S&P Capital IQ

CONTENTS

Fairfax Financial Holdings Limited TSX:FFH

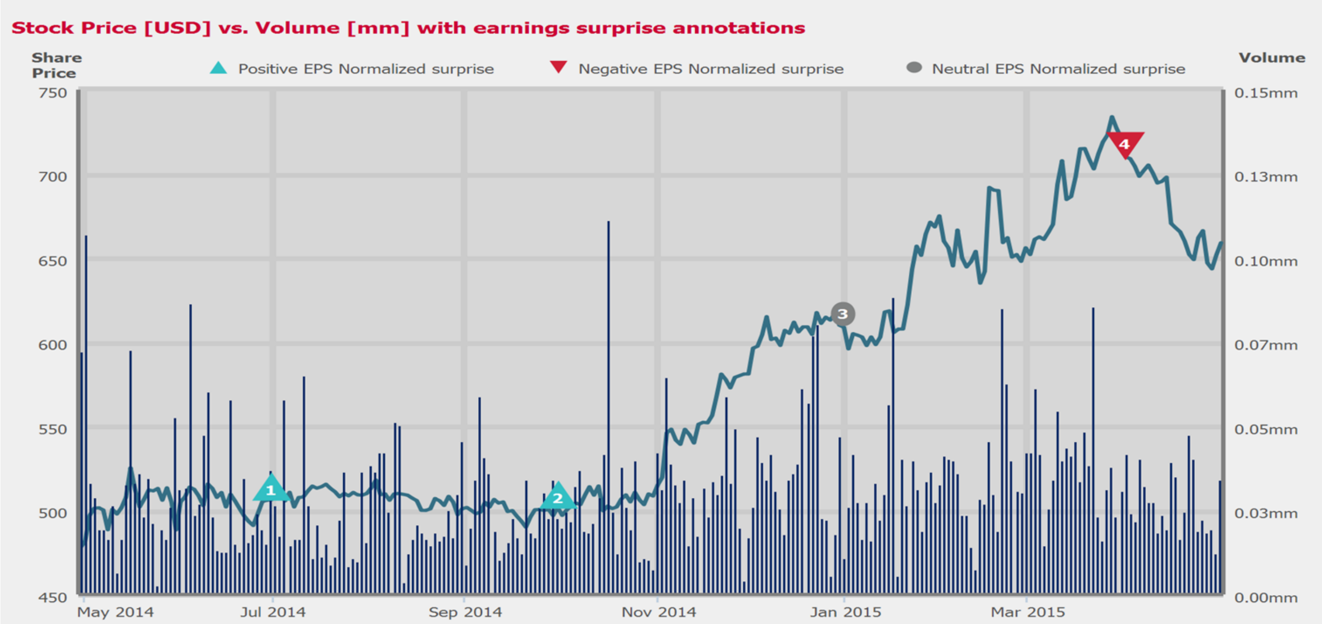
FQ2 2015 Earnings Call Transcripts

Friday, July 31, 2015 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.80	(8.87)	NM	2.96	16.90	20.75
Revenue (mm)	2069.10	1769.00	(14.50 %)	2731.35	9916.90	11175.55

Currency: USD
Consensus as of Jul-31-2015 6:59 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	10.79	16.15	1 49.68 %
FQ3 2014	2.74	3.80	2 38.69 %
FQ4 2014	(1.33)	0.49	NM
FQ1 2015	4.77	4.52	3 (5.24 %)

Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

Howard Flinker

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Tom MacKinnon
BMO Capital Markets Equity Research

Presentation

Operator

Good morning, and welcome to Fairfax's 2015 Second 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 Eric Salsberg. Mr. Salsberg, please begin.

Eric P. Salsberg
Vice President of Corporate Affairs and Corporate Secretary

Yes. Good morning, and welcome to our call to discuss Fairfax's 2015 second quarter results. This call may include forward-looking statements. Actual results may differ, perhaps materially, from those contained in such forward-looking statements as a result of a variety of uncertainties and risk factors, the most foreseeable of which are set out under risk factors in our base shelf prospectus, which has been filed with Canadian securities regulators and is available on SEDAR.

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, Rick. Good morning, ladies and gentlemen. Welcome to Fairfax's second 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 half of 2015, book value per share increased by 0.6% adjusted for the $10 per share common dividend paid in the first quarter of 2015.

Our insurance companies had an excellent first half, with a combined ratio of 91.6% with excellent reserving and significant underwriting profits of $263 million.

In the second quarter, all our operating segments had combined ratios below 100% with an overall combined ratio of 91.9%.

OdysseyRe again had an excellent combined ratio of 88.1% and Zenith had a combined ratio of 88.4%.

As shown on Page 37 of our quarterly report, we realized gains on our investment portfolio of $612 million before the equity hedges.

Excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio, we earned $900 million in pretax income in the second quarter. Including all hedging losses and mark-to-market fluctuations in our investment portfolio, we reported an after-tax loss of $186 million in the second quarter of 2015.

Our insurance and reinsurance business premium volume was up in the second quarter by 7.4%. It was down 1.9% if you exclude the Brit acquisition, which was there for approximately a month, while the combined ratio, as I mentioned to you for insurance and reinsurance, was about 91.9%.

Now by subsidiary, the change in net premiums written in the second quarter of 2015 and the combined ratios are as follows: OdysseyRe had an 18% drop in premium and an 88.1% combined ratio. OdysseyRe's drop in net premium was because it had, in June, a non-renewed significant property quota share reinsurance contract that resulted in the return of the unearned premium to the cedents, and this resulted in $101 million decrease to gross and net written premium, more from Dave Bonham.

Crum & Forster had a 19% increase in net written premium with a 97% combined; Northbridge, a 7% increase with a 94.5% combined; Zenith with a 9% increase, 88.4% combined; and Fairfax Asia was up 16% with an 89.6%.

If you exclude the acquisitions that Fairfax Asia had, our premiums were down about 9%. So overall, our underwriting performance was excellent.

As we have said before, very low interest rates and reduced reserve redundancies means no place to hide for this 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. On the short term, as always, tough to predict. Fundamentals will eventually play out.

Going on to Page 2 in our press release. Net investment losses of $661 million in the second quarter consisted of the following.

As I've said, please refer to Page 2 of the press release.

Net gains on equity and equity-related investments were $87 million, resulting from net gains of $96 million and a $9 million net loss on our equity hedge.

We have realized gains of $586 million on our equity and equity-related holdings in the second quarter.

Also, we had bond losses of $657 million, primarily on our treasury and municipal bond portfolios because of the impact of rising interest rates.

Over the last 5.5 years, since 2010, this unrealized loss in our bonds is the second-largest quarterly loss we've had.

Cumulatively, though, over that same period, that 5.5 years beginning in 2010, we have realized $1.8 billion in gains and $38 million in unrealized gains on our bond portfolio. So we expect this unrealized bond loss in the current quarter to reverse over time, as it has in the past.

As we have mentioned in our annual meetings, annual reports, quarterly reports, with IFRS accounting, where stocks and bonds are recorded at market and subject to mark-to-market gains and losses, quarterly and annual income will fluctuate widely and investment results will only make sense over the long term.

Our CPI-linked derivatives with a notional value of approximately $108 billion produced an unrealized loss of $52 million in the second quarter.

The majority of these contracts are based on the underlying U.S. CPI index and the European Union CPI index. Further information is available on Page 3 of our press release, where we have included a table of our deflation swaps.

On average, they have 7 years to run. These contracts are very volatile. As I've said to you before, our CDS experience comes to mind.

When you review our statements, please remember that we own -- that when we own more than 20% of a company, we equity account; and when we own above 50%, we consolidate, 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 versus a carrying value of $1.5 billion, an unrealized gain of $300 million 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 June 5, 2015, we closed the purchase of Brit PLC for approximately $1.7 billion, acquiring 97% of the shares.

On June 29, we completed the sale of just under 30% of Brit to OMERS, and by July 8, we purchased the remaining 3%.

I would like to welcome Mark Cloutier, Matthew Wilson and all the Brit employees to the Fairfax family.

In April, Crum & Forster acquired 100% interest in The Redwoods Group for $20 million. Redwoods is a full-service national managing general underwriter and produces approximately $50 million of gross premiums written annually from property and casualty packaged insurance business focused on YMCAs, community centers and day camps. Again, I would like to welcome The Redwoods Group to the Fairfax family.

In June, Kennedy-Wilson announced the completion of the sale of 50 multifamily buildings located in Japan. Through our investment in the Kennedy-Wilson partnerships, we should receive a cash distribution of $125 million and recognize a gain of $78 million.

In June, we completed the sale of our 73.6% ownership in Ridley for CAD 40.75 per share. We received cash proceeds of $313.2 million and recognized a pretax gain of approximately $236 million. Ridley was initially acquired at an average cost of CAD 8.44 and has paid Fairfax a dividend -- cumulative dividend of $5.50.

Subsequent to June 30, 2015, Fairfax India agreed to acquire approximately 74% of National Collateral Management Services Ltd., NCMSL in short, for a purchase price of approximately USD 126 million, which is INR 8.1 billion. This transaction is expected to close in the third quarter of 2015.

NCMSL is a leading private sector agricultural commodity storage company in India.

Also in July, Fairfax India announced an open offer to acquire up to 26% of the outstanding equity shares of IIFL, formerly India Infoline Limited, for a price of approximately INR 195 per share for aggregate cash consideration of approximately $250 million. This transaction is subject to the receipt of regulatory approvals in India, expected to close later in 2015. IIFL is a diversified financial services holding company in India, which we have known for many years.

We continue to be very concerned about the prospects of the financial markets and the economies of North America and Western Europe, accentuated, as we have said many times before, by potential weakness in China and the emerging markets.

As we have said for some time, and I'm repeating, we believe there continues to be a big disconnect between the financial markets and the underlying economic fundamentals.

As of June 30, 2015, we have $6.8 billion in cash and short-term investments in our portfolio, which is about 25% of our total investment portfolios, to take advantage of opportunities that 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 more 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 second quarter of 2015, then we'll move on to the operating company results, and we'll finish with the consolidated financial position.

For the second quarter 2015, Fairfax reported a net loss of $186 million or $8.87 per share on a fully diluted basis, and that compares to the second quarter last year when we reported net earnings of $364 million or $16 per fully diluted share.

Year-to-date, Fairfax has net earnings of just under $40 million or $0.71 per fully diluted share, and that was a decrease from 2014 when we reported year-to-date net earnings of $1.1 billion or $52 per share on a fully diluted basis.

Underwriting profit at our insurance and reinsurance operations in the second quarter and first 6 months of 2015 increased to $136 million and $263 million, with combined ratios of about 92% in both periods. And that compared to underwriting profits of $110 million and $209 million last year, when the combined ratio was about 93% in those respective periods.

Quarter-to-date and year-to-date, underwriting profit is up by $26 million and $54 million, respectively, on a year-over-year basis.

Our combined ratios benefited from somewhat higher net favorable reserve development in the second quarter and first 6 months of 2015 of $84 million and $152 million, and that translated to about 5 combined ratio points in each of those periods.

That compared to a net favorable reserve development of $76 million and $131 million in the second quarter and first 6 months of 2014, also representing about 5 combined ratio points in those periods.

Current period catastrophe losses were lower in 2015 and totaled $36 million or 2.1 combined ratio points in the second quarter and $64 million or 2 combined ratio points in the first 6 months.

By way of comparison, cat losses in the second quarter and first 6 months of 2014 were $56 million and $86 million, respectively, representing 3.7 and 3 combined ratio points in those periods.

Net premiums written by our insurance and reinsurance operations increased by 7.4% in the second quarter 2015 and by about 6% in the first 6 months, and that reflects the consolidation of Brit's net premiums written of about $151 million. And that was partially offset by the impact of a significant transaction at OdysseyRe that I'll describe in a bit more detail in a moment.

So turning to our operating company results, and starting with OdysseyRe. In the second quarter and first 6 months of 2015, Odyssey reported underwriting profit of $71 million and $129 million at combined ratios of 88.1% and 88.6%, and that compared to underwriting profits of $70 million and $146 million last year at combined ratios of 88.6% and 87.3%.

Catastrophe losses in the second quarter and first 6 months of 2015 totaled $33 million and $56 million, which translated into about 5.5 and 4.9 combined ratio points at OdysseyRe. That compares to catastrophe losses of $49 million and $71 million, which translated into 7.8 and 6.2 combined ratio points in the second quarter and first 6 months of 2014, respectively.

OdysseyRe's combined ratios in the second quarter and first 6 months included the benefit of $29 million and $40 million of net favorable prior-year reserve development, that's about 4.8 and 3.5 combined ratio points, and that development was principally related to casualty and property catastrophe loss reserves.

Odyssey wrote $554 million and a little over $1.1 billion of net premiums in the second quarter and first 6 months of 2015, respectively, and that reflects decreases of about 18% and 8% in the second quarter and first 6 months, after making adjustments when we look back to the first 6 months of 2014. And those adjustments are to the matter in which Odyssey recognized premiums written in respect of its U.S. crop insurance business.

So looking at those decreases, 18% and 8%, they principally reflect the return of $101 million of premium to a cedent in respect of a significant quota share reinsurance contract that did not renew in the second quarter of 2015. All these adjustments that I've just referred to are set out and discussed in more detail on Page 43 of our second quarter interim report.

Moving on to Crum & Forster. Crum & Forster's underwriting profit increased in the second quarter and first 6 months of 2015 to $10 million and $15 million, with combined ratios of 97.2% and 97.9%, respectively. That compared to underwriting profits of $4 million and $5 million at combined ratio points -- or at combined ratios of about 99% in the second quarter and first 6 months of 2014.

There is no net favorable or adverse prior-year reserve development in either 2015 or 2014.

Current period catastrophe losses at Crum & Forster were modest at $2 million and $7 million in the second quarter and first 6 months of 2015, and they were lower than the catastrophe losses that we experienced last year of $5 million and $12 million.

Crum & Forster's net premiums written increased by 19% and 15% in the second quarter and first 6 months, and that primarily reflected growth across several of its specialty lines of business, it reflected improvements in pricing of casualty reinsurance purchased and reductions in purchases of quota share and facultative reinsurance, and all that was partially offset by planned reductions in the legacy CoverX business.

Turning to Zenith. Zenith reported underwriting profit in the second quarter and first 6 months of 2015 of $22 million and $62 million, with corresponding combined ratios of 88% and 83%.

And that compared to underwriting profits of $18 million and $34 million last year, where combined ratios were about 90% in both of those periods.

The improvement year-over-year principally reflects a lower estimated current accident-year loss ratio for the second quarter and first 6 months of 2015, that's about 5 percentage points lower year-over-year due to favorable loss development trends for accident year 2014 that are starting to emerge in 2015.

Secondly, price increases were equal to estimated loss trends for accident year 2015, and these 2 factors were partially offset by lower net favorable development in prior-year reserves in 2015, but which still represented 8 combined ratio points in the second quarter and 14 combined ratio points in the first 6 months of 2015, and that reflected net favorable emergence on the accident years 2012 through 2014.

Net premiums written by Zenith of $164 million and $474 million in the second quarter and first 6 months increased by 9% and 8% year-over-year, and that principally reflected an increase in exposure and moderate premium rate increases.

Northbridge reported underwriting profits of $12 million and $19 million at combined ratios of 94.5% and 95.7% in the second quarter and first 6 months of 2015, and that compared to underwriting profits of $11 million and $12 million last year at combined ratios of 95.3% in the second quarter and 97.5% in the full 6 months of 2014.

Northbridge's underwriting results in 2015 included the benefit of net favorable prior-year reserve development of $20 million in the second quarter, $19 million in the first 6 months, representing combined ratio points of 9 and 4. Net favorable emergence was principally arising on accident years 2010 and prior across most lines of business at the Northbridge.

Last year in 2014, Northbridge had net favorable development of $27 million and $42 million, representing 12 and 9 combined ratio points in the second quarter and first 6 months of 2014.

There were no material current-period catastrophes in either the second quarter or first 6 months of 2015 or 2014.

In Canadian dollar terms, net premiums written by Northbridge in the second quarter and first 6 months of 2015 increased by 6.9% and 6.5%, that reflected increased new business at Northbridge Insurance, modest price increases across the group and a lower amount of casualty reinsurance purchased in 2015.

Turning to Fairfax Asia. Fairfax Asia reported improved underwriting profits of $8 million and $14 million and combined ratios of about 90% in each of the second quarter and first 6 months of 2015. And that compared with underwriting profits of $5 million and $9 million and combined ratio points of about 94% in each of the comparable periods in 2014.

The combined ratios in the second quarter and first 6 months of 2015 included 8 and 7 combined ratio points of net favorable prior-year reserve development, that's about $6 million and $11 million, respectively, and that was primarily related to commercial automobile and workers' compensation loss reserves.

Net premiums written by Fairfax Asia increased by 16% and decreased by 10% in the second quarter and first 6 months of 2015, respectively.

Excluding the impact of the acquisitions of Union Assurance and MCIS in 2015 and Fairfax Indonesia in 2014, net premiums written actually decreased by 9.2% and 25.6% in the second quarter and first 6 months of 2015, and that reflected planned reductions in commercial automobile writings at Falcon, the unfavorable effect of foreign currency translation at First Capital and Pacific Insurance, and an increase in written premiums ceded to reinsurers related to a new intercompany quota share reinsurance agreement between Group Re and First Capital, which was effective January 1, 2015, in respect of certain commercial automobile business.

Our insurance and reinsurance other segment produced underwriting profits of $8 million and $19 million, with combined ratios of about 92% in each of the second quarter and first 6 months of 2015, and that compared to underwriting profits of $2 million and $4 million last year, when the combined ratio was about 98%.

The improvement in underwriting profit in the second quarter and first 6 months in 2015 principally reflected the increased net favorable prior-year reserve development and lower current-period catastrophe losses. The second quarter results also reflected improvement in the noncatastrophe underwriting margins in the current accident year, primarily at Polish Re and Fairfax Brazil.

Net premiums written by the insurance and reinsurance other segment increased by 15% in the second quarter of 2015 and 34% in the first 6 months of 2015. That increase reflected the impact of the QBE reinsurance transactions at Polish Re, where the majority of that assumed gross premium written was retained, and it also reflected the other side of that new intercompany quota share reinsurance agreement that was mentioned during the recap of the Fairfax Asia results.

Turning to Brit. In the second quarter of 2015, Fairfax completed the acquisition of Brit and commenced consolidating its balance sheet and operating results with effect from June 5, 2015.

In the second quarter and first 6 months of 2015, so really just representing 1 month of activity in the case of Brit, Brit contributed $151 million of net premiums written to the consolidated total and produced an underwriting profit of $5 million at a 95.9% combined ratio.

Runoff reported operating income of $25 million and $12 million in the second quarter and first 6 months of 2015. That compared to operating losses of $29 million and $50 million in the same period in 2014.

The year-over-year improvement reflected net favorable prior-year reserve development and European runoff in the second quarter of 2015 compared to a loss reserve strengthening in the second quarter and first 6 months of 2014 U.S. runoff.

Moving to some of our consolidated figures. Consolidated interest and dividend income increased from $120 million and $211 million in the second quarter and first 6 months of 2014 to $147 million and $261 million in the second quarter and first 6 months of 2015. That reflected higher interest income earned on increased holdings of higher-yielding bonds year-over-year, that was partially offset by lower dividend income earned on lower holdings of preferred stock investments year-over-year.

The share of profit of associates totaled $117 million and $148 million in the second quarter and first 6 months of 2015, respectively, and that primarily reflected Fairfax's share of profit related to its investment in the Kennedy-Wilson real estate partnership that recognized a significant gain on disposition of apartment properties in Japan; and also Thai Re, another associate of Fairfax, recognized a gain on the partial disposition of its life insurance subsidiary.

Fairfax recorded income tax recoveries of $194 million and $100 million in the second quarter and first 6 months of 2015, and that resulted in fairly high effective rates of income tax recovery in those periods, as the base of pretax losses was fairly low.

The higher effective rates of income tax recovery principally related to the gains on the sale of Ridley, where we had an accounting gain of $236 million; and the Cara acquisition, where we had an accounting gain of $205 million.

The gain on Ridley was principally recognized in Canada, where only 50% of that gain is taxable. And in terms of Cara, for tax purposes, that transaction resulted in a rollover of the original tax basis for the majority of the instruments that we exchanged for multiple voting shares. So that event was largely nontaxable. Any taxes that remained payable on these 2 transactions were offset, for the most part, by previously unrecorded losses in the jurisdictions where those gains were recognized.

We ended the second quarter with an investment portfolio inclusive of holding company cash of $28.9 billion compared to $26.2 billion at the end of 2014. The majority of that 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 translation.

Moving to our financial position. Our total debt to total capital ratio decreased to 23.3% at June 30, 2015, from 24.6% at December 31, 2014, and that was 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 and Cara, which was partially offset by the repayment of $125 million of OdysseyRe senior notes in the second quarter.

So with that, I'll turn it back to you, Prem.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer
Thank you, Dave. I'll be happy to answer your questions. [Operator Instructions] So Yuki, we are ready for questions.

Question and Answer

Operator

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

Tom MacKinnon
BMO Capital Markets Equity Research

A question for Dave, maybe you'll be able to respond to this. I noticed that you moved 314 million of the Greek common shares from Level 1 to Level 3 in the quarter. And is this all of your Greek exposure? Were there any write-downs taken on that? And I understand there's some talk about the Greek Exchange being -- the Athens Exchange being opened as early as next week. Would that be an event that would trigger a move back from Level 3 to Level 1? And what sort of events would trigger that movement back?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Tom. I'll take a first crack at it and then pass it on to Dave. Just on our Greek investments, I think we've disclosed that in our Annual Report. But just to tell you, at the end of the second quarter, that's June 30, in total, we had about USD 809 million of Greek exposure. And our -- a big one that we've had, and the one that people have focused on, is Eurobank, where we have approximately $240 million, and our cost on that, Tom, was about $590 million, close to $600 million. At the end of June, it was marked at $240 million, so we've taken a 60% write-off on that already, mark-to-market, valued at, I think, about $0.11 even though, on June 26, I think it closed at $0.14-plus, right, Dave?

David J. Bonham
Chief Financial Officer and Vice President

That's correct.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

And so that's the Eurobank. And the next -- the other large one is Grivalia, which is a real estate company, some of the highest-quality commercial buildings in Athens, very strong management, and you might have also met the management at our annual meeting. And that company, even here, it's basically -- Grivalia is still above our cost, and under almost any circumstances, we'll make money on that. But of course, it's subject to mark-to-market. It's listed in the Athens Exchange. And they're planning to open the Athens Exchange next week. Just a few comments on Eurobank. Eurobank, we've said in our Annual Report, has very strong management. Greece is now stabilizing, the banks are open, they're open for business. The capital controls are slowly being phased out. They have a very strong capital position, Eurobank, almost 2x the requirements, and we just think that Greece and the bank will recover as time goes by. But of course, only time will tell on that. Our exposure, though, is about $239 million, $240 million all-in on Eurobank. Dave -- you want to add to that, Dave, in terms of Level 1, Level 3?

David J. Bonham
Chief Financial Officer and Vice President

Yes, the only thing I would add there is I think you're right, Tom, when the Greek markets open again, those Greek stocks will get reclassified back into Level 1, assuming there's an active market with regularly [ph] quota prices.

Tom MacKinnon
BMO Capital Markets Equity Research

And it's... what was the value of Grivalia? You had given me the Eurobank at $240 million. What was the value of Grivalia?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Grivalia, at -- well, do you remember what the price was, Dave?

David J. Bonham
Chief Financial Officer and Vice President

I don't know the per-share price, but the fair value that we disclosed is $330 million.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, $330 million. We'll let you know what the stock price is. We don't have it handy, but it's whatever the price was on June 26. Right, Dave?

David J. Bonham
Chief Financial Officer and Vice President

That's correct, yes.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

It's rated, Tom, so you can check the price there. Anything else, Tom?

Tom MacKinnon
BMO Capital Markets Equity Research

No, that was great.

Operator

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

A couple of questions. First, just following up on the last discussion with -- related to the Greek assets. Are all of those -- are all the marks that were taken primarily within the equity and related investments? Or are any of these actually held within the associates part of the balance sheet where they're not being marked?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Dave?

David J. Bonham
Chief Financial Officer and Vice President

Sure. The only one that is an associate that's not getting marked is Grivalia. So that's the $330 million fair value that we mentioned, and that was priced at the June 26 closing price. Everything else that we have is mark-to-market through P&L.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Got it. The second question I had related to the OdysseyRe quota share agreement that you discussed on a couple places. I understand the $100 million in the quarter related to the return of premium. Are there impacts on forward quarters as well on a kind of quarter-over-quarter basis? Is there a way we can kind of quantify that, just to get a sense of how the loss of that or the exit of that contract will impact some of the comparisons on the upcoming quarters?

David J. Bonham
Chief Financial Officer and Vice President

I think in some of our prior disclosures, there's probably some information that you can glean, kind of, on the volume of the contract. It was a significant contract, and the impact that it will have on the quarters going forward is just -- we just won't have that earned premium going through in the related incurred losses.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. I think I had a third question. The -- let me re-queue, I'll come back.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Sure. Thanks, Mark. Is there -- Mark, if you want to ask a question because there are no other questions on the call, please feel free to follow up on your question.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I recall what it is, if I'm still on.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

If you recall what it is, yes, go right ahead.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Yes, the question I had related to the portfolio you've picked up related to Brit. Most likely, it's a somewhat different portfolio than the one that Fairfax currently has. And I guess I was just trying to get a sense of what type of changes, if any, you might be contemplating related to that portfolio, if we might expect to see any notable realized gains or anything as that portfolio is repositioned, or maybe there isn't much to do on it.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

So -- no, there is. That's a good question, Mark. We are very sensitive to credit spreads, and the fact that they're very narrow. And so we basically reduced -- eliminated credit risk in that portfolio. There's some portfolio, some money managers -- they didn't manage it internally, they managed it externally in the main. So some managers have gates, so that it takes like 2 months, 3 months before you can get the monies back. But we basically kept it in cash and our U.S. treasuries, and that eliminated credit risk. And by the end of the year, there will be very little credit risk, just like in our portfolios. We've got 25% cash. We've got lots of optionality in our portfolios. And so it will -- over time, it will be very similar to our portfolios.

Operator

We have our next question from Howard Flinker of Flinker & Company.

Howard Flinker

Prem, I've got a big question, big-picture question for you, even though you and I generally agree. Are you seeing improving economic conditions in Europe and temporarily reduced deflationary pressures in Europe?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Well, perhaps, Howard, you'd have said that a few months ago, but more recently, last few weeks, you've noticed that the price of oil is below $50, $48 and change. You've noticed the price of copper breaking to $40. You've noticed iron ore prices coming down. You've noticed long treasuries coming down. They went right up to 3.15%, 3.20%. Now they're below 3%, as you know, they're 2.93%. So it seems to us that the pressures are coming back to bear on the deflation. And Howard, as we're going forward, the U.S. is still tepid. China, we've seen what's happened in the stock markets, and that's what we can see, Howard. You can imagine what it is in terms of what we cannot see.

Howard Flinker

I don't know what the phrase for chop suey in the stock market is in China, but it does apply.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

But anyway, so our thinking is that the pressures are mounting now, again, Howard. And as in all of these things, it's only in the long term that you can...

Howard Flinker

No -- I agree. But I was speaking narrowly in a focus on Europe. Are the pressures in Europe still building? You're talking bigger picture, and I agree with that, too. You can't argue with copper...

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

In Europe, we don't see much change in Europe in terms of -- the economy might be picking up a little more, but the deflationary pressures are still very prevalent, Howard.

Operator

At this time, sir, there are no questions in queue. [Operator Instructions]

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, and we look forward to presenting to you again after the next quarter. Thank you very much, Yuki.

Operator
Thank you, speakers. That concludes today's conference. Thank you for participating. You may now disconnect.