S&P Capital IQ

CONTENTS

Fairfax Financial Holdings Limited TSX:FFH

FQ3 2015 Earnings Call Transcripts

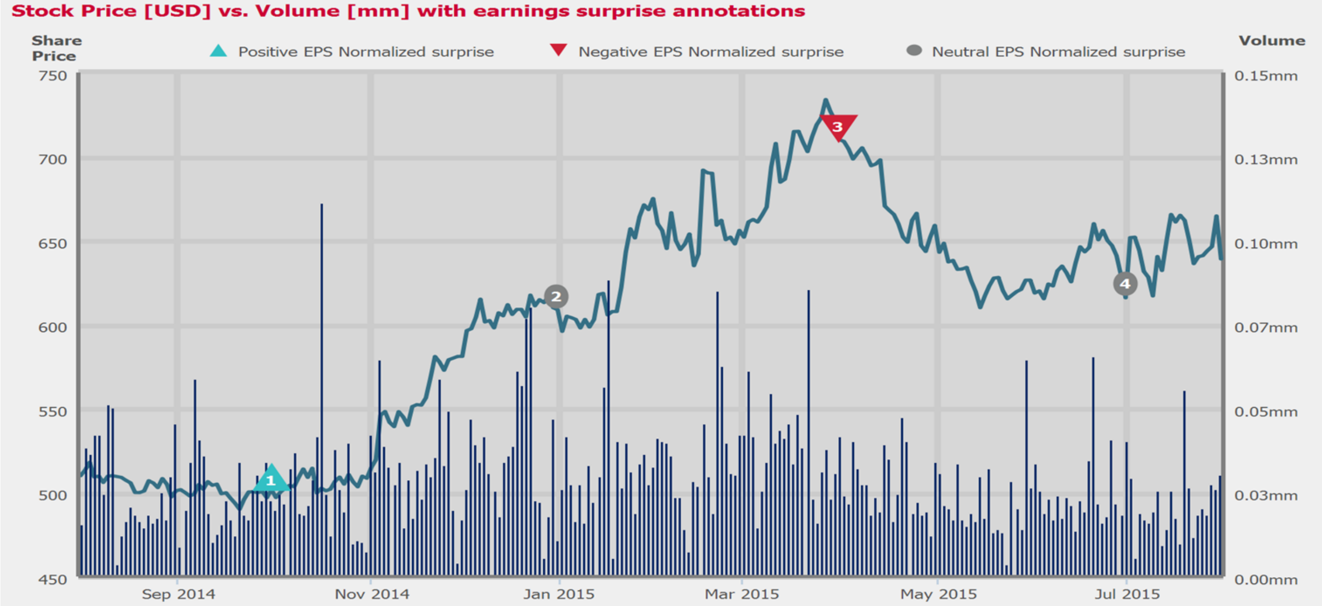
Friday, October 30, 2015 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	11.14	18.16	▲63.02	5.60	17.50	20.75
Revenue (mm)	2796.90	3010.00	▲7.62	2740.15	9695.50	11107.20

Currency: USD

Consensus as of Oct-30-2015 8:56 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	2.74	3.80	▲1 38.69 %
FQ4 2014	(1.33)	0.49	NM
FQ1 2015	4.77	4.52	▼2 (5.24 %)
FQ2 2015	3.80	(8.87)	NM

Call Participants

EXECUTIVES

Bradley Paul L. Martin
Vice President of Strategic Investments

David J. Bonham
Chief Financial Officer and Vice President

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

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Andrew Paul Hofer
Brown Brothers Harriman & Co.

Mark Alan Dwelle
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Mikel Abasolo

Paul David Holden
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Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Fairfax's 2015 Third 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 Brad Martin. Mr. Martin, please begin.

Bradley Paul L. Martin
Vice President of Strategic Investments

Good morning, and welcome to our call to discuss Fairfax's 2015 third 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.

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

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Brad. Good morning, ladies and gentlemen. Welcome to Fairfax's third quarter conference call. I plan to give you some of the highlights and then pass it on to Dave Bonham, our CFO, for additional financial details.

In the first 9 months of 2015, book value per share increased 3.7% adjusted for the $10 per share common dividend paid in the first quarter of 2015. Our insurance and reinsurance operations had an excellent first 9 months with a combined ratio of 91.3%, with excellent reserving and significant underwriting profit of $440 million.

In the third quarter, all our operating segments had combined ratios below 100%, with an overall combined ratio of 90.9%.

OdysseyRe, again, had an excellent combined ratio of 88.9%; Zenith, 82.3% and Northbridge at 83.1%. As shown on Page 38 of our quarterly report, we realized gains on our investment portfolio of $65 million in the third quarter of 2015. Excluding all hedging gains and before mark-to-market fluctuations in our investment portfolio, we earned $232 million in pretax income in the third quarter. Including all hedging gains and mark-to-market fluctuations in our investment portfolio, we reported after-tax income of $425 million in the third quarter of 2015.

Our insurance and reinsurance businesses premium volume was up in the third quarter by 31%, excluding the Brit acquisition, business volume was up about 2.3%. At the subsidiary level, the change in net premiums written in the third quarter and the combined ratios were as follows: OdysseyRe in the third quarter had a premium drop of 13%, combined ratio, as I said earlier, of 88.9%; Crum & Forster was up 31%, combined ratio of 98.4%; Northbridge in Canadian dollars was up 9%, with a combined ratio of 83%; Zenith, up 10%, with a combined ratio of 82.3%; Fairfax Asia was down 19%, with a combined ratio of 90.1%.

Dave will give you more comments on these results. As we have said, the low, very low interest rates and reduced reserve redundancies will mean there's no place to hide for the industry. Combined ratios have to drop well below 100% for the industry to make a single-digit return on equity with these low interest rates. While the short term is always tough to predict, fundamentals will eventually play out.

Net investment gains of $426 million in the third quarter consisted of the following. Please refer to Page 2 of our press release. In the third quarter of 2015, net gains on equity and equity-related investments were $1 million, resulting from net losses of $792 million, offset by $793 million net gain on our equity hedge, principally reflecting the 12.2% decline in the Russell 2000 index. Also, we had bond gains of $238 million, primarily on our Treasury bond portfolio because of the impact of declining interest rates.

We have mentioned this many times in our calls and our annual meetings, IFRS accounting results in stocks and bonds being recorded at market and subject to mark-to-market gains or losses. Quarterly and annual income will fluctuate widely and investment results will only make sense over the long term. The market value of our CPI-linked derivatives increased by 40% during the third quarter, producing unrealized gains of $102 million in the quarter.

These CPI-linked derivatives have a notional value of approximately $109 billion, with the majority of the contracts based on the underlying U.S. CPI index or the European Union CPI index. Further information is available on Page 3 of our press release, where we have included a table on our deflation swaps. On average, they have almost 7 years to run. These contracts are very volatile, but I've said this to you before, our CDS or credit default swap experience comes to mind. When you review our statements, please remember that when we own more than 20% of a company, we equity account; and when we own more than 30%, we consolidate it, so that mark-to-market gains in these companies are not reflected in our results.

As you can see on Page 12 of our quarterly report, the fair values of our investment in associates is $1.8 billion, which has a carrying value of $1.6 billion, an unrealized gain of $0.2 billion is not on our balance sheet.

Investment gains have been an important component of our returns over time. Since we began, we've had over $11 billion in realized and unrealized gains. On September 18, 2015, Fairfax Asia acquired a 35% ownership interest in Bank for Investment and Development of Vietnam, a company that goes by the name of BIC for approximately $48 million.

BIC is a leading property and casualty insurer in Vietnam, producing approximately $60 million of gross premiums, written through an exclusive arrangement with the majority shareholder, Bank for Investment and Development of Vietnam, BIDV, to sell its products through the bank's distribution network.

Today, Fairfax announced that it has agreed with its joint venture partner, ICICI Bank, to acquire an additional 9% of the issued and outstanding shares of ICICI Lombard General Insurance Company from the bank. The proposed transaction values the company at approximately USD 2.6 billion and is subject to government and regulatory approvals and expected to close in the first quarter of 2016.

Following shareholder approval on August 31, 2015, the company amended its articles to preserve the then current 41.8% voting power of its multiple voting shares, which are controlled by me, the company's Chairman and Chief Executive Officer. The continuing preservation of the 41.8% voting power of the multiple voting shares is subject to a majority of the minority shareholder ratification vote in various circumstances. A big thank you to all our shareholders for your support.

During the third quarter of 2015, Fairfax India completed the acquisition of NCML, National Collateral Management Services, by acquiring an 88.1% interest for approximately $149 million. NCML is a leading private sector agricultural commodity storage company in India.

On July 13, 2015, Fairfax India announced an open offer to acquire up to 26% of the outstanding equity shares of IIFL Holdings for approximately $250 million. The open offer commenced on October 29 and will close on November 13, 2015. The transaction is subject to regulatory approvals in India and is expected to close in the fourth quarter of 2015. IIFL is a diversified financial services holding company in India.

As I have said to you many times, we continue to be very concerned about the prospects for the financial markets and the economies of North America and Western Europe. I accentuated, as we have said many times before, of potential weakness in China and the emerging markets. We believe there continues to be a big disconnect between the financial markets and the underlying economic fundamentals.

As of September 2015, we have $7.7 billion of cash and short-term investments in our portfolio, which is 27% 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 be reduced.

Now I would like to turn it over to Dave Bonham, our CFO, so he can give you some information on the underlying financials. Dave?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. First, I'll focus on Fairfax's consolidated results for the third quarter of 2015 and then we'll move on to the operating company results and finish with the consolidated financial position.

For the third quarter of 2015, Fairfax reported net earnings of $425 million or $18.16 per fully diluted share. And that compared to the third quarter of 2014 when we reported net earnings of $461 million or $20.68 per fully diluted share. Year-to-date, Fairfax's reported net earnings is just a little over $464 million or $19 per fully diluted share. And that was in contrast and a decrease to 2014 when we reported year-to-date net earnings of $1.6 billion or $73 per share on a fully diluted basis.

Underwriting profit at our insurance and reinsurance operations in the third quarter and first 9 months of 2015 increased to $177 million and $440 million, with combined ratios of about 91% in both periods. That compared to underwriting profits of $136 million and $345 million and combined ratios of 91.2% and 92.3% in those same respective periods last year.

Quarter-to-date and year-to-date, underwriting profit was up $41 million and $95 million year-over-year. Our combined ratios benefited from somewhat higher net favorable reserve development in the third quarter and first 9 months of 2015 of $151 million and $303 million, translating into about 8.6 -- rather, 8 and 6 combined ratio points in each of those respective periods. That compared to net favorable reserve development of $96 million and $227 million in the third quarter and first 9 months of 2014, where that represented 6 and 5 combined ratio points in those periods.

Current period catastrophe losses were lower in 2015 and totaled $43 million or 2.2 combined ratio points in the third quarter, $108 million or 2.1 combined ratio points in the first 9 months. And by way of comparison, cat losses in the third quarter and first 9 months of 2014 were $65 million and $151 million, representing 4.2 and 3.4 combined ratio points.

Net premiums written by our insurance and reinsurance operations increased by 31% in the third quarter of 2015 and by about 14% in the first 9 months. And that reflected principally the consolidation of Brit's net premium written of $412 million in the quarter, $563 million on a year-to-date basis.

So turning to our operating company results, starting with OdysseyRe. In the third quarter and first 9 months of 2015, Odyssey reported underwriting profits of $62 million and $191 million and combined ratios of about 89% in both periods. And that compared to underwriting profits of $73 million and $219 million and combined ratios of about 88% in the third quarter and first 9 months of 2014.

Catastrophe losses in the third quarter and first 9 months totaled $29 million and $85 million. And that translated into about 5 combined ratio points in each of those respective periods. And that compared to catastrophe losses of $41 million and $112 million last year in the third quarter and first 9 months, which translated into 7 and 6 combined ratio points.

OdysseyRe was affected by a significant non-catastrophe large loss in the third quarter, the Tianjin port explosion in China. And that reduced its underwriting profit by $53 million and increased its combined ratio by 9 percentage points in the third quarter and 3 percentage points in the first 9 months.

OdysseyRe's combined ratios in the third quarter and first 9 months of 2015 included the benefit of $66 million and $106 million of net favorable prior year reserve development. That's about 12 combined ratio points in the quarter, 6 year-to-date, and that principally related to casualty reserves and property catastrophe loss reserves.

OdysseyRe wrote $509 million and just a little over $1.6 billion of net premiums in the third quarter and first 9 months of 2015. And that reflects decreases of about 13% and 10% during those respective periods. And that's after making an adjustment in the first 9 months of 2014 for the manner in which OdysseyRe recognizes premiums written in respect to its U.S. crop business.

The decrease has principally reflected the impact of a significant quota share reinsurance contract that did not renew in 2015. And more specifically, in the second quarter of 2015, this nonrenewal resulted in the return of about $101 million of premium to the cedent, and that obviously impacted the first 9 months net premium written. The adjustments I have just referred to are set out in more detail on Page 45 of our third quarter interim report.

Moving on to Crum & Forster. Crum & Forster's underwriting profits increased in the third quarter and first 9 months of 2015 to $6 million and $21 million at combined ratios of about 98% in both periods. That compared to underwriting profit of $1 million and $5 million and combined ratios of about 100% in each of the third quarter and 9 months of 2014. And there was no net prior year reserve development in either 2015 or 2014 at Crum & Forster.

Current period catastrophe losses were modest at $5 million and $12 million in the quarter and first 9 months. And that compared to current period catastrophe losses of $1 million and $13 million in the third quarter and first 9 months of 2014.

Crum & Forster's net premiums written increased by 31% and 20% in the third quarter and first 9 months of 2015. That primarily reflected growth across several of its specialty lines of business, improvements in the pricing of the casualty reinsurance that it purchased, reductions in purchases of quota share and facultative reinsurance and the incremental impact of The Redwoods acquisition. And those were partially offset by planned reductions in the legacy CoverX business.

At Zenith National. Zenith National reported underwriting profits in the third quarter and first 9 months of $36 million and $97 million, with corresponding combined ratios of 82.3% and 82.8%. And that compared to underwriting profits of $30 million and $64 million, with combined ratios of 84% and 88% in each of the third quarter and first 9 months of 2014, respectively.

The improvement in 2015 principally reflected a lower estimated current accident year loss ratio. It was approximately 3 and 4 percentage points lower on a year-over-year basis in the third quarter and first 9 months of 2015. And that was due to favorable loss development trends for accident year 2014 that are starting to emerge in 2015.

There are also price increases that were equal to estimated loss trends for accident year 2015, and there was higher net favorable development of prior year's reserves in 2015 when we measure it in dollar terms, and that represented 11 and 13 combined ratio points in the quarter and first 9 months of 2015. And that favorable emergence is principally reflecting the favorable development of accident years 2011 to 2014.

Net premiums written by Zenith of $168 million and $642 million in the third quarter and first 9 months of 2015 increased by 10% and 8% year-over-year. And that principally reflected an increase in exposure and some moderate premium rate increases.

Northbridge reported underwriting profits of $38 million and $57 million and combined ratios of 83% and 92% in the third quarter and the first 9 months of 2015. That compared to underwriting profits of $14 million and $26 million and combined ratio points of 94%, 96% in those same periods last year.

The underwriting results in the third quarter and first 9 months included the benefit of net favorable prior year reserve development of $40 million and $59 million. That represented 18 and 9 combined ratio points in the quarter and on a year-to-date basis. And with that favorable emergence, principally arising on accident years 2011 through 2014, and across most of their lines of business. That compared to net favorable development of $14 million and $57 million last year in the third quarter and first 9 months of 2014.

There were no material current period catastrophe losses at Northbridge in the third quarter and first 9 months. And in Canadian dollar terms, net premiums written by Northbridge in the third quarter and first 9 months of 2015 increased by 9% and 7%. And that reflected increased renewal business, modest price increases across the group, combined with lower amounts of casualty reinsurance purchased in 2015.

Fairfax Asia's underwriting profit of $5 million and $20 million and combined ratios of 90% in each of the third quarter and first 9 months of 2015, compared to underwriting profits of $17 million and $26 million and combined ratio points of 74% and 88% in each of the comparable periods last year. The combined ratios in the third quarter and first 9 months of 2015 included 14 and 9 combined ratio points of net favorable prior year reserve development. And that primarily related to commercial automobile and workers' compensation loss reserves.

Net premiums written by Fairfax Asia decreased by 19% and 12% in the third quarter and first 9 months of 2015. That reflected planned reductions in commercial automobile writings at Falcon, the unfavorable effect of foreign currency translation and an increase in premiums ceded to reinsurers, partially offset by the positive impact of the acquisitions of Union Assurance and MCIS in 2015 and Fairfax Indonesia in 2014.

The insurance and reinsurance other segment produced underwriting profits of $12 million and $31 million at combined ratios of 89% and 91% in the third quarter and the first 9 months of 2015. And that compared to underwriting profits of $1 million and $5 million at combined ratios of 99% and 98% in those same periods in 2014. The improvement in underwriting profit in 2015 principally reflected increased net favorable prior year reserve development and lower current period catastrophe losses.

Net premiums written by the insurance and reinsurance other segment increased by 26% in the third quarter, 31% in the first 9 months. The increase primarily reflected the impact of the QBE reinsurance transactions at Polish Re, where the majority of that assumed premium was retained and also reflected an increase in assumed reinsurance from Fairfax Asia.

Turning to Brit. Fairfax completed the acquisition of Brit earlier this year on June 5, 2015, and commenced consolidating Brit's financial reporting from that date. In the third quarter of 2015, Brit contributed $412 million of net premiums written to the consolidated total and produced an underwriting profit of $19 million at a 95.4% combined ratio.

Runoff reported an operating loss of $19 million in the third quarter of 2015, comparable to its operating loss of $17 million in the third quarter of 2014. Consolidated interest and dividend income increased from $74 million and $284 million in the third quarter and first 9 months of 2014, respectively, to $106 million and $367 million in the third quarter and the first 9 months of 2015, reflecting interest income earned on increased holdings of higher-yielding bonds year-over-year.

Fairfax recorded an income tax provision of $141 million in the third quarter of 2015 at an effective tax rate of 24%, slightly lower than our statutory tax rate of 26%. And that reflected the impact, among other things, of nontaxable investment income earned. The income tax provision of $42 million in the first 9 months of 2015 is at an effective tax rate of 8%. And that reflects the impact of the gain on the sale of Ridley and in connection with the Cara transaction that we did. And those gains were either taxed at capital gains rates in Canada or were on a tax-deferred basis. And any taxes payable that did remain on these transactions were offset through the application of unrecorded tax losses from prior years.

We ended the third quarter with an investment portfolio inclusive of holding company cash of $29.3 billion compared to $26.2 billion at the end of 2014. The majority of this increase related to the consolidation of the portfolio investments of Brit and Fairfax India, partially offset by net unrealized depreciation of bonds and common stocks and the unfavorable impact of foreign currency translations.

Moving to our financial position. Our total debt to total capital ratio decreased to 22.4% at September 30, 2015, from 24.6% at December 31, 2014, primarily due to the increase in our total capital outpacing the increase in our total debt. The increase in total debt reflected the consolidation of the indebtedness of Brit, National Collateral Management and Fairfax India and Cara. And that was partially offset by the repayment of $125 million of OdysseyRe senior notes in the second quarter.

And now I'll pass it back to you, Prem.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer
Thank you, Dave. Now we are happy to answer your questions. [Operator Instructions] So Tori, we are ready for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Paul Holden from CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

I have one question on the investment portfolio and then one on the underwriting side, if that's okay. So my question on the investment portfolio is related to the put options you recently acquired on the S&P 500. So that seems to me like it's a little bit different than the equity hedges you've been carrying for a number of years now, thinking about it maybe more as a bet on a decline in the equity markets over the next 12 months or so. Is that the right way to think about it? Is that the way you're thinking about it?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No, those S&P put options, we acquired Brit, as you know, and some of the investment arrangements has a 3-month, 6-month transition before we can get the money into cash and the S&P purchase protects us as we get into cash in those -- our portfolios. So it's very specific 3-month, 6-months type gating that these funds have, Paul, that we've protected ourselves from.

Paul David Holden
CIBC World Markets Inc., Research Division

Understood. And then question related to the underwriting side of the business. So in most of your insurance subsidiaries, we are seeing significant favorable reserve development and you've talked about the conservative reserving there, so understand the driver of that. But when we look at Crum & Forster, we're not seeing any reserve development, either positive or negative. So just wondering what's different about the reserving practices there and if there's a different philosophy being used at Crum & Forster versus the other subs.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. Just as an overall rule, we keep our accident year loss ratios at a high level and we expect the reserves to come through. You are seeing it in Northbridge. You are seeing it in OdysseyRe. And that's just the way we want to run our business. Our reserves are in good shape. In the case of Crum & Forster, we acquired First Mercury a few years ago and we are just wanting those reserves to develop favorably. We've had problems in, I guess, 2 years ago. And so we are watching those reserves carefully, Paul. We want to make sure they're conservatively reserved at. And then I think over time, that will happen, too. So that's how we've looked at our reserving. Our accident year loss ratios are high, and that's where the reserves -- where the positive reserves development or redundancies come from. We're expecting that to continue because our reserve positions are in very good shape. You never can be 100% confident. But we, having been in this business for a long time across the United States and many parts of the world, we feel comfortable about our reserves.

Operator

Our next question is from Tom MacKinnon with BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

A question about the acquisition of Lombard or the upping of your Lombard stake in India. So you went from the 26% to 35% now. And they value all of the P&C insurance operation there in the $2.6 billion-ish range. So I guess that 9% stake cost you certainly north of USD 200 million. Is there any metrics we could use to, on a price-to-earnings or a price-to-book as to what you paid for that piece?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, no, it's a -- we, of course, began that in 2001, 2002, Tom. And it'd be terrific if they allowed us to go to 49% at that time, but the law didn't allow us. And so the law had just changed recently, as you know, and it's given us the ability to go to 49%. We went to 35% after a negotiation with our partners. The price that we paid on the existing company is very significant, but you're looking at a country like India, 1.2 billion in population. You're looking at the #1 private insurance company. It's got USD 1 billion in premium. It's expensed all of its -- it's got 250 branches, 5,000 people, all expensed. And so in that connection, the $2.6 billion for the largest company in that country, we think, is reasonable. And over time, we think that investment will do very well. So we put it in that perspective. We know the company very well, of course, because we began it with ICICI Bank. And we have a very good relationship. We thought 35% was the appropriate position to go to.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And the commentary kind of remains the same with respect to the concern of the financial markets in this quarter as it was in previous quarters. So is there anything you can share in terms of the financial markets. When, in fact, you would not be concerned about the economic outlook or global sort of deflationary environment? What would the level of the markets have to be at? And where would we be before you would say, okay, we're not as concerned now?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So Tom, we find the financial markets, as I said to you, the disconnect between the economic fundamentals and the financial markets. It seems today that the Federal Reserve and the ECB and all of these central banks are all-knowing. And we just remember, we go back and remember that the Fed Chairman in June 30, 2007, about a year before the crisis took place, the financial crisis, he said real estate in the United States was fairly valued. In June 30, 2008, months before Lehman went bankrupt, he said Fannie and Freddie were well capitalized, just months before they went bankrupt. So I put that in perspective to today's all-knowing Fed, ECB and all of the other central banks. So you'll recognize, we've had QE1, 2 and 3, and inflation, in the midst of these periods of QE1, 2 and 3, inflation has fallen from 3.9% in September 2011 to 0% today. So you have no inflation, more -- and in some places, deflation. Third quarter GNP in the United States just came out, 1.5%, which is a very, very tepid economic growth after -- in the midst of 6 years of economic recovery. So we feel good with our position. Our CPI deflation swaps are up 40% in the quarter. That's what they did in 2007. And of course, 2008, you know what happened. So when you look at the economic environment, it's very weak. China has got all sorts of problems that somehow the country continues to go forward. So in this environment, we are hedged in our common stock. We have a lot of cash. We have very little corporate bonds. And we have $100 billion plus in deflation swaps. We think -- it hasn't produced for us in the last few years, no question about that, but I've said to our shareholders, and I've said to all of you that our objective here is not to lose money. And there will be a time when the positioning of our portfolio like in 2007, 2008, will do very well. But at this point in time, we are very conservative, very downside protection-oriented. And we like where we are, but when we -- if we see opportunities, we'll take advantage of it, but we think you have to be very careful.

Operator

Our next question is from Andrew Hofer with Brown Brothers Harriman.

Andrew Paul Hofer
Brown Brothers Harriman & Co.

I was hoping -- instead of asking questions about financials, to get your insight on the energy industry where the tide has really gone out. And I see your investment in SandRidge and the new transaction with EXCO, and I was wondering if you could shed a little light on how those of us who are value seekers in the energy industry and have been so humbled by the double dip in oil might be thinking about value traps in this environment.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So yes, Andrew. It's public. We put money into EXCO in a bond, 5-year bond, approximately 13% interest. We like John Wilder who had taken over the company. He's got a terrific track record, demonstrated track record that you can see, 2 turnarounds to his name. And so we are supporting the company with the $300 million that we put in, in the second lien bonds which they've exchanged a significant amount for unsecured bonds. We do think -- we agree with what you've said, the tide has gone away, but the price of oil could go down and natural gas prices have come down significant already, but the price of oil could go down further. And we remember days long gone where almost no one wanted to invest in the oil and gas industry as the price of oil went down in 1986, '87, when the price of oil went to $10. So we might still see some downside, but this is the time to be looking at it. And we continue to look at opportunities in that area.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions, actually. The first one, I was wondering if you could just provide a short update on some of your Greek investments. I would expect they have recovered a little bit over the course of the third quarter, but I wonder if you had an update on what the total exposure is there at September 30.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. Mark, the exposure hasn't changed much from what we had talked about. The investments that we have in Greece have done neutral to well, with the exception of the Eurobank. And the Eurobank has been a -- Eurobank has suffered from the fact that there are capital controls on banks in Greece. They are now going through recapitalization and examination of their capital position and there'll be a decision made in the next few weeks to a month. And we are just into that. We like the management of Eurobank. We like their performance. We think they're well capitalized. But of course, it's not what we think, but what the ECB thinks and the European authorities think in terms of the capital of Eurobank. On the other hand, we've got some Greek bonds that as Greek government rates have come down, we benefited from that. So all in all, we like our Greek position. The Eurobank is still in the throes of being -- their capital position is being decided in the next month. So we'll just have to wait and see what happens there.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. The second question I had has to do somewhat, I guess, with Brit. I know in the fourth quarter is when the company normally has its outside actuary review and revisits all of its various assumptions and so forth. And I guess, I was curious as to whether you had some thoughts on how Brit's reserves line up with Fairfax's, whether there'll be some need to add reserves to kind of bring them into line with the rest of the Fairfax book or if they're fairly healthy already on their own and we're not likely to see any charge for them.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No. That's good question, Mark. No, we feel very comfortable with their reserves. That's why we acquired the company, of course. But we feel very comfortable with the reserves. You'll know that we took the runoff of their U.K. company, and that's going extremely well. And so we have a good sense of what their reserves have been in the past and all our reserve work that our own actuaries have done on Brit have been very comfortable. So we don't see any problems on their reserves. In fact, as one of the previous questions, we will expect reserve redundancies as we go forward in the future.

Operator

Our next question, speaker is from Mikel Abasolo from Solo Capital Management.

Mikel Abasolo

Mr. Watsa, sharing your concerns and your views on deflation -- on the deflationary environment and the fact that prices have come down despite QE1, 2 and 3. I worry about the Mario Draghis and Kurodas of this world finally succeeding in their attempts. And I was wondering, haven't you studied the deflationary period of the '30s and Japan in the last 20 years, aren't you actually concerned that with their declared determination in a fiat money system, aren't you concerned that they will finally succeed and perhaps in the case of the Bank of Japan, they're, if I'm correct, buying something in the order of 16% of their GDP in Japanese government bonds every year, whereas their deficit is something like in the order of 6% of GDP. Meaning that, in a few years, they could end up owning like 100% of their government debt of their own country. And this is mind-boggling, but to my mind, I sometimes question why did the -- if the market allows them to go all the way to that and own the whole thing and the whole indebtedness of the country, which is huge, being owned by the central bank, effectively meaning that the government owes nothing to anybody because the Bank of Japan is obviously government owned. And so they could just start all over again. I mean, which is Japan going, Venezuela and Argentina without consequences. Am I crazy or do you consider this scenario feasible at all?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, thank you for asking that question. And of course, no one really knows the answer to it. The banks have -- central banks have continued. In the United States, they have stopped now. They may, of course, if we get a recession. The question is, what do they do if the economy goes into a recession? We've had 1.5% growth in the third quarter. That's not significant. And I'm just pulling numbers out of the air. But say, it goes into 0.5% or minus 0.5%, the worry we have is the central banks in the United States or elsewhere have no ammunition. And so ultimately, the way to come out of this is to have the U.S. government or the European government spend money on infrastructure or elsewhere, except that they have a lot of debt. They have a ton of debt, not reflected in the interest rates though because interest rates are very low. But I don't think that's in the cards. Right now, it's a monetary solution, and I think what you say is right. They'll experiment with it. But one of these days, Mikel, we might feel that the Fed or the other central banks have no ammunition. They have tried everything in the past and it hasn't worked. And we worry about things like that, and it's -- and all of this experimentation is taking place when markets are high and spreads are low. Interest rates are rising. The spreads are rising for corporate bonds in the United States particularly. So we feel our position of being defensive is the right one to be. But of course, there's an opportunity cost to it, and we've had that in the last few years. We understand that. But as I've said in our annual report, we think it will-- we could recoup that relatively quickly if conditions change. Thank you for that question, Mikel. Tori, any further questions?

Operator

At this time, sir, we don't have any other questions in queue. I would like to hand the call back to you for closing remarks.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, if there are no more questions, thank you all for joining us on this call. We look forward to presenting to you again in the next quarter. Thank you, Tori.

Operator
Thank you, speakers. And that concludes today's conference. Thank you all for joining. You may now disconnect.