

BEFORE THE INSURANCE COMMISSIONER
FOR THE STATE OF ARKANSAS

IN THE MATTER OF THE APPLICATION FOR
APPROVAL OF ACQUISITION OF CONTROL OF
AMERICAN UNDERWRITERS INSURANCE
COMPANY AND AMC RE, INC. BY FAIRFAX
FINANCIAL HOLDINGS LIMITED; FAIRFAX INC.;
CRUM & FORSTER HOLDINGS CORP.; AND V.
PREM WATSA

AID NO. 2011- 007

ORDER

On Thursday, January 20, 2011, at 9:30 a.m., in the Hearing Room of the Arkansas Insurance Department (the "Department"), in accordance with the provisions of Ark. Code Ann. §§ 23-61-109, 23-61-303, and 23-69-142, Section 14 of Rule and Regulation 73, and other pertinent provisions of the Arkansas Insurance Code and regulations promulgated by the Department, a Public Hearing was held pursuant to the Statement Regarding The Acquisition Of Control Of Or Merger With A Domestic Insurer ("Acquisition Statement") filed by Fairfax Financial Holdings Limited, Fairfax Inc., Crum & Forster Holdings Corp. ("Crum & Forster), and V. Prem Watsa (collectively, "Fairfax") seeking approval of the acquisition of control of American Underwriters Insurance Company ("AUIC") and AMC Re, Inc. ("AMC Re") (collectively, the "Arkansas Insurers"), as detailed in the Acquisition Statement dated November 6, 2010, and received by the Department on November 8, 2010, the exhibits thereto, and the supplemental filings in relation thereto.

The hearing was held before Lenita Blasingame ("Hearing Officer"), Chief Deputy Commissioner, pursuant to her appointment by Commissioner Jay Bradford ("Commissioner") in accordance with Ark. Code Ann. § 23-61-163. Ashley Fisher, Attorney Specialist, and Brenda Haggard, Manager of Financial Analysis, represented the Department. Representing Fairfax were Mr. Henry W. Edmiston, Vice President, Regulatory Affairs of Fairfax Financial Holdings

Limited, Marc Adee, President of Fairmont Specialty (a division of Crum & Forster) and Mr. T. Ark Monroe, III of Mitchel, Williams, Selig, Gates & Woodyard, P.L.L.C., as Fairfax's counsel.

FINDINGS OF FACT

From the testimony of witnesses and other evidence produced at the hearing (including exhibits filed in connection therewith, reports, correspondence, financial information, business plans, and the statements on file with the Department, representations of counsel and other matters and things considered) the Commissioner finds that:

1. That the Commissioner has jurisdiction over AUIC and AMC Re. and the subject matter involved herein

2. AUIC is an Arkansas domiciled property and casualty insurer as defined by Ark. Code Ann. § 23-60-102, with its principal offices in Conway, Arkansas. AMC Re is an Arkansas domiciled producer reinsurance captive insurance company as defined by Ark. Code Ann § 23-63-1601, with its principal offices located in Conway, Arkansas. The Arkansas Insurers are both wholly-owned direct subsidiaries of American Management Corporation ("AMC"). AMC is a direct subsidiary of First Mercury. First Mercury is a publicly-traded Delaware corporation headquartered in the State of Michigan. Through its various subsidiaries, First Mercury provides insurance products and services to specialty commercial insurance markets.

3. Fairfax Financial Holdings Limited is a public Canadian financial services holding company that, through various operating subsidiaries, is engaged in property and casualty insurance and reinsurance, and investment management. Fairfax Inc. is a wholly-owned indirect subsidiary of Fairfax Financial Holdings Limited and is the holding company for most of the Fairfax group's U.S. insurance operations. Crum & Forster is a wholly-owned direct subsidiary of Fairfax Inc. that, through its operating subsidiaries, engages in commercial

property and casualty insurance on a national basis. Mr. Watsa is the Chairman and Chief Executive Officer of Fairfax Financial Holdings Limited.

4. The testimony presented by Messrs. Edmiston and Adee at the hearing, and the biographical affidavits filed as part of the Acquisition Statement, indicate that the individuals associated with Fairfax have prior extensive experience in the insurance industry, including experience in the management of insurance companies; have not been subject to a felony or misdemeanor conviction, other than minor traffic offenses in the last twenty years; have not had an insurance producer license or its equivalent denied, suspended or revoked; and have the competency, experience, and integrity such that it would be in the interest of policyholders of the Arkansas Insurers and of the public to permit the acquisition of control.

5. Mr. Edmiston testified that Fairfax would acquire control of the Arkansas Insurers through an Agreement and Plan of Merger, dated October 28, 2010, between Fairfax Financial Holdings Limited, Fairfax Investments III USA Corp. and First Mercury (the "Merger Agreement"). The stages of the acquisition relevant to the Merger Agreement are described as follows:

(a) Fairfax Investments III USA Corp., a wholly-owned direct subsidiary of Fairfax Inc. that was formed to serve as the merger vehicle for the proposed transaction, will merge with and into First Mercury. First Mercury will be the surviving corporation, but will be a wholly-owned subsidiary of Fairfax Inc.

(b) Shares of stock of First Mercury that are outstanding at the time of the merger will be converted into the right to receive cash in the amount of \$16.50 per share.

(c) Immediately after the merger, Fairfax Inc. will contribute the capital stock of First Mercury to Crum & Forster. As a result of the contribution, Crum & Forster will

become the direct parent of First Mercury. The Domestic Insurers are 100% owned indirectly by First Mercury, and, as a result of each of these actions, they will become 100% indirectly owned by Crum & Forster and wholly-owned indirect subsidiaries of Fairfax Financial Holdings Limited.

(d) The acquisition will be effected pursuant to the terms specified in the Merger Agreement, whereby Fairfax will pay First Mercury consideration of approximately \$294,000,000 plus expenses. First Mercury has outstanding, as of June 30, 2010, approximately \$100 million in debentures and borrowings. At closing, the Fairfax intends to cause First Mercury to retire a portion of this outstanding debt, with the remainder to be retired as soon as practicable after closing. Fairfax will contribute funds, as necessary, to fund such payments.

(e) The source and nature of the consideration for the purchase of the Arkansas Insurers consists of cash held by Fairfax.

6. Based on the testimony of Mr. Edmiston and Mr. Adee and other information filed by Fairfax in conjunction with the Acquisition Statement:

(a) Fairfax does not plan to make substantial changes post-acquisition to the operations of the Arkansas Insurers except for those identified herein or in the Acquisition Statement.

(b) The proposed directors and officers of the Arkansas Insurers will not immediately change upon consummation of the transaction.

(c) The location of the books, records, and assets of the Arkansas Insurers will not immediately change upon the consummation of the transaction.

(d) Fairfax proposes for the Arkansas Insurers to continue to operate as they do currently as described in the Acquisition Statement.

7. Mr. Edmiston and Mr. Adee testified on behalf of Fairfax that in their opinion:
- (a) Fairfax's acquisition of the Arkansas Insurers will not violate any law;
 - (b) Fairfax's acquisition of the Arkansas Insurers is not inequitable to the Arkansas Insurers' shareholders; and
 - (c) Fairfax's acquisition of the Arkansas Insurers will not substantially reduce the security of and service rendered to the Arkansas Insurers' policyholders.

CONCLUSIONS OF LAW

Based upon the foregoing findings of fact and other matters of facts and things before her, the Hearing Officer concludes as follows:

- 1. The Commissioner has jurisdiction over the parties and subject matter herein.
- 2. The Acquisition of Control Approval Request as supplemented, is in compliance with and satisfies the requirements of Ark. Code Ann. §§ 23-69-142.
- 3. None of the preclusions of Ark. Code Ann. § 23-69-142 exist as to the acquisition of control of the Arkansas Insurers by Fairfax. Therefore, the acquisition should be approved.


LENITA BLASINGAME
HEARING OFFICER

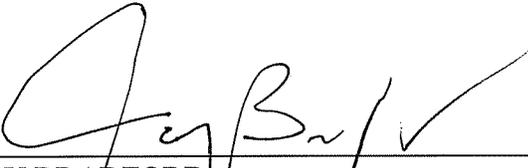
ORDER

WHEREFORE, based upon the above and foregoing Finding of Facts, Conclusions of Law and other matters before the Hearing Officer, the Commissioner does hereby
ORDER:

Pursuant to Ark. Code Ann. § 23-69-142 and Section 14 of Rule and Regulation 73, the acquisition of control of the Arkansas Insurers by Fairfax as described in the Acquisition

Statement, testimony of witnesses, and other evidence adduced at the hearing (including exhibits filed in connection therewith), reports, correspondence, financial information, business plan and statements on file with the Department, representations and other matters and things considered, should be, and is hereby approved and the parties are authorized to consummate the Merger Agreement in accordance with its terms.

DATED this 28th day of January, 2011.



JAY BRADFORD
INSURANCE COMMISSIONER