will be material differences between the current rights of Allied World shareholders and the rights you can expect to have as a holder of Fairfax shares. For a more detailed discussion of the differences in the rights of Allied World shareholders and Fairfax shareholders, see "Comparison of Shareholders' Rights."

Furthermore, Fairfax is a foreign private issuer under the rules and regulations of the SEC. As a result, Fairfax is exempt from a number of rules under the Exchange Act and is permitted to file

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different, and in many instances less comprehensive, information with the SEC, and to file such information less frequently than Allied World is currently required to file. For example, Fairfax would not be required to furnish quarterly reports on Form 10-Q, proxy statements pursuant to Sections 14(a) or 14(c) of the Exchange Act or reports on "insider" trading pursuant to Section 16 of the Exchange Act, nor will the "short swing" profit recovery provisions of Section 16(b) of the Exchange Act be applicable. Accordingly, after the Transactions, if you continue to hold Fairfax shares you will receive less information about Fairfax than you currently receive about Allied World and be afforded less protection under the US federal securities laws than you are currently afforded. In addition, as a TSX listed company, there may be some differences in the corporate governance practices adopted by Fairfax compared with those of a NYSE listed company, like Allied World, including the application of different tests for the independence of board members.

The U.S. federal income tax consequences to U.S. Holders of the Transactions are not certain.

Provided that following the completion of the Transactions the value of the Fairfax shares constitutes at least 40% of the total value of the consideration received by Allied World shareholders, Allied World and Fairfax intend that the Transactions will qualify as a Reorganization. As described more fully below in "Material Tax Consequences Material U.S. Federal Income Tax Considerations U.S. Federal Income Tax Consequences of the Transactions," if Fairfax makes a Cash Election in an amount sufficient to cause the stock component of the Offer Consideration to constitute less than 40% of the aggregate fair market value of the Offer Consideration, the Transactions may not qualify as a Reorganization. Whether the Transactions qualify as a Reorganization depends on the application of complex U.S. federal income tax laws and certain facts which cannot be determined until after the Transactions are completed. If the Transactions fail to qualify as a Reorganization, the exchange of Allied World shares by a U.S. Holder (as defined in "Material Tax Consequences Material U.S. Federal Income Tax Consequences") for the Offer Consideration will be treated as a taxable exchange for U.S. federal income tax purposes.

For more information on the U.S. federal income tax consequences of the Offer, see "Material Tax Consequences Material U.S. Federal Income Tax Considerations." You should consult your own tax advisor on the tax consequences to you of tendering your Allied World shares in the Offer.

Upon completion of the Transactions, Allied World shareholders will become Fairfax shareholders, and the market price for Fairfax shares may be affected by factors different from those that historically have affected Allied World.

Upon completion of the Transactions, Allied World shareholders will become Fairfax shareholders. Fairfax's businesses differ from those of Allied World, and accordingly, the results of operations of Fairfax will be affected by some factors that are different from those currently affecting the results of operations of Allied World. For a discussion of the businesses of Fairfax and Allied World and of some important factors to consider in connection with those businesses, see "Business of Fairfax," "Business of Allied World," "Risk Factors" and the documents incorporated by reference in this prospectus and referred to in "Where You Can Find Additional Information."

The market value of Fairfax shares may be adversely affected by fluctuations in the exchange rate between the US dollar and the Canadian dollar.

Fluctuations in the exchange rate between the US dollar and the Canadian dollar will affect the market value of Fairfax shares when expressed in US dollars. If the relative value of the Canadian dollar to the US dollar declines, the US dollar equivalent of the Canadian dollar price of Fairfax shares traded on the TSX will also decline.

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PRESENTATION OF CERTAIN FINANCIAL AND OTHER INFORMATION

Allied World Financial Information

Allied World's consolidated financial information for the nine months ended September 30, 2016 has been derived from its quarterly report filed on Form 10-Q dated October 31, 2016, incorporated by reference in this prospectus. Allied World's consolidated financial information for the years ended December 31, 2015, 2014 and 2013 has been derived from its annual report filed on Form 10-K dated February 22, 2016, also incorporated by reference in this prospectus. All disclosures of dollar amounts, except share data and per share amounts, are presented in millions of US dollars. Allied World's consolidated financial statements, incorporated by reference herein, are prepared in accordance with US GAAP.

As a subsidiary of Fairfax, the accounting policies that will be applied by Allied World will be consistent with those applied by Fairfax. In addition, for the purposes of the consolidated financial information prepared for Fairfax, Allied World will be consolidated as a subsidiary of Fairfax in accordance with Fairfax's accounting policies under IFRS. Therefore, Allied World's historical financial information may not be a reliable indicator of future results.

Accounting Principles

In accordance with Canadian law, the consolidated financial statements of Fairfax have been prepared in accordance with IFRS.

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies. The areas that require a high level of judgment or areas of judgment and estimation that are significant to Fairfax are disclosed in the notes accompanying its annual consolidated financial statements.

Under IFRS, the acquisition of Allied World will be accounted for using the acquisition method. Fairfax is the accounting and legal acquiror. In Fairfax's consolidated financial statements, the assets, liabilities and contingent liabilities of Allied World will initially be recognized at fair value, with limited exceptions; the excess of the cost of the Transactions over the net fair value of the assets, liabilities and contingent liabilities recognized will be recorded as goodwill.

Reconciliation of Allied World Historic Financial Information from US GAAP to IFRS

This prospectus contains unaudited *pro forma* condensed combined financial information that has been adjusted to reflect the effect of the Transactions on the consolidated balance sheet of Fairfax as at September 30, 2016 as if the Transactions had occurred on that date and to reflect the effect of the Transactions on the consolidated income statements of Fairfax for the year ended December 31, 2015 and nine months ended September 30, 2016 as if the Transactions had occurred on January 1, 2015.

The unaudited *pro forma* condensed combined financial information is presented for information purposes only and reflects estimates and assumptions made by Fairfax's management that it considers reasonable. It does not purport to represent what Fairfax's actual results of operations or financial condition would have been had the Transactions occurred on the date indicated, nor is it necessarily indicative of future results of operations or financial condition. In addition, the unaudited *pro forma* condensed combined financial information does not reflect the effect of any cost or revenue synergies associated with combining Fairfax and Allied World. For more information see "Unaudited *Pro Forma* Condensed Combined Financial Information."

For purposes of the unaudited *pro forma* condensed combined financial information, the historical consolidated financial information of Allied World for the nine months ended September 30, 2016 and for the year ended December 31, 2015 has been reconciled to Fairfax's IFRS accounting policies.

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Non-IFRS and Non-US GAAP Financial Measures

This prospectus contains some financial measures which are not within the scope of IFRS or US GAAP and which are used by Fairfax and Allied World, respectively, to assess the financial performance of their businesses. These measures include the loss ratio, expense ratio, commission expense ratio, accident year combined ratio, average annual return on average equity, annual benefit (cost) of float and ratio of net premiums written to statutory surplus (or total equity) for Fairfax and operating income, operating income per share, diluted book value per share, annualized return on average equity, annualized return on average tangible shareholders' equity and tangible shareholders' equity for Allied World and are included because Fairfax and Allied World believe that they are important supplemental measures of operating performance. These are not measures of operating performance derived in accordance with either IFRS or US GAAP and should not be considered a substitute to Fairfax's or Allied World's historical financial results based on IFRS or US GAAP, respectively. In addition, these measures are not intended to be an indication of either Fairfax's or Allied World's ability to fund its, or, following the completion of the Transactions, the Fairfax Group's, cash requirements. Consideration should be given to the types of events and transactions that are excluded from the calculation of these non-IFRS and non-US GAAP measures. These non-IFRS and non-US GAAP measures are not uniformly defined by all companies and therefore comparability may be limited.

Fairfax

Fairfax analyzes the underlying insurance, reinsurance and runoff operations and the financial position of the Fairfax Group in various ways. Certain of these measures are non-IFRS measures that do not have a prescribed meaning within IFRS.

The combined ratio is a traditional measure of underwriting results of property and casualty companies and is calculated by Fairfax as the sum of the loss ratio (claims losses and loss adjustment expenses expressed as a percentage of net premiums earned) and the expense ratio (commissions, premium acquisition costs and other underwriting expenses expressed as a percentage of net premiums earned). The loss ratio and expense ratio are considered to be non-IFRS measures. Other non-IFRS measures used by Fairfax include the commission expense ratio (commissions expressed as a percentage of net premiums earned) and the accident year combined ratio (calculated in the same manner as the combined ratio but excluding net favorable or adverse development of reserves established for claims that occurred in previous accident years). Fairfax also uses average annual return on average equity, a non-IFRS measure, derived from segment balance sheets and segment operating results. It is calculated for a reporting segment as the cumulative net earnings for a specified period of time expressed as a percentage of average equity over the same period.

Fairfax's annual benefit (cost) of float is also a non-IFRS measure. Float is calculated as the sum of loss reserves, including loss adjustment expense reserves, unearned premium reserves and other insurance contract liabilities, less insurance contract receivables, recoverable from reinsurers and deferred premium acquisition costs. The annual benefit (cost) of float is calculated by dividing the underwriting profit (loss) by the average float in that year. Float arises as an insurance or reinsurance business receives premiums in advance of the payment of claims.

Fairfax also uses the ratio of net premiums written to statutory surplus (or total equity) as a measure of capital adequacy in the property and casualty industry, which is also a non-IFRS measure.

Allied World

In presenting Allied World's results, its management uses certain non-GAAP financial measures, as such term is defined in Item 10(e) of Regulation S-K promulgated by the SEC. Allied World's management believes that these non-GAAP measures, which may be defined differently by other

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companies, better explain Allied World's results of operations in a manner that allows for a more complete understanding of the underlying trends in Allied World's business. However, these measures should not be viewed as a substitute for those determined in accordance with US GAAP.

Operating income & operating income per share

Operating income is an internal performance measure used in the management of Allied World's operations and represents after-tax operational results excluding, as applicable, net realized investment gains or losses, net foreign exchange gain or loss and other non-recurring items. Allied World excludes net realized investment gains or losses, net foreign exchange gain or loss and other non-recurring items from its calculation of operating income because these amounts are heavily influenced by and fluctuate in part according to the availability of market opportunities and other factors. In addition to presenting net income determined in accordance with US GAAP, Allied World believes that showing operating income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze Allied World's results of operations and underlying business performance. Operating income should not be viewed as a substitute for US GAAP net income. The following is a reconciliation of operating income to its most closely related US GAAP measure, net income.

	Nine Months Ended September 30,		Year Ended December 31,		
	2016	2015	2015	2014	2013
	(\$ in millions, except per share data)				
Net income	\$ 296.1	\$ 82.2	83.9	490.3	418.0
Add after tax effect of:					
Net realized investment (gains) losses	(104.0)	88.8	127.6	(89.0)	(59.5)
Foreign exchange (gain) loss	(4.9)	10.4	11.3	1.0	8.0
Income tax expense (benefit) ⁽¹⁾	9.7	(12.4)	(10.8)	12.8	(2.4)
Operating income	\$ 196.9	\$ 169.0	212.0	415.1	364.1
Basic per share data:					
Net income	\$ 3.34	\$ 0.88	0.91	5.03	4.08
Add after tax effect of:					
Net realized investment (gains) losses	(1.17)	0.95	1.38	(0.91)	(0.58)
Foreign exchange loss	(0.06)	0.11	0.12	0.01	0.08
Income tax expense (benefit) ⁽¹⁾	0.11	(0.13)	(0.12)	0.13	(0.02)
Operating income	\$ 2.22	\$ 1.81	\$ 2.29	\$ 4.26	\$ 3.56
Diluted per share data:					
Net income	\$ 3.29	\$ 0.87	\$ 0.89	\$ 4.92	\$ 3.98
Add after tax effect of:					
Net realized investment (gains) losses	(1.15)	0.94	1.36	(0.89)	(0.57)
Foreign exchange (gain) loss	(0.05)	0.11	0.12	0.01	0.08
Income tax expense (benefit) ⁽¹⁾	0.11	(0.13)	(0.12)	0.13	(0.02)
Operating income	\$ 2.19	\$ 1.79	\$ 2.25	\$ 4.17	\$ 3.47

(1) Represents the tax expense or benefit associated with the specific country to which the pre-tax adjustment related.

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Allied World's management uses tangible shareholders' equity, which is total shareholders' equity excluding goodwill and intangible assets, because it represents a more liquid measure of Allied World's net assets than total shareholders' equity. Allied World's management also uses diluted book value per share because it takes into account the effect of dilutive securities; therefore, Allied World believes it is an important measure of calculating shareholder returns.

	As of December 31,		
	2015	2014	2013
	(\$ in millions, except share and per share data)		
Price per share at period end	\$ 37.19	\$ 37.92	\$ 37.60
Total shareholders' equity	\$ 3,532.5	\$ 3,778.3	\$ 3,519.8
Deduct:			
Goodwill	388.1	278.3	268.4
Intangible Assets	116.6	46.3	48.8
Total tangible shareholders' equity	\$ 3,027.8	\$ 3,453.7	\$ 3,202.6
Basic common shares outstanding	90,959,635	96,195,482	100,253,646
Add:			
Unvested restricted share units	819,309	502,506	143,697
Performance based equity awards	591,683	616,641	804,519
Employee share purchase plan	53,514	42,176	55,596
Dilutive options outstanding	1,968,607	2,426,674	2,928,312
Weighted average exercise price per share	\$ 16.87	\$ 16.41	\$ 16.07
Deduct:			
Options bought back via treasury method	(892,993)	(1,050,151)	(1,251,687)
Common shares and common share equivalents outstanding	93,499,755	98,733,328	102,934,083
Basic book value per common share	\$ 38.84	\$ 39.28	\$ 35.11
Diluted book value per common share	\$ 37.78	\$ 38.27	\$ 34.20
Basic tangible book value per common share	\$ 33.29	\$ 35.90	\$ 31.94
Diluted tangible book value per common share	\$ 32.38	\$ 34.98	\$ 31.11

Table of Contents***Tangible shareholders' equity and diluted book value per share as of September 30, 2016 and 2015***

Allied World's management uses tangible shareholders' equity, which is total shareholders' equity excluding goodwill and intangible assets, because it represents a more liquid measure of Allied World's net assets than total shareholders' equity. Allied World's management also uses diluted book value per share because it takes into account the effect of dilutive securities; therefore, Allied World believes it is an important measure of calculating shareholder returns.

	As of September 30,	
	2016	2015
	(\$ in millions, except share and per share data)	
Price per share at period end	\$ 40.42	\$ 38.17
Total shareholders' equity	\$ 3,615.9	\$ 3,555.4
Deduct:		
Goodwill	392.8	354.8
Intangible assets	111.1	130.6
 Total tangible shareholders' equity	 \$ 3,112.0	 \$ 3,070.0
 Basic common shares outstanding	 86,974,284	 90,911,888
Add:		
Unvested restricted stock units	1,194,576	823,635
Performance-based equity awards	588,537	591,683
Employee share purchase plan	38,404	32,515
Dilutive stock options outstanding	1,652,847	2,020,354
Weighted average exercise price per share	\$ 17.14	\$ 16.70
Deduct:		
Options bought back via treasury method	(700,903)	(883,846)
 Common shares and common share equivalents outstanding	 89,747,745	 93,496,229
Basic book value per common share	\$ 41.57	\$ 39.11
Diluted book value per common share	40.29	38.03
Basic tangible book value per common share	35.78	33.77
Diluted tangible book value per common share	34.67	32.84

Annualized return on average shareholders' equity for the year ended December 31, 2015, 2014 and 2013

Annualized return on average shareholders' equity is calculated using average shareholders' equity, adjusted for other comprehensive income or loss. Annualized return on average tangible shareholders' equity is calculated using average shareholders' equity, adjusted for other comprehensive income or loss, less goodwill and intangible assets. Allied World presents annualized return on average shareholders' equity and annualized return on average tangible shareholders' equity as measures that are commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of its financial information.

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Annualized operating return on average shareholders' equity and average tangible shareholders' equity is calculated using operating income instead of net income.

	Year Ended December 31,		
	2015	2014	2013
	(\$ in millions)		
Opening shareholders' equity	\$ 3,778.3	\$ 3,519.8	\$ 3,326.3
Add: accumulated other comprehensive loss			
Adjusted opening shareholders' equity	\$ 3,778.3	\$ 3,519.8	\$ 3,326.3
Deduct opening:			
Goodwill	278.3	268.4	268.4
Intangible assets	46.3	48.8	51.4
Adjusted opening tangible shareholders' equity	\$ 3,453.7	\$ 3,202.6	\$ 3,006.5
Closing shareholders' equity	\$ 3,532.5	\$ 3,778.3	\$ 3,519.8
Add: accumulated other comprehensive loss	9.3		
Adjusted closing shareholders' equity	\$ 3,541.8	\$ 3,778.3	\$ 3,519.8
Deduct closing:			
Goodwill	388.1	278.3	268.4
Intangible assets	116.6	46.3	48.8
Adjusted closing tangible shareholders' equity	\$ 3,037.1	\$ 3,453.7	\$ 3,202.6
Average shareholders' equity	\$ 3,660.1	\$ 3,649.1	\$ 3,423.1
Average tangible shareholders' equity	\$ 3,245.4	\$ 3,328.2	\$ 3,104.6
Net income available to shareholders	\$ 83.9	\$ 490.3	\$ 418.0
Annualized return on average shareholders' equity net income available to shareholders	2.3%	13.4%	12.2%
Annualized return on average tangible shareholders' equity net income available to shareholders	2.6%	14.7%	13.5%
Operating income available to shareholders	\$ 212.0	\$ 415.1	\$ 364.0
Annualized return on average shareholders' equity operating income available to shareholders	5.8%	11.4%	10.6%
Annualized return on average tangible shareholders' equity operating income available to shareholders	6.5%	12.5%	11.7%
Annualized return on average shareholders' equity and average tangible shareholders' equity for the nine months ended September 30, 2016 and 2015			

Annualized return on average shareholders' equity is calculated using average shareholders' equity, adjusted for other comprehensive income or loss. Annualized return on average tangible shareholders' equity is calculated using average shareholders' equity, adjusted for other comprehensive income or loss, less goodwill and intangible assets. Allied World presents annualized return on average shareholders' equity and annualized return on average tangible shareholders' equity as measures that are commonly recognized as a standard of performance by investors, analysts, rating agencies and other users of its financial information.

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Annualized operating return on average shareholders' equity and average tangible shareholders' equity is calculated using operating income instead of net income.

	Nine Months Ended September 30,	
	2016	2015
	(\$ in millions except percentage data)	
Opening shareholders' equity	\$ 3,532.5	\$ 3,778.3
Add: accumulated other comprehensive loss		9.3
Adjusted opening shareholders' equity	\$ 3,541.8	\$ 3,778.3
Deduct opening:		
Goodwill	388.1	278.3
Intangible assets	116.6	46.3
Adjusted opening tangible shareholders' equity	\$ 3,037.1	\$ 3,453.7
Closing shareholders' equity	\$ 3,615.9	\$ 3,555.4
Deduct: accumulated other comprehensive loss		5.4
Adjusted closing shareholders' equity	\$ 3,621.3	\$ 3,559.7
Deduct closing:		
Goodwill	392.8	354.8
Intangible assets	111.1	130.6
Adjusted closing tangible shareholders' equity	\$ 3,117.4	\$ 3,074.3
Average shareholders' equity	\$ 3,581.6	\$ 3,669.0
Average tangible shareholders' equity	\$ 3,077.3	\$ 3,264.0
Net income (loss) available to shareholders	\$ 296.1	\$ 82.2
Annualized net income (loss) available to shareholders	\$ 394.8	\$ 109.6
Annualized return on average shareholders' equity net income (loss) available to shareholders	11.0%	3.0%
Annualized return on average tangible shareholders' equity net income (loss) available to shareholders	12.8%	3.4%
Operating income available to shareholders	\$ 196.9	\$ 169.0
Annualized operating income available to shareholders	\$ 262.6	\$ 225.3
Annualized return on average shareholders' equity operating income available to shareholders	7.3%	6.1%
Annualized return on average tangible shareholders' equity operating income available to shareholders	8.5%	6.9%

Rounding

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The financial information and certain other information presented in a number of tables in this prospectus has been rounded to the nearest whole number or the nearest decimal place, as applicable. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this prospectus reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained herein may constitute forward-looking information or forward-looking statements within the meaning of applicable Canadian and United States securities laws, respectively. These include statements using the words "believe", "expect", "seek", "target", "outlook", "may", "will", "should", "could", "estimate", "continue", "expect", "intend", "plan", "predict", "potential", "project" and "anticipate", and similar statements which do not describe the present or provide information about the past. Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Fairfax, Allied World or the Fairfax Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements reflect the current views of management of Fairfax and Allied World and are subject to a number of risks and uncertainties. These statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, corporate approvals, regulatory approvals, operational factors and other factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

All forward-looking statements attributable to Fairfax and Allied World, or persons acting on their behalf, are expressly qualified in their entirety by the cautionary statements set out in this paragraph. Undue reliance should not be placed on such statements, which speak only as of the date they are made. Such factors include, but are not limited to: the failure to complete the Offer and/or the Merger or to complete them on the currently proposed terms; a reduction in net earnings if loss reserves of the Fairfax Group are insufficient; underwriting losses on the risks the Fairfax Group insures that are higher or lower than expected; the occurrence of catastrophic events with a frequency or severity exceeding Fairfax's or Allied World's estimates; changes in market variables, including interest rates, foreign exchange rates, equity prices and credit spreads, which could negatively affect the Fairfax Group's investment portfolio; the cycles of the insurance market and general economic conditions, which can substantially influence the Fairfax Group and its competitors' premium rates and capacity to write new business; insufficient reserves for asbestos, environmental and other latent claims; exposure to credit risk in the event the Fairfax Group's reinsurers fail to make payments to the Fairfax Group under its reinsurance arrangements; exposure to credit risk in the event the Fairfax Group's insureds, insurance producers or reinsurance intermediaries fail to remit premiums that are owed to the Fairfax Group or failure by the Fairfax Group's insureds to reimburse the Fairfax Group for deductibles that are paid by the Fairfax Group on their behalf; the inability of the Fairfax Group to maintain its long term debt ratings, the inability of the Fairfax Group to maintain financial or claims-paying ability ratings and the impact of a downgrade of such ratings on derivative transactions that the Fairfax Group have entered into; risks associated with implementing the Fairfax Group's business strategies; the timing of claims payments being sooner or the receipt of reinsurance recoverables being later than anticipated; risks associated with the use of derivative instruments; the failure of hedging methods to achieve their desired risk management objective; a decrease in the level of demand for insurance or reinsurance products, or increased competition in the insurance industry; the impact of emerging claim and coverage issues or the failure of any of the loss limitation methods that the Fairfax Group employs; Fairfax's or Allied World's inability to access cash of its respective subsidiaries; the Fairfax Group's inability to obtain required levels of capital on favorable terms, if at all; loss of key employees; the Fairfax Group's inability to obtain reinsurance coverage in sufficient amounts, at reasonable prices or on terms that adequately protect it; the passage of legislation subjecting the Fairfax Group's businesses to additional supervision or regulation, including additional tax regulation, in the United States, Canada or other jurisdictions in which it operates; risks associated with government investigations of, and litigation and negative publicity related to, insurance industry practice or any other conduct; risks associated with political and other developments in foreign jurisdictions in which the Fairfax Group operates; risks associated with legal or regulatory proceedings or significant litigation; failures or security breaches of the Fairfax Group's computer and data processing systems; the influence

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exercisable by the Fairfax Group's significant shareholder; adverse fluctuations in foreign currency exchange rates; dependence on independent brokers over whom the Fairfax Group exercises little control; an impairment in the carrying value of the Fairfax Group's goodwill and indefinite-lived intangible assets; the Fairfax Group's failure to realize deferred income tax assets; technological or other changes which adversely impacts demand, or the premiums payable, for the insurance coverages the Fairfax Group offers; assessments and shared market mechanisms which may adversely affect the Fairfax Group's U.S. insurance subsidiaries; the Fairfax Group's ability to implement and achieve its business strategies successfully; and other factors that are set out in "Risk Factors" and in the documents incorporated by reference in this prospectus, including those in the section "Issues and Risks" in Fairfax's Annual Report on Form 40-F for the year ended December 31, 2015, Allied World's Annual Report on Form 10-K for the year ended December 31, 2015 and Allied World's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016. Additional factors could cause actual results to differ materially from those in the forward-looking statements. See "Risk Factors." Subject to compliance with applicable laws and regulations of the relevant stock exchanges, Fairfax disclaims any intention or obligation to update or revise any forward-looking statements and undertakes no obligation to release publicly the results of any future revisions to the forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

There can be no assurance that the Offer and/or the Merger will occur or that the anticipated benefits of the Transactions will be realized. The completion of the Transactions are subject to various approvals, including competition, antitrust and insurance regulatory approvals.

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BACKGROUND TO AND REASONS FOR THE TRANSACTIONS

Background to the Transactions

The board of directors and management of Fairfax continually review its business, strategic direction, performance and prospects in the context of its industry and the competitive landscape in which it operates. As part of its ordinary course of business, it regularly discusses potential strategic alternatives, including acquisitions that could complement Fairfax's activities and allow it to achieve its strategic objectives. These key objectives include building long-term shareholder value by achieving a high compound rate of growth in book value per share over the long-term.

The board of directors and management of Allied World also regularly review and evaluate potential strategic transactions, including business combinations, as part of their ongoing oversight and management of Allied World's business and in furtherance of Allied World's goal to increase its competitive positioning within the market. In the years leading up to the present transaction, Allied World, with the assistance of its legal and financial advisors, reviewed and analyzed potential strategic transactions with several companies within the insurance and reinsurance industry, but ultimately determined that a transaction with such companies at the relevant times was not strategically attractive. During this time, Allied World also engaged in a review of potential opportunities for smaller acquisitions as well as organic growth, and executed on certain of these initiatives, including its acquisitions of the Hong Kong and Singapore operations of Royal & Sun Alliance Insurance plc in April 2015.

During July 2015, Scott A. Carmilani, the Chairman and Chief Executive Officer of Allied World, engaged in preliminary discussions with representatives from a third party ("Party 1") regarding the possibility of a strategic business combination transaction involving the two companies. During this time, Mr. Carmilani kept members of the Allied World board of directors apprised of developments in connection with the preliminary discussions with Party 1, and Allied World entered into a mutual confidentiality agreement with Party 1 and held a series of meetings and telephonic discussions to discuss structural considerations and conduct due diligence. These preliminary discussions continued through early September 2015, at which point the parties determined to cease discussions regarding a potential transaction.

On May 31, 2016, the board of directors of Allied World held a telephonic informational call with certain members of Allied World's management in attendance. Mr. Carmilani reported that he had been approached separately by a few companies in the industry regarding exploring the possibility of a strategic transaction involving Allied World. One company was Party 1. Mr. Carmilani agreed to keep the board apprised of any developments.

On June 8, 2016, the board of directors of Allied World held a telephonic informational call with certain members of Allied World's management in attendance, together with representatives of Willkie Farr & Gallagher LLP ("Willkie Farr"), Allied World's U.S. external legal counsel, during which Mr. Carmilani reported on his preliminary conversations with Party 1. During the call, Allied World's board of directors expressed its view that engaging in further discussions with Party 1 regarding the possibility of a strategic business combination may be worthwhile. During the call, Willkie Farr discussed with the board of directors of Allied World its fiduciary duties in the context of considering a potential sale, taking into account advice from Swiss counsel.

Mr. Carmilani continued preliminary discussions with Party 1 during June and July 2016 regarding a potential strategic business combination. Allied World held board update calls on June 28 and July 7, 2016 at which Mr. Carmilani provided an update to the board regarding the status of discussions among other topics that were discussed.

On July 19, 2016, the board of directors of Allied World met, together with certain members of Allied World's management. At the meeting, a representative of Baker & McKenzie, Allied World's

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Swiss external legal counsel, discussed with the board of directors of Allied World its fiduciary duties under Swiss law in the context of considering a potential sale, among other topics that were discussed.

On July 20, 2016, Mr. Carmilani had a telephonic conversation with a member of management of Party 1, during which the submission of a written indication of interest by Party 1 was discussed. On July 21, 2016, Party 1 submitted a non-binding written indication of interest (the "Offer Letter") to Allied World. The Offer Letter proposed a taxable transaction at a price of \$48.00 per share with \$500 million \$1 billion of the consideration to be paid in cash with the remainder to be paid in Party 1's stock at a fixed exchange ratio, together with other non-binding terms.

On July 24, 2016, the board of directors of Allied World met telephonically, together with certain of Allied World's management and representatives of Willkie Farr, to discuss the Offer Letter from Party 1. Mr. Carmilani provided an overview of the principal terms of the Offer Letter, including that the proposed transaction (i) valued Allied World at \$48.00 per share and involved consideration of a combination of cash and common stock of Party 1, (ii) would be structured as a fully taxable purchase of Allied World's shares for U.S. federal income tax purposes and (iii) contemplated a "no-shop" provision with matching rights, a 60-day exclusivity period and a breakup fee equal to 4% of the equity value, among other non-binding terms. The board of directors of Allied World discussed the terms of the Offer Letter and the rationale behind pursuing a possible transaction with Party 1, current market conditions and Allied World's prospects if it remained independent. Following this discussion, the board of directors of Allied World determined to meet in the upcoming weeks to further discuss the pros and cons of a strategic transaction versus remaining independent. The directors noted that they were okay with Allied World's management and advisors continuing discussions with Party 1, but that the current terms proposed by Party 1 were deficient in several regards, including the price per share offered and the lack of a "go-shop" provision, and that Allied World's management should convey that to Party 1 and seek to receive a better offer.

On August 4, 2016, Party 1 sent an initial diligence request list to Allied World.

On August 11, 2016, the board of directors of Allied World met, together with certain of Allied World's management, to further discuss the status of discussions with Party 1. Members of Allied World's management presented to the board of directors of Allied World on the macroeconomic environment, insurance industry dynamics, business updates for Allied World's operating segments, the valuation of Party 1 and an overview of Party 1's business and operations. Following this discussion and review, management shared its recommendation that Allied World continue to engage in negotiations with Party 1, as well as proceed with mutual due diligence. The board of directors of Allied World allowed management to engage in continued negotiations with Party 1, but noted again that as currently constructed, Party 1's offer was unacceptable and would need to be improved. The board of directors of Allied World also directed that, subject to entering into a customary confidentiality agreement, management proceed with exchanging due diligence materials with Party 1. The board of directors of Allied World also compared various investment banking firms as candidates to serve as Allied World's financial advisor in connection with the review of the possible transaction and discussed retaining BofA Merrill Lynch, based upon, among other things, the fact that BofA Merrill Lynch is an internationally recognized investment banking firm that has substantial experience in merger and acquisition transactions and the high-quality service that BofA Merrill Lynch provides. Later that same day, Allied World entered into a mutual confidentiality agreement with Party 1.

On August 12, 2016, Allied World and Party 1 began exchanging due diligence materials. On August 14, 2016, Allied World entered into a 42-day exclusivity agreement with Party 1 and on August 15, 2016, Party 1 shared with Allied World a presentation regarding Party 1's business and year-to-date results.

During the remainder of August until the termination of negotiations regarding a potential transaction in September 2016, the management teams of Allied World and Party 1, with the assistance

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of their respective financial, actuarial, tax and legal advisors, performed due diligence on each other through a series of meetings, telephonic discussions and a review of both public and non-public information. During this time, certain members of Allied World's management team provided updates to members of the board of directors of Allied World regarding the status of ongoing due diligence and discussions with Party 1.

On August 16, 2016, at the direction of the board of directors of Allied World, certain members of Allied World's management called representatives of BofA Merrill Lynch to ask BofA Merrill Lynch to assist Allied World in evaluating a proposed transaction. Following a preliminary review of BofA Merrill Lynch's prior and current relationships with Party 1, BofA Merrill Lynch was selected to serve as Allied World's financial advisor.

On August 18, 2016, Allied World entered into a mutual standstill agreement with Party 1, which provided for termination upon the entrance by either party into an alternative transaction, and on August 19, 2016, Allied World sent an initial due diligence request list to Party 1. Allied World and Party 1 continued to conduct due diligence (including in-person meetings) and exchange additional diligence requests until the termination of negotiations regarding a potential transaction in September 2016.

On August 23, 2016, management from Allied World and Party 1 met and discussed a presentation prepared by BofA Merrill Lynch as well as a draft term sheet that Allied World had prepared and sent to Party 1 on August 22, 2016 in response to Party 1's Offer Letter. Throughout the remainder of August 2016, management from Allied World and Party 1, as well as BofA Merrill Lynch and Party 1's financial advisor, continued to discuss and evaluate a potential business combination.

On September 3, 2016, Party 1 sent Allied World an updated term sheet, and on September 4, 2016, external counsel to Party 1 sent Willkie Farr an initial draft of a merger agreement.

On September 6, 2016, the board of directors of Allied World met, together with certain members of Allied World's management and representatives of BofA Merrill Lynch and Willkie Farr. The board of directors of Allied World reviewed with management from Allied World and representatives of BofA Merrill Lynch the status of discussions with Party 1, the due diligence process and Party 1's initial draft merger agreement. The board of directors of Allied World discussed the issues presented in Party 1's initial draft merger agreement, including the economic terms, deal protections and conditionality. Representatives from BofA Merrill Lynch reviewed financial analyses with respect to Allied World, Party 1 and a preliminary valuation analysis of Allied World and reviewed the Party 1 proposal, as well as specific terms included in the Offer Letter and draft merger agreement. Along with management, BofA Merrill Lynch reviewed with the board of directors of Allied World other companies that could potentially be interested in acquiring Allied World and the likelihood of each company effecting a transaction. After a discussion, the board of directors of Allied World instructed management to continue to engage in discussions regarding the principal terms of a potential transaction with Party 1 and to proceed with its due diligence investigation of Party 1. A representative of Willkie Farr discussed structural considerations regarding a potential transaction and other issues raised by the draft merger agreement and discussed with the board of directors of Allied World its fiduciary duties in the context of a sale transaction, taking into account the advice from Swiss counsel.

On September 9, 2016, representatives of BofA Merrill Lynch, on behalf of Allied World, submitted an updated term sheet to the financial advisor of Party 1. During the following week, management of Allied World and representatives of BofA Merrill Lynch continued to discuss and negotiate Party 1's proposal with management of Party 1 and its financial advisor.

On September 19, 2016, the board of directors of Allied World met telephonically, together with certain of Allied World's management and representatives of BofA Merrill Lynch, at which time the board of directors of Allied World was updated on the progress of negotiations with Party 1. Certain of

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Allied World's management and representatives of BofA Merrill Lynch noted that negotiations had been proceeding steadily but there were several hurdles that had yet to be overcome, including certain fundamental issues with regard to valuation considerations. Management also discussed certain structuring and tax considerations with the board of directors of Allied World. The board of directors of Allied World discussed these open issues and expressed concern that continued protracted negotiations were causing Allied World's management to expend valuable time and resources on a transaction that may never come to fruition. The board of directors of Allied World also noted that the slow pace of the transaction increased the risk of leaks and competitors potentially poaching Allied World's key employees. The pending expiration of the exclusivity agreement with Party 1 on September 25, 2016 was also discussed. After this discussion, the board of directors of Allied World directed management to send Party 1 an updated draft of the merger agreement and requested that Allied World's management and advisors continue their negotiations with Party 1 with an effort to conclude discussions quickly. The updated draft of the merger agreement was sent to Party 1 later that same day.

On September 22, 2016, after several days of negotiation, Allied World and Party 1 mutually agreed to terminate discussions regarding a potential business combination over differences in valuation and structure.

On September 28, 2016, a senior member of the deal team of BofA Merrill Lynch organized an introductory dinner meeting between V. Prem Watsa, the Chairman and Chief Executive Officer of Fairfax, and Mr. Carmilani, in Toronto, Canada. Mr. Watsa, Mr. Carmilani and a senior member of the BofA Merrill Lynch deal team discussed an overview of Allied World, general trends in the industry and market outlook.

Following the September 28, 2016 dinner, representatives of BofA Merrill Lynch had several calls with Mr. Watsa to discuss Fairfax's potential interest in Allied World. Mr. Watsa, in an effort to explore a potential business combination with Allied World, requested a meeting with Mr. Carmilani.

On October 11, 2016, Mr. Watsa and Mr. Carmilani again met for dinner, during which Mr. Watsa expressed preliminary interest in a potential business combination with Allied World and a desire for additional discussions with other members of Allied World's management. After this meeting, Mr. Carmilani conveyed Mr. Watsa's interest to the Allied World board of directors, who instructed Mr. Carmilani to engage in further dialogue with Mr. Watsa. Throughout early October, Mr. Carmilani kept members of the Allied World board of directors apprised of his preliminary discussions with Mr. Watsa.

On October 17, 2016, Fairfax retained Shearman & Sterling LLP ("Shearman") and Torys LLP ("Torys") as its U.S. and Canadian legal counsel, respectively, in connection with the potential business combination with Allied World.

On October 17, 2016, Allied World entered into a mutual confidentiality agreement with Fairfax, and on October 18, 2016, Wilkie Farr, BofA Merrill Lynch, Shearman and Torys had a telephonic organizational meeting to discuss the process and structuring of a potential transaction, including, among other things, due diligence process, potential tax issues and regulatory issues. Fairfax also sent to Allied World on October 18, 2016 a draft exclusivity agreement and term sheet, which proposed a transaction with mixed consideration of cash and stock with a portion of the cash consideration structured as a special dividend from Allied World, a 5% termination fee and a strict "no-shop" provision.

On October 19, 2016, Fairfax retained Homburger AG as its Swiss legal counsel in connection with the potential business combination with Allied World.

During the remainder of October 2016 through November 16, 2016, Mr. Carmilani, together with Allied World's financial and legal advisors, discussed with members of the board of directors of Allied

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World at varying times the status of ongoing discussions with Fairfax. In particular, Mr. Carmilani provided continuous updates to Allied World's lead independent director regarding the negotiations and key transaction terms such as price, deal structure, the inclusion of a "go-shop" provision and the termination fee, which were in turn reported to other members of the board of directors of Allied World, and engaged in individual discussions with directors from time to time regarding structuring, valuation and other issues related to the potential transaction.

On October 20, 2016, the board of directors of Allied World received background materials prepared by BofA Merrill Lynch describing Fairfax's businesses, operations and historical financial results. Allied World's management also provided to the board of directors of Allied World a draft term sheet, prepared with the assistance of BofA Merrill Lynch and its legal advisors, in response to the original term sheet delivered by Fairfax on October 18, 2016.

On October 25, 2016, certain members of Allied World's management, together with representatives from BofA Merrill Lynch, met with certain members of management of Fairfax to conduct due diligence, including a discussion and review of the strategy, business and operations, and financial results of both Allied World and Fairfax. Certain members of management of Allied World and certain members of the board of directors of Allied World also met with certain members of management of Fairfax, including Mr. Watsa, to discuss the potential transaction between Allied World and Fairfax.

On October 28, 2016, the board of directors of Allied World met, together with certain members of Allied World's management and representatives of BofA Merrill Lynch and telephonically with representatives of Willkie Farr, to review updates on the process of negotiations with Fairfax. In particular, Mr. Carmilani reviewed certain aspects of the possible transaction with Fairfax, including deal structure, consideration mix and the inclusion of a "go-shop" provision. Representatives of BofA Merrill Lynch delivered a disclosure memorandum regarding certain information concerning BofA Merrill Lynch's material relationships with Fairfax (as described in greater detail in the last paragraph in the section entitled "Opinion of Allied World's Financial Advisor"), which included that a senior member of the deal team working with Allied World had been BofA Merrill Lynch's relationship manager and a member of the coverage team for Fairfax, had worked with Fairfax on multiple actual and potential transactions and more than a decade ago had served as Executive Vice President and CFO of a subsidiary of Fairfax. The board of directors of Allied World discussed such disclosures and determined that BofA Merrill Lynch could serve as Allied World's financial advisor with respect to the potential transaction with Fairfax. Representatives of BofA Merrill Lynch then reviewed with the board of directors, among other things, certain preliminary financial analyses of Fairfax and Allied World. After a discussion regarding the status of negotiations, the board of directors of Allied World agreed that management would send a revised draft of the term sheet to Fairfax, proposing, among other things, a price of \$52.50 per share of Allied World common stock with such consideration including a \$5.00 special dividend paid by Allied World, \$5.00 in cash from Fairfax and \$42.50 in Fairfax common stock based on a volume weighted average trading price of the Fairfax shares at signing of a definitive merger agreement, provided that Fairfax was entitled to substitute up to \$10.00 of the stock portion of the consideration with cash, a 45-day "go-shop" period and a dual termination fee of 1% during the "go-shop" period and 3% thereafter.

On October 29, 2016, BofA Merrill Lynch, at the direction of Allied World, sent the updated term sheet to Fairfax reflecting the terms described above, and Mr. Watsa and Mr. Carmilani had additional discussions regarding a potential transaction. Later that day, management of Fairfax provided an update to the board of directors of Fairfax on the status of discussions with Allied World, including the proposed terms of the potential transaction. From October 29, 2016 through November 16, management of Fairfax kept members of the Fairfax board of directors apprised of developments in connection with the potential transaction with Allied World.

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Later on October 29, 2016, Fairfax sent Allied World a revised draft of the term sheet, proposing, among other things, a price of \$50.00 per share of Allied World common stock, with such consideration including a \$5.00 special dividend paid by Allied World, \$5.00 in cash from Fairfax and \$40.00 in Fairfax common stock based on a fixed exchange ratio, provided that Fairfax was entitled to substitute up to \$10.00 of the stock portion of the consideration with cash, a 30-day "go-shop" period and a dual termination fee of 3% during the "go-shop" period and 4% thereafter.

Also on October 29, 2016, the board of directors of Allied World met telephonically, together with certain members of management, representatives of Willkie Farr and representatives of BofA Merrill Lynch. Mr. Carmilani provided a further update on the status of negotiations, including describing the details of the updated proposal received from Fairfax. After a discussion regarding the updated proposal and the pros and cons of remaining independent versus consummating a potential transaction with Fairfax, Allied World's management, representatives of BofA Merrill Lynch and representatives of Willkie Farr each provided the board of directors of Allied World with their views and recommendations regarding the updated proposal and next steps regarding negotiation. After a discussion, the board of directors of Allied World agreed that Allied World's management would respond to Fairfax's latest proposal.

On October 31, 2016, following additional discussions between Mr. Watsa, other members of Fairfax management, Mr. Carmilani and representatives of BofA Merrill Lynch, BofA Merrill Lynch at the direction of Allied World sent a revised term sheet to Fairfax proposing, among other things, a price of \$50.50 per share of Allied World common stock, with such consideration including a \$5.00 special dividend paid by Allied World, \$5.00 in cash from Fairfax and \$40.50 in Fairfax shares based on a volume weighted average trading price of the Fairfax shares at signing of a definitive merger agreement, provided that Fairfax was entitled to substitute up to \$13.00 of the stock portion of the consideration with cash, a 30-day "go-shop" period and a dual termination fee of 1.5% during the "go-shop" period and 4% thereafter. During the course of the day, Mr. Watsa and other members of Fairfax management continued to discuss the terms of a potential transaction with Mr. Carmilani and representatives of BofA Merrill Lynch.

On November 1, 2016, the board of directors of Allied World met telephonically, together with certain members of Allied World's management, representatives of Willkie Farr and representatives of BofA Merrill Lynch. Mr. Carmilani provided an update on the status of discussions with Fairfax, including the term sheet and an exclusivity agreement with Fairfax. In response to questions from the board of directors of Allied World, representatives of Willkie Farr discussed the anticipated timing of a potential transaction, reviewed the draft merger agreement that Willkie Farr had prepared and reviewed the due diligence that Willkie Farr had undertaken to date with respect to the publicly available documents of Fairfax. Following this discussion, the board of directors of Allied World requested that Willkie send the draft merger agreement to Fairfax and that management and representatives of BofA Merrill Lynch continue to engage Fairfax in discussions regarding the terms of a potential transaction.

Later on November 1, 2016, Willkie Farr sent Shearman and Torms a draft merger agreement. Allied World also sent Fairfax a due diligence request list that same day, and from early to mid-November, the management teams of Allied World and Fairfax, together with their respective financial, actuarial, tax and legal advisors, performed extensive due diligence through a series of meetings, telephonic discussions and a review of both public and non-public information.

On November 3, 2016, after continued discussions between management of Allied World and representatives of BofA Merrill Lynch with management of Fairfax, Allied World entered into an exclusivity agreement with Fairfax covering the period through November 21, 2016.

On November 6, 2016, Shearman delivered a revised draft of the merger agreement to Willkie Farr. Between November 7, 2016 and November 10, 2016, representatives of Shearman and Willkie

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Farr exchanged several drafts of the merger agreement and had several telephonic discussions to discuss the same.

On November 8, 2016, representatives of Willkie Farr conducted on-site due diligence at Torys' offices in Toronto.

On November 10, 2016, the board of directors of Allied World held a telephonic update call with certain members of Allied World's management, representatives of Willkie Farr and representatives of BofA Merrill Lynch to discuss the status of negotiation of the merger agreement and material deal terms.

From November 10, 2016 through November 14, 2016, management of Fairfax and representatives of Shearman and Torys (in consultation with Homburger) continued to exchange drafts of the merger agreement and engaged in numerous calls with Allied World and representatives of BofA Merrill Lynch and Willkie Farr (in consultation with Allied World's Swiss and Canadian external legal counsel) regarding the merger agreement and the terms of the proposed transaction, including the exchange ratio, the "go-shop" provision, termination fees and terms related to deal certainty.

Between November 10, 2016 and November 14, 2016, representatives of Allied World held various discussions with rating agencies and Swiss tax authorities to notify them of the potential proposed business transaction with Fairfax.

On November 12, 2016, the board of directors of Allied World met telephonically, together with certain members of Allied World's management, representatives of Willkie Farr and representatives of BofA Merrill Lynch. At the meeting, Allied World's management updated the board of directors as to the current status of its discussions with Fairfax as well as the timing of a potential transaction, including that progress had been made toward finalizing the principal deal terms. Representatives of BofA Merrill Lynch provided a general market update as well as preliminary financial analyses of Fairfax and Allied World and discussed how the recent trading prices of Allied World's and Fairfax's respective stocks had created issues in setting an appropriate exchange ratio for the stock portion of the consideration. A detailed discussion ensued regarding how certain considerations with respect to the exchange ratio affected the overall value of the consideration to be received by Allied World shareholders in a potential transaction with Fairfax. Following this discussion, the board of directors of Allied World requested that management and representatives of BofA Merrill Lynch and Willkie Farr continue to engage Fairfax and its representatives in discussions regarding the terms of a potential transaction.

On November 14, 2016, the board of directors of Allied World met, together with certain members of Allied World's management, representatives of Willkie Farr and representatives of BofA Merrill Lynch. Management reported on the negotiations regarding the merger agreement and representatives of Willkie Farr discussed with the board of directors of Allied World the applicable legal standards and duties (taking into account the advice from Swiss counsel) in the context of considering a strategic transaction of the type being proposed. Representatives of Willkie Farr provided an overview of the proposed strategic transaction with Fairfax and reviewed a presentation detailing the key terms of the merger agreement and discussed the remaining points being negotiated. Representatives of BofA Merrill Lynch presented to the board of directors of Allied World various preliminary financial analyses of the proposed merger and reviewed selected financial terms of the proposed transaction. Representatives of BofA Merrill Lynch also delivered a general market update, a report on the relative price performance of Allied World's and Fairfax's stocks and an updated exchange ratio analysis. A discussion ensued regarding how Fairfax would fund the cash portion of the transaction and the continued difficulty in setting an exchange ratio with an appropriate premium to the current market price of Allied World' stock, after which the Allied World board of directors discussed Allied World's projections and valuation and Fairfax's projections and valuation with BofA Merrill Lynch.

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From November 14, 2016 through November 16, 2016, representatives of Willkie Farr (in consultation with Allied World's Swiss and Canadian external legal counsel) continued to work to finalize the merger agreement with representatives of Shearman (in consultation with Torys and Homburger), and certain members of Allied World's management continued to discuss the exchange ratio mechanics with representatives of BofA Merrill Lynch and to discuss and negotiate the exchange ratio mechanics with representatives of Fairfax. On November 16, 2016, Allied World informed Fairfax that due to the continued decrease of Fairfax's share price, the recent increase in Allied World's stock price and the resulting difficulty in setting an agreed exchange ratio with an appropriate premium to the current market price of Allied World's stock, Allied World currently was unable to continue pursuing a transaction with Fairfax, absent a modification to the purchase price. After further discussion, the parties elected to terminate discussions at such time and management of Fairfax advised Fairfax's board of directors, Shearman, Torys and Homburger that Fairfax had decided not to proceed with a potential transaction with Allied World at that time.

On December 3, 2016 and December 4, 2016, representatives of BofA Merrill Lynch, Mr. Carmilani and Mr. Watsa had discussions regarding the possibility of re-initiating negotiations regarding a potential transaction.

On December 6, 2016, the board of directors of Allied World held a telephonic informational call with certain members of management of Allied World to discuss general market updates, as well as the relative performance of Allied World's stock and Fairfax's stock in the prior few weeks. After additional discussion regarding the risks and benefits of reengaging with Fairfax regarding a potential transaction, the board of directors of Allied World requested that management reengage in discussions with Fairfax.

On December 8, 2016, Mr. Watsa, Mr. Carmilani and a senior representative of BofA Merrill Lynch met to discuss the possibility of restarting negotiations and the expected timeline and certain terms of a potential transaction, and Mr. Watsa, Mr. Carmilani and Allied World's lead independent director, as well as additional members of management of Fairfax and Allied World and a senior representative of BofA Merrill Lynch, respectively, continued to discuss the possibility of reengaging in negotiations regarding a potential transaction.

On December 14, 2016, Willkie Farr sent a revised draft of the merger agreement to Shearman and Torys, which, among other things, included revised proposed terms regarding the consideration mix, the conditions to the offer and the merger, deal certainty, and the "go-shop" provision. Fairfax and its advisors did not reengage with Allied World or its advisors on the draft of the merger agreement received that day as it would have been premature given the state of the discussions between Fairfax and Allied World, including the outstanding issues relating to an agreed exchange ratio and purchase price.

On December 15, 2016, the board of directors of Allied World met, together with certain members of Allied World's management and representatives of Willkie Farr and BofA Merrill Lynch. Management provided an update on the re-initiation of discussions with Fairfax and the status of those discussions. Following this discussion, the board of directors of Allied World directed management and representatives of BofA Merrill Lynch and Willkie Farr to continue negotiating the proposed transaction and agreed to potentially reconvene on December 18, 2016.

Commencing in the evening of December 16, 2016 and continuing until execution of the merger agreement on the night of December 18, 2016, certain members of Allied World's management and representatives of BofA Merrill Lynch and Willkie Farr (in consultation with Allied World's Swiss and Canadian external legal counsel) worked with management of Fairfax and representatives of Shearman and Torys (in consultation with Homburger) to negotiate the terms of an agreed exchange ratio and purchase price, the definitive merger agreement and the ancillary documents related thereto, complete their respective due diligence reviews and finalize the terms and structure of the proposed transaction.

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On December 18, 2016, the board of directors of Fairfax met via teleconference with certain members of Fairfax's management. At this meeting, management of Fairfax provided the board of directors of Fairfax with an extensive overview of Allied World and the proposed transaction. Management of Fairfax reviewed the potential benefits of the proposed transaction and the funding of such transaction by cash and the issuance of Fairfax shares. Management of Fairfax also reported on the status of negotiations with Allied World and the proposed final terms of the merger agreement. Following this meeting, the board of directors of Fairfax unanimously approved the proposed transaction with Allied World and the other transactions contemplated thereby pursuant to a written resolution dated December 18, 2016.

On December 18, 2016, the board of directors of Allied World met via teleconference with certain members of Allied World's management, representatives of Willkie Farr and representatives of BofA Merrill Lynch. Management of Allied World provided an extensive overview of the proposed transaction with Fairfax and reviewed with the board of directors of Allied World the potential benefits of the transaction. Management noted that the parties had negotiated a purchase price of \$54.00 per share, up from the \$50.50 per share price that had been offered by Fairfax in November. Management then reported on the status of negotiations regarding the merger agreement and representatives of Willkie Farr then discussed with the board of directors of Allied World the applicable legal standards and duties (taking into account the advice from Swiss counsel) in the context of considering a strategic transaction of the type being proposed, and discussed with the board of directors of Allied World the proposed final terms of the merger agreement. Representatives of BofA Merrill Lynch then reviewed with the board of directors of Allied World BofA Merrill Lynch's financial analyses of the consideration as further described below in the section entitled "Opinion of Allied World's Financial Advisor." In connection with the deliberation by the board of directors of Allied World, representatives of BofA Merrill Lynch delivered to the board of directors of Allied World an oral opinion, which was confirmed by delivery of a written opinion dated December 18, 2016, to the effect that, as of December 18, 2016 and based upon and subject to the assumptions and limitations set forth in its opinion, the consideration to be received in the transaction by Allied World shareholders (after giving effect to the special dividend) was fair, from a financial point of view, to such Allied World shareholders, as more fully described below under "Opinion of Allied World's Financial Advisor." Following these discussions, the board of directors of Allied World unanimously (i) determined that the form, terms and provisions of the Merger Agreement, the performance by Allied World of its obligations thereunder and the consummation by Allied World of the transactions contemplated thereby, including the Merger, are advisable and fair to and in the best interests of Allied World, (ii) voted to adopt and approve the Merger Agreement and (iii) resolved to recommend that the shareholders of Allied World approve and adopt the Articles Amendment Proposal, the Board Modification Proposal and the Special Dividend at one or more special meetings of Allied World shareholders and accept the Offer and tender their common shares in the Offer.

Following the Fairfax and Allied World board of directors meetings, on the evening of December 18, 2016, the merger agreement and all ancillary agreements related thereto were finalized and executed by Fairfax and Allied World, and Fairfax and Allied World issued a joint press release announcing the proposed transaction.

On December 19, 2016, under the direction and supervision of management of Allied World, representatives of BofA Merrill Lynch began contacting parties that were believed to be potentially interested in, and capable of, consummating an acquisition of Allied World. During the go-shop period, under the direction and supervision of Allied World, BofA Merrill Lynch contacted 31 potential buyers in order to actively solicit other offers. None of the potential buyers expressed interest in a transaction at a purchase price greater than \$54.00 per share and no confidentiality agreements were signed.

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Fairfax's Reasons for the Transactions

The Fairfax board of directors approved the Merger Agreement and the transactions contemplated by the Merger Agreement. In reaching its decision to approve the Merger Agreement, the Fairfax board of directors consulted with senior members of Fairfax's management and legal teams regarding the results of the due diligence efforts undertaken by management. In reaching its decision to approve the Merger Agreement, the Fairfax board of directors considered a variety of factors, including the following:

Compelling Strategic Acquisition. Fairfax believes that the acquisition of Allied World complements Fairfax's business model and that the enlarged Fairfax Group will be well positioned to take advantage of its significant size and scale for the following reasons:

Combines two underwriting companies with strong franchises and complementary business profiles with limited overlap, diversifying Fairfax's premium base and earnings profile;

Allied World's world-class specialty insurance and reinsurance business with attractive underwriting results and a very successful track record, with compounded growth in book value per share of 14 percent over the last ten years;

A strong track record of favorable reserve development; since inception ten percent favorable annual reserve development as a percentage of premiums;

Enhances Fairfax's global insurance business and significantly deepens its presence in the US market;

The acquisition of Allied World will add its \$9.4 billion investment portfolio to that of Fairfax;

The strong balance sheet and capital position of Allied World will complement the financial strength of Fairfax and should improve Fairfax's financial metrics;

Allied World's strong enterprise risk management; and

The acquisition of Allied World will add another significant source of dividends to Fairfax over time.

Offer Consideration. The Merger Agreement provides that Allied World shareholders will be offered cash consideration of \$5.00, without interest, for each Allied World share held, and stock consideration consisting of (i) Fairfax shares having a value of \$14.00 based on the closing price of Fairfax shares as of December 16, 2016, payable at a fixed exchange ratio of 0.030392, and (ii) a number of Fairfax shares equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax share). If this volume weighted average price of Fairfax shares during this period is greater than or equal to \$485.65 per Fairfax share, this portion of the consideration will be fixed at an exchange ratio of 0.061772 Fairfax shares for each Allied World share. If this volume weighted average price of Fairfax shares during this period is less than or equal to \$435.65 per Fairfax share, this portion of the consideration will be fixed at an exchange ratio of 0.068862 Fairfax shares for each Allied World share held. See "The Merger Agreement Offer Consideration."

The Fairfax board of directors considered the benefit of the flexibility provided by the ability to replace the variable portion of the stock consideration with cash in an amount up to \$30 per Allied World Share in its sole and absolute discretion.

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Consistent with Fairfax's guiding principles to minimize downside risk, the structure of the variable component of the stock consideration to be paid to Allied World shareholders will limit the amount of potential dilution to Fairfax shareholders, while also providing Fairfax with the ability to benefit from any increase in its share price from its pre-announcement closing price of \$460.65.

The belief of the Fairfax board of directors that Fairfax would maintain its credit rating immediately following the completion of the Transactions.

Terms of the Merger Agreement. The Fairfax board of directors reviewed the terms of the Merger Agreement, including the provisions in the Merger Agreement that prohibit Allied World from soliciting other acquisition proposals after the "go-shop" period expires.

The Fairfax board of directors considered the fact that Allied World is obligated to pay Fairfax a termination fee of either \$73.5 million or \$196 million in certain circumstances, as more fully described under "The Merger Agreement Termination Termination Fee";

The Fairfax board of directors considered the fact that Allied World is obligated to reimburse Fairfax for up to \$20 million in out-of-pocket expenses under certain circumstances, as more fully described under "The Merger Agreement Expenses";

Regulatory Approvals. The Fairfax board of directors considered the likelihood that the Transactions will be completed on a timely basis, including the likelihood that the Transactions will receive all necessary regulatory approvals (and the conditions to which such approvals might be subject) and the likelihood that all conditions to consummation of the Transactions will be satisfied, including, among other conditions, that Fairfax is not required to take any action, including entering into any consent decree, hold separate order or other arrangement, that (i) requires the divestiture, sale, transfer or licensing of any assets, businesses or properties of any of Allied World, Fairfax, FFH Switzerland or Fairfax (Switzerland) or any of their respective subsidiaries or (ii) limits Fairfax's freedom of action with respect to, or its ability to retain, any assets of Allied World, Fairfax, FFH Switzerland or Fairfax (Switzerland) or any of their respective subsidiaries, in each case other than assets, businesses or properties that are *de minimis* in the aggregate to Fairfax and its subsidiaries taken as a whole after giving effect to the Transactions.

Voting Agreements. The agreement by the directors and executive officers of Allied World to each enter into a voting agreement with Fairfax under which each of these shareholders has agreed, with respect to an aggregate of 2,646,784 Allied World shares, which represents approximately 3.0 percent of the outstanding Allied World shares as of December 31, 2016, to tender their Allied World shares to the Offer and to irrevocably grant and appoint Fairfax, and any designee of Fairfax, as such shareholders' proxy to vote their Allied World shares in favor of the Articles Amendment, the Board Modification and the Special Dividend at a meeting of the Allied World shareholders called for such purpose, subject to the terms and conditions of the voting agreements.

Culture and Management. There is a strong cultural alignment between Fairfax and Allied World. The executive and senior management teams of both Fairfax and Allied World are intended to continue in their current roles.

Integration/Execution Risk. It is expected that the continued decentralized operation of Allied World will limit execution and integration risk.

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Potential Negative Considerations. The Fairfax board of directors considered a number of potentially negative factors, as well as related mitigating factors, in its deliberations concerning the Merger Agreement, including:

The possibility that the Transactions might not be completed or might be unduly delayed, and the potential adverse consequences thereof;

The time and effort incurred in connection with the negotiation and implementation of the Transactions, including the risk of diverting management's attention from the operation of Fairfax's business and from other strategic priorities prior to completion or abandonment of the Transactions;

The right of the Allied World board of directors under the Merger Agreement to withdraw its recommendation to the Allied World shareholders that they tender their Allied World shares in the Offer in certain circumstances, as more fully described under "The Merger Agreement Change of Recommendation and Non-solicitation by Allied World";

The right of Allied World to terminate the Merger Agreement in certain circumstances, as more fully described under "The Merger Agreement Termination";

The fact that Fairfax is obligated to pay Allied World a termination fee of \$196 million in certain circumstances, as more fully described under "The Merger Agreement Termination Termination Fee";

The fact that Fairfax is obligated to reimburse Allied World for up to \$20 million in out-of-pocket expenses under certain circumstances, as more fully described under "The Merger Agreement Expenses";

The fact that the Merger Agreement contains certain customary restrictions on the ability of Fairfax to conduct its business in the period between signing of the Merger Agreement and closing, in that Allied World's consent is required in respect of the issuance of Fairfax shares in certain circumstances, the acquisition of assets if such acquisition could reasonably be expected to prevent, inhibit or materially delay the consummation of the Transactions, and other matters commonly subject to pre-closing restrictions, as more fully described under "The Merger Agreement Conduct of Business Conduct of Fairfax";

The impact of costs and expenses related to the Transactions on Fairfax's financial position; and

The potential loss of key Allied World personnel after the Transactions are completed.

The other risks of the type and nature described under "Risk Factors Risks Related to the Transactions".

After consideration of these factors, the Fairfax board of directors determined that these risks could be mitigated or managed by Fairfax, Allied World or by the Fairfax Group following the Transactions, were reasonably acceptable under the circumstances or, in light of the anticipated benefits, the risks were unlikely to have a materially adverse impact on the Transactions or on the Fairfax Group following the Transactions, and that, overall, these risks were significantly outweighed by the potential benefits of the Transactions.

The Fairfax board of directors considered all of the foregoing factors as a whole and determined to approve the Merger Agreement and the Transactions.

The foregoing description of the information and factors considered by the Fairfax board of directors is not exhaustive, but Fairfax believes it includes all the material factors considered by the Fairfax board of directors in its consideration of the Transactions, including factors that may support the Transactions, as well as factors that may weigh against the Transactions. In view of the wide variety

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of factors considered by the Fairfax board of directors in connection with its evaluation of the Transactions and the complexity of these matters, the Fairfax board of directors did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to and did not make specific assessments of the specific factors it considered in reaching its decision. Rather, the Fairfax board of directors made its decision based on the totality of information presented to it and the investigation it conducted. In considering the factors described above, individual Fairfax directors may have given different weights to different factors. The Fairfax board of directors did not reach any specific conclusion with respect to any of the factors or reasons considered.

Certain Allied World Prospective Financial Information

Allied World does not, as a matter of course, make public long-term forecasts as to future performance or other prospective financial information beyond the current fiscal year, and Allied World is especially wary of making forecasts or projections for extended periods due to the unpredictability of the underlying assumptions and estimates. However, as part of the due diligence review of Allied World in connection with the Transactions, Allied World's management prepared certain non-public, internal financial forecasts regarding Allied World's projected future operations for fiscal years 2017 through 2021 and provided such financial forecasts to Fairfax's management. These forecasts were also considered by the Allied World board of directors for purposes of evaluating the Transactions. Allied World has included below a summary of these forecasts for the purpose of providing shareholders and investors access to certain non-public information that was furnished to third parties and such information may not be appropriate for other purposes. These forecasts were provided on a confidential basis to Fairfax's management in the due diligence process and to BofA Merrill Lynch, who used and relied on such forecasts in connection with its financial analyses and opinion as described in "Opinion of Allied World's Financial Advisor." The Allied World board of directors also considered non-public, financial forecasts prepared by management of Allied World in collaboration with the management of Fairfax regarding Fairfax's operations for fiscal years 2017 through 2021 for purposes of evaluating Fairfax and the Transactions.

The accompanying prospective financial information was not prepared with a view toward public disclosure, or with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of prospective financial information, but, in the view of Allied World's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future filing performance of Allied World. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this prospectus are cautioned not to place undue reliance on the prospective financial information.

Neither Allied World's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information. The reports of Allied World's independent registered public accounting firm incorporated by reference into this prospectus relate to Allied World's historical financial information, and no such report (or report of any other independent accounting firm incorporated by reference herein) extends to Allied World's internal financial forecasts or should be read to do so. The summary of the internal financial forecasts included below is not being included to influence your decision whether to tender your Allied World shares or to vote in favor of the proposals necessary for the Offer's consummation, but instead because these internal financial forecasts were provided by Allied World to Fairfax.

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While presented with numeric specificity, these internal financial forecasts were based on numerous variables and assumptions (including, but not limited to, those related to industry performance and competition and general business, economic, market and financial conditions and additional matters specific to Allied World's businesses) that are inherently subjective and uncertain and are beyond the control of Allied World's management. Important factors that may affect actual results and cause these internal financial forecasts to not be achieved include, but are not limited to, risks and uncertainties relating to Allied World's business (including its ability to achieve strategic goals, objectives and targets over applicable periods), industry performance, general business and economic conditions, the occurrence of unpredictable catastrophe events and other factors described in Allied World's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, its Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 and its Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, and described under the sections entitled "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors." These internal financial forecasts also reflect numerous variables, expectations and assumptions available at the time they were prepared as to certain business decisions that are subject to change. As a result, actual results may differ materially from those contained in these internal financial forecasts. Accordingly, there can be no assurance that the forecasted results summarized below will be realized.

The inclusion of a summary of these internal financial forecasts in this prospectus should not be regarded as an indication that any of Allied World, Fairfax or their respective affiliates, advisors or representatives considered these internal financial forecasts to be predictive of actual future events, and these internal financial forecasts should not be relied upon as such nor should the information contained in these internal financial forecasts be considered appropriate for other purposes. None of Allied World, Fairfax or their respective affiliates, advisors, officers, directors, partners or representatives can give you any assurance that actual results will not differ materially from these internal financial forecasts, and none of them undertakes any obligation to update or otherwise revise or reconcile these internal financial forecasts to reflect circumstances existing after the date these internal financial forecasts were generated or to reflect the occurrence of future events, even in the event that any or all of the assumptions underlying these forecasts are shown to be in error. Since the internal financial forecasts cover multiple years, such information by its nature becomes less meaningful and accurate with each successive year. Allied World does not intend to make publicly available any update or other revision to these internal financial forecasts. None of Allied World or its affiliates, advisors, officers, directors or representatives has made or makes any representation to any shareholder, investor, Fairfax or other person, in the Merger Agreement or otherwise, regarding Allied World's ultimate performance compared to the information contained in these internal financial forecasts or that the forecasted results will be achieved.

The below internal financial forecasts were developed for Allied World on a stand-alone basis without giving effect to the Transactions or entry into the Merger Agreement, including any changes to Allied World's strategy or operations that may be implemented after the consummation of the Transactions or any costs incurred in connection with the Transactions. Furthermore, the internal financial forecasts do not take into account the effect of any failure of the Transactions to be completed and should not be viewed as relevant or continuing in that context. Fairfax urges all shareholders to review Allied World's most recent SEC filings for a description of Allied World's reported financial results.

In light of the foregoing factors and the uncertainties inherent in the financial forecasts, readers of this prospectus are cautioned not to place undue, if any, reliance on such financial forecasts.

Certain of the forecasts set forth below may be considered non-GAAP financial measures. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information presented in compliance with US GAAP, and non-GAAP financial measures as used in the Allied World internal financial forecasts may not be comparable to similarly titled measures

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used by other companies. Allied World's management believes such measures are helpful in understanding forecasts of Allied World's future results. Allied World and Fairfax have not reconciled these non-GAAP financial measures (non-GAAP operating income) to the most directly comparable GAAP measures (GAAP net income) because material items that impact these measures, such as net realized investment gains or losses, net foreign exchange gain or loss and other non-recurring items, are out of Allied World's control and/or cannot be reasonably forecasted. Accordingly, reconciliations of these non-GAAP financial measures to the corresponding GAAP financial measures are not available without unreasonable effort. The calculations of non-GAAP financial measures reflected in such financial forecasts may differ from others in Allied World's or Fairfax's respective industry and are not necessarily comparable with similar titles used by other companies. Each of Allied World and Fairfax strongly encourages you to review all of its financial statements and publicly-filed reports in their entirety and to not rely on any single financial measure.

Subject to the foregoing qualifications, the gross premiums written, total revenues, net operating income, total combined ratio, share repurchases/dividends, and stockholders' equity reflected below by fiscal year through the year 2021 were prepared by, or as directed by, Allied World's management and were delivered to Fairfax.

Allied World Projections -- Summary Table

	Fiscal year ending December 31,				
	2017	2018	2019	2020	2021
	(\$ in millions)				
Gross premiums written	\$ 3,125.2	\$ 3,281.4	\$ 3,446.7	\$ 3,621.8	\$ 3,807.2
Total revenues	\$ 2,594.4	\$ 2,738.3	\$ 2,908.8	\$ 3,085.5	\$ 3,262.8
Net operating income	\$ 279.7	\$ 331.3	\$ 364.4	\$ 404.3	\$ 440.0
Total combined ratio	94.7%	93.3%	93.1%	92.8%	92.9%
Share repurchases/dividends	\$ 243.1	\$ 268.9	\$ 294.5	\$ 319.6	\$ 344.4
Stockholders' equity	\$ 3,604.6	\$ 3,704.5	\$ 3,811.9	\$ 3,934.1	\$ 4,067.2

Recommendation of Allied World's Board of Directors

After careful consideration, including a thorough review of the Transactions with its legal and financial advisers, Allied World's board of directors: (i) approved the Merger Agreement and authorized and approved the Offer and the Special Dividend; (ii) determined that the form, terms and provisions of the Merger Agreement, the performance by Allied World of its obligations thereunder and the consummation by Allied World of the transactions contemplated thereby, including the Merger, are advisable and fair to and in the best interests of Allied World; (iii) resolved to recommend that the shareholders of Allied World approve the Articles Amendment, the Board Modification, (unless waived by Fairfax) the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017; (iv) resolved to recommend that the shareholders of Allied World accept the Offer and tender their Allied World shares into the Offer; and (v) resolved to recommend that the shareholders of Allied World approve the Merger.

The Allied World board of directors' full statement regarding the Offer is set out in Allied World's solicitation/recommendation statement on Schedule 14D-9 to be filed with the SEC on [•], 2017.

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Allied World's Reasons for the Offer and the Merger; Recommendations of the Allied World Board of Directors

In reaching its decision to make the recommendation to the Allied World shareholders that they tender their Allied World shares in the Offer, the Allied World board of directors consulted with Allied World's management, as well as with Allied World's legal and financial advisors, and also considered a number of factors that it viewed as supporting its decisions, including, but not limited to, the following:

the current and historical market prices of the Allied World shares, including the market performance of the Allied World shares relative to those of other participants in Allied World's industry and general market indices, and the fact that the Offer Consideration represented (i) an 18% premium to Allied World's unaffected closing stock price on December 16, 2016 of \$45.77, which price was close to the then 52-week high price of \$47.11, which also represented the all-time high for Allied World, (ii) a 76% premium to the then 52-week low price of \$30.75, (iii) a 1.35x multiple of Allied World's diluted book value as of September 30, 2016, and (iv) a 1.57x multiple of Allied World's diluted tangible book value as of September 30, 2016;

that the Offer Consideration is likely to be more favorable to Allied World shareholders than the potential value that might result from other alternatives reasonably available to Allied World, including, but not limited to, an acquisition by a different buyer, acquisitions by Allied World of other businesses and the continued operation of Allied World on a stand-alone basis in light of a number of factors, including the risks and uncertainty associated with those alternatives;

the belief, based on the analyses presented to and discussed by the Allied World board of directors, that the Fairfax shares were reasonably valued at current trading prices;

the potential for appreciation in value of Fairfax shares, and the opportunity for Allied World shareholders to participate in this appreciation;

that, as a result of the arm's-length negotiations between the parties, during which time the aggregate price per share offered by Fairfax increased from \$50.00 per share to \$54.00 per share, the Offer Consideration was the highest price that Fairfax was willing to pay, as described above in the section entitled " Background of the Offer;" and

the financial analyses presented by BofA Merrill Lynch to the Allied World board of directors and the opinion, dated December 18, 2016, of BofA Merrill Lynch to the Allied World board of directors to the effect that, as of December 18, 2016 and based upon and subject to the assumptions and limitations set forth in such opinion, the consideration to be received in the proposed transaction by holders of Allied World shares (after giving effect to the Special Dividend) was fair, from a financial point of view, to such holders, in each case as more fully described in the section entitled " *Opinion of Allied World's Financial Advisor.*"

In addition to considering the factors described above, the Allied World board of directors also considered the following factors:

the terms and conditions of the Merger Agreement, including:

the 30-day "go-shop" period following signing during which Allied World could (i) actively seek and negotiate alternative proposals from third parties that had previously been identified by the Company's financial advisors and discussed with the Allied World board of directors as being viable potential candidates with whom Allied World could effect an alternative proposal and (ii) terminate the Merger Agreement if, after consultation with its outside legal counsel and financial advisor, the Allied World board of directors determined that (A) failure to take such action would reasonably be expected to be inconsistent with its

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fiduciary duties and (B) any such alternative proposal constituted a superior proposal, subject to payment of a termination fee of \$73.5 million, or approximately 1.5% of the equity value of the transaction, which amount the Allied World board of directors believed was reasonable in light of, among other matters, the benefits of the transaction to Allied World's shareholders, the typical size of such termination fees in similar transactions and the likelihood that a fee of such size would not be a meaningful deterrent to alternative acquisition proposals, as more fully described in the section entitled "The Merger Agreement Termination Fee;"

the ability of the Allied World board of directors to respond to and negotiate an unsolicited proposal after the "go-shop" period if, after consultation with its outside legal counsel and financial advisor, the Allied World board of directors determined that (i) failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties and (ii) such proposal was, or was reasonably likely to lead to, a superior proposal;

the ability of the Allied World board of directors to withdraw its recommendation, terminate the Merger Agreement and enter into a definitive agreement with a third party in connection with a superior proposal after the "go-shop" period if, after consultation with its outside legal counsel and financial advisor, the Allied World board of directors determined that failure to take such action would reasonably be expected to be inconsistent with its fiduciary duties, subject, in specified cases, to payment of a termination fee of \$196 million, or approximately 4.0% of the equity value of the transaction, which amount the board of directors of Allied World believed was reasonable in light of, among other matters, the benefits of the transaction to Allied World's shareholders, the typical size of such termination fees in similar transactions and the likelihood that a fee of such size would not be a meaningful deterrent to alternative acquisition proposals, as more fully described in the section entitled "The Merger Agreement Termination Fee;" and

the inclusion of a collar mechanism on the exchange ratio used to determine a portion of the share component of the Offer Consideration, which provides Allied World's shareholders with protection against deterioration in value associated with changes in Fairfax's stock price;

the strong commitment on the part of both parties to complete the Offer and the Merger pursuant to their respective obligations under the terms of the Merger Agreement;

the fact that Allied World's shareholders retain the ultimate discretion to approve or disapprove the Offer Consideration by electing to tender or not to tender their shares in the Offer;

the Allied World board of directors' belief, after consultation with its internal and outside legal counsel, that the transaction is likely to receive necessary regulatory approvals in a relatively timely manner without material adverse conditions, which increases the likelihood that the transaction will be consummated;

the Allied World board of directors' understanding of Allied World's business, assets, financial condition and results of operations, its competitive position and historical and projected financial performance and the nature of the industry in which Allied World competes; and

the Allied World board of directors' understanding of Fairfax's business, assets, financial condition and results of operations, its competitive position and historical and projected financial performance.

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The Allied World board of directors weighed the foregoing against a number of potentially negative factors, including:

that there can be no assurance that all conditions to the parties' obligations to complete the Offer and/or the Merger will be satisfied, including the possibility that the Minimum Tender Condition will not be met or waived by Fairfax, and as a result, it is possible that the Offer and/or the Merger may not be completed even if the proposals are approved and adopted by Allied World's shareholders;

the risks and costs to Allied World if the transaction does not close, including the potential effect on Allied World's business and relationships with employees, customers, brokers, reinsurance intermediaries, regulators and the communities in which it operates;

the Merger Agreement's restrictions on the conduct of Allied World's business prior to the completion of the Offer, generally requiring Allied World to conduct its business only in the ordinary course and subject to specific limitations, which may delay or prevent Allied World from undertaking business opportunities that may arise pending completion of the Offer;

the provisions of the Merger Agreement that, following the conclusion of the 30-day "go-shop" period, restrict Allied World's ability to solicit or participate in discussions or negotiations regarding alternative business combination transactions (subject to specified exceptions) and that require Allied World to provide Fairfax with an opportunity to propose adjustments to the Merger Agreement prior to Allied World being able to terminate the Merger Agreement to accept a superior proposal;

the requirement that at least 66²/₃% of all outstanding Allied World shares be validly tendered in the Offer before Fairfax has the option to waive the Minimum Tender Condition and consummate the Offer, and the requirement that at least 90% of all outstanding Allied World shares be validly tendered in the Offer in order for the Merger to be consummated, and the risk that either such minimum threshold is not obtained;

the risk that governmental entities may not approve the transaction or may impose conditions on Allied World and/or its subsidiaries or Fairfax and/or its subsidiaries in order to gain approval for the transaction that may adversely impact Allied World's business and relationships with employees, customers, suppliers, brokers, reinsurance intermediaries, regulators and the communities in which it operates;

the fact that, because a portion of the Offer Consideration is payable in Fairfax shares in accordance with a fixed exchange ratio, Allied World shareholders will be adversely affected by any decrease in the trading price of Fairfax shares prior to completion of the Offer, and may receive less value for their Allied World shares upon completion of the Offer than calculated based on the price of the Fairfax shares at the time the Merger Agreement was executed;

the risk that the trading price of Fairfax shares could be adversely impacted in the event of decreases in Fairfax's revenue, underwriting and investment results, profit margins or free cash flow or other factors before or after the closing of the Offer;

the fact that forecasts of future results of operations are necessarily estimates based on assumptions, and that for these and other reasons there is a risk of not realizing anticipated future performance and a risk that other anticipated benefits might not be realized;

the fact that the transaction could be taxable to Allied World's U.S. shareholders for U.S. federal income tax purposes, depending on whether and how much Fairfax elects to replace a portion of the stock consideration with cash;

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the possibility that, under certain circumstances under the Merger Agreement, Allied World may be required to pay a termination fee of either \$73.5 million or \$196 million, as more fully described in the section entitled "The Merger Agreement Termination Fee";

the potential that the termination fee provisions of the Merger Agreement could have the effect of discouraging a *bona fide* alternative acquisition proposal for Allied World;

the fact that Allied World's directors and executive officers have interests in the Merger that may be different from, or in addition to, those of the Allied World shareholders. See the section entitled "Interests of Allied World's Directors and Executive Officers in the Merger;" and

other risks of the type and nature described in the sections entitled "Risk Factors" beginning on page 38 of the Fairfax Form F-4 and the matters described under "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 68.

This discussion of the information and factors considered by the Allied World board of directors in reaching its conclusions and recommendation includes the material factors considered by the board of directors of Allied World, but is not intended to be exhaustive. In view of the wide variety of factors considered in connection with its evaluation of the Offer and the Merger and the complexity of these matters, the Allied World board of directors did not find it practicable, and did not attempt, to quantify, rank or assign any relative or specific weights to the various factors that it considered in reaching its decision to make the recommendation to the Allied World shareholders that they tender their Allied World shares in the Offer. The Allied World board of directors conducted an overall analysis of the factors described above, including through discussions with, and questioning of, Allied World's management and outside legal and financial advisors regarding certain of the matters described above. In considering the factors described above, individual members of the Allied World board of directors may have given differing weights to different factors.

Opinion of Allied World's Financial Advisor

Allied World has retained BofA Merrill Lynch to act as Allied World's financial advisor in connection with the Offer and the Merger. BofA Merrill Lynch is an internationally recognized investment banking firm which is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. Allied World selected BofA Merrill Lynch to act as Allied World's financial advisor in connection with the Offer and the Merger on the basis of BofA Merrill Lynch's experience in transactions similar to the Offer and the Merger, its reputation in the investment community and its familiarity with Allied World and its business.

On December 18, 2016, at a meeting of Allied World's board of directors held to evaluate the Offer and the Merger, BofA Merrill Lynch delivered to Allied World's board of directors an oral opinion, which was confirmed by delivery of a written opinion dated December 18, 2016, to the effect that, as of the date of the opinion and based on and subject to various assumptions and limitations described in its opinion, the Offer Consideration and the Merger Consideration (the Offer Consideration and the Merger Consideration being referred to in this section of the prospectus as the "Consideration") to be received in the Offer and the Merger by holders of Allied World shares (after giving effect to the Special Dividend), was fair, from a financial point of view, to such holders.

The full text of BofA Merrill Lynch's written opinion to Allied World's board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B to this prospectus and is incorporated by reference herein in its entirety. The following summary of BofA Merrill Lynch's opinion is qualified in its entirety by reference to the full text of the opinion. BofA Merrill Lynch delivered its opinion to

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Allied World's board of directors for the benefit and use of Allied World's board of directors (in its capacity as such) in connection with and for purposes of its evaluation of the Offer and the Merger from a financial point of view. BofA Merrill Lynch's opinion does not address any other aspect of the Offer and the Merger and no opinion or view was expressed as to the relative merits of the Transactions (including the Special Dividend) in comparison to other strategies or transactions that might be available to Allied World or in which Allied World might engage or as to the underlying business decision of Allied World to proceed with or effect the Transactions (including the Special Dividend). BofA Merrill Lynch's opinion does not address any other aspect of the Offer and the Merger and does not constitute a recommendation as to whether any Allied World shareholder should tender their Allied World shares in the Offer, or as to how any Allied World shareholder should vote or act in connection with the Merger or any related matter.

In connection with rendering its opinion, BofA Merrill Lynch has, among other things:

reviewed certain publicly available business and financial information relating to Allied World and Fairfax;

reviewed certain internal financial and operating information with respect to the business, operations and prospects of Allied World furnished to or discussed with BofA Merrill Lynch by the management of Allied World, including certain financial forecasts relating to Allied World prepared by the management of Allied World (which we refer to in this section of this prospectus as the Allied World forecasts and which are described in "Certain Allied World Prospective Financial Information");

reviewed certain internal financial and operating information with respect to the business, operations and prospects of Fairfax furnished to or discussed with BofA Merrill Lynch by the management of Fairfax, including certain financial forecasts relating to Fairfax prepared by the management of Allied World in collaboration with the management of Fairfax and adopted and approved for BofA Merrill Lynch's use by the management of Allied World (which we refer to in this section of this prospectus as the Fairfax forecasts);

reviewed certain estimates as to the amount and timing of cost savings (which we refer to in this section of this prospectus as the cost savings) anticipated by the managements of Allied World and Fairfax to result from the Offer and the Merger;

discussed the past and current business, operations, financial condition and prospects of Allied World with members of senior managements of Allied World and Fairfax, and discussed the past and current business, operations, financial condition and prospects of Fairfax with members of senior managements of Allied World and Fairfax;

reviewed the potential *pro forma* financial impact of the Offer and the Merger on the future financial performance of Fairfax, including the potential effect on Fairfax's estimated earnings per share;

reviewed the trading histories for Allied World shares and Fairfax shares and a comparison of such trading histories with each other and with the trading histories of other companies that BofA Merrill Lynch deemed relevant;

compared certain financial and stock market information of Allied World and Fairfax with similar information of other companies that BofA Merrill Lynch deemed relevant;

compared certain financial terms of the Offer and the Merger to financial terms, to the extent publicly available, of other transactions that BofA Merrill Lynch deemed relevant;

reviewed the relative financial contributions of Allied World and Fairfax to the future financial performance of the combined company on a *pro forma* basis;

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reviewed a draft, dated December 18, 2016, of the Merger Agreement (which we refer to in this section of this prospectus as the Draft Agreement); and

performed such other analyses and studies and considered such other information and factors as BofA Merrill Lynch deemed appropriate.

In arriving at its opinion, BofA Merrill Lynch assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with it and relied upon the assurances of the managements of Allied World and Fairfax that they were not aware of any facts or circumstances that would make such information or data inaccurate or misleading in any material respect. With respect to the Allied World forecasts, BofA Merrill Lynch was advised by Allied World, and assumed, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Allied World as to the future financial performance of Allied World. With respect to the Fairfax forecasts and the cost savings, BofA Merrill Lynch was advised by Fairfax, and assumed, at the direction and with the consent of Allied World, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Fairfax as to the future financial performance of Fairfax and other matters covered thereby. BofA Merrill Lynch relied, at the direction of Allied World, on the assessments of the managements of Allied World and Fairfax as to Fairfax's ability to achieve the cost savings and was advised by Allied World and Fairfax, and assumed, with the consent of Allied World, that the cost savings would be realized in the amounts and at the times projected.

BofA Merrill Lynch did not make and was not provided with any independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Allied World or Fairfax, nor did BofA Merrill Lynch make any physical inspection of the properties or assets of Allied World or Fairfax. BofA Merrill Lynch did not evaluate the solvency or fair value of Allied World or Fairfax under any state, federal or other laws relating to bankruptcy, insolvency or similar matters. BofA Merrill Lynch are not experts in the evaluation of reserves for insurance losses and loss adjustment expenses and did not make an independent evaluation of the adequacy of the reserves of Allied World or Fairfax. In that regard, BofA Merrill Lynch did not make an analysis of, and expressed no opinion as to, the adequacy of the losses and loss adjustment expense reserves for Allied World or Fairfax. BofA Merrill Lynch assumed, at the direction of Allied World, that the Transactions (including the Special Dividend) would be consummated in accordance with their terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary governmental, regulatory and other approvals, consents, releases and waivers for the Offer and the Merger, no delay, limitation, restriction or condition, including any divestiture requirements or amendments or modifications, would be imposed that would have an adverse effect on Allied World, Fairfax or the contemplated benefits of the Offer and the Merger. In addition, BofA Merrill Lynch also assumed, at the direction of Allied World, that the final executed Merger Agreement would not differ in any material respect from the Draft Agreement reviewed by BofA Merrill Lynch.

BofA Merrill Lynch expressed no view or opinion as to any terms or other aspects or implications of the Offer and the Merger (other than the Consideration to the extent expressly specified therein), including, without limitation, the form or structure of the Consideration or the Offer and the Merger, any related transactions or any other agreement, arrangement or understanding entered into in connection with or related to the Offer and the Merger or otherwise. As of the date of its opinion, BofA Merrill Lynch was not requested to, and did not, solicit indications of interest or proposals from third parties regarding a possible acquisition of Allied World or any alternative transaction. BofA Merrill Lynch's opinion was limited to the fairness, from a financial point of view, of the Consideration (after giving effect to the Special Dividend), to be received by holders of Allied World shares, and no opinion or view was expressed with respect to any consideration received in connection with the Offer and the Merger by the holders of any class of securities, creditors or other constituencies of any party.

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In addition, no opinion or view was expressed with respect to the fairness (financial or otherwise) of the amount, nature or any other aspect of any compensation to any of the officers, directors or employees of any party to the Offer and the Merger, or class of such persons, relative to the Consideration or otherwise. Furthermore, no opinion or view was expressed as to the relative merits of the Transactions (including the Special Dividend) in comparison to other strategies or transactions that might be available to Allied World or in which Allied World might engage or as to the underlying business decision of Allied World to proceed with or effect the Transactions (including the Special Dividend). BofA Merrill Lynch also did not express any view or opinion with respect to, and relied, at the direction of Allied World, upon the assessments of representatives of Allied World regarding, legal, regulatory, accounting, tax and similar matters relating to Allied World or the Offer and the Merger, as to which matters BofA Merrill Lynch understood that Allied World obtained such advice as it deemed necessary from qualified professionals. BofA Merrill Lynch also did not express any opinion as to what the value of Fairfax shares actually would be when issued or the prices at which Allied World shares or Fairfax shares would trade at any time, including following announcement or consummation of the Offer and the Merger. Except as described above, Allied World imposed no other limitations on the investigations made or procedures followed by BofA Merrill Lynch in rendering its opinion.

BofA Merrill Lynch's opinion was necessarily based on financial, economic, monetary, market and other conditions and circumstances as in effect on, and the information made available to BofA Merrill Lynch as of, the date of its opinion. It should be understood that subsequent developments may affect its opinion, and BofA Merrill Lynch does not have any obligation to update, revise or reaffirm its opinion. The issuance of BofA Merrill Lynch's opinion was approved by a fairness opinion review committee of Merrill Lynch, Pierce, Fenner & Smith Incorporated.

The discussion set out below in the sections " Summary of Material Financial Analyses of Allied World," " Summary of Material Financial Analyses of Fairfax" and " Summary of Material Merger Consequences Analysis" represents a brief summary of the material financial analyses presented by BofA Merrill Lynch to Allied World's board of directors in connection with BofA Merrill Lynch's opinion, dated December 18, 2016. **The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by BofA Merrill Lynch, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by BofA Merrill Lynch. Considering the data set out in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by BofA Merrill Lynch.** For purposes of the financial analyses summarized below, the term "implied consideration" refers to \$54.00 per Allied World share, consisting of (i) the cash consideration of \$5.00 per share, (ii) the Special Dividend, and (iii) the implied value of the stock consideration of \$44.00 per share based on an assumed Fairfax closing share price of \$460.65 on December 16, 2016 (as converted to US dollars based on Bank of Canada's reported Canadian dollar to US dollar noon exchange rate of 0.7497 as of December 16, 2016) and the exchange ratio of 0.09552x (subject to Fairfax's election to replace up to \$30.00 of the stock consideration with cash, in which case, if exercised fully, the relevant exchange ratio would be 0.03039x). The financial analyses summarized below were based on 86,998,341 Allied World shares outstanding as of October 24, 2016, with 1,652,847 stock options with a weighted average strike price of \$17.14 per share, 588,537 performance based equity awards, 38,404 employee purchase plan units, 1,194,576 restricted stock units, 812,757 cash-settled restricted stock units and 449,302 cash-settled performance based equity awards. The financial analyses summarized below were also based on 23,917,000 Fairfax shares outstanding as of September 30, 2016, plus 565,055 share-based payment awards as disclosed in Fairfax's September 30, 2016 financial supplement.

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Summary of Material Financial Analyses of Allied World

Selected Publicly Traded Companies Analysis. BofA Merrill Lynch reviewed publicly available financial and stock market information for Allied World and the following twelve publicly traded companies in the insurance sector:

Arch Capital Group Ltd.

Argo Group International Holdings, Ltd.

Aspen Insurance Holdings Limited

AXIS Capital Holdings Limited

Chubb Limited

Everest Re Group, Ltd.

Markel Corporation

OneBeacon Insurance Group, Ltd.

RLI Corp.

The Navigators Group, Inc.

W. R. Berkley Corporation

XL Group plc

BofA Merrill Lynch reviewed, among other things, per share equity values, based on closing share prices on December 16, 2016, of the selected publicly traded companies as a multiple of estimated operating earnings per share, commonly referred to as Operating EPS, for calendar years 2016 and 2017. The low, mean, median and high calendar year 2016 Operating EPS multiples observed for the selected publicly traded companies were 11.9x, 20.0x, 19.2x, and 33.3x, respectively, and the overall low, mean, median and high calendar year 2017 Operating EPS multiples observed for the selected publicly traded companies were 10.4x, 18.1x, 16.2x, and 30.1x, respectively. BofA Merrill Lynch then applied calendar year 2017 Operating EPS multiples of 13.0x to 15.0x derived from the selected publicly traded companies and based on BofA Merrill Lynch's professional judgment to Allied World's calendar year 2017 estimated Operating EPS of \$3.19 per share. BofA Merrill Lynch also reviewed the book values of the shares of the selected publicly traded companies, based on the primary shares outstanding as of September 30, 2016, as a multiple of price-to-book value. The low, mean, median and high price-to-book value multiples observed for the selected publicly traded companies as of September 30, 2016 were 0.85x, 1.41x, 1.33x and 2.99x, respectively. BofA Merrill Lynch then applied price-to-book value multiples of 1.00x to 1.15x derived from the selected publicly traded companies and based on BofA Merrill Lynch's professional judgment to Allied World's per share book value of \$41.57 as of September 30, 2016. Estimated financial data of the selected publicly traded companies were based on publicly available research analysts' estimates, and estimated financial data of Allied World were based on the Allied World forecasts. This analysis indicated the following approximate implied per share equity value reference ranges for Allied World, as compared to the implied consideration:

Implied Per Share Equity Value Reference Ranges for Allied World

	September 30, 2016	Implied
2017 Operating EPS	Book Value (Primary)	Consideration
\$41.43 - \$47.81	\$41.57 - \$47.81	\$ 54.00

No company used in this analysis is identical or directly comparable to Allied World. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves

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complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading or other values of the companies to which Allied World was compared.

Selected Precedent Transactions Analysis. BofA Merrill Lynch reviewed, to the extent publicly available, financial information relating to the following twenty-one selected transactions involving companies in the insurance sector that, in BofA Merrill Lynch's judgment, were relevant to its analysis:

Acquiror	Target	Announcement Date
Liberty Mutual Insurance Company	Ironshore Inc.	December 5, 2016
SOMPO Holdings, Inc.	Endurance Specialty Holdings Ltd.	October 5, 2016
Mitsui Sumitomo Insurance Company, Limited	Amlin plc	September 8, 2015
Fosun International Limited	Ironshore Inc.	August 2, 2015
EXOR S.p.A. (now EXOR N.V.)	PartnerRe Ltd.	August 3, 2015
ACE Limited	The Chubb Corporation	July 1, 2015
Tokio Marine Holdings, Inc.	HCC Insurance Holdings, Inc.	June 10, 2015
AXIS Capital Holdings Limited (Revised Bid)	PartnerRe Ltd.	May 4, 2015
Endurance Specialty Holdings Ltd.	Montpelier Re Holdings Ltd.	March 31, 2015
Fairfax Financial Holdings Limited	Brit PLC	February 16, 2015
AXIS Capital Holdings Limited	PartnerRe Ltd.	January 25, 2015
XL Group plc	Catlin Group Limited	January 9, 2015
Fosun International Limited	Meadowbrook Insurance Group, Inc.	December 30, 2014
RenaissanceRe Holdings Ltd.	Platinum Underwriters Holdings, Ltd.	November 24, 2014
ProAssurance Corporation	Eastern Insurance Holdings, Inc.	September 24, 2013
Fairfax Financial Holdings Limited	American Safety Insurance Holdings, Ltd.	June 3, 2013
Markel Corporation	Alterra Capital Holdings Limited	December 19, 2012
Validus Holdings, Ltd.	Flagstone Reinsurance Holdings, S.A.	August 30, 2012
Alleghany Corporation	Transatlantic Holdings, Inc.	November 20, 2011
Validus Holdings, Ltd.	IPC Holdings, Ltd.	July 9, 2009
PartnerRe Ltd.	Paris RE Holdings Limited	July 4, 2009

BofA Merrill Lynch reviewed transaction values, calculated as the equity value implied for the target company based on the consideration payable in the selected transaction, as a multiple of (i) the target company's last twelve month and forward Operating EPS, and (ii) the target company's book value as of the last day of the most recent quarter preceding the announced transaction. The overall low, mean, median and high last twelve month Operating EPS multiples observed for the selected transactions were 6.8x, 13.4x, 13.3x and 21.3x, respectively, and the overall low, mean, median and high forward Operating EPS multiples observed for the selected transactions were 7.1x, 14.1x, 14.1x and 19.0x, respectively. The overall low, mean, median and high price-to-book value multiples observed for the selected transactions were 0.72x, 1.21x, 1.12x and 2.06x, respectively. BofA Merrill Lynch then applied (i) calendar year 2017 Operating EPS multiples of 14.0x to 17.0x (derived from the Operating EPS multiple ranges of the selected transactions, based on BofA Merrill Lynch's professional judgment) to Allied World's calendar year 2017 estimated Operating EPS, and (ii) price-to-book value multiples of 1.15x to 1.35x (derived from the price-to-book value multiple ranges of the selected transactions, based on BofA Merrill Lynch's professional judgment) to Allied World's per share book value as of December 31, 2016 (taking into account the impact of 1,262,059 shares relating to cash-settled restricted stock units and performance based equity awards, and the offsetting settlement of \$22.5 million in accrued compensation expense). Estimated financial data of the selected transactions were based on publicly available information at the time of announcement of the relevant transaction. Estimated financial data of Allied World were based on the Allied World forecasts. This analysis

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indicated the following approximate implied per share equity value reference ranges for Allied World, as compared to the implied consideration:

Implied Per Share Equity Value Reference Ranges for Allied World

2017 Operating EPS	December 31, 2016 Book Value (Diluted)	Implied Consideration
\$44.62 - \$54.18	\$44.89 - \$52.70	\$ 54.00

No company, business or transaction used in this analysis is identical or directly comparable to Allied World or the Offer and the Merger. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition or other values of the companies, business segments or transactions to which Allied World and the Offer and the Merger were compared.

Discounted Cash Flow Analysis. BofA Merrill Lynch performed a discounted cash flow analysis of Allied World to calculate the estimated present value of the standalone levered, after-tax free cash flows that Allied World was forecasted to generate during Allied World's fiscal years 2017 through 2021 based on the Allied World forecasts. BofA Merrill Lynch calculated terminal values for Allied World by applying terminal forward multiples of 0.95x to 1.15x to Allied World's estimated book value as of December 31, 2021 (excluding the impact of 1,262,059 shares relating to cash-settled restricted stock units and performance based equity awards, and the offsetting settlement of \$22.5 million in accrued compensation expense). The cash flows and terminal values were then discounted to present value as of December 31, 2016 using discount rates ranging from 7.25% to 8.75%, which were based on an estimate of Allied World's cost of equity. This analysis indicated the following approximate implied per share equity value reference ranges for Allied World as compared to the implied consideration:

Implied Per Share Equity Value

Reference Range for Allied World	Implied Consideration
\$41.49 - \$50.31	\$ 54.00

Summary of Material Financial Analyses of Fairfax

Selected Publicly Traded Companies Analysis. BofA Merrill Lynch reviewed publicly available financial and stock market information for Fairfax and the following eight publicly traded companies in the insurance sector:

Alleghany Corporation

Arch Capital Group Ltd.

AXIS Capital Holdings Limited

Chubb Limited

Everest Re Group, Ltd.

Markel Corporation

W. R. Berkley Corporation

XL Group plc

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For purposes of its analysis, BofA Merrill Lynch considered (where applicable) the relevant price in US dollars converted at a Canadian dollar to US dollar exchange rate of 0.7481 as of December 16, 2016. BofA Merrill Lynch reviewed, among other things, the closing share prices of the selected publicly traded companies on December 16, 2016 as a multiple of estimated Operating EPS for calendar years 2016 and 2017. BofA Merrill Lynch then compared these calendar years 2016 and 2017 estimated Operating EPS multiples derived from the selected publicly traded companies to corresponding data for Fairfax. The overall low, mean, median and high calendar year 2016 Operating EPS multiples observed for the selected publicly traded companies were 11.9x, 19.5x, 19.4x and 33.3x, respectively, and the overall low, mean, median and high calendar year 2017 Operating EPS multiples observed for the selected publicly traded companies were 10.4x, 16.8x, 15.2x and 30.1x, respectively. BofA Merrill Lynch also reviewed the price-to-book value multiples of the selected publicly traded companies, based on the number of primary shares outstanding as of September 30, 2016. The overall low, mean, median and high price-to-book value multiples observed for the selected publicly traded companies as of September 30, 2016 were 0.85x, 1.26x, 1.21x and 1.62x, respectively. BofA Merrill Lynch then applied price-to-book value multiples of 1.15x to 1.35x derived from the selected publicly traded companies and based on BofA Merrill Lynch's professional judgment to Fairfax's per share book value as of September 30, 2016. Estimated financial data of the selected publicly traded companies were based on publicly available research analysts' estimates, and estimated financial data of Fairfax were based on the Fairfax forecasts. This analysis indicated the following implied approximate book value reference range for Fairfax, as compared to the closing price of Fairfax shares on December 16, 2016:

September 30, 2016 Book Value (Primary) (in US dollars)	Closing Trading Price of Fairfax Shares on December 16, 2016 (in US dollars)
\$467.64 - \$548.97	\$ 459.69

No company used in this analysis is identical or directly comparable to Fairfax. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the public trading or other values of the companies to which Fairfax was compared.

Discounted Cash Flow Analysis. BofA Merrill Lynch performed a discounted cash flow analysis of Fairfax to calculate the estimated present value of (i) the standalone levered, after-tax free cash flows that Fairfax was forecasted to generate during Fairfax's fiscal years 2017 through 2021 based on the Fairfax forecasts, which reflected realized and unrealized pre-tax gains on investments of 2% per annum, and (ii) an alternative sensitivity case assuming that such investment gains would be 1% per annum. BofA Merrill Lynch calculated terminal values for Fairfax by applying terminal forward multiples of 1.15x to 1.35x to Fairfax's estimated equity as of December 31, 2021. The cash flows and terminal values were then discounted to present value as of December 31, 2016 using discount rates ranging from 6.25% to 7.50%, which were based on an estimate of Fairfax's cost of equity. This analysis

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indicated the following approximate implied per share equity value reference ranges for Fairfax as compared to the closing price of Fairfax shares on December 16, 2016:

Case Considered	Implied Per Share Equity Value Reference Range for Fairfax (in US dollars)	Closing Trading Price of Fairfax Shares on December 16, 2016 (in US dollars)
Base Case (reflecting realized and unrealized pre-tax gains of 2% on investments)	\$490.79 - \$600.80	\$ 459.69
Sensitivity Case (reflecting realized and unrealized pre-tax gains of 1% on investments)	\$452.15 - \$552.70	\$ 459.69

Summary of Material Merger Consequences Analysis

Analysis of Allied World Stand-alone v. Pro Forma. BofA Merrill Lynch performed an analysis to calculate the theoretical change in value for Allied World shareholders resulting from the Offer and the Merger based on a comparison of (i) the implied equity value reference ranges obtained for Allied World on a stand-alone basis pursuant to BofA Merrill Lynch's discounted cash flow and selected publicly traded companies analyses described above under " Summary of Material Financial Analyses of Allied World Discounted Cash Flow Analysis" and " Summary of Material Financial Analyses of Allied World Selected Publicly Traded Companies Analysis," and (ii) implied equity value reference ranges obtained for Allied World on a *pro forma* basis, assuming the minimum and maximum share exchange ratios that would have been implied by the share price collar provisions of the Merger Agreement, assuming that Fairfax had not elected to substitute any cash for Fairfax shares, and including \$20 million of after-tax synergies, based on the Allied World forecasts. With respect to the *pro forma* discounted cash flow analysis, BofA Merrill Lynch assumed the "base case" considered for the Fairfax discounted cash flow analysis described above under " Summary of Material Financial Analyses of Fairfax Discounted Cash Flow Analysis." In addition, both the *pro forma* discounted cash flow analysis and the selected publicly traded companies analysis performed by BofA Merrill Lynch excluded the impact of 1,262,059 shares relating to cash-settled restricted stock units and performance based equity awards, and the offsetting settlement of \$22.5 million in accrued compensation expense. Estimated financial data of Allied World were based on the Allied World forecasts, and estimated financial data of Fairfax were based on the Fairfax forecasts. This analysis indicated the following approximate implied per share equity value reference ranges for Allied World on a *pro forma* basis, as compared to the relevant implied per share equity value reference ranges for Allied World on a stand-alone basis:

	Implied Per Share Equity Value Reference Range for Allied World (Stand-Alone)	Implied Per Share Equity Value Reference Range for Allied World (Pro Forma Low End of Collar/ Maximum Exchange Ratio)	Implied Per Share Equity Value Reference Range for Allied World (Pro Forma High End of Collar/ Minimum Exchange Ratio)
Discounted Cash Flow Analysis	\$41.49 - \$50.31	\$54.58 - \$65.07	\$52.23 - \$62.16
Selected Publicly Traded Companies Analysis	\$41.57 - \$47.81	\$51.25 - \$59.30	\$49.07 - \$56.70

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Other Factors

BofA Merrill Lynch also noted certain additional factors that were not considered part of BofA Merrill Lynch's material financial analyses with respect to its opinion but were referenced for informational purposes, including, among other things, the following:

historical trading prices of Allied World shares and Fairfax shares during the 52-week period ended December 16, 2016, which indicated that during such period Allied World's closing prices ranged from \$30.75 to \$47.11 per share and Fairfax's closing prices ranged from \$435.65 to \$587.03 per share (based on Fairfax's share price in Canadian dollars converted at a Canadian dollar to US dollar exchange rate of 0.7481 as of December 16, 2016);

share price targets as of December 16, 2016 for Allied World shares and Fairfax shares in publicly available research analyst reports, which indicated share price targets for Allied World of approximately \$40.00 to \$47.00 per share and, for Fairfax, of approximately \$539.74 to \$596.44 per share (based on Fairfax's share price in Canadian dollars converted at a Canadian dollar to US dollar exchange rate as of each respective research report date); and

the relationship between movements in Allied World shares and Fairfax shares during the three-year period ended December 16, 2016.

Miscellaneous

As noted above, the discussion set out above in the sections " Summary of Material Financial Analyses of Allied World," " Summary of Material Financial Analyses of Fairfax" and " Summary of Material Merger Consequences Analysis" is a summary of the material financial analyses presented by BofA Merrill Lynch to the Allied World board of directors in connection with its opinion and is not a comprehensive description of all analyses undertaken or matters considered by BofA Merrill Lynch in connection with its opinion. The preparation of a financial opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a financial opinion is not readily susceptible to partial analysis or summary description. BofA Merrill Lynch believes that its analyses summarized above must be considered as a whole. BofA Merrill Lynch further believes that selecting portions of its analyses and the factors considered or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying BofA Merrill Lynch's analyses and opinion. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such analysis was given greater weight than any other analysis referred to in the summary.

In performing its analyses, BofA Merrill Lynch considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of Allied World and Fairfax. The estimates of the future performance of Allied World and Fairfax in or underlying BofA Merrill Lynch's analyses are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those estimates or those suggested by BofA Merrill Lynch's analyses. These analyses were prepared solely as part of BofA Merrill Lynch's analysis of the fairness, from a financial point of view, to the holders of Allied World shares of the Consideration to be received by such holders in the Offer and the Merger (after giving effect to the Special Dividend), and were provided to Allied World's board of directors in connection with the delivery of BofA Merrill Lynch's opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future. Accordingly, the estimates used in, and the ranges of valuations resulting from, any particular analysis described above are inherently subject to substantial uncertainty and should not be taken to be BofA Merrill Lynch's view of the actual values of Allied World or Fairfax.

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The type and amount of consideration payable in the Offer and the Merger was determined through negotiations between Allied World and Fairfax, rather than by any financial advisor, and was approved by Allied World's board of directors. The decision of Allied World to enter into the Merger Agreement was solely that of Allied World's board of directors. As described above, BofA Merrill Lynch's opinion and analyses were only one of many factors considered by Allied World's board of directors in its evaluation of the Transactions and should not be viewed as determinative of the views of Allied World's board of directors or management with respect to the Transactions, or the Consideration.

Allied World has agreed to pay BofA Merrill Lynch for its services in connection with the Offer and the Merger an aggregate fee currently estimated to be approximately \$30,000,000, \$2,000,000 of which was payable upon delivery of its opinion and the remaining portion of which is contingent upon the completion of the Offer and the Merger. Allied World also has agreed to reimburse BofA Merrill Lynch for its expenses incurred in connection with BofA Merrill Lynch's engagement and to indemnify BofA Merrill Lynch, any controlling person of BofA Merrill Lynch and each of their respective directors, officers, employees, agents and affiliates against specified liabilities, including liabilities under the federal securities laws.

BofA Merrill Lynch and its affiliates comprise a full service securities firm and commercial bank engaged in securities, commodities and derivatives trading, foreign exchange and other brokerage activities, and principal investing as well as providing investment, corporate and private banking, asset and investment management, financing and financial advisory services and other commercial services and products to a wide range of companies, governments and individuals. In the ordinary course of their businesses, BofA Merrill Lynch and its affiliates may invest on a principal basis or on behalf of customers or manage funds that invest, make or hold long or short positions, finance positions or trade or otherwise effect transactions in equity, debt or other securities or financial instruments (including derivatives, bank loans or other obligations) of Allied World, Fairfax and certain of their respective affiliates.

BofA Merrill Lynch and its affiliates in the past have provided, currently are providing, and in the future may provide, investment banking, commercial banking and other financial services to Allied World and certain of its affiliates and have received or in the future may receive compensation for the rendering of these services, including (i) having acted or acting as a lender under certain letters of credit and leasing facilities of Allied World and/or certain of its affiliates, (ii) having provided or providing certain foreign exchange trading services to Allied World and/or certain of its affiliates, (iii) having provided or providing certain managed investments services and products to Allied World and/or certain of its affiliates and (iv) having provided or providing certain treasury management products and services to Allied World and/or certain of its affiliates. From December 1, 2014 through November 30, 2016, BofA Merrill Lynch and its affiliates derived aggregate revenues from Allied World and its affiliates of approximately \$2 million for investment and corporate banking services.

In addition, BofA Merrill Lynch and its affiliates in the past have provided, currently are providing, and in the future may provide, investment banking, commercial banking and other financial services to Fairfax and certain of its affiliates and have received or in the future may receive compensation for the rendering of these services, including (i) having acted or acting as financial advisor to Fairfax in connection with certain mergers and acquisitions transactions, (ii) having acted or acting as a co-manager and/or bookrunner for certain debt and equity offerings of Fairfax, (iii) having acted or acting as a syndication agent for, and/or as a lender under, certain credit and leasing facilities and other credit arrangements of Fairfax and/or certain of its affiliates (including acquisition financing), (iv) having provided or providing certain derivatives, foreign exchange and other trading services to Fairfax and/or certain of its affiliates, (v) having provided or providing certain managed investments services and products to Fairfax and/or certain of its affiliates and (vi) having provided or providing certain treasury management products and services to Fairfax and/or certain of its affiliates. In addition,

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BofA Merrill Lynch and/or certain of its affiliates have maintained, currently are maintaining, and in the future may maintain, commercial (including vendor and/or customer) relationships with Fairfax and/or certain of its affiliates. From December 1, 2014 through November 30, 2016, BofA Merrill Lynch and its affiliates derived aggregate revenues from Fairfax and its affiliates of approximately \$15 million for investment and corporate banking services.

Two senior members of the BofA Merrill Lynch deal team advising Allied World in connection with the Offer and the Merger (which we refer to in this section of this prospectus as the BofA Merrill Lynch Representatives) have also participated in coverage activities with respect to BofA Merrill Lynch's relationship with Fairfax. In particular, one of the BofA Merrill Lynch Representatives has had a significant relationship with Fairfax and its chairman and chief executive officer over many years, and has also served as the relationship manager with respect to BofA Merrill Lynch's relationship with Fairfax. In addition to participating on BofA Merrill Lynch deal teams advising Fairfax on numerous actual and potential transactions, and advising other parties in connection with their sales to Fairfax, such BofA Merrill Lynch Representative served as executive vice president and chief financial officer of a Fairfax subsidiary from 2005 to 2006. Such BofA Merrill Lynch Representative was instrumental in introducing Fairfax to Allied World as a potential transaction counterparty. The BofA Merrill Lynch Representatives and certain other members of the BofA Merrill Lynch deal team advising Allied World in connection with the Offer and the Merger have discussed in the past, or were aware of other employees of BofA Merrill Lynch having discussed, with certain third parties (including Fairfax) Allied World as a potential strategic or acquisition opportunity. However, such discussions by BofA Merrill Lynch with Fairfax with respect to Allied World (most recently in August 2016 prior to BofA Merrill Lynch's engagement by Allied World with respect to the Offer and the Merger) were of a general nature, were based solely on public information and did not include any valuation analysis. BofA Merrill Lynch was not engaged by Fairfax in connection with a potential acquisition of Allied World. The relationships described in this paragraph were disclosed to the board of directors of Allied World as described above under "Background to and Reasons for the Transactions."

Intent to Tender

The directors and executive officers of Allied World, who control approximately 3.0 percent of the outstanding Allied World shares, entered into the Allied World Shareholder Voting Agreement with Fairfax and Allied World, dated December 18, 2016, pursuant to which they have agreed to, among other things, tender their Allied World shares to the Offer.

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PLANS AND PROPOSALS FOR ALLIED WORLD

Fairfax's immediate priority after the Transactions will be to ensure that the Fairfax Group continues to provide a high quality service to its customers. Depending upon the results of the Offer, Fairfax may engage in all, some or none of the steps discussed below. For further detail, see "Background to and Reasons for the Offer Fairfax's Reasons for the Transactions."

Proposed Operating Structure

Following the Transactions, Allied World will operate within the Fairfax Group on a decentralized basis.

General

If, following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate the Merger whereby any remaining Allied World shareholders (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them) will receive the Merger Consideration.

See " Rules Regarding "Going Private" Transactions" below.

In the event that the Acceptance Time occurs, and Fairfax has waived the Minimum Tender Condition down to $66\frac{2}{3}\%$ in accordance with the terms of the Merger Agreement, and the number of Allied World shares validly tendered in the Offer and not withdrawn, together with any Allied World Shares then directly or indirectly owned by Fairfax or FFH Switzerland, represents less than 90% of all outstanding Allied World shares (excluding Allied World shares held by Allied World), Fairfax has agreed to use its reasonable best efforts to consummate the Merger within two years of the Acceptance Time. However, it is possible that Fairfax may not be able to acquire 100 percent (or at least 90 percent) of all outstanding Allied World shares (excluding Allied World shares held by Allied World) and/or complete the Transactions in a timely manner, or at all. In addition, the Transactions may be the subject of litigation, and a court may delay the Transactions or prohibit them from occurring on the terms described in this prospectus, or at all. Accordingly, non-tendering Allied World shareholders may not receive any consideration for such Allied World shares, and the liquidity and value of any Allied World shares that remain outstanding could be negatively affected. See "Risk Factors Risks related to the Offer The Offer may adversely affect the liquidity and value of non-tendered Allied World shares."

Following the completion of the Offer, until the Merger is consummated (if at all), any remaining, non-tendering Allied World shareholder will be a minority shareholder of Allied World with a limited ability, if any, to influence the outcome on any matters that are or may be subject to shareholder approval, including the election of directors, the issuance of shares or other equity securities, the payment of dividends and the acquisition or disposition of substantial assets.

Controlling Shareholder

Following the completion of the Offer, Fairfax, directly or indirectly, will hold at least 90 percent, unless otherwise waived by Fairfax down to $66\frac{2}{3}\%$ percent in accordance with the terms of the Merger Agreement, of all outstanding Allied World shares (excluding Allied World shares held by Allied World) and, as a result, expects to have the authority to replace any or all of, and/or elect additional members of, Allied World's board of directors, subject to legal and regulatory requirements. However,

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until the closing of the Merger, or, if the Acceptance Time occurs but Fairfax does not then own, directly or indirectly, at least 90% of all outstanding Allied World shares (excluding Allied World shares held by Allied World) because it has waived the Minimum Tender Condition down to 66²/₃ percent in accordance with the terms of the Merger Agreement, until the earlier of the second anniversary of the Acceptance Time and the completion of the Merger, certain actions (including, among other things, terminating or amending the Merger Agreement, extending the time for performance of any obligation or action by Fairfax or FFH Switzerland under the Merger Agreement, waiving any of the agreements or conditions contained in the Merger Agreement for the benefit of Allied World and its shareholders, amending Allied World's articles of association, or any other amendment or change to the Transactions) will only be effected if there are one or more directors on Allied World's board who are (i) directors of Allied World as of the date of the Merger Agreement and (ii) neither officers of Allied World nor shareholders, affiliates, or associates of Fairfax, and such action is approved by a majority of such directors then in office.

Fairfax may take various other actions in its capacity as controlling shareholder, which are described further below.

Post-Offer Acquisition of Allied World

It is possible that Fairfax may not be able to acquire 100 percent (or at least 90 percent) of all outstanding Allied World shares (excluding Allied World shares held by Allied World) and/or complete the Transactions in a timely manner, or at all. In addition, the Transactions may be the subject of litigation, and a court may delay the Transactions or prohibit them from occurring on the terms described in this prospectus, or at all. Accordingly, non-tendering Allied World shareholders may not receive any consideration for such Allied World shares, and the liquidity and value of any Allied World shares that remain outstanding could be negatively affected.

Consideration Offered to Allied World Shareholders in Connection with the Merger

In connection with the Merger, Fairfax will provide non-tendering Allied World shareholders (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them) with the Merger Consideration, which may have a different value from the consideration that they would have received had they tendered their Allied World shares in the Offer, because, among other factors:

the value of the Fairfax shares at the time of completion of the Merger may be different than at the time of the completion of the Offer;

the USD/CAD currency exchange rate at the time of completion of the Offer and at the time of the Merger may be different;

the Merger Consideration payable in the Merger would be subject to appraisal rights and may therefore be subject to court review; and

the tax consequences for Allied World shareholders of receiving consideration in the Merger may be different than if they had tendered their Allied World shares in the Offer.

The Merger under Swiss Law

If, following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax, indirectly through Fairfax (Switzerland), will initiate the Merger (*Abfindungsfusion*) pursuant to article 8 paragraph 2 and article 18 paragraph 5 of the Swiss Merger

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Act, whereby Allied World will be merged with and into Fairfax (Switzerland), with Fairfax (Switzerland) being the surviving entity. Remaining Allied World shareholders who do not tender their Allied World shares in the Offer (except for Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland), which will not receive any compensation for any Allied World shares directly or indirectly held by them) will, as part of the Merger, receive the Merger Consideration. However, in no event will they receive any shares of the surviving entity.

Among other requirements of Swiss law, in a squeeze-out merger, the board of directors or the managing officers, respectively, of the involved companies must set out the squeeze-out compensation to be paid to the remaining Allied World shareholders in a merger agreement and must explain and justify the legal and economic rationale for and the consequences of the merger, including the squeeze-out compensation, in a merger report. If, at the time the merger agreement is signed, more than six months have passed since the last balance sheet date of the involved entities or if the assets and/or liabilities of the involved entities have significantly changed since that date, an interim statutory merger balance sheet pursuant to the rules and regulations applicable to statutory accounts must be prepared. An independent audit expert must provide a report on the merger agreement, the merger report and the merger balance sheet and confirm, among other things, that the compensation to be paid to the remaining Allied World shareholders (other than Allied World, Fairfax, FFH Switzerland and Fairfax (Switzerland)) is justifiable. The shareholders of the merging entities have a right to inspect the merger agreement, the merger report and the audit report, as well as the annual reports and accounts of the involved entities for the preceding three financial years (if available) and, if applicable, the interim merger balance sheet, for a minimum of 30 calendar days prior to the shareholder or quotaholder meetings convened to vote on the Swiss Merger Agreement. Before the shareholder or quotaholder meetings to vote on the Swiss Merger Agreement are held, the work councils of the merging entities (or if no such councils exist, the employees of the merging entities) must be informed of and/or consulted on the merger. The Swiss Merger Agreement must be approved by the shareholders or quotaholders of the merging companies.

The following majorities are required to approve the Swiss Merger Agreement and effect a squeeze-out merger between a Swiss corporation (as transferring entity) and a Swiss limited liability company (as surviving entity) pursuant to Swiss law:

transferring entity: approval by the holders of at least 90 percent of the outstanding shares (excluding shares held by the transferring entity); and

surviving entity: approval by the holders of $66\frac{2}{3}$ percent of the votes represented at the quotaholder meeting and the absolute majority of the quota capital to which exercisable voting rights attach.

After the approval of the Swiss Merger Agreement by the shareholders of the merging entities, the board of directors or the managing officers, respectively, of the merging entities must apply and file for registration of the Merger with the competent commercial register. The Merger becomes effective upon registration in the daily ledger of the competent commercial register.

In connection with the Merger, Allied World's shareholders may exercise appraisal rights under article 105 of the Swiss Merger Act, in which case the adequacy (*Angemessenheit*) of the Merger Consideration would be subject to court review. See "The Offer Appraisal Rights."

The Merger may constitute a "going private" transaction within the meaning of Rule 13e-3, which, absent an applicable exemption, would be subject to US federal securities law (including Rule 13e-3). See " Rules Regarding "Going Private" Transactions" below.

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Rules Regarding "Going Private" Transactions

The SEC has adopted Rule 13e-3 under the Exchange Act, which is applicable to certain "going private" transactions, and which may under certain circumstances be applicable to the Merger or any other transaction or series of transactions that occur after completion of the Offer by which Fairfax attempts to acquire the remaining outstanding Allied World shares unless an exemption applies. Fairfax believes that Rule 13e-3 will not be applicable to the Merger because it is anticipated that the Merger will be effected within one year following the consummation of the Offer and, in the Merger, Allied World shareholders will receive the Merger Consideration, which is the same as the Offer Consideration. If an exemption does not apply, such transaction or series of transactions would be subject to US federal securities law (including Rule 13e-3) and Fairfax would be required to file a Schedule 13E-3 with the SEC that would describe, among other things, the reasons for the "going private" transaction, the relationship of the parties involved, the source(s) of financing, the process used to determine the valuation or price paid to minority shareholders and detailed disclosures as to the fairness of any such transaction to minority shareholders.

Time-frame for Completion of the Merger

Fairfax intends to consummate the Merger to acquire 100 percent of the outstanding Allied World shares as soon as reasonably practicable following the completion of the Offer. If following completion of the Offer, Fairfax has, directly or indirectly, acquired or controls at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World), the Merger can be initiated promptly upon completion of the Offer, and would, without any objections, blockages or other challenges, normally be expected to take between two and six months to complete, which timing may be affected by, among other things, the number of minority shareholders and where they are located. If, however, one or more minority shareholders objects and blocks the registration of the Merger in the commercial register and/or challenges the Merger, or if other litigation is pending (whether or not involving minority shareholders), this could significantly delay the process and the effectiveness of the Merger.

Delisting and Deregistration

NYSE Listing

As soon as practicable following completion of the Offer, and to the extent permitted under applicable law and stock exchange regulations, Fairfax intends to cause the Allied World shares to be delisted from the NYSE.

As at February 10, 2017, there were 87,174,599 Allied World shares outstanding. Trading in Allied World shares is expected to cease upon the completion of the Offer if trading has not ceased earlier. Upon completion of the Merger, all Allied World shares will be cancelled.

Exchange Act Registration

The Allied World shares are currently registered under the Exchange Act. As a result, Allied World currently files periodic and current reports, among other documents, with the SEC. As promptly as practicable following delisting of the Allied World shares from the NYSE and provided that the criteria for deregistration are met, Fairfax intends to take steps, subject to the applicable Exchange Act rules, to cause the termination of Allied World's reporting obligations under the Exchange Act. Pursuant to the rules of the SEC and the views expressed by the SEC staff, Allied World may terminate its reporting obligations if (i) the outstanding Allied World shares are not listed on a national securities exchange and (ii) there are fewer than 300 holders of record of the Allied World shares.

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If the Allied World shares are no longer registered under the Exchange Act, certain requirements of the Exchange Act would no longer apply. For example, the requirements of Rule 13e-3 under the Exchange Act with respect to "going private" transactions would no longer be applicable to Allied World. In addition, Allied World would no longer be required to furnish a proxy statement pursuant to Section 14(a) of the Exchange Act in connection with meetings of Allied World shareholders. Furthermore, the ability of Allied World's affiliates and persons holding restricted securities to dispose of such securities pursuant to Rule 144 or Rule 144A under the Securities Act could be impaired or eliminated.

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THE OFFER

The Offer

Fairfax, through FFH Switzerland, is offering to acquire all of the outstanding Allied World shares (excluding Allied World shares held by Allied World) pursuant to an offer to exchange to all Allied World shareholders. Allied World shareholders who accept the Offer will receive a combination of cash and Fairfax shares. The Offer is being made pursuant to the terms and subject to the conditions set out herein.

The Offer is being made for all Allied World shares (excluding Allied World shares held by Allied World). As at February 10, 2017, there were 87,174,599 Allied World shares outstanding.

The Offer will commence on [•], 2017.

Terms of the Offer

Fairfax, through FFH Switzerland, is offering to exchange for each Allied World share validly tendered and not properly withdrawn the right to receive a combination of:

\$5.00 in cash, without interest (the "Cash Consideration");

a special cash dividend of \$5.00, without interest, payable as soon as possible after the Acceptance Time to holders of Allied World shares as of immediately prior to the Acceptance Time (the "Special Dividend"), which is being paid outside of the Offer, but conditioned upon the Offer;

a portion of the stock consideration comprising Fairfax shares having a value of \$14.00 based on the closing price of Fairfax shares as of December 16, 2016 (the "Fairfax Closing Price"), payable at a fixed exchange ratio of 0.030392 (the "Fixed Exchange Stock Consideration"); and

the remaining portion of the stock consideration equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted from Canadian dollars to U.S. dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax Share) (the "Fixed Value Stock Consideration"). If this volume weighted average price of Fairfax shares during this period is greater than or equal to \$485.65 per Fairfax share, this portion of the consideration will be fixed at 0.061772 Fairfax shares for each Allied World share. If this volume weighted average price of Fairfax shares during this period is less than or equal to \$435.65 per Fairfax share, this portion of the consideration will be fixed at 0.068862 Fairfax shares for each Allied World share. Additionally, on or before March 3, 2017, Fairfax has the option to increase on a dollar-for-dollar basis the amount of the Cash Consideration from \$5.00 to an amount not exceeding \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration (such option, the "Cash Election") and which, together with the Special Dividend, would provide holders of Allied World shares a total of up to \$40.00 cash. Fairfax may elect to fund the Cash Election by an equity or debt issuance or by bringing in one or more third party co-investors.

This represents approximately \$4.9 billion in aggregate consideration, calculated using the closing Fairfax share price on the TSX of CAD\$614.45 and a noon exchange rate of CAD\$1.00 = \$0.7497, as published by the Bank of Canada on December 16, 2016, the last trading day preceding announcement of the Offer.

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Expiration Time; Extension of the Offer

The Offer will expire at 10:00 a.m., New York City time, on [•], 2017 (4:00 p.m. Zug time on [•], 2017), unless the Offer is extended in accordance with U.S. tender offer rules and the terms of the Merger Agreement, as set out herein.

U.S. tender offer rules require that the acceptance period of the Offer be extended if the value of the consideration being offered increases or decreases within 10 U.S. business days of the then-scheduled Expiration Time, so that the Offer will expire no less than 10 U.S. business days after the publication of such increase or decrease in the value of the consideration being offered.

Fairfax will also cause FFH Switzerland to extend the Offer, to the extent required by applicable U.S. tender offer rules, if it:

makes a material change to the terms of the Offer, other than a change in the consideration being offered in the Offer; or

makes a material change in the information concerning the Offer, or waives a material condition of the Offer.

Fairfax will also cause FFH Switzerland to extend the Offer:

if one or more conditions to the Offer is not satisfied or, to the extent legally permitted, waived, in which case Fairfax will cause FFH Switzerland to extend the period of time for which the Offer is open, in successive periods of 10 business days each or such other number of business days as Fairfax and Allied World may agree in order to permit the satisfaction of such condition or conditions to the Offer until the earlier of (i) the satisfaction or, to the extent legally permitted, waiver, of such condition or conditions to the Offer and (ii) August 18, 2017 (as may be extended in limited circumstances in order to obtain required regulatory approvals in accordance with the terms of the Merger Agreement); or

to the extent required and for such minimum period required by any rule, regulation, interpretation or position of the SEC or its staff, the NYSE or any other applicable laws.

If FFH Switzerland extends the Offer, Fairfax and/or FFH Switzerland will notify the exchange agent by written or oral notice confirmed in writing and also make an announcement to that effect to the NYSE no later than 9:00 a.m. New York City time on the next U.S. business day after the previously scheduled Expiration Time. Fairfax and/or FFH Switzerland will announce any extension to the Offer by FFH Switzerland by issuing a press release. During an extension, any Allied World shares validly tendered and not properly withdrawn will remain subject to purchase in the Offer and subject to the right of each holder to withdraw any Allied World shares that such holder has previously tendered. If FFH Switzerland extends the period of time during which the Offer is open, the Offer will expire at the latest time and date to which the Offer is extended.

Subject to the requirements of the U.S. tender offer rules (including U.S. tender offer rules that require that material changes to an offer be promptly disseminated to shareholders in a manner reasonably designed to inform them of such changes) and without limiting the manner in which Fairfax may choose to make any public announcement, Fairfax will not have any obligation to communicate any public announcement other than as described above.

Withdrawal Rights

Allied World shares tendered for exchange during the offering period, including any extension thereof, may be withdrawn at any time prior to the expiration of the Offer (including any extensions thereof) and at any time after the expiration of the Offer until FFH Switzerland accepts Allied World

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shares for exchange. Once FFH Switzerland accepts Allied World shares for exchange pursuant to the Offer, you will not be able to withdraw any tendered Allied World shares.

You may not rescind a withdrawal. If you withdraw tendered Allied World shares, such shares will be deemed not validly tendered for purposes of the Offer. However, you may re-tender withdrawn Allied World shares at any time before the expiration of the Offer (or during the Subsequent Offering Period, if any) by following the procedures described under " Procedures for Tendering Allied World Shares" below.

If FFH Switzerland decides to provide a Subsequent Offering Period, it will accept Allied World shares tendered during that period immediately upon tender, and you will not be able to withdraw Allied World shares tendered during any Subsequent Offering Period or tendered in the Offer.

Withdrawal of Tendered Allied World Shares

If you tendered Allied World shares by delivering a letter of transmittal to the exchange agent, you may withdraw your Allied World shares by delivering to the exchange agent a properly completed and duly executed notice of withdrawal, guaranteed by an eligible guarantor institution (if the letter of transmittal required a signature guarantee) before the expiration of the Offer or before FFH Switzerland accepts the Allied World shares for exchange. If FFH Switzerland decides to provide for a Subsequent Offering Period, Allied World shares tendered during the Subsequent Offering Period may not be withdrawn. See " Expiration Time; Extension of the Offer" above.

If you tendered your Allied World shares by means of the book-entry confirmation procedures of DTC, you may withdraw your Allied World shares by instructing your financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares to cause the DTC participant through which your Allied World shares were tendered to deliver a notice of withdrawal to the exchange agent through the book-entry confirmation facilities of DTC prior to the expiration of the Offer.

Subsequent Offering Period

Pursuant to Rule 14d-11 under the Exchange Act, FFH Switzerland may, following the expiration of the Offer, elect to provide one or more Subsequent Offering Periods of at least three business days in length following the Expiration Time and acceptance for exchange of Allied World shares tendered in the Offer. A Subsequent Offering Period would be an additional period of time, following the first exchange of Allied World shares in the Offer, during which Allied World shareholders could tender Allied World shares not tendered in the Offer.

Rule 14d-11 under the Exchange Act provides that FFH Switzerland may provide a Subsequent Offering Period so long as, among other things (1) the initial Offer period of at least 20 business days has expired, (2) FFH Switzerland offers the same form and amount of consideration for Allied World shares in the Subsequent Offering Period as in the Offer, (3) FFH Switzerland immediately accepts and promptly pays for all Allied World shares tendered during the Offer prior to its expiration, (4) FFH Switzerland announces the results of the Offer, including the approximate number and percentage of Allied World shares deposited in the Offer, no later than 9:00 a.m. New York City time on the next U.S. business day after the previously scheduled Expiration Time and (5) FFH Switzerland immediately accepts and promptly pays for Allied World shares as they are tendered during the Subsequent Offering Period. If FFH Switzerland elects to provide a Subsequent Offering Period, it will notify shareholders of Allied World by making a public announcement on the next business day after the Expiration Time consistent with the requirements of Rule 14d-11 under the Exchange Act.

Pursuant to Rule 14d-7(a)(2) under the Exchange Act, no withdrawal rights apply to Allied World shares tendered during a Subsequent Offering Period and no withdrawal rights apply during the

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Subsequent Offering Period with respect to Allied World shares tendered in the Offer and accepted for exchange. The same consideration will be received by shareholders tendering Allied World shares in the Offer or in a Subsequent Offering Period, if one is included. Please see " Withdrawal Rights" above.

Conditions to the Offer

The Offer is subject to the following conditions. Neither Fairfax nor FFH Switzerland will be obliged to purchase any Allied World shares validly tendered (or defectively tendered and such defect is waived by Fairfax or FFH Switzerland) in the Offer and not properly withdrawn if the following conditions have not been satisfied, or to the extent legally permitted, waived (some of which have been satisfied, as noted below).

(i) Minimum Tender Condition

There will have been validly tendered in accordance with the terms of the Offer (other than Allied World shares tendered by guaranteed delivery where actual delivery has not occurred), prior to the scheduled expiration of the Offer (as it may be extended pursuant to the terms of the Merger Agreement) and not withdrawn, a number of Allied World shares that, together with any Allied World shares then directly or indirectly owned by Fairfax, FFH Switzerland or Fairfax (Switzerland), represents at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World). The Minimum Tender Condition may not be waived by Fairfax without Allied World's written approval unless all other conditions to the closing of the Offer (excluding the Minimum Tender Condition and conditions to be satisfied at the closing of the Offer) have been satisfied or waived (if such waiver is permitted under the terms of the Merger Agreement), in which case Fairfax in its sole and absolute discretion, may waive the Minimum Tender Condition down to 66²/₃ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World).

(ii) Governmental Action

The absence of (i) any order or preliminary or permanent injunction of a court of competent jurisdiction, including any temporary restraining order, that is in effect, (ii) any law enacted, issued, promulgated, enforced or entered by any governmental entity, and (iii) any pending action instituted or initiated by any federal governmental entity, in each case that does or that would prevent, prohibit or make illegal the consummation of the Offer, the Merger or the other transactions contemplated by the Merger Agreement.

(iii) Admission to the TSX

The new Fairfax shares to be issued in the Offer having been conditionally approved for listing on the TSX, subject to the satisfaction by Fairfax of customary listing conditions of the TSX (which has been obtained).

(iv) Registration Statement Declared Effective by the SEC

The registration statement on Form F-4 of which this prospectus forms a part having been declared effective under the Securities Act and any applicable blue sky securities filings, permits or approvals being made or received in accordance with applicable law and the absence of (i) any stop order by the SEC or any state securities administrator suspending the effectiveness of such registration statement and (ii) any pending proceedings by the SEC or any state securities administrator seeking such a stop order.

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(v) **Regulatory and Antitrust**

The (i) expiration or termination of any applicable waiting period (and any extension thereof) under the HSR Act, (ii) receipt of the Transaction Approvals and Additional Antitrust Approvals, and (iii) making of any other notices, reports and filings required to be made by Allied World, Fairfax or any of their respective subsidiaries with, and the receipt of any other consents, registrations, approvals permits and authorizations required to be obtained from, any governmental entity in connection with the execution, delivery and consummation of the Merger Agreement, the Offer, the Merger and the other transactions contemplated by the Merger Agreement (except for any failure that would not, individually or in the aggregate, render the Offer or the Merger or any of the other Transactions illegal or result in a Material Adverse Effect (as defined in the Merger Agreement) with respect to Fairfax or Allied World, or subject Allied World or its affiliates, or any of their respective directors, officers, employees or representatives, to any criminal liability).

(vi) **Burdensome Regulatory Action**

The absence of any terms in the Transaction Approvals and Additional Antitrust Approvals that, individually or in the aggregate, result in or would reasonably expected to result in any action requiring the divestiture, sale, transfer or licensing of, or limiting Fairfax's freedom of action with respect to, or ability to retain, any assets, businesses or properties of Allied World, Fairfax, FFH Switzerland or Fairfax (Switzerland), or any of their respective subsidiaries (other than assets, businesses or properties that are *de minimis* in the aggregate to Fairfax and its subsidiaries taken as a whole after giving effect to the Transactions).

(vii) **Regulatory Liability**

The absence of any criminal liability on the part of Allied World or any of its affiliates, or any of their respective directors, officers, employees or representatives, resulting from any Transaction Approval or Additional Antitrust Approval.

(viii) **Special Dividend Approval**

The declaration by Allied World shareholders of the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017.

(ix) **Amendment to Allied World's Articles of Association and Board Modification**

The approval by Allied World shareholders of the Articles Amendment and, unless waived by Fairfax, the Board Modification, each of which shall be in full force and effect.

(x) **Fairfax Shareholder Approval**

The approval by Fairfax shareholders of the issuance of Fairfax shares pursuant to the Merger Agreement, if required by applicable law.

(xi) **Allied World Share Register**

The Allied World board of directors having resolved to register FFH Switzerland and/or any other company controlled and designated by Fairfax in the share register of Allied World as shareholder(s) with voting rights with respect to all Allied World shares Fairfax or any of its subsidiaries has acquired or may acquire (with respect to Allied World shares to be acquired in the Offer subject to all other conditions to the Offer having been satisfied or waived), and/or FFH Switzerland and/or any other company controlled and designated by Fairfax having been registered in the share register of Allied World as shareholder(s) with voting rights with respect to all Allied World shares acquired.

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(xii) **Representations and Warranties**

Subject to certain exceptions, the representations and warranties of Allied World pursuant to the Merger Agreement remaining true and correct as of the expiration of the Offer as though made on and as of the expiration of the Offer (except as would not have an Allied World Material Adverse Effect (as defined in the Merger Agreement)), and the receipt by Fairfax of a certificate from Allied World as to the satisfaction of such condition.

(xiii) **Obligations of Allied World**

The performance and compliance, in all material respects, of Allied World's obligations, agreements and covenants to be performed and complied with under the Merger Agreement, and the receipt by Fairfax of a certificate from Allied World as to the satisfaction of such condition.

(xiv) **Material Adverse Effect**

Since December 18, 2016, the absence of any events, circumstances, developments, changes and effects that, individually or in the aggregate with other such events, circumstances, developments, changes and effects had, or would reasonably be expected to have, a Material Adverse Effect on Allied World.

(xv) **Termination of Offer**

The Offer having not been otherwise terminated with the prior written consent of Allied World.

The conditions to the Offer are for the sole benefit of Fairfax and FFH Switzerland and, to the extent legally permitted and subject to the terms of the Merger Agreement, may be waived by Fairfax or FFH Switzerland (either in whole or in part) at any time and from time to time, in the sole and absolute discretion of Fairfax and FFH Switzerland. Notice of any such waiver will be given in the manner prescribed by applicable law. However, Fairfax and FFH Switzerland may not, without the prior written consent of Allied World, amend, modify or waive the Minimum Tender Condition below 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) unless all other conditions to the Offer have been satisfied or will be satisfied on the closing of the Merger, or waived, to the extent such waiver is permitted under the Merger Agreement, in which case Fairfax may elect to waive the Minimum Tender Condition down to 66²/₃ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) as described above. In addition, Fairfax cannot waive the conditions described above under items (ii) through (x) (except item (vi)) above without the prior written consent of Allied World in its sole and absolute discretion.

Procedures for Tendering Allied World Shares

If your Allied World shares are registered in the share register of Allied World, you may tender your Allied World shares to the exchange agent by delivering to the exchange agent a properly completed and duly executed letter of transmittal, with all applicable signature guarantees from an eligible guarantor institution, before the expiration of the Offer or the expiration of any Subsequent Offering Period.

If you hold your Allied World shares through a financial intermediary, broker, dealer, commercial bank, trust company or other entity, you should instruct your financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares to arrange for a DTC participant holding the Allied World shares in its DTC account to tender your Allied World shares in the Offer to the exchange agent by means of delivery through the book-entry confirmation facilities of DTC of your Allied World shares to the DTC account of the exchange agent, together with an agent's message acknowledging that the tendering holder has received and agrees to

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be bound by the letter of transmittal, before the expiration of the Offer or the expiration of any Subsequent Offering Period.

Tendered Allied World shares will be held in an account controlled by the exchange agent, and consequently you will not be able to sell, assign, transfer or otherwise dispose of your Allied World shares until such time as (i) you withdraw your Allied World shares from the Offer; (ii) your Allied World shares have been exchanged (subject to the terms and conditions of the Offer); or (iii) your Allied World shares have been returned to you if the Offer is not completed or because they were not accepted for exchange.

Registered Allied World shareholders should send their properly completed and duly executed letters of transmittal only to the exchange agent and not to Allied World or the information agent. Letters of transmittal properly completed and duly executed must be received by the exchange agent before the expiration of the Offer to be accepted for exchange. The method of delivery of letters of transmittal is at your option and risk, and the delivery will be deemed made only when actually received by the exchange agent. In all cases, you should allow sufficient time to ensure timely delivery.

Guaranteed Delivery Procedures

If you hold your shares in book-entry form and wish to tender your Allied World shares in the Offer or any Subsequent Offering Period and time will not permit all required documents to reach the exchange agent before the expiration of the Offer or the expiration of any Subsequent Offering Period, or the procedure for book-entry transfer cannot be completed on a timely basis, you may nevertheless properly tender your Allied World shares if all the following conditions are satisfied:

your tender is made by or through an eligible institution;

a properly completed and duly executed letter of transmittal, substantially in the form provided with this prospectus, is received by the exchange agent as provided below before the expiration of the Offer or the expiration of any Subsequent Offering Period; and

a book-entry confirmation along with an agent's message and any other required documents are received by the exchange agent within three U.S. business days after the date of execution of the notice of guaranteed delivery.

Any notice of guaranteed delivery may be delivered by hand, mail or facsimile to the exchange agent and must include a guarantee by an eligible institution in the form set out in the notice of guaranteed delivery. In the case of Allied World shares held through the book-entry transfer system of DTC, the notice of guaranteed delivery must be delivered to the exchange agent by a DTC participant by means of the DTC book-entry transfer confirmation system.

Acceptance of Tendered Allied World Shares

If the conditions referred to under " Conditions to the Offer" above have been satisfied or, to the extent legally permitted, waived, Fairfax will cause FFH Switzerland to accept for exchange and will exchange all Allied World shares that have been validly tendered and not withdrawn pursuant to the terms of the Offer and procure the delivery of cash and Fairfax shares for the account of the tendering Allied World shareholders promptly after Fairfax and FFH Switzerland announce that the conditions to the Offer have been satisfied or, to the extent legally permitted, waived, and the offer period has expired. If FFH Switzerland decides to provide for a Subsequent Offering Period, FFH Switzerland will accept for exchange, and promptly exchange, all validly tendered Allied World shares as they are received during the Subsequent Offering Period. See " Subsequent Offering Period" above.

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Under no circumstances will interest be paid on the exchange of Allied World shares, regardless of any delay in making the exchange or any extension of the Offer

Exchange of Allied World shares accepted for exchange pursuant to the Offer will in all cases (including during any Subsequent Offering Period) be made only after timely receipt of (i) confirmation of a book-entry transfer, (ii) a letter of transmittal (or facsimile thereof), properly completed and duly executed, together with an agent's message in connection with a book-entry transfer of such Fairfax shares, and (iii) any other required documents.

Validity of Tendered Allied World Shares

FFH Switzerland will determine questions as to the validity, form, eligibility, including time of receipt, and acceptance for exchange of any tender of Allied World shares in its sole discretion and FFH Switzerland's determination will be final and binding. FFH Switzerland reserves the right to reject any and all tenders of Allied World shares that it determines are not in proper form or the acceptance for exchange of which may be unlawful. No tender of Allied World shares will be deemed to have been validly made until all defects and irregularities have been cured or waived. FFH Switzerland's interpretation of the terms and conditions of the Offer, including the acceptance forms and instructions thereto, will be final and binding. There shall be no obligation on FFH Switzerland, the information agent, the exchange agent or any person acting on its or their behalf to give notice of any defects or irregularities in any acceptance or notice of withdrawal and no liability shall be incurred by any of them for failure to give any such notification. FFH Switzerland reserves the right, in accordance with applicable law, to permit a holder of Allied World shares to accept the Offer in a manner other than as set out above.

Return of Tendered Allied World Shares

If any Allied World shares tendered in accordance with the instructions set out in this prospectus or the Offer materials are not accepted for exchange pursuant to the terms and conditions of the Offer, FFH Switzerland will cause such Allied World shares to be returned promptly following the announcement of the expiration or withdrawal of the Offer, as the case may be.

Fractional Shares

No fractional Fairfax shares will be issued to tendering Allied World shareholders in the Offer, no dividends or other distributions with respect to Fairfax shares will be payable on or with respect to any such fractional share interest, and such fractional share interests will not entitle the owner thereof to vote or to any other rights of a shareholder of Fairfax. In lieu of a fractional Fairfax share, the exchange agent will deliver to each Allied World shareholder who would otherwise be entitled to receive a fraction of a Fairfax share (after aggregating all fractional Fairfax shares that would otherwise have been issuable to such tendering Allied World shareholder in the Offer) an amount of cash (without interest and subject to the amount of any withholding taxes) rounded to the nearest whole cent determined by multiplying (i) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted from Canadian dollars to US dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent, by (ii) the fractional share interest to which such holder would otherwise be entitled. The exchange agent will make such amounts payable to tendering Allied World shareholders as soon as practicable after determination of the amount in cash to be paid in lieu of fractional Fairfax shares and, in any case, no later than three U.S. business days after the expiration of the initial offering period (including any extensions thereof). The calculation of net proceeds from the sale of the Fairfax shares shall not include any commissions, transfer taxes or other out-of-pocket transaction costs incurred in the sale of

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such Fairfax shares. Any such commissions, transfer taxes or other out-of-pocket transaction costs will be paid by FFH Switzerland.

Settlement of the Offer

Upon the expiration of the Offer, if the conditions to the Offer referred to under " Conditions to the Offer" above have been satisfied or, to the extent legally permitted, waived, the consideration payable to tendering Allied World shareholders whose Allied World shares are accepted for exchange will be calculated by the exchange agent. Fairfax shares will be issued to and cash will be paid to tendering Allied World shareholders promptly.

Cash Consideration

Payment for Allied World shares validly tendered by registered holders with a properly completed and duly executed letter of transmittal, and all applicable signature guarantees from an eligible guarantor institution, will be made by way of a check for the applicable amount of cash consideration to which you are entitled.

Payment for Allied World shares validly tendered by book-entry holders through book-entry confirmation facilities will be made by crediting the account of the financial intermediary, broker, dealer, commercial bank, trust company or other entity holding the Allied World shares on your behalf with DTC. The exchange agent will deliver the applicable amount of cash consideration to DTC, which will further allocate the applicable amount of cash consideration to the account of the DTC participant who tendered the Allied World shares on your behalf.

In addition, the exchange agent will deliver to each Allied World shareholder who would be entitled to receive a fraction of a Fairfax share (after aggregating all fractional Fairfax shares issuable to such Allied World shareholder in the Offer), cash (without interest and subject to the amount of any withholding taxes). For further detail, see " Fractional Shares" above.

Stock Consideration

Fairfax shares may be held in certificated and uncertificated form. If you are a registered holder and you validly tender your Allied World shares with a properly completed and duly executed letter of transmittal, and all applicable signature guarantees from an eligible guarantor institution, you will receive the Fairfax shares to which you are entitled in uncertificated form. If you are a book-entry holder and you validly tender your Allied World shares by means of delivery through the book-entry confirmation facilities of DTC, the exchange agent will cause the applicable number of Fairfax shares to be delivered to DTC and will further allocate the applicable number of Fairfax shares to the account of the DTC participant who tendered the Allied World shares on your behalf.

Publication of Results

No later than 9:00 a.m. New York City time on the next U.S. business day after the previously scheduled Expiration Time (including any extension thereof), Fairfax and/or FFH Switzerland will make a public announcement stating:

that all conditions to the Offer, including the Minimum Tender Condition, have been satisfied or, to the extent legally permitted, waived and declaring the Offer unconditional; or

that the conditions to the Offer have not been satisfied or, to the extent legally permitted, waived, and that, accordingly, the Offer has been unsuccessful.

Fairfax and/or FFH Switzerland will announce the final results of the Offer as promptly as practicable after the scheduled Expiration Time.

Announcements will be made by means of a press release.

Table of Contents**Ownership of Fairfax after Completion of the Offer**

If all of the issued and outstanding Allied World shares are validly tendered and exchanged pursuant to the terms of the Offer (assuming an exchange ratio for the Fixed Value Stock Consideration of 0.063222, which corresponds to the closing price of Fairfax shares on the TSX as of February 10, 2017), the former Allied World shareholders, other than Allied World, and the holders of existing Fairfax shares, other than Fairfax, will hold the following percentages of Fairfax shares and Fairfax's voting interests immediately after the completion of the Offer:

	Owned by current holders of Fairfax shares	Owned by former Allied World shareholders
Number of outstanding Fairfax shares held after completion of the Offer:	23,004,207	8,160,721
Percentage of Fairfax shares:	73.8%	26.2%
Percentage of Fairfax voting interests:	43.0%	15.2%

Effect of the Offer on the Market for Allied World Shares

Following the completion of the Offer, to the extent permitted under applicable law and stock exchange regulations, Fairfax intends to delist the Allied World shares from the NYSE. Following delisting of the Allied World shares from the NYSE and provided that the criteria for deregistration are met, Fairfax intends to cause Allied World to make a filing with the SEC requesting that Allied World's reporting obligations under the Exchange Act be terminated. Deregistration would substantially reduce the information required to be furnished by Allied World to its shareholders and to the SEC and would make certain provisions of the Exchange Act no longer applicable to Allied World. For a further discussion, see "Plans and Proposals for Allied World Delisting and Deregistration."

Regulatory Matters

The Offer is conditional on the receipt of approval from insurance regulatory and competition authorities of certain jurisdictions and of antitrust clearance from the regulatory authorities of certain jurisdictions. In particular, the Offer is subject to approval by insurance regulatory authorities in the United States (including in Arkansas, Delaware and New Hampshire), as well as in Australia, Ireland and the United Kingdom, as well as by Lloyd's. Further, antitrust consents or confirmations were sought from, among others, the FTC, the Antitrust Division of the U.S. Department of Justice and antitrust authorities in certain other jurisdictions. On January 17, 2017, Fairfax filed notification and report forms with the FTC and the Antitrust Division of the U.S. Department of Justice under the HSR Act. On January 27, 2017, the request for early termination of the waiting period was granted by the FTC and the Antitrust Division of the U.S. Department of Justice.

Accounting Treatment

Under IFRS, the acquisition of Allied World will be accounted for using the acquisition method. Fairfax is the accounting and legal acquirer. In Fairfax's consolidated financial statements, the assets, liabilities and contingent liabilities of Allied World will initially be recognized at fair value, with limited exceptions; the excess of the cost of the Transactions over the net fair value of the assets, liabilities and contingent liabilities recognized will be recorded as goodwill.

Appraisal Rights

Allied World shareholders are not entitled under Swiss law or otherwise to appraisal rights with respect to the Offer. However, if following the completion of the Offer, Fairfax has acquired or controls, directly or indirectly, at least 90 percent of all outstanding Allied World shares (excluding

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Allied World shares held by Allied World), no actions or proceedings are pending with respect to the exercisability of the voting rights associated with those Allied World shares, and no other legal impediment to a squeeze-out merger under Swiss law exists, Fairfax will, indirectly through Fairfax (Switzerland), initiate a squeeze-out merger under Swiss law. In connection with the Merger, Allied World shareholders can exercise appraisal rights under article 105 of the Swiss Merger Act by filing a suit against the surviving company with the competent Swiss civil court at the registered office of the surviving company or of Allied World. The suit must be filed by Allied World shareholders within two months after the Merger resolution has been published in the Swiss Official Gazette of Commerce. Allied World shareholders who tender all of their Allied World shares in the Offer, and who do not acquire Allied World shares thereafter, will not be able to file a suit to exercise appraisal rights. If such a suit is filed by non-tendering Allied World shareholders, the court will determine whether the Merger Consideration was inadequate and the amount of compensation due to the relevant Allied World shareholder, if any, and such court's determination will benefit remaining Allied World shareholders. The filing of an appraisal suit will not prevent completion of the Merger.

Shareholder Approvals

A meeting of the shareholders of Allied World is scheduled to be held on March 22, 2017 to (i) approve the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017, and (ii) approve the Articles Amendment.

Pursuant to section 611(c) of the TSX Company Manual, the issuance of Fairfax shares as partial consideration in connection with the Transactions requires the approval of Fairfax shareholders by a majority vote, as the number of Fairfax shares to be issued in the Transactions exceeds 25% of the total number of outstanding Fairfax shares (assuming Fairfax does not exercise its option to replace part of the stock consideration with cash). V. Prem Watsa, Fairfax's Chairman and CEO, and The Sixty Two Investment Company Limited ("Sixty Two"), a company controlled by Mr. Watsa, who collectively hold an aggregate voting interest in Fairfax of approximately 43 percent, have signed a voting agreement to support the Fairfax share issuance necessary to consummate the Transactions which voting agreement is incorporated by reference into this prospectus.

Listing of Fairfax Shares

Toronto Stock Exchange

The Fairfax shares issuable as partial consideration to Allied World shareholders has been conditionally approved for listing on the TSX, subject to customary listing conditions. The new Fairfax shares are expected to commence trading on the trading day immediately following the closing of the Transactions.

Sources and Amount of Funds

The Cash Consideration component of the Offer Consideration (up to approximately \$435.9 million) will be financed through Fairfax's existing cash resources, the cash proceeds from the potential sale of non-core businesses that Fairfax has no ability to control long-term and the indirect sale of approximately 21% of the Allied World shares to OMERS, the pension plan for Ontario's municipal employees, which sale will be effected contemporaneously with the closing of the Offer. Fairfax is in ongoing discussions with several additional third parties to also participate in the Transactions.

The Offer is not subject to a financing condition.

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Dividend Policy

The declaration and payment of dividends are at the sole discretion of our board of directors and depend on, among other things, our financial condition, general business conditions, legal restrictions regarding the payment of dividends by us and other factors which the board of directors may in the future consider to be relevant. As a holding company with no direct operations, we rely on cash dividends and other payments from our subsidiaries and our own cash balances to pay dividends to our shareholders.

See "Comparative Per Share Market Price and Dividend Information" for historical dividends paid by Fairfax.

Fees and Expenses

Except as set out below, Fairfax will not pay any fees or commissions to any broker or other person soliciting tenders of Allied World shares pursuant to the Offer.

You will not have to pay any transaction fees or brokerage commissions if (i) you instruct your financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares to tender your Allied World shares, subject to the policies of such financial intermediary, broker, dealer, commercial bank, trust company or other entity or (ii) you hold Allied World shares and you tender them directly to the exchange agent.

If your Allied World shares are held through a financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares that does not directly tender and deliver your Allied World shares to the exchange agent, you are advised to consult with your financial intermediary, broker, dealer, commercial bank, trust company or other entity through which you hold your Allied World shares as to whether or not they charge any transaction fee or service charge.

Fairfax has retained [•] to act as the information agent in connection with the Offer. The information agent may contact Allied World shareholders by mail, telephone, fax, email and personal interview and may request brokers, dealers and other nominee shareholders to forward the Offer materials to Allied World shareholders. Fairfax will pay the information agent reasonable and customary fees for these services in addition to reimbursing the information agent for its out-of-pocket expenses.

Fairfax has retained [•] to act as exchange agent in connection with the Offer. The exchange agent will receive and hold Allied World shares validly tendered and not properly withdrawn from the Offer for the benefit of FFH Switzerland. Fairfax will pay the exchange agent reasonable and customary compensation for its services in connection with the Offer in addition to reimbursing the exchange agent for its out-of-pocket expenses.

Fairfax will indemnify the information agent and the exchange agent against specified liabilities and expenses in connection with the Offer, including liabilities under the U.S. federal securities laws. Indemnification for liabilities under the U.S. federal securities laws may be unenforceable as against public policy.

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THE MERGER AGREEMENT

The following summary describes selected material provisions of the Merger Agreement but does not purport to describe all of the terms of the Merger Agreement. The following summary is qualified in its entirety by reference to the complete text of the Merger Agreement, which is incorporated by reference into this prospectus. We urge you to read the full text of the Merger Agreement because it is the legal document that governs the Transactions.

The Merger Agreement and the following description under this heading "The Merger Agreement" have been included to provide you with information regarding the terms of the Merger Agreement. They are not intended to provide any other factual information about Fairfax or Allied World. Such information can be found elsewhere in this prospectus and in the other public filings made by Fairfax and Allied World with the SEC, which are available without charge through the SEC's website at <http://www.sec.gov>. See "Where You Can Find Additional Information."

Structure of the Merger; Surviving Company

Following the consummation of the Offer, subject to the terms of the Merger Agreement, Fairfax and Allied World intend that, in accordance with the laws of Switzerland and the Swiss Merger Agreement, Fairfax (Switzerland) and Allied World will consummate the Merger, whereby Allied World will merge with and into Fairfax (Switzerland), with Fairfax (Switzerland) as the surviving entity. At such time, Allied World shares not tendered in the Offer (other than those shares owned by Allied World, Fairfax or any of their subsidiaries) will be cancelled and, in accordance with the Swiss Merger Act, converted into the right to receive the Merger Consideration, and each Allied World share owned by Allied World, Fairfax, or any of direct or indirect wholly-owned subsidiary of Allied World or Fairfax will be automatically cancelled without any conversion thereof, in each case, on the terms and subject to the conditions set out in the Merger Agreement. The Merger will be effective at the time of the registration of the Merger in the daily ledger of the Commercial Register of the Canton of Zug.

Offer Consideration

Allied World shareholders who validly tender and do not withdraw their shares will receive a combination of cash and stock consideration. For each Allied World share held, Allied World shareholders are being offered:

the Cash Consideration, being \$5.00 in cash, without interest;

the Special Dividend of \$5.00, without interest, payable as soon as possible after the Acceptance Time to holders of Allied World shares as of immediately prior to the Acceptance Time, which is being paid outside of the Offer, but conditioned upon the Offer;

the Fixed Exchange Stock Consideration, payable at a fixed exchange ratio of 0.030392 of a Fairfax share per Allied World share; and

the Fixed Value Stock Consideration, being equal to the quotient of (x) \$30.00 and (y) the volume weighted average closing price of Fairfax shares on the TSX for the 20 consecutive trading days immediately preceding the trading day before the Acceptance Time, converted from Canadian dollars to U.S. dollars using the average Bank of Canada USD/CAD noon exchange rate over such 20-day period, rounded to the nearest one-hundredth of one cent (provided that this volume weighted average price is no less than \$435.65 and no greater than \$485.65 per Fairfax Share). If this volume weighted average price of Fairfax shares during this period is greater than or equal to \$485.65 per Fairfax share, this portion of the consideration will be fixed at 0.061772 Fairfax shares for each Allied World share. If this volume weighted average price of Fairfax shares during this period is less than or equal to \$435.65 per Fairfax share, this portion of the consideration will be fixed at 0.068862 Fairfax shares for each Allied World share.

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Additionally, on or before March 3, 2017, Fairfax may make the Cash Election to increase on a dollar-for-dollar basis the amount of the Cash Consideration from \$5.00 to an amount not exceeding \$35.00, which will correspondingly serve to reduce the Fixed Value Stock Consideration and which, together with the Special Dividend, would provide holders of Allied World shares a total of up to \$40.00 cash. Fairfax may elect to fund the Cash Election by an equity or debt issuance or by bringing in one or more third party co-investors.

If, between December 18, 2016, and the Acceptance Time, the outstanding Fairfax shares are changed (or a record date for such change occurs) into a different number or class of shares by reason of any division or subdivision of shares, stock dividend, consolidation of shares, reclassification, recapitalization or other similar transaction, then the Offer Consideration will be appropriately and proportionately adjusted, taking into account the record and payment or effective dates, as the case may be, for such transaction.

Treatment of Allied World Options and Other Stock-Based Awards

At the Acceptance Time, each Allied World Option granted by Allied World under any Allied World share option or other equity-related award plan, agreement or program (collectively, the "Allied World Share Plans") that is outstanding and unexercised immediately before or as of the Acceptance Time, whether or not exercisable and whether or not vested, will be cancelled and automatically converted into the right to receive an amount in cash equal to the product of the excess, if any, of the Equity Award Consideration, over the exercise price per share of Allied World shares subject to such Allied World Option and the total number of Allied World shares subject to such Allied World Option. For each Allied World Option, if the applicable exercise price per share of Allied World shares equals or exceeds the Equity Award Consideration, such Allied World Option will be cancelled without payment of any consideration, and all rights with respect to such Allied World Option will terminate as of the Acceptance Time.

At the Acceptance Time, each Allied World Restricted Award and each Other Allied World Award subject to time vesting conditions will, without any further action on the part of the holder, become fully vested immediately prior to the Acceptance Time. Each Performance Award will, without any further action on the part of the holder, become fully vested immediately prior to the Acceptance Time, subject to the following rules: for each Performance Award for which the applicable performance period is completed as of immediately prior to the Acceptance Time, the number of Performance Awards that will vest as of immediately prior to the Acceptance Time will be based on actual performance; and for each Performance Award for which the applicable performance period is not completed as of immediately prior to the Acceptance Time, notwithstanding anything to the contrary in any agreement, plan or arrangement covering such Performance Award, the number of Performance Awards that will vest as of immediately prior to the Acceptance Time will be based on the target of the applicable Performance Award (as reasonably determined by the compensation committee of the Allied World board of directors prior to the Acceptance Time). Each Performance Award that does not vest under the circumstances set out in the previous sentence will be cancelled and terminated without consideration immediately prior to the Acceptance Time.

Each Allied World Restricted Award and Other Allied World Award that vests in accordance with the Merger Agreement will, without any further action on the part of the holder, be cancelled as of the Acceptance Time and automatically converted into the right to receive an amount in cash equal to the product obtained by multiplying the Equity Award Consideration and the total number of Allied World shares subject to such Allied World Restricted Award or Other Allied World Award, as applicable, or, to the extent that an Other Allied World Award is denominated in cash, rather than in Allied World shares, the cash amount payable pursuant to such Other Allied World Award, as determined in accordance with the Merger Agreement.

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Prior to the Acceptance Time, subsequent offering periods under the Allied World ESPP will be suspended and terminated following the Acceptance Time. Allied World shares purchased under the Allied World ESPP will be treated as Allied World shares for all purposes of the Merger Agreement, including with respect to the Offer.

Fairfax or one of its subsidiaries will pay to holders of Allied World Options, Allied World Restricted Awards and Other Allied World Awards the cash amounts due, less such amounts required to be withheld or deducted under the Code or any provision of state, local or foreign law with respect to the vesting of the award or making of such payment, on the first payroll date following the Acceptance Time. To the extent amounts are withheld or deducted, such withheld amounts will be treated for the purposes of the Merger Agreement as having been paid to the holders of Allied World Options, Allied World Restricted Awards and Other Allied World Awards in respect of which such deducting and withholding was made.

Representations and Warranties

The Merger Agreement contains representations warranties made by each of Fairfax and Allied World regarding aspects of their respective businesses, financial condition and structure, as well as other factors pertinent to the Offer and the Merger, including, among other things:

corporate organization, good standing and qualification to conduct business;

capital structure;

corporate power and authorization to enter into and carry out the obligations under, and the enforceability of, the Merger Agreement;

the absence of conflicts with or defaults under its organizational documents, contracts and applicable laws;

the absence of the need for any consent, approval, authorization or permit of, filing with or notification to any governmental entity;

filings and reports with appropriate insurance regulatory authorities;

compliance with applicable laws and reporting requirements;

disclosure controls and procedures;

absence of legal and arbitration proceedings and investigations;

tax matters;

the absence of certain changes or events;

requisite board approvals;

requisite shareholder votes;

agreements with regulators;

insurance matters;

investment and derivatives;

material contracts;

employee benefits and executive compensation matters, including benefit plans and compliance with the Employee Retirement Income Securities Act of 1974, as amended;

labor relations and other employment matters;

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intellectual property;

information systems and data security;

real property matters (in the case of Allied World's representations and warranties to Fairfax);

environmental matters (in the case of Allied World's representations and warranties to Fairfax);

no requirement to register as an "investment adviser" under the Investment Advisers Act of 1940, as amended;

the inapplicability of anti-takeover laws; and

engagement and payment of fees of brokers, finders and investment bankers.

None of these representations and warranties will survive the effective time of the Merger. The Merger Agreement contains representations and warranties that Fairfax and Allied World made to each other as of specific dates. The assertions embodied in those representations and warranties were made solely for purposes of the contract between Fairfax and Allied World and may be subject to important qualifications and limitations agreed by Fairfax and Allied World in connection with negotiating its terms. Moreover, certain representations and warranties may not be accurate or complete as of any specified date because they are subject to a contractual standard of materiality different from those generally applicable to shareholders or were used for the purpose of allocating risk between Fairfax and Allied World rather than establishing matters as facts. For the foregoing reasons, you should not rely on the representations and warranties in the Merger Agreement (or the summaries contained herein) as characterizations of the actual state of facts about Fairfax or Allied World.

Many of Fairfax's and Allied World's representations and warranties are qualified by a material adverse effect standard. "Material Adverse Effect" is defined to mean, with respect to any party, any change, state of facts, circumstance, event or effect that, individually or in the aggregate, is materially adverse to (a) the financial condition, properties, assets, liabilities, obligations (whether accrued, absolute, contingent or otherwise), businesses or results of operations of such party and its subsidiaries, taken as a whole, excluding any such change, state of facts, circumstance, event or effect to the extent caused by or resulting from: (i) the execution, delivery and announcement of the Merger Agreement and the transactions contemplated thereby (with this exception not applying in certain circumstances); (ii) changes in economic, market, business, regulatory or political conditions generally in the United States, Bermuda, Switzerland or any other jurisdiction in which such party or its subsidiaries operates or in Bermudian, Switzerland, U.S. or global financial markets; (iii) the commencement, continuation or escalation of acts of war, armed hostilities, sabotage, acts of terrorism or other man-made disaster; (iv) changes, circumstances or events generally affecting the property and casualty insurance and reinsurance industry in similar geographic areas and product markets in which such party operates; (v) changes, circumstances or events resulting in liabilities under property catastrophe insurance or reinsurance, including any effects resulting from any earthquake, hurricane, tornado, windstorm, act of war, armed hostilities, sabotage, act of terrorism or other natural or man-made disaster; (vi) changes in GAAP, IFRS or applicable SAP or any applicable law or interpretation or application of any of the foregoing following the date of the Merger Agreement; (vii) any change or announcement of a potential change in its or any of its subsidiaries' credit or claims paying rating or A.M. Best Company, Inc. rating or the ratings of any of its or its subsidiaries' businesses or securities (provided that this exception will not prevent or otherwise affect a determination that any changes, state of facts, circumstances, events or effects underlying a change described in this clause (vii) has resulted in, or contributed to, a Material Adverse Effect); (viii) the failure to meet any revenue, earnings or other projections, forecasts or predictions for any period ending following the date of the Merger Agreement (provided that this exception will not prevent or otherwise affect a determination that any changes, state of facts, circumstances, events or effects underlying a failure described in this clause (viii) has resulted in, or contributed to, a Material Adverse Effect); or (ix) any

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action or failure to act required to be taken by a party in compliance with the express terms of the Merger Agreement; except in the case of clauses (ii), (iii), (iv), (v) and (vi) to the extent those changes, state of facts, circumstances, events, or effects have a materially disproportionate effect on such party and its subsidiaries taken as a whole relative to other similarly situated persons in the property and casualty insurance and reinsurance industry or (b) the ability of such party to consummate the transactions contemplated by the Merger Agreement on a timely basis.

Covenants

Registration Statement and Other Filings

Fairfax and Allied World have agreed to jointly prepare and file with the SEC a registration statement on Form F-4 to register the offer and sale of Fairfax shares pursuant to the Transactions, and all other documents required to be filed with the SEC in connection with the Transactions. Allied World has also agreed to prepare and file with the SEC a proxy statement and other meeting materials to be sent to Allied World shareholders relating to the special meeting of the Allied World shareholders to approve the Special Dividend, the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017, the Articles Amendment and, unless waived by Fairfax, the Board Modification, and Fairfax has agreed to prepare meeting materials in the event that a Fairfax shareholder meeting is required.

Allied World Shareholder Meeting and Shareholder Voting Agreement

Allied World has agreed to, promptly after the Fairfax registration statement on Form F-4 is declared effective by the SEC, duly call, give notice of, convene and hold a meeting of the Allied World shareholders for the purpose of seeking approval of the Articles Amendment, the Board Modification (unless waived by Fairfax), the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017.

The directors and executive officers of Allied World, who control approximately 3.0 percent of the outstanding Allied World shares, entered into the Allied World Shareholder Voting Agreement with Fairfax, pursuant to which they have agreed to tender their Allied World shares in the Offer. Pursuant to the Allied World Shareholder Voting Agreement, the directors and executive officers of Allied World also agreed to irrevocably grant and appoint Fairfax, and any designee of Fairfax, as their proxy to vote their Allied World shares in favor of the Articles Amendment, Board Modification and the Special Dividend at a meeting of the Allied World shareholders called for such purpose. The preceding summary of the Allied World Shareholder Voting Agreement is qualified in its entirety by reference to the complete text of the form of Allied World Shareholder Voting Agreement entered into by each such director and executive officer of Allied World, which is attached as Annex C to this prospectus and incorporated herein by reference. See "Questions and Answers About the Offer Will Allied World's executive officers and directors participate in the Offer?"

Transaction, Competition and Antitrust Filings

Allied World and Fairfax have agreed to use (and in the case of Fairfax, cause FFH Switzerland and Fairfax (Switzerland) to use) their respective reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable to, as promptly as reasonably practicable, obtain the Transaction Approvals upon which the Offer is conditioned and to use commercially reasonable efforts to obtain all other third party consents required in connection with the Transactions. Allied World and Fairfax agreed to promptly and jointly determine what additional authorizations, orders or approvals under applicable antitrust or competition laws of any country are advisable and warranted.

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Management and Employees after the Transactions

Fairfax has agreed that during the 12-month period following the closing of the Transactions, it will not (and will cause its subsidiaries not to) reduce the base salary (or hourly wage) or certain incentive compensation opportunities of any Allied World employee. With respect to any Allied World employee whose employment is terminated by Fairfax, Allied World, or any of their respective subsidiaries from and after the Acceptance Time and on or before the first anniversary of the Acceptance Time, Fairfax will provide such employee with the payments and benefits as described in the disclosure letter delivered by Allied World to Fairfax simultaneously with the execution of the Merger Agreement.

For a discussion of Allied World's directors' and executive officers' interests in the Transactions that may differ from or be in addition to your interests as a shareholder, see "Interests of Allied World, FFH Switzerland and Fairfax and their Directors and Officers Interests of Allied World's Directors and Officers in the Offer."

Financing

Allied World has agreed to use its reasonable best efforts to provide such cooperation to Fairfax as Fairfax may reasonably request in connection with any financing, including by way of public offering or private placement in Canada, the United States or elsewhere, carried out by Fairfax or any of its subsidiaries, prior to the effective date of the Transactions.

Conditions to Completion of the Offer

The Offer is subject to the following conditions. Neither Fairfax nor FFH Switzerland shall be obliged to purchase any Allied World shares validly tendered (or defectively tendered and such defect is waived by Fairfax or FFH Switzerland) in the Offer and not properly withdrawn if the following conditions have not been satisfied, or to the extent legally permitted, waived.

(i) **Minimum Tender Condition**

There will have been validly tendered in accordance with the terms of the Offer (other than Allied World shares tendered by guaranteed delivery where actual delivery has not occurred), prior to the scheduled expiration of the Offer (as it may be extended pursuant to the terms of the Merger Agreement) and not withdrawn, a number of Allied World shares that, together with any Allied World shares then directly or indirectly owned by Fairfax, FFH Switzerland or Fairfax (Switzerland), represents at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World). The Minimum Tender Condition may not be waived by Fairfax, through FFH Switzerland, without Allied World's written approval unless all other conditions to the closing of the Offer (excluding the Minimum Tender Condition and conditions to be satisfied at the closing of the Offer) have been satisfied or waived (if such waiver is permitted under the terms of the Merger Agreement), in which case Fairfax, through FFH Switzerland, in its sole and absolute discretion, may waive the Minimum Tender Condition down to $66\frac{2}{3}$ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World).

(ii) **Governmental Action**

The absence of (i) any order or preliminary or permanent injunction of a court of competent jurisdiction, including any temporary restraining order, that is in effect, (ii) any law enacted, issued, promulgated, enforced or entered by any governmental entity, and (iii) any pending action instituted or initiated by any federal governmental entity, in each case that does or that would prevent, prohibit or make illegal the consummation of the Offer, the Merger or the other transactions contemplated by the Merger Agreement.

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- (iii) Admission to the TSX
- The new Fairfax shares to be issued in the Offer having been conditionally approved for listing on the TSX, subject to the satisfaction by Fairfax of customary listing conditions of the TSX.
- (iv) Registration Statement Declared Effective by the SEC
- The registration statement on Form F-4 of which this prospectus forms a part having been declared effective under the Securities Act and any applicable blue sky securities filings, permits or approvals being made or received in accordance with applicable law and the absence of (i) any stop order by the SEC or any state securities administrator suspending the effectiveness of such registration statement and (ii) any pending proceedings by the SEC or any state securities administrator seeking such a stop order.
- (v) Regulatory and Antitrust
- The (i) expiration or termination of any applicable waiting period (and any extension thereof) under the HSR Act, (ii) receipt of the Transaction Approvals and Additional Antitrust Approvals, and (iii) making of any other notices, reports and filings required to be made by Allied World, Fairfax or any of their respective subsidiaries with, and the receipt of any other consents, registrations, approvals permits and authorizations required to be obtained from, any governmental entity in connection with the execution, delivery and consummation of the Merger Agreement, the Offer, the Merger and the other transactions contemplated by the Merger Agreement (except for any failure that would not, individually or in the aggregate, render the Offer or the Merger or any of the Transactions illegal or result in a Material Adverse Effect with respect to Fairfax or Allied World, or subject Allied World or its affiliates, or any of their respective directors, officers, employees or representatives, to any criminal liability).
- (vi) Burdensome Regulatory Action
- The absence of any terms in the Transaction Approvals and Additional Antitrust Approvals that, individually or in the aggregate, result in or would reasonably be expected to result in any action requiring the divestiture, sale, transfer or licensing of, or limiting Fairfax's freedom of action with respect to, or ability to retain, any assets, businesses or properties of Allied World, Fairfax, FFH Switzerland or Fairfax (Switzerland), or any of their respective subsidiaries (other than assets, businesses or properties that are *de minimis* in the aggregate to Fairfax and its subsidiaries taken as a whole after giving effect to the Transactions).
- (vii) Regulatory Liability
- The absence of any criminal liability on the part of Allied World or any of its affiliates, or any of their respective directors, officers, employees or representatives, resulting from any Transaction Approval or Additional Antitrust Approval.
- (viii) Special Dividend Approval
- The declaration by Allied World shareholders of the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017.
- (ix) Amendment to Allied World's Articles of Association and Board Modification
- The approval by Allied World shareholders of the Articles Amendment and, unless waived by Fairfax, the Board Modification, each of which shall be in full force and effect.

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- (x) Fairfax Shareholder Approval
- The approval by Fairfax shareholders of the issuance of Fairfax shares pursuant to the Merger Agreement, if required by applicable law.

- (xi) Allied World Share Register
- The Allied World board of directors having resolved to register FFH Switzerland and/or any other company controlled and designated by Fairfax in the share register of Allied World as shareholder(s) with voting rights with respect to all Allied World shares Fairfax or any of its subsidiaries has acquired or may acquire (with respect to Allied World shares to be acquired in the Offer subject to all other conditions to the Offer having been satisfied or waived), and/or FFH Switzerland and/or any other company controlled and designated by Fairfax having been registered in the share register of Allied World as shareholder(s) with voting rights with respect to all Allied World shares acquired.

- (xii) Representations and Warranties
- Subject to certain exceptions, the representations and warranties of Allied World pursuant to the Merger Agreement remaining true and correct as of the expiration of the Offer as though made on and as of the expiration of the Offer (except as would not have an Allied World Material Adverse Effect), and the receipt by Fairfax of a certificate from Allied World as to the satisfaction of such condition.

- (xiii) Obligations of Allied World
- The performance and compliance, in all material respects, of Allied World's obligations, agreements and covenants to be performed and complied with under the Merger Agreement, and the receipt by Fairfax of a certificate from Allied World as to the satisfaction of such condition.

- (xiv) Material Adverse Effect
- Since December 18, 2016, the absence of any events, circumstances, developments, changes and effects that, individually or in the aggregate with other such events, circumstances, developments, changes and effects have had, or would reasonably be expected to have, a Material Adverse Effect on Allied World.

- (xv) Termination of Offer
- The Offer having not been otherwise terminated with the prior written consent of Allied World.

The conditions to the Offer are for the sole benefit of Fairfax and FFH Switzerland and, to the extent legally permitted and subject to the terms of the Merger Agreement, may be waived by Fairfax or FFH Switzerland, (either in whole or in part) at any time and from time to time, in the sole and absolute discretion of Fairfax and FFH Switzerland. Notice of any such waiver will be given in the manner prescribed by applicable law. However, Fairfax and FFH Switzerland may not, without the prior written consent of Allied World, amend, modify or waive the Minimum Tender Condition below 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) unless all other conditions to the Offer have been satisfied or will be satisfied on the closing of the Merger, or waived, to the extent such waiver is permitted under the Merger Agreement, in which case Fairfax may elect to waive the Minimum Tender Condition down to 66²/₃ percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World) as described above. In addition, Fairfax cannot waive the conditions described above under items (ii) through (x) (except item (vi)) above without the prior written consent of Allied World in its sole and absolute discretion.

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Conduct of Business

Operation of Allied World

Allied World has agreed that it will, and will cause its subsidiaries to, during the period from the date of the Merger Agreement until the earlier of the Acceptance Time and the termination of the Merger Agreement, except as expressly contemplated or permitted by the Merger Agreement, required by applicable law, or consented to in writing by Fairfax (which consent Fairfax will not unreasonably condition, delay or withhold):

carry on their respective businesses in the usual, regular and ordinary course of business consistent with past practice; and

use commercially reasonable efforts to preserve intact their present business organizations, goodwill and reputation, maintain their permits and preserve their relationships with employees, investment advisors and managers, customers, policyholders, reinsureds, retrocedents, regulators, agents, administrators, lenders and financing providers and others having business dealings with them.

Allied World has also agreed that it will not, and will not permit its subsidiaries to, during the period from the date of the Merger Agreement until the earlier of the Acceptance Time and the termination of the Merger Agreement, except as expressly contemplated or permitted by the Merger Agreement, required by applicable law, or consented to in writing by Fairfax (which consent Fairfax will not unreasonably condition, delay or withhold):

declare, set aside or pay, or propose to declare, set aside or pay, any dividends on or make other distributions in respect of any of its share capital, options or warrants, except for (i) the Special Dividend, (ii) dividends or other distributions paid by a direct or indirect wholly owned subsidiary to it or its subsidiaries and (iii) the regular quarterly cash dividend for the fourth quarter of 2016 on Allied World shares not in excess of \$0.26 per Allied World share;

adjust, split, combine or reclassify, or propose to adjust, split, combine or reclassify, any of its share capital, or any other securities in respect of, in lieu of or in substitution for, shares of its share capital;

amend or waive the terms of any option, warrant or other right to acquire shares of its share capital;

repurchase, redeem or otherwise acquire, propose to repurchase, redeem or otherwise acquire, any shares of its, or any of its subsidiaries', share capital or any securities convertible into or exercisable for any shares of its, or any of its subsidiaries', share capital, other than repurchases, redemptions or acquisitions by a wholly owned subsidiary of share capital or such other securities, as the case may be, of another of its wholly owned subsidiaries, subject to certain exceptions;

issue, deliver, pledge, encumber, dispose of, or sell, any of its, or any of its subsidiaries', share capital of any class, any Allied World voting debt, any share appreciation rights or any securities convertible or redeemable into or exercisable or exchangeable for, or any rights, warrants or options to acquire, any such shares or Allied World voting debt, or enter into any agreement with respect to any of the foregoing, or otherwise make any changes in its, or its subsidiaries', capital structure, subject to certain exceptions;

except for the Articles Amendment, amend or propose to amend its articles of association or organizational regulations, or the equivalent organizational documents of any of its subsidiaries, or waive any requirement thereof;

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amalgamate, merge or consolidate with any other person, or acquire or agree to acquire, by amalgamating, merging or consolidating with, by purchasing a material interest in or a material portion of the assets of, by forming a partnership or joint venture with, or by any other manner, any corporation, partnership, association or other business organization or division, or any material assets, rights or properties, subject to certain exceptions;

sell, lease, assign, transfer, license, encumber, abandon or otherwise dispose of (including by way of demerger, transfer of assets and liabilities or any other transfer mechanics under the Swiss Merger Act), any of its assets, product lines, businesses, rights or properties, subject to certain exceptions;

amend, modify or terminate any material contract, subject to certain exceptions;

cancel, modify or waive any material debts or claims held by it under, or waive any material rights in connection with, any material contract, subject to certain exceptions;

enter into any contract or other agreement of any type that would have been a material contract had it been entered into before the Merger Agreement was executed, subject to certain exceptions;

do or permit any of its investment managers or advisors, or agents or administrators to do any of the following: (i) fail to comply with Allied World's investment policies in any material respect, except as may be required (or in its good faith judgment is advisable under) by US GAAP, applicable SAP, any governmental entity or applicable law, or (ii) enter into, purchase, sell, amend or modify any derivative other than in the ordinary course of business consistent with past practice and the Allied World investment policies;

take any action with the knowledge and intent that it would result in any of the conditions to the Offer not being satisfied, or materially adversely affect or delay the ability of the parties to obtain any of the Transaction Approvals upon which the Offer is conditioned, subject to certain exceptions;

change its methods of accounting for financial reporting purposes in effect at September 30, 2016, subject to certain exceptions;

make, change or revoke any material tax election, file any amended tax return, settle any tax claim, audit, action, surrender any right to claim a material tax refund, offset or other reduction in tax liability or change its method of tax accounting, subject to certain exceptions;

adopt any plan of complete or partial liquidation or dissolution, restructuring, recapitalization or reorganization;

settle, compromise or commence any action, subject to certain exceptions;

enter into, negotiate, adopt, amend or terminate any collective bargaining agreement or other labor organization-related agreement;

enter into, negotiate, adopt, amend or terminate any benefit plan or agreement, arrangement, plan, policy or contract between Allied World or one of its subsidiaries and one or more of its current or former employees, directors, officers, independent contractors, or consultants, subject to certain exceptions;

increase or accelerate the vesting or lapsing of restrictions on payment of the compensation or fringe benefits of any director, officers, employee, independent contractor, or consultant, or enter into any contract, agreement, commitment or arrangement to do so, subject to certain exceptions;

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increase benefits payable under any existing severance or termination pay policies, subject to certain exceptions;

hire or offer to hire new employees and promote nonexecutive employees, subject to certain exceptions;

terminate, or agree to commit to terminate, any employment or service agreements, with any executive-level employees, other than "for cause" terminations;

grant any new equity or equity-based awards or short- or long-term incentives under any share plan or otherwise, subject to certain exceptions;

redeem, repurchase, prepay, defease, incur, create, or assume, or otherwise become responsible for any indebtedness for borrowed money (or modify any of the material terms of any such outstanding indebtedness), guarantee any such indebtedness or issue or sell any debt securities or rights to acquire any debt securities of it or any of its subsidiaries or guarantee any debt securities of others, subject to certain exceptions;

make any loans, advances or capital contributions to any other person, subject to certain exceptions;

cancel any material debts of any person to Allied World or any of its subsidiaries or waive any claims or rights of material value;

grant, extend, amend, waive or modify any material rights in or to, or sell, assign, lease, transfer, license, let lapse, abandon, cancel or otherwise dispose of, or create or incur any encumbrance on any material intellectual property rights of Allied World or any of its subsidiaries, subject to certain exceptions;

enter, to the extent material to Allied World or any of its subsidiaries taken as a whole, any new lines of business or any classes or any markets in which Allied World and its subsidiaries do not operate as of the date of the Merger Agreement;

alter or amend in any material respect any of the Allied World risk policies or any existing underwriting, claim handling, loss control, calculation of loss reserves or expenses, actuarial, financial reporting or accounting or compliance practices, guidelines, policies or interpretations, or any material assumption underlying an actuarial practice or policy, subject to certain exceptions;

permit any of its insurance subsidiaries (as such term is defined in the Merger Agreement) to enter into, modify or amend, or terminate any reinsurance agreement or waive, release or assign any material rights or claims thereunder, subject to certain exceptions;

permit any of its insurance subsidiaries (as such term is defined in the Merger Agreement) to voluntarily forfeit, abandon, modify waive, terminate or otherwise change any of its material permits, except as may be required by any governmental entity or applicable laws; or

agree to, or make any commitment to, take, or authorize, any of the actions described above.

Operation of Fairfax

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Fairfax has agreed that it will, and will cause its subsidiaries to, during the period from the date of the Merger Agreement until the earlier of the effective time of the Merger and the termination of the Merger Agreement, except as expressly contemplated or permitted by the Merger Agreement, required by applicable law, or consented to in writing by Allied World (which consent Allied World will not unreasonably condition, delay or withhold), carry on their respective businesses in the usual, regular and ordinary course of business consistent with past practice.

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Fairfax has also agreed that it will not, during the period from the date of the Merger Agreement until the earlier of the effective time of the Merger and the termination of the Merger Agreement, except as expressly contemplated by the Merger Agreement, required by applicable law, or consented to in writing by Allied World (which consent Allied World will not unreasonably condition, delay or withhold):

with respect to Fairfax only, declare, set aside or pay, or propose to declare, set aside or pay, any dividends on or make other distributions in respect of any of its share capital, options or warrants, except regular dividends paid to holders of Fairfax's preferred shares or Fairfax's subordinate voting shares or multiple voting shares in the ordinary course of business consistent with past practices;

adjust, split, combine or reclassify, or propose to adjust, split, combine or reclassify, any of its share capital, or any other securities in respect of, in lieu of or in substitution for, shares of its share capital;

amend or waive the terms of any option, warrant or other right to acquire newly issued shares of its share capital;

repurchase, redeem or otherwise acquire, propose to repurchase, redeem or otherwise acquire, any shares of its share capital or any securities convertible into or exercisable for any shares of its share capital, subject to certain exceptions;

issue or sell any Fairfax shares as consideration for, or to finance, the acquisition of, merger with, or purchase of a material interest in, any other person (other than Allied World, subject to certain exceptions) at a price per Fairfax share that is less than the US dollar equivalent of CAD\$614.45, based on the Bank of Canada's daily noon exchange rate on the day immediately preceding the date of entry into such agreement; provided that Fairfax will not be prohibited from or otherwise restricted in issuing or selling Fairfax shares in such circumstances in an amount not to exceed \$500,000,000 in the aggregate (based on the Fairfax share price converted into US dollars using the Bank of Canada's daily noon exchange rate on the date immediately preceding entry into such agreement); and provided further that, except as expressly prohibited by the foregoing, Fairfax will be permitted to issue, deliver, pledge, encumber, dispose of, or sell any shares of its share capital of any class, any share appreciation rights or any securities convertible or redeemable into or exercisable or exchangeable for, or any right, warrants or options to acquire, any such shares;

amend or propose to amend its articles of incorporation or by-laws or waive any requirement thereof, except for the filing of articles of amendment to create a new series of preferred shares;

other than in connection with transactions related to Fairfax investment assets, amalgamate, merge or consolidate with any other person, or acquire or agree to acquire, by amalgamating, merging or consolidating with, by purchasing a material interest in or a material portion of the assets of, by forming a partnership or joint venture with, or by any other manner, any corporation, partnership, association or other business organization or division thereof, or any material assets, rights or properties, in each case, if such action, individually or together with all other such actions, could reasonably be expected to prevent, inhibit or materially delay the consummation of the Merger, and will not permit its subsidiaries to engage in the foregoing;

take any action with the knowledge and intent that it would result in any of the conditions to the Offer or the Merger not being satisfied, or materially adversely affect or delay the ability of the parties to obtain the Transaction Approvals upon which the Offer is conditioned, and will not permit its subsidiaries to engage in the foregoing;

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adopt any plan of complete or partial liquidation or dissolution, restructuring, recapitalization or reorganization; or

agree to, or make any commitment to, take, or authorize, any of the actions described above.

Change of Recommendation and Non-solicitation by Allied World

For a period of thirty days after the date of the Merger Agreement (which period expired at 12:01 a.m. on January 18, 2017, and which is referred to as the "Go-Shop Period"), Allied World had the right to solicit, initiate, encourage, facilitate and induce any inquiry or the making of any proposal or offer that would have constituted a Company Takeover Proposal (as defined below). During the Go-Shop Period, Allied World also had the right to enter into or participate in discussions or negotiations, or otherwise provide assistance, in connection with any Company Takeover Proposal or any inquiry or proposal that would reasonably be expected to lead to any Company Takeover Proposal.

As provided in the Merger Agreement, a "Company Takeover Proposal" means any proposal or offer from any person or group (other than Fairfax) relating to, or that would reasonably be expected to lead to:

any direct or indirect acquisition or purchase, in one transaction or a series of related transactions, of assets or businesses that constitute 20% or more of the assets or account for 20% or more of the net income of Allied World and its subsidiaries, taken as a whole, or 20% or more of any class of equity securities of Allied World (including any Allied World voting debt);

any tender offer or exchange offer that if consummated would result in any person or group of persons beneficially owning 20% or more of any class of equity securities of Allied World (including any Allied World voting debt); or

any merger, amalgamation, scheme of arrangement, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, share exchange or similar transaction involving Allied World or any of its subsidiaries, in each case, under which any person or the shareholders of any person would own 20% or more of any class of equity securities of Allied World (including any Allied World voting debt), or of any resulting parent company of such party.

Following the expiration of the Go-Shop Period, the Merger Agreement requires Allied World to immediately cease discussions or negotiations with any person or group relating to any Company Takeover Proposal, except with respect to an Excluded Party (as defined below), for so long as such person remains an Excluded Party.

As provided in the Merger Agreement, an "Excluded Party" means any person or group that submitted to Allied World during the Go-Shop Period a written Company Takeover Proposal that Allied World's board of directors determined in good faith, after consultation with its outside counsel and financial advisor, is or would reasonably be likely to lead to a Company Superior Proposal (as defined below). Any such person shall cease to be an Excluded Party in certain circumstances, including the withdrawal, termination or expiration of such Company Takeover Proposal, such Excluded Party failing to improve its Company Takeover Proposal in response to improvements made by Fairfax to the terms of the Merger Agreement, or a greater than 50% turn-over in the group of persons providing equity financing in respect of such Company Takeover Proposal.

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As provided in the Merger Agreement, a "Company Superior Proposal" means a *bona fide* Company Takeover Proposal (with all references to "20% or more" in the definition of Company Takeover Proposal being deemed to be references to "more than 50%") made in writing that:

is on terms that the board of directors of Allied World determines in good faith (after consulting with its financial advisor and outside legal counsel), taking into account, among other things, all legal, financial, regulatory, timing and other aspects of the Company Takeover Proposal and the person making the Company Takeover Proposal (including any break-up fees, expense reimbursement provisions, conditions to consummation (including any conditions relating to financing, regulatory approvals or other events or conditions beyond the control of Allied World) and availability of any necessary financing), is more favorable to Allied World's best interests (taking into account the interests of the shareholders of Allied World) than the transactions contemplated by the Merger Agreement (taking into account any written proposal to amend the Merger Agreement by and binding upon Fairfax which is received by Allied World in accordance with the terms of the Merger Agreement or otherwise before the determination by Allied World's board of directors);

the board of directors of Allied World determines is reasonably likely to be consummated; and

is not subject to any financing contingency.

Following the conclusion of the Go-Shop Period, the Merger Agreement further provides that Allied World will not, except with respect to an Excluded Party (for so long as such person remains an Excluded Party) do, authorize, or commit or agree to:

solicit, initiate, knowingly encourage or facilitate or induce any such Company Takeover Proposal, or the making, submission, announcement or consummation thereof, or any proposal, inquiry or offer that would reasonably be expected to lead to, any Company Takeover Proposal;

enter into or otherwise participate in any discussions or negotiations regarding, or furnish to any other person (other than Fairfax and its representatives) any information regarding Allied World or its subsidiaries in connection with, or in furtherance of, or that would reasonably be expected to lead to any Company Takeover Proposal;

waive, terminate, modify or fail to enforce any provision of any confidentiality or "standstill" or similar obligation of any person (other than Fairfax) with respect to Allied World or any of its subsidiaries; or

make available any non-public information regarding Allied World or any of its subsidiaries to any person (other than Fairfax and its representatives) in connection with or in response to any Company Takeover Proposal or any proposal, inquiry or offer that would reasonably be expected to lead to any Company Takeover Proposal.

Notwithstanding the foregoing, following the expiration of the Go-Shop Period, Allied World may participate in discussions or negotiations with, furnish information to, or waive any confidentiality or "standstill" obligation of, any person that has made a Company Takeover Proposal if Allied World's board of directors determines in good faith that (i) failure to take such action would reasonably be expected to be inconsistent with the fiduciary duties of Allied World's board of directors and (ii) such Company Takeover Proposal constitutes a Company Superior Proposal or would reasonably be likely to lead to a Company Superior Proposal, if:

Allied World has entered into a confidentiality agreement with such person containing confidentiality terms and "standstill" or similar obligations not less restrictive (in the aggregate) to such person and its representatives than the provisions of the confidentiality agreement between Fairfax and Allied World; and

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all such information has been previously made available to Fairfax and its representatives or will be so made available substantially concurrent with the time it is provided to such person.

Allied World will promptly (and in any event within 48 hours after receipt) advise Fairfax orally and in writing of (i) any Company Takeover Proposal (or withdrawal of any Company Takeover Proposal), (ii) any request for information that would reasonably be expected to lead to a Company Takeover Proposal, (iii) any inquiry with respect to, or which would reasonably be expected to lead to, any Company Takeover Proposal and (iv) any negotiations sought to be initiated or resumed with either Allied World and its representatives concerning a Company Takeover Proposal, such notice to include the material terms and conditions of any such Company Takeover Proposal, request or inquiry and the identity of the person making the Company Takeover Proposal, request or inquiry. Allied World will keep Fairfax fully informed on a reasonably current basis (and in any event within 48 hours) of any material developments, material discussions or material negotiations regarding any Company Takeover Proposal, request or inquiry, including any changes to the material terms and conditions thereof.

The board of directors of Allied World has resolved to recommend that the Allied World shareholders, among other things, accept the Offer and tender their Allied World shares in the Offer. Allied World has agreed that it will not (i) withhold, withdraw, modify or qualify its recommendation in a manner adverse to Fairfax, (ii) fail to include its recommendation in the proxy statement filed by Allied World relating to the Allied World shareholder meeting or the Schedule 14D-9 to be filed by Allied World relating to the Offer or (iii) recommend or publicly propose to recommend any Company Takeover Proposal (as described above), except in response to a Company Takeover Proposal that Allied World's board of directors (having taken appropriate financial and legal advice) has determined in good faith constitutes a Company Superior Proposal and Allied World's board of directors has determined that the failure to take such action would violate the fiduciary duties of Allied World's board of directors.

Furthermore, prior to making any change in recommendation, Allied World must first provide Fairfax with three business days' prior notice and engage in good faith negotiations with Fairfax (to the extent Fairfax desires to negotiate) during such three business day period regarding any potential amendment or waiver to the Merger Agreement. Following such three day period, at 5:00 p.m., so long as Allied World has not materially breached its obligations under the Merger Agreement, Allied World may change its recommendation if it has determined, after taking into account any amendments or waivers to the Merger Agreement made by Fairfax, and after consultation with its outside legal and financial advisor, that (i) failure to take action with respect to such Company Takeover Proposal would be inconsistent with its fiduciary duties under applicable law, and (ii) such Company Takeover Proposal continues to constitute a Company Superior Proposal.

Allied World is permitted to issue a "stop, look and listen" or similar communication in response to a Company Takeover Proposal, but any such communication shall be deemed to constitute a change of recommendation unless Allied World publicly states in connection with such communication that the recommendation of its board of directors with respect to the Merger Agreement has not changed or refers to the prior recommendation of Allied World's board of directors, without disclosing any change in recommendation.

Non-solicitation by Fairfax

Pursuant to the terms of the Merger Agreement, Fairfax agreed that it will not do, authorize, or commit or agree, and will cause its subsidiaries not to:

solicit, initiate, knowingly encourage or facilitate or induce any Parent Takeover Proposal (as defined below) or the making, submission, announcement or consummation thereof, or any proposal, inquiry or offer that would reasonably be expected to lead to, any Parent Takeover Proposal;

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enter into or otherwise participate in any discussions or negotiations regarding, or furnish to any other person any information relating to Fairfax in connection with, or in furtherance of, or that would reasonably be expected to lead to any Parent Takeover Proposal;

waive, terminate, modify or fail to enforce any provision of any confidentiality or "standstill" or similar obligation of any person (other than Allied World) with respect to Fairfax or any of its subsidiaries; or

make available any non-public information regarding Fairfax or any of its subsidiaries to any person (other than Allied World) in connection with or in response to any Parent Takeover Proposal, or any proposal, inquiry or offer that would reasonably be expected to lead to any Parent Takeover Proposal.

In addition, Fairfax agreed that it will not, and will cause its subsidiaries not to, approve, adopt, or recommend, or publicly propose to approve, adopt or recommend any Parent Takeover Proposal, submit to the vote of its shareholders any Parent Takeover Proposal, or enter into any letter of intent or other agreement, arrangement or understanding relating to any Parent Takeover Proposal.

As provided in the Merger Agreement, "Parent Takeover Proposal" means any proposal or offer from any person (other than Allied World) relating to, or that would reasonably be expected to lead to:

any direct or indirect acquisition or purchase, in one transaction or a series of related transactions, of assets or businesses that constitute 30% or more of the assets or account for 30% or more of the net income of Fairfax and its subsidiaries, taken as a whole, or 30% or more of any class of equity securities of Fairfax (including any Fairfax voting debt);

any tender offer or exchange offer that if consummated would result in any person or group beneficially owning 30% or more of any class of equity securities of Fairfax (including any Fairfax voting debt); or

any merger, amalgamation, scheme of arrangement, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, share exchange or similar transaction involving Fairfax or any of its subsidiaries, in each case, under which any person or the shareholders of any person would own 30% or more of any class of equity securities of Fairfax (including any Fairfax voting debt), or of any resulting parent company of such party.

Termination

General

The Merger Agreement may be terminated, and the Transactions may be abandoned, by written notice at any time prior to the effective time of the Merger in any of the following ways:

- (a) by mutual written consent of Fairfax and Allied World;
- (b) by either Fairfax or Allied World upon written notice to the other party:
 - (i) if a governmental entity that is required to grant a Transaction Approval (as described under "Conditions to Completion of the Offer") has made a final and nonappealable denial of any such Transaction Approvals, provided that this right of termination will not be available to any party whose failure to comply in any material respect with any provision of the Merger Agreement primarily caused any such denial;
 - (ii)

if a governmental entity of competent jurisdiction has issued any final and nonappealable order, injunction or ruling that permanently restrains, enjoins or otherwise prohibits any of the Transactions;

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- (iii) if the Offer has not been consummated on or before August 18, 2017; provided that if the conditions to the Offer, other than the receipt of the Transaction Approvals, have been satisfied or waived, then either Fairfax or Allied World has the right to extend the August 18, 2017, end date for up to two additional 30-day periods;
 - (iv) if approval of the Articles Amendment, the Board Modification (unless waived by Fairfax) and the Special Dividend and the forgoing of the \$0.26 quarterly dividend for the first quarter of 2017 by the Allied World shareholders at the Allied World shareholder meeting is not obtained;
 - (v) if Fairfax is required to hold a meeting of its shareholders for the purpose of approving the issuance of the new Fairfax shares in the Offer, and such approval is not obtained; or
 - (vi) on or after the Acceptance Time, if there have not been validly tendered and not withdrawn a number of Allied World shares that, together with any Allied World shares then directly or indirectly owned by Fairfax or FFH Switzerland, represents at least 90 percent of all outstanding Allied World shares (excluding Allied World shares held by Allied World);
- (c) by Fairfax, prior to the Acceptance Time, if:
- (i) Allied World's board of directors has withdrawn its recommendation for the shareholders of Allied World to (1) approve the Articles Amendment, the Board Modification (unless waived by Fairfax) and the Special Dividend and forgoing of the \$0.26 quarterly dividend for the first quarter of 2017, (2) accept the Offer and tender their Allied World shares in the Offer and (3) approve the Swiss Merger Agreement, or failed to include such recommendation in Allied World's proxy statement or Schedule 14D-9 or recommended or publicly proposed to recommend any Company Takeover Proposal;
 - (ii) Allied World has materially breached any of its non-solicitation obligations (described under the heading "Change of Recommendation and Non-solicitation by Allied World" above), other than inadvertent breaches capable of being cured and actually cured within three business days;
 - (iii) a tender offer or exchange offer for 20% or more of the outstanding Allied World shares (other than by Fairfax) is commenced, and the Allied World board of directors fails to recommend against acceptance of such tender offer or exchange offer by its shareholders within 10 business days of such commencement;
 - (iv) Allied World's board of directors fails to publicly reaffirm its recommendation of the Transactions (i) within 10 business days of Fairfax's written request to do so in the event of any Company Takeover Proposal that is a tender offer or exchange offer, or (ii) within seven calendar days of Fairfax's written request to do so in the event of any other Company Takeover Proposal that has been made public or in the event of any other public disclosure by Allied World that relates to the approval, recommendation or declaration of advisability of the Transactions; provided that, in each case, Allied World shall only be required to make one such affirmation with respect to any one Company Takeover Proposal;
 - (v) Allied World has breached any of the covenants or agreements in the Merger Agreement, or any of the representations and warranties of Allied World set out in the Merger Agreement have become inaccurate or been breached by Allied World, which breach or inaccuracy, individually or in the aggregate, results in the failure of the conditions to the Offer to be satisfied and which breach or inaccuracy in each case has not been (or is

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incapable of being) cured within 30 days; provided that Fairfax is not in material breach of its obligations under the Merger Agreement; or

(vi)

there have been any events, circumstances, developments, changes and effects that, individually or in the aggregate, have had, or would reasonably be expected to have, an Allied World Material Adverse Effect; and

(d)

by Allied World, prior to the Acceptance Time, if:

(i)

Fairfax has materially breached its non-solicitation obligations (described under "Non-solicitation by Fairfax" above), other than inadvertent breaches capable of being cured and actually cured within three business days;

(ii)

a tender offer or exchange offer for 30 percent or more of the outstanding Fairfax shares is commenced, and the Fairfax board of directors fails to recommend against acceptance of such tender offer or exchange offer by its shareholders within 10 business days of such commencement;

(iii)

in response to a Company Superior Proposal in order to enter into a definitive agreement to effect such Company Superior Proposal, Allied World's board of directors has withdrawn its recommendation in accordance with the terms of the Merger Agreement;

(iv)

(1) the representations and warranties of Fairfax in the Merger Agreement related to capital structure (except for errors that are *de minimis* in the aggregate) and absence of certain changes or events are not true and correct as of the date of the Merger Agreement and the expiration of the Offer, (2) the representations and warranties of Fairfax related to organization, standing and power, authority and non-contravention, board approval, required vote or brokers or finders are not true and correct in all material respects as of the date of the Merger Agreement and the expiration of the Offer, (3) the other representations and warranties of Fairfax in the Merger Agreement are not true and correct except as would not have a Fairfax Material Adverse Effect, or (4) Fairfax has failed to perform in all material respects its obligations or comply with its agreements and covenants under the Merger Agreement, and in case such breach or inaccuracy has not been (or is incapable of being) cured within 30 days, or if Allied World has failed to receive a certificate from Fairfax as to the inapplicability of the foregoing; provided that Allied World is not in material breach of its obligations under the Merger Agreement; or

(v)

there have been any events, circumstances, developments, changes and effects that, individually or in the aggregate, have had, or would reasonably be expected to have, a Fairfax Material Adverse Effect.

Termination Fee

Allied World is required pay Fairfax a termination fee of \$73.5 million if:

Fairfax terminates the Merger Agreement as provided in paragraph (c)(i) above or if Allied World terminates the Merger Agreement as provided in paragraph (d)(iii) above, and

such termination occurs within five days after the expiration of the Go-Shop Period in connection with Allied World entering into a definitive agreement to effect a Company Superior Proposal with an Excluded Party.

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Allied World is required to pay Fairfax a termination fee of \$196 million if:

Fairfax terminates the Merger Agreement as provided in paragraphs (c)(i), (ii), (iii) or (iv) above or if Allied World terminates the Merger Agreement as provided in paragraphs (d)(iii) above (in circumstances other than as specified immediately above);

Fairfax terminates the Merger Agreement as provided in paragraphs (b)(iii) or (c)(v) above and a Company Takeover Proposal was made prior to such termination and Allied World enters into a definitive agreement with respect to such Company Takeover Proposal within 12 months after such termination (references to "20%" in the definition of Company Takeover Proposal being deemed to be "50%" for these purposes); or

Either Fairfax or Allied World terminates the Merger Agreement as provided in paragraph (b)(iv) above and a Company Takeover Proposal was made prior to such termination and Allied World enters into a definitive agreement with respect to such Company Takeover Proposal within 12 months after such termination (references to "20%" in the definition of Company Takeover Proposal being deemed to be "50%" for these purposes).

Fairfax is required to pay Allied World a termination fee of \$196 million if:

Allied World terminates the Merger Agreement as provided in paragraphs (d)(i) or (ii) above;

Allied World terminates the Merger Agreement as provided in paragraphs (b)(iii) or (d)(iv) above and a Parent Takeover Proposal was made prior to such termination and Fairfax enters into a definitive agreement with respect to such Parent Takeover Proposal within 12 months after such termination (references to "30%" in the definition of Parent Takeover Proposal being deemed to be "50%" for these purposes); or

Either Fairfax or Allied World terminates the Merger Agreement as provided in paragraph (b)(v) above and a Parent Takeover Proposal was made prior to such termination and Fairfax enters into a definitive agreement with respect to such Parent Takeover Proposal within 12 months after such termination (references to "30%" in the definition of Parent Takeover Proposal being deemed to be "50%" for these purposes).

Expenses

Allied World is required to reimburse Fairfax for its Reimbursable Expenses (as defined below) if Fairfax terminates the Merger Agreement as provided in paragraph (c)(v) above or if Fairfax or Allied World terminate the Merger Agreement as provided in paragraph (b)(iv) above; provided that any such amounts will be fully creditable against any termination fee that becomes payable in connection with such termination.

Fairfax is required to reimburse Allied World for its Reimbursable Expenses if Allied World terminates the Merger Agreement as provided in paragraph (d)(iv) above or if Fairfax or Allied World terminate the Merger Agreement as provided in paragraph (b)(v) above; provided that any such amounts will be fully creditable against any termination fee that becomes payable in connection with such termination.

"Reimbursable Expenses" means all reasonable out-of-pocket documented fees and expenses incurred by Fairfax or Allied World, as applicable, in connection with or related to the authorization, preparation, negotiation, execution, financing and performance of the Merger Agreement and all other matters related to the Transactions, up to a maximum aggregate amount of \$20,000,000.

Except as provided above in this section, and except for out-of-pocket expenses (excluding fees payable to advisors) incurred in connection with the printing and filing of this Registration Statement, Allied World's proxy statement, and shareholder meeting materials of Allied World and (if any) Fairfax,

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which expenses will be shared equally, Fairfax and Allied World will each pay its own costs and expenses in connection with the Merger Agreement and transactions contemplated by the Merger Agreement.

Governing Law and Jurisdiction

Fairfax and Allied World have agreed that the Merger Agreement will be governed by, interpreted and construed with regard to, in all respects, the laws of the state of Delaware, without giving effect to its principles or rules of conflict of laws (other than those provisions set out in the Merger Agreement that are required to be governed by the laws of Switzerland). Each of Fairfax and Allied World irrevocably and unconditionally consented, agreed and submitted to the exclusive jurisdiction of the U.S. federal courts of the State of Delaware and the Court of Chancery of the State of Delaware (and appropriate appellate courts therefrom, respectively) for the purposes of any action with respect to the subject matter of the Merger Agreement.

Amendments, Extensions and Waivers

The Merger Agreement may be amended by Fairfax and Allied World, by action taken or authorized by their respective boards of directors, at any time before or after the receipt of the approvals by the Allied World shareholders as required to consummate the Offer. However, after any such shareholder approval, there may not be any amendment of the Merger Agreement for which applicable law (including the rules and regulations of the NYSE or the TSX) requires further Fairfax shareholder approval or Allied World shareholder approval, without such shareholder approval being obtained.

No Third Party Beneficiaries

The Merger Agreement is not intended to, and does not, confer upon an Allied World shareholder or any person other than Allied World and Fairfax any rights or remedies, except that (i) Allied World's directors and officers will have the right to enforce Fairfax's covenant to continue to provide indemnification and liability insurance coverage after the completion of the Merger, and (ii) the Allied World shareholders whose shares are cancelled and converted into the right to receive the Merger Consideration will have the right to enforce such right.

Specific Performance

Each of Fairfax and Allied World is entitled to an injunction, specific performance and other equitable relief to prevent breaches of the Merger Agreement and to enforce specifically the terms of the Merger Agreement in addition to any other remedy to which Fairfax or Allied World is entitled at law or in equity.

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INFORMATION ABOUT FFH SWITZERLAND

FFH Switzerland was formed by 1102952 B.C. Unlimited Liability Company, a direct wholly-owned subsidiary of Fairfax, to make the Offer. FFH Switzerland was incorporated on [•], 2017 as a limited liability company under the laws of Switzerland and registered in the Zug Commercial Register under the number CHE-[•]. FFH Switzerland's registered office is located at c/o LacMont AG, Hofstrasse 1a, 6300 Zug, Switzerland.

The quota capital of FFH Switzerland amounts to CHF 20,000 and consists of 200 fully paid-in quotas with a par value of CHF 100 each. All of the quotas are owned by 1102952 B.C. Unlimited Liability Company. FFH Switzerland's management will comprise the following managing officers: Ronald Schokking, Albrecht Langhart and Stefan Wehrenberg.

FFH Switzerland was formed for the purpose of the Transactions and has not conducted, and does not expect to conduct, any business other than in connection with its organization and the consummation of the Transactions.

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MANAGEMENT OF FAIRFAX

Directors of Fairfax

During the past five years, Fairfax has not been (i) convicted in a criminal proceeding (excluding traffic violations or other similar misdemeanors) or (ii) a party to any judicial or administrative proceeding (except for matters that were dismissed without sanction or settlement) that resulted in a judgment, decree or final order enjoining Fairfax from future violations of, or prohibiting activities subject to, U.S. federal or state securities laws, or a finding of any violation of U.S. federal or state securities laws.

None of the current Fairfax directors was selected to be a director of Fairfax pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with Fairfax. There are no family relationships between any of the current Fairfax directors or senior management other than between V. Prem Watsa and his son, Benjamin P. Watsa. There are no actual or potential conflicts of interests between any duties of Fairfax's directors and their private interests and other duties.

Set out below are brief biographical descriptions of members of Fairfax's board of directors, including their current principal occupation or employment and material occupations, positions, offices or employment during the past five years.

Anthony F. Griffiths (age 86)

Anthony F. Griffiths is a member of Fairfax's board of directors and is Fairfax's Lead Director. Mr. Griffiths is an independent business consultant and corporate director. He is a director of Fairfax's publicly traded subsidiary Fairfax India Holdings Corporation and is also the Chairman of Novadaq Technologies Inc. and a director of Corporate Catalyst Acquisition Inc. Mr. Griffiths was the Chairman of Mitel Corporation from 1987 to 1993, and from 1991 to 1993 assumed the positions of President and Chief Executive Officer in addition to that of Chairman. Mr. Griffiths is a member of Fairfax's Audit Committee and the Chair of Fairfax's Compensation and Governance and Nominating Committees, and is a resident of Toronto, Ontario, Canada.

Robert J. Gunn (age 71)

Robert J. Gunn is a member of Fairfax's board of directors. Mr. Gunn is an independent business consultant and corporate director. Mr. Gunn is the Chairman of the board of directors of its Northbridge subsidiary ("Northbridge") and served as the Vice Chairman of the board of directors of Northbridge from 2004 to 2014. Mr. Gunn previously served as the Chief Executive Officer and Chief Operating Officer of Royal & SunAlliance plc of London, England from 2002 to 2003 and 2001 to 2002, respectively. He also served as Group Director, Americas, of Royal & SunAlliance from 1998 to 2001. From 1990 to 2001, Mr. Gunn held the positions of President and Chief Executive Officer at Royal & SunAlliance Canada. Mr. Gunn is a member of Fairfax's Audit and Compensation Committees, and is a resident of Toronto, Ontario, Canada.

Alan D. Horn (age 65)

Alan D. Horn is a member of Fairfax's board of directors. Mr. Horn is the President and Chief Executive Officer of Rogers Telecommunications Limited and has been Chairman of Rogers Communications Inc. since March 2006. Mr. Horn served as Acting President and Chief Executive Officer of Rogers Communications Inc. from October 2008 to March 2009. Mr. Horn was Vice-President, Finance and Chief Financial Officer of Rogers Communications Inc. from 1996 to 2006 and was President and Chief Operating Officer of Rogers Telecommunications Limited from 1990 to 1996. He is also a director of Fairfax's publicly traded subsidiary Fairfax India Holdings Corporation,

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and is the Chair of Fairfax's Audit Committee. Mr. Horn is a Chartered Accountant and a director and a member of the Audit Committee of CCL Industries Inc. Mr. Horn is a resident of Toronto, Ontario, Canada.

John R. V. Palmer (age 73)

John R.V. Palmer is a member of Fairfax's board of directors. Mr. Palmer is the Chairman of the Toronto Leadership Centre, a position he has held since 2005. Mr. Palmer has acted as a consultant and advisor on financial and financial sector regulatory matters to a number of international organizations and national authorities, including the International Monetary Fund, the World Bank, the Asian Development Bank, USAID, the Monetary Authority of Singapore and the Australian Prudential Regulation Authority. Mr. Palmer served as the Superintendent of Financial Institutions for Canada from 1994 to 2001, and as Deputy Managing Director of the Monetary Authority of Singapore from 2002 to 2005. Prior thereto, Mr. Palmer held a number of senior positions at KPMG LLP (Canada), including Managing Partner and Deputy Chairman. Mr. Palmer is a director, Chairman of the Risk Committee and a member of the Audit Committee of Manulife Financial Corporation. Mr. Palmer is a Chartered Accountant and a member of Fairfax's Governance and Nominating Committee. He is a resident of Toronto, Ontario, Canada.

Timothy R. Price (age 74)

Timothy R. Price is a member of Fairfax's board of directors. Mr. Price has been the Chairman of Brookfield Funds, a division of Brookfield Asset Management Inc., since 1997 and was the Chairman of Brookfield Financial Corporation until December 2004. Mr. Price is a director of Canadian Tire Corporation and serves on the St. Michael's Hospital Foundation Board and the Dean's Advisory Board at the Schulich School of Business. Mr. Price is a member of Fairfax's Audit and Governance and Nominating Committees, and is a resident of Toronto, Ontario, Canada.

Brandon W. Sweitzer (age 74)

Brandon W. Sweitzer is a member of Fairfax's board of directors. Mr. Sweitzer is the Dean of the School of Risk Management, St. John's University and a director of the U.S. Chamber of Commerce. He is a director of Fairfax's subsidiaries OdysseyRe, Falcon Insurance Company and First Capital Insurance Limited. Mr. Sweitzer also serves on the board of the School of Risk Management, St. John's University, and is past president of the Board of Trustees of the Kent School and a Trustee emeritus. Mr. Sweitzer became Chief Financial Officer of Marsh Inc. in 1981, and was its President from 1999 through 2000. From 1996 to 1999, Mr. Sweitzer served as President and Chief Executive Officer of Guy Carpenter & Company. Mr. Sweitzer is a member of Fairfax's Compensation and Governance and Nominating Committees, and is a resident of New Canaan, Connecticut, U.S.A.

Benjamin P. Watsa (age 38)

Benjamin P. Watsa is a member of Fairfax's board of directors. Mr. Watsa is a Partner and Portfolio Manager at Lissom Investment Management Inc., a private investment counselor that provides wealth management services for high net worth clients through the Owners Family of Funds, where he manages the Owners Opportunities Fund, a small and mid-cap focused equity fund. Prior to joining Lissom in 2006, Mr. Watsa worked in New York in investment banking as an Analyst in the Financial Institutions Group at Banc of America Securities from 2001 to 2003 and as an Associate at Cochran Caronia Waller from 2003 to 2006. Mr. Watsa is a member of the Finance Committee of the Rideau Hall Foundation, and is a resident of Toronto, Ontario, Canada.

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V. Prem Watsa (age 66)

V. Prem Watsa has been the Chairman of Fairfax's board of directors and its Chief Executive Officer since 1985. He has served as Vice President of Hamblin Watsa Investment Counsel Ltd. since 1985. Mr. Watsa is the Chairman of Fairfax's publicly traded subsidiaries Fairfax India Holdings Corporation and Fairfax Africa Holdings Corporation. Mr. Watsa is also a director of BlackBerry Limited, and is a resident of Toronto, Ontario, Canada.

Directors of Fairfax after completion of the Transactions

Following completion of the Transactions, Fairfax's board of directors is expected to remain unchanged.

Senior Management of Fairfax

None of the current members of Fairfax's senior management was selected to be a member of senior management pursuant to any arrangement or understanding with any major customer, supplier or other person having a business connection with Fairfax.

David Bonham (age 42)

David Bonham is Fairfax's Chief Financial Officer. Mr. Bonham has been with Fairfax since 2004 and has been in his current role since 2012. During his time with Fairfax Mr. Bonham has also served as Vice President, Financial Reporting of Fairfax from 2006 to 2012 and Financial Analyst from 2004 to 2006. Prior to Fairfax, David was a Senior Manager in the audit practice of PricewaterhouseCoopers and served various clients in the financial services industry, primarily property and casualty insurance companies and investment dealer. Mr. Bonham has been a Chartered Professional Accountant since 1998.

Peter Clarke (age 45)

Peter S. Clarke is Fairfax's Vice President and Chief Risk Officer. Mr. Clarke has been with Fairfax since 1997 and has been in his current role since 2006. During his time with Fairfax, Mr. Clarke has also served as Vice President of Fairfax from 2004 to 2006 with responsibilities including actuarial functions and managing rating agency relationships for Fairfax and its subsidiaries and Actuarial Analyst.

Jean Cloutier (age 53)

Jean Cloutier is Fairfax's Vice President, International Operations and Chairman of Fairfax International. Mr. Cloutier has been with Fairfax since 1997 and has been Vice President, International Operations since 2009 and Chairman of Fairfax International since 2013. During his time with Fairfax, Mr. Cloutier has also held served as Vice President and Chief Actuary of Fairfax from 1999 to 2009. Mr. Cloutier is a fellow of the Casualty Actuarial Society and a member of the Canadian Institute of Actuaries.

Bradley Martin (age 57)

Bradley Martin is Fairfax's Vice President, Strategic Investments. Mr. Martin has been an officer of Fairfax since 1998 and has been in his current role since 2012. Prior to his time at Fairfax, Mr. Martin was a partner at the Canadian law firm Torys LLP. He is a director of Bank of Ireland and Eurobank Ergasias S.A. and Chairman of Resolute Forest Products Ltd.

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Paul Rivett (age 49)

Paul Rivett is Fairfax's President. Mr. Rivett has been with Fairfax since 2004 and has been in his current role since 2013. Mr. Rivett also currently serves as Chief Operating Officer of Hamblin Watsa Investment Counsel Ltd., the Fairfax Group's investment manager. Mr. Rivett previously held the position of Vice President, Operations of Fairfax from 2012 to 2013. He is also a Canadian Securities registered Portfolio Manager.

Eric Salsberg (age 72)

Eric Salsberg is Fairfax's Vice President, Corporate Affairs and Corporate Secretary. Mr. Salsberg has been with Fairfax since 1989 and in his current role Vice President Corporate Affairs and Corporate Secretary since 1989 and 2012, respectively. Prior to joining Fairfax, Mr. Salsberg was a partner at the Canadian law firm Torys LLP.

Ronald Schokking (age 63)

Ronald Schokking is a Vice President and Treasurer of Fairfax. Mr. Schokking has been with Fairfax since 1989 and in his current role since 2006. Ronald has been a Chartered Professional Accountant since 1984.

John Varnell (age 60)

John Varnell is Fairfax's Vice President, Corporate Development. Mr. Varnell has been with Fairfax since 1987 and in his current role since 2012. Mr. Varnell has served in a number of roles at Fairfax, including Chief Financial Officer from 1987 to 2001 and 2010 to 2012. He also serves as Vice President and Corporate Secretary of Fairfax India Holdings Corporation. Mr. Varnell has been a Chartered Professional Accountant since 1981.

V. Prem Watsa (age 66)

V. Prem Watsa is Fairfax's Chairman and Chief Executive Officer. V. Prem Watsa has been the Chairman of Fairfax's board of directors and its Chief Executive Officer since 1985. He has served as Vice President of Hamblin Watsa Investment Counsel Ltd. since 1985. Mr. Watsa is the Chairman of Fairfax's publicly traded subsidiaries Fairfax India Holdings Corporation and Fairfax Africa Holdings Corporation. Mr. Watsa is also a director of BlackBerry Limited, and is a resident of Toronto, Ontario, Canada.

Senior Management of Fairfax after completion of the Transactions

Following completion of the Transactions, Fairfax's senior management is expected to remain unchanged.

Table of Contents**REMUNERATION OF FAIRFAX'S DIRECTORS AND SENIOR MANAGEMENT****Compensation of Directors**

Fairfax's directors who are not officers or employees of the Fairfax Group receive a retainer of \$75,000 per year. There are no additional fees based on meeting attendance. The Chair of the Audit Committee and the Lead Director each also receives a further retainer of \$10,000 per year, and the Chair of each other committee also receives a further retainer of \$5,000 per year, for services in those respective capacities. In addition, non-management directors joining the Fairfax board of directors are granted a restricted stock grant (or, as a result of applicable tax rules, an option equivalent) of approximately \$500,000 of Fairfax's subordinate voting shares, vesting as to 10 percent per year commencing one year after the date of grant (or, if desired, on a slower vesting schedule). Additional amounts may be paid for special assignments. See the table below, giving details of the outstanding option-based and share-based awards granted to Fairfax's directors, for information concerning stock-related awards to directors. Any such awards made to directors are on Fairfax's outstanding subordinate voting shares purchased in the market and, since they involve no previously unissued stock, there is no dilution to shareholders. Non-management directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending Fairfax board of directors or committee meetings or in otherwise being engaged on the Fairfax business. Fairfax's Chairman does not receive compensation for his services as a director separate from his compensation as Chief Executive Officer. Details of the compensation provided to Fairfax's directors during 2016 (including compensation paid by Fairfax's subsidiaries for those individuals' services as directors of those subsidiaries) are shown in the following table:

Name	Fees Earned	Share-Based Awards	Option-Based Awards	Non-Equity Incentive		Total Compensation
				Plan	All Other Compensation	
Anthony F. Griffiths	[•]	[•]	[•]	[•]	[•]	[•]
Robert J. Gunn	[•]	[•]	[•]	[•]	[•]	[•]
Alan D. Horn	[•]	[•]	[•]	[•]	[•]	[•]
John R.V. Palmer	[•]	[•]	[•]	[•]	[•]	[•]
Timothy R. Price	[•]	[•]	[•]	[•]	[•]	[•]
Brandon W. Sweitzer	[•]	[•]	[•]	[•]	[•]	[•]
Benjamin P. Watsa	[•]	[•]	[•]	[•]	[•]	[•]

Details of the outstanding option-based and share-based awards on Fairfax's previously issued subordinate voting shares granted to its directors are shown in the following table:

Name	Option-Based Awards				Share-Based Awards	
	Number of shares underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options	Number of shares that have not vested	Market value of share-based awards that have not vested
Anthony F. Griffiths	[•]	[•]	[•]	[•]	[•]	[•]
Robert J. Gunn	[•]	[•]	[•]	[•]	[•]	[•]
Alan D. Horn	[•]	[•]	[•]	[•]	[•]	[•]
John R.V. Palmer	[•]	[•]	[•]	[•]	[•]	[•]
Timothy R. Price	[•]	[•]	[•]	[•]	[•]	[•]
Brandon W. Sweitzer	[•]	[•]	[•]	[•]	[•]	[•]
Benjamin P. Watsa	[•]	[•]	[•]	[•]	[•]	[•]
V. Prem Watsa	[•]	[•]	[•]	[•]	[•]	[•]

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The values vested during 2016 of the option-based and share-based awards granted to Fairfax's directors shown in the preceding table are shown in the following table:

Name	Option-Based Awards	Share-Based Awards
	Value vested during the year	Value vested during the year
Anthony F. Griffiths	[•]	[•]
Robert J. Gunn	[•]	[•]
Alan D. Horn	[•]	[•]
John R. V. Palmer	[•]	[•]
Timothy R. Price	[•]	[•]
Brandon W. Sweitzer	[•]	[•]
Benjamin P. Watsa	[•]	[•]
V. Prem Watsa	[•]	[•]
Director Share Ownership		

Each member of Fairfax's board of directors is expected to hold for the long term significant equity in Fairfax. Fairfax's Corporate Governance Guidelines provide that the board of directors of Fairfax will confirm each year that each member owns equity equal in value to at least five times the amount of his or her annual retainer. Directors who do not meet this minimum must apply their annual retainers to purchase subordinate voting shares (or similar equity-like ownership) of Fairfax until it is satisfied.

Compensation of Senior Management

Details of the compensation awarded to Fairfax's named executive officers for the fiscal year ended December 31, 2016 are shown in the "Summary Compensation Table" below.

Summary Compensation Table

Name and principal position with Fairfax	Year	Salary	Non-Equity Incentive Plan Compensation				Total Compensation
			Option-Based Awards	Annual Incentive Plans	Long-Term Incentive Plans	All Other Compensation	
V. Prem Watsa	2016	[•]	[•]	[•]	[•]	[•]	[•]
Chairman and Chief Executive Officer	2015	[•]	[•]	[•]	[•]	[•]	[•]
	2014	[•]	[•]	[•]	[•]	[•]	[•]
David J. Bonham	2016	[•]	[•]	[•]	[•]	[•]	[•]
Vice President and Chief Financial Officer	2015	[•]	[•]	[•]	[•]	[•]	[•]
	2014	[•]	[•]	[•]	[•]	[•]	[•]
Paul C. Rivett	2016	[•]	[•]	[•]	[•]	[•]	[•]
President	2015	[•]	[•]	[•]	[•]	[•]	[•]
	2014	[•]	[•]	[•]	[•]	[•]	[•]
Peter S. Clarke	2016	[•]	[•]	[•]	[•]	[•]	[•]
Vice President and Chief Risk Officer	2015	[•]	[•]	[•]	[•]	[•]	[•]
	2014	[•]	[•]	[•]	[•]	[•]	[•]
Jean Cloutier	2016	[•]	[•]	[•]	[•]	[•]	[•]
Vice President, International Operations	2015	[•]	[•]	[•]	[•]	[•]	[•]
	2014	[•]	[•]	[•]	[•]	[•]	[•]

Table of Contents**Equity Compensation Plan**

Fairfax's equity compensation plan, established in 1999, replaced Fairfax's share purchase plan described under "Related Party Transactions" in 2002. No significant changes have been made to the plan since it was established, and any changes would require the approval of the Compensation Committee. Under the plan, stock-related awards in the form of options or restricted shares may be made to Fairfax's executive officers. Recently, annual bonuses are to a large extent paid partly in cash and partly in a stock-related award. Otherwise, an award made to any individual is on a one-time or infrequent basis, any additional award regularly reflecting an increase in responsibilities, with a general alignment of the aggregate amount of awards to executive officers with comparable degrees of responsibility. The awards granted are expected to be held, not traded; Fairfax does not have a pension plan, so these awards are Fairfax's form of long term incentive, whose value is determined by the performance of Fairfax over the long term. A grant decision is made by the Compensation Committee on the recommendation of Fairfax's CEO. The awards are made of Fairfax's subordinate voting shares which have been previously issued and the shares underlying these awards are purchased in the market, so that they involve no previously unissued stock and consequently no dilution to shareholders. As at December 31, 2016, a total of [•] unexercised options have been granted to Fairfax's employees, representing [•] percent of Fairfax's subordinate voting shares outstanding as at that date. For U.S. participants, the plan is structured as a restricted share plan, providing grants of outstanding shares which vest at future dates. For participants in Canada, the plan operates as much as possible like a restricted share plan but, in light of differences in applicable tax law, is structured instead to provide awards of options on previously issued shares purchased in the market, with the exercise price of each share being at least the closing market price on the date preceding the date of grant. The option is generally exercisable as to 50 percent five years from the date of grant and as to the remainder ten years from the date of grant or 100 percent five years from the date of grant, subject to the grantee remaining an employee of us or Fairfax's subsidiaries at the time the option becomes exercisable, and generally expires 15 years from the date of grant but is automatically extended from time to time up until the time of retirement. The terms of the plan do not allow for the repricing of options. Fairfax regards any option as a long term incentive. Any option grant is made by Fairfax's affiliated entity incorporated for that purpose, which purchases in the open market the shares on which awards are granted under the plan.

No share-based (as opposed to option-based) awards have been granted to Fairfax's named executive officers under the plan. Details of the above-described options on previously issued subordinate voting shares granted to Fairfax's named executive officers as at December 31, 2016 are shown below:

Name	Number of securities underlying unexercised options	Option exercise price	Option expiration date	Value of unexercised in-the-money options
V. Prem Watsa	[•]	\$ [•]	[•]	\$ [•]
David J. Bonham	[•]	\$ [•]	[•]	\$ [•]
Paul C. Rivett	[•]	[•]	[•]	[•]
Peter S. Clarke	[•]	[•]	[•]	[•]
Jean Cloutier	[•]	[•]	[•]	[•]

The only non-equity incentive plan compensation earned during the year by Fairfax's named executive officers was the discretionary annual bonus shown in the "Summary Compensation Table" above in the column "Non-Equity Incentive Plan Compensation Annual Incentive Plans", which is

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described below under "Compensation Discussion and Analysis." The values vested during 2016 of the option-based awards granted to Fairfax's named executive officers are shown in the following table:

Name	Option-Based Awards Value vested during the year
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NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
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Included in the accounting records held for corporate and tax purposes by the Company are specific accounts related to incorporated goodwill and provision and corresponding amortization, reversal and tax credit, the balances of which are as follows:

	03.31.09	12.31.08
	Goodwill	Provision
	Net	Net
TCO IP Corporate Reorganization	126,563	(83,532)
	43,031	45,524

The changes in the three-month period ended on March 31, 2009 are as follows:

Result:		
Goodwill amortization		(7,333)
Provision reversal		4,840
Tax credit		2,493
Effect on income		

To the extent the tax benefits are actually realized, the amount shall be incorporated into capital stock to the benefit of Vivo Participações, the other shareholders being assured preemptive rights. Proceeds arising out of the exercise of the preemptive rights shall be paid to Vivo Participações.

7. PREPAID EXPENSES

	03.31.09	12.31.08
Telecommunication Inspection Fee (Fistel)	63,628	18,771
Advertising and publicity	9,823	12,031
Rent	1,054	1,468
Financial charges, insurance premium, software and other	3,221	3,672
Total	77,726	35,942
Current	73,530	30,005
Noncurrent	4,196	5,937

8. OTHER ASSETS

	03.31.09	12.31.08
Judicial deposits and contractual pledge	7,013	7,451
Subsidies on terminal sales	2,227	9,604

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Advances to employees	2,952	1,325
Credits with Amazônia Celular S.A. and Tele Norte Celular Participações S.A. (a)	306	8,522
Credits with suppliers		4,341
Prepayments to suppliers	200	206
Total	12,698	31,449
Current	5,735	24,059
Noncurrent	6,963	7,390

- (a) These refer to the amounts of administrative and human resources sharing contract and establishment of condominium with Telemig and Telemig Participações, existing until the date of acquisition of the share control by Vivo Participações. The balances are remunerated based on the Interbank Deposit Certificate (CDI) variation).

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**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
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9. PROPERTY, PLANT AND EQUIPMENT, NET

	Annual depreciation rates (%)	Cost	03.31.09 Accumulated depreciation	Property, plant and equipment, net	12.31.08 Property, plant and equipment, net
Transmission equipment	20.00 to 33.33	1,114,233	(868,643)	245,590	222,752
Switching equipment	20.00 to 33.33	509,128	(320,517)	188,611	193,883
Infrastructure	2.87 to 20.00	368,531	(236,483)	132,048	121,209
Terminal equipment	50.00	57,465	(33,075)	24,390	22,538
Buildings	2.86 to 4.00	12,186	(5,271)	6,915	7,067
Land		3,055		3,055	3,055
Other assets	6.67 to 20.00	219,572	(155,530)	64,042	59,951
Properties and construction in progress		79,702		79,702	139,311
Total		2,363,872	(1,619,519)	744,353	769,766

At March 31, 2009, the Company had items of property, plant and equipment pledged as guarantees in connection with legal proceedings in the amount of R\$36,284 (R\$32,911 at December 31, 2008).

10. INTANGIBLE ASSETS, NET

	Annual amortization rates (%)	Cost	03.31.09 Accumulated amortization	Intangible, net	12.31.08 Intangible, net
Software use rights	20.00	291,642	(205,802)	85,840	89,754
Concession licenses	6.67 to 28.92	75,046	(25,369)	49,677	51,067
Other assets	10.00 to 20.00	15,368	(14,788)	580	274
Intangible in progress-software		6,990		6,990	16,268
Total		389,046	(245,959)	143,087	157,363

11. SUPPLIERS AND ACCOUNTS PAYABLE

	03.31.09	12.31.08
Suppliers	199,548	280,270
Interconnection / linking	37,706	35,695

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Amounts to be transferred LD (a)	35,745	61,645
Other	7,374	14,008
Total	280,373	391,618

- (b) Amounts to be transferred refer to VC2, VC3 and roaming charges, invoiced to our customers and transferred to the long distance call operators.

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**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
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12. TAXES, FEES AND CONTRIBUTIONS PAYABLE

	03.31.09	12.31.08
<i>Current taxes:</i>		
ICMS	28,454	29,257
Income and social contribution taxes	12,497	52,190
PIS and COFINS	8,997	9,822
FUST and FUNTTEL	946	955
FISTEL	470	3,042
Other taxes, fees and mandatory contributions	1,006	124
Total	52,370	95,390
<i>Legal liabilities (CVM 489/05):</i>		
FISTEL (a)	386,274	324,764
(-) Escrow deposit FISTEL (a)	(386,274)	(324,764)
Withholding income tax (b)	20,314	19,828
(-) Escrow deposit withholding income tax (b)	(20,314)	(19,828)
PIS and COFINS	13,106	12,933
Other taxes, fees and mandatory contributions	4,516	4,122
Total	17,622	17,055
Total	69,992	112,445
Current	39,970	83,690
Noncurrent	30,022	28,755

Legal liabilities CVM Resolution 489/05

This includes the taxes that fall within the scope of CVM Resolution No. 489/05, dated October 3, 2005, which approved IBRACON NPC No. 22 standard.

For purposes of the financial statements, the amounts of escrow deposits for said taxes are offset against taxes, fees and mandatory contributions payable, as applicable.

a) *Telecommunications Inspection Fee FISTEL*

The Company filed a Writ of Mandamus challenging its liability for the payment of the inspection fees on mobile stations not owned by it, and started booking a provision and effecting a deposit in court for the amounts referring to the TFF Operation Inspection Fee and to the TFI Installation Inspection Fee. The case is awaiting decision by the TRF Court of the 1st Region.

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Its legal counsels consider the chances of losses in these lawsuits to be possible. However, because this is a legal obligation under the terms of CVM Resolution No. 489/2005, the subsidiary has recorded a provision for this contingency. The provision recorded at March 31, 2009 was in the amount of R\$386,274 (R\$324,764 at December 31, 2008), with corresponding escrow deposits in the same amount.

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Table of Contents**TELEMIG CELULAR S.A.****NOTES TO THE QUARTERLY FINANCIAL STATEMENTS****FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2009****(in millions of Brazilian Reais, except as otherwise mentioned)****b) Withholding Income Tax (IRRF) on payments of Interest on Shareholders' Equity Telemig Celular Participações**

The Company filed Writs of Mandamus requesting the court to declare its right not to be assessed IRRF at source on its receipts of interest on shareholders' equity of its subsidiary. Based on the opinion of its legal consultants, the referred lawsuits are classified as possible loss; however, once this refers to a legal obligation under the terms of CVM Resolution No. 489/2005, at March 31, 2009 a provision was recorded and escrow deposits were made, totaling R\$20,314 (R\$19,828 at December 31, 2008).

c) Other taxes, fees and contributions payable:

At March 31, 2009, the Company recorded the amount of R\$17,622 (R\$17,055 at December 31, 2008), referring to matters of PIS, COFINS and ISS taxes.

Following we present the changes in legal obligations in compliance with CVM Resolution 489/05:

	Legal liabilities	(-) Escrow deposits	Total
Balances at 12.31.08	361,647	(344,592)	17,055
Additions, net of reversal	61,001	(60,607)	394
Monetary adjustments	1,562	(1,389)	173
Balances at 03.31.09	424,210	(406,588)	17,622

13. LOANS AND DEBENTURES**a.1) Loans**

On January 14, 2009, the Company effected the repayment due under the Unsecured Senior Notes funding program in the amount of R\$192,559.

a.2) Debentures

In compliance with the Contract for Provision of SMP Services, in conformity with the Public Selection No 001/07, the State of Minas Gerais, acting through the State Department for Economic Development, has undertaken to subscribe debentures issued by the Company, within the scope of the Minas Comunica Program, using proceeds from the Fund for Universalization of Access to Telecommunications Services (*Fundo de Universalização do Acesso a Serviços de Telecomunicações* FUNDOMIC). Under the terms of this Program, the company would make the SMP service available to 134 locations in the areas registered as 34, 35 and 38.

Also according to the program, 5,550 simple, unsecured, nonconvertible, registered, book-entry type debentures would be issued, without stock certificates being issued, in up to five series.

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In consideration for the certification by the State Department of Economic Development of the service to be provided to 15 locations, 621 debentures were issued in the 1st Series of the 1st issue, amounting to R\$6,210 in December 2007. In March 2008, for the service at 42 locations, 1,739 debentures were issued in the 2nd Series of the 1st issue, valued at R\$17,390. At December 31, 2008, for the service at 77 locations, 3,190 debentures were issued in the 3rd Series of the 1st issue, valued at R\$31,900, thus completing the program for providing service to

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NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
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134 locations within the State of Minas Gerais. At March 31, 2009 the updated amounts of the 1st, 2nd and 3rd series of the debentures were R\$6,734, R\$18,522 and R\$32,435, totaling R\$57,691 (R\$6,645, R\$18,278 and R\$32,000, totaling R\$56,923 at December 31, 2008), respectively.

Charges applicable to the program described above are IPCA + 0.5% per year and the maturity date is July 05, 2021.

This program is subject to covenants as for petition for judicial and extrajudicial recovery, winding-up, dissolution, insolvency, voluntary bankruptcy or bankruptcy decree, default, non-performance of non-fiduciary obligations and compliance with a certain limit substantially based on financial indexes of the balance sheet and EBITDA (earnings before interest, taxes, depreciation and amortization), among others. At March 31, 2009, all the covenants were fulfilled by the company.

14. PROVISION FOR CONTINGENCIES

The Company is party to administrative and judicial proceedings related to labor, tax and civil claims. Relevant accounting provisions have been recorded with respect to such proceedings in which the chance of loss was deemed as probable.

The breakdown of the balances of such provisions is as follows:

	Provisions	03.31.09 (-) Escrow deposits	Net	12.31.08 Net
Civil	14,189	(1,497)	12,692	10,870
Labor	7,723	(3,303)	4,420	4,879
Tax	3,547	(3,547)		
Total	25,459	(8,347)	17,112	15,749
Current			8,763	7,452
Noncurrent			8,349	8,297

The changes to the provisions for net contingencies are as follows:

	2009	2008
Balances at the beginning of the year	15,749	8,632
Booking of provisions, net of reversal (note 21)	3,470	2,272
Reduction (Increase) of escrow deposits	(376)	2,169
Payments	(1,731)	(2,116)
Balances at March 31	17,112	10,957
Booking of provisions, net of reversals in 2Q, 3Q and 4Q08		19,301
Increase of escrow deposits in 2Q, 3Q and 4Q08		(4,462)
Payments in 2Q, 3Q and 4Q08		(10,047)

Balances at December 31

15,749

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TELEMIG CELULAR S.A.

**NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
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14.1. Civil Claims

These aforementioned provisions to several civil claims for which the respective provisions were recorded, as shown above, such provisions being deemed sufficient to meet probable losses on these cases.

a) *Consumers*

The Company is party to several lawsuits brought by individual consumers or by civil associations representing rights of consumers claiming non-performance of services and/or products sold. Individually, none of these lawsuits is deemed to be material.

At March 31, 2009, based on the opinion of its independent counsels, the amount of R\$11,159 (R\$10,419 at December 31, 2008) was recorded, which is considered sufficient to meet potential losses on these proceedings.

At the same date, the sum of the amounts under discussion in several instances of the lawsuits of this nature for which the chance of loss is deemed as possible, was R\$4,433 (R\$4,905 at December 31, 2008).

b) *ANATEL*

The Company is party to several legal and administrative proceedings brought by ANATEL referring to noncompliance with Regulations concerning the Personal Mobile Service. At March 31, 2009, the amount of R\$1,283 (R\$600 at December 31, 2008), was recorded, which is considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss was R\$2,972 (R\$600 at December 31, 2008).

c) *Other*

These refer to actions of other natures, all of them related to the regular course of business. At March 31, 2009, based on the opinion of its legal consultants, the amount of R\$1,747 (R\$1,244 at December 31, 2008) was recorded, which is considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss was R\$1,294 (R\$1,544 at December 31, 2008).

14.2. Labor claims

These refer to several labor claims for which the respective provisions were recorded as shown above, which are considered sufficient to meet probable losses on these cases.

At the same date, the amount involved in these lawsuits classified as possible loss was R\$11,241 (R\$11,747 at December 31, 2008).

14.3. Tax Proceedings

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No new tax proceedings classified as probable loss were filed in the three-month period ended on March 31, 2009.

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At the same date, the amount involved in proceedings of this nature classified as possible loss was R\$210,121 (R\$205,568 at December 31, 2008), which are basically related to matters of ICMS, IRPJ, FISTEL, FUST, FUNTTEL, and other taxes. The proceedings filed in this quarter pertain to the same subject matters of those already in course at December 31, 2008.

15. OTHER LIABILITIES

	03.31.09	12.31.08
Prepaid services to be rendered	33,662	43,406
Deferred Revenue	15,817	15,537
Provision for disposal of assets (a)	15,550	18,412
Provision for loyalty program	12,907	12,921
Reverse stock split (b)	7,328	7,127
Provision for pension fund		187
Liabilities to related parties	194	194
Other		
Total	85,458	97,784
Current	62,313	74,935
Noncurrent	23,145	22,849

(a) This refers to the costs to be incurred in connection with the obligation of returning to the owners the sites (locations for installation of Radio Base Stations RBS of the subsidiary) in the same conditions as they were found at the time of the execution of the initial lease contracts thereof.

(b) This refers to credit made available to the holders of remaining shares as a result of the reverse stock split of the capital stock of the Company.

16. SHAREHOLDERS EQUITYa) *Capital Stock*

The subscribed and paid-up capital at March 31, 2009 and December 31, 2008 is made-up of book-entry shares, with no par value, allocated as follows:

Classes of Shares	Number of shares
Common	891,241
Preferred	

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Preferred class B	196
Preferred class C	20,769
Preferred class D	1
Preferred class E	3,830
Preferred class F	12,783
Preferred class G	1,443,356
	2,372,176

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Preferred shares of all classes are not entitled to vote, except in those cases as set forth in the Bylaws, and are ensured priority upon the reimbursement of the capital without premium, being: i) to class B shares, fixed and cumulative dividends of 9% per year, and ii) to class C and F shares, minimum and non-cumulative fixed dividends of 6% to 10% per year, calculated on the amount resulting from the division of the portion of the capital stock represented by the respective class by the total number of shares of that class, issued by the Company, with due regard to the priority limits, as determined in the Bylaws.

Considering the new wording of art. 17 of Law No. 6,404/76, as amended by Law No. 10,303/01, the General Shareholders Meeting approved changes to the rules for payment of dividends to preferred shares of the Company, creating a class G preferred share with priority upon the reimbursement of the capital stock, without premium, and the right to payment of dividends according to the below described criteria, alternatively, whichever is higher:

- I - priority upon the receipt of fixed and non-cumulative dividends of ten per cent (10%) per year, calculated on the amount resulting from the division of the capital stock represented by the referred class by the total number of shares of that class, issued by the Company; or
- II - right to share the dividends to be distributed under the terms of article 39, sole paragraph, of the Bylaws, in conformity with the following criteria:
 - c) priority upon the receipt of non-cumulative minimum dividends corresponding to three per cent (3%) of the equity value of the share; and
 - d) right to share the profits distributed under equal conditions with the common shares, after the minimum priority dividend stipulated in conformity with item a) above is ensured to the common shares.

Future issues of preferred shares shall be of class G shares.

Preferred shares shall become entitled to vote if the Company, for 3 consecutive fiscal years, fails to pay the minimum dividends to which they are entitled.

b) *Capital Reserves*

b.1) *Special Goodwill Reserve*

As a result of the Corporate Reorganization process of TCO IP S.A., carried out on December 19, 2008, a special Goodwill reserve was recorded in the amount of R\$45,921, as a counter-entry to the incorporated net assets and represents the value of the future tax benefit to be earned by amortization of the incorporated Goodwill. The portion of the special Goodwill reserve corresponding to the benefit, by the end of each fiscal year, shall be capitalized to the benefit of Vivo Participações.

b.2) *Tax Incentives*

These represent the amounts invested in tax incentives in previous fiscal years.

c) *Profit Reserves*

c.1) *Legal Reserve*

The legal reserve is recorded by allocation of 5% of the net profit for the year, up to the limit of 20% of the paid-up capital stock or 30% of the capital stock added by the capital reserves. Given the establishment of such, allocations to this reserve are no longer mandatory, as set forth in Art. 193 of Law No. 6,404/76.

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c.2) *Reserve for Expansion*

The reserve for expansion was recorded with the purpose of holding funds for financing additional investments of fixed and current capital by allocation of up to 100% of the remaining net profit, after the legal determinations and the balance of the retained earnings account for the fiscal year ended on December 31, 2008. This reserve is supported by a capital budget approved at the shareholders' meetings.

d) *Retained Earnings*

The General and Special Shareholders' Meeting held on March 18, 2009 approved the allocation of the net profit for fiscal year 2008, in the amount of R\$299,723, of which R\$14,986 will be applied to the Legal Reserve and R\$284,737 will be distributed as dividends and interest on shareholders' equity categorized as follows: R\$66,936 as interest on shareholders' equity, gross value (R\$56,895, net of withholding income tax) and R\$217,801 as dividends. Additionally, R\$4,306 were allocated as supplementary dividends. The meeting also approved the transfer of the remaining balance of retained earnings in the amount of R\$456,021 to the Expansion Reserve, based on the capital budget proposed for fiscal year 2009 of its subsidiary, as set forth in art. 196, and with due regard to the provisions in art. 198 of Law 6,404/76 and articles 39, 2, and 43 of the Bylaws.

Pursuant to the change introduced by Law No. 11,638/07, the net profit for the year must be entirely allocated in accordance with the provisions in articles 193 to 197 of Law No. 6,404/76.

e) *Dividends and Interest on Shareholders' Equity*

The General and Special Shareholders' Meeting held on February 12, 2009 resolved on the payment of dividends and interest on shareholders' equity in the amount of R\$289,043, being: interest on shareholders' equity in the amount of R\$66,936 (R\$56,895 net of withholding income tax) and dividends in the amount of R\$222,107, which were paid in March 2009.

The shareholders are ensured a minimum dividend of at least 25% of the adjusted net profit of every fiscal year, in conformity with the Corporations Law and with the Bylaws, which is increased up to the amount necessary for payment of the priority minimum dividend payable to the preferred shares.

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17. NET OPERATING REVENUE

	03.31.09	03.31.08
Franchise and use	299,162	271,342
Interconnection	165,395	155,204
Data and value-added services (SVA)	58,025	45,070
Other services	7,314	5,675
Gross revenue from telecommunication services	529,896	477,291
ICMS	(74,200)	(62,076)
Discounts granted	(68,431)	(73,078)
PIS and COFINS	(20,012)	(17,445)
ISS	(990)	(166)
Net operating revenue from telecommunication services	366,263	324,526
Gross revenue from sales of handsets and accessories	38,359	28,113
PIS and COFINS	(3,422)	(2,529)
Returns of goods sold	(1,432)	(769)
ICMS	(574)	(88)
Net operating revenue from sales of handsets and accessories	32,931	24,727
Total net operating revenue	399,194	349,253

No customer has contributed more than 10% of the gross operating revenue for the three-month periods ended on March 31, 2009 and 2008.

18. COST OF GOODS SOLD AND SERVICES RENDERED

	03.31.09	03.31.08
Interconnection	(78,470)	(61,789)
Depreciation and amortization	(56,472)	(40,862)
Taxes, fees and contributions	(19,663)	(14,540)
Outsourced services	(14,328)	(13,802)
Rent, insurance and condominium fees	(14,020)	(9,795)
Connection means	(13,936)	(12,596)
Personnel	(5,240)	(3,757)
Other supplies	(5,841)	(2,586)
Cost of services rendered	(207,970)	(159,727)
Cost of goods sold	(54,143)	(31,354)

Total	(262,113)	(191,081)
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19. SELLING EXPENSES

	03.31.09	03.31.08
Outsourced services	(28,313)	(28,351)
Personnel	(18,144)	(20,059)
Advertising	(10,384)	(5,634)
Depreciation and amortization	(8,200)	(4,935)
Allowance for doubtful accounts	(6,508)	(8,346)
Customer loyalty program and donations	(1,969)	(8,882)
Rent, insurance and condominium expenses	(1,749)	(1,537)
Other supplies	(1,597)	(2,097)
Total	(76,864)	(79,841)

20. GENERAL AND ADMINISTRATIVE EXPENSES

	03.31.09	03.31.08
Outsourced services	(16,936)	(27,857)
Depreciation and amortization	(16,841)	(10,456)
Personnel	(9,102)	(14,393)
Rent, insurance and condominium expenses	(896)	(609)
Outsourced services	(723)	(2,456)
Total	(44,498)	(55,771)

21. OTHER OPERATING REVENUE (EXPENSES), NET

	03.31.09	03.31.08
Recovered expenses	3,243	1,018
Fines	1,075	5,685
Shared infrastructure and EILD	5,514	4,439
Reversal of provisions (a)	37	251,624
Provision for contingencies	(3,507)	(2,272)
FUST	(1,757)	(1,467)
PIS and COFINS	(2,453)	
FUNTEL	(879)	(734)
Other taxes, fees and mandatory contributions	(773)	
Other	10,981	7,259

Total	11,481	265,552
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- (a) In the first quarter of 2008 the Company reverted all the provision recorded for ICMS on subscription fees and value-added services, in the amount of R\$700,005, being R\$448,381 as a counter-entry to the escrow deposits recorded in non-current assets and R\$251,624 as a counter-entry to the income for the period.

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22. FINANCIAL INCOME (EXPENSES) AND MONETARY AND EXCHANGE VARIATIONS

	03.31.09	03.31.08
Financial income	13,743	17,204
Financial expenses:		
Loans and debentures	(988)	(3,383)
Derivative transactions	(872)	(2,277)
Other financial transactions	(1,839)	(2,584)
Total	(3,699)	(8,244)
Monetary and exchange variations:		
In liabilities		
Derivative transactions	1,777	1,657
Loans	(2,580)	(1,776)
Other transactions	(131)	(35)
Total	(934)	(154)

23. INCOME TAX AND SOCIAL CONTRIBUTION

The Company records monthly provisions for income tax and social contribution, on an accrual basis, paying the taxes based on the monthly estimate. Deferred taxes are recognized on temporary differences, as mentioned in Note 6. The breakdown of expenses with income tax and social contribution is shown below:

	03.31.09	03.31.08
Income tax and social contribution on amortized goodwill	(2,493)	
Income tax and social contribution expenses	(182)	(25,548)
Deferred income tax and social contribution	(10,232)	(76,452)
Total	(12,907)	(102,000)

Below is a reconciliation of the expense with income taxes disclosed, by eliminating the effects of the goodwill tax benefit, and the amounts calculated by applying combined statutory rates at 34%:

	03.31.09	03.31.08
Income before taxes	36,310	296,918

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Tax debt at combined statutory rate (34%)	(12,345)	(100,952)
Permanent additions:		
Other nondeductible expenses	(2,496)	(1,005)
Permanent exclusions:		
Other nondeductible expenses	1,340	
Other deductible expenses	594	(43)
Tax debt	(12,907)	(102,000)

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The Company is engaged in transactions involving financial instruments, the risks of which are actively managed by means of a set of initiatives, procedures and comprehensive operating policies.

The Company's financial instruments are presented in compliance with CVM Resolution No. 566, dated December 17, 2008, which approved Technical Statement CPC 14, and with CVM Instruction 475, dated December 17, 2008.

a) *General considerations*

At March 31, 2009 and December 31, 2008, the main financial instruments, and their respective values by category, are as follows:

	03.31.09			12.31.08		
	Fair value through profit and loss	Amortized cost	Total	Fair value through profit and loss	Amortized cost	Total
Assets						
Cash and cash equivalents	84.169		84.169	621.070		621.070
Restricted deposits	2.273		2.273	4.012		4.012
Accounts receivable, net		249.278	249.278		298.269	298.269
Liabilities						
Payroll and related charges		16.767	16.767		24.276	24.276
Accounts payable		280.373	280.373		391.618	391.618
Taxes payable		69.992	69.992		112.445	112.445
Loans					195.269	195.269
Debentures		57.691	57.691		56.923	56.923
Dividends and Interest on shareholder equity		3.816	3.816		280.588	280.588
Derivative transactions				67.348		67.348
Other		85.458	85.458		97.784	97.784

b) *Considerations on risk factors which may affect the Company's business*

The main market risks which the Company is exposed to in the conduct of its activities are:

Credit Risk

The credit risk arises out of the potential difficulty to collect the amounts payable for telecommunication services rendered to its customers and for sales of handsets to the distributors network, as well as the risk related to financial statements.

The credit risk involved in the rendering of telecommunications services is minimized by a strict control of the customer base and active management of customers' default, by means of clear policies regarding the sale of post-paid handsets. The customer base of the Company has, predominantly, a prepaid system, which requires the upfront payment and consequently entails no credit risk.

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The credit risk in the sale of handsets and pre-activated prepaid cards is managed under a conservative credit policy, by means of modern management methods, including the application of credit scoring techniques, analysis of financial statements and information, and consultation to commercial databases.

The Company is also subject to credit risk originating from their financial investments. The Company acts in such a manner as to diversify this exposure among various world-class financial institutions.

Interest and Inflation Rate Risk

The inflation rate risk arises out of the debentures issued, indexed to the IPCA, which may negatively affect the financial expenses by an unfavorable change of this index.

The Company has its financial investments indexed to the CDI. Should there be an increase in the local interest rate, the financial assets may be positively affected by this effect.

Exchange Rate Risk

At March 31, 2009, the Company has no foreign currency loans (note 13). At December 31, 2008, the Company recorded balances of US\$83,557 for loans and of US\$80,000 for derivative instruments.

c) *Derivative Transactions and Risk Management Policy*

Pursuant to a corporate policy of risk management, all contracting of derivative financial instruments is intended for protection against foreign exchange risk and variations in foreign and local interest rates arising out of financial debts. Since the Company had no such loans recorded at March 31, 2009, no derivative instruments contracting was recorded at such date.

Analysis of sensibility to the risk variables of the Company

CVM Instruction provides for that publicly-held companies, in addition to the provisions in item 59 of CPC 14 Financial Instruments: Recognition, Measurement and Evidencing, are required to disclose a statement of sensibility analysis, for each type of market risk deemed by the management to be material, originated by financial instruments, to which the entity is exposed at the closing date of each period, including all the transactions with derivative financial instruments.

At March 31, 2009, as the Company has no derivative instruments contracted, there is no risk of impact of these instruments on the financial result and, therefore, there is no exposure requiring a risk sensibility analysis.

25. POST-EMPLOYMENT BENEFITS PLAN

Telemig Celular individually sponsors a defined retirement benefits plan Plano PBS Telemig Celular. Besides the benefit of supplementation, medical assistance (PAMA) is provided to retired employees and their dependents, at shared cost. Actuarial provisions relating to the defined benefit plans are recorded in Other liabilities (Note 15).

Telemig Celular also sponsors the CelPrev, a defined contribution plan, under the same conditions as published for the last fiscal year.

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26. TRANSACTIONS WITH RELATED PARTIES

The main transactions with non-consolidated related parties are:

- a) *Communication via local cellular phone and long distance and use of network:* these transactions are carried out with companies of the same controlling group: Vivo S.A., Telecomunicações de São Paulo S.A. TELESP and subsidiaries. Part of these transactions was carried out in conformity with agreements entered into between TELEBRAS and the concessionaires prior to the privatization, under conditions regulated by ANATEL.
- b) *Telephone assistance services:* services provided by Atento Brasil S.A. and Mobitel S.A. Dedic to users of telecommunication services.

	03.31.09	12.31.08
<i>Assets:</i>		
Accounts receivable, net	16,022	12,973
<i>Liabilities:</i>		
Suppliers and accounts payable	17,096	14,088
	2009	2008
<i>Result</i>		
Revenue from telecommunication services	27	6,422
Cost of services rendered	(531)	
Revenues with sharing of resources		7.087

Until March 31, 2008, the Company and its subsidiary, Amazônia Celular S.A. and Tele Norte Celular Participações S.A. were owned by the same controlling shareholder Telpart Participações S.A. For this reason, the amounts stated for the three-month period ended on March 31, 2009 refer to the transactions among these companies and they remained as related parties only for comparison purposes.

27. INSURANCE

The Company has adopted a policy of monitoring risks inherent to its transactions. For this reason, as of March 31, 2009, the Company had insurance contracts in place for coverage of operating risks, civil liability, health risks, etc. The Management of the Company considers that the amounts of such contracts are sufficient to cover potential losses. The main assets, liabilities or interests covered by insurance and their respective amounts are shown below:

Type of Insurance	Insured Amounts
Operating risks	R\$2,180,792
Comprehensive Civil Liability RCG	R\$12,000
Automobile (fleet of executive vehicles)	Material/bodily and moral damages: R\$1,100

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28. INCOME STATEMENT FOR THE THREE-MONTH PERIOD ENDED 03.31.08

In order to offer proper comparison, we are presenting below the consolidated income statement for the three-month period ended on March 31, 2008, considering the necessary reclassifications for alignment of the Company's practice to the holding company's practices, and the effects resulting from the application of Law No. 11,638/07 and MP No. 449/08.

	Income Statement disclosed at 03.31.08	New controlling shareholder reclassifications	Adjustments to Law n° 11,638/07		Income Statement of 03.31.08, disclosed on 03.31.09
Gross operating revenue	964,901	(459,497)		a,b	505,404
Deduction from the gross operating revenue	(611,279)	455,128		a	(156,151)
Net operating revenue	353,622	(4,369)			349,253
Cost of services rendered and goods sold	(193,879)	2,798		c,d,e,f,h,i,j	(191,081)
Gross profit	159,743	(1,571)			158,172
Selling expenses	(73,184)	(7,593)	936	c,e,g,h,j,k,l	(79,841)
General and administrative expenses	(44,434)	(11,337)		b,g,h,i,k	(55,771)
Other operating revenue (expenses), net	251,624	13,851	77	f,h,k	265,552
Financial income, net	7,378		1,428	l	8,806
Operating profit	301,127	(6,650)	2,441		296,918
Non-operating income, net	77		(77)	l	
Profit before taxes and minority interest	301,204	(6,650)	2,364		296,918
Income tax and social contribution	(101,196)		(804)	l	(102,000)
Employees' profit share	(6,650)	6,650		i	
Net income for the period	193,358		1,560	m	194,918

The main reclassifications effected in the income statement are as follows:

- a. Elimination of the amounts of prepaid services recharge bonus against discounts granted;
- b. Transfer of the shared infrastructure amounts and EILD to Other Operating Revenue and General and Administrative Expenses ;

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- c. Transfer of the amounts of handset distribution costs to Selling Expenses
- d. Transfer of the revenue from fines on telecommunication services to Other Operating Revenue ;
- e. Transfer of the amounts of internet communication services, preparation and mailing of telephone bills to Selling Expenses ;
- f. Transfer of the amounts of Fust, Funttel to Other Operating Expenses ;
- g. Transfer of the amounts of corporate service revenues to Other Operating Revenue ;
- h. Transfer of the amounts of bank tariffs and other expenses to General and Administrative Expenses ;
- i. Transfer of the amounts of employees profit share to General and Administrative Expenses .

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- j. Transfer of the amounts of provision/reversal of obsolescence to Cost of Goods Sold ;
- k. Transfer of the amounts of expenses with provision for contingencies to Other Operating Expenses ; and
- l. Effects arising out of the application of Law No. 11,638/07 and MP No. 449/08, which had not been applied to the ITRs for the period.

29. CORPORATE REORGANIZATION

On March 20, 2009, the Boards of Directors of Vivo Participações, Telemig Celular and Telemig Participações, in the form and for the purposes of CVM Instructions No. 319/999 and 358/02, approved the proposal to be submitted to the shareholders of Vivo Participações, Telemig Celular and Telemig Participações for Corporate Reorganization through merger of the shares of Telemig Celular and of Telemig Participações into Vivo Participações, by converting Telemig Celular in to a wholly-owned subsidiary of Telemig Participações and, the latter, into a wholly-owned subsidiary of Vivo Participações.

The purpose of the proposed Corporate Reorganization is to simplify the current organizational structure, which includes three publicly-held companies, two of them having ADRs traded abroad. The simplified structure will reduce administrative costs and allow the shareholders of the companies to hold interest in one sole company whose shares are traded both in Brazilian and international stock exchanges, with more liquidity, besides facilitating unification, standardization and rationalization of the general management of the business.

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The flow chart below, reproduced in a simple manner, shows the current corporate structure and the structure after implementation of the Corporate Reorganization, emphasizing that the referred transaction will not change the composition of the final share control of the companies involved:

Current Corporate Structure:

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Corporate structure after merger of the shares of Telemig Celular into Telemig Participações and of Telemig Participações into Vivo Participações:

All the shares of Telemig Celular will be merged into Telemig Participações equity, and the holders of the merged shares of Telemig Celular will be entitled to directly receive those new shares to which they have rights in the merger company, Telemig Participações. At the same date, the shares of Telemig Participações will be merged into Vivo Participações equity, and the holders of the merged shares of Telemig Participações will be entitled to directly receive those new shares to which they have right in the merger company, Vivo Participações, pursuant to such exchange ratio as may be agreed among the above mentioned companies.

The merger of the shares of Telemig Celular and of Telemig Participações shall not cause any change to the number or breakdown by type of shares, which will ultimately be entirely held by Vivo Participações. Holders of common and preferred shares of Telemig Celular which are merged into Telemig Participações equity will receive new shares in Telemig Participações of the same type, that is, merged preferred shares will be replaced by new preferred shares of Telemig Participações to be issued on behalf of the respective holder, and merged common shares shall be replaced by new common shares of Telemig Participações to be issued on behalf of the respective holder. Subsequently, and in the same manner, the holders of common and preferred shares of Telemig Participações which are merged into Vivo Participações equity will receive new shares of Vivo Participações of the same type. Thus, upon completion of the transaction, the non-controlling shareholders of Telemig Celular and of Telemig Participações will become shareholders of Vivo Participações.

The holders of common and preferred shares of Telemig Celular and of Telemig Participações and of common shares of Vivo Participações who dissent from the merger of shares of Telemig Celular and of Telemig Participações will have the right, as from the date of the general and special meetings of the companies adopting resolutions with respect to the Corporate Reorganization, to withdraw from the respective companies, upon reimbursement of the shares of which they are holders on the record date of the notice of the Relevant Fact.

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The above mentioned Corporate Reorganization will be submitted to ANATEL for approval. Since it refers to a Corporate Reorganization among companies belonging to the same economic group, the transaction described herein is not subject to approval from the Administrative Council for Economic Defense - CADE. The holding of the meetings for adoption of resolutions concerning the Corporate Reorganization will be subject to the registration with the Securities Exchange Commission - SEC, as required in its respective regulations, due to the trading of ADRs issued by Telemig Participações in the New York Stock Exchange).

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Table of Contents**COMMENTS OF THE CONSOLIDATED PERFORMANCE IN THE QUARTER****TELEMIG CELULAR S.A.****NET OPERATING REVENUES TELEMIG**

<i>R\$ million</i>	According to Corporate Law				
	1 Q 09	4 Q 08	Δ%	1 Q 08	Δ%
Access and Usage	164.0	173.8	-5.6%	142.9	14.8%
Network usage	159.4	172.0	-7.3%	149.6	6.6%
Data revenue plus VAS	37.3	33.0	13.0%	27.7	34.7%
Other services	5.6	8.2	-31.7%	4.4	27.3%
Net service revenues	366.3	387.0	-5.3%	324.6	12.8%
Net handset revenues	32.9	48.9	-32.7%	24.7	33.2%
Net Revenues	399.2	435.9	-8.4%	349.3	14.3%

OPERATING REVENUE**Revenue growth over sector's average.**

Total net revenue increased by 14.3% when compared to 1Q08. This increase is a result of higher revenue from access and usage, increase in the usage of data and VAS services, in addition to growth in the revenue from sales of handsets, allied to growth of the customer base.

Data and VAS revenue increased by 34.7%

The **revenue from access and usage** recorded an increase of 14.8% in relation to 1Q08, especially due to the improvement on the customer base quality and to the growth in the total outgoing traffic because of the usage incentives. When compared to 4Q08, there was a decrease of 5.6% due to seasonality and number of business days.

Data and Value Added Services, or VAS, revenue increased by 34.7% and 13.0% compared to the 1Q08 and 4Q08, respectively. The amount of R\$ 37.3 million, representing 10.2% of the net service revenue, is mainly due to the increase in peer-to-peer SMS/MMS usage as a consequence of new activations offering data advantages.

Table of Contents**OPERATING COSTS TELEMIG CELULAR S.A.**

<i>R\$ million</i>	According to Corporate Law				
	1 Q 09	4 Q 08	Δ%	1 Q 08	Δ%
Personnel	(32.5)	(29.8)	9.1%	(37.9)	-14.9%
Cost of services rendered	(146.3)	(130.5)	12.1%	(115.1)	27.1%
Leased lines	(13.9)	(14.3)	-2.8%	(12.6)	10.3%
Interconnection	(78.5)	(75.4)	4.1%	(61.8)	27.0%
Rent/Insurance/Condominium fees	(14.0)	(12.2)	14.8%	(9.8)	42.9%
Fistel and other taxes and contributions	(19.7)	(18.6)	5.9%	(14.5)	35.9%
Third-party services	(14.4)	(13.7)	5.1%	(13.8)	4.3%
Others	(5.8)	3.7	n.a.	(2.6)	123.1%
Cost of goods sold	(54.1)	(77.7)	-30.4%	(31.4)	72.3%
Selling expenses	(50.5)	(58.4)	-13.5%	(54.8)	-7.8%
Allowance for doubtful accounts	(6.5)	(4.0)	62.5%	(8.3)	-21.7%
Third-party services	(38.7)	(44.6)	-13.2%	(34.0)	13.8%
Customer loyalty and donations	(2.0)	(7.5)	-73.3%	(8.9)	-77.5%
Others	(3.3)	(2.3)	43.5%	(3.6)	-8.3%
General & administrative expenses	(18.5)	(15.6)	18.6%	(30.9)	-40.1%
Third-party services	(16.9)	(13.3)	27.1%	(27.8)	-39.2%
Others	(1.6)	(2.3)	-30.4%	(3.1)	-48.4%
Other operating revenue (expenses)	11.4	(4.2)	n.a.	265.4	-95.7%
Operating revenue	9.8	8.4	16.7%	262.7	-96.3%
Operating expenses	(9.4)	(10.6)	-11.3%	(4.5)	108.9%
Other operating revenue (expenses)	11.0	(2.0)	n.a.	7.2	52.8%
Total costs before depreciation / amortization	(290.5)	(316.2)	-7.7%	(5.0)	n.a.
Depreciation and amortization	(81.5)	(67.3)	21.1%	(56.3)	44.8%
Total operating costs	(372.0)	(383.5)	-2.6%	(61.3)	509.3%

OPERATING COSTS

Cost of service rendered increased by 27.1% over 1Q08.

Cost of services rendered increased by 27.1% over 1Q08 due to higher interconnection cost related to both the growth of outgoing traffic and increase of expenses with Fistel Fee due to increase of the customer base. When compared to 4Q08, which is positively impacted by the co-billing renegotiation, the cost of services rendered increased 12.1%, as a result of the increase in interconnection expenses and Fistel Fee, which effects are associated to the customer base expansion, as well as increase of rent, insurance and condominium expenses.

Higher commercial activity led to the increase on costs of goods sold.

The **cost of goods sold** recorded an increase of 72.3% in the quarter in relation to 1Q08. This increase was due to the commercial activity in the period and to the foreign exchange devaluation. When compared to 4Q08, it recorded a reduction of 30.4% due to lower activity in the period.

In the 1Q09, **selling expenses** decreased by 7.8% over the 1Q08 due to a decrease in expenses in customer retention efforts, in addition to a decrease in allowance for doubtful accounts. When compared to 4Q08, it recorded a reduction of 13.5% due to the decrease in expenses with customer retention and third-party services, especially

publicity and advertising.

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Allowance for doubtful accounts recorded a reduction in 1Q09 of 21.7% over 1Q08. The amount of R\$ 6.5 million represents 1.1% of the total gross revenue, a reduction of 0.5 percentile point, a 62.5% increase in comparison with the 4Q08, which is positively impacted by the corporate segment credit recovery for which provisions had been previously recorded and by the individual segment credit recovery due to the campaigns carried out for stimulating a bonus amount.

Reduction of 37.1% in general and administrative expenses in relation to 1Q08

General and administrative expenses decreased by 35.3% when compared to the 1Q08 due, mainly, to the reduction in consulting and other expenses with technical administrative services. When compared to 4Q08, general and administrative expenses recorded an increase of 28.2% due to the growth in expenses with third-party services.

Other Operating Revenues/Expenses recorded revenue of R\$ 11.4 million, reverting the result recorded in 4Q08 and slightly lower than it was recorded in 1Q08, excluding the effects of the ICMS reversal. This result is due to the increase in other revenue.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by 44.8% and by 21.1% in relation to 1Q08 and 4Q08, respectively, as a consequence of investments made in the period for expansion of coverage and amortization of softwares due to the integration with Vivo.

FINANCIAL REVENUES (EXPENSES) TELEMIG

<i>R\$ million</i>	According to Corporate Law				
	1 Q 09	4 Q 08	Δ%	1 Q 08	Δ%
Financial Revenues	13.7	22.2	-38.3%	17.2	-20.3%
Other financial revenues	13.7	22.2	-38.3%	17.2	-20.3%
Financial Expenses	(3.7)	(12.6)	-70.6%	(8.3)	-55.4%
Other financial expenses	(2.8)	(7.0)	-60.0%	(6.0)	-53.3%
Gains (Losses) with derivatives transactions	(0.9)	(5.6)	-83.9%	(2.3)	-60.9%
Exchange rate variation / Monetary variation	(0.9)	(1.4)	-35.7%	0.1	n.a.
Net Financial Income	9.1	8.2	11.0%	8.8	3.4%

Increase of 11% in net financial revenues in 1Q09 over 4Q08

In the comparison with 1Q08, the net financial revenue increased by R\$ 0.3 million. This is due to a lower debt cost (due to settlement of Notes, aligned to a higher effective interest rate in the period (2.85% in 1Q09 and 2.53% in 1Q08).

Comparing 1Q09 to 4Q08, despite a lower effective interest rate in the period, the net financial revenue of the Company increased by R\$ 0.9 million. This increase is explained by a lower debt cost (settlement of the Notes), as already mentioned, and their respective swaps.

Table of Contents**LOANS AND FINANCING - TELEMIG**

<i>Lenders (R\$ million)</i>	R\$	CURRENCY		Total
		US\$		
Debentures	57.7			57.7
Notes				

Adjust Law No. 11,638/07

Total	57.7			57.7
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Exchange rate used

Payment Schedule Long Term

2009				
as from 2009	57.7			57.7
Total	57.7			57.7

NET DEBT TELEMIG

	Consolidated		Combined
	Mar 31.09	Dec 31.08	Mar 31.08
Short Term		195.3	142.3
Long Term	57.7	56.9	23.8
Total debt	57.7	252.2	166.1
Cash and cash equivalents	(409.0)	(952.7)	(942.2)
Derivatives		67.3	97.9
Net Debt	(351.3)	(633.2)	(678.2)

The debt profile is 100% long term.

At March 31, 2009, the debt for loans and financings of Telemig Celular was R\$ 57.7 million, referring to debentures issued under the *Minas Comunica* program. In this quarter, foreign currency debts were settled due to the settlement of Notes effected in January/09, as well as their corresponding swaps, causing the Company to have 100% of its debt in Brazilian reais and with a long term profile.

This debt was offset by cash and cash investments totaling R\$ 409.0 million, resulting in net cash of R\$ 351.3 million.

Investments (CAPEX)**Increase of GSM capacity and enhancement of 3G scope.**

The total investments in the quarter were quite higher than what was invested in 1Q08, being directed to increasing the GSM capacity and enhancing the 3G coverage scope, besides the fulfillment of coverage goals set forth by Anatel, showing the strategic importance of this operation. The investments portfolio totaled R\$ 41.8 million, representing 10.5% of the net revenue.

CAPEX TELEMIG

<i>R\$ million</i>	1 Q 09	4 Q 08	1 Q 08
Network	28.2	123.1	2.8
Technology / Information System	5.6	14.7	6.0
Products and Services, Channels, Administrative and others	8.0	20.3	3.4
Total	41.8	158.1	12.2
% Net Revenues	10.5%	36.3%	3.5%

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELEMIG CELULAR PARTICIPAÇÕES S.A.

Date: May 21, 2009

By: /s/ ERNESTO GARDELLIANO
Name: **Ernesto Gardelliano**
Title: **Investor Relations Officer**

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words anticipates, believes, estimates, expects, plans and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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