S&P Global
Market Intelligence

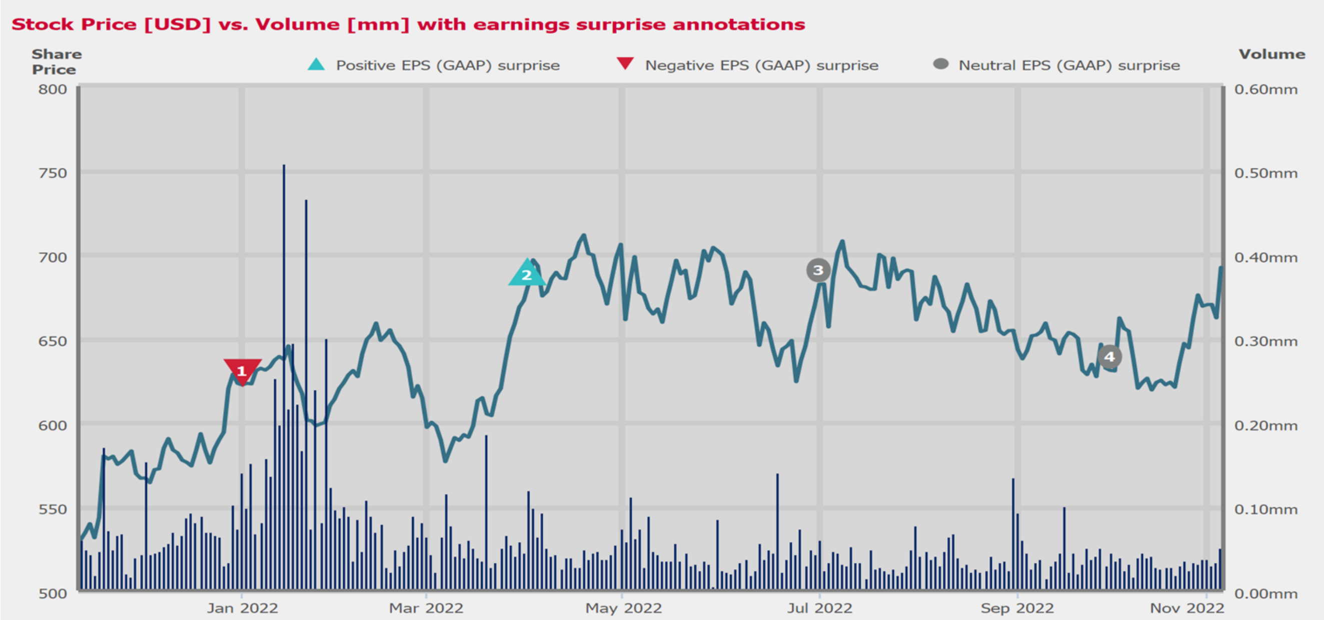
Fairfax Financial Holdings Limited TSX:FFH
FQ3 2022 Earnings Call Transcripts

Friday, November 4, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(23.90)	(3.65)	NM	68.67	6.24	NA
Revenue (mm)	6786.80	6844.60	0.85	7279.20	26905.80	NA

Currency: USD
Consensus as of Nov-04-2022 7:45 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	34.19	33.64	1 (1.61 %)
FQ1 2022	1.16	4.49	2 287.07 %
FQ2 2022	(16.01)	(37.59)	NM
FQ3 2022	(23.90)	(3.65)	NM

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Call Participants

EXECUTIVES

Derek Bulas
Associate Vice President of Legal

Jennifer J. S. Allen
VP & CFO

Peter S. Clarke
President & COO

Unknown Executive

V. Prem Watsa
Founder, Chairman & CEO

ANALYSTS

Howard Flinker
Flinker & Co

Mark Alan Dwelle
RBC Capital Markets, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

ATTENDEES

Unknown Attendee

Presentation

Operator

Good evening, and Welcome to Fairfax's 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 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 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. Fairfax disclaims any intention or obligation to update or revise any forward-looking statements, except as required by applicable securities law.

I 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 Third Quarter Conference Call. I'm trying to give you a couple of highlights to pass the call to Peter Clarke, our President and Chief Operating Officer, to comment on the quarter; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

Earlier this week, Brit issued a press release announcing that Matthew Wilson, following strict orders from his doctors has decided to step down at Brit's CEO to focus on its family and health. Matthew returned as CEO in September, following a leave of absence battling a rare case of blood cancer. It was one of the hardest decisions we ever had to make. Matthew has been with Brit for 23 years, has been instrumental in building Brit to be one of the most forward-thinking companies in the market, and he leaves a lasting legacy of success across the whole organization. Matthew recommended that Martin Thomson, who filled in from Matthew during his leave of absence, become permanent Group CEO. And we are happy to say that Martin has agreed to take on that role full time. Martin is a highly experienced leader in the insurance sector and demonstrated this when filling in for Matthews. We are very pleased that Matthew will remain as an Executive Advisory Director to Fairfax, Brit and Ki.

Now on the quarter. Favorable market conditions continue in the property casualty markets and our companies continue to take advantage of that. The gross premium is up 16% to $6.9 billion in the quarter and net premiums up 19%. Gross premiums for the 9 months were up 20%. Despite heavy catastrophe losses driven by Hurricane Ian, our insurance and reinsurance operations had a combined ratio of 100% in the quarter and 96% for the year-to-date.

We benefit greatly from our diversification and global presence when dealing with events such as catastrophes, COVID or war to name a few. Big advantage of Fairfax now is it's diversified all over the world. Congratulations to all our presidents who continue to grow profitably in a strong rating environment. Our decentralized approach works.

Our operating income in the quarter and in the first 9 months was up significantly, increasing year-over-year by approximately 75%. For the first 9 months, we had record operating earnings of $1.6 billion. As we continue to deploy cash and short-term investments at higher rates and with strong and increasing underwriting income, we expect our operating earnings to continue to grow.

Our book value per share decreased by 8%, adjusted for our dividend in the first 9 months, as a result of net losses on our investment portfolio of $2.3 billion, primarily unrealized mark-to-market losses. In the 9 months, we've had net losses and investments of $2.3 billion, driven by losses of $1.15 billion in our bond portfolio due to continued rising interest rates and $766 million from mark-to-market movements on our common stocks, reflecting the decline in the stock markets. The sale of our pet insurance business closed on October 31 and after we record the approximately $1 billion net gain, our book value is expected to be up for the year 2022. Almost all of our competitors will show large declines in book value per share because of rising interest rates. For the first 9 months, declines in book value per share will range in the main from 20% to 50%, very, very significant.

We have mentioned to you for many years now that we have not reached for yield. We benefited greatly by having such a low duration 1.2 years coming into the year on our fixed income portfolio. A low duration on our $37 billion fixed income portfolio reduced the impact of rising interest rates on our bonds to a decrease of only 3.1% on the fixed income portfolio, significantly less than many of our peer companies. Notwithstanding our load duration, we had $1.15 billion of unrealized bond losses than through our income in the first 9 months of the year. We expect much of this will be reversed over the next 12 to 18 months. In the meantime, we've been able to invest at higher rates increasing our current normalized annual run rate for interest and dividend income to $1.2 billion, up from approximately $530 million at the end of December 31, 2021.

Now I've said previously, many times, long-term value investing has gone through a very difficult time for about a decade now. To quote what I said a year ago, valuations of value-oriented stocks versus growth stocks, particularly technology, have never been so extreme, exceeding even the extremes of the dot-com era in 2000. As the economy continues to normalize, we expect a reversion to the mean with value-oriented stocks coming to the fall. We continue to believe our common stock positions are very undervalued. "I reminded you that in the 3 years, 2000 to 2002 downturn, most stock market indices were down about 50%, but our stock portfolio was up 100%." This is about a year ago.

In the first 9 months of 2022, particularly in the third quarter of this year, technology stocks, including the FAANG Stocks and Microsoft have come down significantly. From its high in 2021, Alphabet is down 42%; Amazon, 51%; Facebook 76%; Microsoft, 36%; Netflix, 61%; and Tesla, 48%. Many of these companies' stock prices made new lows yesterday for 2022. Only Apple has dropped only 20%. Of course, smaller tech companies like Zoom and Shopify are down 80% plus from their high. And if history is any guide, there is more to come. I will note for you that the NASDAQ dropped 50% in 2000 and then dropped another 50% in the next 2 years.

We have taken Recipe private with a 99.9% majority of the minority vote. David Sokol has a deal to take Atlas private at $15.5 per share. Our shareholding in Atlas will continue, and we continue to be very excited to support David Sokol and Bing Chen.

I should note that not recorded in our third quarter results is the previously announced sale of our pet insurance business, which I mentioned earlier, to JV for $1.3 billion pretax gain, which closed on October 31 and will be recorded in the fourth quarter. All the additional pretax gain of $375 million on Digit Insurance that will be taken upon regulatory approval for consolidation. I would like to thank all the employees of pet insurance operations for building such a great asset and wish everyone all the best going forward.

We continue to do we can for our Ukrainian employees. Our whole company is behind all 3 outstanding Ukrainian presidents, as they look after our employees under extremely difficult conditions. I should emphasize again that there's no truth to the rumor that we are selling Bangalore International Airport. Bangalore International Airport is the jewel in the Fairfax India Crown, and we will be holders for a long, long time.

I will now pass the call to Peter Clarke, our President and Chief Operating Officer, for further updates. Peter?

Peter S. Clarke
President & COO

Thank you, Prem. We had a net loss of $75 million in the third quarter of 2022 as Prem highlighted, negatively affected by net investment losses of $519 million, catastrophe losses of $803 million, partially offset by increasing interest and dividend income of $257 million and our share of profit of associates of $318 million. Please remember that under IFRS accounting, unrealized gains and losses, bonds and stocks are reflected in income, not other comprehensive income like U.S. GAAP.

Our combined ratio in the third quarter was 100.3%, and included above-average catastrophe losses. For the year, our combined ratio was 96 and generated underwriting profit of $609 million. Gross premiums were up 16% in the quarter, 20% year-to-date as we continue to see favorable market conditions in many of our major lines of business. More on the underwriting results later.

The operating income of our property and casualty insurance and reinsurance operations increased to $425 million in the third quarter of 2022, up from $245 million in the third quarter of 2021, driven by higher interest and dividend income and an increase in our share of profit of associates. Our investment return in the third quarter was essentially flat at 0.1% with interest and dividend income and our share of profits of associates offset by unrealized mark-to-market losses on our equities, bonds and foreign exchange fluctuations. The net loss on our bond portfolio was $242 million in the third quarter and was generally the result of increasing interest rates. At the end of September, our insurance and reinsurance companies held portfolio investments of $49 billion, of which approximately $8.2 billion was in cash and short-term securities.

We continue to deploy that cash primarily into 3-year U.S. treasuries and pick up additional interest income. Our net losses on our equity and equity-related holdings were $155 million in the quarter, driven by the overall drop in equity markets. As mentioned in previous quarters, our book value per share of $570 does not include unrealized gains or losses in our equity accounted investments and our consolidated investments, which are not mark-to-market. At the end of the quarter, the carrying value of these securities is in excess of fair value by $424 million and unrealized loss position or $18 per share on a pretax basis.

As previously mentioned, our insurance and reinsurance businesses continue to grow rapidly all over the world. We wrote $6.9 billion of gross premium in the third quarter of 2022. And the third quarter combined ratio was 100.3%, which produced a small underwriting loss of $17 million. Our gross premiums in the third quarter were up 16%, an increase of approximately $1 billion from the previous year. This growth is driven by the continued favorable market conditions and strong margins that prevail in many of our markets, particularly in North America.

Crum & Forster had the largest percentage growth in the quarter among all our companies, growing 33% in the third quarter of 2022 versus the third quarter of 2021. Crum added $316 million of gross premium year-over-year. Crum's growth was driven by increased business volumes within its surplus and specialty, A&H and Commercial Lines division.

Odyssey Group's gross premiums were up 27% or almost $350 million in the third quarter, with the majority of the growth coming from their U.S. reinsurance division in both its property and casualty business segments. Odyssey Group's Insurance segment continued to expand but at a slower rate with high single-digit growth.

Brit grew 16% in the quarter with total gross written premium approaching $1 billion for the third quarter. Brit's growth was driven by Ki for its innovative follow-on syndicate. And as you know, Brit has control of Ki, so it's consolidated in their numbers. Excluding Ki, Brit had low single-digit growth, driven by its direct business offset by reductions on its property treaty reinsurance book. Allied World, Northbridge and Zenith all grew as well at lower levels, increasing their premium by 6%, 4% and 1%, respectively.

The premium of our international operations continues to increase. Although they are not seeing the rate increases experienced from the hard market conditions in North America, gross premiums were up almost 7% in the third quarter of '22 over the previous year. Fairfax Asia led the charge with premiums up 22%. Most of our companies in South America, Central and Eastern Europe registered strong growth in local currencies although we're somewhat muted in U.S. dollar terms by the strengthening of the U.S. dollar against most currencies. 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 and could be extended by a very hard reinsurance market leading into the 1/1 renewals. Our companies have taken advantage of strong pricing over the last number of years, growing premium over 60% over the past 3 years.

Not unlike 2021, the underwriting results in the third quarter of 2022 was all about catastrophe losses. The combined ratio in the quarter was 100.3 and included $803 million of catastrophe losses versus a combined ratio of 101.1 and catastrophe losses of $605 million in 2021. Hurricane Ian added 10.5 points to our combined ratio while total catastrophe losses added 15 combined ratio points. Through 9 months of 2022, our combined ratio is 96% versus 97.3% for the first 9 months of 2021. Catastrophe losses in 2022 were driven by Hurricane Ian, $561 million; French hailstorms, $93 million; and a high frequency of other smaller but serious weather events, including the Brazilian drought, South African and Australian floods, and Hurricane Fiona. As our premium base has expanded and with the benefits of diversification, we have been able to absorb significant catastrophe losses within underlying underwriting profit.

Northbridge had another outstanding quarter, posting a 90.3% combined ratio, benefiting from the compounding of year-over-year price increases and increased new business. Allied World generated the most underwriting profit in the group at $105 million and produced an outstanding combined ratio of 90.2%, while Crum & Forster continued its steady improvement with a combined ratio of 94.7%; and Zenith had another good quarter at 93.8%.

Odyssey Group and Brit were affected the most by catastrophe losses in the quarter with Odyssey posting a 107.8% combined ratio with 16 points of catastrophe losses; and Brit, a 117.4% combined ratio with 39 points of catastrophe losses. Our international operations had a combined ratio in the quarter of 96.9%, with favorable development from prior years and moderate catastrophe losses in aggregate. Fairfax Asia had a very strong quarter with a combined ratio of 90.2%.

Our international companies continue to navigate the headwinds of inflationary pressures in many of their countries especially in Fairfax LatAm. For the quarter, our insurance and reinsurance companies recorded favorable reserve development of $48 million for the benefit of 0.9 points on our combined ratio. This compared to the third quarter of 2021 of $70 million or 1.6 points.

Our insurance and reinsurance companies are in the process of their full actuarial reviews, which are done annually in the fourth quarter. Our expense ratio continues to benefit with our earned premium volume, outpacing expense. Our overall underwriting expense ratio is 1.7 points lower year-over-year, with the underwriting expense ratio decreasing at essentially all our insurance and reinsurance operations.

Notwithstanding the catastrophes in the third quarter, we expect for the full year of 2022 to have another strong year of underwriting profit. Our insurance and reinsurance operations are very well positioned to capitalize on the opportunities in their respective markets.

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

Jennifer J. S. Allen
VP & CFO

Thank you, Peter. Peter has provided detailed commentary on the operating income of our property and casualty insurance and reinsurance operations, which included a discussion on the underwriting performance, the interest and dividend income and net gains, losses on investments. So as Peter noted, I'll begin my remarks with the results of our noninsurance consolidated companies.

Looking to the third quarter of 2022 compared to the third quarter of 2021 and excluding the impact of Fairfax India's performance fee expense to Fairfax, which was $5 million in the third quarter of 2022 compared to $19 million in the third quarter of '21, operating income of the noninsurance companies improved significantly by $86 million or to $130 million in the third quarter of '22 compared to an operating income of $44 million in the third quarter of '21. This improvement of $86 million principally reflected higher operating income from our other segment of $51 million that reflected higher business volumes driven by strong retail sales and improved margins, primarily at AGT. We had higher operating income at Fairfax India of $35 million. That was a result of their higher share of profit of associates from its underlying investments in Sanmar and the Bangalore Airport; and higher operating income at Thomas Cook of $18 million, which reflected higher business volumes as a result of the continued easing of COVID-19-related travel restrictions, that significantly benefited both domestic and international travel.

This was partially offset by lower operating income from the restaurant and retail segment of $18 million, primarily reflecting lower business volumes at [indiscernible] and the deconsolidation of Toys "R" Us in August '21. Looking at the first 9 months of 2022 and comparing it to the first 9 months of 2021, again, excluding the impact of Fairfax India's performance fee, which was a reversal of $45 million of a performance fee payable in 2022 versus an accrual of $118 million of a performance fee expense in '21. And if we exclude the impact of the noncash goodwill impairment charge that we recorded in the second quarter of 2022 of $109 million, which related to our investment in Farmers Edge. We had operating income from our noninsurance companies, increasing significantly by $210 million or to $224 million in the first 9 months of 2022. And that compared to operating income of only $15 million in the first 9 months of '21.

That significant improvement of $210 million reflected higher operating income of $90 million at Fairfax India. Again, reflecting their higher share of profit of associates from its underlying investments in Sanmar, Bangalore Airport and CSB Bank. We had higher operating income of $44 million at Thomas Cook India, as noted, reflecting the factors that previously discussed for the third quarter. We had higher operating income of $42 million in our restaurant and retail segment, that reflected higher business volumes for the 9 months at Recipe related to the reduced COVID-19 restrictions in the first 9 months compared to the prior period, and also the deconsolidation of Toys "R" Us Canada. That was partly offset by lower business volumes at Gulf town. And we had higher operating income of $34 million in the other reporting segment that reflected the higher business volumes and improved margins at AGT, which was partially offset though by our deconsolidation of Mosaic Capital back in August 2021.

If we look at our investment performance from our investments in associates in the quarter and 9 months, our consolidated share of profit of associates was $318 million in the third quarter of '22, and it reflected continued strong results from our investments in associates. And it was principally comprised of share of profit of $81 million from Resolute, $80 million from Eurobank and $58 million from Atlas Corp., which compared to share profits of $227 million in the third quarter of '21, that was primarily comprised of share of profit of $82 million from Resolute, $46 million from Gulf Insurance and $43 million from Eurobank.

Similarly, for the first 9 months of 2022, the share profit of associates of $758 million reflected strong results with share of profit of $230 million coming in from Eurobank, $180 million from Atlas Corp., $159 million from Resolute. That was significantly higher compared to the $347 million of share of profit of associates that was reported in the first 9 months of '21 that was primarily comprised of share profit of $142 million from Eurobank and $107 million from Resolute.

We had a few key transactions that I would like to highlight and provide comments on. First, on July 5, 2022, we increased our interest in Grivalia Hospitality to about 78.4% interest from a 33.5% ownership by acquiring additional shares for cash consideration of approximately $195 million, and we commenced consolidating Grivalia Hospitality in the third quarter of 2022. Grivalia Hospitality acquires, develops and manages hospitality real estate in Greece, Cypress and Panama.

The next few transactions I'll highlight closed or are closing subsequent to September 30, 2022. First, as Prem noted, on October 31, 2022, the company sold its interest in Crum & Forster's pet insurance group and Pethealth, including all of their worldwide operations. The company received proceeds of $1.4 billion that was in the form of $1.15 billion in cash and $250 million in seller debentures. Our consolidated financial reporting in the fourth quarter will record the gain of approximately $1.3 billion and the after-tax gain of just under $1 billion.

Our second transaction on October 31, a consortium that was of the company, the Washington Family, David Sokol, which is the Chairman of the Board of the Directors of Atlas, Ocean Network Express signed a definitive agreement to acquire all of the outstanding shares of Atlas other than those shares that are owned by the consortium at a cash purchase price of $15.50, plus a payment of any ordinary course dividends up until the closing of the transaction. Fairfax will transfer its approximate 45% in Atlas, which is comprised of the eventual exercise of the holdings remaining Atlas equity warrants, plus our current investment in associate interest into the new entity formed by that consortium. Fairfax is not obligated to purchase any additional interest not already owned by the consortium. And we're committed to fully fund -- sorry, the consortium is fully committed to fund the cash component of the transaction. Fairfax will continue its ownership in Atlas as part of that consortium with the transaction expected to be completed in the first half of 2023.

The third transaction, as noted on the prior conference calls, we had mentioned the ability for the company to increase its ownership in Digit above the 49% to a controlling interest upon receipt of regulatory approval in India. In June, 2022, Digit Insurance and the company applied to the Insurance Regulatory and Development Authority of India or the IRDAI for approval to convert the company's holdings in compulsory convertible preferred shares of Digit by Go Digit Infoworks referred to as the Digit CCPS in our financials into equity shares of Go Digit Infoworks.

The IRDAI subsequently communicated that the application cannot be considered in the current form, as the conversion of Digit CCPS would result in Digit which has currently been classified as an Indian promoter of the underlying Digit Insurance, becoming a subsidiary of the company, which is currently prohibited for Indian promoters, notwithstanding the foreign direct investments that were amended to allow foreign investors to own up to 74% of an Indian insurance company.

Digit, Digit Insurance and the company intend and continue to explore all avenues under applicable law to achieve the company's majority ownership in Digit through conversion of the company's Digit CCPS. We expect to report a gain of approximately $375 million when we achieve majority ownership in Digit.

The fourth transaction relates to Recipe and on October 28, 2022, we acquired all of the multiple voting shares and subordinate voting shares of Recipe other than those owned by the company and approximately 9.4 million multiple voting shares owned by Cara for a cash purchase price of CAD 20.73 per share or approximately $342 million in aggregate. It increased our ownership in Recipe from 39.4% at September 30, 2022, to approximately 84%. In the fourth quarter of 2022, as Fairfax controlled and consolidated Recipe pre and post the transaction, any impact as a result of this transaction will be recorded directly in our shareholder equity.

Lastly, on July 5, 2022, Domtar Corporation entered into an agreement with Resolute to acquire all of the outstanding common shares of Resolute for a combined cash consideration of $20.50, and a continued value right per Resolute's common share of up to $6. That contingent value right provides the holders with the right to share of any future softwood lumber duty deposits. Closing of this transaction is still subject to regulatory approval and is expected to be in the first half of 2023.

As a result of the proposed transaction, on July 5, we remeasured our investment in Resolute as a held-for-sale investment, and we ceased deploying the equity at method of accounting, where our carrying value of that associate at September 30, 2022, equaled the fair value of the cash consideration of $20.50 per share or $508 million in aggregate. Consequently, the company currently does not expect to record any gains on closing of the proposed transaction.

In closing, a few comments on our financial condition. Our liquidity of the company remains strong with our cash and investments at the holding company at approximately $900 million at September 30, 2022, which is predominantly held in cash and short-dated investments remain strong, and we still have access to our $2 billion unsecured credit facility.

Subsequent to the quarter, on October 31, excluding the $250 million in seller debentures, the holding company cash increased by approximately $900 million, reflecting the net cash proceeds that we received on the sale of Crum pet insurance group and Pethealth. As discussed previously, the holding company cash and investments is there to meet any and every contingency that Fairfax may face. We do not make any long-term investments with the cash other than to support our decentralized structure for our insurance and reinsurance companies.

On August 16, 2022, we completed an offering of $750 million principal amount of 5.625% unsecured notes that are due in August 2032, and we received proceeds of $743 million. Subsequently, on September 27, 2022, we increased our ownership interest in Allied

World to about 82.9% from 70.9% for total cash -- for total consideration of $734 million, that was inclusive of a fair value of a call option that we exercised and an accrued that was paid. As a result, the loss was recorded in retained earnings for approximately $228 million.

In closing, a few final remarks on our total debt to total cap ratio, if you exclude our investments in the consolidated noninsurance companies, was 28.3% at September 30, 2022, an increase compared to 24% at December 31, '21, primarily due to the issuance of the unsecured notes that I noted that were completed in the quarter. We don't have any significant holding company debt maturities now until August 2024. A decrease in shareholders' equity that reflected the net loss of $831 million in the first 9 months of 2022, also other comprehensive in cost of $493 million that related to primarily unrealized foreign currency losses, our payment of common share plus dividends of approximately $283 million and as noted, the decrease in noncontrolling interest as a result of the acquisition of the additional common shares in Allied World.

That concludes my remarks for the quarter, and I'll turn the call back over to Prem.

V. Prem Watsa
Founder, Chairman & CEO
Thank you very much, Jen. Please give us your name and your company name and trying to limit your question to only one so that's fair to all on that call. Okay, Katherine, we're ready for the questions.

Question and Answer

Operator

[Operator Instructions] The first question is coming from Tom MacKinnon of BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Question just with respect to -- if you can just tell us again what's happening with Digit? When is it that you expect this $375 million to come in -- gain to come in? And why does this keep getting pushed out? And then I have a follow-up.

V. Prem Watsa
Founder, Chairman & CEO

Yes. Thank you, Tom. On Digit, as we've said in the disclosure, it's subject to regulatory approval. The government has allowed companies to go from 49% to 74%. And while they have while they've accepted that, they have -- there's some internal rules on a subsidiary of a subsidiary merging. And so we're just working through all of that. We just think it's a question of time, and we will get the approval. But the government has already taken the 49% to 74%. And so that's the key. And it's the internal, the workings of the legal system in India that we are working through.

Tom MacKinnon
BMO Capital Markets Equity Research

And do you think it's like imminent? Or is it a 2020 -- is a later 2023 event?

V. Prem Watsa
Founder, Chairman & CEO

I'd love to tell you the timing, Tom, but when you're dealing with the government, you have good doubts.

Tom MacKinnon
BMO Capital Markets Equity Research

Understood. And on the Atlas transaction, how much are you spending? What are you taking your ownership up to? And how much are you spending for that? Just strictly Fairfax -- Fairfax's portion of that...

V. Prem Watsa
Founder, Chairman & CEO

Yes. So we are not spending anything other than the warrants. And for the warrants, Jen, how much money was that?

Jennifer J. S. Allen
VP & CFO

It's less than $100 million, Tom. It will take our ownership up to 45% approximately.

V. Prem Watsa
Founder, Chairman & CEO

So it'll take it up to 45%, Tom. And basically, we're rolling over. We had about $1.3 billion plus or minus in terms of our cost. And it's done very well. Our average cost might be $10 and change, and it's a $15.5. But we're so excited, as I said before, backing David Sokol and Bing Chen. And David, of course, built MidAmerican Energy and Berkshire Hathaway over 20 years with a 20% compounded revenue and earnings. And so he's already done extremely well, and we think the best is yet to come.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So that's just really moving -- currently have 41% and you're moving up to 45% with respect to that, is that correct?

V. Prem Watsa
Founder, Chairman & CEO

Yes, approximately, that's right, yes.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. And then finally, just with respect to the Grivalia deal that was done in the quarter. Is this now an investment in associate?

V. Prem Watsa
Founder, Chairman & CEO

Yes. It's -- we own about 78% of Grivalia Hospitality. It's run by a guy by the name of George Chryssikos. So you might remember when Grivalia was public, and it is a fantastic operator, a fantastic real estate person. And how do we account for it, Jen?

Jennifer J. S. Allen
VP & CFO

So it was an investment in associate and then when we stepped up to the 78%, it's now a consolidated investment. So it's in our noninsurance segment now reporting as of Q3. So it's consolidated.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. Great. Okay. So it moves over into that segment with the Recipe and the others. Is that right, Jen?

Jennifer J. S. Allen
VP & CFO

That's correct.

Tom MacKinnon
BMO Capital Markets Equity Research

And then the last one, maybe sorry, for Prem, is with 1.5 -- over $1 billion in proceeds coming in from the JAB sale, it doesn't look like there's much to be spent for Recipe or much to be spent for Atlas. Can you talk about your appetite for buying back stock? I mean it's -- I mean we had the big SIB before, but it's -- you've got a 10% NCIB in place. Stocks trading below book. So maybe share with us your thoughts with respect to that.

V. Prem Watsa
Founder, Chairman & CEO

Sure, Tom. Like we bought 2 million shares last year -- at the end of the year. And we always look at being financially sound. For us, no significant maturity that as Jen said for the next 3 years. We got a line of credit of $2 billion, which is basically will be unused, and we'll have cash after the Pet sale of approximately $2 billion. So financially, we are very sound, that's the first step, in terms of buying back any stock.

The second is we've got a very good insurance market. Peter has explained, businesses USD 28 billion worldwide now we expect for the year 2022. So it's $28 billion worldwide. And I'll remind you, we started with 10 million years ago, 37 years ago.

And we were able to absorb this hurricane and some other cat losses, $800 million plus and still had a combined ratio at one quarter of 100% for the year -- for the year-to-date, 96%. And more importantly, as Peter has highlighted, our reserves looked at in the fourth quarter. And if history is any guide, we've had significant reserve redundancies. But we want to take advantage of the insurance market, the pricing is good, and so we'll be looking at that. And finally, number one after that is stock buyback. So we'll certainly be looking at stock buybacks as we have in the past. And that's the priority, Tom.

Operator

[Operator Instructions] The next question is coming from Mark Dwelle, RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, Research Division

One other follow-up question related to the Atlas transaction. Is -- will the closing of that transaction allow you to mark-to-market your carrying value on that position where you continue to carry that at the current book value plus whatever you pay in to buy the warrants?

V. Prem Watsa
Founder, Chairman & CEO

That's a very good question, Mark. And of course, accounting is odd, isn't it? That where you have a significant transaction that is done from an outside party at 15.5% and it still has to be carried, like you said. I'll ask Jen to just highlight that.

Jennifer J. S. Allen
VP & CFO

Sure. So Mark, because our ownership percentage still stays within a significant influence, so we go from about a 41% ownership up to 45%, we'll still equity account and remain it as investment in associates. So it's still at a carrying value concept. It's only if we crossed over into maybe a consolidated position or we dropped down, would you then do a fair value increment at that time. So there's no change in our carrying value. But the disclosure we always provide you with that fair value of what the investment associate is. So you can look at that fair value compared to the carrying value to get the unrealized or amount that's not in our book value per share yet.

Mark Alan Dwelle
RBC Capital Markets, Research Division

Okay. That's helpful. I mean, I asked this because it would have been a fairly tidy uptick if you're able to get that fair value accounting, but I guess that's not the case. The second question that I had, the holding company cash was less than $1 billion. That's probably only happened a couple of times in the plus 20 years I've followed the shares. So I thought I'd ask what the movements were there. And in particular, if there was any downstreaming of cash into operating subsidiaries during the quarter?

V. Prem Watsa
Founder, Chairman & CEO

I'm sure -- Jen will be -- it's all in the quarterly report, Mark. But remember, like it wasn't a month later than we had $1.4 billion sale of the of their Pet sale that we knew it was taking place. And it was on your question at closing. We -- I don't know, when we announced that, Peter. Was it August sometime?

Unknown Executive

Yes.

V. Prem Watsa
Founder, Chairman & CEO

Yes, sometime in August, we announced it. So our cash basically is running, as I said, about $2 billion now. But Jen, you want to answer Mark's question?

Jennifer J. S. Allen
VP & CFO

Yes, sure. So Mark, on Page 53 in the interim report, we gave you kind of disclosure within the significant movements of holdco cash. A lot of it, as Prem said, really is the timing of when we did the noncontrolling interest buyback of Allied World. So we did that right at the end of September, but we didn't receive the Pet proceeds until subsequent. So it really is primarily a timing of those 2 instances that are reflecting a lower holdco cash at that time, but it gives you more details in the interim report.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I see. Okay. And then the only other question that I have related to the derivative contracts you have related to the Fairfax shares. Those -- I recall that it was about 2 years ago that those were initially entered. Is that a contract that is just now on a month-to-month or quarterly basis? Or is that a contract that would be kind of up for renewal here on an annual basis when that comes due?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Peter?

Peter S. Clarke
President & COO

Yes. No, it is -- I think it's extended out a couple of years now. So -- yes, it doesn't -- and then it can always be renewed going forward. So it's ongoing, and we just look at it on a quarterly basis.

Operator

And the last question is coming from Howard Flinker of Flinker & Co.

Howard Flinker
Flinker & Co

I don't think I heard something correctly. Weren't the operational profit of the [industrial] business is up $186 million and not $86 million, as I seem to hear?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Our noninsurance businesses have a very good quarter. Jen, you remember with the numbers, we've disclosed it, of course, but -- what is it?

Jennifer J. S. Allen
VP & CFO

No. It's $86 million. Yes, we're just talking about the quarter only. So it's inclusive of the share of profit of associates as well. We give the disclosure on the noninsurance in the back of the MD&A.

Howard Flinker
Flinker & Co

I see. So the quarter was $86, but $186 million was that the 9 months? Or that I just heard incorrectly?

Jennifer J. S. Allen
VP & CFO

The change for the 9 months was $210 million. That was adjusted for the noncash goodwill impairment charge that we took in Q2. There was a couple of adjustments in that number.

Howard Flinker
Flinker & Co

Okay. And I'd like to correct a conjecture I made in the previous conference call. I wondered if stock and bond prices would rise, if property and casualty companies would get looser [underdevelop], looser underwriting standards. Well, of course, stock and bond prices have fallen. And that was the catastrophe losses. Couldn't we have a period, Prem, like the early '70s when rates really took off?

V. Prem Watsa
Founder, Chairman & CEO

Yes. This is a very good question. Howard, and no one knows the answer to that. But I do remember -- I do think that Mr. Sam Zell had a very good interview yesterday or day before on CNBC, where he said that you can't flood the system with liquidity and not have consequences. And so inflation is a big problem. The economy is still strong. The numbers came up today. You saw the payroll is very strong. And so we could have -- we just have to be careful. So the bonds that we buy 3 years duration is 1.6. Term is about a little less than 2 years. And so we -- our interest and dividend income go up, and we don't take a hit. A lot of competitors have reached for yield in the past. And the thought of it is matching, Howard, in the liabilities. But the net-net is that book values have dropped from 25%, 20% to 50%. And that book value unless interest rates drop, those book values are going to be there for quite some time.

Howard Flinker
Flinker & Co

I meant P&C rates like early 70s when ARG broke into the front of the business, rates really took off in the early 70s, P&C rates that is. And that's beginning of the...

V. Prem Watsa
Founder, Chairman & CEO

P&C rates could go up as significantly. Cat rates could go up. So you have to be very careful with cat of course. And because of the exposure that Ian hit Tampa, it might have been 2 or 3x what is. So yes, we're very careful. But having said that, the market -- insurance markets are looking good for people who are careful.

Howard Flinker
Flinker & Co

So long as you avoid another [indiscernible] as some people experienced 30 years ago?

V. Prem Watsa
Founder, Chairman & CEO

Yes. No, that's right.

Howard Flinker
Flinker & Co

That was very large.

Operator

And the next question is coming from June [indiscernible], he is a private investor.

Unknown Attendee

Two quick questions. How does your buyback change with the 2% buyback rule that the Liberals are trying to introduce? And then -- any plans on Fairfax India to basically get more market visibility by either IPOing it into India market or doing some sort of marketing because it seems like the volume on Fairfax India is very low and there's not really as many buyers, which is affecting the actual shareholder value?

V. Prem Watsa
Founder, Chairman & CEO

Yes. What was your first question again?

Unknown Attendee

The first question was on how does the Liberals 2% buyback tax...

V. Prem Watsa
Founder, Chairman & CEO

2% tax, the 2% tax, we don't know the details yet, but it looks like it's coming for 2024. And that's some time away. So we'll just have to wait and see. It's not a huge tax, but it's perhaps not the best allocation. But having said that, we just have to wait and see the details.

As far as Fairfax India is concerned, Fairfax India, the stock price is ridiculously low. The book value, the net asset value is about $19. We've bought 2.5 million shares. So what can you do when the stock price is low. What you can do is only -- we can't control surprises, but what we can do is buy new stock. And so we have retired a lot of shares of Fairfax India. We think it's unbelievably attractive, like, by the way, many, many companies in North America and also outside North American stocks are very attractive. And so we're taking advantage of it by retiring the stock. We have about 2.5 million shares in the year 2022. So we've already in 9 months about 2.5 million shares. And we're buying it significantly below net asset value. Net asset value at Bangalore International Airport, I mean as one example, it's significantly undervalued. Stock prices reflect that. We never know how long it will take, but we expect it to reflect the underlying values.

Operator

At this time, we have no further questions.

V. Prem Watsa
Founder, Chairman & CEO

No more questions, Katherine. Well, if there are no more questions, so thank you very much for all of you for joining us on this call. And thank you, Katherine. The conference call this over.

Operator
This will conclude today's conference. Thank you so much for joining. You may disconnect at this time.