

FAIRFAX FINANCIAL HOLDINGS LTD/ CAN

Form 6-K

January 04, 2006

**FORM 6-K**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16**  
**of the Securities Exchange Act of 1934**

For the month of January 2006

Commission File Number: 1-31556

**FAIRFAX FINANCIAL HOLDINGS LIMITED**

(Translation of registrant's name into English)

95 Wellington Street West

Suite 800

Toronto, Ontario

Canada M5J 2N7

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F

Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82

N/A

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**Signatures**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ Eric Salsberg  
 Name: Eric P. Salsberg  
 Title: Vice President, Corporate Affairs

Dated: January 4, 2006

**Exhibit Index**

Exhibit	<u>Description</u>
Ex-99.1	News Release dated January 3, 2006 titled Fairfax declares Annual Dividend

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	11,511
Retail	8,709
	1,641
	1,891
	285
	275
	12,801
Industrial	4,317
	507
	520
	24
	105
	5,473
Mixed/other	9,670
	4,235
	3,001
	4,898
	194
	21,998
	42,721
	15,186
	8,758
	6,936
	1,245
	74,846

Notes:

(1) Excludes commercial real estate lending in Wealth as these loans are generally supported by personal guarantees in addition to collateral. This portfolio, which totalled £1.4 billion at 31 December 2013 (2012 - £1.4 billion; 2011 - £1.3 billion) continued to perform in line with expectations and required minimal provision.

(2) ROI: Republic of Ireland; NI: Northern Ireland; RoW: Rest of World.

Key points

- In line with Group strategy, the overall gross lending exposure to commercial real estate (CRE) fell by £10.5 billion, or 17%, during 2013 to £52.6 billion. Gross lending exposure is now almost half of the exposure of four years ago. The overall mix of geography, sub-sector and investment and development remained broadly unchanged.
- A significant proportion of the decrease was in Non-Core and was due to repayments, asset sales and write-offs. The Non-Core portfolio totalled £19.3 billion (37% of the portfolio) at 31 December 2013 (2012 - £26.4 billion or 42% of the portfolio).
- The UK portfolio was focused on London and South East England. Approximately 47% of the portfolio was held in these areas at 31 December 2013 (2012 - 43%).

\*unaudited

Business review [Risk and balance sheet management](#)

## Credit risk continued

## Key loan portfolios\* continued

Commercial real estate maturity profile of portfolio	UK	Ulster	US Retail &	International	Markets	Total
	Corporate £m	Bank £m	Commercial £m	Banking £m		
2013						
Core						
< 1 year (1)	6,816	2,740	602	352	117	10,627
1-2 years	3,436	360	669	203	—	4,668
2-3 years	4,721	177	739	116	7	5,760
> 3 years	8,621	860	2,008	273	13	11,775
Not classified (2)	420	—	—	—	—	420
	24,014	4,137	4,018	944	137	33,250
Non-Core						
< 1 year (1)	1,432	8,479	85	4,864	—	14,860
1-2 years	77	1,276	31	507	—	1,891
2-3 years	36	185	33	220	—	474
> 3 years	295	186	83	1,404	—	1,968
Not classified (2)	135	—	—	—	—	135
	1,975	10,126	232	6,995	—	19,328
2012						
Core						
< 1 year (1)	8,639	3,000	797	216	59	12,711
1-2 years	3,999	284	801	283	130	5,497
2-3 years	3,817	215	667	505	—	5,204
> 3 years	9,597	805	1,595	160	498	12,655
Not classified (2)	543	—	—	—	—	543
	26,595	4,304	3,860	1,164	687	36,610
Non-Core						
< 1 year (1)	2,071	9,498	138	4,628	—	16,335
1-2 years	192	1,240	79	3,714	—	5,225
2-3 years	99	38	43	1,137	—	1,317
> 3 years	1,058	214	132	1,935	—	3,339
Not classified (2)	214	—	—	—	—	214
	3,634	10,990	392	11,414	—	26,430
2011						
Core						
< 1 year (1)	8,268	3,030	1,056	142	—	12,496
1-2 years	5,187	391	638	218	60	6,494
2-3 years	3,587	117	765	230	133	4,832
> 3 years	10,871	1,225	1,846	581	9	14,532
Not classified (2)	2,211	—	—	—	—	2,211
	30,124	4,763	4,305	1,171	202	40,565

Non-Core					
< 1 year (1)	3,224	11,089	293	7,093	— 21,699
1-2 years	508	692	163	3,064	— 4,427
2-3 years	312	177	152	1,738	— 2,379
> 3 years	1,636	392	321	3,126	— 5,475
Not classified (2)	297	—	—	4	— 301
	5,977	12,350	929	15,025	— 34,281

Notes:

- (1) Includes on demand and past due assets.  
(2) Predominantly comprises overdrafts and multi-option facilities for which there is no single maturity date.

\*unaudited

Business review [Risk and balance sheet management](#)

## Credit risk continued

## Key loan portfolios\* continued

## Key points

- The overall maturity profile remained relatively unchanged during 2013.
- The majority of Ulster Bank's commercial real estate portfolio was categorised as under one year, owing to the high level of non-performing assets in the portfolio.

Commercial real estate portfolio by asset quality band	AQ1-AQ2	AQ3-AQ4	AQ5-AQ6	AQ7-AQ8	AQ9	AQ10	Total
	£m	£m	£m	£m	£m	£m	£m
2013							
Core	441	7,801	13,396	5,199	665	5,748	33,250
Non-Core	—	376	1,433	1,341	176	16,002	19,328
	441	8,177	14,829	6,540	841	21,750	52,578
2012							
Core	767	6,011	16,592	6,575	1,283	5,382	36,610
Non-Core	177	578	3,680	3,200	1,029	17,766	26,430
	944	6,589	20,272	9,775	2,312	23,148	63,040
2011							
Core	1,094	6,714	19,054	6,254	3,111	4,338	40,565
Non-Core	680	1,287	5,951	3,893	2,385	20,085	34,281
	1,774	8,001	25,005	10,147	5,496	24,423	74,846

## Key points

- There was an overall decrease in AQ10 during the year with reductions in Non-Core partially offset by increases in Ulster Bank. The high proportion of the portfolio in AQ10 was driven by exposure in Non-Core (Ulster Bank and International Banking) and Core (Ulster Bank).
- Of the total portfolio of £52.6 billion at 31 December 2013, £24.9 billion (2012 - £28.1 billion) was managed within the Group's standard credit processes. Another £2.9 billion (2012 - £5.1 billion) received varying degrees of heightened credit management under the Watchlist process. The decrease in the portfolio managed in the Group's Watchlist process occurred mainly in Non-Core and UK Corporate. The remaining £24.7 billion (2012 - £29.8 billion) was managed in GRG and included Watchlist and non-performing exposures.

\*unaudited

Business review [Risk and balance sheet management](#)

Credit risk continued

Key loan portfolios\* continued

The table below analyses commercial real estate (Core and Non-Core) lending by loan-to-value ratio, which represents loan value before provisions relative to the value of the property financed.

Commercial real estate loan-to-value ratio	Ulster Bank			Rest of the Group			Group		
	Performing	Non-performing	Total	Performing	Non-performing	Total	Performing	Non-performing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2013									
<= 50%	124	23	147	7,884	262	8,146	8,008	285	8,293
> 50% and <= 70%	271	55	326	9,962	582	10,544	10,233	637	10,870
> 70% and <= 90%	282	89	371	3,699	1,272	4,971	3,981	1,361	5,342
> 90% and <= 100%	86	154	240	865	368	1,233	951	522	1,473
> 100% and <= 110%	121	212	333	690	627	1,317	811	839	1,650
> 110% and <= 130%	238	366	604	333	1,334	1,667	571	1,700	2,271
> 130% and <= 150%	102	438	540	267	1,161	1,428	369	1,599	1,968
> 150%	319	6,738	7,057	150	2,629	2,779	469	9,367	9,836
Total with LTVs	1,543	8,075	9,618	23,850	8,235	32,085	25,393	16,310	41,703
Minimal security (1)	6	3,144	3,150	54	13	67	60	3,157	3,211
Other (2)	144	1,351	1,495	5,230	933	6,163	5,374	2,284	7,658
Total	1,693	12,570	14,263	29,134	9,181	38,315	30,827	21,751	52,578
Total portfolio average LTV (3)	121%	376%	335%	61%	149%	84%	65%	261%	142%
2012 (4)									
<= 50%	141	18	159	7,210	281	7,491	7,351	299	7,650
> 50% and <= 70%	309	58	367	12,161	996	13,157	12,470	1,054	13,524
> 70% and <= 90%	402	164	566	6,438	1,042	7,480	6,840	1,206	8,046
> 90% and <= 100%	404	137	541	1,542	2,145	3,687	1,946	2,282	4,228
> 100% and <= 110%	111	543	654	1,019	1,449	2,468	1,130	1,992	3,121



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> 110% and <= 130%	340	619	959	901	1,069	1,970	1,241	1,688	2,920
> 130% and <= 150%	353	774	1,127	322	913	1,235	675	1,687	2,362
> 150%	1,000	7,350	8,350	595	1,962	2,557	1,595	9,312	10,907
Total with LTVs	3,060	9,663	12,723	30,188	9,857	40,045	33,248	19,520	52,766
Minimal security (1)	8	1,615	1,623	3	13	16	11	1,628	1,639
Other (2)	137	811	948	6,494	1,191	7,685	6,631	2,002	8,633
Total	3,205	12,089	15,294	36,685	11,061	47,746	39,890	23,150	63,040
Total portfolio average LTV (3)	136%	286%	250%	65%	125%	80%	71%	206%	122%

For notes to this table refer to the following page.

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

Commercial real estate loan-to-value ratio 2011	Ulster Bank			Rest of the Group			Group		
	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m	Performing £m	Non-performing £m	Total £m
<= 50%	272	32	304	7,091	332	7,423	7,363	364	7,727
> 50% and <= 70%	479	127	606	14,105	984	15,089	14,584	1,111	15,695
> 70% and <= 90%	808	332	1,140	10,042	1,191	11,233	10,850	1,523	12,373
> 90% and <= 100%	438	201	639	2,616	1,679	4,295	3,054	1,880	4,934
> 100% and <= 110%	474	390	864	1,524	1,928	3,452	1,998	2,318	4,316
> 110% and <= 130%	527	1,101	1,628	698	1,039	1,737	1,225	2,140	3,365
> 130% and <= 150%	506	1,066	1,572	239	912	1,151	745	1,978	2,723
> 150%	912	7,472	8,384	433	2,082	2,515	1,345	9,554	10,899
Total with LTVs	4,416	10,721	15,137	36,748	10,147	46,895	41,164	20,868	62,032
Minimal security (1)	72	1,086	1,158	—	—	—	72	1,086	1,158
Other (2)	193	625	818	8,994	1,844	10,838	9,187	2,469	11,656
Total	4,681	12,432	17,113	45,742	11,991	57,733	50,423	24,423	74,846
Total portfolio average LTV (3)	120%	264%	222%	69%	129%	82%	75%	203%	116%

## Notes:

(1) In 2012, the Group reclassified loans with limited (defined as LTV > 1,000%) or non-physical security as minimal security, of which a majority were commercial real estate development loans in Ulster Bank. Total portfolio average LTV is quoted net of loans with minimal security given that the anticipated recovery rate is less than 10%.

Provisions are marked against these loans where required to reflect the relevant asset quality and recovery profile.

(2) Other non-performing loans of £2.3 billion (2012 - £2.0 billion; 2011 - £2.5 billion) were subject to the Group's standard provisioning policies. Other performing loans of £5.4 billion (2012 - £6.6 billion; 2011 - £9.2 billion) included general corporate loans, typically unsecured, to commercial real estate companies, and major UK house builders in addition to facilities supported by guarantees. The credit quality of these exposures was consistent with that of the performing portfolio overall.

(3) Weighted average by exposure.

(4) 2012 LTV revised to reflect refinement to security value reporting implemented during 2013.

## Key points

- The reductions in the higher LTV buckets for the performing book were offset by the growth in these buckets in the non-performing book. Ulster Bank Group accounted for the majority of this deterioration and has addressed this through an increase in provisions (refer to the section on RCR). Ulster Bank Group's provision as a percentage of REIL stood at 76% at 31 December 2013 (2012 - 57%). Valuations continued to be affected by difficult, although improving, market conditions, as well as refinements to the Group's estimation approach.
- Interest payable on outstanding loans was covered 3.1x and 1.6x within UK Corporate and International Banking, respectively, at 31 December 2013 (2012 - 3.0x and 1.5x respectively). The US Retail & Commercial portfolio is managed on the basis of debt service coverage, which includes principal amortisation as well as interest payable. The average debt service coverage was 1.5x at 31 December 2013 (2012 - 1.3x). As a number of different approaches are used across the Group and across geographies to calculate interest coverage ratios, they may not be comparable for different portfolio types and legal entities.

Credit quality metrics relating to commercial real estate lending were as follows:

	Group			Non-Core		
	2013	2012	2011	2013	2012	2011
Lending (gross)	£52.6bn	£63.0bn	£74.8bn	£19.3bn	£26.4bn	£34.3bn
Of which REIL	£20.1bn	£22.1bn	£22.9bn	£14.3bn	£17.1bn	£18.8bn
Provisions	£13.2bn	£10.1bn	£9.5bn	£10.6bn	£8.3bn	£8.2bn
REIL as a % of gross loans to customers	38.2%	35.1%	30.6%	74.1%	64.8%	54.8%
Provisions as a % of REIL	66%	46%	41%	74%	49%	44%

Note:

- (1) Excludes property related lending to customers in other sectors managed by Real Estate Finance.

## Key point

- CRE lending net of impairment provisions decreased by £13.5 billion or 26% in the year to £39.4 billion in part due to the increased impairment provisions recorded in the fourth quarter of 2013 in Ulster Bank Non-Core, as part of RCR creation and related strategy. Provision coverage on CRE REIL was 66% compared to 46% at the end of 2012.

Ulster Bank is a significant contributor to Non-Core commercial real estate lending. For further information refer to the section on Ulster Bank Group (Core and Non-Core).

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

## Residential mortgages

The table below analyses the mortgage portfolios and includes both Core and Non-Core. Total gross mortgage lending comprises 35% of the Group's gross lending of £418 billion.

	2013	2012	2011
	£m	£m	£m
UK Retail	99,338	99,062	96,388
Ulster Bank	19,034	19,162	20,020
RBS Citizens	19,584	21,538	24,153
Wealth	8,701	8,786	8,468
	146,657	148,548	149,029

Refer to pages 257 to 259 for further information on interest only loans.

The table below shows LTVs for the Group's residential mortgage portfolio split between performing (AQ1-AQ9) and non-performing (AQ10), with the average LTV calculated on a weighted value basis. Loan balances are shown as at the end of the year whereas property values are calculated using property index movements since the last formal valuation.

Loan-to-value ratio	UK Retail			Ulster Bank			RBS Citizens (1)			W
	Performing	Non-performing	Total	Performing	Non-performing	Total	Performing	Non-performing	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2013										
<= 50%	26,392	313	26,705	2,025	170	2,195	4,669	98	4,767	3,400
> 50% and <= 70%	34,699	591	35,290	1,837	195	2,032	5,529	89	5,618	3,397
> 70% and <= 90%	28,920	854	29,774	2,326	288	2,614	5,553	110	5,663	1,337
> 90% and <= 100%	4,057	315	4,372	1,214	162	1,376	1,309	39	1,348	87
> 100% and <= 110%	1,790	182	1,972	1,302	182	1,484	752	22	774	87
> 110% and <= 130%	552	100	652	2,509	461	2,970	637	17	654	27
> 130% and <= 150%	37	5	42	2,202	549	2,751	183	5	188	4
> 150%	—	—	—	2,385	1,227	3,612	102	4	106	24
Total with LTVs	96,447	2,360	98,807	15,800	3,234	19,034	18,734	384	19,118	8,363
Other (2)	511	20	531	—	—	—	463	3	466	215
Total	96,958	2,380	99,338	15,800	3,234	19,034	19,197	387	19,584	8,578
Total portfolio	62%	75%	62%	103%	130%	108%	67%	69%	67%	51%

average LTV  
(3)

Average LTV on new originations  
during the year (3)

	67%			73%			68%			
2012										
<= 50%	22,306	327	22,633	2,182	274	2,456	4,167	51	4,218	3,905
> 50% and										
<= 70%	27,408	457	27,865	1,635	197	1,832	4,806	76	4,882	2,790
> 70% and										
<= 90%	34,002	767	34,769	2,019	294	2,313	6,461	114	6,575	1,080
> 90% and										
<= 100%	7,073	366	7,439	1,119	156	1,275	2,011	57	2,068	93
> 100% and										
<= 110%	3,301	290	3,591	1,239	174	1,413	1,280	43	1,323	69
> 110% and										
<= 130%	1,919	239	2,158	2,412	397	2,809	1,263	42	1,305	49
> 130% and										
<= 150%	83	26	109	2,144	474	2,618	463	14	477	16
> 150%	—	—	—	3,156	1,290	4,446	365	14	379	29
Total with										
LTVs	96,092	2,472	98,564	15,906	3,256	19,162	20,816	411	21,227	8,031
Other (2)	486	12	498	—	—	—	292	19	311	674
Total	96,578	2,484	99,062	15,906	3,256	19,162	21,108	430	21,538	8,705
Total										
portfolio										
average LTV										
(3)	66%	80%	67%	108%	132%	112%	75%	86%	75%	51%

Average LTV on new originations  
during the year (3)

65% 74% 64%

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

Loan-to-value ratio	UK Retail			Ulster Bank			RBS Citizens (1)		
	Performing	Non-performing	Total	Performing	Non-performing	Total	Performing	Non-performing	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2011									
<= 50%	21,537	285	21,822	2,568	222	2,790	4,745	49	4,794
> 50% and <= 70%	25,598	390	25,988	1,877	157	2,034	4,713	78	4,791
> 70% and <= 90%	33,738	671	34,409	2,280	223	2,503	6,893	125	7,018
> 90% and <= 100%	7,365	343	7,708	1,377	128	1,505	2,352	66	2,418
> 100% and <= 110%	3,817	276	4,093	1,462	130	1,592	1,517	53	1,570
> 110% and <= 130%	1,514	199	1,713	2,752	322	3,074	1,536	53	1,589
> 130% and <= 150%	60	15	75	2,607	369	2,976	626	28	654
> 150%	—	—	—	2,798	748	3,546	588	27	615
Total with LTVs	93,629	2,179	95,808	17,721	2,299	20,020	22,970	479	23,449
Other (2)	567	13	580	—	—	—	681	23	704
Total	94,196	2,192	96,388	17,721	2,299	20,020	23,651	502	24,153
Total portfolio average LTV (3)	67%	80%	67%	104%	125%	106%	76%	91%	77%
Average LTV on new originations during the year (3)			63%			74%			63%

## Notes:

(1) Includes residential mortgages and home equity loans and lines (refer to page 255 for a breakdown of balances).

(2) Where no indexed LTV is held.

(3) Average LTV weighted by value is calculated using the LTV on each individual mortgage and applying a weighting based on the value of each mortgage.

## Key points

## UK Retail

- The UK Retail mortgage portfolio was £99.3 billion at 31 December 2013, an increase of 0.3% from 31 December 2012. The mortgages included £9.1 billion (2012 - £7.9 billion) of residential buy-to-let lending.
- As at 31 December 2013, approximately 43% of the portfolio consisted of fixed rate, 5% a combination of fixed and variable rates and the remainder were variable rate mortgages (including those on managed rates). The interest only proportion of the total portfolio was 26%.

- Gross new mortgage lending amounted to £14.4 billion and the average LTV by volume was 62.7% compared to 61.3% at 31 December 2012. The average LTV calculated by weighted LTV of lending was 66.6% (2012 - 65.2%).
- Based on the Halifax Price Index at September 2013, the portfolio-average indexed LTV by volume was 54.1% (2012 - 58.1%) and 62.0% by weighted value of debt outstanding (2012 - 66.8%). The ratio of total outstanding balances to total indexed property valuations was 45.1% (2012 - 48.5%).
- All new mortgage business is subject to a comprehensive assessment. This includes: i) an affordability test which includes a stressed interest rate that is higher than the customer pay rate; ii) credit scoring; iii) a maximum loan-to-value of 90% with the exception of the UK Government backed schemes Help-to-Buy (from the fourth quarter of 2013), New Buy and My New Home products where lending of up to 95% is provided; and iv) a range of policy rules that restrict the availability of credit to borrowers with higher risk characteristics, for example highly indebted and/or adverse payment behaviour on previous borrowings.
- The arrears rate (defined as more than three payments in arrears, excluding repossessions and shortfalls post property sale), fell to 1.3% (2012 - 1.5%). The number of properties repossessed in 2013 was 1,532 compared with 1,426 in 2012. Arrears rates remained sensitive to economic developments and benefited from the low interest rate environment.
- The impairment charge for mortgage loans was £30 million for 2013 compared to £92 million in 2012, reflecting a lower level of defaults and reduced loss rates as valuations improved on properties held as security on defaulted debt.

\*unaudited

Business review [Risk and balance sheet management](#)

Credit risk continued

Key loan portfolios\* continued

Ulster Bank

- Ulster Bank's residential mortgage portfolio was £19.0 billion at 31 December 2013, with 88% in the Republic of Ireland and 12% in Northern Ireland. The portfolio decreased from 31 December 2012 as a result of amortisation and limited growth due to low market demand.
- The assets included £2.2 billion (12%) of residential buy-to-let loans. The interest rate product mix was approximately 68% on tracker rate products, 23% on variable rate products and 9% on fixed rate. Interest only represented 11% of the total portfolio.
- The average individual LTV on new originations was 73% in 2013, (2012 - 74%); the volume of new business remained very low. The maximum LTV available to Ulster Bank customers was 90% with the exception of a specific Northern Ireland scheme which permits LTVs of up to 95% (although Ulster Bank's exposure is capped at 85% LTV).
- The portfolio average indexed LTV fell 4% during 2013 and reflected positive house price index trends over the last 12 months.
- Refer to the Ulster Bank Group (Core and Non-Core) section on pages 260 to 262 for commentary on mortgage REIL and impairments.

RBS Citizens

- RBS Citizens residential real estate portfolio was £19.6 billion at 31 December 2013 (2012 - £21.5 billion). The Core business comprised 91% of the portfolio. The real estate portfolio consisted of £5.9 billion (£5.6 billion Core vs. £0.3 billion Non-Core) of first lien residential mortgages (1% in second lien position) and £13.5 billion (£12.0 billion Core vs. £1.5 billion Non-Core) of home equity loans and lines (first and second liens). Home equity Core consisted of 49% in first lien position while Non-Core consisted of 95% in second lien position.
- RBS Citizens continued to focus on its 'footprint states' of New England, Mid Atlantic and Mid West regions. At 31 December 2013, the portfolio consisted of £16.4 billion (84% of the total portfolio) within footprint.
- Of the total real estate portfolio of £1.8 billion in Non-Core, the serviced-by-others (SBO) element was the largest component (76%). The SBO book decreased from £1.8 billion at 31 December 2012 to £1.4 billion at 31 December 2013 and was closed to new purchases in the third quarter of 2007. The arrears rate of the SBO portfolio decreased from 1.9% at 31 December 2012 to 1.6% at 31 December 2013 reflecting portfolio liquidation as well as more effective account servicing and collections. The charge-off rate also continued to decrease (4.4% annualised at the fourth quarter of 2013 compared to 7.4% in 2012).
- The weighted average LTV of the portfolio decreased from 75% at 31 December 2012 to 67% at 31 December 2013, driven by increases in the Case-Shiller Home Price Index from the third quarter of 2012 to the fourth quarter of 2013. The weighted average LTV of the portfolio, excluding SBO, was 64%.

\*unaudited



Business review [Risk and balance sheet management](#)

Credit risk continued

Key loan portfolios\* continued

Personal lending

The Group's personal lending portfolio includes credit cards, unsecured loans, auto finance and overdrafts. The majority of personal lending exposures exist in the UK and the US. Impairment charge as a proportion of average loans and receivables is shown in the following table.

	2013		2012		2011	
	Average loans and receivables £m	Impairment charge as a % of average loans and receivables %	Average loans and receivables £m	Impairment charge as a % of average loans and receivables %	Average loans and receivables £m	Impairment charge as a % of average loans and receivables %
UK Retail cards (1)	5,626	2.0	5,624	2.3	5,675	3.0
UK Retail loans (1)	5,761	1.6	6,513	2.5	7,755	2.8
RBS Citizens cards (2)	903	3.9	916	3.8	936	5.1
RBS Citizens auto loans (2)	5,080	0.1	5,289	0.1	4,856	0.2

Notes:

(1) The ratio for UK Retail assets refers to the impairment charge for the year.

(2) The ratio for RBS Citizens refers to the impairment charge in the year, net of recoveries realised in the year.

Key points

UK Retail

- The UK personal lending portfolio comprised credit cards, unsecured loans and overdrafts, and totalled £13.8 billion at 31 December 2013 (2012 - £14.7 billion). Loans fell 12%.
- The impairment charge on unsecured lending was £291 million for the year, down 34% on 2012. The decline reflected the effect of prior risk appetite tightening.
- The Group continued to perform favourably relative to industry benchmarks for cards arrears.

RBS Citizens

- RBS Citizens credit card portfolio is comprised of good quality consumer loans originated in-footprint through the RBS Citizen's branch network and totalled £945 million at 31 December 2013 (2012 - £948 million). The product portfolio credit quality continued to improve with credit scores for new originations throughout 2013 higher than the portfolio average.
- Auto loans originated through dealer networks totalled £5.5 billion at 31 December 2013 (2012 - £5.4 billion). The portfolio maintained strong credit fundamentals. New origination credit and collateral characteristics throughout 2013 remained equally strong as a result of the short balance life and the resulting low collateral risk.

\*unaudited



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## Credit risk continued

## Key loan portfolios\* continued

## Interest only retail loans

The Group's interest only retail loan portfolios include interest only mortgage lending in UK Retail, Ulster Bank and Wealth and RBS Citizens' portfolios of home equity lines of credit (HELOC) and interest only mortgage portfolios.

	2013		2012	
	Mortgages	Other loans	Mortgages	Other loans (1)
	£bn	£bn	£bn	£bn
Variable rate	34.8	1.3	38.5	1.5
Fixed rate	8.0	0.1	8.1	0.1
Interest only loans	42.8	1.4	46.6	1.6
Mixed repayment (2)	8.3	—	8.8	—
Total	51.1	1.4	55.4	1.6

## Notes:

(1) The other loans category for 2012 has been restated to exclude non-personal interest only loans within Wealth division.

(2) Mortgages with partial interest only and partial capital repayments.

The Group reduced its exposure to interest only mortgages. UK Retail ceased offering interest only mortgages to residential owner occupied customers with effect from 1 December 2012. Interest only repayment remains an option for buy-to-let mortgages. Ulster Bank withdrew interest only as a standard mortgage offering for new lending in the Republic of Ireland in 2010 and in Northern Ireland in 2012. Interest only mortgages are now granted on a very limited basis to high net worth customers or as part of its forbearance programme. RBS Citizens offers its customers interest only mortgages and conventional HELOC that enter an amortising repayment period after the interest only period. Wealth offers interest only mortgages to its high net worth customers.

The Group recognises impairment provisions in respect of loans in its interest only portfolios (UK Retail - 2 years; RBS Citizens - 1 year) that are approaching their contractual maturity based on historical analysis and customer behaviour. These impairment provisions are refreshed as new trends and data become available.

The tables below analyse the Group's interest only mortgage and HELOC portfolios (excluding mixed repayment mortgages) by type, by contractual year of maturity and by originating division.

	2014						After	Total
	(1) 2015-16	2017-21	2022-26	2027-31	2032-41	2041		
2013	£bn	£bn	£bn	£bn	£bn	£bn	£bn	
Bullet principal repayment (2)	0.9	2.1	6.0	7.6	7.9	7.5	0.5	32.5
Conversion to amortising (2,3)	1.9	6.0	2.2	0.1	—	0.1	—	10.3
Total	2.8	8.1	8.2	7.7	7.9	7.6	0.5	42.8

	2013						After	Total
	(4) 2014-15	2016-20	2021-25	2026-30	2031-40	2040		
2012	£bn	£bn	£bn	£bn	£bn	£bn	£bn	
Bullet principal repayment (2)	1.4	2.9	6.8	5.9	8.1	9.9	0.7	35.7

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Conversion to amortising (2,3)	0.5	1.7	5.8	2.7	0.1	0.1	—	10.9
Total	1.9	4.6	12.6	8.6	8.2	10.0	0.7	46.6

Notes:

- (1) 2014 includes pre-2014 maturity exposure.
- (2) Includes £2.3 billion (2012 - £2.2 billion) of repayment mortgages that have been granted interest only concessions (forbearance).
- (3) Maturity date relates to the expiry of the interest only period.
- (4) 2013 includes pre-2013 maturity exposure.

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

	2013				2012			
	Bullet principal repayment £bn	Conversion to amortising £bn	Total £bn	Proportion of mortgage lending %	Bullet principal repayment £bn	Conversion to amortising £bn	Total £bn	Proportion of mortgage lending %
UK Retail								
(1)	25.4	—	25.4	25.6	28.1	—	28.1	28.4
Ulster Bank	0.7	1.4	2.1	11.0	1.4	1.8	3.2	16.7
RBS								
Citizens	0.4	8.9	9.3	47.5	0.5	9.0	9.5	44.1
Wealth	6.0	—	6.0	69.0	5.7	0.1	5.8	66.0
Total	32.5	10.3	42.8		35.7	10.9	46.6	

## Note:

(1) UK Retail also has exposure of £7.7 billion to customers who have a combination of repayment types, capital repayments and interest only.

## UK Retail

UK Retail's interest only mortgages require full principal repayment (bullet) at the time of maturity. Typically such loans have remaining terms of between 15 and 20 years. Customers are reminded of the need to have an adequate repayment vehicle in place during the mortgage term.

Of the bullet loans that matured in the six months to 30 June 2013, 53% had been fully repaid by 31 December 2013. The unpaid balance totalled £51 million, 96% of which continued to meet agreed payment arrangements (including balances that have been restructured on a capital and interest basis within eight months of the contract date; customers are allowed eight months leeway for their investment plan to mature and cashed in to repay the mortgage). Of the £51 million unpaid balance, 56% of the loans had an indexed LTV of 70% or less with only 14% above 90%. Customers may be offered a short extension to the term of an interest only mortgage or a conversion of an interest only mortgage to one featuring repayment of both capital and interest, subject to affordability and characteristics such as the customer's income and ultimate repayment vehicle. The majority of term extensions in UK Retail are classified as forbearance.

## Ulster Bank

Ulster Bank's interest only mortgages require full principal repayment (bullet) at the time of maturity; or payment of both capital and interest from the end of the interest only period, typically seven years, so that customers meet their contractual repayment obligations. For bullet customers, contact strategies are in place to remind them of the need to repay principal at the end of the mortgage term.

Of the bullet mortgages that matured in the six months to 30 June 2013 (£1.2 million), 20% had fully repaid by 31 December 2013 leaving residual balances of £0.9 million, 78% of which were meeting the terms of a revised repayment schedule. Of the amortising loans that matured in the six months to 30 June 2013 (£65 million), 69% were either fully repaid or meeting the terms of a revised repayment schedule.

Ulster Bank also offers temporary interest only periods to customers as part of its forbearance programme. An interest only period of up to two years is permitted after which the customer enters an amortising repayment period following

further assessment of the customer's circumstances. The affordability assessment conducted at the end of the forbearance period takes into consideration the repayment of the arrears that have accumulated based on original terms during the forbearance period. The customer's delinquency status does not deteriorate further while forbearance repayments are maintained. Term extensions in respect of existing interest only mortgages are offered only under a forbearance arrangement.

#### RBS Citizens

RBS Citizens has a book of interest only bullet repayment HELOC loans (£0.4 billion at 31 December 2013) for which repayment of principal is due at maturity, and an interest only portfolio that comprises loans that convert to amortising after an interest only period that is typically 10 years (£8.9 billion at December 2013 of which £8.0 billion are HELOCs). The majority of the bullet loans are due to mature between 2014 and 2015. Of the bullet loans that matured in the six months to 30 June 2013, 50% had fully repaid or are current as of 31 December 2013. The residual balances (modified, delinquent, and charged-off) made up £21 million. For those loans that convert to amortising, the typical uplift in payments is currently 210% (average uplift calculated at £132 per month). Delinquency rates have shown a modest increase in the over 30 days arrears rate.

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

The tables below analyse the Group's retail mortgage and HELOC portfolios between interest only mortgages (excluding mixed repayment mortgages) and other mortgage loans.

	Interest only		Other	Total
	Bullet principal repayment	Conversion to amortising		
	£bn	£bn	£bn	£bn
2013				
Arrears status				
Current	31.2	9.6	97.0	137.8
1 to 90 days in arrears	0.7	0.4	2.8	3.9
90+ days in arrears	0.6	0.3	4.1	5.0
Total	32.5	10.3	103.9	146.7

## 2012

## Arrears status

Current	34.4	10.0	94.4	138.8
1 to 90 days in arrears	0.6	0.4	3.3	4.3
90+ days in arrears	0.7	0.5	4.2	5.4
Total	35.7	10.9	101.9	148.5

	Interest only	Other	Total
	£bn	£bn	£bn
2013			
Current LTV			
<= 50%	10.8	26.3	37.1
> 50% and <= 70%	14.6	31.8	46.4
> 70% and <= 90%	10.8	28.6	39.4
> 90% and <= 100%	2.6	4.6	7.2
> 100% and <= 110%	1.5	2.8	4.3
> 110% and <= 130%	0.9	3.4	4.3
> 130% and <= 150%	0.5	2.5	3.0
> 150%	0.7	3.1	3.8
Total with LTVs	42.4	103.1	145.5
Other	0.4	0.8	1.2
Total	42.8	103.9	146.7

## 2012

## Current LTV

<= 50%	10.3	22.9	33.2
> 50% and <= 70%	12.4	25.0	37.4
> 70% and <= 90%	13.6	31.2	44.8
> 90% and <= 100%	3.6	7.3	10.9
> 100% and <= 110%	2.4	4.0	6.4
> 110% and <= 130%	2.0	4.3	6.3
> 130% and <= 150%	0.8	2.4	3.2
> 150%	1.2	3.7	4.9

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Total with LTVs	46.3	100.8	147.1
Other	0.3	1.1	1.4
Total	46.6	101.9	148.5

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

## Ulster Bank Group (Core and Non-Core)

## Overview

At 31 December 2013, Ulster Bank Group accounted for 10% of the Group's total gross loans to customers (2012 and 2011 - 10%) and 8% of the Group's Core gross loans to customers (2012 and 2011 - 8%) Ulster Bank's financial performance continued to be impacted by the challenging economic climate in Ireland, with impairments remaining elevated in the wholesale bank as a result of limited liquidity in the economy which continues to depress the property market and domestic spending. Additionally, in the fourth quarter of 2013 the Group announced a recovery strategy for loans transferring to RCR. This resulted in a significant increase in provisions as the move from a through the cycle strategy to a 3 year deleverage, reduced expected realisations.

The impairment charge of £4,793 million for 2013 (2012 - £2,340 million; 2011 - £3,717 million) was driven by a combination of new defaulting customers and higher provisions on existing defaulted cases due primarily to the above mentioned RCR strategy. Provisions as a percentage of risk elements in lending increased to 76% in 2013, from 57% in 2012, predominantly as a result of this change in strategy, combined with the deterioration in the value of the Non-Core commercial real estate development portfolio.

## Core

The impairment charge for the year of £1,774 million (2012 - £1,364 million; 2011 - £1,384 million) reflected the difficult economic climate in Ireland, and most particularly the RCR deleverage strategy across the corporate portfolios. The mortgage portfolio improved notably in 2013, accounting for £235 million (13%) of the total 2013 impairment charge (2012 - £646 million; 2011 - £570 million) due to lower debt flows driven by improved collections performance and stabilising residential property prices.

## Non-Core

The impairment charge for the year was £3,019 million (2012 - £976 million; 2011 - £2,333 million), with the commercial real estate sector accounting for £2,674 million (89%) of the total 2013 impairment charge, again reflecting the RCR strategy.

The table below analyses Ulster Bank Group's loans, REIL, impairments and related credit metrics by sector.

Sector analysis	Gross		Credit metrics			Impairment charge (1)	Amounts written-off	
	loans £m	REIL Provisions £m	REIL Provisions £m	REIL %	Provisions %			
2013								
Core								
Mortgages	19,034	3,235	1,725	17.0	53	9.1	235	34
Commercial real estate								
- investment	3,419	2,288	1,151	66.9	50	33.7	593	51
- development	718	472	331	65.7	70	46.1	153	4
Other corporate	7,039	2,277	1,984	32.3	87	28.2	771	149
Other lending	1,236	194	187	15.7	96	15.1	22	39

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	31,446	8,466	5,378	26.9	64	17.1	1,774	277
Non-Core								
Commercial real estate								
- investment	3,211	3,006	2,162	93.6	72	67.3	837	53
- development	6,915	6,757	6,158	97.7	91	89.1	1,837	370
Other corporate	1,479	1,209	1,069	81.7	88	72.3	345	6
	11,605	10,972	9,389	94.5	86	80.9	3,019	429
Ulster Bank Group								
Mortgages	19,034	3,235	1,725	17.0	53	9.1	235	34
Commercial real estate								
- investment	6,630	5,294	3,313	79.8	63	50.0	1,430	104
- development	7,633	7,229	6,489	94.7	90	85.0	1,990	374
Other corporate	8,518	3,486	3,053	40.9	88	35.8	1,116	155
Other lending	1,236	194	187	15.7	96	15.1	22	39
	43,051	19,438	14,767	45.2	76	34.3	4,793	706

Note:

(1) Of which £3.2 billion was due to RCR and the related change of strategy.

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

	Gross		Credit metrics			Impairment charge	Amounts written-off	
	loans	REIL	REIL	Provisions	Provisions			
	£m	£m	£m	as a % of gross loans	as a % of REIL	as a % of gross loans	£m	
Sector analysis 2012								
Core								
Mortgages	19,162	3,147	1,525	16.4	48	8.0	646	22
Commercial real estate								
- investment	3,575	1,551	593	43.4	38	16.6	221	—
- development	729	369	197	50.6	53	27.0	55	2
Other corporate	7,772	2,259	1,394	29.1	62	17.9	389	15
Other lending	1,414	207	201	14.6	97	14.2	53	33
	32,652	7,533	3,910	23.1	52	12.0	1,364	72
Non-Core								
Commercial real estate								
- investment	3,383	2,800	1,433	82.8	51	42.4	288	15
- development	7,607	7,286	4,720	95.8	65	62.0	611	103
Other corporate	1,570	1,230	711	78.3	58	45.3	77	23
	12,560	11,316	6,864	90.1	61	54.6	976	141
Ulster Bank Group								
Mortgages	19,162	3,147	1,525	16.4	48	8.0	646	22
Commercial real estate								
- investment	6,958	4,351	2,026	62.5	47	29.1	509	15
- development	8,336	7,655	4,917	91.8	64	59.0	666	105
Other corporate	9,342	3,489	2,105	37.3	60	22.5	466	38
Other lending	1,414	207	201	14.6	97	14.2	53	33
	45,212	18,849	10,774	41.7	57	23.8	2,340	213
2011								
Core								
Mortgages	20,020	2,184	945	10.9	43	4.7	570	11
Commercial real estate								
- investment	3,882	1,014	413	26.1	41	10.6	225	—
- development	881	290	145	32.9	50	16.5	99	16
Other corporate	7,736	1,834	1,062	23.7	58	13.7	434	72
Other lending	1,533	201	184	13.1	92	12.0	56	25
	34,052	5,523	2,749	16.2	50	8.1	1,384	124
Non-Core								
Commercial real estate								

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- investment	3,860	2,916	1,364	75.5	47	35.3	609	1
- development	8,490	7,536	4,295	88.8	57	50.6	1,551	32
Other corporate	1,630	1,159	642	71.1	55	39.4	173	16
	13,980	11,611	6,301	83.1	54	45.1	2,333	49
<b>Ulster Bank Group</b>								
Mortgages	20,020	2,184	945	10.9	43	4.7	570	11
Commercial real estate								
- investment	7,742	3,930	1,777	50.8	45	23.0	834	1
- development	9,371	7,826	4,440	83.5	57	47.4	1,650	48
Other corporate	9,366	2,993	1,704	32.0	57	18.2	607	88
Other lending	1,533	201	184	13.1	92	12.0	56	25
	48,032	17,134	9,050	35.7	53	18.8	3,717	173

\*unaudited

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## Credit risk continued

## Key loan portfolios\* continued

## Key points

- The commercial real estate lending portfolio for Ulster Bank Group (Core and Non-Core) totalled £14.3 billion at 31 December 2013, of which £10.1 billion or 71% was in Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio remained similar to 2012 with 64% (2012 - 63%) in the Republic of Ireland, 26% (2012 - 26%) in Northern Ireland, 10% (2012 - 11%) in the UK (excluding Northern Ireland) and the balance (0.1%) in Rest of World (primarily Europe).
- Provisions covered CRE REIL by 78%, up from 58% at the end of 2012, with the investment portfolio being covered 80% and the development portfolio 95%.
- Of the total corporate impairment charge recorded during the second half of 2013 of £3.9 billion, £3.4 billion related to all loans that will be transferred to RCR, of which £2.9 billion related to commercial real estate loans and £0.5 billion related to corporate loans.

## Geographical analysis

	Investment		Development		Total £m
	Commercial £m	Residential £m	Commercial £m	Residential £m	
Commercial real estate					
2013					
ROI	3,227	806	1,402	3,684	9,119
NI	1,083	223	517	1,848	3,671
UK (excluding NI)	1,232	50	56	112	1,450
RoW	9	—	8	6	23
	5,551	1,079	1,983	5,650	14,263
2012					
ROI	3,546	779	1,603	3,653	9,581
NI	1,083	210	631	2,059	3,983
UK (excluding NI)	1,239	86	82	290	1,697
RoW	14	1	8	10	33
	5,882	1,076	2,324	6,012	15,294
2011					
ROI	3,775	853	1,911	4,095	10,634
NI	1,322	279	680	2,222	4,503
UK (excluding NI)	1,371	111	95	336	1,913
RoW	27	4	—	32	63
	6,495	1,247	2,686	6,685	17,113

## Key points

- Commercial real estate continued to be the primary sector driving the Ulster Bank Group defaulted loan book. Exposure to the sector fell during 2013 by £1.0 billion, reflecting Ulster Bank's continuing strategy to reduce concentration risk in this sector.

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The outlook for the property sector remains challenging. While there may be some signs of stabilisation in main urban centres, the outlook continues to be negative for secondary property locations on the island of Ireland.

- Ulster Bank experienced further migration of commercial real estate exposures to its problem management framework, where various measures may be agreed to assist customers whose loans are performing, but who are experiencing temporary financial difficulties.

Residential mortgages

Mortgage lending portfolio analysis by country of location of the underlying security is set out below.

	2013	2012	2011
	£m	£m	£m
ROI	16,779	16,873	17,767
NI	2,255	2,289	2,253
	19,034	19,162	20,020

\*unaudited

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Balance sheet analysis

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## Balance sheet analysis

Credit risk assets analysed on pages 226 to 232 are reported internally to senior management. However, they exclude certain exposures, primarily securities and reverse repurchase agreements and take account of legal netting agreements, that provide a right of legal set-off but do not meet the criteria for offset in IFRS. The tables that follow are therefore provided to supplement the credit risk assets analysis and other analysis to reconcile to the balance sheet. All the disclosures in this section are audited except those relating to RCR on pages 294 and 295.

## Financial assets

## Exposure summary

The table below analyses the Group's financial assets exposures, both gross and net of offset arrangements as well as credit mitigation and enhancement.

	Gross exposure	IFRS offset	Carrying value	Balance sheet offset		Collateral			Credit enhancement	Exposure post credit mitigation and enhancement
				(1)	(2)	Cash	Securities	Real estate and other residential		
2013	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	82.7	—	82.7	—	—	—	—	—	—	82.7
Reverse repos	117.2	(40.7)	76.5	(11.4)	—	(65.0)	—	—	—	0.1
Lending	423.6	(3.4)	420.2	(32.3)	(1.6)	(2.7)	(145.4)	(60.0)	(3.9)	174.3
Debt securities	113.6	—	113.6	—	—	—	—	—	(1.3)	112.3
Equity shares	8.8	—	8.8	—	—	—	—	—	—	8.8
Derivatives	553.7	(265.7)	288.0	(242.8)	(24.3)	(6.0)	—	—	(7.3)	7.6
Settlement balances	8.2	(2.7)	5.5	(0.3)	—	—	—	—	—	5.2
Total	1,307.8	(312.5)	995.3	(286.8)	(25.9)	(73.7)	(145.4)	(60.0)	(12.5)	391.0
Short positions	(28.0)	—	(28.0)	—	—	—	—	—	—	(28.0)
Net of short positions	1,279.8	(312.5)	967.3	(286.8)	(25.9)	(73.7)	(145.4)	(60.0)	(12.5)	363.0

## Notes:

- (1) Relates to offset arrangements that comply with IFRS criteria and transactions cleared through and novated to central clearing houses, primarily London Clearing House and US Government Securities Clearing Corporation.
- (2) Carrying value on the balance sheet represents the exposure to credit risk by class of financial instrument.
- (3) Balance sheet offset reflects the amounts by which the Group's credit risk is reduced through master netting and cash management pooling arrangements. Derivative master netting agreements include cash pledged with counterparties in respect of net derivative liability positions and are included in lending in the table above.
- (4)



Includes cash collateral pledged by counterparties based on daily mark-to-market movements of net derivative positions with the counterparty.

- (5) Securities collateral represent the fair value of securities received from counterparties, mainly relating to reverse repo transactions as part of netting arrangements.
- (6) Property valuations are limited to the loan value and reflect the application of haircuts and capping in line with regulatory rules to indexed valuations. Commercial collateral includes shipping vessels and plant and equipment collateral.
- (7) Credit enhancement comprises credit derivatives (bought protection) and guarantees and reflect notional amounts less fair value and notional amounts respectively.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Gross exposure	IFRS offset (1)	Carrying value	Balance sheet offset (2)	Exposure post offset
	£bn	£bn	£bn	£bn	£bn
2012					
Cash and balances at central banks	79.3	—	79.3	—	79.3
Reverse repos	143.2	(38.4)	104.8	(17.4)	87.4
Lending	464.7	(1.5)	463.2	(34.9)	428.3
Debt securities	164.6	—	164.6	—	164.6
Equity shares	15.2	—	15.2	—	15.2
Derivatives (3)	815.4	(373.5)	441.9	(408.0)	33.9
Settlement balances	8.1	(2.4)	5.7	(1.8)	3.9
Other financial assets	1.1	—	1.1	—	1.1
Total	1,691.6	(415.8)	1,275.8	(462.1)	813.7
Short positions	(27.6)	—	(27.6)	—	(27.6)
Net of short positions	1,664.0	(415.8)	1,248.2	(462.1)	786.1
2011					
Cash and balances at central banks	79.4	—	79.4	—	79.4
Reverse repos	138.4	(37.6)	100.8	(15.2)	85.6
Lending	517.5	—	517.5	(41.2)	476.3
Debt securities	209.1	—	209.1	—	209.1
Equity shares	15.2	—	15.2	—	15.2
Derivatives (3)	1,074.6	(544.5)	530.1	(478.9)	51.2
Settlement balances	9.2	(1.4)	7.8	(2.2)	5.6
Other financial assets	1.3	—	1.3	—	1.3
Total	2,044.7	(583.5)	1,461.2	(537.5)	923.7
Short positions	(41.0)	—	(41.0)	—	(41.0)
Net of short positions	2,003.7	(583.5)	1,420.2	(537.5)	882.7

## Notes:

- (1) Relates to offset arrangements that comply with IFRS criteria and transactions cleared through and novated to central clearing houses, primarily London Clearing House and US Government Securities Clearing Corporation.
- (2) This reflects the amounts by which the Group's credit risk is reduced through master netting and cash management pooling arrangements. Derivative master netting agreements include cash pledged with counterparties in respect of net derivative liability positions and are included in lending in the table above.
- (3) Includes cash collateral received against derivative assets of £24.3 billion (2012 - £34.1 billion; 2011 - £37.2 billion).

Business review [Risk and balance sheet management](#)

Balance sheet analysis continued

Financial assets continued

Sector and geographic concentration

The following tables analyse financial assets by sector and geography. Geographical regions are based on the location of the lending or issuer.

	Reverse		Securities			Other financial assets	Balance sheet value	Exposure post offset	
	repos	Lending	Debt	Equity	Derivatives				Offset (1)
	£m	£m	£m	£m	£m	£m	£m	£m	
2013									
Central and local government	247	8,643	70,267	—	4,049	578	83,784	(4,433)	79,351
Financial institutions - banks	26,557	27,640	7,869	688	200,091	82,661	345,506	(207,203)	138,303
- other (2)	49,156	35,948	33,219	2,538	69,851	4,859	195,571	(87,110)	108,461
Personal - mortgages - unsecured	—	148,533	—	—	—	—	148,533	—	148,533
Property	—	28,160	—	—	—	6	28,166	—	28,166
Construction	—	62,292	225	326	2,794	—	65,637	(689)	64,948
Manufacturing	—	6,331	24	117	451	7	6,930	(1,370)	5,560
Finance leases and instalment credit	466	21,377	735	2,168	1,265	43	26,054	(2,525)	23,529
Retail, wholesale and repairs	—	13,587	14	5	13	—	13,619	(17)	13,602
Transport and storage	—	19,574	244	446	882	11	21,157	(1,962)	19,195
Health, education and leisure	—	16,697	299	82	2,186	—	19,264	(866)	18,398
Hotels and restaurants	—	16,084	103	86	661	14	16,948	(853)	16,095
Utilities	—	6,942	5	57	218	—	7,222	(165)	7,057
Other	—	4,960	176	285	3,271	23	8,715	(1,064)	7,651
Total gross of provisions	28	28,624	762	2,112	2,308	50	33,884	(2,776)	31,108
Provisions	76,454	445,392	113,942	8,910	288,040	88,252	1,020,990	(311,033)	709,957
Total	—	(25,225)	(319)	(99)	—	—	(25,643)	n/a	(25,643)
	76,454	420,167	113,623	8,811	288,040	88,252	995,347	(311,033)	684,314
2012									
Central and local government	441	9,853	97,339	—	5,791	591	114,015	(5,151)	108,864
Financial institutions - banks	34,783	31,394	11,555	1,643	335,521	79,308	494,204	(341,103)	153,101
- other (2)	69,256	42,198	50,104	2,672	80,817	5,591	250,638	(97,589)	153,049
Personal - mortgages - unsecured	—	149,625	—	—	—	—	149,625	—	149,625
	—	32,212	—	—	—	4	32,216	—	32,216

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Property	—72,219	774	318	4,118	—	77,429	(1,333)	76,096
Construction	— 8,049	17	264	820	—	9,150	(1,687)	7,463
Manufacturing	326 23,787	836	1,639	1,759	144	28,491	(3,775)	24,716
Finance leases and instalment credit	—13,609	82	1	13	—	13,705	—	13,705
Retail, wholesale and repairs	—21,936	461	1,807	914	41	25,159	(1,785)	23,374
Transport and storage	—18,341	659	382	3,397	2	22,781	(3,240)	19,541
Health, education and leisure	—16,705	314	554	904	59	18,536	(964)	17,572
Hotels and restaurants	— 7,877	144	51	493	11	8,576	(348)	8,228
Utilities	— 6,631	1,311	638	3,170	50	11,800	(2,766)	9,034
Other	24 30,057	1,886	5,380	4,201	172	41,720	(2,403)	39,317
Total gross of provisions	104,830 484,493	165,482	15,349	441,918	85,973	1,298,045	(462,144)	835,901
Provisions	—(21,262)	(858)	(112)	—	—	(22,232)	n/a	(22,232)
Total	104,830 463,231	164,624	15,237	441,918	85,973	1,275,813	(462,144)	813,669

For the notes to this table refer to page 273.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Reverse		Securities			Other financial assets	Balance sheet value	Exposure post offset	
	repos	Lending	Debt	Equity	Derivatives				
2011	£m	£m	£m	£m	£m	£m	£m	£m	
Central and local government	2,247	9,742	125,543	—	5,541	641	143,714	(1,098)	142,616
Financial institutions - banks	39,345	44,080	16,940	2,218	400,261	79,396	582,240	(407,457)	174,783
- other (2)	58,478	51,870	60,628	2,501	98,255	7,451	279,183	(119,717)	159,466
Personal - mortgages	—	—	—	—	—	—	—	—	—
- unsecured	—	—	—	—	—	52	34,476	(7)	34,469
Property	—	—	573	175	4,599	1	86,406	(1,274)	85,132
Construction	—	9,869	50	53	946	—	10,918	(1,139)	9,779
Manufacturing	254	28,639	664	1,938	3,786	306	35,587	(2,214)	33,373
Finance leases and instalment credit	—	—	145	2	75	—	14,721	(16)	14,705
Retail, wholesale and repairs	—	—	645	2,652	1,134	18	28,827	(1,671)	27,156
Transport and storage	436	22,058	539	74	3,759	—	26,866	(241)	26,625
Health, education and leisure	—	—	310	21	885	—	18,708	(973)	17,735
Hotels and restaurants	—	8,870	116	5	671	—	9,662	(184)	9,478
Utilities	—	8,406	1,530	554	3,708	30	14,228	(450)	13,778
Other	174	33,490	3,785	5,136	6,437	595	49,617	(1,003)	48,614
Total gross of provisions	100,934	538,148	211,468	15,329	530,057	88,490	1,484,426	(537,444)	946,982
Provisions	—	—	—	—	—	—	—	—	—
Total	100,934	517,474	209,080	15,188	530,057	88,490	1,461,223	(537,444)	923,779

For the notes to this table refer to page 273.

## Key points

- Financial asset exposures after offset decreased by £129.4 billion or 16% to £684.3 billion in the year, reflecting the Group's focus on reducing its funded balance sheet primarily through ongoing sales in Non-Core and downsizing of Markets.
- Reductions across securities (debt - £51.0 billion; equity - £6.4 billion), lending (£43.1 billion) reverse repos (£28.4 billion) and derivatives (£153.9 billion) were partially offset by higher cash holdings (£3.4 billion). Conditions in the financial markets and the Group's continued focus on risk appetite and sector concentrations resulted in the trends seen.

- Exposures to central and local government decreased by £29.5 billion principally in debt securities. This was driven by Markets de-risking its balance sheet, management of the Group Treasury liquidity portfolio as well as some risk reduction in respect of Eurozone exposures.
- Exposure to financial institutions was £59.4 billion lower across reverse repos, lending, securities and derivatives. This was driven by economy-wide subdued activity being partially offset marginally by increased cash holdings.
- The banking sector continues to be one of the largest in the Group's portfolio. The sector is well diversified geographically and by exposure with derivative exposures being largely collateralised. The sector continues to be tightly controlled through the combination of the single name concentration framework, bespoke credit policies and country limits. Exposures to the banking sector decreased by £14.8 billion during the year with decreases across, reverse repos lending, securities and derivatives being partially offset by increased cash holdings with central banks.
- Exposure to other financial institutions comprising traded and non-traded products is spread across a wide range of financial companies including insurance, securitisation vehicles, financial intermediaries including broker dealers and central counterparties, financial guarantors - monolines and credit derivative product companies - and funds comprising unleveraged, hedge and leveraged funds. The size of the portfolio decreased by £44.6 billion. Entities in this sector remain vulnerable to market shocks or contagion from the banking sector.
- The Group's exposure to property and construction sector decreased by £13.1 billion, principally in commercial real estate lending. The majority of the Group's Core property exposure is within UK Corporate (72%).
- Retail, wholesale and repairs sector decreased by £4.2 billion, reflecting the Group's strategy to re-balance the Core portfolios towards stronger customers in the sector while at the same time continuing to reduce the Non-Core book.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

• Transport and storage exposure decreased by £1.1 billion. The sector includes asset-backed exposures to ocean-going vessels. Conditions remain poor across the major shipping market segments in 2013 with low charter rates and vessel values. At 31 December 2013, £1.1 billion (2012 - £0.7 billion) of loans were included in risk elements in lending with an associated provision of £0.4 billion and impairment charge of £0.4 billion for 2013.

• Within lending:  
 °UK Retail unsecured lending decreased by £0.6 billion, partially offset by an increase of £0.2 billion in mortgage lending.

°UK Corporate lending decreased by £4.5 billion, as business demand for credit remains weak.

°Non-Core continued to make significant progress on its balance sheet strategy by reducing lending by £19.8 billion across all sectors, principally property and construction, where commercial real estate lending decreased by £7.1 billion.

	Reverse		Securities			Other	Balance	Exposure	
	repos	Lending	Debt	Equity	Derivatives	financial	sheet	Offset (1)	post
	£m	£m	£m	£m	£m	assets	value	£m	offset
						£m	£m		£m
2013									
UK									
Central and local government	—	6,950	13,210	—	3,856	122	24,138	(4,351)	19,787
Financial institutions - banks	18,462	17,597	3,153	449	132,076	55,720	227,457	(142,018)	85,439
- other (2)	19,293	28,937	11,915	2,015	56,441	2,248	120,849	(69,890)	50,959
Personal - mortgages									
- unsecured									
Property									
Construction									
Manufacturing									
Finance leases and instalment credit									
Retail, wholesale and repairs									
Transport and storage									
Health, education and leisure									
Hotels and restaurants									
Utilities									
Other									
Total gross of provisions	38,239	304,619	29,371	7,882	204,124	58,193	642,428	(227,982)	414,446
Provisions									
Total									
US									
Central and local government	247	238	23,832	—	21	221	24,559	(12)	24,547

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Financial institutions - banks	4,073	946	212	166	53,340	17,811	76,548	(53,339)	23,209
- other (2)	18,346	3,908	17,269	379	9,580	2,276	51,758	(13,778)	37,980
Personal - mortgages	—	19,901	—	—	—	—	19,901	—	19,901
- unsecured	—	8,722	—	—	—	—	8,722	—	8,722
Property	—	4,279	—	—	21	—	4,300	(7)	4,293
Construction	—	313	2	13	2	—	330	—	330
Manufacturing	—	6,117	299	9	131	—	6,556	(56)	6,500
Finance leases and instalment credit	—	2,513	8	—	1	—	2,522	—	2,522
Retail, wholesale and repairs	—	4,914	87	1	32	—	5,034	(6)	5,028
Transport and storage	—	1,667	76	7	370	—	2,120	(141)	1,979
Health, education and leisure	—	3,059	55	2	37	—	3,153	—	3,153
Hotels and restaurants	—	369	4	7	1	—	381	—	381
Utilities	—	638	32	1	149	—	820	(27)	793
Other	10	4,464	429	16	547	—	5,466	(20)	5,446
Total gross of provisions	22,676	62,048	42,305	601	64,232	20,308	212,170	(67,386)	144,784
Provisions	—	(850)	(60)	(12)	—	—	(922)	n/a	(922)
Total	22,676	61,198	42,245	589	64,232	20,308	211,248	(67,386)	143,862

For the notes to these tables refer to page 273.

Balance sheet analysis continued



Business review [Risk and balance sheet management](#)

## Financial assets continued

	Reverse		Securities			Other financial assets	Balance sheet value	Exposure	
	repos	Lending	Debt	Equity	Derivatives			Offset (1)	post offset
2013	£m	£m	£m	£m	£m	£m	£m	£m	£m
Europe									
Central and local government	—	778	21,465	—	53	—	22,296	—	22,296
Financial institutions - banks	658	2,331	3,727	1	50	7,133	13,900	—	13,900
- other (2)	—	1,434	3,975	93	46	4	5,552	—	5,552
Personal - mortgages - unsecured	—	17,540	—	—	—	—	17,540	—	17,540
Property	—	1,267	—	—	—	3	1,270	—	1,270
Construction	—	13,177	—	31	25	—	13,233	(5)	13,228
Manufacturing	—	979	—	—	—	—	979	(20)	959
Finance leases and instalment credit	—	3,618	25	3	26	22	3,694	(9)	3,685
Retail, wholesale and repairs	—	378	—	—	—	—	378	—	378
Transport and storage	—	2,840	—	—	27	—	2,867	(21)	2,846
Health, education and leisure	—	5,269	—	—	16	—	5,285	(5)	5,280
Hotels and restaurants	—	1,080	9	1	2	—	1,092	(6)	1,086
Utilities	—	1,180	—	—	—	—	1,180	(4)	1,176
Other	—	1,670	6	—	40	—	1,716	—	1,716
Total gross of provisions	—	4,373	136	47	31	—	4,587	(52)	4,535
Provisions	658	57,914	29,343	176	316	7,162	95,569	(122)	95,447
Total	—	(13,109)	(30)	(5)	—	—	(13,144)	n/a	(13,144)
	658	44,805	29,313	171	316	7,162	82,425	(122)	82,303
RoW									
Central and local government	—	677	11,760	—	119	235	12,791	(70)	12,721
Financial institutions - banks	3,364	6,766	777	72	14,625	1,997	27,601	(11,846)	15,755
- other (2)	11,517	1,669	60	51	3,784	331	17,412	(3,442)	13,970
Personal - mortgages - unsecured	—	577	—	—	—	—	577	—	577
Property	—	1,073	—	—	—	—	1,073	—	1,073
Construction	—	584	139	3	20	—	746	(1)	745
Manufacturing	—	348	—	3	35	—	386	(4)	382
Finance leases and instalment credit	—	2,902	2	9	129	—	3,042	(46)	2,996
Retail, wholesale and repairs	—	129	3	—	1	—	133	(1)	132
Transport and storage	—	1,016	3	22	99	—	1,140	(27)	1,113
	—	702	82	6	154	—	944	(17)	927
	—	188	—	4	4	—	196	—	196

Health, education and  
leisure

Hotels and restaurants	—	60	—	—	—	—	60	—	60
Utilities	—	535	15	3	182	23	758	(10)	748
Other	—	3,585	82	78	216	3	3,964	(79)	3,885
Total gross of provisions	14,881	20,811	12,923	251	19,368	2,589	70,823	(15,543)	55,280
Provisions	—	(261)	—	—	—	—	(261)	n/a	(261)
Total	14,881	20,550	12,923	251	19,368	2,589	70,562	(15,543)	55,019

For the notes to these tables refer to  
page 273.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Reverse		Securities			Other	Balance	Offset (1)	Exposure
	repos	Lending	Debt	Equity	Derivatives	financial	sheet		post
2012	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK									
Central and local government	441	8,087	62,722	—	5,582	47	76,879	(5,028)	71,851
Financial institutions - banks	24,856	22,651	6,110	1,175	193,892	40,851	289,535	(202,189)	87,346
- other (2)	42,203	33,955	16,834	2,069	62,810	2,946	160,817	(78,976)	81,841
Personal - mortgages - unsecured	—	409,530	—	—	—	—	409,530	—	409,530
Property	—	20,498	—	—	—	4	20,502	—	20,502
Construction	—	53,730	547	282	3,954	—	58,513	(1,328)	57,185
Manufacturing	—	6,507	14	248	789	—	7,558	(1,666)	5,892
Finance leases and instalment credit	326	10,058	579	1,553	1,286	111	13,913	(3,542)	10,371
Retail, wholesale and repairs	—	10,532	81	1	—	—	10,614	—	10,614
Transport and storage	—	11,531	397	1,634	701	41	14,304	(1,590)	12,714
Health, education and leisure	—	10,577	527	361	2,049	2	13,516	(2,279)	11,237
Hotels and restaurants	—	11,901	144	548	818	59	13,470	(888)	12,582
Utilities	—	5,989	121	51	493	11	6,665	(344)	6,321
Other	—	3,556	1,178	492	2,654	30	7,910	(2,515)	5,395
Total gross of provisions	19	15,843	1,085	4,757	2,647	140	24,491	(1,885)	22,606
Provisions	67,845	334,945	90,339	13,171	277,675	44,242	828,217	(302,230)	525,987
Total	—	(9,761)	(420)	(112)	—	—	(10,293)	n/a	(10,293)
US									
Central and local government	—	151	22,084	—	23	500	22,758	(17)	22,741
Financial institutions - banks	5,024	1,342	468	349	116,935	14,066	138,184	(115,459)	22,725
- other (2)	22,807	4,257	25,483	210	13,397	2,086	68,240	(14,720)	53,520
Personal - mortgages - unsecured	—	21,929	—	—	—	—	21,929	—	21,929
Property	—	8,748	—	—	—	—	8,748	—	8,748
Construction	—	3,343	8	26	34	—	3,411	—	3,411
Manufacturing	—	388	3	2	9	—	402	—	402
Finance leases and instalment credit	—	6,021	156	15	265	—	6,457	(215)	6,242
Retail, wholesale and repairs	—	2,471	—	—	—	—	2,471	—	2,471
Transport and storage	—	4,905	58	1	66	—	5,030	(52)	4,978
Total	—	1,928	37	—	855	—	2,820	(800)	2,020

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Health, education and leisure	—	2,848	170	—	73	—	3,091	(70)	3,021
Hotels and restaurants	—	490	23	—	—	—	513	—	513
Utilities	—	966	100	15	273	—	1,354	(251)	1,103
Other	4	5,317	674	324	1,094	—	7,413	(277)	7,136
Total gross of provisions	27,835	65,104	49,264	942	133,024	16,652	292,821	(131,861)	160,960
Provisions	—	(916)	—	—	—	—	(916)	n/a	(916)
Total	27,835	64,188	49,264	942	133,024	16,652	291,905	(131,861)	160,044

For the notes to these tables refer to page 273.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Reverse		Securities			Other financial assets	Balance sheet value	Exposure	
	repos	Lending	Debt	Equity	Derivatives			Offset	post offset
2012	£m	£m	£m	£m	£m	£m	£m	£m	£m
Europe									
Central and local government	—	891	5,684	—	54	2	6,631	(15)	6,616
Financial institutions - banks	375	3,151	4,016	8	55	23,181	30,786	(2)	30,784
- other (2)	20	1,690	7,222	309	95	134	9,470	—	9,470
Personal - mortgages	—	17,836	—	—	—	—	17,836	—	17,836
- unsecured	—	1,905	—	—	—	—	1,905	—	1,905
Property	—	14,634	—	2	77	—	14,713	(5)	14,708
Construction	—	1,132	—	6	—	—	1,138	(21)	1,117
Manufacturing	—	5,431	94	26	25	1	5,577	(9)	5,568
Finance leases and instalment credit	—	464	—	—	—	—	464	—	464
Retail, wholesale and repairs	—	3,749	—	109	10	—	3,868	(22)	3,846
Transport and storage	—	5,450	1	10	12	—	5,473	(5)	5,468
Health, education and leisure	—	1,569	—	2	—	—	1,571	(6)	1,565
Hotels and restaurants	—	1,379	—	—	—	—	1,379	(4)	1,375
Utilities	—	1,492	6	112	65	20	1,695	—	1,695
Other	—	5,309	39	201	44	32	5,625	(53)	5,572
Total gross of provisions	395	66,082	17,062	785	437	23,370	108,131	(142)	107,989
Provisions	—	(10,267)	(438)	—	—	—	(10,705)	n/a	(10,705)
Total	395	55,815	16,624	785	437	23,370	97,426	(142)	97,284
RoW									
Central and local government	—	724	6,849	—	132	42	7,747	(91)	7,656
Financial institutions - banks	4,528	4,250	961	111	24,639	1,210	35,699	(23,453)	12,246
- other (2)	4,226	2,296	565	84	4,515	425	12,111	(3,893)	8,218
Personal - mortgages	—	330	—	—	—	—	330	—	330
- unsecured	—	1,061	—	—	—	—	1,061	—	1,061
Property	—	512	219	8	53	—	792	—	792
Construction	—	22	—	8	22	—	52	—	52
Manufacturing	—	2,277	7	45	183	32	2,544	(9)	2,535
Finance leases and instalment credit	—	142	1	—	13	—	156	—	156
Retail, wholesale and repairs	—	1,751	6	63	137	—	1,957	(121)	1,836
Transport and storage	—	386	94	11	481	—	972	(156)	816

Health, education and leisure	—	387	—	4	13	—	404	—	404
Hotels and restaurants	—	19	—	—	—	—	19	—	19
Utilities	—	617	27	19	178	—	841	—	841
Other	1	3,588	88	98	416	—	4,191	(188)	4,003
Total gross of provisions	8,755	18,362	8,817	451	30,782	1,709	68,876	(27,911)	40,965
Provisions	—	(318)	—	—	—	—	(318)	n/a	(318)
Total	8,755	18,044	8,817	451	30,782	1,709	68,558	(27,911)	40,647

For the notes to these tables refer to page 273.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Reverse		Securities			Other financial assets	Balance sheet value	Offset (1)	Exposure post offset
	repos	Lending	Debt	Equity	Derivatives				
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2011									
UK									
Central and local government	2,130	8,037	77,831	—	5,282	548	93,828	(1,098)	92,730
Financial institutions - banks	25,204	29,793	1,950	1,562	258,321	40,396	357,226	(271,500)	85,726
- other (2)	39,154	35,381	25,954	1,676	43,327	3,259	148,751	(59,160)	89,591
Personal - mortgages - unsecured	—	406,388	—	—	—	—	406,388	—	406,388
Property	—	22,008	—	—	—	24	22,032	(7)	22,025
Construction	—	60,041	278	137	4,332	—	64,788	(1,265)	63,523
Manufacturing	—	7,589	20	26	895	—	8,530	(1,115)	7,415
Finance leases and instalment credit	254	10,983	499	1,908	2,259	—	15,903	(2,205)	13,698
Retail, wholesale and repairs	—	11,216	1	2	73	—	11,292	(16)	11,276
Transport and storage	—	13,237	574	2,616	952	18	17,397	(1,647)	15,750
Health, education and leisure	436	12,155	145	67	2,217	—	15,020	(200)	14,820
Hotels and restaurants	—	12,291	72	8	756	—	13,127	(965)	12,162
Utilities	—	6,734	23	—	664	—	7,421	(178)	7,243
Other	—	3,398	1,150	513	3,207	30	8,298	(450)	7,848
Total gross of provisions	126	19,116	2,395	4,704	4,105	593	31,039	(947)	30,092
Provisions	67,304	358,367	110,892	13,219	326,390	44,868	921,040	(340,753)	580,287
Total	—	(10,103)	(1,170)	(141)	—	—	(11,414)	n/a	(11,414)
	67,304	348,264	109,722	13,078	326,390	44,868	909,626	(340,753)	568,873
US									
Central and local government	—	191	22,936	—	9	1	23,137	—	23,137
Financial institutions - banks	7,289	711	1,245	443	111,240	29,426	150,354	(108,060)	42,294
- other (2)	17,368	9,334	29,885	560	54,639	3,510	115,296	(60,556)	54,740
Personal - mortgages - unsecured	—	23,237	—	—	—	—	23,237	—	23,237
Property	—	8,441	—	—	—	—	8,441	—	8,441
Construction	—	3,783	26	23	38	—	3,870	—	3,870
Manufacturing	—	457	21	3	11	—	492	—	492
Finance leases and instalment credit	—	6,824	101	12	452	—	7,389	—	7,389
Retail, wholesale and repairs	—	2,471	17	—	—	—	2,488	—	2,488
Transport and storage	—	5,073	52	—	63	—	5,188	—	5,188
	—	2,769	26	1	1,084	—	3,880	—	3,880

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Health, education and leisure	—	3,034	74	4	93	—	3,205	—	3,205
Hotels and restaurants	—	684	93	3	1	—	781	—	781
Utilities	—	1,061	243	16	322	—	1,642	—	1,642
Other	29	5,574	695	103	1,436	—	7,837	—	7,837
Total gross of provisions	24,686	73,644	55,414	1,168	169,388	32,937	357,237	(168,616)	188,621
Provisions	—	(1,303)	—	—	—	—	(1,303)	n/a	(1,303)
Total	24,686	72,341	55,414	1,168	169,388	32,937	355,934	(168,616)	187,318

For the notes to these tables refer to page 273.



Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Reverse		Securities			Other financial assets	Balance sheet value	Exposure	
	repos	Lending	Debt	Equity	Derivatives			Offset (1)	post offset
2011	£m	£m	£m	£m	£m	£m	£m	£m	£m
Europe									
Central and local government	—	831	13,362	—	60	—	14,253	—	14,253
Financial institutions - banks	247	8,611	10,859	78	—	6,725	26,520	—	26,520
- other (2)	—	3,008	4,521	165	289	90	8,073	(1)	8,072
Personal - mortgages	—	18,946	—	—	—	—	18,946	—	18,946
- unsecured	—	2,464	—	—	—	28	2,492	—	2,492
Property	—	16,384	—	—	168	—	16,552	(9)	16,543
Construction	—	1,754	—	22	18	—	1,794	(24)	1,770
Manufacturing	—	8,115	57	5	23	—	8,200	(9)	8,191
Finance leases and instalment credit	—	695	—	—	—	—	695	—	695
Retail, wholesale and repairs	—	4,764	16	2	23	—	4,805	(24)	4,781
Transport and storage	—	6,529	143	—	15	—	6,687	(6)	6,681
Health, education and leisure	—	1,584	164	5	2	—	1,755	(8)	1,747
Hotels and restaurants	—	1,427	—	—	6	—	1,433	(6)	1,427
Utilities	—	2,099	124	3	85	—	2,311	—	2,311
Other	7	5,445	568	70	35	—	6,125	(56)	6,069
Total gross of provisions	254	82,656	29,814	350	724	6,843	120,641	(143)	120,498
Provisions	—	(8,898)	(1,218)	—	—	—	(10,116)	n/a	(10,116)
Total	254	73,758	28,596	350	724	6,843	110,525	(143)	110,382
RoW									
Central and local government	117	683	11,414	—	190	92	12,496	—	12,496
Financial institutions - banks	6,605	4,965	2,886	135	30,700	2,849	48,140	(27,897)	20,243
- other (2)	1,956	4,147	268	100	—	592	7,063	—	7,063
Personal - mortgages	—	702	—	—	—	—	702	—	702
- unsecured	—	1,511	—	—	—	—	1,511	—	1,511
Property	—	850	269	15	61	1	1,196	—	1,196
Construction	—	69	9	2	22	—	102	—	102
Manufacturing	—	2,717	7	13	1,052	306	4,095	—	4,095
Finance leases and instalment credit	—	117	127	—	2	—	246	—	246
Retail, wholesale and repairs	—	1,304	3	34	96	—	1,437	—	1,437
Transport and storage	—	605	225	6	443	—	1,279	(35)	1,244

Health, education and leisure	—	583	—	4	34	—	621	—	621
Hotels and restaurants	—	25	—	2	—	—	27	—	27
Utilities	—	1,848	13	22	94	—	1,977	—	1,977
Other	12	3,355	127	259	861	2	4,616	—	4,616
Total gross of provisions	8,690	23,481	15,348	592	33,555	3,842	85,508	(27,932)	57,576
Provisions	—	(370)	—	—	—	—	(370)	n/a	(370)
Total	8,690	23,111	15,348	592	33,555	3,842	85,138	(27,932)	57,206

## Notes:

- (1) This shows the amount by which the Group's credit risk exposure is reduced through arrangements, such as master netting agreements and cash management pooling, which give the Group a legal right to set off the financial asset against a financial liability due to the same counterparty. In addition, the Group holds collateral in respect of individual loans and advances to banks and customers. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group obtains collateral in the form of securities in reverse repurchase agreements. Cash and securities are received as collateral in respect of derivative transactions.
- (2) Loans made by the Group's consolidated conduits to asset owning companies are included within financial institutions - other.

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

## Asset quality

The asset quality analysis presented below is based on the Group's internal asset quality ratings which have ranges for the probability of default, as set out below. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades across the Group map to both a Group level asset quality scale, used for external financial reporting, and a master grading scale for wholesale exposures used for internal management reporting across portfolios. Debt securities are analysed by external ratings and are therefore excluded from the following tables. These are set out on pages 280 to 282.

Asset quality band	Probability of default range
AQ1	0% - 0.034%
AQ2	0.034% - 0.048%
AQ3	0.048% - 0.095%
AQ4	0.095% - 0.381%
AQ5	0.381% - 1.076%
AQ6	1.076% - 2.153%
AQ7	2.153% - 6.089%
AQ8	6.089% - 17.222%
AQ9	17.222% - 100%
AQ10	100%

	Loans and advances										Settlement balances and other financial assets	Derivative
	Cash and balances at central banks		Banks (1)			Customers			Total			
	£m	Reverse repos	Derivative cash collateral	Other	Total	Reverse repos	Derivative collateral	Other	Total	£m	£m	
2013												
Total												
AQ1	80,305	5,885	2,043	6,039	13,967	30,233	10,042	34,395	74,670	2,707	71,499	
AQ2	1	4,744	4,930	672	10,346	996	1,899	17,695	20,590	192	69,944	
AQ3	1,873	2,164	1,502	2,347	6,013	1,857	3,796	29,364	35,017	746	94,670	
AQ4	479	9,864	1,451	7,031	18,346	10,642	1,894	99,258	111,794	470	39,150	
AQ5	—	1,776	416	662	2,854	5,403	297	77,045	82,745	717	8,820	
AQ6	—	1,823	1	157	1,981	82	38	39,324	39,444	59	1,480	
AQ7	—	301	—	237	538	684	50	30,279	31,013	22	970	
AQ8	3	—	—	48	48	—	10	8,482	8,492	58	130	
AQ9	—	—	—	34	34	—	41	16,944	16,985	—	640	
AQ10	—	—	—	—	—	—	—	730	730	—	690	
Past due	—	—	—	—	—	—	—	9,068	9,068	620	—	
Impaired	—	—	—	70	70	—	—	37,101	37,101	—	—	
Impairment provision	—	—	—	(63)	(63)	—	—	(25,162)	(25,162)	—	—	
Group	82,661	26,557	10,343	17,234	54,134	49,897	18,067	374,523	442,487	5,591	288,040	

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2012

Total

AQ1	78,039	17,806	3,713	10,913	32,432	42,963	15,022	39,734	97,719	2,671	100,652	63,785	8,113	383,411
AQ2	12	3,556	4,566	526	8,648	710	704	13,101	14,515	185	108,733	20,333	2,810	155,236
AQ3	1,156	5,703	2,241	2,757	10,701	2,886	3,917	25,252	32,055	539	152,810	23,727	7,431	228,419
AQ4	100	6,251	1,761	2,734	10,746	14,079	2,144	104,060	120,283	1,202	58,705	40,196	5,736	236,968
AQ5	—	1,183	469	787	2,439	8,163	679	92,147	100,989	659	13,244	28,165	2,598	148,094
AQ6	—	282	39	357	678	86	50	40,096	40,232	73	2,175	13,854	1,380	58,392
AQ7	—	2	—	236	238	1,133	12	36,223	37,368	191	3,205	19,219	1,275	61,496
AQ8	—	—	—	68	68	4	2	12,812	12,818	8	262	5,688	185	19,029
AQ9	1	—	—	93	93	23	7	17,431	17,461	137	1,360	1,363	95	20,510
AQ10	—	—	—	—	—	—	—	807	807	1	772	1,454	238	3,272
Past due	—	—	—	—	—	—	249	10,285	10,534	999	—	—	—	11,533
Impaired	—	—	—	134	134	—	—	38,365	38,365	—	—	—	—	38,499
Impairment provision	—	—	—	(114)	(114)	—	—	(21,148)	(21,148)	—	—	—	—	(21,262)
Group	79,308	34,783	12,789	18,491	66,063	70,047	22,786	409,165	501,998	6,665	441,918	217,784	29,861	1,343,597

For the note to these tables refer to page 278.

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Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Cash and			Settlement				Contingent liabilities	Total
	balances at central banks	Loans and advances Banks	(1) Customers	balances and other financial assets	Derivatives	Commitments			
	£m	£m	£m	£m	£m	£m	£m	£m	
2011 Total									
AQ1	78,692	74,279	114,424	5,152	482,053	75,356	14,076	844,032	
AQ2	342	1,881	15,810	93	8,177	24,269	3,154	53,726	
AQ3	223	1,981	34,017	546	10,827	23,471	4,427	75,492	
AQ4	19	1,612	108,262	760	14,421	40,071	5,847	170,992	
AQ5	90	1,261	118,056	124	6,516	34,593	4,301	164,941	
AQ6	9	188	50,428	46	2,221	17,153	1,662	71,707	
AQ7	8	432	33,218	13	2,393	19,163	1,037	56,264	
AQ8	7	30	12,622	19	1,252	4,159	276	18,365	
AQ9	5	83	16,429	324	1,150	2,286	943	21,220	
AQ10	1	164	784	6	1,047	2,354	221	4,577	
Past due	—	2	11,591	1,623	—	—	—	13,216	
Impaired	—	137	39,921	414	—	—	—	40,472	
Impairment provision	—	(123)	(20,551)	(26)	—	—	—	(20,700)	
Group	79,396	81,927	535,011	9,094	530,057	242,875	35,944	1,514,304	

	Loans and advances										Settlement balances and other assets	Derivative
	Cash and central banks		Banks (1)			Customers			Settlement			
	balances at	Reverse repos	Derivative cash collateral	Other	Total	Reverse repos	Derivative cash collateral	Other	Total	assets	Derivative	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
2013 Core												
AQ1	80,266	5,885	2,043	5,986	13,914	30,233	10,042	31,712	71,987	2,706	71,100	
AQ2	—	4,744	4,930	653	10,327	996	1,899	17,253	20,148	192	69,820	
AQ3	1,873	2,164	1,502	2,176	5,842	1,857	3,796	28,480	34,133	746	94,310	
AQ4	420	9,864	1,451	6,924	18,239	10,642	1,894	95,546	108,082	446	38,680	
AQ5	—	1,776	416	659	2,851	5,403	297	75,211	80,911	717	8,110	
AQ6	—	1,823	1	147	1,971	82	38	37,269	37,389	59	1,190	
AQ7	—	301	—	204	505	677	50	29,417	30,144	22	750	
AQ8	3	—	—	25	25	—	10	8,000	8,010	58	90	
AQ9	—	—	—	23	23	—	41	12,492	12,533	—	480	
AQ10	—	—	—	—	—	—	—	687	687	—	300	
Past due	—	—	—	—	—	—	—	8,536	8,536	583	—	
Impaired	—	—	—	69	69	—	—	18,364	18,364	—	—	
Impairment	—	—	—	—	—	—	—	—	—	—	—	

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provision	—	—	—	(62)	(62)	—	—	(11,324)	(11,324)	—	—
Group	82,562	26,557	10,343	16,804	53,704	49,890	18,067	351,643	419,600	5,529	284,86

For the note to these tables refer to page 278.

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## Balance sheet analysis continued

## Financial assets continued

2012 (2)	Loans and advances										Settlement balances and other financial assets	Derivative £m
	Banks (1)					Customers						
	Cash and balances at central banks £m	Reverse repos £m	Derivative cash collateral £m	Other £m	Total £m	Reverse repos £m	Derivative cash collateral £m	Other £m	Total £m			
Core												
AQ1	78,003	17,806	3,708	8,495	30,009	42,963	15,022	32,256	90,241	2,671	99,88	
AQ2	12	3,556	4,566	514	8,636	710	704	10,551	11,965	185	108,10	
AQ3	1,046	5,703	2,241	2,738	10,682	2,886	3,917	21,688	28,491	539	152,46	
AQ4	100	6,251	1,761	2,729	10,741	14,079	2,144	99,771	115,994	1,202	57,65	
AQ5	—	1,183	469	785	2,437	8,163	679	86,581	95,423	659	12,08	
AQ6	—	282	39	356	677	86	50	36,891	37,027	73	1,47	
AQ7	—	2	—	186	188	1,133	12	32,032	33,177	191	2,53	
AQ8	—	—	—	68	68	4	2	10,731	10,737	8	24	
AQ9	1	—	—	93	93	—	7	14,958	14,965	137	97	
AQ10	—	—	—	—	—	—	—	684	684	1	44	
Past due	—	—	—	—	—	—	249	9,528	9,777	991		
Impaired	—	—	—	133	133	—	—	—17,418	17,418	—		
Impairment provision	—	—	—	(113)	(113)	—	—	—(9,949)	(9,949)	—		
Group	79,162	34,783	12,784	15,984	63,551	70,024	22,786	363,140	455,950	6,657	435,86	

2011 (2)	Cash and		Loans and		Settlement			Contingent		Total £m
	balances at		advances		balances and other			liabilities		
	central banks £m	Banks (1)Customers £m	financial assets £m	Derivatives £m	Commitments £m	liabilities £m				
Core										
AQ1	78,634	71,120	95,679	5,034	478,177	69,220	13,249	811,113		
AQ2	342	1,867	14,158	91	7,500	23,404	3,122	50,484		
AQ3	56	1,967	30,546	546	10,360	22,319	4,354	70,148		
AQ4	18	1,557	101,646	759	13,475	38,808	5,655	161,918		
AQ5	90	1,256	110,030	124	5,087	33,226	4,092	153,905		
AQ6	9	140	44,012	46	1,987	16,118	1,634	63,946		
AQ7	8	432	28,953	13	796	17,514	949	48,665		
AQ8	7	20	10,608	19	666	4,068	236	15,624		
AQ9	5	83	11,938	276	592	1,769	898	15,561		
AQ10	1	164	478	6	339	1,274	180	2,442		
Past due	—	2	10,047	1,623	—	—	—	11,672		
Impaired	—	136	16,457	413	—	—	—	17,006		
	—	(122)	(9,065)	(25)	—	—	—	(9,212)		

Impairment  
provision  
Group

79,170	78,622	465,487	8,925	518,979	227,720	34,369	1,413,272
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For the notes to these tables refer to page 278.

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Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## Financial assets continued

	Loans and advances										
	Cash and balances at central banks		Banks (1) Derivative cash			Customers Derivative cash			Settlement balances and other financial		
	Reverse repos	collateral	Other	Total	Reverse repos	collateral	Other	Total	assets	£m	£m
2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-Core											
AQ1	39	—	—	53	53	—	—	2,683	2,683	1	396
AQ2	1	—	—	19	19	—	—	442	442	—	128
AQ3	—	—	—	171	171	—	—	884	884	—	359
AQ4	59	—	—	107	107	—	—	3,712	3,712	24	474
AQ5	—	—	—	3	3	—	—	1,834	1,834	—	713
AQ6	—	—	—	10	10	—	—	2,055	2,055	—	296
AQ7	—	—	—	33	33	7	—	862	869	—	222
AQ8	—	—	—	23	23	—	—	482	482	—	37
AQ9	—	—	—	11	11	—	—	4,452	4,452	—	160
AQ10	—	—	—	—	—	—	—	43	43	—	390
Past due	—	—	—	—	—	—	—	532	532	37	—
Impaired	—	—	—	1	1	—	—	18,737	18,737	—	—
Impairment provision	—	—	—	(1)	(1)	—	—	(13,838)	(13,838)	—	—
Group	99	—	—	430	430	7	—	22,880	22,887	62	3,175
2012 (2)											
Non-Core											
AQ1	36	—	—	394	394	—	—	7,466	7,466	770	10,302
AQ2	—	—	—	5	5	—	—	2,550	2,550	626	3,325
AQ3	110	—	—	19	19	—	—	3,564	3,564	348	4,388
AQ4	—	—	—	5	5	—	—	4,289	4,289	1,055	5,801
AQ5	—	—	—	2	2	—	—	4,718	4,718	1,162	6,636
AQ6	—	—	—	1	1	—	—	3,205	3,205	699	4,646
AQ7	—	—	—	50	50	—	—	4,191	4,191	669	6,631
AQ8	—	—	—	—	—	—	—	2,081	2,081	15	2,216
AQ9	—	—	—	—	23	—	—	2,452	2,475	381	3,133
AQ10	—	—	—	—	—	—	—	123	123	324	1,158
Past due	—	—	—	—	—	—	—	757	757	8	765
Impaired	—	—	—	1	1	—	—	20,947	20,947	—	20,948
Impairment provision	—	—	—	(1)	(1)	—	—	(11,199)	(11,199)	—	(11,200)
Group	146	—	—	476	476	23	—	45,144	45,167	8	58,749

For the notes to these tables refer to page 278.



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## Balance sheet analysis continued

## Financial assets continued

	Cash and			Settlement			Contingent		Total
	balances at	Loans and		balances and other	Derivatives	Commitments	liabilities		
		central banks	Banks						
2011 (2)	£m	£m	£m	£m	£m	£m	£m	£m	
Non-Core									
AQ1	58	590	18,733	118	3,876	6,136	827	30,338	
AQ2	—	4	1,652	2	677	865	32	3,232	
AQ3	167	14	3,471	—	467	1,152	73	5,344	
AQ4	1	55	6,616	1	946	1,263	192	9,074	
AQ5	—	5	7,145	—	1,429	1,367	209	10,155	
AQ6	—	48	6,416	—	234	1,035	28	7,761	
AQ7	—	—	4,265	—	1,597	1,649	88	7,599	
AQ8	—	10	2,014	—	586	91	40	2,741	
AQ9	—	—	4,491	48	558	517	45	5,659	
AQ10	—	—	306	—	708	1,080	41	2,135	
Past due	—	—	1,544	—	—	—	—	1,544	
Impaired	—	1	23,464	1	—	—	—	—23,466	
Impairment									
provision	—	(1)	(11,486)	(1)	—	—	—	—(11,488)	
Group	226	726	68,631	169	11,078	15,155	1,575	97,560	

## Notes:

- (1) Excludes items in the course of collection from other banks of £1,454 million (2012 - £1,531 million; 2011 - £1,470 million).
- (2) Excludes balances in relation to Direct Line Group (loans to banks: 2012 - £2,036 million; 2011 - £2,579 million and loans to customers: 2012 - £881 million; 2011 - £893 million).
- (3) Exposures are allocated to asset quality bands on the basis of statistically driven models which produce an estimate of default rate. The variables included in the models vary by product and geography. For portfolios secured on residential property these models typically include measures of delinquency and loan-to-value as well as other differentiating characteristics such as bureau score, product features or associated account performance information.

## Key points

- Underlying the balance sheet reduction in the year the overall asset quality in the upper bands (AQ1-AQ5) remained broadly similar.
- Within cash and balances at central banks there has been an increase in AQ1 of £2.3 billion due to additional funds deposited with the Bank of England and the Federal Reserve. Additionally, increases of £1.1 billion in AQ3 and AQ4 are due to deposits with other central banks as part of the Group's overall liquidity management.
- Reverse repo balances decreased £28.4 billion due to reduced trading volumes within Markets. However, AQ2 and AQ4-AQ7 have increased £7.2 billion in bank reverse repurchase agreements as a small number of counterparties moved bands, in addition to the implementation of a strategy to develop relationships with newer, lower-rated

counterparties.

- Derivatives decreased across all asset quality bands reflecting risk reduction within Markets and upwards shifts in major interest rate yield curves.
- Core customer lending in AQ1-AQ3 increased to 22% from 18% at 31 December 2012 as recalibration of the UK Retail models using updated data trends from the last three years resulted in £9.8 billion moving from AQ5 to higher bands. In addition, mid corporate model updates in UK Corporate and data quality improvements in Wealth also led to improving trends.
- Core past due loans to customers decreased £1.2 billion, with a reduction in Ulster Bank (£0.8 billion) and US Retail and Commercial (£1.2 billion) being offset by increases in UK Retail (£1.2 billion) as balances transferred from the impaired book.
- Impairment provisions increased £4.0 billion, mainly due to RCR and related change in strategy (£4.5 billion) partly offset by a decrease in UK Retail (£0.5 billion).

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## Balance sheet analysis continued

## Debt securities

## IFRS measurement classification and issuer

The table below analyses debt securities by issuer and IFRS measurement classifications. US central and local government includes US federal agencies; financial institutions includes US government sponsored agencies and securitisation entities, the latter principally relating to asset-backed securities (ABS).

	Central and local government				Other financial		Total	Of which ABS
	UK	US	Other	Banks	institutions	Corporate		
	£m	£m	£m	£m	£m	£m	£m	£m
2013								
Held-for-trading (HFT)	6,764	10,951	22,818	1,720	12,406	1,947	56,606	10,674
Designated as at fair value	—	—	104	—	17	1	122	15
Available-for-sale	6,436	12,880	10,303	5,974	17,330	184	53,107	24,174
Loans and receivables	10	1	—	175	3,466	136	3,788	3,423
Long positions	13,210	23,832	33,225	7,869	33,219	2,268	113,623	38,286
Of which US agencies	—	5,599	—	—	13,132	—	18,731	18,048
Short positions (HFT)	(1,784)	(6,790)	(16,087)	(889)	(1,387)	(826)	(27,763)	(36)
Available-for-sale								
Gross unrealised gains	201	428	445	70	386	11	1,541	458
Gross unrealised losses	(69)	(86)	(32)	(205)	(493)	(2)	(887)	(753)
2012								
Held-for-trading	7,692	17,349	27,195	2,243	21,876	2,015	78,370	18,619
Designated as at fair value	—	—	123	86	610	54	873	516
Available-for-sale	9,774	19,046	16,155	8,861	23,890	3,167	80,893	30,743
Loans and receivables	5	—	—	365	3,728	390	4,488	3,707
Long positions	17,471	36,395	43,473	11,555	50,104	5,626	164,624	53,585
Of which US agencies	—	5,380	—	—	21,566	—	26,946	24,828
Short positions (HFT)	(1,538)	(10,658)	(11,355)	(1,036)	(1,595)	(798)	(26,980)	(17)
Available-for-sale								
Gross unrealised gains	1,007	1,092	1,187	110	660	120	4,176	764
Gross unrealised losses	—	(1)	(14)	(509)	(1,319)	(4)	(1,847)	(1,817)
2011								
Held-for-trading	9,004	19,636	36,928	3,400	23,160	2,948	95,076	20,816
Designated as at fair value	1	—	127	53	457	9	647	558
Available-for-sale	13,436	20,848	25,552	13,175	31,752	2,535	107,298	40,735
Loans and receivables	10	—	1	312	5,259	477	6,059	5,200
Long positions	22,451	40,484	62,608	16,940	60,628	5,969	209,080	67,309
Of which US agencies	—	4,896	—	—	25,924	—	30,820	28,558

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Short positions (HFT)	(3,098)	(10,661)	(19,136)	(2,556)	(2,854)	(754)	(39,059)	(352)
Available-for-sale								
Gross unrealised gains	1,428	1,311	1,180	52	913	94	4,978	1,001
Gross unrealised losses	—	—	(171)	(838)	(2,386)	(13)	(3,408)	(3,158)

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## Balance sheet analysis continued

## Debt securities continued

## Key points

## HFT

- UK and US government bonds and US agency ABS decreased reflecting sales and continued focus on balance sheet reduction and capital management in Markets. The decrease in other government bonds primarily comprised reductions in Japanese, French, Belgian and Canadian bonds, partially offset by increases in Italian, German and Spanish bonds. Short positions in US government bonds decreased, reflecting reduced holdings and short positions in German government bonds increased reflecting focus on reduction in net exposure.

## AFS

- Government securities, primarily US, German and UK, decreased by £15.4 billion reflecting Group Treasury's disposals. Holdings in bank issuances fell by £2.9 billion due to maturities and amortisations. The decrease in securities issued by other financial institutions of £6.6 billion primarily related to ABS (£1.6 billion collateralised loan obligations in Non-Core and £3.4 billion residential mortgage-backed securities), due to disposals, maturities and buy backs by issuers. This was partially offset by a build up of securities (£0.9 billion), primarily US agency securities in US Retail & Commercial. The reduction includes £7.2 billion related to Direct Line Group, not included at 31 December 2013 as it is now an associate.

## AFS gross unrealised gains and losses

- The UK government net decrease of £0.9 billion reflects exposure reductions. The US government decrease of £0.7 billion reflects exposure reduction as well as the impact of expectations of tapering of the liquidity programme by the US Federal Reserve. The reductions in bank, other financial institutions and ABS reflected maturities, disposals and market movements.

## Ratings

The table below analyses debt securities by issuer and external ratings. Ratings are based on the lowest of Standard and Poor's, Moody's and Fitch.

2013	Central and local government			Other financial			Total £m	Total %	Of which ABS £m
	UK £m	US £m	Other £m	Banks £m	institutions £m	Corporate £m			
Total									
AAA	—	18	13,106	1,434	8,155	162	22,875	20	6,796
AA to AA+	13,210	23,812	7,847	446	16,825	138	62,278	55	21,054
A to AA-	—	—	4,200	1,657	1,521	290	7,668	7	1,470
BBB- to A-	—	—	7,572	3,761	2,627	854	14,814	13	4,941
Non-investment grade	—	—	494	341	2,444	427	3,706	3	2,571
Unrated	—	2	6	230	1,647	397	2,282	2	1,454
	13,210	23,832	33,225	7,869	33,219	2,268	113,623	100	38,286
Core									
AAA	—	18	13,106	1,434	7,722	162	22,442	20	6,391
AA to AA+	13,210	23,812	7,847	446	16,518	138	61,971	55	20,747

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A to AA-	—	—	4,200	1,657	1,131	290	7,278	7	1,080
BBB- to A-	—	—	7,572	3,761	2,562	854	14,749	13	4,876
Non-investment grade	—	—	406	341	2,015	340	3,102	3	2,077
Unrated	—	2	6	230	1,407	372	2,017	2	1,245
	13,210	23,832	33,137	7,869	31,355	2,156	111,559	100	36,416
Non-Core									
AAA	—	—	—	—	433	—	433	21	405
AA to AA+	—	—	—	—	307	—	307	15	307
A to AA-	—	—	—	—	390	—	390	19	390
BBB- to A-	—	—	—	—	65	—	65	3	65
Non-investment grade	—	—	88	—	429	87	604	29	494
Unrated	—	—	—	—	240	25	265	13	209
	—	—	88	—	1,864	112	2,064	100	1,870



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## Balance sheet analysis continued

## Debt securities continued

	Central and local government			Other financial			Total £m	Of which	
	UK £m	US £m	Other £m	Banks £m	institutions £m	Corporate £m		Total %	ABS £m
2012									
Total									
AAA	17,471	31	17,167	2,304	11,502	174	48,649	30	10,758
AA to AA+	—	36,357	7,424	1,144	26,403	750	72,078	44	28,775
A to AA-	—	6	11,707	2,930	3,338	1,976	19,957	12	2,897
BBB- to A-	—	—	6,245	4,430	4,217	1,643	16,535	10	7,394
Non-investment grade	—	—	928	439	3,103	614	5,084	3	2,674
Unrated	—	1	2	308	1,541	469	2,321	1	1,087
	17,471	36,395	43,473	11,555	50,104	5,626	164,624	100	53,585
Core									
AAA	17,471	31	17,161	2,296	10,023	172	47,154	30	9,319
AA to AA+	—	36,283	7,419	1,137	24,879	748	70,466	45	27,255
A to AA-	—	6	11,707	2,920	2,019	1,968	18,620	12	1,603
BBB- to A-	—	—	6,245	4,430	3,701	1,602	15,978	10	6,812
Non-investment grade	—	—	682	439	2,361	496	3,978	2	2,176
Unrated	—	1	2	294	1,297	338	1,932	1	859
	17,471	36,321	43,216	11,516	44,280	5,324	158,128	100	48,024
Non-Core									
AAA	—	—	6	8	1,479	2	1,495	23	1,439
AA to AA+	—	74	5	7	1,524	2	1,612	25	1,520
A to AA-	—	—	—	10	1,319	8	1,337	21	1,294
BBB- to A-	—	—	—	—	516	41	557	8	582
Non-investment grade	—	—	246	—	742	118	1,106	17	498
Unrated	—	—	—	14	244	131	389	6	228
	—	74	257	39	5,824	302	6,496	100	5,561

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## Balance sheet analysis continued

## Debt securities continued

	Central and local government			Other financial			Total £m	Of which	
	UK £m	US £m	Other £m	Banks £m	institutions £m	Corporate £m		Total %	ABS £m
2011									
Total									
AAA	22,451	45	32,522	5,155	15,908	452	76,533	37	17,156
AA to AA+	—	40,435	2,000	2,497	30,403	639	75,974	36	33,615
A to AA-	—	1	24,966	6,387	4,979	1,746	38,079	18	6,331
BBB- to A-	—	—	2,194	2,287	2,916	1,446	8,843	4	4,480
Non-investment grade	—	—	924	575	5,042	1,275	7,816	4	4,492
Unrated	—	3	2	39	1,380	411	1,835	1	1,235
	22,451	40,484	62,608	16,940	60,628	5,969	209,080	100	67,309
Core									
AAA	22,112	45	32,489	4,601	13,245	448	72,940	37	14,534
AA to AA+	—	40,435	1,995	2,434	28,125	565	73,554	38	31,323
A to AA-	—	1	24,964	6,302	3,348	1,614	36,229	18	4,731
BBB- to A-	—	—	2,194	2,272	1,727	1,232	7,425	4	3,188
Non-investment grade	—	—	723	559	2,542	1,048	4,872	2	2,552
Unrated	—	3	1	25	821	260	1,110	1	785
	22,112	40,484	62,366	16,193	49,808	5,167	196,130	100	57,113
Non-Core									
AAA	339	—	33	554	2,663	4	3,593	28	2,622
AA to AA+	—	—	5	63	2,278	74	2,420	19	2,292
A to AA-	—	—	2	85	1,631	132	1,850	14	1,600
BBB- to A-	—	—	—	15	1,189	214	1,418	11	1,292
Non-investment grade	—	—	201	16	2,500	227	2,944	23	1,940
Unrated	—	—	1	14	559	151	725	5	450
	339	—	242	747	10,820	802	12,950	100	10,196

## Key points

- AAA rated debt securities decreased as the UK and the Netherlands were downgraded from AAA to AA+ during the year and also reflected the Group's reduced holding of debt securities.
- The decrease in holdings of debt securities rated A to AA- was primarily driven by reductions in Japanese and Belgian bonds.
- Non-investment grade and unrated debt securities accounted for 5% of the portfolio in 2013.



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Balance sheet analysis continued

Debt securities continued

Asset-backed securities

Introduction

The Group structures, originates, distributes and trades debt in the form of loan, bond and derivative instruments in all major currencies and debt capital markets in North America, Western Europe, Asia and major emerging markets. The carrying value of the Group's debt securities is detailed below.

The Group's credit market activities gave rise to risk concentrations in asset-backed securities (ABS). The Group has exposures to ABS, which are predominantly debt securities, but can also be held in derivative form. ABS have an interest in an underlying pool of referenced assets. The risks and rewards of the referenced pool are passed onto investors by the issue of securities with varying seniority by a special purpose entity.

Debt securities include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralised debt obligations (CDOs), collateralised loan obligations (CLOs) and other ABS. In many cases, the risk associated with these assets is hedged by credit derivatives. The counterparties to some of these hedge transactions are monoline insurers.

The following tables summarise the gross and net exposures and carrying values of these securities by the location of the underlying assets at 31 December 2013, 2012 and 2011 and by IFRS measurement classification of held-for-trading (HFT), designated at fair value (DFV), available-for-sale (AFS) and loans and receivables (LAR). Gross exposures represent the principal amounts relating to ABS. Government sponsored or similar RMBS comprises securities that are: (a) guaranteed or effectively guaranteed by the US government, by way of its support for US federal agencies and government sponsored enterprises or (b) guaranteed by the Dutch government. Net exposures represent the carrying value after taking account of protection purchased from monoline insurers and other counterparties, but exclude the effect of counterparty credit valuation adjustments. The hedge provides credit protection of both principal and interest cash flows in the event of default by the counterparty. The value of this protection is based on the underlying instrument being protected.

Residential mortgage-backed securities

RMBS are securities that represent an interest in a portfolio of residential mortgages. Repayments made on the underlying mortgages are used to make payments to holders of the RMBS. The risk of the RMBS will vary primarily depending on the quality and geographic region in which the underlying mortgage assets are located and the credit enhancement of the securitisation structure. Several tranches of notes are issued, each secured against the same portfolio of mortgages, but providing differing levels of seniority to match the risk appetite of investors. The most junior (or equity) notes will suffer early capital and interest losses experienced by the referenced mortgage collateral, with each more senior note benefiting from the protection provided by the subordinated notes below. Additional credit enhancements may be provided to the holder of senior RMBS notes, including provided by monoline insurers.

The main categories of mortgages that serve as collateral to RMBS held by the Group are set out below and described in the Glossary on pages 549 to 556. The US market has more established definitions of differing underlying mortgage quality and these are used as the basis for the Group's RMBS categorisation.

The Group RMBS classifications, including prime, non-conforming and sub-prime, reflect the characteristics of the underlying mortgage portfolios. RMBS are classified as prime RMBS where the loans have low default risk and are made to borrowers with good credit records and reliable payment histories and there is full documentation. Non-conforming RMBS include US Alt-A RMBS together with RMBS, in jurisdictions other than

the US, where the underlying mortgages are not classified as either prime or sub-prime. IClassification of RMBS as sub-prime or Alt-A is based on Fair Isaac Corporation scores (FICO), level of documentation and loan-to-value ratios of the underlying mortgage loans. US RMBS are classified as sub-prime if the mortgage portfolio comprises loans with FICO scores between 500 and 650 with full or limited documentation. Mortgages in Alt-A RMBS portfolios have FICO scores of 640 to 720, limited documentation and an original LTV of 70% to 100%. In other jurisdictions, RMBS are classified as sub-prime if the mortgage portfolio comprises loans with one or more high risk characteristics such as: unreliable or poor payment histories; high loan-to-value ratios; high debt-to-income ratio; the loan is not secured on the borrower's primary residence; or a history of delinquencies or late payments on the loan.

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Balance sheet analysis continued

Asset-backed securities continued

Product, geography and IFRS measurement classification

	US	UK	Europe	RoW	Total	HFT	DFV	AFS	LAR
2013	£m	£m	£m	£m	£m	£m	£m	£m	£m
Gross exposure									
RMBS: government sponsored or similar	14,886	—	2,491	—	17,377	7,088	—	10,289	—
RMBS: prime	1,608	1,694	806	99	4,207	777	15	3,392	23
RMBS: non-conforming	446	1,859	49	—	2,354	165	—	960	1,229
RMBS: sub-prime	818	86	59	—	963	871	—	—	92
MBS: covered bond	47	176	4,489	—	4,712	—	—	4,712	—
CMBS	3,598	689	254	1	4,542	858	—	3,124	560
CDOs	1,835	32	277	—	2,144	1,602	21	511	10
CLOs	907	36	652	—	1,595	898	—	667	30
ABS covered bond	—	—	48	—	48	—	—	48	—
Other ABS	1,432	1,428	1,045	40	3,945	1,266	—	1,161	1,518
	25,577	6,000	10,170	140	41,887	13,525	36	24,864	3,462
Carrying value									
RMBS: government sponsored or similar	14,870	—	2,403	—	17,273	7,031	—	10,242	—
RMBS: prime	1,532	1,696	775	99	4,102	713	15	3,351	23
RMBS: non-conforming	379	1,770	49	—	2,198	128	—	841	1,229
RMBS: sub-prime	775	78	45	—	898	806	—	—	92
MBS: covered bond	48	202	4,316	—	4,566	—	—	4,566	—
CMBS	3,523	558	127	1	4,209	602	—	3,077	530
CDOs	314	1	115	—	430	98	—	322	10
CLOs	823	15	378	—	1,216	552	—	636	28
ABS covered bond	—	—	48	—	48	—	—	48	—
Other ABS	1,349	943	1,015	39	3,346	744	—	1,091	1,511
	23,613	5,263	9,271	139	38,286	10,674	15	24,174	3,423
Net exposure									
RMBS: government sponsored or similar	14,869	—	2,403	—	17,272	7,031	—	10,241	—
RMBS: prime	1,528	1,694	771	99	4,092	702	15	3,352	23
RMBS: non-conforming	348	1,761	49	—	2,158	90	—	839	1,229
RMBS: sub-prime	569	78	45	—	692	600	—	—	92

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MBS: covered bond	48	202	4,316	—	4,566	—	—	4,566	—
CMBS	3,247	558	127	1	3,933	325	—	3,076	532
CDOs	36	1	115	—	152	90	—	52	10
CLOs	474	15	373	—	862	493	—	341	28
ABS covered bond	—	—	48	—	48	—	—	48	—
Other ABS	1,253	922	1,015	39	3,229	628	—	1,091	1,510
	22,372	5,231	9,262	139	37,004	9,959	15	23,606	3,424

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## Balance sheet analysis continued

## Debt securities continued

	US	UK	Europe	RoW	Total	HFT	DFV	AFS	LAR
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2012									
Gross exposure									
RMBS: government sponsored or similar	22,162	—	5,366	18	27,546	13,961	—	13,585	—
RMBS: prime	819	2,821	1,181	403	5,224	753	509	3,876	86
RMBS:									
non-conforming	595	2,077	58	—	2,730	202	—	1,235	1,293
RMBS: sub-prime	968	99	66	5	1,138	1,027	—	5	106
MBS: covered bond	46	172	6,129	—	6,347	—	—	6,347	—
CMBS	3,352	1,121	671	3	5,147	1,992	—	2,327	828
CDOs	4,002	42	404	—	4,448	3,111	—	1,307	30
CLOs	2,705	44	787	—	3,536	1,049	—	2,422	65
ABS covered bond	—	132	374	16	522	—	—	522	—
Other ABS	1,632	1,873	1,111	306	4,922	1,667	7	1,774	1,474
	36,281	8,381	16,147	751	61,560	23,762	516	33,400	3,882
Carrying value									
RMBS: government sponsored or similar	22,460	—	4,879	18	27,357	13,959	—	13,398	—
RMBS: prime	717	2,552	912	390	4,571	569	509	3,420	73
RMBS:									
non-conforming	477	1,918	58	—	2,453	150	—	1,009	1,294
RMBS: sub-prime	660	73	46	5	784	682	—	—	102
MBS: covered bond	48	204	5,478	—	5,730	—	—	5,730	—
CMBS	3,274	821	425	3	4,523	1,489	—	2,284	750
CDOs	480	22	218	—	720	104	—	589	27
CLOs	2,550	12	464	—	3,026	697	—	2,266	63
ABS covered bond	—	137	380	16	533	—	—	533	—
Other ABS	1,401	1,263	929	295	3,888	969	7	1,514	1,398
	32,067	7,002	13,789	727	53,585	18,619	516	30,743	3,707
Net exposure									
RMBS: government sponsored or similar	22,460	—	4,879	18	27,357	13,959	—	13,398	—
RMBS: prime	513	2,549	911	383	4,356	554	509	3,221	72
RMBS:									
non-conforming	277	1,908	58	—	2,243	110	—	839	1,294
RMBS: sub-prime	417	73	46	4	540	439	—	—	101
MBS: covered bond	48	204	5,478	—	5,730	—	—	5,730	—



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CMBS	2,535	821	425	3	3,784	750	—	2,284	750
CDOs	162	22	212	1	397	79	—	290	28
CLOs	879	12	459	—	1,350	639	—	648	63
ABS covered bond	—	137	380	16	533	—	—	533	—
Other ABS	1,257	1,170	929	163	3,519	601	7	1,513	1,398
	28,548	6,896	13,777	588	49,809	17,131	516	28,456	3,706

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## Balance sheet analysis continued

## Asset-backed securities continued

	US	UK	Europe	RoW	Total	HFT	DFV	AFS	LAR
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2011									
Gross exposure									
RMBS: government sponsored or similar	27,549	—	5,884	2	33,435	15,031	—	18,404	—
RMBS: prime	1,201	3,487	1,541	484	6,713	1,090	567	4,977	79
RMBS:									
non-conforming	1,220	2,197	74	—	3,491	717	—	1,402	1,372
RMBS: sub-prime	1,847	427	94	2	2,370	2,183	—	22	165
MBS: covered bond	133	203	8,256	—	8,592	—	—	8,592	—
CMBS	1,623	1,562	883	1	4,069	2,001	—	862	1,206
CDOs	7,889	72	469	—	8,430	4,455	—	3,885	90
CLOs	5,019	156	1,055	—	6,230	1,294	—	4,734	202
ABS covered bond	21	71	948	4	1,044	—	—	1,044	—
Other ABS	2,085	1,844	1,746	992	6,667	1,965	17	2,389	2,296
	48,587	10,019	20,950	1,485	81,041	28,736	584	46,311	5,410
Carrying value									
RMBS: government sponsored or similar	28,022	—	5,549	2	33,573	15,132	—	18,441	—
RMBS: prime	1,035	3,038	1,206	466	5,745	872	558	4,243	72
RMBS:									
non-conforming	708	1,897	74	—	2,679	327	—	980	1,372
RMBS: sub-prime	686	144	72	2	904	737	—	9	158
MBS: covered bond	136	209	7,175	—	7,520	—	—	7,520	—
CMBS	1,502	1,253	635	1	3,391	1,513	—	716	1,162
CDOs	1,632	31	294	—	1,957	315	—	1,555	87
CLOs	4,524	98	719	—	5,341	882	—	4,280	179
ABS covered bond	19	70	953	4	1,046	—	—	1,046	—
Other ABS	1,715	947	1,525	966	5,153	1,038	—	1,945	2,170
	39,979	7,687	18,202	1,441	67,309	20,816	558	40,735	5,200
Net exposure									
RMBS: government sponsored or similar	28,022	—	5,549	2	33,573	15,132	—	18,441	—
RMBS: prime	825	3,456	1,005	458	5,744	447	557	4,668	72
RMBS:									
non-conforming	677	2,225	74	—	2,976	284	—	1,320	1,372
RMBS: sub-prime	385	138	67	2	592	434	—	—	158
MBS: covered bond	136	209	7,175	—	7,520	—	—	7,520	—
CMBS	860	1,253	543	1	2,657	777	—	718	1,162

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CDOs	1,030	31	294	—	1,355	304	—	964	87
CLOs	1,367	98	712	—	2,177	827	—	1,171	179
ABS covered bond	19	70	952	4	1,045	—	—	1,045	—
Other ABS	1,456	843	1,527	804	4,630	617	—	1,941	2,071
	34,777	8,323	17,898	1,271	62,269	18,822	557	37,788	5,101

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Balance sheet analysis continued

Debt securities continued

Ratings

The table below summarises the ratings of asset-backed securities on the balance sheet.

	RMBS				MBS				ABS		Total
	Government sponsored or similar (1)	Prime	Non-conforming	Sub-prime	bond covered	CMBS	CDOs	CLOs	covered bond	Other ABS	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2013											
AAA	871	2,974	790	24	145	165	66	313	—	1,448	6,796
AA to AA+	16,226	192	634	28	216	3,224	—	309	48	177	21,054
A to AA-	158	151	227	34	48	60	60	167	—	565	1,470
BBB- to A-	13	126	162	95	3,806	102	25	165	—	447	4,941
Non-investment grade (2)	5	559	369	492	351	160	258	144	—	233	2,571
Unrated (3)	—	100	16	225	—	498	21	118	—	476	1,454
	17,273	4,102	2,198	898	4,566	4,209	430	1,216	48	3,346	38,286
Of which in Non-Core	—	42	288	164	—	18	331	569	—	458	1,870
2012											
AAA	2,454	2,854	1,487	11	639	396	92	1,181	165	1,479	10,758
AA to AA+	23,692	613	88	26	102	2,551	7	887	340	469	28,775
A to AA-	201	302	275	33	155	808	74	146	20	883	2,897
BBB- to A-	990	53	141	86	4,698	441	32	291	8	654	7,394
Non-investment grade (2)	20	641	454	330	136	304	421	133	—	235	2,674
Unrated (3)	—	108	8	298	—	23	94	388	—	168	1,087
	27,357	4,571	2,453	784	5,730	4,523	720	3,026	533	3,888	53,585
Of which in Non-Core	—	651	404	154	—	780	494	2,228	—	850	5,561
2011											
AAA	4,169	3,599	1,488	105	2,595	647	135	2,171	625	1,622	17,156
AA to AA+	29,252	669	106	60	379	710	35	1,533	321	550	33,615
A to AA-	131	506	110	104	2,567	1,230	161	697	100	725	6,331
BBB- to A-	—	39	288	93	1,979	333	86	341	—	1,321	4,480
Non-investment grade (2)	21	784	658	396	—	415	1,370	176	—	672	4,492
Unrated (3)	—	148	29	146	—	56	170	423	—	263	1,235
	33,573	5,745	2,679	904	7,520	3,391	1,957	5,341	1,046	5,153	67,309
Of which in Non-Core	—	837	477	308	—	830	1,656	4,227	—	1,861	10,196

Notes:

- (1) Includes US agency and Dutch government guaranteed securities.
- (2) Comprises HFT £1,275 million (2012 - £1,177 million; 2011 - £1,682 million), DFV nil (2012 - £7 million; 2011 - nil), AFS £1,138 million (2012 - £1,173 million; 2011 - £2,056 million) and LAR £158 million (2012 - £317 million; 2011 - £754 million).
- (3) Comprises HFT £504 million (2012 - £808 million; 2011 - £804 million), AFS £26 million (2012 - £149 million; 2011 - £249 million) and LAR £924 million (2012 - £130 million; 2011 - £182 million).

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## Balance sheet analysis continued

## Equity shares

The table below analyses holdings of equity shares for eurozone countries and other countries with balances of more than £100 million by country, issuer and measurement classification. The HFT positions in Markets, primarily in run-off and recovery businesses, are used mainly for economic hedging of debt issuances and equity derivatives. The AFS portfolios include capital stock in the Federal Home Loan Bank (a government sponsored entity, included in other financial institutions) and the Federal Reserve Bank, which together amounted to £0.6 billion (2012 - £0.7 billion) that US Retail & Commercial are required to hold. The remaining AFS balances are individually small holdings in unlisted companies, mainly acquired through debt for equity transactions in GRG.

Countries	2013										
	HFT				HFT short positions	AFS/DFV (1)				Total	Total reserves
	Banks	Other financial institutions (2)	Corporate	Total		Banks	Other financial institutions (2)	Corporate	Total		
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Spain	4	—	56	60	(2)	—	—	60	60	120	(6)
Ireland	—	73	22	95	—	—	7	2	9	104	—
Italy	7	1	26	34	(1)	—	5	—	5	39	—
Portugal	—	—	4	4	—	—	—	—	—	4	—
Greece	—	—	1	1	—	—	—	—	—	1	—
Eurozone periphery	11	74	109	194	(3)	—	12	62	74	268	(6)
Netherlands	1	141	401	543	(2)	—	—	45	45	588	(18)
France	3	6	130	139	(2)	4	—	147	151	290	30
Luxembourg	—	234	35	269	(34)	—	—	2	2	271	—
Germany	9	42	181	232	(20)	—	—	—	—	232	—
Other	11	18	117	146	(17)	4	3	—	7	153	1
Total eurozone	35	515	973	1,523	(78)	8	15	256	279	1,802	7
US	20	433	1,088	1,541	(31)	165	607	36	808	2,349	12
UK	135	154	1,362	1,651	(97)	—	222	198	420	2,071	79
Japan	9	295	686	990	(8)	—	1	—	1	991	—
China	148	45	163	356	—	—	—	—	—	356	—
Australia	75	50	83	208	—	—	1	4	5	213	—
Switzerland	10	11	78	99	(8)	—	47	—	47	146	40
Hong Kong	2	56	73	131	—	—	—	7	7	138	5
Russia	13	3	88	104	—	—	—	—	—	104	—
Other	68	83	445	596	(37)	—	—	45	45	641	6
Total	515	1,645	5,039	7,199	(259)	173	893	546	1,612	8,811	149

For the notes to this table refer to page 290.



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## Balance sheet analysis continued

## Equity shares continued

Countries	2012											
	HFT				AFS/DFV (1)							AF reserve £m
	Other financial			Total	HFT short positions	Other financial				Total	Total	
Banks	institutions (2)	Corporate	Banks			institutions (2)	Corporate	Total	Total			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Spain	18	—	51	69	—	—	—	92	92	161	(4)	
Ireland	—	126	47	173	(3)	—	17	—	17	190		
Italy	7	1	33	41	(15)	—	5	—	5	46		
Portugal	—	—	5	5	—	—	—	—	—	5		
Greece	—	—	6	6	—	—	—	—	—	6		
Eurozone periphery	25	127	142	294	(18)	—	22	92	114	408	(4)	
Netherlands	20	157	465	642	(21)	—	40	156	196	838	(1)	
France	10	75	103	188	(10)	—	1	143	144	332	2	
Luxembourg	14	196	46	256	(1)	—	6	34	40	296		
Germany	33	1	106	140	(54)	—	—	—	—	140		
Other	18	26	116	160	(15)	—	3	—	3	163		
Total eurozone	120	582	978	1,680	(119)	—	72	425	497	2,177	(3)	
US	208	619	2,645	3,472	(132)	307	419	18	744	4,216		
UK	372	144	2,483	2,999	(35)	35	70	320	425	3,424	7	
Japan	24	67	973	1,064	(1)	—	2	—	2	1,066		
China	331	147	357	835	(3)	—	14	3	17	852		
Australia	77	45	159	281	(17)	—	—	—	—	281		
Switzerland	4	—	71	75	(13)	—	34	—	34	109	3	
Hong Kong	2	81	97	180	—	—	—	4	4	184		
Russia	16	4	158	178	—	—	—	—	—	178		
Other	147	367	2,051	2,565	(291)	—	5	180	185	2,750	(	
Total	1,301	2,056	9,972	13,329	(611)	342	616	950	1,908	15,237	8	

For the notes to this table refer to the following page.



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## Balance sheet analysis continued

## Equity shares continued

Countries	2011											
	HFT				AFS/DFV (1)							Total reserves £m
	Banks £m	Other financial institutions (2) £m	Corporate £m	Total £m	HFT short positions £m	Banks £m	Other financial institutions £m	Corporate £m	Total £m	Total £m		
Spain	55	2	11	68	(16)	—	—	136	136	204	(4)	
Ireland	—	7	208	215	(4)	—	6	—	6	221	—	
Italy	11	1	51	63	(4)	—	5	—	5	68	—	
Portugal	—	—	—	—	(1)	—	—	5	5	5	—	
Greece	—	1	1	2	(22)	—	—	1	1	3	—	
Eurozone periphery	66	11	271	348	(47)	—	11	142	153	501	(4)	
Netherlands	1	67	646	714	(82)	—	55	25	80	794	(76)	
France	12	15	90	117	(62)	3	2	124	129	246	20	
Luxembourg	—	201	88	289	—	383	3	2	388	677	17	
Germany	23	4	114	141	(186)	—	—	—	—	141	—	
Other	20	22	106	148	(68)	—	16	1	17	165	10	
Total eurozone	122	320	1,315	1,757	(445)	386	87	294	767	2,524	(33)	
US	120	97	1,391	1,608	(544)	323	575	103	1,001	2,609	128	
UK	420	207	2,582	3,209	(145)	33	225	267	525	3,734	40	
Japan	43	82	1,289	1,414	(3)	—	1	—	1	1,415	—	
China	510	228	637	1,375	(6)	—	13	—	13	1,388	4	
Australia	95	82	405	582	(219)	—	8	15	23	605	2	
Switzerland	10	8	234	252	(44)	—	—	15	15	267	14	
Hong Kong	10	45	100	155	(2)	—	—	3	3	158	(2)	
Russia	30	—	215	245	(2)	—	—	—	—	245	—	
Other	116	457	1,268	1,841	(570)	—	66	336	402	2,243	14	
Total	1,476	1,526	9,436	12,438	(1,980)	742	975	1,033	2,750	15,188	167	

## Notes:

(1) Designated as at fair value through profit or loss balances are £400 million (2012 - £533 million; 2011 - £774 million), of which £105 million other financial institutions (2012 - £61 million; 2011 - £81 million) and £295 million corporate (2012 - £472 million; 2011 - £692 million).

(2) Includes government sponsored entities.

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## Balance sheet analysis continued

## Derivatives

## Summary

The table below analyses the Group's derivatives by type of contract. Master netting arrangements and collateral shown below do not result in a net presentation in the Group's balance sheet under IFRS.

	2013					2012			2011				
	Notional (1)					Notional			Notional				
Derivatives	GBP	USD	Euro	Other	Total	Assets	Liabilities	(1)	Assets	Liabilities	(1)	Assets	Liabilities
	£bn	£bn	£bn	£bn	£bn	£m	£m	£bn	£m	£m	£bn	£m	£m
Interest rate													
(2)	5,401	10,583	13,695	5,910	35,589	218,041	208,698	33,483	363,454	345,565	38,727	422,553	406,000
Exchange rate	362	1,982	628	1,583	4,555	61,923	65,749	4,698	63,067	70,481	4,482	74,526	81,000
Credit	2	166	66	19	253	5,306	5,388	553	11,005	10,353	1,054	26,836	26,000
Equity and commodity	29	27	17	8	81	2,770	5,692	111	4,392	7,941	123	6,142	9,000
						288,040	285,527		441,918	434,340		530,057	524,000
Counterparty mtm netting						(242,836)	(242,836)		(373,906)	(373,906)		(441,626)	(441,000)
Cash collateral						(24,288)	(20,429)		(34,099)	(24,633)		(37,222)	(31,000)
Securities collateral						(5,990)	(5,202)		(5,616)	(8,264)		(5,312)	(8,000)
						14,926	17,060		28,297	27,537		45,897	42,000
of which:													
Banks						1,243	6,121						
Other financial institutions						2,166	2,416						
Corporate						10,341	4,778						
Government						1,176	3,745						
						14,926	17,060						
Asset quality of uncollateralised derivative assets						£m							
AQ1						8,647							
AQ2						252							
AQ3						1,713							
AQ4						778							
AQ5						885							
AQ6						882							
AQ7						782							
AQ8						124							
AQ9						184							
AQ10						679							
						14,926							

Notes:

- (1) Includes exchange traded contracts were £2,298 billion (2012 - £2,497 billion; 2011 - £2,765 billion) principally interest rate. Trades are margined daily hence carrying values were insignificant: assets - £69 million (2012 - £41 million; 2011 - £119 million) and liabilities - £299 million (2012 - £255 million; 2011 - £428 million).
- (2) Interest rate notional includes £22,563 billion (2012 - £15,864 billion; 2011 - £16,377 billion) in respect of contracts with central clearing counterparties to the extent related assets and liabilities are offset.

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Balance sheet analysis continued

Derivatives continued

Key points

- Net exposure decreased by 47% (liabilities decreased by 38%) reflecting increased interest rate yields and continued use of trade compression cycles, partially offset by increased trade volumes.
- Interest rate contracts' fair value decreased due to significant upward shifts in major yield curves as the US Federal Reserve announced tapering of quantitative easing from early 2014. Continued participation in trade compression cycles contributed to a further reduction in exposures.
- Exchange rate contracts' fair value decreased due to strengthening of sterling against the US dollar and decrease in trade volumes.
- The decrease in credit derivatives notional and fair values was driven by increased use of trade compression cycles and novation of certain trades in Markets in line with the Group's risk reduction strategy, primarily in the first half of the year. Tightening of credit spreads also contributed to the decrease in fair value.
- Sales and reduction in trade volumes contributed to reduction in equity contracts.
- Netting and collateral agreements with some financial institutions (bank and non-bank) in certain jurisdictions, or due to other legal reasons, are not deemed to be enforceable and are therefore reported as uncollateralised above.
- 71% of the uncollateralised derivatives related to corporates rated AQ1-AQ3.
- Corporate uncollateralised derivatives, principally all in Markets, relate to large corporates who may have netting arrangements in place but do not have collateral posting capability. A significant proportion of the Group's credit valuation adjustments and funding valuation adjustments relate to those uncollateralised derivatives.

The table below analyses the Group's derivative notional and fair values by trading and settlement method.

	Notional				Asset		Liability	
	Traded on recognised exchanges	Traded over the counter		Total	Traded on recognised exchanges	Traded over the counter	Traded on recognised exchanges	Traded over the counter
		Settled by central counterparties	Not settled by central counterparties					
2013	£bn	£bn	£bn	£bn	£m	£m	£m	£m
Interest rate	2,203	22,565	10,821	35,589	65	217,976	79	208,619
Exchange rate	94	2	4,459	4,555	—	61,923	—	65,749
Credit	—	30	223	253	—	5,306	—	5,388
Equity and commodity	—	1	80	81	4	2,766	220	5,472
2012								
Interest rate	2,388	15,864	15,231	33,483	13	363,441	55	345,510
Exchange rate	108	—	4,590	4,698	—	63,067	—	70,481
Credit	—	—	553	553	—	11,005	—	10,353

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Equity and commodity	1	—	110	111	28	4,364	200	7,741
2011								
Interest rate	2,653	16,377	19,697	38,727	3	422,550	5	406,779
Exchange rate	110	—	4,372	4,482		—74,526		—81,022
Credit	—	—	1,054	1,054		—26,836		—26,743
Equity and commodity	2	—	121	123	115	6,027	423	9,137

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## Balance sheet analysis continued

## Derivatives continued

## Credit derivatives

The Group trades credit derivatives as part of its client-led business and to mitigate credit risk. The Group's credit derivative exposures relating to proprietary trading are minimal. The table below analyses the Group's bought and sold protection.

Group	2013				2012				2011			
	Notional		Fair value		Notional		Fair value		Notional		Fair value	
	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold	Bought	Sold
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Client-led trading and residual risk	124.7	111.7	1.2	1.5	250.7	240.7	3.4	3.1	401.0	390.5	17.0	16.5
Credit hedging - banking book (1)	2.3	0.2	0.2	—	5.4	0.4	0.1	—	15.6	4.7	0.1	0.1
Credit hedging - trading book												
- rates	5.1	4.0	0.1	0.1	9.4	5.8	0.1	0.1	21.2	17.1	0.9	1.7
- credit and mortgage markets	2.2	1.3	0.5	0.3	22.4	16.0	0.9	0.7	42.9	28.4	2.3	1.7
- other	0.8	0.1	—	—	1.4	0.6	—	—	0.9	0.1	—	—
Total excluding APS	135.1	117.3	2.0	1.9	289.3	263.5	4.5	3.9	481.6	440.8	20.3	20.0
APS	—	—	—	—	—	—	—	—	131.8	—	(0.2)	—
	135.1	117.3	2.0	1.9	289.3	263.5	4.5	3.9	613.4	440.8	20.1	20.0
Core												
Client-led trading	103.9	99.1	1.1	1.3	231.4	228.4	3.0	2.7	371.0	369.4	14.6	14.0
Credit hedging - banking book	1.3	—	—	—	1.7	—	—	—	2.2	1.0	—	0.1
Credit hedging - trading book												
- rates	4.4	3.5	0.1	0.1	7.8	4.6	0.1	0.1	19.9	16.2	0.9	1.7
- credit and mortgage markets	0.2	—	—	—	13.9	13.6	0.2	0.2	4.6	4.0	0.3	0.2
- other	0.7	0.1	—	—	1.3	0.5	—	—	0.7	0.1	—	—
	110.5	102.7	1.2	1.4	256.1	247.1	3.3	3.0	398.4	390.7	15.8	16.0
Non-Core												
Residual risk	20.8	12.6	0.1	0.2	19.3	12.3	0.4	0.4	30.0	21.1	2.4	2.5
Credit hedging - banking book (1)	1.0	0.2	0.2	—	3.7	0.4	0.1	—	13.4	3.7	0.1	—
Credit hedging - trading book												
- rates	0.7	0.5	—	—	1.6	1.2	—	—	1.3	0.9	—	—
- credit and mortgage markets	2.0	1.3	0.5	0.3	8.5	2.4	0.7	0.5	38.3	24.4	2.0	1.5

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- other	0.1	—	—	—	0.1	0.1	—	—	0.2	—	—	—
	24.6	14.6	0.8	0.5	33.2	16.4	1.2	0.9	83.2	50.1	4.5	4.0
By counterparty												
Central												
government (APS)	—	—	—	—	—	—	—	—	131.8	—	(0.2)	—
Monoline insurers	1.6	—	0.1	—	4.6	—	0.4	—	8.6	—	0.6	—
CDPCs (2)	18.8	—	0.1	—	21.0	—	0.2	—	24.5	—	0.9	—
Banks	49.3	55.7	1.2	1.9	127.2	128.6	2.3	2.8	204.1	202.1	8.5	10.2
Other financial												
institutions	64.7	61.6	0.4	—	135.8	134.9	1.4	1.1	234.8	231.6	10.5	9.5
Corporates	0.7	—	0.2	—	0.7	—	0.2	—	9.6	7.1	(0.2)	0.3
	135.1	117.3	2.0	1.9	289.3	263.5	4.5	3.9	613.4	440.8	20.1	20.0

Notes:

- (1) Credit hedging in the banking book principally relates to portfolio management in Non-Core.  
(2) Credit derivative product companies.

Business review [Risk and balance sheet management](#)

Balance sheet analysis continued

Derivatives continued

Monoline insurers

The table below summarises the Group's monoline exposures.

	Fair value:		Gross exposure	Credit valuation adjustment	Hedges	Net exposure	Counterparty and credit risk RWAs
	Notional: protected	reference protected					
	assets £m	assets £m					
2013	1,646	1,454	192	59	—	133	0.8
2012	4,582	4,021	561	192	12	357	1.2
2011	8,562	6,674	1,888	1,198	71	619	3.6

Credit derivative product companies (CDPCs)

The table below summarises the Group's exposures to CDPCs, all of which are in Non-Core.

	Fair value:		Gross exposure	Credit valuation adjustment	Net exposure	Counterparty and credit risk RWAs
	Notional: protected	reference protected				
	assets £m	assets £m				
2013	18,827	18,729	98	40	58	0.7
2012	20,989	20,435	554	314	240	2.0
2011	24,504	22,608	1,896	1,034	862	8.4

REIL, provisions and AFS reserves

Risk elements in lending (REIL) comprises impaired loans and accruing loans past due 90 days or more as to principal or interest. Impaired loans are all loans (including loans subject to forbearance) for which an impairment provision has been established; for collectively assessed loans, impairment loss provisions are not allocated to individual loans and the entire portfolio is included in impaired loans. Accruing loans past due 90 days or more comprise loans past due 90 days where no impairment loss is expected and those awaiting individual assessment. A latent provision is established for the latter.

Divisional analysis

The tables below analyse gross loans and advances (excluding reverse repos) and the related credit metrics by division.

Credit metrics  
Provisions



	Gross loans to				REIL as a % of gross loans to	as a %	Impairment charge	Of	Amounts
	Banks £m	Customers £m	REIL £m	Provisions £m	customers %	of REIL %	Total £m	RCR (1) £m*	written-off £m
2013									
UK Retail	760	113,152	3,566	2,106	3.2	59	319	—	815
UK Corporate Wealth	701	102,547	6,226	2,833	6.1	46	1,188	410	772
	1,531	16,764	277	120	1.7	43	29	—	15
International Banking	7,971	35,993	470	325	1.3	69	219	52	281
Ulster Bank	591	31,446	8,466	5,378	26.9	64	1,774	892	277
US Retail & Commercial	406	50,551	1,034	272	2.0	26	151	—	284
Retail & Commercial	11,960	350,453	20,039	11,034	5.7	55	3,680	1,354	2,444
Markets	12,579	25,455	338	286	1.3	85	21	18	46
Other	2,670	5,126	1	66	—	nm	65	—	—
Core	27,209	381,034	20,378	11,386	5.3	56	3,766	1,372	2,490
Non-Core	431	36,718	19,014	13,839	51.8	73	4,646	3,118	1,856
Group	27,640	417,752	39,392	25,225	9.4	64	8,412	4,490	4,346

nm = not meaningful

Note:

(1) Pertaining to the creation of RCR and the related change of strategy.

\*unaudited

Business review [Risk and balance sheet management](#)

## Balance sheet analysis continued

## REIL, provisions and AFS reserves continued

	Gross loans to		REIL		Provisions		Credit metrics REIL as a % Provisions of gross loans to		Impairment charge	Amounts written-off
	Banks	Customers	£m	£m	£m	£m	customers	of REIL		
	£m	£m	£m	£m	£m	£m	%	%	£m	£m
2012										
UK Retail	695	113,599	4,569	2,629	4.0	58	529	599		
UK Corporate	746	107,025	5,452	2,432	5.1	45	836	514		
Wealth	1,545	17,074	248	109	1.5	44	46	15		
International Banking	4,827	42,342	422	391	1.0	93	111	445		
Ulster Bank	632	32,652	7,533	3,910	23.1	52	1,364	72		
US Retail & Commercial	435	51,271	1,146	285	2.2	25	83	391		
Retail & Commercial	8,880	363,963	19,370	9,756	5.3	50	2,969	2,036		
Markets	16,805	29,787	396	305	1.3	77	25	109		
Other	3,196	2,125	—	1	—	—	1	—		
Core	28,881	395,875	19,766	10,062	5.0	51	2,995	2,145		
Non-Core	477	56,343	21,374	11,200	37.9	52	2,320	2,121		
Direct Line Group	2,036	881	—	—	—	—	—	—		
Group	31,394	453,099	41,140	21,262	9.1	52	5,315	4,266		
2011										
UK Retail	628	110,659	4,599	2,679	4.2	58	788	823		
UK Corporate	806	110,729	5,001	2,061	4.5	41	790	658		
Wealth	2,422	16,913	211	81	1.2	38	25	11		
International Banking	3,411	57,729	1,632	851	2.8	52	168	125		
Ulster Bank	2,079	34,052	5,523	2,749	16.2	50	1,384	124		
US Retail & Commercial	208	51,562	1,007	455	2.0	45	248	373		
Retail & Commercial	9,554	381,644	17,973	8,876	4.7	49	3,403	2,114		
Markets	29,991	31,490	414	311	1.3	75	—	23		
Other	1,270	56	—	—	—	—	—	—		
Core	40,815	413,190	18,387	9,187	4.5	50	3,403	2,137		
Non-Core	706	80,005	24,007	11,487	30.0	48	3,838	2,390		
Direct Line Group	2,559	873	—	—	—	—	—	—		
Group	44,080	494,068	42,394	20,674	8.6	49	7,241	4,527		

## Key points

- The Group loan impairment charge for the year increased by 58% (£3.1 billion) to £8.4 billion from £5.3 billion in 2012. The Core charge increased 26% (£0.8 billion) to £3.8 billion and the Non-Core charge increased by 100% (£2.3 billion) to £4.6 billion. £4.5 billion of the impairment increase was in relation to the creation of RCR and the related strategy, £1.4 billion in Core and £3.1 billion in Non-Core. The underlying provision charge decreased £1.4 billion mainly in UK Retail (£0.2 billion), Ulster Bank residential mortgages (£0.4 billion) and Non-Core (£0.8 billion), largely due to run down and lower single name charges in Non-Core.\*

- REIL decreased by £1.7 billion to £39.4 billion during the year mainly in Non-Core (£2.4 billion) and UK Retail (£1.0 billion) offset by increases in UK Corporate (£0.8 billion) and Ulster Bank (£0.9 billion). REIL reductions in Non-Core primarily related to repayments and write-offs in UK corporate and International Banking donated portfolios.
- The RCR provision charge mainly related to loans already within REIL resulting in an 12% increase in the provision coverage ratio to 64% from 52% at December 2012 while the REIL as a percentage of total loans increased to 9.4% from 9.1% at 31 December 2012.\*
- UK Retail REIL continued to decrease due to the write-off of aged debt and the transfer of up-to-date mortgages to potential problem loans. Provision coverage remained broadly stable at 59%.
- REIL in UK Corporate increased 14% mainly driven by individual cases in the commercial real estate and shipping portfolios as credit conditions remained difficult in these sectors. The impact of the RCR related strategy resulted in a £0.4 billion provision increase in Q4 2013.\*
- Ulster Bank REIL at £8.5 billion increased by 12% compared with 31 December 2012. The increase in REIL was largely in relation to commercial real estate investment loans. RCR and related provisioning in 2013 contributed £0.9 billion to the Core Ulster Bank provision and has resulted in the provision coverage increasing from 52% to 64% in the year and in the fourth quarter.\*

\*unaudited

Business review [Risk and balance sheet management](#)

Balance sheet analysis continued

REIL, provisions and AFS reserves continued

Sector and geographical regional analyses: Group

The tables below analyse gross loans and advances to banks and customers (excluding reverse repos) and related credit metrics by sector and geography (by location of lending office) for the Group, Core and Non-Core.

	Credit metrics								
	Gross		REIL Provisions		Provisions		Impairment charge	Amounts written-off	
	loans	REIL	Provisions	of gross loans	as a % of REIL	as a % of gross loans			
£m	£m	£m	as a % of gross loans	as a % of REIL	as a % of gross loans	£m	£m		
2013									
Central and local government	8,643	2	2	—	100	—	2	—	
Finance	35,948	593	292	1.6	49	0.8	4	72	
Personal - mortgages	148,533	6,025	1,799	4.1	30	1.2	392	441	
- unsecured	28,160	2,417	1,909	8.6	79	6.8	415	861	
Property	62,292	20,283	13,189	32.6	65	21.2	5,130	1,642	
Construction	6,331	1,334	774	21.1	58	12.2	291	160	
Manufacturing	21,377	742	559	3.5	75	2.6	195	104	
Finance leases and instalment credit	13,587	263	190	1.9	72	1.4	16	121	
Retail, wholesale and repairs	19,574	1,187	783	6.1	66	4.0	268	128	
Transport and storage	16,697	1,491	635	8.9	43	3.8	487	229	
Health, education and leisure	16,084	1,324	756	8.2	57	4.7	359	119	
Hotels and restaurants	6,942	1,427	812	20.6	57	11.7	281	194	
Utilities	4,960	131	80	2.6	61	1.6	54	23	
Other	28,624	2,103	1,370	7.3	65	4.8	489	212	
Latent	—	—	2,012	—	—	—	44	—	
	417,752	39,322	25,162	9.4	64	6.0	8,427	4,306	
of which:									
UK									
- residential mortgages	110,515	1,900	319	1.7	17	0.3	39	180	
- personal lending	17,098	2,052	1,718	12.0	84	10.0	264	681	
- property	44,252	9,797	5,190	22.1	53	11.7	2,014	950	
- construction	4,691	941	515	20.1	55	11.0	194	159	
- other	110,466	4,684	3,202	4.2	68	2.9	1,091	537	
Europe									
- residential mortgages	17,540	3,155	1,303	18.0	41	7.4	195	26	
- personal lending	1,267	141	129	11.1	91	10.2	19	26	
- property	13,177	10,372	7,951	78.7	77	60.3	3,131	659	
- construction	979	351	227	35.9	65	23.2	72	—	
- other	22,620	4,057	3,498	17.9	86	15.5	1,012	465	
US									
- residential mortgages	19,901	951	173	4.8	18	0.9	161	233	
- personal lending	8,722	207	45	2.4	22	0.5	114	151	
- property	4,279	85	19	2.0	22	0.4	(11)	25	

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- construction	313	34	24	10.9	71	7.7	25	1
- other	27,887	198	589	0.7	297	2.1	65	131
<b>RoW</b>								
- residential mortgages	577	19	4	3.3	21	0.7	(3)	2
- personal lending	1,073	17	17	1.6	100	1.6	18	3
- property	584	29	29	5.0	100	5.0	(4)	8
- construction	348	8	8	2.3	100	2.3	—	—
- other	11,463	324	202	2.8	62	1.8	31	69
	417,752	39,322	25,162	9.4	64	6.0	8,427	4,306
<b>Banks</b>	27,640	70	63	0.3	90	0.2	(15)	40

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Business review [Risk and balance sheet management](#)

Balance sheet analysis: continued

REIL, provisions and AFS reserves continued

	Credit metrics							
			REIL Provisions			Provisions		
	Gross			as a %	as a %	as a %	of Impairment	Amounts
loans	REIL	Provisions	of	of REIL	gross	charge	written-off	
£m	£m	£m	gross	loans	loans	£m	£m	£m
			loans	%	%	%		
2012 (1)								
Central and local government	9,853	—	—	—	—	—	—	—
Finance	42,198	592	317	1.4	54	0.8	145	380
Personal - mortgages	149,625	6,549	1,824	4.4	28	1.2	948	461
- unsecured	32,212	2,903	2,409	9.0	83	7.5	631	793
Property	72,219	21,223	9,859	29.4	46	13.7	2,212	1,080
Construction	8,049	1,483	640	18.4	43	8.0	94	182
Manufacturing	23,787	755	357	3.2	47	1.5	134	203
Finance leases and instalment credit	13,609	442	294	3.2	67	2.2	44	263
Retail, wholesale and repairs	21,936	1,143	644	5.2	56	2.9	230	176
Transport and storage	18,341	834	336	4.5	40	1.8	289	102
Health, education and leisure	16,705	1,190	521	7.1	44	3.1	144	100
Hotels and restaurants	7,877	1,597	726	20.3	45	9.2	176	102
Utilities	6,631	118	21	1.8	18	0.3	(4)	—
Other	30,057	2,177	1,240	7.2	57	4.1	322	395
Latent	—	—	1,960	—	—	—	(73)	—
	453,099	41,006	21,148	9.1	52	4.7	5,292	4,237
of which:								
UK								
- residential mortgages	109,530	2,440	457	2.2	19	0.4	122	32
- personal lending	20,498	2,477	2,152	12.1	87	10.5	479	610
- property	53,730	10,521	3,944	19.6	37	7.3	964	490
- construction	6,507	1,165	483	17.9	41	7.4	100	158
- other	122,029	3,729	2,611	3.1	70	2.1	674	823
Europe								
- residential mortgages	17,836	3,092	1,151	17.3	37	6.5	526	50
- personal lending	1,905	226	208	11.9	92	10.9	38	13
- property	14,634	10,347	5,766	70.7	56	39.4	1,264	441
- construction	1,132	289	146	25.5	51	12.9	(11)	12
- other	27,424	4,451	2,996	16.2	67	10.9	817	539
US								
- residential mortgages	21,929	990	208	4.5	21	0.9	298	377
- personal lending	8,748	199	48	2.3	24	0.5	109	162
- property	3,343	170	29	5.1	17	0.9	(11)	83
- construction	388	8	1	2.1	13	0.3	—	12
- other	29,354	352	630	1.2	179	2.1	(86)	149
RoW								

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- residential mortgages	330	27	8	8.2	30	2.4	2	2
- personal lending	1,061	1	1	0.1	100	0.1	5	8
- property	512	185	120	36.1	65	23.4	(5)	66
- construction	22	21	10	95.5	48	45.5	5	—
- other	12,187	316	179	2.6	57	1.5	2	210
	453,099	41,006	21,148	9.1	52	4.7	5,292	4,237
Banks	31,394	134	114	0.4	85	0.4	23	29

For the note to this table refer to page 304.

Business review [Risk and balance sheet management](#)

Balance sheet analysis continued

REIL, provisions and AFS reserves continued

	Credit metrics							
	Gross		REIL Provisions			Provisions		
2011 (1)	loans	REIL	Provisions	of gross loans	as a % of REIL	as a % of gross loans	Impairment charge	
	£m	£m	£m	%	%	%	£m	£m
Central and local government	9,742	—	—	—	—	—	—	—
Finance	51,870	1,062	726	2.0	68	1.4	89	87
Personal - mortgages	149,273	5,270	1,396	3.5	26	0.9	1,076	516
- unsecured	34,424	3,070	2,456	8.9	80	7.1	782	1,286
Property	81,058	22,101	8,994	27.3	41	11.1	3,669	1,171
Construction	9,869	1,943	761	19.7	39	7.7	140	244
Manufacturing	28,639	913	525	3.2	58	1.8	227	215
Finance leases and instalment credit	14,499	794	508	5.5	64	3.5	112	170
Retail, wholesale and repairs	24,378	1,067	549	4.4	51	2.3	180	172
Transport and storage	22,058	606	154	2.7	25	0.7	78	43
Health, education and leisure	17,492	1,192	502	6.8	42	2.9	304	98
Hotels and restaurants	8,870	1,490	675	16.8	45	7.6	334	131
Utilities	8,406	88	23	1.0	26	0.3	3	3
Other	33,490	2,661	1,217	7.9	46	3.6	792	391
Latent	—	—	2,065	—	—	—	(545)	—
	494,068	42,257	20,551	8.6	49	4.2	7,241	4,527
of which:								
UK								
- residential mortgages	106,388	2,262	431	2.1	19	0.4	180	25
- personal lending	22,008	2,717	2,209	12.3	81	10.0	645	1,007
- property	60,041	11,147	3,837	18.6	34	6.4	1,411	493
- construction	7,589	1,427	560	18.8	39	7.4	187	228
- other	132,548	4,635	2,943	3.5	63	2.2	514	655
Europe								
- residential mortgages	18,946	2,205	713	11.6	32	3.8	467	10
- personal lending	2,464	209	180	8.5	86	7.3	25	126
- property	16,384	10,314	4,947	63.0	48	30.2	2,296	504
- construction	1,754	362	185	20.6	51	10.5	(62)	—
- other	34,497	4,261	2,873	12.4	67	8.3	1,267	293
US								
- residential mortgages	23,237	770	240	3.3	31	1.0	426	481
- personal lending	8,441	143	66	1.7	46	0.8	112	153
- property	3,783	329	92	8.7	28	2.4	(2)	139
- construction	457	121	10	26.5	8	2.2	9	16
- other	37,015	517	895	1.4	173	2.4	(175)	180



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RoW								
- residential mortgages	702	33	12	4.7	36	1.7	3	—
- personal lending	1,511	1	1	0.1	100	0.1	—	—
- property	850	311	118	36.6	38	13.9	(36)	35
- construction	69	33	6	47.8	18	8.7	6	—
- other	15,384	460	233	3.0	51	1.5	(32)	182
	494,068	42,257	20,551	8.6	49	4.2	7,241	4,527
Banks	44,080	137	123	0.3	90	0.3	—	—