Q4 2020 Earnings Call

Company Participants

- Derek Bulas, Assistant Vice President, Legal
- Jennifer Allen, Vice President & Chief Financial Officer
- V. Prem Watsa, Chairman & Chief Executive Officer

Other Participants

- Alan Parsow, Analyst
- Jaeme Gloyn, Analyst
- Jeff Fenwick, Analyst
- Junior Ra, Analyst
- Mark Dwelle, Analyst
- Tom MacKinnon, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and welcome to Fairfax 2020 Year End Results Conference Call. Your lines have been placed in a listen-only mode. After the presentation, we will conduct a question-and-answer session. (Operator Instructions) Today's conference is being recorded. If you have any objection you may disconnect at this time.

Your host for today's call is Prem Watsa with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas

Good morning and welcome to our call to discuss Fairfax's 2020 year-end results.

This call may include forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors. The most foreseeable of which are set out under risk factors in our Base Shelf Prospectus, which has been filed with Canadian Securities Regulators and is available on SEDAR, and which now include the risk of adverse consequences to Fairfax's business, investments, and personnel resulting from or related to the COVID-19 pandemic. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, except as required by applicable securities law.

I'll now turn the call over to our Chairman and CEO, Prem Watsa.

V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Derek. Good morning, ladies and gentlemen, welcome to Fairfax's 2020 year-end conference call. I plan to give you some of the highlights and then pass the call to Jen Allen, our Chief Financial Officer for additional financial and accounting details.

2020, as all of you know, was an unprecedented year. I'm not sure many of us would believe when we left our offices last March that almost a year later we would still be dealing with this pandemic to this degree. But we can see the light at the end of the tunnel as multiple vaccines now exist and testing has improved significantly.

A majority of our employees worldwide have worked from home for most of 2020, not missing a beat. I wanted to again thank all our employees all over the world who have been fully committed over this period to provide outstanding service to our customers. I am very grateful to all of them. The vaccine is being given now all over the world. We expect this to come to an end and we expect to return to normalcy soon.

Coming to our results, Fairfax's net earnings were $218 million in 2020 versus $2 billion in 2019, which equates to net earnings per diluted share of $6.29 in 2020 versus $69.79 in 2019. Under the circumstances, we are very pleased about our performance in 2020 which was a real light stress test. Fairfax's book value per share in 2020 increased by 0.6%, basically flat adjusted for the $10 per share common dividend paid in the first quarter of 2020 was $478 per share. We had earnings in 2020 of $218 million as I've said, reflecting the effects of the pandemic on both our underwriting and investment results.

Our net loss on investments of approximately $1.5 billion at the end of the first quarter completely reversed and we finished 2020 with net gains of $313 million, an increase of $1.8 million. In 35 years, we've never experienced swings in the stock prices like we did in 2020. Our float increased by 8% in 2020 to $24.3 billion and our float per share increased by 11% to $927 per share.

Our Insurance and reinsurance companies produced a consolidated combined ratio of 97.8% for the year, which included catastrophe losses of $644 million or 4.7 combined ratio points and COVID-19 losses of $669 billion or 4.8 combined ratio points. Excluding COVID-19 losses, the consolidated combined ratio was 93% with 12.5% growth in gross premiums written on the back of a strong pricing environment.

In the fourth quarter, total [ph] gross premiums were up 16%. We had some significant growth in gross premiums as Allied World was up 22% for the year, 26% for the fourth quarter; Odyssey 15% for the year, 24% for the fourth quarter; and Northbridge 14% for the year, 22% for the fourth quarter. All of our major insurance companies with the exception of Brit generated combined ratios of less than 100%, that's despite unprecedented times and included a high frequency of catastrophes and a global pandemic. More on this from Jen Allen.

In 2020, we booked net COVID losses, as I said of $669 million across all of our companies. Of this, approximately 35% comes from business interruption exposures primarily outside the United States and about 34% comes from event cancellation coverages, and balance comes from areas such as casualty, surety and travel lines.

On a gross basis, approximately 60% of our COVID provisions are in IBNR (Technical Difficulty) paid losses are about 20% and case reserves make up the remaining 20%. As you can see, there is still considerable uncertainty as to the ultimate cost of the virus. The IBNR estimates may prove excessive in some of our companies, and they may not be enough in others. In addition, as we are all well aware, pandemic is ongoing. As long as it persists and disrupts the economy, new losses may emerge.

The size of the ultimate loss will also depend to some extent on various court outcomes as litigation has been filed in many jurisdictions. All in all, we remain comfortable with the provisions we have made to date in the context of the current market environment. Our reserves, of course, remained strong with consolidated redundancies in our insurance and reinsurance operations in 2020 of $435 million or 3.3% of the premiums.

Our insurance businesses in many parts of the world are seeing price increases anywhere from 10% to 30%, and terms are tightening. Prospects of our insurance business are excellent and we think we are in a hard market and well positioned to expand significantly.

Last quarter, I mentioned our excitement about Ki, a standalone business begun by Brit, the first fully-digital follow-on syndicate at Lloyd's. It is doing very well.

I should also mention that Digit, a fully digital insurance company in India run by Kamesh Goyal had another year of exceptional growth. In three years, it has grown from a start-up providing an excess of 400 million and is expected to be profitable, including investment income for the year ended March 31, 2021. Digit raised $25 million from private equity investors at $1.9 billion at end year '20 that continues to be valued on our books at $0.9 billion and we don't expect any changes. Of course, that's on a 100% basis. Also the Indian budget allowed us to go to 74% from 49%.

For the year, operating income was strong at $916 million. Net gains on investment for the year was $313 million with losses on net equity exposures of $137 [ph] million offset by net gains on bonds. The net losses on equities included losses on our last remaining short position which is finally closed at the end of the year, partially offset by net gains of Stelco, BlackBerry convertible and the Asian Value Fund. As mentioned in our 2019 Annual Report, we will never short stock indices or individual companies again.

Net gains on our bond portfolio was $562 million, primarily on our corporate bonds that were purchased in the first and second quarters of 2020. As we have mentioned in our annual meetings and in our annual reports, quarterly reports with IFRS accounting, where stocks and bonds are recorded at that market subject to mark-to-market gains or losses quarterly and annual income will fluctuate, and investment results will only make sense over the longer term.

In the first quarter of 2020, we had a negative 3.6% return on our investment portfolio. And by the end of the year, our investment returns more than reversed and we ended the year with a positive return of 2.7%. I have previously highlighted this to you, but will do it once more, if you look at Page 188 of our 2019 annual report last column shows the annual total return on our investment portfolio for the last 34 years. We'll update it of course for 2020.

There were four years when we had a negative investment return. In each case, we rebounded significantly. From that table in 1990, we had a 4.4% negative return; 1991, the following year, up 14.6%; 1999 negative return 2.7%; 2000, the following year, up 12.2%; 2013 negative 4.3%; 2014 up 8.6%; 2016 negative 2.2%; 2017, 6.8%. So that was only four times in 34 years. Each time investors worried about our investments, each time investment results were much better than they expected. This time our investments have rebounded more quickly. Our history had shown that returns are very lumpy, and this has worked for us over the last 35 years. We have never focused on steady quarterly earnings.

As I've said previously, long-term value investing has gone through a very difficult time for many years now. Valuations of value-oriented stocks versus growth stocks, particularly technology, had never been so extreme, exceeding even the extremes of the dot-com era in 2000. As the economy normalizes, we expect a reversion to the main and value-oriented stocks coming to the fall.

After the Pfizer vaccine was announced in early November 2020, we started to see this taking place. Two examples very quickly may make it clearer for you. Fairfax India was selling at $6.80 per share at the end of the third quarter, while its book value was more than $16 per share. Today, it's up to $12.40 per share, means like only a matter of time. Therefore, Fairfax India exceeds this 2020 high and does exceptionally well as the Indian economy recovers from COVID-19. The Indian government came out with an exceptionally business-friendly budget recently. Atlas Corp. was another one that I mentioned to you run by David Sokol and Bing Chen closed 2019 at $14 per share went down to $6.30 per share in March. Today it's at $12.70 per share. Atlas is financially very strong, has great management and we think it's only a matter of time before it exceeds its previous high. We expect a significant return on our stock portfolio, as the economy continues to normalize.

In November, Fairfax and Allied World entered into an agreement with Cornell Capital and Hudson Structured Capital to sell its majority ownership interest in Vault Insurance. We will continue to own a 10% stake in Vault following the sale. Scott Carmilani was instrumental in creating and growing Vault and has pivoted from his role with Fairfax to the Chairman of the Board of Vault. Closing of this transaction is subject to various regulatory approvals expected to occur in the first quarter of 2021. We are very grateful to Scott for all his contribution to Fairfax, especially at Allied World, the company which he led from being a start-up becoming an industry-leading and highly successful worldwide insurance and reinsurance business.

In December, Fairfax Africa completed its previously announced transaction with Helios Holdings and was renamed Helios Fairfax Partners, and continues to be listed on the

Toronto Stock Exchange. Helios Holdings has been investing successfully in Africa for over 15 years. We are very excited about this transaction and look forward to our partnership with Tope and Baba, the Co-founders of Helios Holdings.

Also, in December, we entered into an agreement with CVC Capital Partners, whereby CVC will acquire 100% of RiverStone Barbados, our European runoff operation. OMERS, our partner will also sell its 40% interest as part of the transaction. On closing, we expect to receive proceeds of approximately $730 million for a 60% interest in RiverStone Barbados, and a contingent value note for potential future proceeds of up to $236 million, should certain returns we met. Part of the agreement, the company entered into an agreement with RiverStone Barbados to purchase unless sold earlier certain investments and the equity investments owned by RiverStone Barbados at a fixed price of approximately $1.2 billion prior to December '22. So, we have two years to buy this.

Closing of this transaction is subject to various regulatory approvals. We would like to thank Lufthansa [ph] and all the employees at Riverstone Barbados and wish them the very best in the future. Subsequent to 2020, Fairfax entered into an agreement with OMERS, pursuant into which OMERS will acquire a 14% interest in Brit Limited. Cash purchase price for this investment is approximately $375 million. The transaction is subject to customary closing conditions, and is expected to close in the second quarter of 2021.

We have set for some time that we wanted to monetize many of our investments, including particularly many of our private investments. Here's what we've done in 2020. We merged Dexterra with Horizon North for a 49% ownership in the public company. We now have a company which we expect will have a $1 billion in revenue and $100 million in EBITDA for a few years -- in a few years. We sold the Davos for $59 million with an additional earnout overtime, which should result in a 100% return on our capital investment. Peak performance agreed to sell its Easton Baseball operation to Rawlings for shares and cash at the significant profit for us and our partner, Power Core. And I have just mentioned, we completed the merger of Fairfax Africa with Helios Holdings for a 32% ownership in the combined entity.

This is just the beginning. Various initiatives are underway including taking some of our other private investments public. Farmers Edge recently announced that it was going public in the first quarter of 2021. We continued to have approximately $1.3 billion at the holding company predominantly in cash and short-term securities. Please note that our cash in the holding company is to meet any and every contingency that Fairfax might face in this uncertain time period. We're not making any long-term investments with this cash other than to support our insurance and reinsurance operations.

The closing of the RiverStone Barbados transaction which is expected to be in the first quarter, we expect to have $1 billion of cash and investments at the holding company with our credit facility fully paid off. In December 2020, the company's insurance and reinsurance companies held approximately $16 billion in cash and short-term securities representing approximately 38% of our portfolio investments, comprising of $13 billion of subsidiary cash and short-term investments and $2.9 billion of short-dated U.S. treasuries. Our investment portfolios will be largely unimpacted by rising interest rates as we have not reached the yield. In fact, we will benefit from rising investment income.

We have recently begun investing as you know with Kennedy Wilson in first mortgages for the term less than five years. With the run rate at the end of 2020 of approximately $19 billion in gross premiums and our insurance subsidiaries expected to grow significantly in the next few years, a huge focus on underwriting discipline, a portfolio of over $40 billion and HWIC operating in a stock pickers market, all grounded on our fair and friendly culture built over 35 years, we expect to be firing on all cylinders in 2021 and beyond. In the past 35 year, we've had years when our book value has grown by 40% to 50% and our stock price has increased by a 130%. We expect to reward you our shareholders for your patience. We feel the best is yet to come.

I will now pass the call over to Jen Allen, our Chief Financial Officer. Jen?

Jennifer Allen {BIO 20542595 <GO>}

Thank you, Prem. We wanted to let you know that in addition to the press release that was issued yesterday on our year-end results, Fairfax's 2020 annual report will be posted on the company's website on March 5, 2021. I wanted to also take a moment and thank all of our employees globally. We've been faced with many challenges through 2020, but each finance team showed their resilience and commitment to Fairfax. A huge thank you for all your efforts. You should all be very proud of your accomplishments.

Now looking to our results. In the fourth quarter of 2020, the effects from the COVID-19 pandemic on the global financial markets started to reverse with significant improvements noted in the equity markets, which benefited Fairfax's fourth quarter results. Our core underwriting performance continued to be very strong, despite higher catastrophe losses in 2020 and the reported COVID-19 losses.

I'll start with a few key highlights from our 2020 results. We reported strong underwriting performance with an underwriting profit of $309 million, that represented a combined ratio of 97.8% which was achieved despite COVID-19 losses and higher catastrophe losses. Our net gains on investments were $313 million for 2020 with over $1.2 billion in net gains on investments been recorded in the fourth quarter. And finally, we ended the year with a consolidated balance sheet position for our investments and associates with fair values exceeding the carrying values by $712 million. That represented on a pre-tax and non-controlling interest basis appreciation of approximately $1.1 billion since March 31, 2020, which is not reflected in our book value per share as these investments are equity accounted.

Taking the above key highlights into account, Fairfax reported net earnings of $218 million or $6.29 per share on a fully diluted basis in 2020 compared to 2019 when we reported net earnings of $2 billion or $69.79 per share on a fully diluted basis.

Looking in more detail to the results of our underlying reporting segments, starting with our ongoing insurance and reinsurance operations. As noted, our core underwriting performance continued to be very strong with underwriting profit at our insurance and reinsurance operations in 2020 of $309 million and a combined ratio below 100% at

97.8%, which compared to an underwriting profit of $395 million and a combined ratio of 96.9% in 2019.

Underwriting performance in 2020 remained strong, despite COVID-19 losses of $669 million and catastrophe losses of $644 million, which were higher than 2019 by $147 million. Despite those COVID-19 losses and additional catastrophe losses, in aggregate that were $815 million, Fairfax still achieved an underwriting profit of $309 million and a combined ratio of 97.8% or 93.0% adjusted for those COVID-19 losses. All of our insurance and reinsurance companies achieved combined ratios below 100% in 2020, with the exception of Brit primarily as a result of the impact of COVID-19 losses.

Overview of our core underwriting results for 2020 are as follows: Northbridge reported a combined ratio of 92.4% and underwriting profits of $109 million, which was an underwriting improvement of $62 million from 2019; Odyssey Group reported an underwriting profit of $190 million with a combined ratio of 94.7%, an underwriting improvement over 2019 of $100 million; Crum & Forster reported an underwriting profit of $60 million and a combined ratio of 97.5%, which was relatively consistent with their 2019 results; Zenith National reported lower underwriting profits of $52 million and a combined ratio of 91.9%, which reflected price decreases and lower payroll exposure due to the economic impacts of COVID-19 in their workers compensation business. This was partially offset by price increases and growth in other property and casualty lines; Brit reported underwriting losses of $240 million and a combined ratio of 114%, which principally reflected COVID-19 losses of $270 million or 15.8 combined ratio points and higher catastrophe losses; Allied World reported an underwriting profit of $126 million, combined ratio of 95.4%, an underwriting improvement over 2019 of $68 million; Fairfax Asia reported an underwriting profit of $7 million and a combined ratio of 96.8%, which is relatively consistent with their 2019 results; and finally, our Insurance and Reinsurance Other segment produced an underwriting profit of $6 million and a combined ratio of 99.5% in 2020, which compared to an underwriting loss of $18 million and a combined ratio of 101.7%.

Key components of our combined ratio in 2020 of 97.8% included the following, COVID-19 losses of $669 million or 4.8 combined ratio points; increase in frequency of current period cat loss events that resulted in higher losses at $644 million or 4.7 combined ratio points primarily related to Hurricane Laura, Sally and the Midwest Derecho; benefit of strong reserving reflected continued net favorable prior year reserve development of $455 million or 3.3 combined ratio points; and improved underwriting expense ratios reflecting the growth in our net premiums earned relative to the increases in the underlying expenses.

Additional details on the catastrophe COVID-19 losses, net favorable prior year reserve development and our combined ratios that impact each of the respective insurance and reinsurance segments will be disclosed in Fairfax's 2020 annual report in the MD&A.

As noted in 2020, we reported COVID-19 losses of $669 million, which were comprised primarily of business interruption exposure, approximately 35% primarily from our international businesses and event cancellation coverage of approximately 34%. The COVID-19 losses, principally comprised of incurred, but not reported that represented

51% of the net losses, and the net losses were primarily recorded at Brit $270 million, Odyssey Group at $140 million and Allied World at $113 million.

Our catastrophe losses in 2020 of $644 million or 4.7 combined ratio points were primarily comprised and reported by the following segments. Northbridge reported CAD39 million or 2 combined ratio points primarily relating to Fort McMurray floods and the Calgary hailstorms; Odyssey Group $190 million or 5.3 combined ratio points primarily related to Hurricane Laura and the Midwest Derecho; Allied World $165 million or 6.1 combined ratio points related to Hurricane Laura, the U.S. Western wildfires and Midwest Derecho; Crum & Forster, $95 million or 3.9 combined ratio points primarily related to Hurricane Laura and Sally; and finally Brit $157 million or 9.2 combined ratio points primarily related to Hurricane Laura and Sally. Our combined ratios benefited from net favorable prior year reserve development of $455 million, which translated into 3.3 combined ratio points compared to net favorable prior year reserve development of $480 million which represented 3.8 combined ratio points in 2019.

Looking at the growth in our net premiums written by the insurance and reinsurance operations in the fourth quarter and full year 2020. In our fourth quarter 2020, the net premiums written increased by 16.1% to $3.7 billion from $3.2 billion in the fourth quarter of 2019. And for the full year 2020, it increased by 11% to $14.7 billion from $13.3 billion in 2019. That full year increase in 2020 of approximately $1.5 billion is almost equivalent to all of Northbridge's net premiums written in 2020.

And a few comments on a runoff operation. As noted in prior quarters subsequent to the contribution of European run-off to Riverstone Barbados on March 31, 2020. Starting from April 1, 2020, the operating results of run-off only include our U.S. operations. Excluding this significant reinsurance transactions in Part VII transfer at European run-off in 2020 and 2019 run-off reported an operating loss of $204 million in 2020 compared to an operating loss of $219 million in 2019, with run-off reporting an operating loss of $147 million in the fourth quarter of 2020, principally reflecting net adverse prior year development on asbestos reserves of $126 million.

Turning to the results of our non-insurance companies reporting segments. In 2020, the restaurant and retail reporting segment reported an operating loss of $70 million, but in the fourth quarter 2020, the company benefited from favorable results from this segment that reported operating income of $12 million. This segment's revenues benefited from expanded ecommerce platforms and strong brand awareness that helped partially offset the decline in the in-store revenues throughout 2020 as a result of the impact of COVID-19 lockdown restrictions.

The operating losses in the other non-insurance reporting segment of $54 million in 2020 principally reflected Fairfax Africa's operating losses of $110 million pre-deconsolidation on December 8, 2020, partially offset by operating income at Dexterra and AGT.

On December 8, 2020, Fairfax Africa completed the transaction with Helios Holdings Limited and was renamed Helios Fairfax Partners or HFP. Fairfax deconsolidated Fairfax Africa and commenced accounting for its interest in HFP as an investment in associate, resulting in a net loss of $62 million that included recycled foreign currency translation losses of $27 million and those foreign currency translation losses have no impact on common shareholders' equity, it's a reclassification in the financial statements. Also that included the $62 million of partial reversal of the initial impairment loss of $164 million that was recorded in the third quarter of 2020 related to an increase in the market-traded share price at Fairfax Africa between then and closing.

Now looking at our results, our investment results for Fairfax, our consolidated interest in dividend income decreased year-over-year from $880 million in 2019 to $769 million in 2020. That primarily reflected lower interest income earned principally on the U.S. treasury bonds and cash, short-term positions that was partially offset by higher interest income earned on our high quality U.S. corporate bonds.

Our consolidated share of loss of associates of $113 principally reflected impairment losses of $240 million that were recorded primarily in the first quarter of 2020 and were related to the company's investments in Quess, Resolute, Atlas, Mara and Astarta. The share of losses -- and it also included our share of loss of Sanmar of $49 million and Bangalore Airport of $31 million, which was partially offset by profits at Atlas Corp. of $116 million and RiverStone Barbados of $113 million.

At December 31, 2020, our investments in associates had an aggregate fair value that exceeded the carrying values by $712 million. And due to the equity method of accounting for these investments, this excess of fair value over the carrying value is not included in our book value per share. This is a significant positive change from the March 31, 2020, when the aggregate carrying value exceeded the fair values of the investments in associates by approximately $400 million. That represents on a pre-tax and non-controlling interest basis appreciation of approximately $1.1 billion in these investment.

In terms of our net gains on investments, I'll highlight the fourth quarter and 2020 results. In the fourth quarter, our consolidated net gain on investments was over $1.2 billion compared to net gains on investments of $640 million in the fourth quarter of 2019. The fourth quarter of 2020 principally reflected net gains on our long equity exposures, just under $1.2 billion and net gains on our bonds of $112 million that was partially offset by $138 million on our short equity exposures which resulted in the closing of the company's remaining short equity total return swaps.

And I remind you that in the first quarter of 2020, we reported net losses on investments of just over $1.5 billion, and for fiscal year 2020, Fairfax's consolidated net gains on investments was $313 million, a $1.8 billion swing within a year. Our consolidated net gains on investments was $313 million, reflecting our net gains on bonds of $562 million, primarily as a result of unrealized appreciation of high quality corporate bonds. And our net gains on long equity exposures was $372 million which was partially offset by our short equity exposure of $529 million that was fully closed out of the company's remaining short equity total return swap position.

And in closing, a few comments on our financial position. Our total debt to total cap ratio, excluding the company's consolidated non-insurance companies increased to 29.7% at

December 31, 2020 from 24.5% at December 31, 2019, primarily reflecting increased total debt and decreased common shareholders' equity, principally related to the common share dividend paid in Q1 and unrealized foreign currency translation losses, which was partially offset by net earnings.

At December 31, 2020, our book value per share was $478 compared to $486 at December 31, 2019 (Technical Difficulty) in the first quarter 2020 and an increase from the third quarter of 2020 of 8.2%. The increase in book value per share in the fourth -- of 8.2% in the fourth quarter of 2020 reflected Fairfax's core underwriting performance continuing to be very strong with excellent investment returns.

And now Prem, I will pass it back over to you.

V. Prem Watsa {BIO 1433188 <GO>}

(Technical Difficulty) your name and your company name and try to limit your questions to only one so that's fair to everyone on the call. Okay, then we're ready for the questions.

Questions And Answers

Operator

Thank you so much. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Jeff Fenwick from Cormark Securities. Your line is now open. You may proceed.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hi. Good morning, Prem.

A - V. Prem Watsa {BIO 1433188 <GO>}

Hey, good money, Jeff.

Q - Jeff Fenwick {BIO 15350794 <GO>}

So, as you say, interesting time in the markets and good opportunities for stock pickers. So my first question really is just around your general thoughts on investment rotation, and are you being very active here and maybe selectively transmitting some positions and looking for some new opportunities? And I guess the one I certainly get a lot of questions on of late, not surprisingly, is BlackBerry. So any comments on, I guess, the allocation and perhaps BlackBerry specifically?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah, Jeff, just on BlackBerry, it's gone up and come down. So just a couple of points. First of all, we don't comment on our securities' purchase or sales, you know that. I will just say two points. One, there were insiders and have insider obligations on BlackBerry; and two, BlackBerry closed at December 2020 -- closed the year at December '20 at (inaudible).

Having said that, in 2019, the technology stocks were doing very well and have been doing very well for some time, as you know, Jeff, and the shift to value investing had begun, and then COVID came at us in 2020 in March. And it was significant, 180 countries closed down their economies, we didn't know what was going to happen and stocks -- particularly value-oriented stocks or stocks companies sensitive to the economy crashed. Since that time, we have come back, and now we've got vaccines coming in, we've got testing, we just think the set to value investing will take place over time. And that's already begun in November with the announcement of the Pfizer vaccine. Many, many vaccines have come to play, countries are getting back to normalization. I don't know exactly when but that will happen and the economies will come back.

And so we have constant stock pickers, we expect to make money on the things that we've had invested it in the past, and we are constantly looking at better opportunities. So this is what we've done for 35 years. We've got a tremendous track record. We've got a very good investment team led by Wade Burton and Lawrence Chin, and very excited Jeff about what will happen in the next few years.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay. And maybe my next question, I'd like to just focus on capital and uses of capital. Obviously, you highlighted, how the balance sheet has strengthened after your RiverStone sale. As we look into this year with the insurance markets remaining hard, are you thinking that your first priority, I guess is pushing more capital down into the operating units. Are we looking at a similar magnitude of investment down there? I think it was $1.4 billion or maybe you might look more at doing something like share buybacks here for stocks still trading below book value?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. So the first thing to say is that insurance is our business, core business. As you've said we've put a ton of money in 2020 into the insurance companies. We don't think they need any more money now, because our investment portfolios coming back up as additional plus, but we've made them self financing at the end of the year. And we expect them to grow significantly. When they grow, they grow over time, right. So when you write premiums it kind of -- you earn it over more than a year as the year come forward.

So the insurance business is well growing that reminds me of 2001 and what happened in 2002 after September 11. Some differences, of course, at all times, but as we said prices are going up. They're going up over -- all over the world and the terms are going up. We have capital. We purposely did the 14% on Bit, so that we have another $375 million in case we need it. But at the moment, we don't expect to need any money from the holding company for our insurance companies. They're well capitalized and financed and ready, and most importantly many companies are pulling back, Jeff, where our management team who run the companies are ready to expand and are expanding significantly as you saw in Allied and Northbridge and Odyssey already.

Q - Jeff Fenwick {BIO 15350794 <GO>}

And I guess maybe a comment on share buybacks then, if you have some capital available for that?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. So share buybacks is always our first financing soundness, first, a good opportunity to simplify our insurance companies; second is share buybacks, and that's what we always look at. We had this opportunity as we mentioned on the total return swap. It's an investment that we made. I've said before many a time that our stock prices are incredibly cheap for the record that we've had. We go through phases though, we're not looking at every three months, every quarter we are up 10% to 5% that's not how we run our company. But our long-term record is perhaps one of the better ones you'll see.

And so we think our stocks are cheap, so we've had a total -- when we looked at the potential investments that were available to Fairfax, in our investment portfolios, Fairfax was among the best, if not the best, and so we bought 1.4 million shares as we said in a total return swap, and -- as an investment, we bought that as an investment. So we look at all possibilities, Jeff, and see what the future will bring.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay. Thank you for that color. I'll re-queue.

A - V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Jeff. And next question, Dale.

Operator

The next question comes from the line of Junior Ra, Private Investor. Your line is now open, sir. You may proceed.

Q - Junior Ra {BIO 17627950 <GO>}

Good morning, Prem.

A - V. Prem Watsa {BIO 1433188 <GO>}

Good morning. Good morning.

Q - Junior Ra {BIO 17627950 <GO>}

Congratulations on a wonderful quarter. I have two questions. So for the total credit swaps, when is the expiry date for that? And during the reddit [ph] fiesta did you guys to take advantage by hedging any of your investments?

A - V. Prem Watsa {BIO 1433188 <GO>}

Sorry, when you say the credit swap, do you mean these total return swaps or...

Q - Junior Ra {BIO 17627950 <GO>}

The Fairfax -- yeah, yeah, total ones. Yeah, sorry.

A - V. Prem Watsa {BIO 1433188 <GO>}

Total return swaps. Yeah. They are on-year swaps, we've historically been able to extend it for as long as we like.

Q - Junior Ra {BIO 17627950 <GO>}

Okay, thanks. And on the reddit question, did you -- were you guys able to lock in any of the gains by taking any kind of hedging? Or was there no opportunity, because it was just a short period of time?

A - V. Prem Watsa {BIO 1433188 <GO>}

So, as I said, right, I made the point that on BlackBerry we're insider and we have insider obligations, and we never talk about purchase or the sales of securities.

Q - Junior Ra {BIO 17627950 <GO>}

Thanks.

A - V. Prem Watsa {BIO 1433188 <GO>}

Thank you very much. Next question, Dale.

Operator

Our next question comes from the line of Tom MacKinnon from BMO Capital. Your line is now open. You may proceed.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah, thanks very much. Good morning, Prem.

A - V. Prem Watsa {BIO 1433188 <GO>}

Good morning.

Q - Tom MacKinnon {BIO 2430137 <GO>}

My question is about the selling off 14% of Brit to OMERS. I mean, I think your reasoning was we got $375 million as a result of that, and that's just in case we need it. Remember earlier in 2020, you wanted the debt market, sort of, in case you need it. Why are you selling off a 14% of Brit like in the height of some good hard markets here? Why would you use debt (Multiple Speakers)?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. So very good question, Tom. We just want to be financially sound and we've got a very good relationship with Brit and with OMERS. You know that we had 40% on RiverStone U.K. that we sold to OMERS for $600 million. And so they're taking $225 million and they are reinvesting $375 million in Brit. And now we just think we've got a very good relationship. We bought back, Tom, I think we had about 89% OMERS out as in the past and we had 89% before we did the 14%, or we bought all of it, I think, back in 2020, and so we sold this 14% back. It's $375 million possible potential. We are going to refinance some time off which we've always done on debt issues that are coming in the next three years. We think it's just a good mix.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And so if anybody said you're selling off an insurance -- part of an insurance company in what would appear to be pretty good insurance markets in order to improve liquidity versus going to the debt market, how would you answer that question?

A - V. Prem Watsa {BIO 1433188 <GO>}

I would answer that by saying that we've done this before, and we have the ability to buyback that 14% from OMERS. We've got many targets that we can buy it in a year, in two years or three years. So it gives us a lot of flexibility, Tom. And the debt markets are bad, we understand that.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah. Okay. Thanks for that.

A - V. Prem Watsa {BIO 1433188 <GO>}

Thank you very much, Tom. And next question, Dale.

Operator

The next question comes from the line of Mark Dwelle from RBC Capital Markets. Sir, your line is now open. You may proceed.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah, good morning. A couple of questions.

A - V. Prem Watsa {BIO 1433188 <GO>}

Good morning, Mark.

Q - Mark Dwelle {BIO 4211726 <GO>}

Good morning. On the Barbados, the sale of the Barbados business, you had mentioned briefly and it was mentioned in the press release about a plan to buyback or part of the agreement requires the buyback of $1.2 billion of investment assets. Can you just elaborate on that a little bit? Why is that being left out there? It seems like $1.2 billion is not an insignificant amount that presumably the holding company will need to come up with within the next couple of years in order to fund that purchase.

A - V. Prem Watsa {BIO 1433188 <GO>}

So, Tom [ph], basically we had a stock portfolio in RiverStone U.K., and we could have sold it in December or whenever in 2020. Our feeling was that it was very undervalued. So we have the ability $1.2 billion is based on 2019 prices, year-end prices, or '22 we've got the ability to sell it or buyback that just we think it will be -- right now the $1.2 billion is very much what it's worth in the stock market meaning the stocks in that portfolio are very much worth $1.2 billion. And we expected to do very well, and so we can sell it if we want or we can hold it. And we just think value investing is coming to the fore. The companies that we own are going to be -- are exceptionally undervalued in our minds. So I will take that with a pinch of salt. But we think they are exceptionally valued, so exceptionally undervalued, and we think they got to do very well. So we didn't want to sell that at these prices, but that's basically (Multiple Speakers).

Q - Mark Dwelle {BIO 4211726 <GO>}

So, these are primarily -- these are -- I'm sorry, these are common equities or these are private equity holdings?

A - V. Prem Watsa {BIO 1433188 <GO>}

No, these are predominantly common stock position that we have.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay, thanks.

A - V. Prem Watsa {BIO 1433188 <GO>}

We can sell them despite...

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. My second question relates to executing the total return swap with respect to Fairfax shares. I guess I was just curious why you pursue that structure rather than just buying back the stock if you felt like that was the good opportunity? I mean, is this a capital constraint that you couldn't really buyback that much?

A - V. Prem Watsa {BIO 1433188 <GO>}

We'd have to be careful, right, so not so much. Yeah, we had to be very careful in terms of how much we could buyback. When we looked at Fairfax as a stock price and looked at everything else that we could buy, we just got total return swap on Fairfax. Right now we paid $344 per share as you know U.S. dollars. Our book value is $478. I mean if you work the math just on book value basis or -- we'd have about $200 million gain. If Fairfax stock prices go to book value, it's worth another $200 million. We just think it's a terrific investment and our total return swap structure was a very good way for us to do it, and so we did it.

Q - Mark Dwelle {BIO 4211726 <GO>}

I don't want to disagree with you that it was a good strike price. I guess it was really the format of transaction rather than just actually buying the shares using a derivative, instead it's a little bit unusual. I have usually seen that with most of the companies that I have followed. So that was really my main question.

A - V. Prem Watsa {BIO 1433188 <GO>}

So, Mark, our point is just that we wanted to keep up -- we will have more than $1 billion in cash in the holding company once -- almost it is done [ph], we will have $370 million -- $375 million. We just wanted to be financially sound and -- in all ways as opposed to use that cash at this point in time.

Q - Mark Dwelle {BIO 4211726 <GO>}

Okay. Thanks for the answers and good luck for 2021.

A - V. Prem Watsa {BIO 1433188 <GO>}

Terrific. Thank you, Mark. Next question please, Dale.

Operator

Thank you. The next question comes from Jaeme Gloyn from National Bank Financial. Your line is now open. You may proceed.

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. Hey, Jaeme.

Operator

I am so sorry. Jaeme has disappeared. Would you like to entertain other question? (Operator Instructions)

A - V. Prem Watsa {BIO 1433188 <GO>}

Dale, you want to go on to next question, please.

Operator

Sure. The next question comes from (inaudible). Your line is now open. You may proceed.

Q - Unidentified Participant

Hello, Prem.

A - V. Prem Watsa {BIO 1433188 <GO>}

Hi, Micheal [ph]. Can't hear you, Micheal.

Operator

Micheal line has got disconnected, or his line has disappeared. Would you like to entertain Jaeme Gloyn?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah, Dale, if you can't get them, go onto the next question, please.

Operator

Sure. Jaeme Gloyn, your line is now open. You may proceed.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, good morning. Am I coming through?

A - V. Prem Watsa {BIO 1433188 <GO>}

Hey, good morning, Jaeme. Yeah, we can hear you well.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

All right, okay. So first question is just around the Farmers Edge IPO that seems to be -- that will be coming out pretty soon here. Can you maybe talk about some of the other industries or companies that you're looking to maybe tap into this pretty robust IPO market as a way to realize on value in some of those holding?

A - V. Prem Watsa {BIO 1433188 <GO>}

You know, Jaeme, we are not allowed to say too much until they file, and until they have done. So, Farmers Edge as you know has filed. We'll be filing some more. You'll be able to guess them. And we will be filing them in India, in Fairfax India. Many of them there and we've got some really good companies and we've developed them over time. And Dexterra as a classic where the old Horizon North is called Dexterra. We have 49%. And we expect that to be a very successful company over time.

So we have many of them. And when you look at our non-insurance companies, some of you analysts are worried about the fact that we don't make any money, we reflect the losses. But we don't show the gains. The gains come over time. So when you look at our investment portfolio, you know this Jaeme, we've got common shares. We have more than 20% that they become associates. If you have a 40% interest or numbers like that in the case of Thomas Cook 65%, then you have the consolidate it.

So in our annual report in 2020 -- after the 2020 annual report that will come out in a few weeks, we're going to show it to you so that you can -- going to take another attempt to show you our common stock positions. And there some of them are just common stock and some are associated, some are consolidated, it gets a little confusing, but that's the accounting IFRS, we have to follow the accounting rules. But we're going to show that to you in a way that I think will be easier to understand. And over time, all of these investments, some do very well in a short period of time and some take longer and we've just -- we're patient long-term investors.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay, great. Thanks. And then just following up looking into the insurance sector as we think about COVID-19 risks and losses and reserving there. Yeah, I would expect that loss reserves would diminish as the vaccine rollout unfolds, but can you talk about maybe some of the exposures in the event cancellation in business interruption...

A - V. Prem Watsa {BIO 1433188 <GO>}

So, event -- yeah, event cancellation Jaeme, we've taken the next six months. You know these event cancellation policies have been very few, if any we [ph] written after March 2020. And so we've looked at -- you know, Brit has looked forward and Allied World too, and we basically written off the first six months, where we think there'll be a written. So we don't expect it to be of any significance, but as I said in my comments that there was that uncertainty, but we don't expect it to be very significant.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. And then on BI as well, do you have a quick comment to sort of frame that risk like you just did with event cancellation?

A - V. Prem Watsa {BIO 1433188 <GO>}

Which risk again, Jaeme, sorry?

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Business interruption.

A - V. Prem Watsa {BIO 1433188 <GO>}

Business interruption. Yeah, business interruption is an international risk that you have. So it's outside North America. We've taken most of the hit. You'll see that, you know like 50%, 60% of the gross numbers that we've setup are IBNR, right. So that's a reserve that are not allocated -- incurred, but not reported that we expected to come. We've been conservative -- all through our history, we've been conservative, and so we expect that even in the case of business interruption. Now there are some lawsuits and there is regulatory bodies making decisions. So you have to watch how they come through, but we think all in all, right now well reserved.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. That's great. Thank you.

A - V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Jaeme. Yes, Dale, next question, please.

Operator

The next question comes from the line (inaudible), a private investor. Your line is now open. One moment.

Q - Unidentified Participant

Long time and I followed you guys for a long time. And I believe that you know at this time that you've stepped down from having primary investment responsibilities. I know that Jamie manages some capital, Wade manages some capital. We all know that those are very small portions of the capital base. And I think you were always quoting your long-term track record, but I know when the man is out of tune with the markets, and I also think that it was a huge mistake if you did not take the BlackBerry gift that was given to you by the market. And I also don't think that you're doing deep analysis under holdings. I suspect that you probably don't do a lot of diving into the financials, the statements, you probably don't understand the microeconomics of the business you are sort of buying. You probably are not talking to customers, suppliers, competitors, former employees, the competitive -- the investment business is a very competitive business. It's not like it's used to be. I'm not saying that you should go out and buy technology stocks, but I sense when a man is not competitive in the field and is not working hard. And I think it's time that you step down from primary investing. And I'm sure many of your associates agree with you, but -- because they are Canadian and tend to be nicer than Americans. They just don't say anything. And the banks don't ask you difficult questions because there are so few good companies in Canada and they get financing fees from you, so they are scared of the questions. Thank you.

A - V. Prem Watsa {BIO 1433188 <GO>}

Good. Good points. You're entitled to your opinion and we'll let time decide that, okay. So thank you very much for your comment. Next question, Dale.

Operator

The next question comes from the line of (inaudible), private investor. Your line is now open.

Q - Unidentified Participant

Hi, Prem, thanks for taking my question. My question is regarding Fairfax India. Could you please provide an update on your investment in Bangalore Airport? Are you still bullish about the prospects of that investment given the situation with COVID and/or it's going to evolve in the next two, three years? And also could you provide an update regarding the deal you had with OMERS to sell a stake at $2.7 billion valuation? And can we expect to like has it closed or like could you provide an update there? And also could you tell us like whether we are still looking to do the IPO as it was written in the last annual report by the end of this year?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. So, Bangalore International Airport is a world-class airport, doing very well. They stopped of course during COVID. The business is coming back significantly. Passengers are -- yeah, it's running at about 60% of capacity. And so the terminal is delayed, but in 2022, the second terminal will be built. The second runway is already built. And we expect it to -- we are as excited about Bangalore International Airport as we always were. And we've got a terrific guy running it, as you know, Hari Marar, and so this company will be on its way in terms of its -- in terms of Fairfax India, it's a tremendous opportunity. India is a land of opportunity, it's become very business-friendly. And Mr. Modi has come up with a very good budget. And we expect that our anchorage over time will take it public. We think $2.7 billion, $2.8 billion for Bangalore International Airport in 100% basis now is a very reasonable price, and so that's very, very possible.

In terms of the anchorage approval, there is still -- India, there is a lot of approvals necessary [ph] -- one more approval that is necessary and we think it will come soon. And so as it's excited (inaudible) are in terms of Fairfax India and this got lots of possibilities.

With that, Dale, let me take the last question, if you don't mind.

Q - Unidentified Participant

Thank you.

Operator

Sure. The next question comes from the line of Alan Parsow from Elkhorn Partners.

Q - Alan Parsow {BIO 1446024 <GO>}

Thank you very much for taking the call.

A - V. Prem Watsa {BIO 1433188 <GO>}

Hey, Alan.

Q - Alan Parsow {BIO 1446024 <GO>}

I just need a little bit of clarification if I can on the questions regarding BlackBerry. I understand that you don't discuss changes in portfolio, et cetera, regarding any of your positions. But there were filings made, and this goes with regard to your inside comments -- insider comments and directorship. There were some filings made in January where six of the Hamblin Watsa Fairfax team sold their entire positions in BlackBerry. I understand, that's a subsequent event to the end of the quarter, but can you explain how they're able to sell their shares and Fairfax may not be able to sell theirs? Or in the past, you've had -- you have two different positions in BlackBerry, one convertible bonds and common stock. Are you saying you have restrictions on both of those for clarification for me, please?

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. So the securities as you see doesn't distinguish between convertibles and common shares. And in the case here, we are an insider, I am an insider and Fairfax is an insider. But some of the people may not be insiders, and I don't know who you're referring to Alan, but some of them may not be insiders and so they can do what they want.

Q - Alan Parsow {BIO 1446024 <GO>}

As an example, Wade Burton, Roger Lace, I mean they were significant investor people.

A - V. Prem Watsa {BIO 1433188 <GO>}

Yeah. No, that's right. But the company is an insider versus -- so we follow all these rules very carefully. And no one can sell anything unless they go through our legal department. And so we're very, very careful, Alan, in this type of situation, and we just -- we don't talk about individual securities till we're done that just how we run our affairs for 35 years. And so you will have to bear with us, Alan.

And I thank you for your question. I thank all of you. Dale, I think we're ready to go on to end the call. And as we have announced previously for your safety and for the safety of all our employees from the global pandemic, our annual meeting will once again be held virtually on April 15, at which time I look forward to answering again all your questions. Instructions on how to join that webcast will be published on our website soon. So Dale, thank you very much. This will terminate the call. Thank you.

Operator

And that concludes today's conference. Thank you all for participating. You may now disconnect.