Q2 2021 Earnings Call

Company Participants

- Derek Bulas, Associate Vice President of Legal
- Jennifer J. S. Allen, Vice President & Chief Financial Officer
- Peter S. Clarke, Vice President & Chief Operating Officer
- V. Prem Watsa, Founder, Chairman & Chief Executive Officer

Other Participants

- Alan Parsow
- Analyst
- Jack Grant
- Jaeme Gloyn
- Jeff Fenwick
- Mikel Abasolo
- Tom MacKinnon

Presentation

Operator

Good morning and welcome to Fairfax's Second Quarter 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 Instruction) For time's sake, we ask that you limit your questions to one. Today's conference is being recorded. If you have any objections, 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 2021 second quarter 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>}

Hey, thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's 2021 second quarter conference call. I plan to give you some of the highlights and then pass it on to Peter Clarke, our Chief Operating Officer, to comment on our insurance and reinsurance operations; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

Fairfax had an outstanding second quarter with net earnings of $1.2 billion or earnings per share of $43.25, and gross premiums are up 27% for the combined ratio of 94.3%. Insurance and investments are working well together. Fairfax's booke value per share in the first six months of 2021 increased by 15.2% adjusted for the $10 per share common dividend paid in the first quarter to $541 per share. Our net earnings of $1.2 billion were a record for a quarter, but of course, they reflected significant unrealized gains. All of our major insurance companies generated combined ratios of less than 100%, more on this from Peter Clarke.

In the second quarter, operating income was strong at $398 million. Net gains on investments were $1.3 billion with gains on net equity exposures of approximately $900 million, and a $425 million gain on our preferred shares and Digit Insurance. The net gains on equities included unrealized gains on BlackBerry, Stelco, and BDT. Not included in the net gain numbers, mark-to-market movements and unknown insurance investments in associates and certain consolidated investments, which we have described in our annual report. These investments increased in the second quarter by approximately $340 million. Any gains or losses in these securities will typically only be accounted for when sold. We have provided a table on our MD&A on Page 73, that provides the unrealized gains and losses on these securities.

As we've mentioned at our Annual Meetings and in our Annual Reports and quarterly calls, with IFRS accounting where stocks and bonds are recorded at market and subject to mark-to-market gains or losses, quarterly and annual income will fluctuate, and investment results will only make sense over the long term. 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, have never been so extreme in the recent past, exceeding even the extremes of the .com era in 2000. As the economy normalizes, we expect a reversion to the mean with value-oriented stocks coming to the fore. After the Pfizer vaccine was announced last November, we started to see this take place.

In June, we increased our ownership interest in Singapore Reinsurance from 28.2% and 94% for about $103 million. Through the completion of a public cash offer and commenced consolidating the assets, liabilities, and results of our operations of Singapore Re. We expect to acquire the remaining 6% and delist that company from Singapore's -- from the Singapore Stock Exchange. Singapore Re is a general property and casualty insurer, that underwrites business primarily in Southeast Asia. Singapore Re will join our Fairfax Asia operations and will facilitate our continued expansion in the region.

On July 14, 2021, that company increased its interest in Eurolife to 80% by acquiring the interest of almost for cash consideration of approximately $143 million. The remaining 20% equity interest in Eurolife continues to be owned by Eurobank. The company will commence consolidating the assets, liabilities, results of operations Eurolife in its consolidated financial reporting in the third quarter of 2021.

Eurolife is a Greek insurer, which distributes its life and non-life insurance products and services throw Eurobank's network. Since our initial investment in Eurolife, the company has increased its book value by 22% annually, thanks to exceptional underwriting and investment results. We continue to have approximately $1.5 billion at the holding company, predominantly in cash and short-term securities. Please note our cash in the holding companies submit any and every contingency that Fairfax might face in the future. We're not making any long-term investments with this cash other than the support our insurance and reinsurance operations.

With the closing of the RiverStone Barbados transaction, which we expect in August 2021, we intend to fully pay off our credit facility while maintaining $1.5 billion in cash at the holding company. At June 30, 2021, the company's insurance and reinsurance companies held approximately $18 billion in cash and short-dated securities, representing approximately 40% of our portfolio investments. Should interest rates rise as they may, the value of our fixed-income portfolio will be relatively unaffected as we have not reached for yield. Rising interest rates will lead to increase investment income as they are positioned to take advantage of it.

We continue to invest with Kennedy Wilson in first mortgages with the term less than five years. Our insurance subsidiaries are growing significantly, on track to generate $23 billion to $24 billion of gross premium this year at a substantial underwriting profit. Our investment portfolio now exceeds $45 billion, and our reported book value per share has risen to $541 with strong underwrite -- underlying upward momentum. Most importantly, our fair and friendly culture developed over 35 years continues to serve as well. We think the future is bright and the best is yet to come.

I will now pass the call to Peter Clarke, our Chief Operating Officer, to comment on our insurance and reinsurance operations. Peter?

Peter S. Clarke {BIO 15243793 <GO>}

Thank you, Prem. Our company is continue to produced outstanding results, the 27% growth in gross written premium over the second quarter of 2020 with one of the highest in our history, generating premiums of approximately $6 billion in the quarter. We also produce the combined ratio of 94% or $228 million of underwriting profit despite additional COVID-19 losses of $69 million and increased provisions on the first quarter U.S. winter storms of $87 million. By comparison, in the second quarter of 2020, we produced an (technical difficulty) primarily due to higher COVID-19 losses of $308 million.

On the underwriting front, Northbridge and Zenith reported the lowest combined ratios being 85% and 93% respectively. All of our major companies again produced combined ratios well below a 100%. As mentioned, our gross premiums for the quarter was up 27%, approximately 25% adjusted for foreign exchange, an increase of approximately $1.3 billion in the quarter from the previous year. This growth has been made possible by the favorable market conditions that prevail in many of our markets, particularly in North America.

Allied World grew its premiums by 29% with growth especially strong in the Directors and Officers and excess casualty segments. Odyssey Group's gross premiums were up 25% with expansion in both its insurance and reinsurance segments. In Canada, Northbridge's top line expanded 36% in U.S. dollar terms, as it continues to register impressive rate increases, strong retention, and new business. In Canadian dollars, premiums were up 22%.

Crum & Forster increased its premium by 30%, driven by its accident and health division, and includes the rebound of its travel business that was significantly affected by the COVID-19 shutdown in 2020. While these four posted the most impressive growth among our major companies Brit and Zenith also increase premiums this quarter as well. Of note, Brit launched its innovative follow on syndicate key in the first quarter of 2021 and key had gross written premium of $77 million in the second quarter which contributed to the overall 18% growth rate at Brit.

Growth was strong in our international operations as well with expansion in South America, Eastern Europe, and South Africa. Overall, our international companies grew by approximately $125 million year-over-year. We expect growth to remain strong as overall price levels continue to rise at a double-digit pace. Our global footprint and exceptional management teams gives us the ability to generate significant organic growth.

In the second quarter, our combined ratio of 94.3% benefited from a lower level of catastrophe losses in the quarter but included increased provisions on extraordinary -- the extraordinary winter freeze event in the U.S. in the first quarter. This added 2.2 combined ratio points in the quarter. In addition, we absorb COVID losses of $69 million or 1.7 point in the combined ratio. Principally, in our reinsurance operations at Odyssey Group and Allied World.

With respect to COVID, our inception to date losses now totaled $787 million of which approximately half is held in IBNR. Based on knowledge today, we expect these provisions to adequately cover our exposure. At the same time, the pandemic is ongoing as is much litigation and therefore some uncertainty remains. In the fourth quarter, we recorded favorable reserve development of $32 million or 0.8 of a combined ratio point, which includes unfavorable development of $60 million of the previously mentioned COVID-19 losses that were attributable to the prior year's. Excluding the COVID losses, our reserves develop favorably again by $92 million. Our reserved position continues to strengthen as our companies expand with today's well-priced business.

Another important side effect to the growth we are experiencing is the reduction in our expense ratio component of our combined ratio. Our premiums are growing faster than our underwriting expenses. Once again, this is most apparent at Allied World, where the expense ratio in the quarter dropped the full 2 points from 2020.

We expect market conditions to remain strong throughout 2021 and well into 2022. Low-interest rates, social inflation, and reduced industry risk appetite will keep the pressure on. Our companies are well-positioned to continue growing organically. Our decentralized system allows our companies to respond quickly to opportunities in the markets. When conditions are improving, this is an especially critical Fairfax advantage.

I will now pass the call to Jen Allen, our Chief Financial Officer, to comment on our investment results, our non-insurance company's performance, and overall financial position.

Jennifer J. S. Allen {BIO 20542595 <GO>}

Thank you, Peter. The results of the second quarter of 2021 were very strong, building on the momentum we achieved in the fourth quarter of 2020 and in the first quarter 2021. We delivered earnings attributed to shareholders of Fairfax of just over $1.2 billion in the second quarter of 2021 and a book value per basic share at June 30, 2021, of $541, which represented growth in book value per share of 15.2%, adjusted to include the $10 common share dividend paid in the first quarter 2021.

Turning to some highlights on our second quarter results. Peter provided detailed commentary on our insurance and reinsurance operations, so I'll start with the results of our non-insurance company's. In the second quarter of 2021, our non-insurance consolidated companies reporting operating losses of $44 million compared to operating losses of $80 million in the second quarter of 2020. The second quarter of 2021 included Fairfax India's performance fee accrual of $43 million compared to nil in the second quarter of 2020. In the first six months of 2021, Fairfax India recorded a performance fee accrual of approximately $100 million. With pre-tax earnings attributive Fairfax shareholders benefiting by about $71 million, as Fairfax India's non-controlling interest was allocated 72% of Fairfax India's expense.

Excluding the (technical difficulty) our operating losses from our non-insurance consolidated companies decreased to a nominal loss of $1 million in the second quarter of 2020, that compares to $80 million in the second quarter of 2020, with a significant improvement noted in the restaurant and retail segment. The second quarter of 2021, we saw stronger results from our restaurant and retail segment, reporting operating income of $16 million compared to an operating loss of $43 million in the second quarter of 2020.

As restrictions eased across Canada, we saw increased foot traffic at the bricks-and-mortar locations. This, when added to robust, e-commerce platforms, drove significant, double-digit revenue growth in certain companies. These factors combined with expense management programs that were already in place, delivered healthy gross margins increases across our key operating companies, with recognition for golf count for achieving outstanding results in the second quarter of 2021.

In the second quarter of 2021, Thomas Cook India continue to be negatively impacted by the reduced travel restrictions as a result of COVID-19. During the second quarter of 2021, India's economy impacted by a second wave of COVID-19 pandemic. But it appears that the economic damage was less than experience during 2020 with two primary reasons for this. First India now has a vaccine program in place; and second, there was no nationwide lockdown that has imposed during the second wave as was done in 2020. With the vaccinations penetration in India expected to continue to improve and the declining case numbers from the second wave, Thomas Cook has seen increased positive travel sentiments. To this end, we saw positive increases in revenue in Thomas Cook in the quarter as compared to last year. However, each follow-on wave of COVID-19 may continue to have an impact on revenues, but with global vaccine rule-outs, we're beginning to see international travel increase and expect this trend to continue.

At June 30, 2021, we've seen significant improvements in the pre-tax excess of fair value over the adjusted carrying value of our non-insurance associates and certain consolidated non-insurance subsidiaries of the company considers to be portfolio investments. I'll walk you quickly through a few highlights. At June 30, 2021, the pre-tax excess was $754 million compared to a deficiency or our adjusted carrying value was higher than the fair value at December 31, 2020, by $663 million. That's an improvement in the first half of 2021 of over $1.4 billion that is not reflected in our book value per share, but the regularly reviewed by management as an indicator of investment performance.

With the restaurant and other segments and Thomas Cook India contributing a $169 million and $65 million respectively. Refer you to Page 72 and 73 in our second quarter interim report for further details on the underlying positions, that are driving at $1.4 billion improvement.

As we mentioned before, we are focused on organic growth supported by smaller friendly acquisitions with a commitment to growing long-term shareholder value. Given our focus on the long term and the near-term concerns on inflation, we continue to hold significant portion of our investment portfolio and cash, short term investments, and other short-dated fixed income securities that represented approximately $18.1 billion or 39.5% of the insurance and reinsurance companies investment portfolio. While we've been extremely at low-interest rate and inflation rate environment for some time, thinking -- return quickly, and significantly, and we want to make sure we're insulated from large swings that may happen. This position dampens our interest income in the short term but protects us from rising rates and inflation. A trade-off willing to take to align with the focus on providing long-term benefit to our stakeholders and expect to drive long-term growth in our book value per share.

Our interest and dividend income of a $161 million in the second quarter of 2021 was down from the $205 million in the second quarter 2020, reflecting the lower interest income earned principally due to the general decrease in sovereign bond yields. Sales of maturities of our U.S. Treasury bonds through 2020 and net sales of our U.S. corporate bonds in the first half of 2021.

We added net purchases at first mortgage loans of $408 million in the first six months of 2021 that is secured by high-quality real estate in the U.S., Ireland, and the UK, and of terms less than five years. These investments will provide some benefit to our interest income in the later half of 2021.

Our consolidated share of profit of associates of $75 million in the second quarter 2021, reflected strong results from our investments in associates and principally we're comprised to share profit of $27 million from Eurolife, $26 million from Resolute, $23 million from Eurobank, $18 million from outlets core, and it was partially offset by $11 million from Bangalore Airport, primarily related to the continued COVID-19 related travel restrictions.

We had very favorable quarter with respect to our investment portfolio. Our net gains on investments of just under $1.3 billion and over $2.1 billion in the first six months of 2021. The net gains on investments in the second quarter were primarily comprised of the following; with the largest component coming from our net gains of $884 million on our long equity exposures, which included unrealized gains on our blackberry common stock and convertible debenture positions, Stelco and BDT capital.

We continue to hold our long equity total return swaps of approximately 2 million Fairfax subordinate voting shares, that that had an original notional amount of approximately $733 million or just under $373 a share. As we look at potential investments that are available to Fairfax and fit within our long-term focus, Fairfax was among the best, especially when you consider where our share price is trading. We feel, it's a very strong investment and the total return swaps structure allows us to preserve cash and liquidity in a very effective way.

Secondly, $443 million of net gains on our preferred stock with $425 million of that related to our investment in the Digit compulsory preferred shares, which help provide details on shortly. Third, 94 million net gain on a deconsolidation of a non-insurance subsidiary, that related to Fairfax India sale of its 48.8% equity interest in Privi for a $465 million for a gain of $95 million. And lastly, $43 million on our net gains on bonds, principally related to our corporate bond portfolio.

A few additional comments on the $425 million unrealized gain recorded on our investment in the Digit compulsory convertible preferred shares. During June 2021, the company's 49% equity accounted associate Go Digit Infoworks Services or we refer to it as Digit, entered into agreements with certain third-party investors were underlying general insurance subsidiary Digit insurance will raise approximately $200 million of new equity shares, valuing Digit's insurance of approximately $3.5 billion.

At June 30, 2021, Fairfax estimated the fair value of Digit using a probability-weighted valuation model where we ascribed 60% waiting to the fair value determined through an internal discounted cash flow analysis and a 40% weighting ascribe to the risk-adjusted transaction fair value. Implying a fair value for investment in the Digit compulsory convertible preferred shares of approximately $900 million, that resulted in a net unrealized gain of $425 million, representing on an after-tax basis, a book value per share of $14.60.

Upon closing of the Digit insurance equity issuance anticipated in the third quarter of 2021, and upon final approval by the Indian government of its previous announced intention to increase the foreign ownership limits from 49% to 74% as well as the company obtaining regulatory approval specific to our holdings and digits, we anticipate recording an additional gain of approximately $1.4 billion, that represents an increase in book value per share of approximately $46.

As we continue to advance our plans to monetize certain investments and strengthen our global insurance footprint, we have a number of key transactions that I would like to highlight that were completed in the quarter or subsequent to. Starting with our insurance company transactions. On July 14, 2021, we increased our interest in Eurolife to 80% from the 50% by acquiring a joint venture interest of OMERS for cash consideration of approximately $143 million. I want to remind you of the disclosure and our 2021 annual report where we provided you with Eurolife's gross premiums written of $512 million and investment portfolio of $3.7 billion. These are significant operations that will be consolidated into our results, commencing in the third quarter of 2021.

On June 17, 2021, we increased our ownership in Singapore Re from 28.2% equity interest to 94% for $403 million to completion of a public cash offer and we commence consolidating the underlying assets, liabilities, and results of Singapore Re in the Fairfax Asia reporting segments. And finally, as I mentioned previously, we also anticipate consolidating Digit in the third quarter of 2021 following the receipt of the required approvals.

Over the last few years, Fairfax has been quite active with the strategic monetization of investments. In the second quarter of 2021, we had three transactions to note. The first was the investment and Mosaic Capital will be entered into a privatization arrangement with a third party purchaser, which will exchange our current holdings of our debentures and warrants and cash of approximately $11 million for newly issued Mosaic 25-year debentures will also acquire a 20% interest in the purchaser for approximately $4 million. And upon closing, which is expected to occur in the third quarter of 2021, we anticipate consolidate Mosaic Capital and commence applying the equity method of accounting toward interest position of the purchaser.

The second transaction on June 11, 2021, which was with Recipe. They entered into an agreement to sell substantially all of the assets and liabilities comprising it's Milestones Restaurant brand. Transaction will enable Recipe to focus on the larger brands that generate significant free cash flow and dominate their segment with younger brands that offer attractive opportunities for accelerated new restaurant growth. The assets and liabilities for both Mosaic and Milestones were recorded as assets held for sale at June 30, 2021. And lastly, as already noted in the net gains commentary, Fairfax India sold its equity interest in Privi. Various initiatives are underway as we continue to look for opportunities to monetize our investments.

Turning to our liquidity position. We remain strong with our cash and investments at the holding company with being just under $1.5 billion at June 30, 2021. The cash provides us with distinctive advantage that supports the decentralized structure and enables us to deploy our capital to the insurance companies efficiently. We're not making any long-term investments with this cash other than to support our insurance and reinsurance operations. We continue to be prudent in terms of our deployment of capital strategy.

And to note, on June 29, 2021, we amended and restated our $2 billion unsecured revolving credit facility with a syndicate of lenders, which extended our term from December 2022 to June 2026. Our total debt to total cap ratio excluding our consolidated non-insurance companies decreased to 28.4% at June 30, 2021, from 29.7% at December 31, 2020. Primarily reflecting a significant increase in our shareholders equity. And we anticipate at the close of the RiverStone Barbados transaction that we would have paid off the facility completely and our total debt to total cap ratio would have been at 27% over the closed prior to June 30.

In summary, it's been a very positive first half of 2021 with the dynamics of the market remaining strong. Our plan is to remain focused on organic growth. Looking forward to strong insurance and reinsurance subsidiaries focused on the underwriting possibility and the prudent reserving combined with our conservative investment managed philosophy positions Fairfax to continue to deliver excellent long-term results.

Before closing, I just wanted to touch on our commitment to ESG, which has been meaningful from Fairfax since we began. As you seen earlier this year, we published our first ESG or environmental social governance report that highlights the importance and achievements we've made to date. We think about ESG is being truly committed to doing good by doing well. Recognizing that there's always room to grow and improve, we will continue to enhance our initiatives through 2021 and beyond.

Thank you for your attention, and I'll turn it back over to Prem.

V. Prem Watsa {BIO 1433188 <GO>}

Thank you, Jen. We now look forward to answering your questions. Please give us your name and your company name and try to limit your questions to only one. So that is fair to all of the call. Okay, Katherine, we're ready for the questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) The first question is coming from Jeff Fenwick, Cormark Securities. Your line is open.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hi, good morning, everyone.

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

Hey, good morning.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Hard markets continue to be very beneficial for Fairfax. I know you're making the most of it. So, just wanted to touch on that this morning. The first one was with Brit, there's been a period of time here where they've been reorienting the business and we're starting to see some very good results there and the benefit from there in their key insurance platform. I noticed in your release there that you intend to sell 14% of Brit to OMERS in a transaction. Just wondering what's the decision to do that as a -- to help bring in some additional capital to continue the growth or why would that decision be made?

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

Yeah. So, Jeff, the reason for that is just would be announced sometime back, and we're going to conclude that with the RiverStone UK sale and basically, it gives us a lot of flexibility. We just thought we should have the flexibility. We have a very good relationship with OMERS and we can buy that back soon.

So, Peter, you want to add to that?

A - Peter S. Clarke {BIO 15243793 <GO>}

Yeah, no I think it just -- it all relates, Jeff, to the RiverStone UK transaction, OMERS had an investment in there and now they're moving some of that --those proceeds over to Brit. And like Prem said, continue our long-term relationship with OMERS which has worked out extremely well.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay. Thank you. That's helpful. And then just one more with respect to Crum & Forster. Crum really saw a very significant step up in the reported premium growth in the quarter. It had been doing well, but this quarter was up 30%, I believe, year-over-year in terms of net premiums. So, what sort of triggered that acceleration at Crum? Is it just pushing on some new lines and taking advantage of hard markets there or any color you could offer on that might be helpful.

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

Peter?

A - Peter S. Clarke {BIO 15243793 <GO>}

Sure. Yeah. I think the biggest thing at Crum & Forster was their -- they started writing premium again in their travel book '20, in the second quarter of 2020, essentially their travel premium went to zero and so now they're starting to write that business again and it's starting to grow. So, that was probably, Jeff, the biggest factor in the sort of the significant growth and -- at Crum & Forster.

Q - Jeff Fenwick {BIO 15350794 <GO>}

Okay. Well. I'll requeue and let someone else ask you a question. Thanks.

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

Terrific. Thank you, Jeff. Catherine, next question?

Operator

The next question is coming from Tom MacKinnon, BMO Capital. (inaudible).

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah, thanks very much. Good morning, everyone.

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

Hey, Good morning, Tom.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Yeah. With respect to Digit, is it still the intention that you expect $1.4 billion unrealized gain in the third quarter? And then another potential $400 million when the final approval to increase foreign ownership comes in? Is that still the thinking?

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

Tom, no, it's like $400 million per $25 million, that's what Jen talked about in the second quarter. The $1.4 billion will come after the regulatory approval and the approval by the government. It's more like the administrative rulings to go to 74%. It's already passed by legislation, but those two things have to be done, and either it gets done in the third quarter or the fourth quarter whenever it gets done. But the addition will be $1.4 billion.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. So, the total addition will be $1.4 billion --

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

Yeah. So, the other way to look at it is the -- we got $1.8 billion and in a total of which $400 million. We -- it's mark-to-market accounting rules, we don't like reporting it till it's actually happened, but accounting rules are very specific. You have to show the -- because that's $200 million that came in, you have to show the increase in value of Digit. And so, that's what we did.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay. So, it was $1.8 billion sort of in total and you booked $425 million of that now so, there's another $1.4 billion to come? Is that the way to think of that?

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

That's the way to look at it. Yes.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, that's great. And just with respect to the two other transactions up to close soon RiverStone and Brit, it look like you booked some gain from the RiverStone transaction in the second quarter, would we anticipate any sort of gain when that closes in August of 2021? And then what about Brit as well as their potential gain when that 14% sale transaction is completed? Thanks.

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

Yeah. The SOB of RiverStone transaction will close, but there's a portfolio of approximately $1.1 billion, $1.2 billion -- $1.3 billion that we will be buying back in the next two years at the end of next year, so the year and a half, Tom and that's for our account and the fluctuations in that portfolio accrued to us. At the end of the first quarter, it was a small deficit at the end of the second quarter there was a positive number. So, you'll see that going up and down over the quarter, still we actually take -- we can take it anytime up to the end of December 2022.

Q - Tom MacKinnon {BIO 2430137 <GO>}

And now in Brit, is there a gain there?

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

In Brit, no. Brit, there's no changes that -- it's fixed and we don't get any gain, we don't get any loss.

Q - Tom MacKinnon {BIO 2430137 <GO>}

Okay, thanks for that.

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

Thank you, Tom. Our next question, Catherine.

Operator

The next question is coming from Jaeme Gloyn, National Bank Financial. Your line is open.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, thanks. Good morning.

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

Hey, good morning, Jaeme.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Good. First question is on the reserve development in the quarter and I guess for the first half of the year, kind of coming in the 1%-ish range. I'm seeing some -- a little bit more favorable reserve development from other insurance companies. I'm just wondering if you can give us a little bit more detail as to what you're seeing on that front? If there -- if you can have any comments and maybe around Odyssey where we saw some unfavorable reserve development?

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

Well, Jaeme, we've got data here with our Chief Operating Officer and he used to be our Chief Actuary, so Peter, (inaudible)

A - Peter S. Clarke {BIO 15243793 <GO>}

Sure. Yeah. I guess Jaeme, I think what's storing the numbers a little bit is we had approximately $60 million in development on COVID losses. So, that's sort of a one-off thing in our minds. And excluding the COVID losses, I think we had favorable development of around $90 million, which isn't that far off from the previous year. But generally speaking, it's the second half of the year, where we do more thorough reserve reviews, specifically of third quarter reserves and that's when we'll make more significant adjustments. Our reserves continue to be extremely strong, and I think our companies are very conservative on the loss picks they're making on the current years. So, we would expect that we'd be building up some redundancy as we go through this strong pricing environment.

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

Our basic view, Jaeme, that we've said for many, many years now is that the cash reserves could develop favorably or unfavorably, and we just want it to be developing favorably. So, it's a risk in the property-casualty business and we've had favorable development, I think, for more than a decade now and perhaps even longer than that, but that's a very important requisite in the property-casualty business.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

I understood. On the -- on those COVID loss development, can you describe what it was that was driving that? Is that anything related to BI or a little bit more color on those COVID reserve (inaudible).

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

Sure thing. Peter?

A - Peter S. Clarke {BIO 15243793 <GO>}

Yeah, really it relates to -- on our reinsurance business primarily at Allied and Odyssey, and it's non-U.S., so it's in Europe, where there's still uncertainty around what's covered, what's not covered, is it one event, many events. So, it's really just IBNR that's still being put up on the reinsurance books mostly in Europe.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. And related to BI, I guess.

A - Peter S. Clarke {BIO 15243793 <GO>}

Related to BI. And some of the BI issues, you might remember there is, the UK ruling came out late last year and that's still filtering through the system.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. Good understood. And my second question would be on the share buybacks, stock trading is fairly low, the cash position is building, and I saw some buybacks for after treasury. Just can you update your comments and views and thoughts on share buybacks and as it relates to, I guess, the swap that's still in place?

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

Yeah. So, yeah, the swamp as Jen mentioned, we're very -- we think the shares are -- we agree with you that shares are undervalued. And in terms of buybacks, we always balance that as being financially sound, we've got a hot market, we're expanding, so we have to be cognizant of that. So, we take all that into account, Jaeme, and then react accordingly.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. I'll requeue.

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

Thank you, Jaeme. Next question, Catherine.

Operator

The next question is coming from Junior Rob with Private Investor. Your line is open.

Q - Analyst

Good morning. Congratulations on a wonderful quarter. For the total return swaps, when are they expiring?

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

They can be extended, Peter?

A - Peter S. Clarke {BIO 15243793 <GO>}

They don't expire on any time. They -- we can continue to extend them as we like, Junior.

Q - Analyst

Okay. Thanks. And in terms of the monetization of the investments, are you guys looking to do any other big monetization in 2021? Or is that just ongoing process?

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

It's ongoing, of course. These are things that are in the marketplace so we can't talk about them till we actually have done it. But as Jen mentioned, we continue the process.

Q - Analyst

Okay. Thanks a lot.

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

Thank you, Junior. Next question, Catherine.

Operator

Next question is coming from Jack Grant of Model Securities. Your line is open.

Q - Jack Grant {BIO 16728188 <GO>}

Good morning. Congratulations on the great job you've been doing. Prem, much like a Berkshire Hathaway has been into BS[ph] about succession plans in the future. Can you share anything on that front in terms of what the future holds when you maybe retire or aren't available to run the show at Fairfax? Thank you.

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

That's a very good question, Jack. It's a very important question. And it's a question that we focus on, of course, all the time. My directors focus on that. I focus on it because we have tried to build our company over the long term. And so, we -- if something happens to me today, the directors know exactly what to do. 62, the controlling company knows exactly what to do. And so, of course, very much focused on what you say.

A lot of companies have succession plans right through the organization and you might have seen over the years, its -- internal succession always be internal succession, it will be in terms of succession for each of our companies and it will be internal succession for me. So, we've always revealed it and feel very comfortable that we've got the right people to take over. But good question, Jack. Thank you.

Q - Jack Grant {BIO 16728188 <GO>}

Okay.

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

Catherine, the next question, please.

Operator

And the next question is coming from Mikel Abasolo of Solo Capital Management. Your line is open.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Very much for taking my questions. I have two if I may, but the first one is on the valuation of Digit. If I understood correctly, your value as a combination of this year and based on the transaction the company is doing with the private equity firms. My -- if I understand correctly, the revaluation of Digit despite not being totally dependent on the private equity people has been performed following the investment by the private equity people. So, my question would be if that transaction finally doesn't come to fruition and regardless of any penalties from the investors or anything like that, would you revert back to the old valuation you had Digit? That's my first one.

And the second one, if I may, has to do with the reconciliation on Page 73 of the -- of the report. Because I've looked at it and I see that for the non-insurance associates that are not listed, the reconciliation is not necessary because the dollar figures coincide, but that's not the case with the restaurants and other Fairfax (inaudible) India. And if you could help me bridge that gap or understand why the figures are different, how to go from one to the other roughly that would be of incredible help. Thank you very much.

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

Okay, thank you for the -- both questions. First one on Digit, there's a when $200 million comes out at $3.5 billion market capitalization, very good investors, but a very significant market cap on a company that's growing significantly, but is running at the last number we gave you all was about $450 million of revenue going at a huge rate in India, India is itself growing, but the market cap is very significant.

So, the $3.5 billion results in a $1.8 billion gain. And the question is, how much do you recognize at the second quarter and how much do you recognize in the third whenever those two things happen that I talked to you about. And so Jen explained that using models, we figured it was $400 odd million, $425 million. But that's just the judgment call. The $1.8 billion will be the number at the end of the day, but that's subject to -- very subjective because it's only $200 million that's gone in on a $3.5 billion market cap.

We think Digit is going to grow very significantly. We got a great guy Kamesh Goyal, who's building the company, but there's no risk of that number being turned back, if for that -- if we don't get regulatory approval or whatever. Because these are done deals, that $200 million has been signed, sealed, and delivered. So, there's no risk that they can back out. It's only regulatory approval now, and the 74% going through. On your second question, why don't I pass it to Jen?

A - Jennifer J. S. Allen {BIO 20542595 <GO>}

Yeah, and I think, if you wanted additional details, you're more than welcome to call after, but high level, I think, the easiest answer to explain it would be your biggest driver is for Fairfax India's portfolio on Note 6, where we show the total carrying value versus fair value. You have Bangalore airport in there, which is the way the accounting standard works is that Fairfax India's carrying value and Fairfax only has a 28% equity interest in Fairfax India. So, when you actually look to the back of Page 73, we're then taking only our 28% interest. So, that would be your largest disconnect on how we look at it because Note 6 is almost like a gross-up basis and then in the back is what our attributable book value per share would be accretive for Fairfax India. But if you want more details, I can walk you through it offline.

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

And Jen, we talked about that in our annual report and we explained all of that. Peter?

A - Peter S. Clarke {BIO 15243793 <GO>}

Yeah, no, that might be a good place to look as well as Page 10 of the annual report we have a similar table and we provide the reconciliation.

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

So thank you very much for your question. Catherine, next question, please.

Q - Mikel Abasolo {BIO 3756596 <GO>}

Page 10, right?

A - Peter S. Clarke {BIO 15243793 <GO>}

Yes, yes,

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

Yeah, Thank you.

Operator

The next question is coming from and it's coming from Alan Parsow, Elkhorn Partners. Your line is open.

Q - Alan Parsow {BIO 1446024 <GO>}

Hey, Prem, great quarter.

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

Good morning, Alan.

Q - Alan Parsow {BIO 1446024 <GO>}

Hi. I think I heard this Friday on a (inaudible) on a mobile, but I think I heard that you talked -- when you talked about the unrealized in the equity portfolio, you mentioned in the second quarter that there were significant gains in Blackberry and unrealized in both the debentures and the common.

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

Yes.

Q - Alan Parsow {BIO 1446024 <GO>}

Does that infer, which I think it does, but I don't know. Does that infer that none of the Blackberry was sold in the second quarter?

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

Yeah, that's exactly right, Alan. None of the Blackberry was sold because it's all unrealized. Yeah.

Q - Alan Parsow {BIO 1446024 <GO>}

Okay. So, up to this point, the company hasn't been able to take advantage of the NIM or the other significant or outsized gains and well fluctuations, let's just say, in --

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

Yeah, I think that's right. We haven't been able to take advantage of it. We're insiders, we've got restrictions and we talked about that last quarter two. And of course, we're very supportive of John Chen and all the good things that he's doing with BlackBerry.

Q - Alan Parsow {BIO 1446024 <GO>}

Right. But I thought if I heard you correctly after the first quarter call that any restrictions disappeared, or is this after the first quarter or is that mean that this company is permanently on the restriction list of --

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

No, that's a good question, Alan. And no, it's not permanently, but when you're on the board and we've got the significant interest that we have, there are at times quiet periods and restrictions that apply to significant shareholders. And -- but it's not, no, there's -- it's not, you're not permanently restricted, no.

Q - Alan Parsow {BIO 1446024 <GO>}

Okay. Thank you.

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

Thank you very much, Alan. Can we have the next question, Catherine?

Operator

Yes. The next question is coming from Jaeme Gloyn from National Bank Financial. Your line is open.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Thanks. I was going to follow up on the performance of non-insurance. It looks like it's a little bit better in Q2 and hoping you can give us some additional color and commentary on how the non-insurance subs retail restaurants (inaudible) are performing early into Q3 and in particular in Canada, where we're much more open this month than we have been in the past year?

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

Yeah. So, Jaeme, the restaurants, you'll see their results, their results haven't come out I think for recipe, they'll come out and they're doing much better. But of course, Ontario has just opened for dining -- indoor dining. And for most of the year, they had a very difficult -- restaurants had a very difficult time in terms of being closed. If you see what's happened in the United States, once they -- once restaurants were open, they've gone through 2019 levels.

So, we expect the restaurants will bounce back significantly. Fairfax India had Thomas Cook, its business went to zero. No travel to speak of, so that was difficult. So, this pandemic for many of our investments was difficult. But that's all I'm exaggerating to make the point, but that's all in the past. It's on its way back and these are good companies, good management and we see over the long term, good returns from them.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Yeah, I was also just going to ask in terms of like I mean the revenue side looks like it's going to be good. Are you -- what -- do you have any comments on the labor side of it or expense side of it on this -- as you're reopening, are we going to see that revenue uptick flow into the bottom line in those?

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

Yeah, Jaeme. All of those things, including the restaurants, we think the revenues would be through 2019 levels, once we back up. And unfortunately, lots of smaller other restaurants have gone out of business. And so, if you want to go out dining, just the big restaurant chains are where the action is going to be. And our recipe expects in the years to come to do well.

Q - Jaeme Gloyn {BIO 19737597 <GO>}

Okay. Thanks.

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

Thank you, Jaeme. Any more questions, Catherine?

Operator

We have no further questions at this time.

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

Okay. There are no further questions. Thank you all for joining us on this call and thank you, Catherine, for hosting it. It's a thank you till our next call. Thank you very much.

Operator

This will conclude today's conference. All parties may disconnect at this time.