S&P Global
Market Intelligence

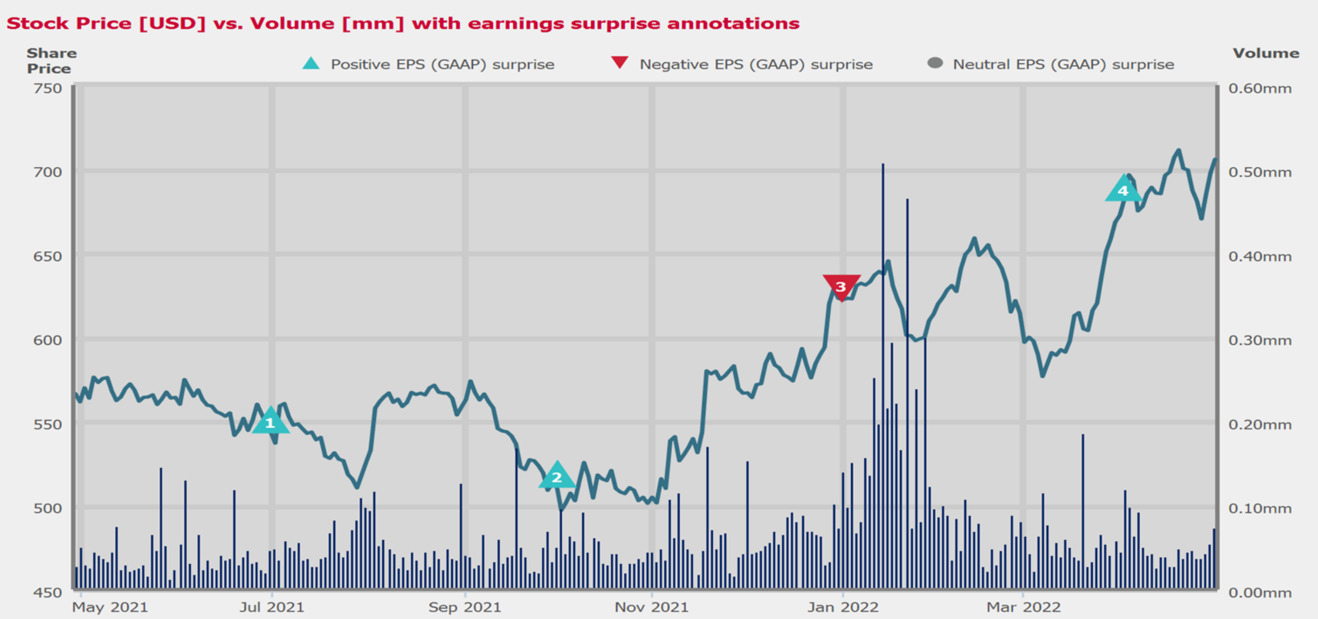
Fairfax Financial Holdings Limited TSX:FFH FQ1 2022 Earnings Call Transcripts

Friday, April 29, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	1.16	4.49	287.07	12.68	47.52	NA
Revenue (mm)	6268.93	5982.60	(4.57 %)	6842.00	27121.55	NA

Currency: USD
Consensus as of Apr-29-2022 8:55 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	25.18	43.25	1 71.76 %
FQ3 2021	9.60	16.44	2 71.25 %
FQ4 2021	34.19	33.64	3 (1.61 %)
FQ1 2022	1.16	4.49	4 287.07 %

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Call Participants

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BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Fairfax's First Quarter Results Conference Call. [Operator Instructions] 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
Associate Vice President of Legal

Good morning, and welcome to our call to discuss Fairfax's 2022 first 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
Founder, Chairman & CEO

Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's 2022 First Quarter Conference Call. I plan to give you a couple of highlights and then pass the call to Peter Clarke, our President, Chief Operating Officer, to comment on the quarter; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

Now we just had our AGM last week, so just about a week ago. And so I just wanted to refer to some of the slides to make it easy for you. The slides are on our website under News. So if you go to our Fairfax website under news, you can see our presentation that we had. So I just wanted to highlight a couple of them.

So on Slide 12, Page 12, it just says out of the top 25 companies in the world, property/casualty companies, growth of 25% was the highest. Well, that continued in the first quarter. Our gross premiums were up 22%. Net premiums were up 28%. Now you might wonder why we talked about it. Andy Barnard talked about it in the AGM. We have very decentralized operations, stable, experienced management team focused on underwriting profit. That's why we've had this growth -- significant growth.

Second point I wanted to make is on investments. And for this, you go into Page 20, Slide 20, and there were 2 major trends that we protected our company from. One was rising interest rates. Interest rates were very low. You were getting 5 and 6 basis points on our cash, we [didn't] reach for yield. So this, on Page 20 just shows you that interest rates have been coming down for 40 years. And the reversal taking place is taking place dramatically, high inflation in the United States, high inflation in many parts of the world. And we really don't know how high rates will go, but then now the 10-year rates, treasury rates are very close to 3%. Our duration in our cash and bond portfolio of $37 billion is approximately 1.4 years. So that's very little loss to us as interest rates go up.

Slide #25 on Page 25 in the AGM presentation shows that for 100 basis points, you have -- our investment income goes up by about $222 million, $220 million. So the investment income goes up because interest rates are going higher, and we're rolling over our cash and short-term holdings, and they're very short. So you get the higher interest income. And it shows you that the pretax unrealized losses on our bonds, $294 million is very low because, of course, we've got a duration of 1.4 years. You'll find that, that's a huge advantage we have. And I think looking at our competitors, most of our competitors don't have a duration of as low as we have.

Finally, on the second trend, first was rising interest rates. Second is the return to value and the drop in technology stocks and high growth stocks, which have been -- for the last many years now have been going up. So if you look at the Slide 22, you'll see that in the dot-com crash, the dot-com technology stocks came down dramatically and value-oriented stocks went up. Well, for the longest time now, 10 years, perhaps the opposite has taken place from about 2010.

Tech stocks -- growth stocks have done very well, the red line and value stocks have done relatively not as well. And that trend, we think, is about -- has changed in 2021 and 2022 to date. So the value is on its way to bridge the gap.

Now I just got this, and it's a good thing to remember, a friend of mine sent this to me. He said, remember, markets that go parabolic don't correct sideways, they collapse. And we are seeing some of that now in Slide 21. You can see that in, we say, return to value. Netflix was down 70% from its high, and the high is in late 2021, so about a few months ago. Netflix down 70%, Shopify, down 75%; Facebook down 50%, Facebook Meta, the new name, Zoom, the high was in September 2020, is down 83%. Alphabet and Amazon and Apple in the last week have said that their earnings are not going to be as good. Their revenues are not growing as fast, and the stocks -- the FAANG stocks are getting hit, down 20% today.

I'd remind you again, we've talked about this many times, but the dotcom crash took place many, many years ago, 20 years ago, stocks dropped, the dotcom stocks dropped 90%. The 2 big ones were Microsoft, dropped about 85%, but most importantly Microsoft did very well fundamentally earnings-wise, but you never saw the stock price for 16 years. Cisco dropped 85% and earnings have gone up 6x since that time period and the stock is still down 50%.

Our experience, in Slide 23, you can see from 1999 to 2002, all of the indices were down about 50% plus and Fairfax equities went up 100%. We expect value to [out] again. And now just before I end, I just wanted to say that I mentioned this at our AGM last week, we all feel for Ukraine. After this cowardly attack on them from Russia, I have no doubt Ukraine will prevail and President Putin will be ostracized and have a disaster on its hands.

We have about $181 million or 1% of our consolidated premiums in Ukraine in 2021. While it is small, we are very concerned about our more than 1,000 employees in that country, and we are very fortunate to have 3 outstanding Presidents, as I said at our AGM. They are keeping our people safe and are heroes working under extraordinarily difficult conditions. So please keep them in your thoughts and prayers.

And with that, I'll pass this call to Peter Clarke, our President, Chief Operating Officer, for further updates. Peter?

Peter S. Clarke
President & COO

Thank you, Prem. We had net earnings of $126 million in the first quarter of 2022 and book value per share grew by 1% adjusted for our $10 per share dividend. The 1% growth in book value was the result of strong underwriting profit of $324 million, offset by net losses on investments of $214 million, primarily from unrealized losses on our bond portfolio of $494 million from rising interest rates. Our combined ratio in the first quarter was excellent at 93.1%. Gross premiums were up 22% in the quarter with continued rate increases across all our major lines of business with the exception of workers' compensation. More on that later.

The operating income of our property and casualty insurance and reinsurance operations increased to $562 million in the first quarter of 2022, up from $298 million in the first quarter of 2021, driven by increased underwriting profit and an increase in our share of profit of our associates. Our investment return in the first quarter was 0.3%, which resulted in a total investment return of $144 million. Excluding the unrealized losses on our bond portfolio, our investment return for the quarter was very strong at 1.2%. As Prem mentioned, with the duration of 1.4 years on our fixed income portfolio, we expect many of these unrealized losses to reverse over the next year. We continue to hold significant cash and short-term investments, approximately 46% of our portfolio today to protect against increasing interest rates.

Our net gains on our equity and equity-related holdings were $263 million in the quarter, primarily from unrealized gains on Stelco, Waterous and Kennedy Wilson, offset by unrealized losses on BlackBerry and Commercial International Bank. We continue to see a return to value.

As mentioned in previous quarters, our book value per share of $626 does not include unrealized gains in our equity accounted investments and our consolidated investments, which are not mark-to-market. If we did mark-to-market, we would add $344 million or $14 per share on a pretax basis being the excess of fair value over carrying value at March 31, 2022.

At the end of the first quarter, the company's insurance and reinsurance companies held $23 billion in cash and short-dated investments representing 46% of our portfolio, with every 100 basis point increase in interest rates, this would provide us with approximately $230 million of additional annual income. We continue to have approximately $1.2 billion at the holding company, predominantly in cash and short-term securities and our $2 billion bank line is totally undrawn.

Please note, our cash in the holding company is to meet any and every contingency that Fairfax might face. We are not making any long-term investments with this cash other than to support our insurance and reinsurance operations. As previously mentioned, our insurance and reinsurance businesses continue to grow rapidly all over the world. We wrote $6.6 billion of gross premium in the first quarter of 2022. The first quarter combined ratio was 93.1% and produced an underwriting profit of $324 million, the largest quarterly underwriting profit before taking into account favorable reserve development in our history.

All our major operating companies produced combined ratios well below 100%. The quarter included catastrophe losses of $130 million or 2.8 combined ratio points and marginal favorable reserve development from prior years. Our gross premiums in the first quarter were up 22%, an increase of approximately $1.2 billion from the previous year. This growth is on top of a 25% increase in gross premium for the full year 2021, driven by continued favorable market conditions and strong margins that prevail in many of the markets, particularly in North America.

Brit had the largest growth in the quarter, adding $207 million of gross premium and growing 30% in the first quarter of 2022 versus the first quarter of 2021. Almost half of this amount was from Ki, Brit's innovative follow-on syndicate. Excluding Ki, Brit posted strong growth at 18%, with growth across both its direct and reinsurance books of business. Crum & Forster increased its gross premiums by 29%, led by its A&H division and the rebound of its travel and student health business. Crum also continues to see strong growth in its EMS segment and its cyber and tech E&O books of business.

Allied World continued its strong momentum from 2021 with gross premium up 24% in the quarter, with growth across most lines of business. Their reinsurance business included the timing impact of approximately $100 million of crop business that was renewed in the first quarter but bound in the second quarter in 2021. Allied World continues to benefit from double-digit price increases in its insurance business.

Odyssey Group's gross premiums were up 22%, with strong growth in the first quarter in the reinsurance business and continued single-digit expansion in its insurance business. In Canada, Northbridge was up 16% in U.S. dollar terms as it continues to register favorable rate increases, strong retention and healthy growth in new business. Premium at Zenith was down 5% as it continues to face competitive pricing in the workers' compensation market in the United States, although pricing is continuing to stabilize.

Our international operations continue to grow as well. Although they are not seeing the rate increases experienced from the hard market conditions in North America, gross premiums were up $90 million in the first quarter. Fairfax Asia's premiums were up 69%, including Singapore Re, which was consolidated into our results in the second half of 2021. 11% -- Asia's growth was 11%, excluding Singapore Re. Most of our companies in South America, Central and Eastern Europe and in South Africa, all registered strong growth in the -- for the year.

Over time, we believe our international operations will be a significant source of growth driven by underpenetrated insurance markets and strong local economies. Our companies continue to grow into favorable market conditions. While absolute rate increases may reduce in some lines, overall rate level is expected to remain attractive throughout 2022. Our companies had a great start to the year, and our management teams are focused on building on that throughout 2022.

As previously mentioned, we posted a strong underwriting result in the first quarter with a combined ratio of 93% and an underwriting profit of $324 million versus a combined ratio of 96% and underwriting profit of $149 million in the first quarter of 2021. Led again by Northbridge, they had another outstanding quarter with an 87% combined ratio benefiting from the compounding of year-over-year price increases.

We are happy to highlight Brit had one of its best quarterly results since our acquisition, posting a combined ratio of 92%, and Crum & Forster continued its steady decline with a combined ratio of 94.8, while Odyssey Group, Allied World and Zenith all again produced strong underwriting results.

Our international operations had a combined ratio of 98% with Fairfax Asia posting an excellent combined ratio of 91%, while Fairfax Brazil had a tough quarter with an underwriting loss of $8.1 million, driven by the effects of drought conditions in its agriculture book. We expect this will reverse throughout 2022.

The company's underwriting activities were not significantly impacted from the conflict in Ukraine. Our companies in Ukraine continue to operate while working remotely in a very difficult environment and produced a small underwriting profit in the first quarter. Our other insurance and reinsurance operations are not significantly exposed to the lines directly affected by the conflict, namely aviation, political violence, trade credit and marine.

Our companies have IBNR up of approximately $30 million to cover potential losses. We are hopeful this conflict will end soon, but it is still ongoing, so we continue to monitor the situation closely.

For the quarter, our insurance and reinsurance companies recorded favorable reserve development of $22 million or 0.5 points on our combined ratio. This compares to $43 million or 1.2 points in 2021. Prior year reserves are generally not significantly adjusted in the first quarter given the thorough actuary reviews conducted in the fourth quarter.

Our expense ratio continues to benefit from our earned premium volume outpacing expenses. Our overall underwriting expense ratio is 1.8 points lower year-over-year, with the underwriting expense ratio decreasing at essentially all our insurance and reinsurance operations. We expect continued growth and strong underwriting results throughout 2022, with our companies very well positioned to capitalize on the opportunities within their markets. The decentralized operating system of Fairfax is critical to our success and allows us to react to local conditions.

I will now pass the call to Jen Allen, our Chief Financial Officer, to comment on our investment results, our noninsurance companies' performance and overall financial position.

Jennifer J. S. Allen
VP & CFO

Thank you, Peter. Before speaking to the financial results in the first quarter of 2022, I wanted to acknowledge all the hard work of our employees in Ukraine and many others who are supporting those employees and their families during these very challenging times.

As a result of the conflict in Ukraine, we completed additional quarterly processes and procedures to address the uncertainty that has been created. Specifically, we ensured we addressed and understood potential and known impacts, if any, on our insurance and reinsurance operations. Both those directly located in Ukraine as well as the company's insurance and reinsurance operations that may have had exposure through insurance policies that were written.

In addition, we assess the potential impact the conflict in Ukraine may have had on our investments and our noninsurance associates and the consolidated noninsurance subsidiaries. We determined that the company's operating results in the first quarter of 2022 were not significantly impacted by the conflict in Ukraine. I'll refer you to Page 26 in our Q1 interim report for additional details. The company will continue to monitor the potential impact of the conflict that it may have on our businesses in the future.

Now looking at our first quarter results, we reported net earnings attributed to shareholders of Fairfax of $126 million in the first quarter of 2022, with book value per basic share at March 31, 2022, of $626.21, which represented a growth in the book value per basic share of 1% adjusted for the $10 per common share dividend that was paid in the first quarter of 2022. Peter has already provided detailed commentary on our insurance and reinsurance companies, so I'll begin additional remarks on our noninsurance, the consolidated companies.

Looking at the first quarter of 2022 compared to 2021, if you exclude the impact of Fairfax India's performance fees, which was a reversal of $3 million or performance fee income in 2022 and the impact of $56 million of performance fee expenses in 2021, operating income of the noninsurance companies improved by $53 million to $24 million in 2022 from an operating loss of $29 million in 2021. With the significant improvement principally being reflected by increased operating income from our restaurant and retail segment of $30 million that reflected the reduced COVID-19-related lockdown restrictions and the absence of asset impairments and also higher operating income at Fairfax India, primarily as a result of higher share profit of associates from their investments in SanMar, CSB and IFL Finance.

At March 31, 2022, the pretax excess of fair value over the adjusted carrying value of our noninsurance associates and certain consolidated noninsurance subsidiaries that the company considers to be portfolio investments was $344 million, which compared to an excess at December 31, 2021, of $346 million. That pretax excess of $344 million is not reflected in our book value per share but is regularly reviewed by management as an indicator of investment performance with additional disclosure provided in the interim MD&A.

If we look at the investment performance for the quarter, we -- with our continued concern around inflation, at March 31, 2022, we continue to hold a significant portion of the investment portfolio in cash, short-term investments and other short-dated fixed income securities. During the first quarter of 2022, we used proceeds from maturities of our short-term investments to make net purchases of $7.4 billion in bonds, which was comprised of $6.4 billion in U.S. treasuries and approximately $1 billion in Canadian government bonds that had 1- to 2-year terms.

At March 31, 2022, the company's low duration of only 1.4 years on a $36.9 billion position that is invested in cash and principally the short-dated investments, which are mainly in U.S. treasuries, limited the impact that the rising interest rate environment had on our bond portfolio in the first quarter of 2022, while enabling the company to benefit significantly from increased interest income in the remainder of 2022 as the portfolio is deployed into 1- to 2-year treasury bonds.

Our interest and dividend income of $169 million in the first quarter of 2022 remains stable compared to $168 million in the first quarter of 2021, but the composition of the income earned has changed. Principal changes reflected higher interest income earned from our first mortgage loan portfolio, other government bonds and U.S. treasuries and increased dividend income earned from our preferred stock investments. This was offset by lower interest and dividend income from our U.S. corporate bonds and certain long equity total return swap positions as a result of net sales.

As I noted, we had added $7.4 billion in U.S. treasuries and Canadian government bonds with low durations of 1- to 2-year terms, which will provide us with increased interest income for the remainder of 2022. Our consolidated share of profit of associates of $184 million in the first quarter of 2022, reflected strong results from our investments and were principally comprised of a share of profit of $50 million from Atlas Corp., $38 million from EXCO Resources and $31 million from Eurobank. That compared to a share of profit of $44 million in 2021, which was primarily comprised of a $76 million profit from Eurobank that was partially offset by a share of loss of $31 million from Atlas Corp.

Turning to our net losses on investments in the first quarter of 2022 of $214 million. They were primarily comprised of net losses on bonds of $494 million. That was partially offset by net gains on our equity exposures of $263 million. The net losses on bonds of $494 million included the net losses on our U.S. treasuries and the Canadian government bonds of $233 million, of which $158 million related to the net purchases I referred to earlier of the $7.4 billion. It also included unrealized losses of $72 million on the Greek government bonds, which backs EuroLife's reserves and net losses of $183 million on our corporate and other bonds related principally to Canadian and U.S. corporates. This was partially offset by gains on our U.S. Treasury bond forward contracts of $69 million.

Given the low duration of only 1.4 years, on the $36.9 billion invested principally in cash and our short-dated investments, if those fixed income investments are held to maturity, that net unrealized loss that we recorded in the first quarter of 2022 will be reversed in future periods. The net losses on bonds was partially offset by net gains on equity exposures of $263 million that comprised of realized and unrealized depreciation on our common stock and our equity total return swaps, which included $95 million of net gains on the equity total return swap investments that the company continues to hold on the Fairfax subordinate voting shares.

In prior quarters, the conference calls, we have mentioned the ability for the company to increase its ownership in Digit above 49% to a controlling interest upon receipt of regulatory approvals in India. Given the regulatory approvals remain pending to permit the company to obtain control in Digit, the company did not record any gains in the first quarter of 2022 on its 49% equity accounted investment in Digit.

In closing, a few comments on our financial condition position, our liquidity and the position of the company remains very strong with our cash and investments at the holding company at approximately $1.2 billion at March 31, 2022, and our $2 billion unsecured revolving credit facility was fully undrawn. As Peter mentioned, our holding company cash and investments, it supports our company's decentralized structure and enables the company to deploy capital efficiently to our insurance and reinsurance companies.

Our total debt to total cap ratio, excluding the investments that are consolidated in noninsurance companies, it was 24.2% at March 31, 2022, and remains stable compared to the 24.1% reported at December 31, 2021. And finally, our common shareholders' equity, it decreased slightly to $14.9 billion at March 31, 2022, from just over $15 billion at December 31, 2021, which primarily reflected the payments of our common and preferred share dividends of $261 million in the first quarter of 2022, and that was partially offset by the reported net earnings attributed to shareholders of Fairfax of $126 million.

Thank you, and I'll now turn the call back over to Prem.

V. Prem Watsa
Founder, Chairman & CEO
Thank you very much, Jen. We now look forward to answering your questions. [Operator Instructions] Okay. Jill, we are ready for the questions.

Question and Answer

Operator

[Operator Instructions] And we have a question from Tom MacKinnon with BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

A question with respect to the...

V. Prem Watsa
Founder, Chairman & CEO

Just a little louder, Tom.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes. Is this better? Can you hear me better here, Prem? Is that better?

V. Prem Watsa
Founder, Chairman & CEO

Yes, now it's good.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. A question with respect to the $400 million. Are you still anticipating a $400 million gain when you close this -- when you get the regulatory approvals with respect to Digit and is that expected in the second quarter?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Tom, it should come sometime soon. It's already passed through Parliament. And so we'd look at it as soon as it gets approved. Peter, do you want to add anything for that?

Peter S. Clarke
President & COO

Yes. No, we're still expecting it, and it is -- we need regulatory approval just to consolidate and we're hoping it comes soon.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So there wasn't anything noted in the press release this quarter, although about $400 million being a potential gain, although that was noted in the prior quarter. So you're still expecting a $400 million gain upon getting the regulatory approvals. Is that right?

V. Prem Watsa
Founder, Chairman & CEO

Yes. We're looking at that, Tom, as it comes. That was the estimate we made some time back, and we'll look at it again, but it's going to be very significant, yes.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. That's great. And then in terms of deploying some more cash into bonds, are you kind of finished with that now? Or would you look at putting more of your substantial cash position in the bonds going forward?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So Tom, we think the big risk today is the fact that people have not experienced -- for 40 years, interest rates have gone down. And you have to be in the business for a long time, like in the '70s to have seen how interest rates went up. Inflation went up, interest rates went up. So the big risk today, as I said, is interest rates going up, and we don't know how high it is going to go.

So what we've done is just 1- and 2-year bonds. We're limiting our investments to 1 and 2 years, which by the way, a significant increase in interest rates have taken place in that term, 1 to 2 years. And our Brian Bradstreet, that's what he's limiting it to 2 years max, and just rolling it over, as Peter told you in his presentation.

Tom MacKinnon
BMO Capital Markets Equity Research

If rates continue to rise, would you look at deploying more? Or what would be the -- your thinking in terms of what you would want to see before you deploy more?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Tom. If you were in the '70s, you would have thought the rates were much higher then, of course, but 5%, 6%, 7% would have been good rates; 8% would have been good rates; 10%, 11%, 12% would have been good -- went to 21%, long Canada's, that's 30-year Canada's went to an unbelievable 16%.

On the other side, in the pandemic, treasury bonds went -- 10-year treasuries went to 0.5%, never in the history of at least the modern history, including depression of the '30s, the 10-year treasury go to 0.5%. They did, and they stayed for some time. So you have to be just very, very careful. You can't have preconceived ideas as to what can happen. And we're just being very, very careful. We've protected our company for 36 years. We want to last 100 years. We're going to be very careful.

Operator

Our next question is from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Just building on some of the questions that Tom was just asking on the interest rates. Do you have kind of an annualized run rate of what interest and dividend income might look like now? I know you've given kind of broad estimates of that in the past.

V. Prem Watsa
Founder, Chairman & CEO

Yes. So Mark, right now, Peter said, our numbers are around $700 million normalized. And as interest rates go higher and as our maturities roll over, that number we expect to go higher. There's lots of things that can change the number. So you can't -- and no guarantees on that, Mark. But yes, we expect it to go higher. Peter, would you add anything to that?

Peter S. Clarke
President & COO

No, that's our current run rate today, and we are continuing to monitor it, and we look at it on a daily basis.

V. Prem Watsa
Founder, Chairman & CEO

So Mark, if you had a 4- or 5-year duration and you had very little cash and most people have -- most companies in our business have very little cash because cash was giving you 5 basis points. And so the others are not going to be able to have interest income in the main. They'll have some cash coming in, I guess. But in the main, increased investment income and we'll have that. And our bond portfolios are going to go down much, much less than anyone else.

Mark Alan Dwelle
RBC Capital Markets, Research Division

No, definitely. You guys did a great job of protecting the balance sheet there. As I'm sure you've seen, there's been -- some of your competitors have seen 5% and 10% impacts to their book value. It's a small catastrophe in my book.

V. Prem Watsa
Founder, Chairman & CEO

That's exactly right, Tom (sic) [Mark].

Mark Alan Dwelle
RBC Capital Markets, Research Division

One other question. As I noticed in the interim report, I guess, there was a $180 million injection of capital into the runoff segment. I was curious if you could elaborate on that. It didn't look like it had any particular large losses, but there was a fair amount of capital inflow for a unit that's been stable for a very long time.

V. Prem Watsa
Founder, Chairman & CEO

Yes. We just want to keep it safe, Mark. You have all of these -- as we said in our annual report, unexpected runoff type exposures that are coming in. But I don't know, Peter, would you add to that?

Peter S. Clarke
President & COO

Yes. I think specifically on the $180 million, it really related to last year's results. So we were just actually putting the capital into -- in the first quarter, but it related to 2021.

Operator

Our next question comes from Howard Flinker with Flinker & Company.

Howard Flinker
Flinker & Co

A minor question. Did your drop in interest expense come from some derivatives you had?

V. Prem Watsa
Founder, Chairman & CEO

Interest expense, Howard? No. We break it down, but you want to add to that Peter?

Peter S. Clarke
President & COO

Yes. I think the drop was -- last year, we bought back some bonds. So we had some early redemption fees in that number. This year, that's not in there.

Jen, anything to add?

Jennifer J. S. Allen
VP & CFO

Yes, Howard, maybe if I can refer you to Page 43 in the interim report. We give the components in interest expense in 2022 compared to '21. So you can see at the holding company and the insurance companies, including the noninsurance, it was $92 million compared to $151 million. But as Peter indicated, in the prior year, that redemption loss of about $46 million. So when you adjust for that, you're pretty much normalized on a year-over-year with some benefit coming through on the lower yield bonds that we issued last year.

Operator

[Operator Instructions] Our question comes from Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Only one question today. I just wanted to get a little bit more color on the reserve development this quarter coming in flat and pretty flat across most of the business lines. So a little bit more color as to perhaps what we're seeing there to drive less reserve development this quarter relative to prior years.

V. Prem Watsa
Founder, Chairman & CEO

Yes. I'll ask Peter to add to that, but I just want to make a point here. Reserves, when you expand, and this was what we found in the 2001 hard market after September 11. For the next 6, 7 years, we had huge redundancies. We're expecting the same. Now the first quarter, we didn't show any significant redundancies that Peter said, because we look at it once a year at the end of the year. And so we'll review our reserves.

But because we've grown so significantly in our hard market, 25% in 2021, 22% this year, the reserve redundancies, we think, will last for some time. Don't ask me how long, but that's been our experience in the past because these -- the pricing -- the rate increases that we've had have been very significant. We're expanding. We're very underwriting profit focused. We're expanding because we're getting paid to take the risk as simple as that. And so we think, Jaeme, that over time, reserves will be redundant. Peter, I don't know if you want to add anything to that.

Peter S. Clarke
President & COO

I think just specifically on your question in the current quarter, in the fourth quarter, we do thorough actuarial reviews for all our companies. And usually, we make adjustments then. And unless there's some adverse development that we see, we typically don't react too much in the first quarter, maybe on some short tail lines of business. So that's why, generally, in the first quarter, you won't see as much movement as the other quarters. So nothing unusual there.

V. Prem Watsa
Founder, Chairman & CEO

And Jaeme, you know, when you look at our annual report and see the 10 years' worth of reserve development, our companies have had significant reserve redundancies year after year after year, and we expect them to continue to do that.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. Great. Yes, that's the basis for the question, effectively. I just wanted to confirm there was there's nothing like inflationary or otherwise that caught you off-guard this quarter relative to prior year. So it sounds like all is still normal.

Operator

Our next question comes from Payson Hunter with CIBC.

Payson Hunter;CIBC;Analyst

I just have a general question inquiring as to what your investment policy parameters are towards the use of total return swaps.

Peter S. Clarke
President & COO

On our policy on total return swaps, we do use some total return swaps to replicate long positions. But we have said in the past that we're no longer going to use total return swaps or shorting any stocks or use TRS for that.

V. Prem Watsa
Founder, Chairman & CEO

Yes. So there's no shorts for the index or for individual stocks. And then total return swaps we have one or two and we intend to keep them, but not use more of them.

Payson Hunter;CIBC;Analyst

Are there any limitations in the total quantity as a percentage of your investment portfolio?

V. Prem Watsa
Founder, Chairman & CEO

Peter?

Peter S. Clarke
President & COO

The total return swaps, when we look at our equity exposure, we look at the notional amount, and we add that to our total equity exposure, and we take capital charges on that. So -- and that's how it's limited to the amount of exposure that we can take.

Operator

Our next question comes from Ron Bobman with Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

Congrats on another very, very fine quarter. Prem, I have sort of a stock price-related question. We're enjoying really good and improving an underwriting environment. The portfolio of companies that make up Fairfax are performing very, very well and improving even further. And despite that, the stock price, even from your own comments at the AGM, shareholders of late, I think, was your comment, have not enjoyed the extraordinary returns that over the long-haul shareholders have returned and that you're sort of focused on changing that, I guess, in some respects, was a thrust of your comments at the AGM.

And I'm wondering what do you attribute when you think about what are the elements that are suppressing the stock performance, what do you think the lead items are? And then so far, the primary tool has been buybacks and selling some small pieces of some of the great assets inside of Fairfax, what other tools or levers can you pull to sort of remedy that situation?

V. Prem Watsa
Founder, Chairman & CEO

So Ron, that's a very good question. You never know -- and these are markets, right, so you never can tell. In our annual report, I made the point that if you go back and look at 36 years our stock price, many a time have gone up 100%. Did we know that it would do that? No. So we can't predict our stock price, whether it goes up or down. What we can do -- and we don't give guidance and we don't play the game of quarterly earnings and all of that. We don't do that, never done that.

And so -- and we're not promotional. We have one AGM. And at that AGM, as you know, we answer every single question that comes from anywhere. And so we're not oriented towards promoting our stock but over the long term, our stock always reflects underlying value. And when it doesn't, we turn around and buy back the stock. So we bought 2 million shares at the end of 2021. And that's the #1 possibility for us in terms of continuing to buy.

The more we buy our stock, the better it is for each individual shareholder who is remaining, and has taken the long-term view. Now when the stock will react and how it will react, Ron, I wish I knew. I happen to be a pretty large shareholder. And so I'm very interested in that run. And if you know the answer to that, let me know.

Ronald David Bobman
Capital Returns Management, LLC

Okay. Well, operationally, everything is great and it's been very, very good capital management, too. So I'm happy, but wondering if there's just more levers. Best of luck. Hope it continues.

V. Prem Watsa
Founder, Chairman & CEO

Thank you, Ron. And just to continue that in terms of Ron's question and comments, we have -- and I've said this at the AGM, got nothing to do with me -- one of the best insurance companies in the world, not in Canada, not in the United States, I'm talking the world. And the reason it's one of the best in the world is because we've got decentralized operations. Think 23 companies in total, and we've got experienced management teams who have been with us for 20-plus years.

No change, consistent and below them is a whole consistent management team, a very small holding company. And so these are presidents of ours, the 23 of them, who run a fine business. And so the biggest company we have is about $6 billion in premium. Out of the 24 that we did last year, only $6 billion. So for us to grow as opposed to large competitors, which are more centralized is much easier because our people are reacting to the opportunity that they find right ahead of them. And it's a huge plus. It takes a tough -- it takes a long time to develop. And we've got excellent management teams and behind it all, as I said at the AGM is our culture, we've got a wonderful culture at Fairfax, which you can experience in -- if you come to our AGM.

Operator

[Operator Instructions] We have a question from Ashwin Mudaliar with Edward Jones.

Ashwin Mudaliar
Edward D. Jones & Co., L.P.

Do you foresee any additional contributions to the insurance subs from the holdco just to support growth? And I guess, conversely, if soft insurance market arises years from now, how do you think about what's drawing capital from insurance subs and bringing it back to the holdco?

V. Prem Watsa
Founder, Chairman & CEO

Yes. So our companies are all very well financed, very well capitalized all of them. We had to put money last year, as we said in our annual report. But today, they're all very well capitalized. We don't see any more money going in. They're expanding significantly. Our earnings -- it's an underwriting profit, as you saw a 93% combined ratio. Like we'll be writing, Peter, I'm thinking about $20 billion plus of net written premium and a 5% underwriting profit of $1 billion. And if it's less than 95%, of course, it's even more than $1 billion. If it's 10%, it's $2 billion. So we've got a huge underwriting profit coming forward. And our investment income, which is running at $700 million, as interest rates go up, should continue to move upwards, which results in very good earnings.

Quarter-by-quarter, who knows what will happen. We've never focused on a quarterly basis. And then remember, we have -- as Jen was saying, our restaurant business, all closed in the pandemic, our travel business, travel, which is like Thomas Cook went through a really rough time. Fairfax India, it's trading at $12.5. We said at our AGM, the book value, net asset value $20, India is on a tear. So you've got a lot of companies that we have.

We talked about Atlas at the AGM, fabulously managed by David Sokol and Ben Chang, huge opportunity there. And then Fokion who manages our interest and runs Eurobank, tremendous opportunity. So you're on and on, you go on and you see not only interest income going in and value stocks that we have could do extremely well. So you put all of that together, we're quite excited about the opportunity. We don't think capital is a problem at all. But Peter, any comment to add to his question?

Peter S. Clarke
President & COO

No, I think, you answered it -- you've got the right answer. We think through strong underwriting profit, increased interest and dividend income that the insurance companies will be able to fund any additional capital through growth. And Jen, for example, in the first quarter, I think, the company has returned...

Jennifer J. S. Allen
VP & CFO

It's about $190 million, that's correct. So there is capital flowing both ways. As Prem noted, on the decentralized structure, it's with the holding company at the $1.2 billion, it gives us the flexibility to put capital down into the needed companies, example with runoff in the quarter, but also take capital back up through those companies that have excess and with about $190 million in dividends that did come up to the holdco in the first quarter of 2022.

V. Prem Watsa
Founder, Chairman & CEO

Thank you very much, Ashwin. And any question, Jill, any more questions that you have?

Operator

No, Mr. Watsa, we have no further questions at this time.

V. Prem Watsa
Founder, Chairman & CEO

Well, if there are no further questions, then thank you for joining us on this call, and thank you very much for coordinating it, Jill. Thank you.

Operator
You're very welcome. This does conclude today's conference call. We thank you all for participating. You may now disconnect, and have a great rest of your day.