Company Name: Fairfax Financial HD
Company Ticker: FFH CN
Date: 2015-02-13
Event Description: Q4 2014 Earnings Call

Market Cap: 14,349.22
Current PX: 640.20
YTD Change($): +31.42
YTD Change(%): +5.161

Bloomberg Estimates - EPS
Current Quarter: 6.100
Current Year: 16.530
Bloomberg Estimates - Sales
Current Quarter: 2084.500
Current Year: 8630.000

Q4 2014 Earnings Call

Company Participants

- Vivian Prem Watsa
- David Bonham

Other Participants

- Paul Holden
- Tom MacKinnon
- Mark A. Dwelle
- Howard Flinker
- Binoy Jariwala

MANAGEMENT DISCUSSION SECTION

Vivian Prem Watsa

Financial Highlights

I plan to give you some of the highlights and then pass it, as always, to Dave Bonham, our CFO, for additional financial details

Our results in 2014 were the best in our 29-year history, with record underwriting profits of $552mm and record net earnings of $1.63B

We had a record combined ratio of 90.8%, with OdysseyRe 84.7% and all our major insurance companies having combined ratios less than 100%

We also had net investment gains of $1.74B in 2014, including realized gains $791mm

We're maintaining our defensive equity hedges and deflation protection as we remain concerned about the financial markets and the economic outlook in this global deflationary environment

Premium Volume

- Our insurance and reinsurance businesses premium volume remain flat in 2014
- The combined ratio for our insurance and reinsurance operations in 2014 was 86.3% for Q4; and as I said earlier, record 90.8% for the whole year
- We made a record underwriting profit of $552mm in 2014
- At the subsidiary level, the increase in net premiums written in 2014 compared to 2013 and combined ratios were as follows:
  - OdysseyRe up 0.7% in 2014 in terms of premium, a combined ratio of 84.7%
  - Crum & Forster, premiums up 9.2%, combined ratio 99.8%

- Northbridge, in Canadian dollars up 0.6% with a 95.5% combined ratio
- Zenith up 2.9% with an 87.5% combined ratio
- Fairfax Asia, 8.8% up in net premiums written, 86.7% combined ratio

Operating Income

- The insurance and reinsurance operations produced operating income, excluding net gains or losses on investments, of $915.4mm compared to $770.2mm in 2013, primarily as a result of improved underwriting profit and higher interest and dividend income
- As shown on page two of our press release, we have realized gains on our investment portfolio of $790.6mm during 2014

Pre-Tax Income

- Now excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio, we earned $1.4B in pre-tax income
- If you include all hedging losses and mark-to-market fluctuations in our investment portfolio, we reported a pre-tax income of $2.3B and after-tax income of $1.7B in 2014
- In 2014, you will note the investment portfolios went up to $26.2B from $24.9B at the end of last year, in spite of being hedged 25% in cash and short-term investments throughout the year and having little exposure to corporate bonds
  - So how did this happen?
- Long U.S. government bond rates continue to drop and our common stocks did much better than the Russell index, which increased 3.5% in the year
- We have yet to significantly benefit from our hedges and are approximately $112B notional amount of deflation swaps

Cash Position

- And, of course, our cash position gives us great optionality
- At our last annual meeting, we made the point that while we were protecting our capital on the downside, our investment portfolios could also do very well. 2014 was a case in point
- Our common stock portfolios continue to be hedged at approximately 90%
- We’ve selectively bought more stocks during the year, but we did not add to our index hedges
- Our common stocks outperformed that index, as I mentioned to you

Net Investment Gains

- On the investment side, net investment gains of $1.7B in 2014 consisted of the following
- Please refer to page two of our press release
- Net gains on equity and equity-related investments after equity hedges of $347.4mm, resulting from net gains of $541.9mm in our equity and equity-related investments, partially offset by $194.5mm net loss in our equity

hedges, reflecting the 3.5% increase in the Russell index

- We realized gains of $596.9mm in our equity and equity-related holdings in 2014
  - Also, at the end of 2014, we had unrealized gains of $1.1B in our municipal and treasury bond portfolio, which basically reversed the unrealized losses of 2013
- As we've mentioned in our annual meetings, annual reports and quarterly reports, with IFRS accounting where starts and bonds are recorded at market and subject to mark-to-market gains and losses, quarterly and annual income will fluctuate widely and investment results will only make sense over the long-term

Core Inflation

- Core inflation continues to be at or below 1% in the United States and Europe; levels that we've not seen since the 1950s
- In fact, it may be a surprise to many of you to know that in H2 2014, the U.S. had deflation of 1.5% or an annualized rate of 3%; and Europe had deflation of 0.5% on an annualized rate of 1%
- What this is saying is that prices went down in H2 2014 at an annualized rate of 3% in the United States and 1% in Europe
  - This is in spite of QE1, QE2, QE3, and now quantitatively easing in Europe

Government Bond Rates

- Long-term government bond rates in Europe are making record lows, quite often the lowest in 200 years
- In Germany, almost half of the German government bond market is yielding negative interest rates
- Also, six countries or seven countries in Europe are already experiencing deflation. 30-year German government bond rates are below 1%
- The spread between 30-year U.S. long-term rates and 30-year German government bond rates is at a record, as German rates have fallen much faster than the United States

CPI-Linked Derivatives

- Now our CPI-linked derivatives, deflation swaps as we call it, with a notional value of approximately $112B doubled in market value in Q4
- This was the first significant increase in market value since we purchased these CPI-linked derivatives
- With deflation in the air, these contracts have come to life, but they continue to be very volatile
- The majority of these contracts are based on the underlying U.S. CPI index
  - About 52.5% of those contracts are in the United States; or the European Union CPI index, approximately 40% of the contracts
- Further information is available on page three of our press release, where we've included our table on our deflation swaps
- On average, they have approximately 7.5 years to run

CDS Experience

- As I've said to you before, our CDS experience comes to mind
- Just to keep a perspective, I'll remind you that it took five years in Japan before deflation set in for the next 18 years
- When you review our statements, also please note that when we own more than 20% of a company, we equity account and; about 50% we consolidate, so that mark-to-market gains in these companies are not reflected in our results

Investment in Associates

- As you see on page 11 of our quarterly report, the fair value of our investment in associates, it's approximately $2.1B with a carrying value of approximately $1.6B, an unrealized gain of $453mm, which is not on our balance sheet
- Also, Ridley and Thomas Cook, which are consolidated in our financial statements, are doing very well compared to our original purchase price
- We purchased Ridley in 2008 at approximately CAD 8.5 per share; and the stock is at CAD 30.75 per share, after significant dividend payments of approximately CAD 2 per share in the last three years
- We purchased Thomas Cook at INR 52 per share in 2012, and it is now trading at about INR 200
- We continue to be concerned about the prospects for the financial markets and the economies of North America and Western Europe
  - That's accentuated, as we've said many times before, by the potential significant weakness in China
- We have said for some time that we believe there continues to be a disconnect between the financial markets and the underlying economic fundamentals

Cash and Short-Term Investments

- As of December 31, 2014, we have $6.1B in cash and short-term investments in our portfolio, which is 23% of our total investment portfolio, to take advantage of opportunities that may come our way
- As a result, in the short-term, our investment income will likely be reduced

Acquisition of Pethealth

- On November 14, 2014 – in November 2014 Fairfax completed its acquisition of Pethealth for cash of approximately $89mm or CAD 100mm
- Pethealth operates in the United States, Canada and the United Kingdom under the leadership of Sean Smith and is North America's second largest provider of medical insurance for dogs and cats
- In December 2014, Fairfax announced that it had agreed to acquire the Malaysian general insurance business of MCIS Zurich Insurance through its wholly-owned subsidiary Pacific Insurance
  - The transaction is expected to close in Q1 2015
- The business generated approximately $55mm in gross premiums; and Gobi Athappan will lead the combined business

Agreement with QBE

- In December 2014, the company – Fairfax entered into an agreement with QBE to acquire their insurance operations in the Czech Republic, Hungary and Slovakia
- The transaction is expected to close by Q3 2015
- In its most recent FY, QBE's operations in these three countries generated over $40mm in gross premiums written in the range of general insurance classes
  - Peter Csakvari, with 17 years at AIG in Eastern Europe, is leading the business
- We continue to be soundly financed with year-end cash and marketable securities in the holding company of $1.2B

Debt to Total Capital Ratio

- The company's total debt to total capital ratio improved to 24.6% at the end of the year, compared to 26% at end of the previous year
- Subsequent to year-end, Fairfax India Holdings Company completed $1B offering of common shares, of which the company, Fairfax Financial, purchased all of the multiple voting shares for $300mm constituting a controlling interest
- We are very excited about the opportunities in India under Prime Minister Modi; and we believe Fairfax India will earn attractive returns for its shareholders including Fairfax

David Bonham

Q4 Consolidated Results

Net Earnings

- For Q4 2014, Fairfax has reported net earnings of $24mm or $0.49 per share on a fully diluted basis; and that compares with Q4 2013, when we reported a net loss of $6mm or $0.98 per fully diluted share
- YTD, Fairfax has reported net earnings of just over $1.6B or $73 per share on a fully diluted basis
  - That reflects a significant improvement relative to 2013, when we incurred a YTD net loss of $573mm; and that was $31 per fully diluted share

Underwriting Profit

- Underwriting profit at our insurance and reinsurance operations in Q4 and full year of 2014 increased to $207mm and $552mm, with combined ratios of 86% and 91%; and that's compared to underwriting profit of $165mm and $440mm last year, when we had combined ratios of 89% and 93% in Q4 and full year respectively
- On a YTD and a quarter-to-date basis, underwriting profit is up by $112mm and $42mm respectively
- Our combined ratios benefited from net favorable prior-year reserve development in Q4 and full year of 2014 of $218mm and $446mm, translating into 14 and 7 combined ratio points; and that was similar to net favorable development of $212mm and $440mm in Q4 and full year of 2013, and that also represented 14 combined ratio points on the quarter, 7 on the year

Catastrophe Losses

- Current period catastrophe losses were lower in Q4 2014 and totaled $38mm or 2.5 combined ratio points; and were $189mm or 3.2 combined ratio points for the full year
- By way of comparison, cat losses in Q4 and full year of 2013 were higher at $71mm and $289mm, representing 4.7 and 4.8 combined ratio points respectively
- Please note that during Q4 2014, OdysseyRe changed the manner in which it recognizes premiums from its U.S. multi-peril crop insurance business similar to the adjustment that it made in Q2 earlier in this year
- OdysseyRe recognized the majority of the premium from the winter planting season in Q4 2014, whereas in 2013 these premiums were recognized in Q1 the following year
- After making the adjustments in 2013 and 2014 that we set out on page 48 of our fourth quarter report, net premiums written by our insurance and reinsurance operations were relatively unchanged in Q4 2014; an increase by 1.1% in the full year

Operating Results

OdysseyRe

- Now turning to our operating company results, we'll start with OdysseyRe
- In Q4 and full year of 2014, OdysseyRe reported underwriting profits of $142mm and $360mm in combined ratios of 76% and 85%; and that was compared to underwriting profits last year of $122mm in the quarter, $380mm YTD, where the combined ratios were 79% and 84%
- Catastrophe losses in Q4 and full year of 2014 totaled $33mm and $145mm; and that translated into 5.6 and 6.2 combined ratio points
- Q4 2014 included only attritional catastrophe losses, while Windstorm Ela was the largest individual catastrophe loss at $38mm in the full year of 2014
  - That compares to catastrophe losses of $65mm and $203mm last year, which translated into 11 and 9 combined ratio points on the combined ratio points in Q4 and full year of 2013

Combined Ratios

- OdysseyRe's combined ratios in 2014 in the quarter included the benefit of $108mm and YTD $189mm of net favorable prior-year reserve development, principally related to causality and non-catastrophe property loss reserves in the quarter and YTD; and the full YTD net favorable development also included the development related to property cat loss reserves
- After adjusting for timing differences and the recognition of crop insurance premiums that we mentioned earlier, OdysseyRe wrote $562mm and a little under $2.4B of net premiums in Q4 and full year of 2014 respectively
  - That reflects decreases of 2.4% and 1.4% in those periods
- And those decreases principally recognized declines in the writings of reinsurance business primarily in property lines due to the competitive market conditions now prevailing; and that was partially offset by growth across most lines of business in the U.S. insurance division

Crum & Forster

- Turning to Crum & Forster, Crum & Forster reported an underwriting loss of $3mm and a combined ratio of 100.9% in Q4 2014; and an underwriting profit of $3mm and a combined ratio of 99.8% for the full year of 2014
  - That compared to underwriting losses of $21mm and $24mm, and combined ratios of 107% and 102% in Q4 and full year of 2013
- While there is no net prior-year reserve development in 2014, Crum & Forster's combined ratios in Q4 – while there was no net prior-year reserve development in 2014, Crum & Forster's combined ratios in Q4 and full year of 2013 included $8mm of net unfavorable prior-year reserve development, representing 2.6 and 0.7 of the combined ratio points
- Current period catastrophe losses were modest at $1.5mm and $14mm in Q4 and full year of 2014 and added 0.4 and 1.1 points to the combined ratios during those periods. 2013 catastrophe losses were not significant

Net Premiums

- Crum & Forster's net premiums written increased by 6% and 9% in Q4 and full year of 2014, primarily reflecting growth in the Fairmont accident and health business and organic growth in the environmental casualty business, partially offset by planned reductions in the legacy CoverX business
- The full year of 2014 also reflected the contribution to the environmental casualty business of American Safety and growth at Seneca

Zenith

- Turning to Zenith, Zenith reported underwriting profits in Q4 and full year of 2014 of $26mm and $90mm with corresponding combined ratios of 86% and 88%; and that compared to underwriting profits of $22mm and $19mm and combined ratios of 88% and 97% in Q4 and full year of 2013
- The improvement in 2014 reflected the following: a y-over-y decrease in Q4 and full year of 2014
- Estimated current accident year loss ratios of 2.9 percentage points and 4.6 percentage points, and that was due to the favorable loss development trends that are emerging on the 2013 accident year
- There were also price increases that were equal to estimated loss trends for accident year 2014
- And, finally, net favorable development of prior year's reserves in the full year of 2014, representing 10 combined ratio points
  - It was an increase over 2013, and that reflected net favorable emergence on the 2011, 2012, and 2013 accident years
- Net premiums written by Zenith of $128mm and $721mm in Q4 and full year of 2014 increased by 1.3% and 2.9% y-over-y; and that principally reflected premium rate increases

Northbridge

Underwriting Profits

- Northbridge reported underwriting profits of $17mm and $43mm and combined ratios of 93% and 96% for Q4 and full year of 2014; and that compared to underwriting profits of $24mm and $18mm and combined ratios of 90% and 98% reported in those same periods in 2013
- The decrease in Northbridge's underwriting profit q-over-q principally reflected increased large losses in Q4 2014 in transportation and logistics, and personal auto lines

- Northbridge's underwriting results in Q4 and full year of 2014 included the benefit of net favorable prior-year reserve development across most accident years and lines of business of $54mm and $110mm, representing 23 combined ratio points and 12 combined ratio points in those periods
  - That compared to net favorable development of $46mm and $154mm
  - It represented 19, 16 combined ratio points in Q4 and full year of 2013

Catastrophe Losses

- Current period catastrophe losses were lower in Q4 and full year of 2014, accounting for 0.2 and 0.9 of a combined ratio point during those respective periods
- Whereas the Alberta and Toronto floods in 2013 were principally responsible for adding 2.1 points and 6.2 points to the combined ratios in Q4 and full year of 2013

Net Premiums Written

- In Canadian dollar terms, net premiums written by Northbridge in Q4 and full year of 2014 increased by 6.5% and 4.4%, after excluding the one-time impact of the intercompany unearned premium portfolio transfer on January 1, 2013, between Northbridge and Group Re that we describe on page 41 of our fourth quarter report
- Increased writings principally reflected rate increases across most segments and increased volume at Federated Insurance and in the western region of Northbridge Insurance, and that was partially offset by the strategic non-renewal of an unprofitable portfolio business in 2014

Fairfax Asia

Underwriting Profits

- Fairfax Asia reported improved underwriting profits of $10mm and $36mm and combined ratios of 84% and 87% in Q4 and full year of 2014, compared to underwriting profits of $9mm and $32mm and combined ratios of 88% in each of the comparable 2013 periods
- The combined ratios in Q4 and full year of 2014 included 20 combined ratio points and eight combined ratio points of net favorable prior-year reserve development, primarily related to engineering, workers' compensation, property and commercial automobile loss reserves
- The insurance and reinsurance other segment produced underwriting profits of $15mm and $21mm and combined ratios of 85% and 95% in Q4 and full year of 2014, compared to underwriting profits of $10mm and $15mm and combined ratios of 92% and 97% in those same periods in 2013
- The improvement in underwriting profit in Q4 and full year of 2014 principally reflected increased net favorable prior-year reserve development, partially offset by lower non-catastrophe related underwriting margins in the current accident year

Net Premiums Written

- Net premiums written by the insurance and reinsurance other segment increased by 9% in Q4 2014, primarily reflecting increases at Advent related to writings of new business in marine, property and accident and health insurance lines of business

- Net premiums written decreased by 7% in the full year of 2014, primarily reflecting decreases at Polish Re and Advent, principally due to the non-renewal of certain classes of business where terms and conditions were considered inadequate, and after the adjustment to exclude the one-time impact of the intercompany unearned premium portfolio transfer that we mentioned earlier; and that suppressed the gross premiums written and net premiums written in Group Re in 2013 by $39mm

Runoff

- Runoff reported operating losses of $22mm and $89mm in Q4 and full year of 2014
  - That compared to operating income of $91mm and $77mm in the same periods in 2013
- The decrease in Q4 and full year operating profitability at Runoff principally reflected net adverse prior-year reserve development at U.S. Runoff and incremental operating expenses associated with American Safety, which we had acquired in 2013
- In Q4 2014, Runoff agreed to reinsure an Italian medical malpractice runoff portfolio; and that added $67mm to net premiums earned and a corresponding increase of $66mm to losses on claims

Other Consolidated Results

Interest and Dividend Income

- Looking at our consolidated results
- Consolidated interest and dividend income increased from $104mm in Q4 2013 to $119mm in Q4 2014, reflecting a modest increase in interest income earned, partially offset by higher total return swap expense
- Consolidated interest and dividend income increased from $377mm in the full year of 2013 to $404mm in the full year of 2014, reflecting an increase in interest income earned and lower total return swap expense partially offset by lower dividends earned on common stocks as a result of sales of dividend paying equities during 2013

Income Tax Provisions

- In 2014, the company recorded income tax provisions of $41mm at an effective tax rate of 52% in Q4 and $673mm at an effective tax rate of 29% in the full year
- Notable in Q4 and full year of 2014 was $38mm provision that followed from an internal reorganization of the U.S. shareholders of OdysseyRe
  - That added 48 points to the quarter-to-date effective tax rate and 1.6 points to the YTD effective tax rate

Effective Tax Rate

- The YTD effective tax rate was also increased by the impact of significant investment gains and improved underwriting results in the U.S., where the statutory income tax rate of 35% is significantly higher than the Canadian statutory income tax rate
  - Those reconciling items, just mentioned, were offset quarter-to-date and YTD by the impact of our regularly recurring adjustments for non-taxable investment income in the U.S. and Canada, which lower our effective tax rate

Cash and Investments

- We ended the year with an investment portfolio, which included holding company cash and investments, of $26.2B compared to $24.9B at the end of 2013
- The majority of the increase related to net appreciation of investments, principally bond and common stock investments

Financial Position

Moving to our financial position, our total debt to total capital ratio decreased to 24.6% at December 31, 2014, from 26.1% last year December, primarily as a result of the increase in our common shareholder's equity reflecting the net earnings for the year, partially offset by the issuance on August 13, 2014, of $300mm principal amount of our senior notes due 2024 for net proceeds of $294mm

We used a portion of those proceeds from that offering in Q4 to redeem $50mm principal amount of OdysseyRe unsecured senior notes, and to redeem $25mm principal amount of American Safety trust preferred securities

- And we intend to use the remainder of that funding to repay upon maturity the Fairfax and OdysseyRe unsecured notes coming due in 2015

QUESTION AND ANSWER SECTION

<Q - Paul Holden>: I wanted to ask a couple of questions on the CPI-linked derivatives to start. So the first one would be since we're so close at least in the U.S. to the weighted average strike, is there any way you can give us the dispersion of strike prices so we get a sense of how close you might be to the first sort of really relevant contract price? And then the second question would be just to verify that indeed these are American style options and not European; i.e., can exercise them at any time?

<A - Vivian Prem Watsa>: Yeah. So we can exercise them at any time. And the way to think of – these things are very volatile, as I said. So if you look at the TIP bonds, the inflation adjusted bonds, and you'll see they fluctuate. Maybe a few years ago, the underlying inflation rate in a TIP bond, for five-year TIP bonds, may have been 2% inflation, might have come right down to 1.1% early in the year, now bounced back to about 1.3%. So it moves up and down. And that inflation rate, underlying inflation rate, still inflation, not deflation, has an impact on the bond and – on the deflation swaps rather. And it's tradable, but American style in the sense that these are tradable bonds, tradable deflation swaps that we can sell at any time in the marketplace. But, I guess, it's exercisable at the end. Yeah. So just a correction there, Paul. European style in the sense that they're exercisable in the end, but can trade in the marketplace at any time, reflecting the fact that it's exercisable at the end.

<Q - Paul Holden>: Okay. Just as a suggestion, any kind of disclosure you could – additional disclosure you could provide us to give us a sense of significant trigger points on the CPI index levels would be helpful. Averages are always helpful, but only as helpful as an average is?

<A - Vivian Prem Watsa>: First, Paul, the averages is not a bad way to look at it.

<Q - Paul Holden>: Okay.

<A - Vivian Prem Watsa>: And think of it like this, it's an option contract which is not in the money. So if you think of those contracts, say, 1% off out of the money and you have 5% deflation, then the intrinsic value is 4%. And then you'd build a premium because it's got a life, six years, seven years, seven-and-a-half years on average to go.

<Q - Paul Holden>: Okay. I understand.

<A - Vivian Prem Watsa>: And on top of that you just have the emotional element that comes in when people worry about deflation.

<Q - Paul Holden>: And then just a final question from me on a different topic.

<A - Vivian Prem Watsa>: Yeah.

<Q - Paul Holden>: Your newest investment and vehicle, Fairfax India, a big part of the investment thesis there was a favorable change in government, i.e., much more business-friendly government; and that makes a lot of sense to me. On the flipside, I would argue that in Greece, we've seen a change in government to a less business-friendly government. Wondering if you agree with that opinion and if it changes your thesis on any of the investments you've made in Greece?

<A - Vivian Prem Watsa>: Yeah. So that's a very good point you make. There has been a change in the Greek government. We've actually met them. And for what it's worth, they've reassured us that they want private investment. They've emphasized that Eurobank is the only private bank, in the sense that the other three banks, there's four banks now, the other three banks are 65% owned by the government, Eurobank is less than 35%. And so, they have said to us that they like – we asked them very specifically of what their views on private investment were, and they said they want to encourage it. And so the bottom line, Paul, you never know what will happen in these negotiations. Our view is that eventually a deal will be done.

<Q - Tom MacKinnon>: Just a comment about the cash position. It's still pretty heavy and you've had this heavy cash position over the last several years when equity markets had moved up significantly. Trying to figure out what is really the underlying reason for holding so much cash. As the insurance business tends to slow a little bit, it's not like you really need to pump a lot of money into growing that. We're getting certainly increased capacity here in global reinsurance markets, and prices are starting to fall a little bit in commercial lines in North America. So it's not as if there is a need to throw it into those operations to fund growth. And to what extent does the cash settlement on the equity hedges have anything to do with your thinking to keep a significant cash holding at this level?

<A - Vivian Prem Watsa>: Tom, we've had significant amounts of cash over the years, long before we had hedges, but the way we get the cash is a resultant. When we don't see opportunity –we're not trying to meet some quarterly earnings estimate that you or others might have; and we're looking at building our company over the long-term. So when we don't see opportunity with significant downside protection, then we'd rather keep it in cash. And when we buy something, as we bought things in Greece, it doesn't mean we're right. Sometimes we think there's downside protection and it changes. But every time we buy a stock or a bond, we're looking at protection on the downside. And right now our view is there's very little protection on the downside. Now if you were meeting quarterly estimates or yearly estimates, then you'd be reaching for yield. You'd be buying corporate bonds or you'd be buying other things that would give you income, so that you can meet these goals that you have. Our goal is increase book value 15% a year over the long-term. So we don't respond to quarterly numbers. And so that cash gives us tremendous optionality. So, for example, in 2008, 2009, most people didn't buy stock. They're all buying stock today and in the last few quarters. And you're exactly right, Tom. If we were smart, we'd be fully invested in 2012 particularly, because 2013 was a terrific year, up 35%; and I hate to say it, but we basically didn't benefit from that. But investing – I've been in the business for 40 years – it's a long-term game. And if you measure yourself every three months and six months or a year or two, you might do the wrong thing. And, for example, in 2007 and 2006, you might have thought we were totally wrong; and of course things changed in 2008 and 2009 and some companies didn't make it in 2008, 2009. One of the biggest company in our industry was bankrupt and the U.S. government had to come to back it. So we don't want to be ever in a position for that to happen. And we think, as we've said for some time, that there's a lot of unintended consequences here, Tom. The price of oil dropping from $100 to $50; totally unexpected for most people. We've said in our annual report last year that commodity prices could collapse, and we monitor the prices and hadn't changed for two or three years. You can see $100 price of oil in our annual report year-after-year; and then bang, it dropped to $50. Now if you didn't hedge and you expanded significantly in the oil industry, like we see in many of the oil companies, you may not survive. So we're very sensitive to that. That price of oil coming down, by the way, we think is not only supply in the United States, but it's reflecting a decreasing demand from China. And China is a big – and we've talked about for some time that China is a big potential negative. And you never know when it'll strike, but you have to be careful about it. So when we look at all of these things Tom, we'd rather be safe than sorry. And we just stay on the sidelines. We let other people reach for yield. But you can see, in spite of all that, last year all-in, all-out, we had a very good return, significant realized gains, our underwriting profitability was exceptional. And so, in spite of being very defensive and watching the downside, we're making good returns.

<Q - Mark A. Dwelle>: Just a couple of questions. First, I was trying to follow on – you had a note in the interim report on the OdysseyRe organization and I was trying to follow along, was there any net cash distributed from the holding company at the end. By the time all the ins and outs were all settled was there any net cash distributed from that?

<A - Vivian Prem Watsa>: Dave, you want to take that?

<A - David Bonham>: Yeah. It wasn't very significant; in the neighborhood of about $80mm or so from the holding company cash.

<Q - Mark A. Dwelle>: Okay.

<A - David Bonham>: And what we did there, Mark, is simplify our corporate structure so that OdysseyRe was basically owned by Fairfax holding company as opposed to being owned at Crum & Forster or in our Runoff companies.

<Q - Mark A. Dwelle>: It definitely seemed like it would streamline the org chart a little bit. The second question that I had – I mean congratulations on very significant amounts of favorable reserve development in the quarter. What I was trying to determine is was there an impact from currency in that amount? It seemed like some of the units, particularly the other reinsurers, the European group and the Northbridge had, I'll say, relatively larger amounts than I might have expected, and I was curious if currency was involved there?

<A - David Bonham>: No. Currency was not significant at all, Mark. Basically, we'd like to have that kind of reserve redundancies. We're always keeping our accident year loss ratios at a good level, so that we'll have reserve redundancies. But as you pointed out in Q4, we had perhaps more than we expected. But our reserves – there are two things that our company is focused on, underwriting profitability all across the spectrum and reserve redundancies every year. And I must say, as I look across all our companies the reserve positions because at year-end are excellent and the prospects for our combined ratio are good. But we've got catastrophes coming in at any time, and so you have to take all of that into account. But at the moment things look good.

<Q - Mark A. Dwelle>: Okay. Thanks for that. And one last question, if I may, on the OdysseyRe. Just wanted to clarify, make sure I understood the table in the report. So it was $41mm of premium that was recorded in the December quarter that all else equal had it been under the old way you did it would have been otherwise recorded in January of 2015. Is that the right way to think about it?

<A - David Bonham>: That's right. That's the impact on Q4. And then when you're comparing y-over-y, you would make the same adjustment to the beginning of the years to adjust for the premium that needs to come out of Q1 [ph] 2015 (46:44).

<Q - Mark A. Dwelle>: Right. So when I'm thinking about my Q1 2015 estimate, I would want to assume that I had started out $40mm kind of in the hole as it were, and then build up my estimate from there?

<A - David Bonham>: I think that's the way look at it. Yeah.

<Q - Howard Flinker>: Nice results, or better than nice results. I have a few comments. One, as an insight into the oil business, which was really helpful to me on the short side, is that PetroChina and Sinopec in their quarterly or semi-annual statements break out marketing volumes, not dollars; dollars too, but units. And you could see in the last year-and-a-half that their growth in marketing volumes of oil and diesel and all that stuff were growing anywhere between 1% and minus 4%. Two years ago, they were growing 10%, 11%. And the imports were supposedly growing 7% or 8%. So the conclusion had to be they were stockpiling and one day they would have too much. And they probably have cut back that extra, but it doesn't look as if they're eating into that inventory yet. So it's possible they could reduce demand even more. That's one point I'd like to make.

<A - Vivian Prem Watsa>: Good point, Howard.

<Q - Howard Flinker>: Second, in 1922 oil traded at $2.40 a barrel in United States; in 1972 it was [ph] $3 (48:31). Oil could go nowhere for a long time.

<A - Vivian Prem Watsa>: Yes. I remember looking at the history of the price of oil. Yeah, you're exactly right. until 1974, I think, then...

<Q - Howard Flinker>: 1973 or 1974, overnight they quadrupled – and led to the bear market. And finally I'll pass on something I heard yesterday because I went to a presentation at the Columbia B School. This Japanese professor who among various educational stints was a consultant to the Ministry of Finance or the Japanese investment funds, et cetera. And I wanted to hear what he had to say about deflation. And in summary, they view the oil impact on the deflationary statistics as purely numerical. They think that once the oil stabilizes, deflation won't continue. And I didn't want to ask any questions, I didn't want to give him any clues but – I'm serious. But – because I thought about this two years ago in relation to what would happen in relation to the oil business, what would happen to deflationary statistics if you had a minus in oil – a big minus in oil?

<A - Vivian Prem Watsa>: Yes.

<Q - Howard Flinker>: And from what I'm reading and from what he said, they think well, it's just an oil problem. You and I don't think so.

<A - Vivian Prem Watsa>: Yes.

<Q - Howard Flinker>: You and I think it's broader...

<A - Vivian Prem Watsa>: Exactly right, Howard.

<Q - Howard Flinker>: Yeah. But it will give – and then somebody asked will there be a QQE3, they call it QQE. They've done QQE1 and QQE2. He said no, unless something comes wrong – happens wrongly. So that means that if our view, your view and mine, about deflation is on the mark, they're going to be surprised; and not only them, but Kearney and Poulos.

<A - Vivian Prem Watsa>: And a few more people, Howard, that might be surprised, but...

<Q - Howard Flinker>: Yeah. To give you an insight as to how they're thinking and how you can capitalize further; I just wanted to pass that on.

<A - Vivian Prem Watsa>: No. Thank you very much, Howard. You're very kind and your observations are good, particularly on the price of oil. The fact that, as you said, 1922 to 1974, 1973, 1974, that's a long time.

<Q - Howard Flinker>: Yeah. That was a tough trade, 25% in 50 years. It's below my hurdle rate.

<A - Vivian Prem Watsa>: But thank you very much, Howard.

<Q - Binoy Jariwala>: Hi. Wanted to ask your thoughts on Fairfax India, I believe when we had acquired Thomas Cook India, we said that Thomas Cook India would be the investment vehicle for Fairfax Financial's investments in India; and now that you've raised $1B, how should we look at Thomas Cook, likewise how should we look at Fairfax India, your thoughts, please?

<A - Vivian Prem Watsa>: Binoy, thank you for asking that question. That's a good question. Thomas Cook was our investment vehicle for India, prior to Mr. Modi getting elected. We thought with the fact that Mr. Modi got elected with a majority, business-friendly, track record in Gujarat, is a game changer for India. We think it's going to be transformed over time, especially if he gets – we think he's going to get elected at least once and maybe twice. And as long as his health is good, he'll continue for a long time and transform India. So in that situation, Binoy, we had to think about whether we continue with the resources we have or the opportunity could be so significant that we set up a different company. We thought about it long and hard and we've decided to set up Fairfax India. And Fairfax India with $1B, $300mm from us, has got a ton of possibilities in India over the long-term. We're very attracted to India. But as far as Thomas Cook is concerned, we see a significant opportunity for Thomas Cook, particularly in their areas of operation. We see acquisitions, expansions. The type of acquisitions that Fairfax India will do, Binoy, is sizeable ones, couple of hundred million, which would be tough for Thomas Cook to finance. And ultimately we'd have to finance it because we own 75% of it. But there'd be a lot of potential acquisitions in the fields that Thomas Cook is in going forward. We like the leadership of Madhavan Menon. We're very encouraged by his leadership for what he has already done. We like Ajit Isaac of course from IKYA. And Ramesh Ramanathan in Sterling Resorts. So there's a lot of opportunity in that company, and we will continue to acquire companies in Thomas Cook. The Modi election changed things, and that's why we created Fairfax India.

<Q - Binoy Jariwala>: Just a follow-up on this. Should we view Thomas Cook India to grow in its domain and likewise Fairfax in the other domain? So, for instance, if Thomas Cook is in travel, tourism, human resource, should we view Thomas Cook as being restricted in these particular areas?

<A - Vivian Prem Watsa>: I don't think you should view it as being restricted, but that's its area of expertise. And we've kept it nice and broad, Binoy, so that both companies can flourish.