

FAIRFAX FINANCIAL HOLDINGS LTD/ CAN

Form SUPPL

August 25, 2004

Filed Pursuant to General  
Instruction II.L. of Form F-10;  
File No. 333-114648

Prospectus Supplement  
To Base Shelf Prospectus dated April 20, 2004

**\$95,000,000**

**Fairfax Financial Holdings Limited**

**7 3/4% Senior Notes Due 2012**

Fairfax Financial Holdings Limited is offering \$95 million aggregate principal amount of 7 3/4% senior notes due 2012. The notes represent a further issuance of the 7 3/4% senior notes due 2012 previously issued by us in an aggregate principal amount of \$171,483,000. The notes issued hereby and the 7 3/4% senior notes due 2012 previously issued by us will bear the same CUSIP number and will constitute a single series of our debt securities.

Interest on the notes will be paid semi-annually in arrears on April 30 and October 31 of each year, beginning on November 1, 2004, being the first business day following October 31, 2004. The notes will mature on April 26, 2012.

The notes will be our senior unsecured obligations and will rank equally with all of our other unsecured unsubordinated indebtedness from time to time outstanding.

**Investing in the notes involves risks. See Risk Factors beginning on page S-11 of this prospectus supplement and on page 6 of the accompanying base shelf prospectus.**

	Per Note	Total
Public offering price(1)	97.250%	\$92,387,500
Underwriting commission	0.750%	\$ 712,500
Proceeds to Fairfax before expenses	96.500%	\$91,675,000

(1) Plus accrued interest from April 29, 2004.

The underwriters expect to deliver the notes to investors on or about August 27, 2004 only in book-entry form through the facilities of The Depository Trust Company.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying base shelf prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

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

**Owning the securities may subject you to tax consequences both in the United States and Canada. This prospectus supplement and the accompanying base shelf prospectus may not describe these tax consequences fully. You should read the tax discussion in this prospectus supplement.**

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

## **Banc of America Securities LLC**

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August 24, 2004

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### **ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the notes that we are currently offering. The second part is the accompanying base shelf prospectus, which gives more general information, some of which may not apply to the notes that we are currently offering. Generally, the term "prospectus" refers to both parts combined.

You should read this prospectus supplement along with the accompanying base shelf prospectus. You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying base shelf prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information provided by this prospectus supplement or the accompanying base shelf prospectus is accurate as of any date other than the date on the front of these documents. Our business, financial condition, results of operations and prospects may have changed since those dates. The notes are being offered only in jurisdictions in which offers and sales are permitted.

If the information varies between this prospectus supplement and the accompanying base shelf prospectus, the information in this prospectus supplement supercedes the information in the accompanying base shelf prospectus.

### **PRESENTATION OF OUR FINANCIAL INFORMATION**

As the majority of our operations are in the United States or conducted in U.S. dollars, effective December 31, 2003, we report our consolidated financial statements in U.S. dollars in order to provide more meaningful information to users of our financial statements. Unless otherwise indicated, historical financial information contained in this prospectus supplement and the accompanying base shelf prospectus and in our audited consolidated financial statements for the year ended December 31, 2003, our unaudited interim consolidated financial statements for the six months ended June 30, 2004 and our management's discussion and analysis for such financial statements, each incorporated by reference in this prospectus supplement and the accompanying base shelf prospectus, has been reported in U.S. dollars based on currency exchange rates in effect during the period being restated. All other financial information incorporated by reference in this prospectus supplement and the accompanying base shelf prospectus has been presented in Canadian dollars. In this prospectus supplement and the accompanying base shelf prospectus, except where otherwise indicated, all dollar amounts are expressed in U.S. dollars, references to "\$" and "dollars" are to U.S. dollars, and references to "Cdn\$" are to Canadian dollars.

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, or Canadian GAAP, which differ from generally accepted accounting principles in the United States, or U.S. GAAP. For a discussion of the material differences between Canadian GAAP and U.S. GAAP as they relate to our financial statements, see note 19 to our audited consolidated financial statements for the year ended December 31, 2003 and note 6 to our unaudited interim consolidated financial statements for the six months ended June 30, 2004 incorporated by reference into this prospectus supplement and the accompanying base shelf prospectus.

**EXCHANGE RATE DATA**

The following table sets forth, for each period indicated, the low and high exchange rates for Canadian dollars expressed in U.S. dollars, the exchange rate at the end of such period and the average of such exchange rates for each day during such period, based on the inverse of the noon buying rate in The City of New York for cable transfers in Canadian dollars as certified for customs purposes by the Federal Reserve Bank of New York:

	Six Months Ended June 30, 2004	Year Ended December 31,				
		1999	2000	2001	2002	2003
Low	0.7158	0.6535	0.6410	0.6241	0.6200	0.6349
High	0.7880	0.6925	0.6969	0.6697	0.6619	0.7738
Period End	0.7459	0.6925	0.6669	0.6279	0.6329	0.7738
Average	0.7468	0.6730	0.6732	0.6457	0.6368	0.7136

On August 24, 2004, the inverse of the noon buying rate was \$0.7664 = Cdn\$1.00.

**FORWARD-LOOKING STATEMENTS**

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

- a reduction in net income if our loss reserves are insufficient;
- underwriting losses on the risks we insure that are higher or lower than expected;
- insufficient reserves for asbestos, environmental and other latent claims;
- the lowering or loss of one of our subsidiaries' financial or claims-paying ability ratings;
- an inability to realize our investment objectives;
- changes in economic conditions, including interest rates and the securities markets, which could affect our investment portfolio;
- exposure to credit risk in the event our reinsurers fail to make payments to us under our reinsurance arrangements;
- exposure to credit risk in the event our insureds fail to pay premiums that are owed to us or fail to reimburse us for deductibles that are paid by us on their behalf;
- the occurrence of catastrophic events with a frequency or severity exceeding our estimates;

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a decrease in the level of demand for our subsidiaries' reinsurance or insurance products, or increased competition in the insurance industry;

the cycle of the insurance market, which can determine our and our competitors' premium rates and capacity to write new business;

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our inability to obtain reinsurance coverage at reasonable prices or on terms that adequately protect us;

the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

our dependence on independent brokers over whom we exercise little control;

adverse fluctuations in foreign currency exchange rates;

assessments and shared market mechanisms, which can adversely affect our U.S. insurance subsidiaries;

our failure to realize future income tax assets;

loss of key employees;

the influence exercisable by our controlling shareholder;

the passage of legislation subjecting our businesses to additional supervision or regulation, including additional tax regulation, in the United States, Canada or other jurisdictions in which we operate;

our inability to obtain required levels of capital on favorable terms, if at all;

our inability to access our subsidiaries' cash;

the failure of any of the loss limitation methods we employ;

an impairment in the value of our goodwill; and

risks associated with implementing our business strategies.

See "Risk Factors" in this prospectus supplement and in the accompanying base shelf prospectus for a further discussion of these risks and uncertainties.



## SUMMARY

*This brief summary highlights selected information from this prospectus supplement. It may not contain all of the information that is important to you. We urge you to carefully read and review the entire prospectus supplement and accompanying base shelf prospectus and the documents incorporated by reference in such documents, including our historical financial statements for the year ended December 31, 2003 and the six months ended June 30, 2004 and the notes to those financial statements. You should read Risk Factors beginning on page S-11 of this prospectus supplement and page 6 of the accompanying base shelf prospectus for more information about important factors that you should consider before making an investment decision.*

*Unless the context otherwise requires or it is otherwise stated, the terms Fairfax, Company, we, us and our refer to Fairfax Financial Holdings Limited and its subsidiaries; the term TIG refers to TIG Holdings, Inc., our wholly-owned subsidiary; the term OdysseyRe refers to our public reinsurance business, Odyssey Re Holdings Corp. and its subsidiaries; the term Crum & Forster refers to our wholly-owned U.S. property and casualty insurance business, Crum & Forster Holdings Corp. and its subsidiaries; the term Northbridge refers to our public Canadian property and casualty insurance business, Northbridge Financial Corporation and its subsidiaries; and the term Lindsey Morden refers to our claims adjusting subsidiary, Lindsey Morden Group Inc. and its subsidiaries.*

### FAIRFAX FINANCIAL HOLDINGS LIMITED

#### Our Company

We are a financial services holding company primarily engaged in property and casualty insurance and reinsurance. We operate through a decentralized operating structure, with autonomous management teams applying a focused underwriting strategy to our markets. We seek to differentiate ourselves by combining disciplined underwriting with the investment of our assets on a total return basis, which we believe provides above-average returns over the long-term. We provide a full range of property and casualty products, maintaining a diversified portfolio of risks across classes of business, geographic regions, and types of insureds. The United States is our largest market, accounting for 56.0% of net premiums earned for the year ended December 31, 2003, while Canadian and international markets accounted for 19.9% and 24.1% of net premiums earned, respectively.

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

*Our reinsurance business* is conducted through OdysseyRe, a U.S.-based underwriter of a full range of property and casualty reinsurance on a worldwide basis. We have an 80.6% interest in OdysseyRe, whose common stock is traded on the New York Stock Exchange under the symbol ORH.

*Our U.S. insurance business* provides a full range of commercial property and casualty insurance, principally through Crum & Forster, a national carrier which targets specialty classes of business that emphasize strong technical underwriting expertise. We own all of the equity of Crum & Forster.

*Our Canadian insurance business* is conducted principally through Northbridge, which provides commercial and personal lines property and casualty insurance in Canada through a wide range of distribution channels. We have a 59.2% interest in Northbridge, whose common shares are traded on the Toronto Stock Exchange under the symbol NB.

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

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

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For the year ended December 31, 2003, we had total revenue of \$5.7 billion and net income of \$271.1 million. At June 30, 2004, we had cash and invested assets of \$12.4 billion, total assets of \$24.5 billion and shareholders' equity of \$3.0 billion. For the year ended December 31, 2003, we generated gross premiums written and net premiums written of \$5.5 billion and \$4.4 billion, respectively. The following table sets forth net premiums written by each segment for the year ended December 31, 2003 and the six months ended June 30, 2004:

		Year Ended December 31, 2003		Six Months Ended June 30, 2004	
		\$	%	\$	%
(dollars in millions)					
Insurance	Canada (Northbridge)	\$ 802.3	18.0%	\$ 462.1	19.5%
	U.S.	1,092.1	24.5	526.0	22.2
	Asia	61.6	1.4	41.1	1.7
Reinsurance (OdysseyRe)		2,153.6	48.5	1,103.3	46.6
Runoff and other		338.5	7.6	236.7	10.0
<b>Net Premiums Written</b>		<b>\$4,448.1</b>	<b>100.0%</b>	<b>\$2,369.2</b>	<b>100.0%</b>

Our senior management team is led by Mr. Prem Watsa, who has been our Chairman and Chief Executive Officer since September 1985. Mr. Watsa holds 12.7% of all classes of our outstanding shares while controlling 55.3% of the votes associated with our outstanding shares. In total, our officers and directors hold 15.5% of all classes of our outstanding shares.

### Recent Developments

*Second Quarter Operating Results.* On July 29, 2004, we announced our financial results for the six-month period ending June 30, 2004.

For the three months ending June 30, 2004, we had net premiums written of \$1.2 billion, total revenue of \$1.4 billion and net income of \$46.0 million. For the corresponding period in 2003, we had net premiums written of \$1.1 billion, total revenue of \$1.6 billion and net income of \$173.7 million. Our combined ratio for our continuing operations was 94.9% for the three months ended June 30, 2004 versus 98.5% for the corresponding period in 2003.

For the six months ending June 30, 2004, we had net premiums written of \$2.4 billion, total revenue of \$2.9 billion and net income of \$85.5 million. For the corresponding period in 2003, we had net premiums written of \$2.2 billion, total revenue of \$3.0 billion and net income of \$275.2 million. Our combined ratio for our continuing operations was 95.3% for the six months ended June 30, 2004 versus 98.3% for the corresponding period in 2003.

*Capital Markets Transactions.* On July 30, 2004, certain of our affiliates sold 3,100,000 shares of common stock of Zenith National Insurance Corp. (NYSE: ZNT), at \$43.00 per share, resulting in aggregate net proceeds to those affiliates of \$127.6 million.

On May 18, 2004, we completed the sale of 6,000,000 common shares of Northbridge Financial Corporation (TSX: NB) at a price of Cdn\$25.60 per share. As a result of the sale, Fairfax received aggregate net proceeds of approximately Cdn\$146.0 million and reduced its ownership position from 71.0% to 59.2%.

On April 29, 2004, we closed our note exchange offers, under which \$204.6 million of our outstanding notes due 2005 through 2008 were exchanged for a cash payment of \$59.4 million (including accrued interest) and \$160.4 million aggregate principal amount of our 7 3/4% senior notes due 2012. On June 29, 2004, we exchanged an additional \$10.0 million of our outstanding senior notes due 2006 for \$11.0 million of our 7 3/4% senior notes due 2012.

*Estimate of Losses from Hurricane Charley.* On August 23, 2004, we announced that our initial estimate of aggregate potential net losses relating to Hurricane Charley will be in the range of \$35 million to \$40 million after tax and minority interests. This initial estimate was based on a preliminary review and consultation with our insurance and reinsurance companies, including OdysseyRe, Crum & Forster and

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Northbridge. We recognize that at this early stage it is not possible to make a calculation of our financial exposure to claims relating to Hurricane Charley with a high degree of certainty.

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## SUMMARY FINANCIAL DATA

The following summary historical consolidated financial data should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2003 and our unaudited interim consolidated financial statements for the six months ended June 30, 2004 and the related management discussion and analysis thereon that are incorporated by reference in this prospectus.

The summary historical consolidated financial data for the years ended and as at December 31, 2001, 2002 and 2003 and the six months ended June 30, 2003 and 2004 are derived from our audited consolidated financial statements and our unaudited interim consolidated financial statements, respectively. We prepare our consolidated financial statements in accordance with Canadian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of the principal differences between Canadian GAAP and U.S. GAAP as they pertain to us, see note 19 to our audited consolidated financial statements for the year ended December 31, 2003 and note 6 to our unaudited interim consolidated financial statements for the six months ended June 30, 2004.

We encourage you to read the consolidated financial statements incorporated by reference in this prospectus because they contain our complete financial statements for the periods presented. Our historical results of operations are not necessarily indicative of future results.

	Years Ended December 31,			Six Months Ended June 30,	
	2001	2002	2003	2003	2004
(dollars in millions, except per share amounts)					
<b>Canadian GAAP Statement of Earnings:</b>					
Gross premiums written	\$ 4,422.7	\$ 5,173.2	\$ 5,518.6	\$ 2,693.8	\$ 2,740.0
Net premiums written	3,263.1	4,033.9	4,448.1	2,192.3	2,369.2
Net premiums earned	3,108.9	3,888.6	4,209.0	2,061.8	2,407.6
Interest and dividends	440.3	418.6	330.1	193.6	169.9
Realized gains on investments	138.1	469.5	845.9	553.6	177.2
Claims fees	274.7	290.7	328.9	154.3	165.2
Total revenues	3,962.0	5,067.4	5,713.9	2,963.3	2,919.9
Losses on claims	2,627.8	2,998.7	3,240.6	1,516.5	1,697.4
Operating expenses	878.3	927.5	1,023.4	495.6	499.3
Commissions, net	673.6	706.2	776.1	393.8	409.3
Interest expense	109.0	87.0	146.3	63.4	86.1
Other	149.4	72.7			11.9
Total expenses	4,438.1	4,792.1	5,186.4	2,469.3	2,704.0
Income (loss) from operations before income taxes	(476.1)	275.3	527.5	494.0	215.9
Provision for (recovery of) income taxes	(250.0)	150.0	191.9	188.0	94.7
Income (loss) from operations before extraordinary item	(226.1)	125.3	335.6	306.0	121.2
Negative goodwill		188.4			
Net income (loss) before non-controlling interests	(226.1)	313.7	335.6	306.0	121.2
Non-controlling interests	2.3	(50.7)	(64.5)	(30.8)	(35.7)

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Net income (loss)	\$ (223.8)	\$ 263.0	\$ 271.1	\$ 275.2	\$ 85.5
Net income (loss) per diluted share	\$ (18.13)	\$ 18.20	\$ 18.23	\$ 19.06	\$ 5.64
<b>Selected Balance Sheet Data (at period end):</b>					
Total investments and cash(1)	\$ 10,285.8	\$ 10,642.2	\$ 12,566.1	\$ 11,710.0	\$ 12,428.0
Total assets	22,200.5	22,224.5	25,018.3	23,008.4	24,525.0
Total debt	1,713.2	1,930.5	2,331.9	2,187.1	2,345.3
Total shareholders' equity	2,031.4	2,248.0	2,918.0	2,799.0	2,955.8
Common shareholders' equity per share	132.03	149.31	192.81	189.72	196.53
<b>Combined Ratios</b>					
Insurance - Canada (Northbridge)	112.1%(2)	97.4%	92.6%	94.5%	91.6%
U.S.	124.7%(2)	107.5%	102.7%	102.3%	99.7%
Asia	125.5%	99.8%	96.0%	100.0%	90.4%
Reinsurance (OdysseyRe)	115.4%	99.1%	96.9%	97.6%	94.8%
Consolidated (continuing operations)	120.1%	101.5%	97.6%	98.3%	95.3%

(1) Includes cash and short-term investments, marketable securities and total portfolio investments. See note 4 to our consolidated financial statements for the year ended December 31, 2003 for a discussion of the components of our portfolio investments.

(2) Includes the recovery under the Swiss Re Cover (recovery under the Swiss Re Cover of 1998 and prior losses: Northbridge \$11.3 million, U.S. Insurance \$96.8 million, Runoff and Other \$15 million).

**SUMMARY OF THE NOTES**

Issuer	Fairfax Financial Holdings Limited.
Securities offered	\$95,000,000 aggregate principal amount of 7 3/4% senior notes due 2012 (the notes ). The notes will be consolidated with and will form a single series with \$171,483,000 aggregate principal amount of our previously issued 7 3/4% senior notes due 2012.
Maturity date	April 26, 2012.
Interest rate	7.75%.
Interest payment Dates	Interest will be payable semi-annually on each April 30 and October 31, commencing November 1, 2004, being the first business day following October 31, 2004. Interest will accrue from April 29, 2004.
Ranking	The notes will be senior unsecured obligations of Fairfax Financial Holdings Limited. The notes will rank equally and ratably with all of Fairfax Financial Holdings Limited's existing unsecured unsubordinated indebtedness. The notes will also be effectively subordinated to all obligations of Fairfax Financial Holdings Limited's subsidiaries. See Risk Factors.
Restrictive Covenants	The indenture governing the notes contains covenants that limit our ability to:  create liens on the capital stock of certain of our subsidiaries; and  enter into specific mergers or consolidations or convey, transfer or lease our properties and assets substantially as an entirety.
Events of Default	For a discussion of events that will permit acceleration of the payment of the principal of, and accrued interest on, the notes, see Description of the Notes Events of Default.
Use of Proceeds	We intend to use the net proceeds from this offering to purchase our outstanding debt from time to time, based on market conditions. To the extent we are unable to purchase our outstanding debt at prices we believe are reasonable, we will use the proceeds from this offering for general corporate purposes. Pending such use, such net proceeds are expected to be invested in short-term marketable investments.
Form and Denomination	The notes will be issued only in the form of registered global notes. See Description of the Notes Book-Entry; Delivery and Form. Each global note will be deposited with The Depository Trust Company ( DTC ), in each case for credit to the account of a direct or indirect participant of DTC. Investors in the global notes who are participants in DTC may hold their interests in the global notes directly through DTC. Investors in the global notes who are not participants in DTC may hold their interests indirectly through organizations that are participants in DTC. Interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants, including Euroclear and Clearstream.

Except as set forth under Description of the Notes Certificated Securities, participants and indirect participants will not be entitled to receive physical delivery of definitive notes or to have notes issued and registered in their names and will not be considered the owners or holders of the notes under the indenture.

Interests in the global notes and the definitive notes, if any, will be issued in minimum denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.

Governing Law

The notes and their governing indenture will be governed by, and construed in accordance with, the laws of the State of New York.

Trustees

The Bank of New York, as the successor U.S. trustee, and CIBC Mellon Trust Company, as the successor Canadian trustee.

Paying Agent

The Bank of New York.

Risk Factors

See Risk Factors beginning on page S-11 of this prospectus supplement and on page 6 of the accompanying base shelf prospectus.

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## **RISK FACTORS**

*An investment in our securities involves risk. You should carefully consider the following risk factors, as well as the other information contained in and incorporated by reference into this prospectus supplement and the accompanying base shelf prospectus, before deciding whether to invest in the notes. Any of the following risks could materially adversely affect your investment in the notes. For a further description of risks relating to our business and operations, please refer to the Risk Factors section at page 6 of the accompanying base shelf prospectus. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition or results of operations.*

### **The notes are effectively subordinated to the indebtedness of our subsidiaries.**

The notes are effectively subordinated to any existing and future indebtedness and other liabilities of our subsidiaries. As a result, you will not have any claim as a creditor against our subsidiaries or the assets of our subsidiaries. Therefore, in the event of the insolvency or liquidation of a subsidiary, following payment by such subsidiary of its liabilities, the subsidiary may not have sufficient remaining assets to make payments to us as a shareholder or otherwise. In the event of a default by a subsidiary under our credit agreement or other indebtedness, its creditors could accelerate the debt, prior to such subsidiary distributing amounts to us that we could use to make payments on the notes. In addition, if we caused a subsidiary to pay a dividend to us to make payments on the notes, and the dividend was determined to be improperly paid, holders of the notes would be required to return the payment to the subsidiary's creditors.

As of June 30, 2004, our subsidiaries had approximately \$1.2 billion of indebtedness. In June 2003, we amended our bank credit agreements to provide more flexibility for our subsidiaries to incur debt without the consent of our bank lenders and our subsidiary debt may increase in the future. The terms of the notes do not limit the ability of our subsidiaries to incur additional indebtedness that is senior to the notes.

### **We are a holding company, and we may not have access to the cash that is needed to make payments on the notes.**

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



**We may incur additional indebtedness that may adversely affect our ability to meet our financial obligations under the notes.**

Our obligations under the notes rank equally with all of our other senior unsecured indebtedness. We may incur additional indebtedness in the future, which could have important consequences to holders of the notes, including the following:

we could have insufficient cash to meet our financial obligations, including our obligations under the notes;

our ability to obtain additional financing for working capital, capital expenditures or general corporate purposes may be impaired; and

a significant degree of debt could make us more vulnerable to changes in general economic conditions and also could affect the financial strength ratings of our insurance subsidiaries.

**Holders of the notes may not be protected in the event we are involved in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction in the future.**

The indenture governing the notes may not sufficiently protect holders of notes if we are involved in a highly leveraged transaction, reorganization, restructuring, merger or similar transaction. The indenture does not contain:

any provision restricting any of our subsidiaries from incurring, assuming or being liable with respect to any indebtedness or other obligations;

any provision restricting us or our subsidiaries from incurring, assuming or being liable with respect to any unsecured indebtedness or other unsecured obligations;

any provision restricting us or any of our subsidiaries from paying dividends or making other distributions on capital stock or from purchasing or redeeming capital stock;

any restrictions on the ability of our subsidiaries to issue securities that would be senior to the common shares of the subsidiary held by us;

any financial ratios or specified level of net worth to which we or our subsidiaries must adhere; or

any restrictions on our ability to contribute our assets to our insurance subsidiaries.

**The price at which you may be able to resell your notes may be adversely affected by factors that are beyond our control.**

If you are able to resell your notes, the price you receive will depend on many factors that may vary over time, including:

the number of potential buyers;

the level of liquidity of the notes;

our financial performance;

the amount of indebtedness we have outstanding;

the level, direction and volatility of market interest rates generally; and

the market for similar securities.

As a result of these factors, you may only be able to sell your notes at prices below those you believe to be appropriate.

**There may be no active market for the notes.**

We cannot be sure that any active market for the notes will develop, or if one does develop, that it will be maintained. If an active market for the notes fails to develop or be sustained, the trading price of the notes could decline. We do not intend to apply for listing of the notes on any securities exchange or any automated quotation system.

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**USE OF PROCEEDS**

We estimate that we will receive net proceeds for this offering of approximately \$90.9 million, after deducting the estimated underwriting commissions and offering expenses payable by us. We intend to use the net proceeds from this offering to purchase our outstanding debt from time to time, based on market conditions. To the extent we are unable to purchase our outstanding debt at prices we believe are reasonable, we will use the proceeds from this offering for general corporate purposes. Pending such use, such net proceeds are expected to be invested in short-term marketable investments.

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## CAPITALIZATION

## Canadian GAAP

The table below sets forth our capitalization as of June 30, 2004 under Canadian GAAP. The As Adjusted column reflects our capitalization after giving effect to this offering.

You should read this table in conjunction with our audited consolidated financial statements for the year ended December 31, 2003 and our unaudited interim consolidated financial statements for the six months ended June 30, 2004 incorporated by reference into this prospectus supplement and the accompanying base shelf prospectus.

	As of June 30, 2004	
	Actual	As Adjusted
	(dollars in millions)	
<b>Cash, short-term investments and marketable securities(1)</b>	\$ 305.5	\$ 396.4
<b>Debt(2)</b>		
Long-term debt	\$1,813.7	\$1,813.7
Purchase consideration payable	198.7	198.7
Trust preferred securities of subsidiaries	79.8	79.8
Convertible senior debentures(3)	99.0	99.0
Indebtedness of Lindsey Morden	154.1	154.1
Notes offered hereby		95.0
<b>Total debt</b>	<b>2,345.3</b>	<b>2,440.3</b>
<b>Non-controlling interests(4)</b>	<b>535.8</b>	<b>535.8</b>
<b>Shareholders equity</b>		
Common shareholders equity	1,501.1	1,501.1
Other paid in capital(3)	101.3	101.3
Preferred shares	136.6	136.6
Retained earnings	1,172.7	1,172.7
Currency translation account	44.1	44.1
<b>Total shareholders equity</b>	<b>2,955.8</b>	<b>2,955.8</b>
<b>Total capitalization</b>	<b>\$5,836.9</b>	<b>\$5,931.9</b>
Debt as a percentage of total capitalization	40.2%	41.1%
Net debt as a percentage of total capitalization(5)	36.9%	36.9%

(1) Not subject to restrictions, except for \$31.6 million deposited in an escrow account to pre-fund two semi-annual interest payments on the Crum & Forster senior notes.

(2) See notes 6 and 7 of our audited consolidated financial statements for the year ended December 31, 2003, incorporated by reference in this prospectus supplement and the accompanying base shelf prospectus, for more details on our long-term debt and trust preferred securities.

(3) In accordance with Canadian GAAP, the convertible senior debentures issued July 14, 2003 are recorded as components of debt and equity. The present value of the interest cost associated with such debentures, discounted at 8% per annum, is presented as debt and the balance is

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shown as paid in capital. The Canadian Institute of Chartered Accountants has issued new recommendations to retroactively change current Canadian GAAP, which we will adopt on January 1, 2005 such that the amount to be recorded in equity would represent the value of the holders' option to convert the debentures into subordinate voting shares and the current remaining equity portion, amounting to \$41.7 million, would instead be included in liabilities as long-term debt.

- (4) Includes minority interest in OdysseyRe, Northbridge and Lindsey Morden.
- (5) Calculated as total debt minus cash, short term investments and marketable securities as a percentage of total capitalization minus cash, short term investments and marketable securities.

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**U.S. GAAP**

The table below sets forth our capitalization as of June 30, 2004 under U.S. GAAP. The **As Adjusted** column reflects our capitalization after giving effect to this offering.

You should read this table in conjunction with our audited consolidated financial statements for the year ended December 31, 2003 and our unaudited interim consolidated financial statements for the six months ended June 30, 2004, incorporated by reference into this prospectus supplement and the accompanying base shelf prospectus. For a discussion of the material differences between Canadian GAAP and U.S. GAAP as they relate to our financial statements, see note 19 to our audited consolidated financial statements for the year ended December 31, 2003 and note 6 to our unaudited interim consolidated financial statements for the six months ended June 30, 2004 incorporated by reference into this prospectus supplement and the accompanying base shelf prospectus.

	As of June 30, 2004	
	Actual	As Adjusted
	(dollars in millions)	
<b>Cash, short-term investments and marketable securities(1)</b>	\$ 305.5	\$ 396.4
<b>Debt</b>		
Long-term debt	\$1,813.7	\$1,813.7
Purchase consideration payable	198.7	198.7
Trust preferred securities of subsidiaries	79.8	79.8
Convertible senior debentures	200.3	200.3
Indebtedness of Lindsey Morden	154.1	154.1
Notes offered hereby		95.0
<b>Total debt</b>	<b>2,446.6</b>	<b>2,541.6</b>
<b>Non-controlling interests(2)</b>	<b>535.8</b>	<b>535.8</b>
<b>Shareholders equity</b>		
Common shareholders equity	1,501.1	1,501.1
Preferred shares	136.6	136.6
Retained earnings	673.3	673.3
Other comprehensive income	40.2	40.2
<b>Total shareholders equity</b>	<b>2,351.2</b>	<b>2,351.2</b>
<b>Total capitalization</b>	<b>\$5,333.6</b>	<b>\$5,428.6</b>
Debt as a percentage of total capitalization	45.9%	46.8%
Net debt as a percentage of total capitalization(3)	42.6%	42.6%

(1) Not subject to restrictions, except for \$31.6 million deposited in an escrow account to pre-fund two semi-annual interest payments on the Crum & Forster senior notes.

(2) Includes minority interest in OdysseyRe, Northbridge and Lindsey Morden.

(3) Calculated as total debt minus cash, short term investments and marketable securities as a percentage of total capitalization minus cash, short term investments and marketable securities.

### CREDIT RATINGS

The notes have been assigned a rating of BB by Standard & Poor's Ratings Services ( S&P ) and a rating of Ba3 by Moody's Investors Service ( Moody's ). Credit ratings are intended to provide investors with an independent measure of credit quality of any issue of securities.

S&P's credit ratings are on a long-term debt rating scale that ranges from AAA to D, which represents the range from highest to lowest quality of such securities rated. A rating of BB by S&P is the fifth highest of ten categories and indicates that the obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

Moody's credit ratings are on a long-term debt rating scale that ranges from Aaa to C, which represents the range from highest to lowest quality of such securities rated. A rating of Ba3 by Moody's is the fifth highest of nine categories and is assigned to debt securities that are judged to have speculative elements and are subject to substantial credit risk. The addition of a 1, 2 or 3 modifier after a rating indicates the relative standing within a particular rating category. The modifier 1 indicates that the issue ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

The credit ratings accorded to the notes by the rating agencies are not recommendations to purchase, hold or sell the notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. Any rating may not remain in effect for any given period of time or may be revised or withdrawn entirely by a rating agency in the future if in its judgement circumstances so warrant, and if any such rating is so revised or withdrawn, we are under no obligation to update this prospectus supplement.

## DESCRIPTION OF THE NOTES

*The following description of the particular terms of the notes supplements, and, to the extent inconsistent therewith, replaces, the description of the debt securities set forth in the accompanying base shelf prospectus under Description of Debt Securities. The description is qualified in its entirety by reference to the notes and the indenture governing the notes. Capitalized terms used and not defined in this prospectus supplement have the meaning ascribed to those terms in the accompanying base shelf prospectus. As used under this heading Description of the Notes, the terms Fairfax, Company, we, us and our refer only to Fairfax Financial Holdings Limited, and not its subsidiaries.*

The notes will bear interest from April 29, 2004 at the rate of 7.75% per annum, and will mature on April 26, 2012. Interest will be payable semi-annually on April 30 and October 31, commencing November 1, 2004, being the first business day following October 31, 2004, to the persons in whose names the notes are registered at the close of business on the preceding April 15 and October 15, respectively.

Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of and interest on the notes will be payable in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. The notes will not be redeemable prior to maturity and will not be subject to any sinking fund.

The notes will be issued under an indenture, dated as of December 1, 1993, among us, The Bank of New York, as the successor U.S. trustee, and the CIBC Mellon Trust Company, as the successor Canadian trustee. The U.S. trustee and the Canadian trustee are referred to together in this prospectus supplement as the trustees. The following summary of certain provisions of the indenture does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the indenture. Whenever reference is made to particular sections of the indenture or terms that are defined therein, such sections or defined terms are incorporated herein by reference as a part of such summaries, which are qualified in their entirety by such reference. The indenture is subject to the provisions of the *Canada Business Corporations Act* and, consequently, is exempt from certain provisions of the Trust Indenture Act of 1939, as amended, by virtue of Rule 4d-9 thereunder. References to accounting terms in the indenture and in this summary, unless otherwise defined, have the meanings assigned to them in accordance with Canadian GAAP.

The indenture provides that, in addition to the notes, securities of other series may be issued under the indenture without limitation as to aggregate principal amount. The securities of other series may have such terms and provisions not inconsistent with the indenture as we may determine from time to time. The securities of any series issued under the indenture, including the notes, are referred to as securities.

### General

The notes are our senior unsecured obligations and rank equally and ratably with all of our other unsecured unsubordinated indebtedness. The notes rank among themselves equally and ratably without preference or priority. The indenture permits us from time to time, without notice to or the consent of the holders of any series of securities issued under the indenture, to create and issue further notes of a series ranking pari passu with the notes in all respects (or in all respects except for the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes) and so that such further notes shall be consolidated and form a single series with, and shall have the same terms as to status, redemption or otherwise as, the notes.

The notes will be issued in denominations of \$1,000 and integral multiples thereof.

The notes will be consolidated with and will form a single series with \$171,483,000 aggregate principal amount of our previously issued 7 3/4% senior notes due 2012.



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

#### **Certain Covenants**

*Limitation on Liens on Capital Stock of Restricted Subsidiaries.* The indenture provides that we may not, and may not permit any subsidiary to, create, assume, incur or suffer to exist any lien, other than a purchase money lien, upon any capital stock, whether owned on the date of the indenture or thereafter acquired, of any restricted subsidiary, to secure any obligation (other than the securities) of us, any subsidiary or any other person, without in any such case making effective provision whereby all of the outstanding securities shall be directly secured equally and ratably with such obligation; *provided, however,* that this restriction will not apply to (i) liens on the capital stock of any restricted subsidiary securing obligations outstanding from time to time under any bank credit facility, provided that the principal amount of all such obligations secured by liens on the capital stock of any restricted subsidiary, at the time of each incurrence of any portion of any such obligation, does not exceed 15% of the sum of (A) our consolidated shareholders' equity at the end of our most recently completed fiscal quarter immediately preceding such incurrence for which financial statements are or are required to be available and (B) the aggregate principal amount of all obligations which are outstanding under any bank credit facility immediately after giving effect to such incurrence and which are secured by liens on the capital stock of a restricted subsidiary, and (ii) liens securing obligations from us to any wholly-owned restricted subsidiary or from any wholly-owned restricted subsidiary to us or any other wholly-owned restricted subsidiary. This provision will not restrict any of our other property or that of our subsidiaries.

The indenture defines *lien* as any mortgage, pledge, hypothecation, lien, encumbrance, charge or security interest of any kind; *obligation* as indebtedness for money borrowed or indebtedness evidenced by a bond, note, debenture or other evidence of indebtedness; *purchase money lien* as (i) any mortgage, pledge, hypothecation, lien, encumbrance, charge or security interest of any kind upon any capital stock of any restricted subsidiary acquired after the date of the indenture if such purchase money lien is for the purpose of financing, and does not exceed, the cost to us or any subsidiary of acquiring the capital stock of such restricted subsidiary and such financing is effected concurrently with, or within six months after, the date of such acquisition, and (ii) any extension, renewal or refinancing of any purchase money lien so long as the principal amount of obligations secured thereby shall not exceed the original principal amount of obligations so secured at the time of such extension, renewal or refinancing; *restricted subsidiary* as any subsidiary that is a licensed insurance company, other than any licensed insurance company that our board of directors, in good faith, determines is not, individually or together with any other licensed insurance company as to which a similar determination has been made, material to the business of the Company and its subsidiaries, considered as a whole; and *subsidiary* as a corporation or business trust, a majority of the outstanding voting stock of which is owned, directly or indirectly, by us or one or more other subsidiaries, or by us and one or more other subsidiaries. As of the date hereof, each of our licensed insurance company subsidiaries is a restricted subsidiary.

*Waiver of Certain Covenants.* We may omit in any particular instance to comply with any term, provision or condition of the covenants described above if the holders of at least a majority of all securities issued under the indenture and then outstanding waive compliance in such instance with such term, provision or condition.

*Amalgamation, Consolidation, Merger, Conveyance, Transfer or Lease.* The indenture provides that we may not amalgamate or consolidate with or merge into any other corporation or convey, transfer or lease our properties and assets substantially as an entirety to any other person, unless, (i) the corporation formed by such consolidation or amalgamation or into which we are merged or the person which shall have acquired or leased such properties or assets shall be a corporation, partnership or trust organized and validly existing under the laws of Canada or any province thereof or the United States, any state thereof or the District of Columbia and shall expressly assume our obligation for the due and punctual payment of the principal of (and premium, if any, on) and interest on all the outstanding securities issued under the

indenture and the performance and observance of every covenant of the indenture on our part to be performed or observed, (ii) immediately after giving effect to such transaction, no event of default or event that after notice or passage of time or both would be an event of default shall have occurred and be continuing and (iii) certain other conditions are met.

#### **Events of Default**

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

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

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

The indenture provides that the trustees shall be under no obligation to exercise any of the rights or powers vested in them by the indenture at the request or direction of holders of securities unless such

holders shall have offered to the trustees reasonable funding, security and indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. Subject to such provisions for the indemnification of the trustees, the holders of not less than a majority in principal amount of the securities of any series (with respect to any remedy, trust or power relating to any default in payment of principal (or premium, if any, on) or interest on the securities of such series or any default in the performance or breach of any other covenant or warranty of us applicable to the securities of such series but not applicable to all outstanding securities issued under the indenture) or the holders of not less than a majority in principal amount of all securities issued under the indenture and then outstanding (treated as one class) (with respect to any other remedy, trust or power) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustees, or exercising any trust or power conferred on the trustees, with respect to such securities.

#### **Discharge, Defeasance and Covenant Defeasance**

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

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

In order to exercise either defeasance or covenant defeasance with respect to the notes, (i) we must irrevocably deposit with one of the trustees, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, certain United States government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of and interest on the outstanding notes on the stated maturity of such principal or installment of interest; (ii) in the case of defeasance, we shall have delivered to the trustees an opinion of counsel in the United States stating that (x) we have received from, or there has been published by, the Internal Revenue Service a ruling or (y) since March 29, 2004, there has been a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred; (iii) in the case of covenant defeasance, we shall have delivered to the trustees an opinion of counsel in the United States to the effect that the holders of the outstanding notes will not recognize income, gain or loss for United States federal income tax purposes as a result of such covenant defeasance and will be subject to United States federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such covenant defeasance had not occurred; (iv) in the case of defeasance or covenant defeasance, we shall have delivered to the trustees an opinion of counsel in Canada to the effect that holders of the outstanding notes

will not recognize income, gain or loss for Canadian federal or provincial income tax or other tax purposes as a result of such defeasance or covenant defeasance, as applicable, and will be subject to Canadian federal or provincial income tax and other tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance or covenant defeasance, as applicable, had not occurred (which condition may not be waived by any holder of notes or the trustees); and (v) we must comply with certain other conditions.

### **Modification**

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

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

### **Book-Entry; Delivery and Form**

The following description of the operations of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of DTC and are subject to changes by it. We take no responsibility for these operations and procedures and urge you to contact DTC or its participants directly to discuss these matters.

The notes will be issued in fully registered form without interest coupons. The notes will be represented by one or more global notes and will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as a nominee of DTC. Unless and until it is exchanged in whole for

notes in definitive registered form, a global note may not be transferred, in whole or in part, except to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or by such nominee to a successor depository or nominee of such depository.

Upon the issuance of the global notes, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global notes to the accounts of persons who have accounts with such depository. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC, referred to as participants, or persons who hold interests through participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the notes. Except as provided below, owners of beneficial interests in the global notes:

will not be entitled to have certificates registered in their names;

will not receive or be entitled to physical delivery of certificates in definitive form; and

will not be considered holders of the global notes.

Payments of the principal of, and interest on, the global notes will be made to DTC or its nominee, as the case may be, as the registered owner thereof. Neither we, the trustees nor any paying agent will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global note or for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and other banks, your ability to pledge your interest in the notes represented by global notes to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate.

It is DTC's current practice that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note, will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. Payments by participants and indirect participants to the owners of beneficial interests in such global note held through such participants will be governed by standing instructions and customary practices and will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures. DTC has advised us that it will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in the global notes is credited and only in respect of such portion of the aggregate principal amount of notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the notes, DTC will exchange the global notes for notes in definitive registered form, referred to as certificated notes, which it will distribute to its participants.

DTC has advised us as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, and a clearing agency registered pursuant to Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between

participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Certain participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly, referred to as indirect participants.

Although DTC, Euroclear and Clearstream are expected to follow the foregoing procedures in order to facilitate transfers of interest in the global note among participants of DTC, Euroclear and Clearstream they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of us, the trustees nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear, Clearstream or the participants or indirect participants of their respective obligations under the rules and procedures governing their respective operations, including maintaining, supervising or reviewing the records relating to, or payments made on account of, beneficial ownership interests in global notes.

### **Certificated Securities**

Subject to certain conditions, any person having a beneficial interest in a global note may, upon request to us or the trustees, exchange such beneficial interest for notes in the form of certificated notes. Upon any such issuance, the trustees are required to register such notes in the name of, and cause the same to be delivered to, such person or persons (or the nominee of any thereof).

In addition if:

(1) DTC or any depository notifies us in writing that it is no longer willing or able to act as a depository and we are unable to locate a qualified successor within 90 days; or

(2) we, at our option, notify the trustees in writing that we elect to cause the issuance of notes in the form of certificated notes under the indenture, then, upon surrender by the registered owner or holder of a global note of its global note, replacement notes in such form will be issued to each person that such global note holder and the depository identify as the beneficial owner of the related notes.

Neither we nor the trustees will be liable for any delay by the related global note holder or the depository in identifying the beneficial owners of the related notes, and we and the trustees may conclusively rely on, and will be protected in relying on, instructions from such global note holder or of the depository for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of the new issuance of notes).

### **Enforceability of Judgments**

Since some of our assets are outside the United States, any judgment obtained in the United States against us, including any judgment with respect to the payment of principal or interest on the notes may not be collectible within the United States.

We have been informed by our Canadian counsel, Torys LLP, that the laws of the Province of Ontario and the federal laws of Canada applicable therein permit an action to be brought in a court of competent jurisdiction in that province on any final and conclusive judgment in personam of any federal or state court located in the Borough of Manhattan, The City of New York, State of New York (a New York Court ) that is not impeachable as void or voidable under the internal laws of the State of New York for a sum certain if: (i) the court rendering such judgment had jurisdiction over the judgment debtor, as recognized by the courts of Ontario (and submission by us in the indenture to the jurisdiction of the New York Court will be sufficient for this purpose); (ii) such judgment was not obtained by fraud or in a manner contrary to natural justice or other rule of law, whether equitable, legal or statutory, and the enforcement thereof would not be inconsistent with public policy, as such term is understood under the laws of Ontario and the federal laws of Canada applicable therein or contrary to any order made by the Attorney General of Canada under the *Foreign Extraterritorial Measures Act* (Canada) or by the

Competition Tribunal under the *Competition Act* (Canada); (iii) the enforcement of such judgment does not constitute, directly or indirectly, the enforcement of foreign revenue, expropriatory or penal laws; (iv) no new admissible evidence relevant to the action is discovered prior to the rendering of judgment by a Canadian court; and (v) the action to enforce such judgment is commenced within the applicable limitation period; except that a court in the Province of Ontario may only give judgment in Canadian dollars. In the opinion of such counsel, there are currently no reasons under the law of Ontario for avoiding recognition of said judgments of New York Courts under the indenture or on the notes based upon public policy. We have been advised by such counsel that there is doubt as to the enforceability in Canada by a court in original actions, or in actions to enforce judgments of United States courts, of liabilities predicated solely upon United States federal securities laws.

**Consent to Jurisdiction**

The indenture provides that we will irrevocably appoint CT Corporation System, 111 Eighth Avenue, New York, New York 10011 as our authorized agent for service of process in any legal action or proceeding arising out of or relating to the indenture or the notes for actions brought under federal or state securities laws or for actions brought by either trustee in any New York Court, and will irrevocably submit to the jurisdiction of the New York Courts for such purposes.

**Governing Law**

The indenture and the notes will be governed by and construed in accordance with the laws of the State of New York.

**EARNINGS COVERAGE RATIOS**

The following consolidated financial ratios are calculated for the twelve-month periods ended December 31, 2003 and June 30, 2004. The As Adjusted ratio for the twelve months ended December 31, 2003 gives effect as of January 1, 2003 to:

the exchange offer completed April 29, 2004 pursuant to which \$22,049,000 aggregate principal amount of our 7 3/4% senior notes due 2012 were issued, together with a cash payment of \$19,687,500, in exchange for \$39,375,000 aggregate principal amount of TIG's 8 1/8% notes due 2005 (and the subsequent exchange of such notes for our registered 7 3/4% senior notes due 2012);

the exchange offer completed on April 29, 2004 pursuant to which \$138,394,000 aggregate principal amount of our 7 3/4% senior notes due 2012 were issued, together with a cash payment of \$38,493,408, in exchange for \$94,486,000 aggregate principal amount of our 7 3/8% senior notes due 2006 and \$70,775,000 aggregate principal amount of our 6 7/8% senior notes due 2008;

the exchange completed on June 29, 2004 pursuant to which \$11,040,000 aggregate principal amount of our 7 3/4% senior notes due 2012 were issued in exchange for \$10,000,000 aggregate principal amount of our 7 3/8% senior notes due 2006; and

this offering of notes.

The As Adjusted ratio for the twelve months ended June 30, 2004 gives effect as of July 1, 2003 to this offering of notes.

Except as described above, the following table does not reflect the interest cost of our debt and the debt of our subsidiaries issued during the periods as if it was issued at the beginning of the periods.

	Twelve Months Ended December 31, 2003		Twelve Months Ended June 30, 2004	
	Actual	As Adjusted	Actual	As Adjusted
Earnings coverage(1)	4.6x	4.4x	2.5x	2.4x

(1) Earnings coverage is equal to net income (excluding unusual items) before interest expense and income taxes divided by interest expense on all debt.

Our interest expense amounted to approximately \$146.3 million and \$169.0 million for the twelve-month periods ended December 31, 2003 and June 30, 2004, respectively. Our earnings before interest expense and income taxes for the twelve-month periods ended December 31, 2003 and June 30, 2004 were approximately \$673.8 million and \$418.4 million, respectively, which is 4.6 times and 2.5 times our interest expense for these periods.

After giving effect to this offering, the exchange offer completed on April 29, 2004 pursuant to which we issued \$22,049,000 aggregate principal amount of our senior notes due 2012 (and the subsequent exchange of such notes for our registered 7 3/4% senior notes due 2012), the exchange offer completed on April 29, 2004 pursuant to which we issued \$138,394,000 aggregate principal amount of our 7 3/4% senior notes due 2012 and the exchange completed on June 29, 2004 pursuant to which we issued \$11,040,000 aggregate principal amount of our 7 3/4% senior notes due 2012, our interest expense requirements would have amounted to approximately \$151.7 million for the twelve-month period ended December 31, 2003. After giving effect to this offering, our interest expense requirements would have amounted to approximately \$176.9 million for the twelve-month period ended June 30, 2004. After giving effect to this offering and to each of the exchanges described above, our earnings before interest expense and income tax for the twelve-month period ended December 31, 2003 would have been approximately \$674.1 million, which would have been 4.4 times our interest expense requirements for that period. After giving effect to this offering, our earnings before interest expense and income tax for the twelve-month period ended June 30, 2004 would have been approximately \$419.3 million, which would have been 2.4 times our interest requirements for that period.



## CERTAIN INCOME TAX CONSIDERATIONS

### Certain U.S. Federal Income Tax Considerations

The following discussion summarizes the material U.S. federal income tax consequences of the ownership of the notes acquired in this offering that may be relevant to you if you are a U.S. Holder (as defined below). This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated under the Code, and administrative rulings and judicial decisions as of the date hereof. These authorities may be changed, perhaps retroactively, resulting in U.S. federal income tax consequences different from those discussed below.

We have not sought any ruling from the Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary assumes that the notes will be held as capital assets within the meaning of Section 1221 of the Code. This summary also does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction. In addition, this summary does not address all tax considerations that may be applicable to your particular circumstances or to you if you are a U.S. Holder that may be subject to special tax rules, including, without limitation:

U.S. Holders subject to the alternative minimum tax;

banks, insurance companies, or other financial institutions;

tax-exempt organizations;

dealers in securities or commodities;

traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;

U.S. Holders whose functional currency is not the U.S. dollar;

persons holding the notes as a position in a hedging transaction, straddle, conversion transaction or other risk reduction transaction;

persons deemed to sell the notes under the constructive sale provisions of the Code;

regulated investment companies;

U.S. expatriates or persons treated as residents of more than one country; or

persons who acquire or for income tax purposes are deemed to have acquired notes in an exchange or for property other than cash.

For purposes of this discussion, you are a U.S. Holder if you are a holder of the notes that is:

a citizen or resident of the United States for U.S. federal income tax purposes;

a corporation, including any entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any political subdivision of the United States;

an estate the income of which is subject to U.S. federal income taxation regardless of its source;

a trust, if its administration is subject to the primary supervision of a U.S. court and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if it has made a valid election under applicable Treasury regulations to be treated as a U.S. person; or

any other holder whose income or gain in respect of a note is effectively connected with the conduct of a United States trade or business.

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If a partnership holds the notes, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the notes, you should consult your tax advisor regarding the tax consequences of this offering and the ownership of notes.

THIS SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO YOUR PARTICULAR SITUATION AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, FOREIGN OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

*Pre-issuance Accrued Interest.* A portion of the purchase price of the notes is attributable to the amount of interest accrued prior to the date the notes are issued. Consequently, the notes may be treated as having been sold for an amount that excludes any pre-issuance accrued interest. If the notes are so treated, a portion of the first stated interest payment equal to any excluded pre-issuance accrued interest will be treated as a return of such pre-issuance accrued interest and will not be taxable as interest on the notes.

*Stated Interest.* Stated interest on the notes generally will be taxable to you as ordinary income at the time that it is paid or accrued in accordance with your method of accounting for U.S. federal income tax purposes. Such interest will be treated as foreign source income for U.S. foreign tax credit limitation purposes, and as passive income, or in the case of certain U.S. Holders, financial services income.

*Market Discount.* If you purchase a note at a price less than the note's principal amount, the amount of the difference will be treated as market discount unless such difference is less than a specified *de minimis* amount (generally .0025 of the note's principal amount times the number of complete years to maturity from the date you acquired the note). Market discount generally accrues ratably over the remaining term of a note unless a holder elects to accrue market discount on a constant yield basis. If you are a U.S. Holder of a note with market discount, you will be required to treat any gain recognized on the sale, exchange, or other disposition of the note as ordinary income rather than capital gain to the extent of the market discount accrued on the note. You may elect to include market discount in income as it accrues, in which case any gain recognized on the sale, exchange, or other disposition of a note will be capital gain. Such election will apply to all debt instruments that you acquire during or after the taxable year for which the election is made, and may only be revoked with the consent of the IRS. Market discount should be treated as foreign source income for U.S. foreign tax credit limitation purposes, and as passive income, or in the case of certain U.S. Holders, financial services income.

*Sale, Exchange, or Other Disposition of the Notes.* Upon the sale, exchange, or other disposition of a note, you will recognize gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other disposition (excluding accrued but unpaid stated interest, which, except as described above, generally will be taxable as interest) and your adjusted tax basis in the note. Your adjusted tax basis in a note will equal your initial tax basis in the note, decreased (but not below zero) by all payments received in respect of the note other than payments of stated interest. Any gain or loss will be capital gain or loss, and will be long-term capital gain or loss if your holding period for the note is more than one year at the time of the sale, exchange, or other disposition. If you are a non-corporate U.S. Holder, including an individual, your long-term capital gain is generally subject to a current maximum tax rate of 15%. The deductibility of capital losses is subject to limitations. Any gain or loss recognized on the sale, exchange, or other disposition generally will be treated as U.S. source gain or loss for U.S. foreign tax credit limitation purposes.

*Information Reporting and Backup Withholding.* If you are a non-corporate U.S. Holder, information reporting requirements on IRS Form 1099 generally will apply to payments of principal and interest on your notes within the United States and the payment of proceeds from the sale of your notes at a U.S. office of a broker. Additionally, backup withholding, currently at a rate of 28%, may apply to such

payments if you are a non-corporate U.S. Holder that fails to provide an accurate taxpayer identification number, is notified by the IRS that you have failed to report all interest and dividends required to be shown on your U.S. federal income tax returns, or fails to comply with certain certification requirements.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your U.S. federal income tax provided the required information is furnished to the IRS in a timely manner.

#### **Certain Canadian Federal Income Tax Considerations**

The following is a summary of the principal Canadian federal income tax considerations under the Income Tax Act (Canada) (the Canadian Tax Act ) generally applicable to a purchaser of the notes who acquires the notes pursuant to this offering and who, for purposes of the Canadian Tax Act, and at all relevant times, is not (and is not deemed to be) a resident of Canada, deals with the Company at arm's length and does not use or hold and is not deemed to use or hold the notes in carrying on business in Canada (a Non-Resident Holder ). This summary does not apply to a holder of notes that is an insurer that carries on an insurance business in Canada and elsewhere.

The summary is based on the current provisions of the Canadian Tax Act, the regulations thereunder and an understanding of the current administrative practices published by the Canada Customs and Revenue Agency and takes into account all specific proposals to amend the Canadian Tax Act and regulations publicly announced by the Minister of Finance (Canada) prior to the date hereof. This summary does not take into account or anticipate any other changes in law or administrative practices, whether by judicial, governmental or legislative action or decisions, nor does it take into account provincial, territorial or foreign income tax legislation or considerations.

**This summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any particular purchaser of the notes. Purchasers of the notes should consult their own tax advisors as to the tax consequences in their particular circumstances.**

Interest or principal paid to a Non-Resident Holder of the notes will be exempt from Canadian withholding tax. No other tax on income (including taxable capital gains) will be payable by a Non-Resident Holder of the notes in respect of the holding, redemption or disposition of the notes.

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