



2000
Annual Review

Lombard Insurance Company
Lombard General Insurance Company of Canada
Zenith Insurance Company

Lombard Canada

COMPANY EXECUTIVES

Byron G. Messier
President & Chief Executive Officer

Richard N. Patina
President
Commercial Lines

Henry J. Rodrigues
President
Personal Lines

Robert T. Coughlin
Senior Vice-President
Claims

Kim H. Tan
Senior Vice-President
Corporate & Business Development

Felicia M. Salomon
Senior Vice President &
General Counsel

M. Jane Gardner
Senior Vice President &
Chief Financial Officer

Katharine M. Allan
Senior Vice President &
Chief Underwriting Officer

R. Scot Dalton
Senior Vice-President
Sales

Peter Howling
Vice-President
Corporate Systems

Richard Lapierre
Regional Vice-President
Quebec Region

Marc LeBlanc
Regional Vice-President
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Steve Cade
Regional Manager
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Underwriting Director
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PROFILE

Lombard Canada Ltd. is a subsidiary of Fairfax Financial Holdings Limited (FFH), a Canadian-owned financial services holding company listed on the Toronto Stock Exchange. Fairfax's subsidiaries are primarily engaged in property and casualty insurance, reinsurance and insurance claims services. Fairfax has assets of C\$31.8 billion and shareholders' equity of C\$3.4 billion as at December 31, 2000. Fairfax's claims paying ability overall is rated as "A" (Duff & Phelps Credit Rating Co.).

Lombard Canada Ltd. provides insurance management services to the Lombard group of companies. In addition, Lombard Canada Ltd. provides chief agency and management services to Tokio Marine & Fire Insurance Company Limited.

Lombard General Insurance Company of Canada underwrites commercial lines business through select brokers. Business Choice®, a specialized point-of-sale software and technology developed by Lombard Canada, allows our brokers to efficiently underwrite policies designed to meet the needs of small and mid-sized businesses. Lombard General also offers specialized coverages and custom marketing for groups and associations.

Lombard Insurance Company offers retail personal lines products through select brokers. Lombard is an industry leader in designing products that meet the needs of customers.

Zenith Insurance Company, through its Privilege 50® Program, offers specialized coverages and rates for customers over the age of fifty. We also offer our national groups and associations access to state-of-the-art call centres located strategically across Canada to provide a consistent customer-oriented level of service.

STRENGTH & STABILITY

Lombard's strength is its people. With about 700 highly trained professionals in partnership with a network of over 200 independent brokers, Lombard is uniquely positioned and has the flexibility and focus to be the pre-eminent property and casualty insurer in Canada.

In addition to having access to innovative products and service excellence in underwriting and claims, our brokers and customers have the confidence that they are dealing with a Canadian-owned, financially stable and responsible organization.

Lombard's financial stability is reflected in its "A-" rating from A.M. Best Company and "A" rating from Duff & Phelps Credit Rating Co., leading independent insurance rating companies.

The Lombard companies are noted for their solid underwriting performance, diversified books of business and strong capital positions.

HIGHLIGHTS – 2000

- ◆ Gross premiums written were \$501.5 million, down slightly from last year's \$511.4 million.
- ◆ Assets exceed \$1 billion.
- ◆ Net income after taxes amounted to \$8.3 million, compared to \$8.2 million in 1999. Underwriting results improved but this was offset by lower investment income.
- ◆ Combined underwriting result, after affiliated reinsurance, was 105.2% compared to 107.1% in 1999. Before affiliated reinsurance, the 2000 combined ratio improved to 100.6% compared to 105.0% in 1999.
- ◆ Lombard's loss ratio improved slightly to 70.8% from 71.0% in 1999 despite a disappointing year for the P&C industry.



A MESSAGE FROM BYRON MESSIER, PRESIDENT AND CEO

I would like to congratulate and thank all of our employees for the fantastic effort that went into achieving our year 2000 results. At a combined ratio of 100.6%, we have outperformed the industry by a substantial margin. While we did not achieve our goal of a 95% combined underwriting profit ratio, we are within striking distance. The results for 2000 clearly indicate that the appropriate drivers are in place: adequate pricing, disciplined underwriting and expense control; and we have taken the steps necessary to ensure that we meet our goals for future profitability.

In 2000, we successfully undertook a number of significant initiatives that our competitors are only now contemplating. We did not achieve our overall volume expectations because we did not want to compromise our commitment to adequate pricing. However, our focus on group and association business, efficient business processes and claims and underwriting restructuring will contribute to our goal of sustainable underwriting profits.

“We have outperformed the industry by a substantial margin ... and we have taken the steps necessary to ensure that we meet our goals for future profitability.”

In order to ensure efficient and professional delivery of services to our brokers and our customers, and to recognize the importance of our product lines and distribution initiatives, we reorganized our Personal Lines operation into core functions. Commercial Lines has also been reorganized according to business lines: Business Choice, Groups and Associations, Retail and Special Operations. All product lines and distribution channels have dedicated IS and business planning support.

While Lombard's mission is to achieve an underwriting profit, we remain committed to the ethical conduct of our business and to our social responsibilities.

Although the Federal *Privacy Act* does not apply directly to insurance companies until January 2004, we have already taken steps to ensure our customers' information is properly safeguarded. Our Board of Directors has adopted a Privacy Code, and we are in the process of ensuring that all operations and related suppliers are compliant with this code. Our employees sign a business ethics pledge as well as a commitment to the protection of customer information.



Lombard's community involvement is demonstrated by the commitment of our employees and the corporation to the United Way and other charitable organizations. In 2000, our employees raised \$43,450 for the United Way and Lombard matched this gift. More than 50% of our employees participated in United Way events. Each year, our employees manage to arrange new events which heighten enthusiasm, employee involvement and, ultimately, donations to the United Way. Lombard has a donation-matching program that ensures our corporate donations are responsive to the interests of our employees. Lombard also supports a number of other charities that focus on the health and welfare of women and children.

Our employees are already committed to the company's overall goals. To support our employees' efforts to meet the company's mandate, we are introducing a new compensation plan that will provide direct incentives for individual performance. Every employee has the opportunity to become a shareholder of Fairfax through an attractive share purchase plan. In addition, Fairfax shares will be awarded in recognition of achievement of corporate goals.

FUTURE OUTLOOK

We are uniquely positioned to take advantage of the business environment in 2001 and beyond. We have restructured our operations. Even with this extra expense, we have improved our combined ratio. In the longer term, this restructuring will result in significant improvement to our bottom line. Our financial position is strong, and we are well capitalized. In contrast to many of our competitors, we are in the position to welcome new business opportunities. We expect profit with growth in 2001.

"We are uniquely positioned to take advantage of the business environment in 2001 and beyond."

I would like to thank our brokers for the many opportunities they have presented to us and for the support that they have given us.



COMMERCIAL LINES

The year 2000 saw our Commercial Lines results improving over 1999. We exceeded our pricing targets in 2000, and this was a key reason why our combined ratio improved to 100.3%. Premium volume remained relatively flat from the previous year.

“We wrote \$130 million in Business Choice premiums in 2000. This represents a 30% increase over 1999. At the end of 2000, 72% of our total Commercial policies were being processed through this technology...”

Custom Marketing

Our Commercial Group and Association business continues to be a key initiative for us. In 2000, we wrote in excess of \$7 million in new Commercial Program business. We have recently realigned our regional offices to bring increased focus to this profitable initiative. This business currently represents approximately 30 percent of our total Commercial portfolio.

Business Choice

The Commercial Lines point-of-sale technology continues to be a tremendous success. We wrote \$130 million in Business Choice premiums in 2000. This represents a 30% increase over 1999. At the end of 2000, 72% of our total Commercial policies were being processed through this technology, and we view this as a great accomplishment.

We continue to experience better profitability and retention on this business.

2001

We are seeing a continuation of the market hardening that started in late 2000. Price increases are evident at all levels and are desperately needed for the industry as a whole. Lombard is well positioned to take advantage of this situation.

PERSONAL LINES

The year 2000 was one of rationalization for Personal Lines. Each of our units was given the task of reducing combined ratios both in the short and long terms. This was achieved by removal of poor performing business in the retail environment and reduction in direct marketing; but there was always, and will continue to be, a focus on finding and keeping quality business. The net result was a reduction in combined ratio from 105.9% to 101.1% while retention remained above 90%.

Retail Business

During 2000, Lombard Retail re-established itself as a unique and innovative partner by demonstrating its readiness to meet the broker challenges of a new millennium.

Lombard continues to create a broker-friendly environment. By centralizing service in Toronto, we now provide our brokers with a level of responsiveness that is enviable in the industry. Lombard assists brokers in differentiating themselves by offering Protected Trading Territories that offer exclusivity and therefore Performance-based Pricing in their marketplace. We have also engaged brokers in the management of profitability through Underwriting at Source. Lastly, Lombard fulfilled its promise to deliver an Internet-based solution with quick quoting, transaction processing, as well as access to vital information that enables our brokers to provide superior service to their customers.

Group Business

The Personal Lines Group Division achieved premiums of \$40 million, with new business of \$6.5 million. New groups acquired during the year added in excess of 2.5 million prospects to our group base, representing significant growth opportunity for the future. Several group programs designed to assist our brokers by adding value to their existing commercial lines broker relationships were successfully implemented during 2000. Support of these programs will continue to be a priority in 2001.

Zenith Insurance/Privilege 50

The year 2000 was dedicated to capitalizing on previous acquisition expenditures by “mining” our database of prospects. This generated over \$2 million in new business premiums, with essentially no marketing expense. Additionally, efforts were focused on establishing a strategic partnership with the leading 50+ organization in Canada – the Canadian Association of Retired Persons (CARP). With over 400,000 members nationally, CARP provides a targeted gateway for future growth in the 50+ market.

CLAIMS

2000 was a year to take stock and carefully examine our overall claims process to ensure that sufficient controls are in place to prevent “leakage” of both indemnity and expense dollars.

To that end, we spent about eight months thoroughly reviewing segments of our Property and Liability files to identify opportunities for change. This information has now been incorporated into a comprehensive series of initiatives specifically designed to address and resolve all impediments to improving the overall claims product.

“2000 was a year to take stock and carefully examine our overall claims process ...”

Some of the more visible solutions relate to areas such as compulsory “round tabling” of liability files at set time frames; an enhanced inspection and re-inspection system on both property and automobile losses; and the hiring of a Director of Vendor Management to spearhead our drive to not only control our current vendor list but conduct a thorough analysis to identify and implement new strategic alliances.

A detailed rollout to all claims staff across the country combined with progressive change to our mentoring and remuneration program will ensure that this initiative will be the prime focus of the claims department in 2001 and the years ahead.

I want to thank all personnel who participated in the analysis and solution development for their commitment and enthusiasm throughout the process.

While we have always had an excellent reputation for our claims product, these changes will ensure that we meet the challenges of the future.

FINANCIAL HIGHLIGHTS

- ◆ Lombard continues to enjoy an 'A-' rating from A.M. Best, North America's leading financial rating agency.
- ◆ Net income after taxes amounted to \$8.3 million compared to \$8.2 million in 1999. Underwriting results improved but this was offset by lower investment income.
- ◆ Despite a disappointing year for the industry, our loss ratio remained virtually unchanged at 70.8% in 2000 compared to 71.0% in 1999.
- ◆ Our combined underwriting result, after affiliated reinsurance, was 105.2% compared to 107.1% in 1999. Before affiliated reinsurance, the 2000 combined ratio improved to 100.6% compared to 105.0% in 1999.
- ◆ Gross premiums written were \$501.5 million, down slightly from last year's \$511.4 million. Accordingly, net premiums written decreased 1.9% to \$343.3 million.
- ◆ Lombard's net risk ratio rose from 2.0:1 in 1999 to 2.4:1 in 2000. Our risk ratio remains well within the regulatory standard of 3.0:1, confirming that we are well capitalized and have substantial underwriting capacity.
- ◆ The actuarial valuation indicates our reserves are solid, and Duff & Phelps Credit Rating Co. has assigned a claims paying ability rating of 'A'. The rating confirms Lombard's excellent financial strength.

2000 Annual Review

CONSOLIDATED INCOME STATEMENT

- for the years ending December 31, 2000, 1999, 1998, 1997, and 1996
- in thousands of Canadian Dollars
- all reinsurance is reflected in these financial statements

	2000	1999	1998	1997	1996
Gross Premiums Written	501,544	511,436	512,400	501,458	502,464
Net Premiums Written	343,322	350,084	381,180	363,282	355,039
Revenues:					
Net Premiums Earned	355,903	364,604	379,607	354,121	352,353
Net Investment Income	29,885	39,194	54,125	87,803	46,467
Total Revenues	385,788	403,798	433,732	441,924	398,820
Expenses:					
Claims and Adjustment Expenses	249,422	256,748	264,704	241,302	236,134
Commissions	54,685	63,161	64,434	59,491	62,615
Premium Taxes	17,038	16,993	16,827	16,051	16,298
Income Taxes	(5,289)	2,986	963	24,661	7,868
Other Expenses	61,654	55,708	64,743	62,586	54,811
Total Expenses	377,510	395,596	411,671	404,091	377,726
NET INCOME AFTER TAXES	\$8,278	\$8,202	\$22,061	\$37,833	\$21,094

CONSOLIDATED BALANCE SHEET

- as of December 31, 2000, 1999, 1998, 1997, and 1996
- in thousands of Canadian Dollars
- all reinsurance is reflected in these financial statements

	2000	1999	1998	1997	1996
Assets:					
Cash & Short-Term Investments	68,718	109,040	106,489	77,662	80,338
Stocks, Bonds & Real Estate	413,982	413,748	415,281	469,907	430,018
Premiums Receivable	119,888	124,312	138,680	139,250	138,110
Deferred Income Taxes	--	--	4,112	--	8,457
Reserves Recoverable from Reinsurers	346,319	349,090	323,997	315,235	301,609
Other Receivables & Other Assets	88,276	89,709	85,237	83,939	73,947
TOTAL ASSETS	\$1,037,183	\$1,085,899	\$1,073,796	\$1,085,993	\$1,032,479
Liabilities:					
Unpaid Claims and Claims Expenses	583,662	599,022	593,086	564,283	549,143
Unearned Premium Reserve	242,531	250,672	249,543	248,189	237,859
Other Liabilities	62,222	65,336	68,500	69,391	51,180
Total Liabilities	888,415	915,030	911,129	881,863	838,182
Shareholder's Equity	148,768	170,869	162,667	204,130	194,297
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY	\$1,037,183	\$1,085,899	\$1,073,796	\$1,085,993	\$1,032,479