



## News Release

TORONTO, February 19, 2009

### FINANCIAL RESULTS FOR FOURTH QUARTER AND FISCAL YEAR 2008

*(Note: All dollar amounts in this news release are expressed in Canadian dollars)*

Northbridge Financial Corporation today announced net earnings for the year ended December 31, 2008 of \$46.7 million (\$0.96 per share), compared to net earnings of \$295.0 million (\$5.84 per share) for the year ended December 31, 2007. Underwriting loss for 2008 was \$83.3 million compared to an underwriting profit of \$84.3 million for 2007, producing a combined ratio<sup>(2)</sup> of 107.3% for 2008 compared to 92.3% for 2007. The impact of foreign exchange translation of net claims liabilities denominated in U.S. dollars increased the combined ratio by 4.9 percentage points for 2008, compared to a reduction of 4.3 percentage points for 2007. Total investment income was \$185.0 million for the year ended December 31, 2008 compared to \$331.9 million for the previous year and included net gains on investments of \$70.5 million compared to \$203.2 million for 2007.

Net loss for the fourth quarter of 2008 was \$51.0 million (\$1.07 per share), compared to net earnings of \$79.5 million (\$1.60 per share) for the fourth quarter of 2007. Underwriting results for the fourth quarter of 2008 reflected a loss of \$49.9 million compared to a loss of \$2.0 million for the fourth quarter of 2007. Northbridge's combined ratio for the fourth quarter of 2008 was 117.2% compared to 100.7% for the fourth quarter of 2007. The impact of foreign exchange translation of net claims liabilities denominated in U.S. dollars increased the combined ratio by 12.6 percentage points for the fourth quarter of 2008, compared to a reduction of 1.4 percentage points for the fourth quarter of 2007. Total investment loss was \$3.4 million for the fourth quarter of 2008 compared to investment income of \$132.3 million for the fourth quarter of 2007 and included net losses on investments of \$31.0 million, compared to net gains on investments of \$98.5 million for the fourth quarter of 2007.

The following table presents a summary of consolidated financial results for the fourth quarter and twelve months ended December 31, 2008 and 2007:

For the Periods Ended December 31 (in \$ millions except per share amounts and percentages)	Fourth Quarter		Twelve Months	
	2008	2007	2008	2007
Total revenue <sup>(1)</sup>	<b>285.9</b>	404.1	<b>1,326.6</b>	1,430.1
Underwriting profit (loss)	<b>(49.9)</b>	(2.0)	<b>(83.3)</b>	84.3
Combined ratio <sup>(2)</sup>	<b>117.2%</b>	100.7%	<b>107.3%</b>	92.3%
Net earnings (loss)	<b>(51.0)</b>	79.5	<b>46.7</b>	295.0
Net earnings (loss) per share	<b>(\$1.07)</b>	\$1.60	<b>\$0.96</b>	\$5.84
Net earnings (loss) per diluted share	<b>(\$1.07)</b>	\$1.59	<b>\$0.95</b>	\$5.82

<sup>(1)</sup>Total revenue consists of net premiums earned, interest and dividend income and net gains (losses) on investments.

<sup>(2)</sup> The combined ratio is the sum of two components: the loss ratio, which represents claims and loss adjustment expenses incurred, net of reinsurance, expressed as a percentage of net premiums earned, and the expense ratio, which represents expenses including commissions, premium taxes and all general and administrative expenses incurred in operating the business during a period, expressed as a percentage of net premiums earned during that period. A combined ratio below 100% indicates profitable underwriting, while a combined ratio over 100% indicates unprofitable underwriting. The combined ratio does not include consideration of investment income. The loss, expense and combined ratios are all non-GAAP measures and do not have standard meanings prescribed by GAAP. They may not be comparable to similar measures used by other companies.

## **Year End Highlights**

- Net earnings of \$46.7 million (\$0.96 per share) compared to \$295.0 million (\$5.84 per share) in 2007.
- Return on average equity of 3.3% compared to 22.2% for 2007 (return on average equity was 3.5% for 2008 and 23.1% for 2007 after excluding from shareholders' equity after tax unrealized gains or losses on available for sale securities).
- Underwriting loss of \$83.3 million compared to an underwriting profit of \$84.3 million for 2007.
- Combined ratio of 107.3% compared to 92.3% for 2007. The impact of foreign exchange translation of net claims liabilities denominated in U.S. dollars increased the combined ratio by 4.9 percentage points for 2008, compared to a reduction of 4.3 percentage points for 2007.
- 8.4% increase in net premiums written and 4.0% increase in net premiums earned compared to 2007.
- Interest and dividends of \$114.5 million compared to \$128.7 million for 2007, and net pre-tax gains on investments of \$70.5 million compared to \$203.2 million for 2007.
- Cash flow generated from operations of \$152.7 million compared to \$202.6 million for 2007.
- Cash and short-term investments at year end of \$507.1 million compared to \$632.5 million at the end of 2007.
- Investments at carrying value decreased by \$24.9 million to \$3,243.3 million at December 31, 2008 from \$3,268.2 million at December 31, 2007 (net of short position in Standard & Poor's Depository Receipts ("SPDRs")), with pre-tax net unrealized gains on available for sale investments of \$67.8 million at the end of 2008 compared to \$50.7 million at the end of 2007.
- Reserve strength, with favourable reserve development of 4.7% on a cumulative (i.e. weighted average) basis since 1995.
- Continued capital strength, with a weighted average Minimum Capital Test ratio of 224% and consolidated net premiums written to equity ratio of 0.8.
- Shareholders' equity decreased by 2.6% to \$1,383.6 million and outstanding shares decreased by 4.7% to 47,359,568, resulting in book value per share of \$29.21 at December 31, 2008 compared to \$1,420.4 million or \$28.59 per share at the end of 2007.

## **Fourth Quarter Highlights**

- Net loss of \$51.0 million (\$1.07 per share) compared to net earnings of \$79.5 million (\$1.60 per share) for the fourth quarter of 2007.
- Underwriting loss of \$49.9 million compared to an underwriting loss of \$2.0 million for the fourth quarter of 2007.
- Combined ratio of 117.2% compared to 100.7% for the fourth quarter of 2007. The impact of foreign exchange translation of net claims liabilities denominated in U.S. dollars increased the combined ratio by 12.6 percentage points for the fourth quarter of 2008, compared to a reduction of 1.4 percentage points for the fourth quarter of 2007.
- 6.1% increase in net premiums written and a 6.4% increase in net premiums earned compared to the fourth quarter of 2007.
- Interest and dividends of \$27.6 million compared to \$33.8 million for the fourth quarter of 2007, and net pre-tax losses on investments of \$31.0 million compared to a net pre-tax gain of \$98.5 million for the fourth quarter of 2007.

As used in this press release, references to “Northbridge” or the “Company” refer to Northbridge Financial Corporation, references to “Lombard” refer to Lombard Canada Ltd., references to “Markel” refer to Markel Insurance Company of Canada, references to “Commonwealth” refer to Commonwealth Insurance Company, and references to “Federated” refer to Federated Insurance Company of Canada and, in each case, unless the context otherwise requires or as otherwise expressly stated, their respective subsidiaries.

The following discussion should be read in conjunction with Northbridge’s unaudited consolidated financial statements as at and for the periods ended December 31, 2008, prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and included at the end of this release. All dollar amounts are in Canadian dollars unless otherwise indicated. Certain totals, subtotals and percentages may not reconcile due to rounding. Certain comparative figures have been reclassified to be consistent with the current year’s presentation.

## FOURTH QUARTER RESULTS

### Revenues

Revenue reflected in our consolidated financial statements includes net premiums earned, interest and dividends and net gains (losses) on investments.

<b>Sources of Revenue (in \$ millions)</b>		
For the Quarters Ended December 31	<b>2008</b>	2007
Gross premiums written	<b>380.8</b>	403.0
Net premiums written	<b>285.8</b>	269.3
Net premiums earned	<b>289.3</b>	271.8
Interest and dividends	<b>27.6</b>	33.8
Net gains (losses) on investments	<b>(31.0)</b>	98.5
Total revenue	<b>285.9</b>	404.1

Total revenue earned during the fourth quarter of 2008 decreased by \$118.2 million, or 29.3%, from the fourth quarter of 2007, primarily due to a \$129.5 million decline in net gains on investments and a \$6.2 million decline in interest and dividends, though partially offset by a \$17.5 million increase in net premiums earned. The year-over-year decline in fourth quarter net gains on investments was primarily due to impairment writedowns in the fourth quarter of 2008, a reduced contribution from the Company’s credit default swaps and a year-over-year decline in the performance of its bond portfolio, though partially offset by an improvement in the performance of the Company’s equity index swaps. See the “Fourth Quarter Results – Investment Income” section for further discussion. Interest and dividends declined primarily due to lower yields on cash balances. The increase in net premiums earned was primarily due to reduced reinsurance premium cessions at the insurance subsidiaries as a result of a reinsurance restructuring which took effect at the beginning of 2008, however this increase was partially offset by reductions in business due to competitive pressures experienced across most lines of business.

During the fourth quarter of 2008, gross premiums written were \$380.8 million, a decline of \$22.2 million or 5.5% compared to the fourth quarter of 2007. Contributing to this decline was a reduction in business due to competitive pressures across most lines of business. Gross premiums written during the fourth quarter of 2008 declined relative to the fourth quarter of 2007 at Markel (by \$9.9 million), Commonwealth (by \$5.8 million), Lombard (by \$5.6 million), and Federated (by \$0.9 million). Net premiums written during the fourth quarter of 2008 increased \$16.5 million, or 6.1%, compared to the fourth quarter of 2007 largely due to the 2008 reinsurance restructuring though partially offset by reductions in business due to the competitive pressures noted above. Net premiums written during the fourth quarter of 2008 increased relative to the fourth quarter of 2007 at

Commonwealth (by \$14.7 million), Federated (by \$2.9 million), and Lombard (by \$0.9 million), and decreased at Markel (by \$2.0 million).

## Net Earnings

For the fourth quarter of 2008, the Company's net loss was \$51.0 million, or \$1.07 per common share, compared to net earnings of \$79.5 million, or \$1.60 per common share for the fourth quarter of 2007. This change in net earnings was primarily attributable to a \$129.5 million decline in net gains on investments, a \$47.9 million decline in underwriting results and a \$6.2 million decline in interest and dividends, partially offset by a \$53.3 million decline in the provision for income taxes. The Company's combined ratio was 117.2% and its underwriting loss was \$49.9 million for the fourth quarter of 2008, compared to a combined ratio of 100.7% and an underwriting loss of \$2.0 million for the fourth quarter of 2007. See the comments in the paragraph below and the "Fourth Quarter Results – Underwriting Results" section for further discussion. The year-over-year decline in fourth quarter net gains on investments was primarily due to impairment writedowns in the fourth quarter of 2008, a reduced contribution from the Company's credit default swaps and a year-over-year decline in the performance of its bond portfolio, though partially offset by an improvement in the performance of the Company's equity index swaps. See the "Fourth Quarter Results – Investment Income" section for further discussion. Interest and dividends declined primarily due to lower yields on cash balances. The decline in the provision for income taxes was primarily due to lower earnings before income taxes, though partially offset by a higher effective tax rate for 2008, largely due to the tax treatment of the impairment writedowns.

The Company's underwriting results and combined ratio for the fourth quarter of 2008 were negatively affected by the foreign exchange translation of net claims liabilities denominated in U.S. dollars, increasing its claims expense and combined ratio by \$36.4 million and 12.6 percentage points, respectively, compared to a reduction of its claims expense and combined ratio of \$3.7 million and 1.4 percentage points respectively for the fourth quarter of 2007. The Company mitigates the ultimate impact of translating its U.S. dollar-denominated net claims liabilities by holding U.S. dollar-denominated investments, the effect of which is partially reflected in net income and fully reflected in comprehensive income.

Combined ratios and sources of net earnings for the fourth quarters of 2008 and 2007 are set out in the following table. More extensive commentary on combined ratios and operating income on a company-by-company basis is provided under the heading "Fourth Quarter Results – Underwriting Results" and in the company-specific discussions which follow.

### Combined Ratio and Sources of Net Earnings (in \$ millions, except percentages)

For the Quarters Ended December 31	2008	2007
Combined ratio	<b>117.2%</b>	100.7%
Underwriting loss	<b>(49.9)</b>	(2.0)
Interest and dividends	<b>27.6</b>	33.8
Operating income (loss)	<b>(22.3)</b>	31.8
Net gains (losses) on investments	<b>(31.0)</b>	98.5
Other expenses	<b>(3.6)</b>	(3.4)
Earnings (loss) before income taxes	<b>(56.9)</b>	126.9
Provision for (recovery of) income taxes	<b>(5.9)</b>	47.4
Net earnings	<b>(51.0)</b>	79.5

## Underwriting Results

For the fourth quarter of 2008, the Company's underwriting loss was \$49.9 million and its combined ratio was 117.2%, compared to an underwriting loss of \$2.0 million and a combined ratio of 100.7% for the fourth quarter of 2007. Lombard, Markel, and Federated all reported a decline in underwriting results and a deterioration in combined ratio for the fourth quarter of 2008 compared to the fourth quarter of 2007, while Commonwealth reported an improvement in both underwriting results and combined ratio.

The following table sets out the year-over-year change in net premiums written, underwriting profit (loss) and combined ratios for each of the insurance subsidiaries for the fourth quarters of 2008 and 2007.

### **Change in Net Premiums Written, Underwriting Profit (Loss) and Combined Ratios (in \$ millions, except percentages)**

For the Quarters Ended December 31	Net Premiums Written			Underwriting Profit (Loss)		Combined Ratio	
	2008	2007	% Change	2008	2007	2008	2007
Lombard	<b>176.4</b>	175.5	0.5%	<b>(25.7)</b>	10.0	<b>114.2%</b>	94.2%
Markel	<b>44.6</b>	46.6	(4.2%)	<b>(18.2)</b>	(2.1)	<b>140.2%</b>	104.6%
Commonwealth	<b>37.5</b>	22.8	64.4%	<b>(6.6)</b>	(11.4)	<b>119.5%</b>	146.5%
Federated	<b>27.3</b>	24.4	11.8%	<b>0.6</b>	1.5	<b>98.4%</b>	94.1%
Northbridge	<b>285.8</b>	269.3	6.1%	<b>(49.9)</b>	(2.0)	<b>117.2%</b>	100.7%

Underwriting results declined \$47.9 million for the fourth quarter of 2008 compared to the fourth quarter of 2007. The fourth quarter of 2008 included a \$36.4 million increase in claims expense due to foreign exchange translation of net claims liabilities denominated in U.S. dollars. Also contributing to the decline in underwriting results was increased claims frequency and loss severity, across most business lines at Lombard, Markel and Federated. Partially offsetting the impact of these factors was a reduction in general expenses for the fourth quarter of 2008, primarily at Commonwealth. In addition, excluding the impact of foreign exchange translation of U.S. dollar-denominated net claims liabilities on prior years' reserves, the fourth quarter of 2008 included \$27.6 million of favourable development on prior years' reserves in total across all of the insurance subsidiaries, compared to \$13.4 million of favourable development on prior years' reserves for the fourth quarter of 2007.

The following tables present the underwriting results and combined ratios achieved by each of the insurance subsidiaries, as well as the consolidated net earnings of the Company, including investment-related and other non-underwriting elements, for the fourth quarters of 2008 and 2007.

**Underwriting Results, Combined Ratios and Consolidated Net Earnings (in \$ millions, except percentages)**

For the Quarter Ended December 31, 2008	Lombard	Markel	Commonwealth	Federated	Total
<b>Combined ratio:</b>					
Loss ratio	88.9%	115.7%	128.4%	68.0%	<b>95.5%</b>
Expense ratio	25.3%	24.5%	(8.9%)	30.4%	<b>21.7%</b>
	114.2%	140.2%	119.5%	98.4%	<b>117.2%</b>
Gross premiums written	243.7	47.7	59.0	30.4	<b>380.8</b>
Net premiums written	176.4	44.6	37.5	27.3	<b>285.8</b>
Net premiums earned	180.9	45.0	33.9	29.5	<b>289.3</b>
Claims	160.9	52.1	43.5	20.0	<b>276.5</b>
Operating expenses	16.4	6.8	(2.9)	6.1	<b>26.4</b>
Commissions, net	21.2	3.0	(1.6)	1.7	<b>24.3</b>
Premium taxes	8.1	1.3	1.5	1.1	<b>12.0</b>
	206.6	63.2	40.5	28.9	<b>339.2</b>
Underwriting profit (loss)	(25.7)	(18.2)	(6.6)	0.6	<b>(49.9)</b>
Interest and dividends					<b>27.6</b>
Net losses on investments					<b>(31.0)</b>
Other expenses					<b>(3.6)</b>
Loss before income taxes					<b>(56.9)</b>
Recovery of income taxes					<b>(5.9)</b>
Net loss					<b>(51.0)</b>
Total identifiable assets	2,904.5	716.6	1,161.9	416.7	<b>5,199.7</b>
Other					<b>204.0</b>
Total assets					<b>5,403.7</b>

**Underwriting Results, Combined Ratios and Consolidated Net Earnings (in \$ millions, except percentages)**

For the Quarter Ended December 31, 2007	Lombard	Markel	Commonwealth	Federated	Total
<b>Combined ratio:</b>					
Loss ratio	65.2%	79.9%	124.0%	59.5%	<b>72.5%</b>
Expense ratio	29.0%	24.7%	22.5%	34.6%	<b>28.2%</b>
	94.2%	104.6%	146.5%	94.1%	<b>100.7%</b>
Gross premiums written	249.3	57.6	64.8	31.3	<b>403.0</b>
Net premiums written	175.5	46.6	22.8	24.4	<b>269.3</b>
Net premiums earned	174.3	46.7	24.6	26.2	<b>271.8</b>
Claims	113.7	37.3	30.5	15.6	<b>197.1</b>
Operating expenses	20.0	7.3	10.0	7.1	<b>44.4</b>
Commissions, net	22.6	2.7	(5.7)	0.9	<b>20.5</b>
Premium taxes	8.0	1.5	1.2	1.1	<b>11.8</b>
	164.3	48.8	36.0	24.7	<b>273.8</b>
Underwriting profit (loss)	10.0	(2.1)	(11.4)	1.5	<b>(2.0)</b>
Interest and dividends					<b>33.8</b>
Net gains on investments					<b>98.5</b>
Other expenses					<b>(3.4)</b>
Earnings before income taxes					<b>126.9</b>
Provision for income taxes					<b>47.4</b>
Net earnings					<b>79.5</b>
Total identifiable assets	2,960.4	819.7	1,208.8	454.6	<b>5,443.5</b>
Other					<b>41.6</b>
Total assets					<b>5,485.1</b>

### *Lombard Insurance*

For the fourth quarter of 2008, Lombard reported an underwriting loss of \$25.7 million and a combined ratio of 114.2%, compared to an underwriting profit of \$10.0 million and a combined ratio of 94.2% for the fourth quarter of 2007. The change in underwriting results was largely due to an increase in claims frequency and loss severity across most lines of business, partially offset by lower general operating expenses. Gross premiums written were \$243.7 million for the fourth quarter of 2008, a decline of \$5.6 million compared to \$249.3 million for the same period in 2007 primarily due to a reduction in business resulting from competitive pressures. Net premiums written remained relatively flat at \$176.4 million for the fourth quarter of 2008 compared to \$175.5 million for the fourth quarter of 2007, while net premiums earned increased by 3.8% to \$180.9 million, compared to \$174.3 million for 2007 primarily due to the reduced cession of reinsurance premiums resulting from the 2008 reinsurance restructuring.

### *Markel Insurance*

Markel recorded an underwriting loss of \$18.2 million and a combined ratio of 140.2% for the fourth quarter of 2008, compared to an underwriting loss of \$2.1 million and a combined ratio of 104.6% for 2007. Markel's underwriting results were impacted by the foreign exchange translation of net claims liabilities denominated in U.S. dollars, increasing claims expense and combined ratio by \$12.9 million and 28.7 percentage points, respectively, for the fourth quarter of 2008. Also contributing to the decline in underwriting results was an increase in the frequency of large losses. Partially offsetting the impact of these factors was greater favourable reserve development for the fourth quarter of 2008 compared to the fourth quarter of 2007. Gross premiums written declined 17.2%, to \$47.7 million for the fourth quarter of 2008, compared to \$57.6 million for the same period in 2007 primarily due to a reduction in business resulting from competitive pressures. Net premiums written declined 4.2% to \$44.6 million for the fourth quarter of 2008, compared to \$46.6 million for the same period in 2007 and net premiums earned for the fourth quarter of 2008 declined 3.5% to \$45.0 million, compared to \$46.7 million for the fourth quarter of 2007. For the fourth quarter of 2008, net premiums written and net premiums earned were negatively affected by the business reductions noted above, though this was largely offset by the reduced cession of reinsurance premiums resulting from the 2008 reinsurance restructuring.

### *Commonwealth Insurance*

For the fourth quarter of 2008, Commonwealth recorded an underwriting loss of \$6.6 million and a combined ratio of 119.5%, compared to an underwriting loss of \$11.4 million and a combined ratio of 146.5% for the fourth quarter of 2007. Commonwealth's year-over-year underwriting results were negatively impacted by the foreign exchange translation of net claims liabilities denominated in U.S. dollars, increasing claims expense and combined ratio by \$23.5 million and 69.2 percentage points, respectively, for the fourth quarter of 2008. Offsetting the foreign exchange impact were lower general operating expenses for the fourth quarter of 2008, primarily related to the impact of foreign exchange translation, increased favourable reserve development for the fourth quarter of 2008 and \$3.5 million of large losses for the fourth quarter of 2007 within the exited portions of Commonwealth's Energy & International ("E&I") business, which did not recur in 2008. Gross premiums written were \$59.0 million for the fourth quarter of 2008, a decline of 9.0% compared to the fourth quarter of 2007, primarily due to a reduction in business resulting from competitive pressures across most lines of business. Net premiums written increased 64.4% to \$37.5 million for the fourth quarter of 2008 compared to \$22.8 million for the fourth quarter of 2007 and net premiums earned increased 37.7% to \$33.9 million for 2008, from \$24.6 million for the fourth quarter of 2007 primarily due to the reduced cession of reinsurance premiums

resulting from the 2008 reinsurance restructuring, though partially offset by the business reductions noted above. Net premiums for the fourth quarter of 2007 also included additional reinsurance cessions for additional protection relating to the exited portions of Commonwealth's E&I business.

### *Federated Insurance*

Federated recorded an underwriting profit of \$0.6 million and a combined ratio of 98.4% for the fourth quarter of 2008, compared to an underwriting profit of \$1.5 million and a combined ratio of 94.1% for the fourth quarter of 2007. The change in underwriting profit is primarily due to increased frequency of large losses in its commercial property lines, partially offset by increased favourable development of prior year reserves. Gross premiums written for the fourth quarter of 2008 were \$30.4 million, which was down slightly compared to \$31.3 million for the fourth quarter of 2007. Net premiums written increased 11.8% to \$27.3 million for the fourth quarter of 2008, compared to \$24.4 million for the fourth quarter of 2007, while net premiums earned increased 12.4% to \$29.5 million for the fourth quarter of 2008 from \$26.2 million for the same period in 2007. Net premiums written and net premiums earned increased year-over-year primarily due to the reduced cession of reinsurance premiums resulting from the 2008 reinsurance restructuring.

### **Segmented Information**

Canadian business accounted for 91.1% of gross premiums written for the fourth quarter of 2008, relatively flat compared to 91.5% for the fourth quarter of 2007, while US & Other premiums accounted for 8.9% of gross premiums written during the fourth quarter of 2008, compared to 8.5% for the fourth quarter of 2007.

#### **Geographic Mix of Business (in \$ millions)**

For the Quarters Ended December 31	2008			2007		
	Canada	US & Other	Total	Canada	US & Other	Total
Gross premiums written	346.7	34.1	380.8	368.6	34.4	403.0
Net premiums written	265.8	20.0	285.8	257.9	11.4	269.3
Net premiums earned	270.4	18.9	289.3	259.7	12.1	271.8
Claims	262.0	14.5	276.5	182.2	14.9	197.1
Operating expenses	27.4	(1.0)	26.4	40.3	4.1	44.4
Commissions, net	24.1	0.2	24.3	24.7	(4.2)	20.5
Premium taxes	11.9	0.1	12.0	11.7	0.1	11.8
	<b>325.4</b>	<b>13.8</b>	<b>339.2</b>	258.9	14.9	273.8
Underwriting profit (loss)	(55.0)	5.1	(49.9)	0.8	(2.8)	(2.0)
Investment income	(11.6)	8.2	(3.4)	129.9	2.4	132.3
Other expenses	(3.6)	—	(3.6)	(3.4)	—	(3.4)
Earnings (loss) before income taxes	<b>(70.2)</b>	<b>13.3</b>	<b>(56.9)</b>	127.3	(0.4)	126.9
Total assets	<b>4,980.1</b>	<b>423.6</b>	<b>5,403.7</b>	5,035.5	449.6	5,485.1

For the fourth quarter of 2008, commercial lines accounted for 87.1% of gross premiums written, down from 88.4% for the fourth quarter of 2007. Personal lines increased to 12.9% of gross premiums written for the fourth quarter of 2008 from 11.6% for the same period one year earlier.

**Gross Premiums Written by Product Line Segments (in \$ millions)**

For the Quarters Ended December 31	2008	2007
<b>Commercial:</b>		
Property	121.8	128.0
Automobile	121.3	128.9
General liability	77.2	86.6
Other	11.5	12.8
<b>Personal:</b>		
Property	16.2	14.8
Automobile	32.8	31.9
Total	380.8	403.0

**Investment Income**

Investment income consists of interest and dividends (net of investment expenses) and net gains (losses) on investments. Net gains (losses) on investments consist of net realized gains (losses) on the sale of investments, net unrealized gains (losses) on investments held for trading, and other than temporary declines in the value of investments available for sale. The impact of changes in foreign exchange on the Company's foreign-dollar denominated available for sale investments are included in other comprehensive income, while foreign exchange translation of the Company's foreign cash balances and foreign-dollar denominated held for trading investments are included in net gains (losses) on investments.

For the fourth quarter of 2008, the Company reported a \$3.4 million investment loss, compared to \$132.3 million in investment income during the fourth quarter of 2007. Interest and dividends (net of investment expenses) for the fourth quarter of 2008 declined to \$27.6 million compared to \$33.8 million for the fourth quarter of 2007. The decline in interest and dividends is primarily due to lower yields on cash balances. The annualized pre-tax yield (before expenses) on the average carrying value of the investment portfolio was 3.5% for the fourth quarter of 2008, compared to 4.5% for the fourth quarter of 2007. Net losses on investments were \$31.0 million for the fourth quarter of 2008, compared to net gains on investments of \$98.5 million for the fourth quarter of 2007. The fourth quarter of 2008 included impairment writedowns of \$150.5 million on common stocks, compared to impairment writedowns of \$10.2 million for the fourth quarter of 2007. Also contributing to the decline in net gains on investments were an \$83.6 million year-over-year reduced contribution from credit default swaps, a \$59.4 million decline in gains in the bond portfolio, and a \$7.1 million decline in gains in the common stock portfolio. Partially offsetting the impact of these factors were a \$148.1 million improvement in the performance of the equity index swaps and a \$21.2 million improvement in the foreign exchange translation of the foreign cash balances. The fourth quarter of 2007 also included \$11.5 million of gains related to the short position in SPDRs.

**Investment Income (in \$ millions)**

For the Quarters Ended December 31	2008	2007
<b>Interest and dividends:</b>		
Cash and short term investments	2.7	12.3
Bonds	17.7	19.5
Preferred stocks	0.1	0.2
Common stocks	9.6	5.6
Other <sup>(1)</sup>	0.3	(1.3)
	<b>30.4</b>	<b>36.3</b>
Expenses	(2.8)	(2.5)
	<b>27.6</b>	<b>33.8</b>
<b>Gains (losses) on investments:</b>		
Cash and short term investments	26.4	5.6
Bonds	(44.5)	14.9
Preferred stocks	—	—
Common stocks	(3.9)	3.2
Other <sup>(1)</sup>	141.5	85.0
Provision for losses and writedowns	(150.5)	(10.2)
	<b>(31.0)</b>	<b>98.5</b>
Net investment income (loss)	<b>(3.4)</b>	<b>132.3</b>

<sup>(1)</sup> Includes credit default swaps, equity index swaps, foreign currency forwards, call options and equity-accounted investments.

**Comparative Quarterly Information****Financial Summary (in \$ millions, except percentages and per share amounts)**

For the Quarters Ended	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
Gross premiums written	380.8	365.1	460.5	334.0	403.0	379.5	494.9	376.1
Net premiums written	285.8	274.3	349.8	256.5	269.3	250.1	318.8	238.2
Net premiums earned	289.3	291.2	280.6	280.4	271.8	280.8	267.3	278.3
Underwriting profit (loss)	(49.9)	(37.8)	1.2	3.2	(2.0)	32.7	35.5	18.1
Interest and dividends <sup>(1)</sup>	27.6	26.5	30.4	30.0	33.8	31.2	31.2	32.5
Net gains (losses) on investments <sup>(1)</sup>	(31.0)	125.2	(153.5)	129.9	98.5	16.4	69.8	18.5
Other expenses	(3.6)	(3.9)	(3.5)	(4.4)	(3.4)	(3.2)	(3.5)	(3.3)
Earnings (loss) before income taxes	(56.9)	110.0	(125.4)	158.7	126.9	77.1	133.0	65.8
Provision for (recovery of) income taxes	(5.9)	35.4	(43.0)	53.2	47.4	23.2	16.3	20.8
Net earnings (loss)	(51.0)	74.6	(82.4)	105.5	79.5	53.9	116.7	45.0
Combined ratio:								
Loss ratio	95.5%	82.7%	70.9%	70.6%	72.5%	60.9%	58.0%	65.0%
Expense ratio	21.7%	30.3%	28.7%	28.3%	28.2%	27.5%	28.7%	28.5%
	117.2%	113.0%	99.6%	98.9%	100.7%	88.4%	86.7%	93.5%
Net earnings (loss) per share	(\$1.07)	\$1.52	(\$1.67)	\$2.13	\$1.60	\$1.06	\$2.29	\$0.89
Net earnings (loss) per diluted share	(\$1.07)	\$1.52	(\$1.67)	\$2.12	\$1.59	\$1.06	\$2.29	\$0.88
Book value per share	\$29.21	\$29.69	\$28.89	\$30.33	\$28.59	\$26.92	\$26.70	\$25.36

<sup>(1)</sup> Certain comparative figures have been reclassified to be consistent with the current period's presentation.

## YEAR END RESULTS

### Revenue

Revenue reflected in our consolidated financial statements includes net premiums earned, interest and dividends and net gains on investments.

<b>Sources of Revenue (in \$ millions)</b>		
For the Years Ended December 31	2008	2007
Gross premiums written	<b>1,540.4</b>	1,653.5
Net premiums written	<b>1,166.4</b>	1,076.4
Net premiums earned	<b>1,141.6</b>	1,098.2
Interest and dividends	<b>114.5</b>	128.7
Net gains on investments	<b>70.5</b>	203.2
Total revenue	<b>1,326.6</b>	1,430.1

Total revenue earned during 2008 declined by \$103.5 million, or 7.2%, compared to 2007. The year-over-year decline in revenue was primarily due to a \$132.7 million decline in net gains on investments and a \$14.2 million decline in interest and dividends, partially offset by a \$43.4 million increase in net premiums earned. Net gains on investments declined primarily due to a larger amount of impairment writedowns for 2008, a gain on the sale of the Company's investment in Hub International Limited ("Hub") during 2007, and a decline in gains in the bond portfolio for 2008. Partially offsetting the impact of these factors was an improvement in the performance of the equity index swaps. See the "Year End Results – Investment Income" section for further discussion. The decline in interest and dividends is primarily due to lower yields on cash balances, partially offset by the increased average size of the investment portfolio. Net premiums earned increased primarily due to the increased retention of premiums written at the insurance subsidiaries as a result of the 2008 reinsurance restructuring, though largely offset by reductions in business resulting from competitive pressures across most lines of business.

For 2008, gross premiums written were \$1,540.4 million, a decline of \$113.1 million, or 6.8%, compared to 2007, largely as a result of a reduction of business due to competitive pressures across most lines of business. Gross premiums written for 2008 declined relative to 2007 at Commonwealth (by \$52.4 million), Markel (by \$40.0 million), Lombard (by \$19.4 million) and Federated (by \$1.3 million). Net premiums written for 2008 were \$1,166.4 million, an increase of \$90.0 million, or 8.4%, from 2007, primarily due to the 2008 reinsurance restructuring though partially offset by the business reductions noted above. Net premiums written for 2008 increased relative to 2007 at Commonwealth (by \$62.1 million), Lombard (by \$23.4 million) and Federated (by \$13.1 million), and declined at Markel (by \$8.6 million).

### Net Earnings

For 2008, net earnings were \$46.7 million, or \$0.96 per share, compared to net earnings of \$295.0 million, or \$5.84 per share for 2007. The decline in net earnings was primarily attributable to a \$132.7 million decline in net gains on investments, a \$167.6 million decline in underwriting results, and a \$14.2 million decline in interest and dividends, partially offset by a \$68.2 million decline in the provision for income taxes. The Company's combined ratio was 107.3% and its underwriting loss was \$83.3 million for 2008, compared to a combined ratio of 92.3% and an underwriting profit of \$84.3 million for 2007. See the paragraph below and the "Year End Results – Underwriting Results" section for further discussion. Net gains on investments declined primarily due to a larger amount of impairment writedowns for 2008, a gain on the sale of the Company's investment in Hub during 2007 and a decline in gains in the bond portfolio

for 2008. Partially offsetting the impact of these factors was an improvement in the performance of the equity index swaps. See the “Year End Results – Investment Income” section for further discussion. Interest and dividends declined primarily due to lower yields on cash balances, partially offset by the increased average size of the investment portfolio. The provision for income taxes declined largely due to a \$316.5 million decline in earnings before income taxes, though partially offset by a higher effective tax rate for 2008, primarily resulting from the lower tax rate applied to the gain on the sale of Hub in 2007 and the treatment of the impairment writedowns in 2008.

The Company’s underwriting results and combined ratio for 2008 were negatively affected by the foreign exchange translation of net claims liabilities denominated in U.S. dollars, increasing its claims expense and combined ratio by \$56.0 million and 4.9 percentage points, respectively, compared to a reduction of its claims expense and combined ratio of \$46.8 million and 4.3 percentage points respectively for 2007. The Company mitigates the ultimate impact of translating its U.S. dollar-denominated net claims liabilities by holding U.S. dollar-denominated investments, the effect of which is partially reflected within net income and fully reflected within comprehensive income.

Combined ratios and sources of net earnings for 2008 and 2007 are set out in the following table. Additional commentary on combined ratios and operating income are on a company-by-company basis is provided in the “Year End Results – Underwriting Results” section and in the company-specific discussions which follow.

**Combined Ratios and Sources of Net Earnings (in \$ millions except percentages)**

For the Years Ended December 31	2008	2007
Combined ratio	<b>107.3%</b>	92.3%
Underwriting profit (loss)	<b>(83.3)</b>	84.3
Interest and dividends	<b>114.5</b>	128.7
Operating income	<b>31.2</b>	213.0
Net gains on investments	<b>70.5</b>	203.2
Other expenses	<b>(15.4)</b>	(13.4)
Earnings before income taxes	<b>86.3</b>	402.8
Provision for income taxes	<b>39.6</b>	107.8
Net earnings	<b>46.7</b>	295.0

**Underwriting Results**

For 2008, the Company had an underwriting loss of \$83.3 million and a combined ratio of 107.3% compared to an underwriting profit of \$84.3 million and a combined ratio of 92.3% for 2007. All of the insurance subsidiaries reported a year-over-year decline in underwriting results and combined ratio.

The following table sets out the year-over-year change in net premiums written, underwriting profit (loss) and combined ratios for each of the insurance subsidiaries for 2008 and 2007.

**Change in Net Premiums Written, Underwriting Profit (Loss) and Combined Ratios (in \$ millions, except percentages)**

For the Years Ended December 31	Net Premiums Written			Underwriting Profit (Loss)		Combined Ratio	
	2008	2007	% Change	2008	2007	2008	2007
Lombard	<b>731.9</b>	708.5	3.3%	<b>(22.6)</b>	43.9	<b>103.2%</b>	93.7%
Markel	<b>171.1</b>	179.7	(4.8%)	<b>(18.3)</b>	9.2	<b>109.7%</b>	95.2%
Commonwealth	<b>147.3</b>	85.2	72.9%	<b>(45.8)</b>	25.1	<b>138.7%</b>	77.0%
Federated	<b>116.1</b>	103.0	12.7%	<b>3.4</b>	6.1	<b>97.1%</b>	94.1%
Northbridge	<b>1,166.4</b>	1,076.4	8.4%	<b>(83.3)</b>	84.3	<b>107.3%</b>	92.3%

Underwriting results for 2008 declined \$167.6 million compared to 2007. 2008 underwriting results included a \$56.0 million increase in claims expense from foreign exchange translation of net claims liabilities denominated in U.S. dollars, compared to a \$46.8 million reduction of claims expense for 2007. Also contributing to the decline in underwriting results were increased claims frequency and loss severity, including the impact of \$26.6 million of net pre-tax claims related to Hurricane Ike and elevated levels of weather-related events impacting Lombard, Commonwealth and Federated, and an increase in net commissions expense resulting from reduced reinsurance ceding commission income stemming from the 2008 reinsurance restructuring. Partially offsetting these factors were lower general operating expenses at Commonwealth and Lombard for 2008 and \$12.6 million of large losses which occurred in 2007 within the exited portions of Commonwealth's E&I business, and did not recur in 2008. In addition, excluding the impact of foreign exchange translation of U.S. dollar-denominated net claims liabilities on prior years' reserves, 2008 included \$67.1 million of favourable development on prior years' reserves, primarily at Markel, Commonwealth and Federated, compared to \$33.3 million of favourable development on prior years' reserves for 2007, primarily at Lombard, Markel and Federated.

The following tables present the underwriting results and combined ratios achieved by each of the insurance subsidiaries, as well as the consolidated net earnings of the Company, including investment-related and other non-underwriting elements, for 2008 and 2007.

**Underwriting Results, Combined Ratios and Consolidated Net Earnings (in \$ millions, except percentages)**

For the Year Ended December 31, 2008	Lombard	Markel	Commonwealth	Federated	Total
<b>Combined ratio:</b>					
Loss ratio	74.7%	82.2%	124.0%	65.3%	<b>80.1%</b>
Expense ratio	28.5%	27.5%	14.7%	31.8%	<b>27.2%</b>
	103.2%	109.7%	138.7%	97.1%	<b>107.3%</b>
Gross premiums written	985.0	182.0	244.2	129.2	<b>1,540.4</b>
Net premiums written	731.9	171.1	147.3	116.1	<b>1,166.4</b>
Net premiums earned	718.3	188.2	118.4	116.7	<b>1,141.6</b>
Claims	536.5	154.7	146.8	76.1	<b>914.1</b>
Operating expenses	69.6	29.7	17.5	25.2	<b>142.0</b>
Commissions, net	103.4	16.3	(5.4)	7.7	<b>122.0</b>
Premium taxes	31.4	5.8	5.3	4.3	<b>46.8</b>
	740.9	206.5	164.2	113.3	<b>1,224.9</b>
Underwriting profit (loss)	(22.6)	(18.3)	(45.8)	3.4	<b>(83.3)</b>
Interest and dividends					<b>114.5</b>
Net gains on investments					<b>70.5</b>
Other expenses					<b>(15.4)</b>
Earnings before income taxes					<b>86.3</b>
Provision for income taxes					<b>39.6</b>
Net earnings					<b>46.7</b>
Total identifiable assets	2,904.5	716.6	1,161.9	416.7	<b>5,199.7</b>
Other					<b>204.0</b>
Total assets					<b>5,403.7</b>

**Underwriting Results, Combined Ratios and Consolidated Net Earnings (in \$ millions, except percentages)**

For the Year Ended December 31, 2007	Lombard	Markel	Commonwealth	Federated	Total
<b>Combined ratio:</b>					
Loss ratio	64.4%	68.0%	56.6%	62.9%	<b>64.1%</b>
Expense ratio	29.3%	27.2%	20.4%	31.2%	<b>28.2%</b>
	93.7%	95.2%	77.0%	94.1%	<b>92.3%</b>
Gross premiums written	1,004.4	222.0	296.6	130.5	<b>1,653.5</b>
Net premiums written	708.5	179.7	85.2	103.0	<b>1,076.4</b>
Net premiums earned	695.3	189.7	109.4	103.8	<b>1,098.2</b>
Claims	447.7	129.0	61.9	65.3	<b>703.9</b>
Operating expenses	78.5	31.9	35.7	24.4	<b>170.5</b>
Commissions, net	93.2	12.7	(18.8)	3.7	<b>90.8</b>
Premium taxes	32.0	6.9	5.5	4.3	<b>48.7</b>
	651.4	180.5	84.3	97.7	<b>1,013.9</b>
Underwriting profit	43.9	9.2	25.1	6.1	<b>84.3</b>
Interest and dividends					<b>128.7</b>
Net gains on investments					<b>203.2</b>
Other expenses					<b>(13.4)</b>
Earnings before income taxes					<b>402.8</b>
Provision for income taxes					<b>107.8</b>
Net earnings					<b>295.0</b>
Total identifiable assets	2,960.4	819.7	1,208.8	454.6	<b>5,443.5</b>
Other					<b>41.6</b>
Total assets					<b>5,485.1</b>

*Lombard Insurance*

Lombard recorded an underwriting loss of \$22.6 million and a combined ratio of 103.2% for 2008, compared to an underwriting profit of \$43.9 million and a combined ratio of 93.7% for 2007. Contributing to the change in underwriting results were increased claims frequency and loss severity in its property lines of business and partially due to elevated levels of weather-related losses during 2008, as well as an increase in the frequency of losses in its general liability segment. The year-over-year decline in underwriting results also reflects a decline in favourable reserve development from \$17.8 million for 2007 to \$8.1 million for 2008, and an increase in net commissions expense. Partially offsetting the impact of these factors was a year-over-year decline in general operating expenses, primarily related to lower compensation-related expenses and a \$3.4 million non-recurring writedown of goodwill in 2007. Gross premiums written declined by 1.9%, to \$985.0 million for 2008, compared to \$1,004.4 million for 2007, primarily due to reductions in business driven by competitive pressures. Net premiums written increased by 3.3%, to \$731.9 million for 2008, from \$708.5 million for 2007, and net premiums earned increased by 3.3% to \$718.3 million for 2008, from \$695.3 million for 2007. The increases in net premiums were largely due to the reduced cession of reinsurance premiums resulting from the 2008 reinsurance restructuring, but were partially offset by the business reductions driven by competitive pressures noted above.

### *Market Insurance*

For 2008, Market recorded an underwriting loss of \$18.3 million and a combined ratio of 109.7%, compared to an underwriting profit of \$9.2 million and a combined ratio of 95.2% for 2007. Market's underwriting results for 2008 were negatively impacted by the foreign exchange translation of net claims liabilities denominated in U.S. dollars, increasing claims expense and combined ratio by \$19.7 million and 10.5 percentage points, respectively, compared to a reduction of claims expense and combined ratio of \$15.5 million and 8.1 percentage points, respectively, for 2007. Also contributing to the decline in underwriting results was an increase in claims frequency. Partially offsetting the impact of this factor was an increase in favourable reserve development to \$25.0 million for 2008, from \$8.3 million for 2007. Gross premiums written declined 18.0% for 2008 to \$182.0 million, compared to \$222.0 million for 2007 primarily due to reductions in business resulting from competitive pressures. Net premiums written declined 4.8% to \$171.1 million for 2008, compared to \$179.7 million for 2007, while net premiums earned remained relatively flat at \$188.2 million for 2008, compared to \$189.7 million for 2007. Net premiums written and net premiums earned were negatively affected by the business reductions noted above although they benefitted from the reduced cessions of reinsurance premiums resulting from the 2008 reinsurance restructuring.

### *Commonwealth Insurance*

Commonwealth recorded an underwriting loss of \$45.8 million and a combined ratio of 138.7% for 2008, compared to an underwriting profit of \$25.1 million and a combined ratio of 77.0% for 2007. Commonwealth's underwriting results were significantly impacted by the foreign exchange translation of net claims liabilities denominated in U.S. dollars, increasing claims expense and combined ratio for 2008 by \$36.3 million and 30.7 percentage points, respectively, compared to a reduction of claims expense and combined ratio of \$31.3 million and 28.6 percentage points, respectively, for 2007. Also contributing to the decline in underwriting results was the impact of \$26.6 million of net pre-tax claims related to Hurricane Ike and an increase in the frequency of large losses across most lines of business, including losses from other weather-related events, such as U.S. mid-west flooding and windstorms, and reduced reinsurance ceding commission income resulting from the 2008 reinsurance restructuring. Partially offsetting the impact of these factors were lower general operating expenses for 2008, primarily related to the impact of foreign exchange translation and a year-over-year reduction in its provision for uncollectible reinsurance recoverable, and the absence of large losses from exited portions of Commonwealth's E&I business, which had a \$12.6 million negative impact on 2007. Favourable reserve development for 2008 was \$17.6 million compared to \$0.2 million for 2007. Gross premiums written for 2008 declined by 17.7% to \$244.2 million, from \$296.6 million for 2007, primarily due to business reductions resulting from competitive pressures across most business lines. Net premiums written, however, increased by 72.9% to \$147.3 million for 2008 from \$85.2 million for 2007, primarily due to the reduced cession of reinsurance premiums resulting from the 2008 reinsurance restructuring and the prior year impact of additional reinsurance purchased for 2007, though these factors were partially offset by the reduction in business resulting from competitive pressures noted above. Net premiums earned increased by 8.2% to \$118.4 million for 2008, compared to \$109.4 million for 2007, largely due to the reasons noted above.

### *Federated Insurance*

For 2008, Federated recorded an underwriting profit of \$3.4 million and a combined ratio of 97.1%, compared to an underwriting profit of \$6.1 million and a combined ratio of 94.1% for 2007. The year-over-year decline in underwriting profit was primarily due to an increase in claims frequency and loss severity in its property lines from elevated levels of weather-related losses, an increase in the frequency of large losses in its property and auto lines and an increase in loss severity in its casualty lines for 2008.

Favourable reserve development for 2008 was \$16.4 million, compared to \$7.0 million for 2007. Gross premiums written at Federated remained relatively flat at \$129.2 million for 2008, compared to \$130.5 million for 2007. Net premiums written increased by 12.7%, to \$116.1 million for 2008 compared to \$103.0 million for 2007, while net premiums earned increased by 12.4%, to \$116.7 million for 2008 from \$103.8 million for 2007, primarily due to the reduced cession of reinsurance premiums resulting from the 2008 reinsurance restructuring.

## Segmented Information

For 2008, Canadian business as a percentage of total gross premiums written was 91.1%, compared to 89.4% for 2007, while US & Other represented 8.9% for 2008, compared to 10.6% for 2007. The relative decline was larger for US & Other premiums than Canadian premiums, however both segments were negatively impacted by competitive pressures in 2008.

### Geographic Mix of Business (in \$ millions)

For the Years Ended December 31	2008			2007		
	Canada	US & Other	Total	Canada	US & Other	Total
Gross premiums written	1,404.0	136.4	1,540.4	1,479.0	174.5	1,653.5
Net premiums written	1,092.5	73.9	1,166.4	1,044.8	31.6	1,076.4
Net premiums earned	1,086.9	54.7	1,141.6	1,052.2	46.0	1,098.2
Claims	843.7	70.4	914.1	687.6	16.3	703.9
Operating expenses	132.3	9.7	142.0	150.6	19.9	170.5
Commissions, net	124.5	(2.5)	122.0	104.6	(13.8)	90.8
Premium taxes	46.1	0.7	46.8	48.1	0.6	48.7
	1,146.6	78.3	1,224.9	990.9	23.0	1,013.9
Underwriting profit (loss)	(59.7)	(23.6)	(83.3)	61.3	23.0	84.3
Investment income (loss)	175.2	9.8	185.0	339.9	(8.0)	331.9
Other expenses	(15.4)	—	(15.4)	(13.4)	—	(13.4)
Earnings (loss) before income taxes	100.1	(13.8)	86.3	387.8	15.0	402.8
Total assets	4,980.1	423.6	5,403.7	5,035.5	449.6	5,485.1

For 2008, commercial lines accounted for 87.0% of gross premiums written, compared to 88.3% for 2007, while personal lines accounted for 13.0% of gross premiums written for 2008, compared to 11.7% for 2007. The relative decline in commercial lines premiums was largely related to added pricing pressure in commercial markets significantly impacting renewals and new business.

### Gross Premiums Written by Product Line Segments (in \$ millions)

For the Years Ended December 31	2008	2007
<b>Commercial:</b>		
Property	491.4	545.9
Automobile	475.5	504.3
General liability	307.8	340.7
Other	64.8	68.4
<b>Personal:</b>		
Property	63.0	59.8
Automobile	137.9	134.4
Total	1,540.4	1,653.5

## Investment Income

During 2008, the Company earned \$185.0 million in net investment income, compared to \$331.9 million during 2007. Interest and dividends earned in 2008 (net of investment expenses) declined to \$114.5 million from \$128.7 million for 2007, primarily due to lower yields on cash balances, partially offset by an increase in the average size of the investment portfolio. The annualized pre-tax yield (before expenses) on the average carrying value of the investment portfolio was 3.7% for 2008 compared to 4.5% for 2007. Net gains on investments were \$70.5 million for 2008, compared to \$203.2 million for 2007. The year-over-year decline in net gains on investments was primarily due to \$290.3 million in impairment writedowns for 2008, a \$100.2 million gain on the sale of Hub in 2007 and \$78.1 million decline in gains in the bond portfolio. The impact of these factors was partially offset by a \$237.2 million improvement in the performance of the equity index swaps, a \$57.4 million improvement in the foreign exchange translation of foreign cash balances, and a \$19.9 million improvement in the performance of the SPDRs. 2007 also included \$22.8 million in impairment writedowns. The performance of the Company's credit default swaps was relatively flat year-over-year.

### Investment Income Summary (in \$ millions)

For the Years Ended December 31	2008	2007
<b>Interest and dividends:</b>		
Cash and short term investments	19.1	37.9
Bonds	79.0	75.0
Preferred stocks	0.6	0.6
Common stocks	23.7	24.1
Other <sup>(1)</sup>	2.7	0.7
	125.1	138.3
Expenses	(10.6)	(9.6)
	114.5	128.7
<b>Gains (losses) on investments:</b>		
Cash and short term investments	36.6	(21.0)
Bonds	(88.6)	(10.5)
Preferred stocks	—	—
Common stocks	20.0	132.6
Other <sup>(1)</sup>	392.8	124.9
Provision for losses and writedowns	(290.3)	(22.8)
	70.5	203.2
Net investment income	185.0	331.9

<sup>(1)</sup> Includes credit default swaps, equity index swaps, foreign currency forwards, call options and equity-accounted investments.

## **BALANCE SHEET ANALYSIS**

### **Accounts Receivable and Other**

Accounts receivable and other at December 31, 2008 totalled \$409.8 million, a decline of \$34.5 million from \$444.3 million at December 31, 2007, primarily due to a decline in premiums receivable which was largely attributable to the impact of competitive pressures across most lines of business.

### **Income Taxes Receivable**

Income taxes receivable at December 31, 2008 totalled \$44.6 million, compared to income taxes payable of \$12.9 million at December 31, 2007. The change in income taxes receivable is primarily due to a change in the tax treatment of certain of our investment assets and lower earnings before taxes for 2008.

### **Recoverable and Receivable from Reinsurers**

Amounts recoverable and receivable from reinsurers, net of provision for uncollectible reinsurance, increased to \$1,300.2 million at December 31, 2008 from \$1,258.0 million at the end of 2007, an increase of 3.4%. This increase is largely due to the increased incurred claims for 2008, partially offset by lower ceding of incurred claims resulting from the 2008 reinsurance restructuring.

At the end of 2008, the top 20 reinsurers for the Company accounted for 93.7% of amounts recoverable and receivable from reinsurers, net of provision for uncollectible reinsurance, compared to 92.0% at the end of 2007. \$1,174.0 million or 90.3% of recoverables and receivables, net of provision for uncollectible reinsurance, were from reinsurers rated A- or better by A.M. Best at year end. This compared to \$1,170.2 million or 93.0% at year end 2007. Of the \$135.6 million in balances recoverable and receivable from reinsurers rated below A- by A.M. Best, \$53.6 million is secured and \$82.0 million is unsecured. At the end of 2008 \$52.6 million of the amounts rated below A- related to a Canadian branch of an A rated foreign company, which withdrew its branch rating in the year.

Northbridge had amounts recoverable and receivable from affiliated reinsurers totalling \$603.0 million at December 31, 2008, compared to \$593.0 million at December 31, 2007. Of the balances recoverable and receivable from affiliated reinsurers, \$567.0 million is recoverable and receivable from affiliated reinsurers rated A- or better by A.M. Best. Of the remaining \$36.0 million recoverable and receivable from affiliated reinsurers rated below A-, \$29.7 million is secured and \$6.3 million is unsecured.

### **Investments**

At December 31, 2008, investments at carrying value totalled \$3,243.3 million compared to \$3,268.2 million at December 31, 2007 (net of obligations related to securities sold short). Net pre-tax unrealized gains on available for sale investments at December 31, 2008 were \$67.8 million, while net pre-tax unrealized gains on available for sale investments at December 31, 2007 were \$50.7 million.

**Summary of Investments (in \$ millions)**

As at December 31 Type of Investment	2008		2007	
	Carrying Value	Total Fair Value	Carrying Value	Total Fair Value
Subsidiary cash and short term investments	322.5	322.5	621.4	621.4
Marketable securities	296.4	296.4	216.2	216.2
Bonds				
Canadian government	1,546.9	1,546.9	1,555.9	1,555.9
Canadian corporate	113.0	113.0	116.0	116.0
Foreign government	124.9	124.9	210.1	210.1
Foreign corporate	49.9	49.9	32.0	32.0
Preferred stocks				
Canadian	12.5	12.5	12.7	12.7
Common stocks				
Canadian	338.2	338.2	535.0	535.0
Foreign	351.4	342.5	96.4	96.4
Obligations related to securities sold short	—	—	(267.6)	(267.6)
Derivatives and other invested assets <sup>(1)</sup>				
Canadian	3.3	3.3	10.6	10.6
Foreign	46.4	46.4	129.5	129.5
Investments, at equity	37.9	31.1	—	—
<b>Total</b>	<b>3,243.3</b>	<b>3,227.6</b>	<b>3,268.2</b>	<b>3,268.2</b>

<sup>(1)</sup>Includes credit default swaps, equity index swaps, foreign exchange forwards and call options.

At December 31, 2008, the Company held foreign currency forward agreements. The foreign currency forwards have a total notional value of \$114.6 million and will require the Company to sell U.S. dollars at a fixed exchange rate on April 28, 2009. The fair value of the foreign currency forwards at December 31, 2008 was included in derivatives and other invested assets at \$3.3 million.

At December 31, 2008, the Company had \$6.0 million invested in credit default swaps, which are recorded in derivatives and other invested assets at a fair market value of \$46.4 million. The credit default swaps are U.S. and Euro-denominated credit derivatives purchased from major banks which relate primarily to financial services companies, fluctuate with credit spreads and mature in the next four to six years. The Company obtains market-derived fair values for its credit default swaps from third-party broker-dealers. The fair values of credit default swaps are subject to significant volatility arising from the potential differences in the perceived risk of default of the underlying issuers, movements in credit spreads and the length of time to contractual maturity.

During the fourth quarter of 2008, the Company concluded its equity index swap agreements. The fair value of the equity index swaps at December 31, 2007 was included in derivatives and other invested assets at \$7.6 million and other liabilities at \$3.3 million.

During the first half of 2008, the Company closed its short position in SPDRs resulting in a \$255.6 million payment by the Company. The Company also held near-dated call option contracts to limit the potential future loss on the SPDRs. Prior to closing its position, the obligation to purchase the SPDRs was carried at fair value in the consolidated financial statements, with fair value based on quoted market ask prices.

The Company's derivative arrangements require each party to pledge collateral to secure obligations owed or potentially owed to the other party under the arrangement, depending on factors such as the notional value of the derivative instrument and its fair value as it fluctuates over time. Collateral obligations owed to and by the same counterparty on multiple instruments may be offset against one another in certain

circumstances. At December 31, 2008, the fair value of collateral pledged by counterparties in the Company's favour was approximately \$25.3 million.

At December 31, 2008, subsidiary cash and short term investments had declined to \$322.5 million from \$621.4 million at December 31, 2007 largely due to the purchase of investments, primarily marketable securities and bonds. As at December 31, 2008, 98.2% of Northbridge's bond portfolio was rated investment grade (BBB or higher), compared to 99.9% at December 31, 2007.

### **Deferred Premium Acquisition Costs**

Deferred premium acquisition costs were \$140.3 million at December 31, 2008, relatively unchanged from December 31, 2007.

### **Future Income Taxes**

Future income taxes as December 31, 2008 totalled \$36.6 million, compared to \$41.3 million at December 31, 2007.

### **Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at December 31, 2008 totalled \$212.9 million, a decline of \$81.8 million from \$294.7 million at December 31, 2007, primarily due to a decline in premium cessions owing to reinsurers resulting from the 2008 reinsurance restructuring, the timing of payments of commissions and premium deposits to reinsurers and lower compensation expense accruals.

### **Provision for Claims**

Provision for claims was \$2,980.3 million at December 31, 2008 compared to \$2,635.2 million at December 31, 2007. The increase in provision for claims is primarily due to the increased incurred claims for 2008.

### **Unearned Premiums**

Unearned premiums decreased to \$826.8 million at December 31, 2008 from \$854.2 million at December 31, 2007, a decline of \$27.4 million reflecting the reduction in business resulting from competitive pressures.

### **Contractual Obligations**

Future contractual obligations under operating leases relate to premises, automobiles and equipment. Future minimum commitments under such leases totalled \$62.0 million at December 31, 2008, compared to \$74.6 million at December 31, 2007.

Future obligations for claims payments, net of reinsurance, were estimated to be \$1,931.8 million at December 31, 2008, compared to \$1,696.1 million at December 31, 2007.

## Capital Structure and Liquidity

Shareholders' equity at December 31, 2008 was \$1,383.6 million or \$29.21 per share, compared to \$1,420.4 million or \$28.59 per share at December 31, 2007. Shareholders' equity decreased primarily due to share repurchases of \$68.0 million and shareholder dividends of \$32.2 million, but was offset by net earnings of \$46.7 million and other comprehensive income of \$16.5 million.

The ratio of net premiums written in 2008 to shareholders' equity was 0.8 at December 31, 2008, unchanged from December 31, 2007 primarily due to the year-over-year decline in shareholders' equity noted above offset by the increase in net premiums written. See the "Year End Results – Revenue" section for further discussion regarding net premiums written. In terms of regulatory measures of capital adequacy, the Company's subsidiaries have a weighted average Minimum Capital Test ratio of 224% at December 31, 2008 compared to 311% at December 31, 2007.

Cash provided by operating activities was \$152.7 million for 2008, compared to \$202.6 million for 2007. The Company's total cash resources declined to \$507.1 million at December 31, 2008 from \$632.5 million at December 31, 2007 primarily due to purchases of investments.

Northbridge had holding company cash and short term investments and marketable securities of \$184.6 million at December 31, 2008 compared to \$30.6 million at December 31, 2007.

As at December 31, 2008, letters of credit with an aggregate face amount of \$1.6 million were outstanding under the Company's credit facility.

Northbridge is the leading commercial property and casualty insurance group in Canada, providing property and casualty insurance products through its subsidiaries primarily in Canada through multiple distribution channels. Visit Northbridge's website at [www.norfin.com](http://www.norfin.com) for more information.

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## Forward-Looking Information

Statements in this release about future plans, intentions, results, levels of activity, performance, goals, achievements or other future events constitute forward-looking statements. In some cases forward-looking statements may be identified by the use of words such as "may", "will", "should", "would", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts" or "potential" or the negative or other variations of these words, or other comparable words or phrases. Although Northbridge believes that the expectations reflected in its forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements or other future events. Readers should not place undue reliance on forward-looking statements as they involve known and unknown risks, uncertainties and other factors about Northbridge, the business environment in which it operates, the economy and the insurance industry generally that may cause actual results or events to differ materially from those expressed, implied or anticipated in such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, the following factors which are more fully described in Northbridge's Annual Information Form and its other filings with Canadian securities regulators (accessible on SEDAR – System for Electronic Document Analysis and Retrieval – at [www.sedar.com](http://www.sedar.com)): the adequacy of claims reserves; unpredictable catastrophic events; the cyclical nature of the property and casualty insurance industry; competitive market environment; ability to alleviate risk through reinsurance

coverage; credit risks associated with reinsurers, certain insureds and brokers; ability to achieve investment returns; subsidiaries' ability to maintain their financial strength ratings; changes in the business, economic and political environment; changes in government regulation; negative publicity regarding the insurance industry; litigation and regulatory actions; reliance on independent brokers and third parties to sell certain products; reliance on information technology and telecommunications systems; adequacy and effectiveness of risk management framework; dependence on operating management and key personnel; dependence on the financial performance of subsidiaries; uncertainties associated with critical accounting estimates and assumptions; and foreign currency fluctuations. Northbridge is under no obligation and has no intention to update or alter any of its forward-looking statements as a result of new information, future events or otherwise, except as required by law.

In addition, the preparation of Northbridge's financial statements in accordance with Canadian generally accepted accounting principles requires it to make estimates and assumptions about future events which affect certain amounts reported in its financial statements and amounts derived therefrom, including amounts presented in this release. Those critical accounting estimates and assumptions principally relate to the establishment of provisions for claims and expenses, other than temporary impairments of investments, amounts receivable and recoverable from reinsurers and income taxes. As more information becomes known, these estimates and assumptions could change and impact future results. For a more complete discussion of critical accounting estimates and assumptions, please refer to Northbridge's filings with Canadian securities regulators (accessible on SEDAR at [www.sedar.com](http://www.sedar.com)).

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For further information contact: Craig Pinnock, Chief Financial Officer, at (416) 350-4300

## CONSOLIDATED BALANCE SHEETS

(unaudited - in Cdn \$ thousands)

As at December 31	2008	2007
<b>Assets</b>		
Holding company cash and short term investments	184,563	11,151
Holding company marketable securities (amortized cost nil; 2007: 19,410)	—	19,410
Accounts receivable and other	409,825	444,270
Income taxes receivable	44,592	—
Paid losses receivable from reinsurers	84,753	76,119
Recoverable from reinsurers	1,215,489	1,181,852
	<b>1,939,222</b>	<b>1,732,802</b>
Investments		
Subsidiary cash and short term investments	322,542	621,389
Subsidiary marketable securities (amortized cost 300,479; 2007: 217,849)	296,381	216,212
Bonds (amortized cost 1,889,386; 2007: 1,941,368)	1,834,746	1,914,047
Preferred stocks (cost 12,625; 2007: 12,625)	12,506	12,651
Common stocks (cost 688,176; 2007: 567,607)	689,553	631,445
Derivatives and other invested assets (cost 6,005; 2007: 27,919)	49,672	137,120
Investments, at equity	37,909	2,947
Total investments	<b>3,243,309</b>	<b>3,535,811</b>
Deferred premium acquisition costs	140,285	141,322
Future income taxes	36,564	41,301
Premises and equipment	22,969	17,709
Goodwill	9,252	9,501
Other assets	12,146	6,661
	<b>5,403,747</b>	<b>5,485,107</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	212,928	294,673
Obligations related to derivatives and securities sold short	—	267,615
Income taxes payable	—	12,866
Due to affiliates	129	148
Provision for claims	2,980,315	2,635,176
Unearned premiums	826,807	854,195
	<b>4,020,179</b>	<b>4,064,673</b>
<b>Shareholders' Equity</b>		
Capital	529,026	555,348
Retained earnings	815,297	842,338
Accumulated other comprehensive income	39,245	22,748
	<b>1,383,568</b>	<b>1,420,434</b>
	<b>5,403,747</b>	<b>5,485,107</b>

## CONSOLIDATED STATEMENTS OF EARNINGS

(unaudited - in Cdn \$ thousands, except share data and per share amounts)

For the Periods Ended December 31	Fourth quarter		Twelve months	
	2008	2007	2008	2007
Gross premiums written	<b>380,795</b>	403,028	<b>1,540,411</b>	1,653,480
Net premiums written	<b>285,846</b>	269,297	<b>1,166,371</b>	1,076,356
<b>Revenue</b>				
Net premiums earned	<b>289,330</b>	271,801	<b>1,141,611</b>	1,098,210
Interest and dividends	<b>27,583</b>	33,806	<b>114,479</b>	128,736
Net gains (losses) on investments	<b>(31,029)</b>	98,522	<b>70,537</b>	203,172
	<b>285,884</b>	404,129	<b>1,326,627</b>	1,430,118
<b>Expenses</b>				
Claims	<b>276,521</b>	197,052	<b>914,145</b>	703,924
Operating expenses	<b>26,443</b>	44,365	<b>142,013</b>	170,457
Commissions, net	<b>24,236</b>	20,515	<b>121,969</b>	90,745
Premium taxes	<b>12,032</b>	11,842	<b>46,752</b>	48,736
Other	<b>3,591</b>	3,416	<b>15,364</b>	13,426
	<b>342,823</b>	277,190	<b>1,240,243</b>	1,027,288
Earnings (loss) before income taxes	<b>(56,939)</b>	126,939	<b>86,384</b>	402,830
Provision (recovery) for income taxes	<b>(5,951)</b>	47,448	<b>39,644</b>	107,776
Net earnings (loss)	<b>(50,988)</b>	79,491	<b>46,740</b>	295,054
Net earnings (loss) per share	<b>(\$1.07)</b>	\$1.60	<b>\$0.96</b>	\$5.84
Net earnings (loss) per diluted share	<b>(\$1.07)</b>	\$1.59	<b>\$0.95</b>	\$5.82
Weighted average shares (000)	<b>47,596</b>	49,784	<b>48,874</b>	50,552
Weighted average diluted shares (000)	<b>47,677</b>	49,925	<b>48,969</b>	50,658
Shares outstanding (000)	<b>47,360</b>	49,680	<b>47,360</b>	49,680

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited - in Cdn \$ thousands)

For the Periods Ended December 31	Fourth quarter		Twelve months	
	2008	2007	2008	2007
Net earnings (loss)	(50,988)	79,491	46,740	295,054
Other comprehensive income:				
Change in unrealized gains or losses on available for sale investments	(81,968)	15,551	(228,496)	(38,228)
Reclassification of net realized (gains) losses on available for sale investments to earnings	124,823	6,923	245,576	(15,034)
Change in unrealized foreign currency translation gains or losses	4,961	(305)	7,122	(2,523)
	47,816	22,169	24,202	(55,785)
Other comprehensive income, income taxes:				
Change in unrealized gains or losses on available for sale investments	25,155	(6,065)	68,060	9,855
Reclassification of net realized gains (losses) on available for sale investments to earnings	(37,461)	(2,268)	(75,765)	6,394
	(12,306)	(8,333)	(7,705)	16,249
Other comprehensive income, net of income taxes:				
Change in unrealized gains or losses on available for sale investments	(56,813)	9,486	(160,436)	(28,373)
Reclassification of net realized (gains) losses on available for sale investments to earnings	87,362	4,655	169,811	(8,640)
Change in unrealized foreign currency translation gains or losses	4,961	(305)	7,122	(2,523)
Other comprehensive income (loss)	35,510	13,836	16,497	(39,536)
Comprehensive income (loss)	(15,478)	93,327	63,237	255,518

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

(unaudited - in Cdn \$ thousands)

For the Years Ended December 31	2008	2007
<b>Retained earnings — beginning of period</b>	842,338	595,814
Transition adjustment on adoption of Financial Instruments standards	—	4,685
Net earnings	46,740	295,054
Common share dividends	(32,225)	(33,379)
Excess over stated value of shares purchased for cancellation	(41,556)	(19,836)
<b>Retained earnings — end of period</b>	815,297	842,338
<b>Accumulated other comprehensive income — beginning of period</b>	22,748	(10,817)
Transition adjustment on adoption of Financial Instruments standards	—	73,101
Other comprehensive income (loss)	16,497	(39,536)
<b>Accumulated other comprehensive income — end of period</b>	39,245	22,748
<b>Total retained earnings and accumulated other comprehensive income</b>	854,542	865,086

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited - in Cdn \$ thousands)

For the Periods Ended December 31	Fourth quarter		Twelve months	
	2008	2007	2008	2007
<b>Operating activities</b>				
Net earnings (loss)	(50,988)	79,491	46,740	295,054
Amortization	2,165	1,737	7,522	7,126
Future income taxes	(61,533)	(7,414)	(42,851)	(10,159)
Net realized (gains) losses on available for sale investments	124,823	6,923	245,576	(15,034)
Other net gains on investments	(93,794)	(105,445)	(316,113)	(188,138)
	(79,327)	(24,708)	(59,126)	88,849
Change in:				
Provision for claims	137,400	(17,034)	357,640	(80,662)
Unearned premiums	(5,781)	(8,767)	(27,388)	(64,044)
Accounts receivable and other	(21,905)	(22,469)	34,445	52,820
Income taxes, net	52,770	41,655	(15,783)	43,054
Deferred premium acquisition costs	1,016	838	1,037	1,959
Paid losses receivable	(23,382)	(6,069)	(8,634)	26,740
Recoverable from reinsurers	(46,525)	39,109	(33,637)	170,223
Due to affiliates	(224)	147	(19)	85
Accounts payable and accrued liabilities	(18,265)	32,319	(90,308)	(32,658)
Other	(5,758)	3,903	(5,506)	(3,771)
Cash provided by (used in) operating activities	(9,981)	38,924	152,721	202,595
<b>Investing activities</b>				
Available for sale investments — purchases	(444,548)	(81,229)	(766,842)	(544,350)
— sales	369,833	7,114	590,741	174,129
Marketable securities — purchases	(317,210)	(225,202)	(844,744)	(347,826)
— sales	171,098	54,100	785,270	106,566
Investments classified as held for trading — net (purchases) sales	263,004	4,227	212,617	(27,917)
Investments designated as held for trading — net (purchases) sales	(4,000)	(168)	(136,869)	20,249
Investments equity accounted and other — net (purchases) sales	(34,834)	—	(34,834)	211,335
Purchase of premises and equipment	(1,702)	(2,645)	(9,052)	(5,357)
Cash provided by (used in) investing activities	1,641	(243,803)	(203,713)	(413,171)
<b>Financing activities</b>				
Common share dividends	(7,814)	(8,217)	(32,225)	(33,379)
Share repurchase	(29,808)	(11,194)	(68,514)	(40,560)
Shares issued	—	—	530	—
Cash used in financing activities	(37,622)	(19,411)	(100,209)	(73,939)
Foreign currency translation	21,163	6,644	25,766	(16,965)
<b>Decrease in cash resources</b>	<b>(24,799)</b>	<b>(217,646)</b>	<b>(125,435)</b>	<b>(301,480)</b>
<b>Cash resources — beginning of period</b>	<b>531,904</b>	<b>850,186</b>	<b>632,540</b>	<b>934,020</b>
<b>Cash resources — end of period</b>	<b>507,105</b>	<b>632,540</b>	<b>507,105</b>	<b>632,540</b>