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Market Intelligence

Fairfax Financial Holdings Limited TSX:FFH

Earnings Call

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Call Participants

EXECUTIVES

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VP & Chief Legal Officer

Jennifer J. S. Allen
VP & CFO

Peter S. Clarke
President & COO

V. Prem Watsa
Founder, Chairman & CEO

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Presentation

Operator

Good morning, and welcome to Fairfax's 2023 Year-End Results Conference Call. [Operator Instructions] Today's conference is being recorded.

Your host for today's call is Prem Watsa, with opening remarks from Mr. Derek Bulas. Mr. Bulas, please begin.

Derek Bulas
VP & Chief Legal Officer

Good morning, and welcome to our call to discuss Fairfax's 2023 year-end 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 laws.

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

V. Prem Watsa
Founder, Chairman & CEO

Thank you, Derek. Good morning, ladies and gentlemen. Welcome to Fairfax's 2023 fourth quarter and year-end conference call. I plan to give you a couple of highlights and then pass the call to Peter Clarke, our President and Chief Operating Officer, to comment on the quarter and 2023; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

2023 was the best year in our history by far. We earned $4.4 billion after taxes with a record underwriting income of $1.5 billion, record interest and dividend income of $1.9 billion, and record income from associates of $1 billion. Operating income from our insurance and reinsurance operations on an undiscounted basis was $3.9 billion, a record.

Our consolidated combined ratio was 93.2% as we benefited greatly from our diversification and global presence. Our book value per share increased by 25% adjusted for our dividend to $940. In the last 3 years, our book value has grown by 25%, 22% and 34%, including dividends.

As I've said last year, Fairfax has been transformed in the last few years as we doubled our premium. Let me show you how the intrinsic value of Fairfax has increased significantly since 2017.

Gross premiums. 2017 $13.8 billion, 2023 $28.9 billion, up 109%, at a combined -- average combined ratio of 95% with very strong reserving. Almost all of that growth was organic.

Float, $20.4 billion, now at $33.4 billion, up 64%. Investment portfolio, $39.3 billion, is now at $64.8 billion, up 65%. Common shareholders' equity, $12.5 billion, to $21.6 billion, up 73%. Underwriting profit, from a loss in 2017, to $1.5 billion profit. Share of profits in associates, $0.2 billion, to $1 billion, up 410%. And operating income, from a loss, to $3.9 billion.

Now this growth is magnified on a per share basis. Shares outstanding during that time period, 2017 to '23, has dropped by 17%, from 2017 to 2023. So for example, gross premiums per share were up -- per share, were up 152%, versus 109% on an absolute dollar basis for gross premium. Investment portfolio per share is up almost 100% versus 65% on an absolute basis. Operating income was $174 per share in 2023 versus a loss of $8 in 2017.

Now as I've said for the last number of quarters, the most important point I can make for you is to repeat what I've said in the past. For the second time in our 38-year history, I can say to you, we expect -- there are, of course, no guarantees, sustainable operating income of $4 billion, operating income consisting of

$2 billion plus from interest and dividend income, $1.2 billion from underwriting profit with normalized catastrophe losses, and $750 million from associates and noninsurance companies.

This will result to over $125 per share after interest expenses, overhead and taxes. Of course, fluctuations in stock and bond prices will be on top of that, as these fluctuations only really matter over the long term. We will have a lot more for you in our annual report.

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

Peter S. Clarke
President & COO

Thank you, Prem. We had an outstanding year with net earnings of $4.4 billion and our book value increased to $940 per share, an increase of 25% from year-end adjusted for the $10 dividend paid in 2023. This performance was driven by record adjusted operating income of $3.9 billion from our insurance and reinsurance operations.

Our investment return for 2023 was not -- it was 8.4%, just a little above our long-term average. Driven by increased interest and dividend income, strong share of profits of associates, and net gains on equities and bonds. Consolidated interest and dividend income of $1.9 billion nearly doubled from 2022, benefiting from reinvesting at higher interest rates in 2023, primarily in government bonds.

Net gains on investments of approximately $2 billion included $1.5 billion in the fourth quarter and were driven by gains on our equity exposures of $1.2 billion and unrealized gains on our bond portfolio of $714 million, primarily from U.S. treasuries, due to the decrease in interest rates late in the year. The net gains of $1.2 billion on our equity and equity-related holdings were driven by unrealized mark-to-market gains on our Fairfax TRS, Commercial International Bank, Micron and Mytilineos, offset by unrealized losses on Waterous Energy and Kennedy Wilson.

As mentioned in previous quarters, our book value per share of $940 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 year, the fair value of these securities is in excess of carrying value by $1 billion, an unrealized gain position, or $44 per share on a pretax basis.

Under IFRS 17, our net earnings are affected by the discounting of our insurance liabilities and the application of a risk adjustment. In 2023, our net earnings benefited by $210 million pretax from the effects of discounting losses occurring in the year. As interest rates move up and down, we will see positive or negative effects on net earnings from discounting.

Our insurance and reinsurance businesses wrote a record $28.9 billion of gross premium in 2023, up 4.8% versus 2022. The growth was driven by increased pricing in our reinsurance business and international markets, offset by decreased premium volume in cyber and professional liability lines as market condition -- market competition and capacity impacted pricing and terms in those lines.

The premium growth for the year was tempered by a 3% decline in the fourth quarter, compared to 5% growth in the fourth quarter of 2022, due to declines at Odyssey and Brit. More on that in a moment. Our North American Insurance segment increased gross premiums by $797 million in 2023 or 10.5%. Crum & Forster had double-digit growth at 14%, driven by its surplus in specialty lines, accident and health business and Seneca Insurance.

Northbridge was up 10% in Canadian dollars, reflecting excellent customer retention and rate increases, while Zenith premiums were relatively flat year-over-year due to the competitive workers' compensation market.

Our global insurer and reinsurer segment was down slightly with gross premiums of $16.9 billion in 2023 or 0.5% decline versus 2022. Allied was up 5.4% in the year, led by its reinsurance segment which had 24% growth, while its insurance segment was flat.

Odyssey's premiums were down 3.5% in 2023, with its insurance business down 8%, principally at Hudson in its crop and financial lines of business, while reinsurance was flat, impacted by the nonrenewal of a large quota share in the fourth quarter. Excluding the quota share contract, Odyssey's reinsurance business was up 10% in 2023.

Brit's premium was down 5% in the year, largely due to reductions in D&O and cyber business and the actions taken during 2023 to reduce its catastrophe exposure.

Our international operations grew significantly in the year with gross premiums written of $3.6 billion, up 21% versus 2022 or almost $620 million. Growth was strong across all companies in this segment, led by Polish Re, up 50%; Colonnade, 27%; Fairfax Asia, 22% and Fairfax Latin America was up 18%.

The closing in the fourth quarter of our acquisition of additional 46% interest in Gulf Insurance will add approximately $2.7-plus billion in gross premium annually to our international business beginning in 2024. The long-term prospects of our international operations are excellent and will be a significant source of growth over time, driven by excellent management teams, underpenetrated insurance markets and strong local economies.

Our combined ratio was 93.2% in 2023, producing record underwriting profit of $1.5 billion. Combined ratio included catastrophe losses of almost $900 million, adding 4 combined ratio points, primarily from the Hawaii wildfires, Turkey earthquake and attritional catastrophe lots. This compares to a combined ratio of 94.7% and catastrophe losses of 6.1 points in 2022.

Our combined ratio for the fourth quarter was 89.9%, producing an underwriting profit of $579 million. Our global insurers and reinsurers posted a combined ratio of 91.7% in 2023, led again by Allied World with a combined ratio of 89.5%, with strong results in both its global insurance segment and reinsurance segment.

Brit had a great year with a combined ratio of 91.9% with $240 million of underwriting profit, by far the most since we acquired them. And Odyssey Group produced a combined ratio of 93.4%, including an 89.6% combined ratio in its reinsurance business.

Our North American insurers had a combined ratio of 95.2% in 2023, led by Northbridge with another strong year at 91% combined ratio. Crum & Forster had an elevated combined ratio of 97.7% with 2 points from the fires in Hawaii.

Our international operations delivered a combined ratio of 95.9% for the year. Fairfax Asia had a combined ratio of 93.9%, our Latin American operations came in at 94.9%, and our Central and Eastern operations produced 95.9%.

Eurolife's non-life operations had a difficult year with an underwriting loss of $15 million due to the impact of wildfires in Greece and Storm Daniel.

For the year, our insurance and reinsurance companies recorded a favorable reserve development of $310 million for the benefit of 1.4 points on our combined ratio. This is compared to $196 million for the benefit of 0.9 points in 2022.

Our runoff operations strengthened reserves of $260 million as part of their annual actuarial reserve process. The strengthening related primarily to asbestos liabilities on both direct and assumed portfolios, talc ULAE and uncollectible reinsurance. Our net runoff reserves of approximately $1.5 billion, which contain almost all our asbestos and latent exposures, are managed by RiverStone, led by Nick Bentley and Bob Samson. Nick, Bob and the rest of the team do an outstanding job dealing with some of our most difficult claims in a very challenging U.S. legal system while continuing to deal with emerging claims.

Through our decentralized operations, our insurance and reinsurance companies continue to thrive, writing close to $33 billion in gross premium, including Gulf Insurance, producing record underwriting profit, and led by an exceptional management team, our companies are positioned very well to continue capitalizing on their opportunities in their respective markets in 2024.

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

Jennifer J. S. Allen
VP & CFO

Thank you, Peter. Consistent with our prior quarter's 2023 interim report, the comparative periods in the company's press release on the financial results for our year ended December 31, 2023, have been restated and presented under IFRS 17. So all comparative periods presented are on the same measurement basis.

In the company's press release on Page 3, we disclose tables that reconcile insurance service results under IFRS 17 for our property and casualty insurance and reinsurance operations to underwriting profit, a key performance measure used by the company and the property and casualty insurance industry in which we operate to evaluate and manage the business.

As a reminder, the primary reconciling adjustments presented in these tables are: first, we adjust to include other insurance operating expenses, which are presented in our consolidated statement of earnings outside of the insurance service results. And second, we adjust for the effects of discounting on net losses on claims and change in risk adjustments that are included in insurance service results in the consolidated statement of earnings. Our traditional performance measures of underwriting profit and combined ratios were on an undiscounted basis, as discussed by Peter.

So I'll begin my comments in the fourth quarter and full year 2023 on the impact IFRS 17 had within our financial results.

In the fourth quarter of '23, the net earnings of $1.3 billion included pretax net expense of $781 million, and the net earnings in the full year of 2023 of $4.4 billion included a pretax net benefit of $210 million related to IFRS 17. The pretax amounts are reported within 2 financial statement lines in the consolidated statement of earnings.

First, included in the insurance service result line is the benefit of discounting losses and ceded loss on claims, net of the change in the risk adjustment recorded in the fourth quarter of $230 million and $1.8 billion for the year, respectively.

It was partially offset by the second component that's presented in a separate financial line in our financial statements, which is the net finance expense from insurance and reinsurance contracts of $1 billion in the quarter and $1.6 billion in the full year.

Those are comprised of interest accretion or an expense of $340 million in the quarter and approximately $1.4 billion for the first year -- full year, resulting from unwinding the effects from discounting associated with net claims paid made during the year, an effective decrease in discount rates during the fourth quarter and full year 2023, which was a net expense of $670 million and $218 million, respectively.

This compared to a pretax net benefit in the fourth quarter of '22 of $536 million and $3 billion in the full year of 2022, that was comprised of the same components I just commented on for '23, which was mainly included in the insurance service results, the benefit of discounting losses and ceded loss on claims of $491 million in the quarter and $1.4 billion for the full year.

But unlike 2023, due to the increase in the interest rates in 2022, '22's results also benefited from net finance income versus an expense in '23 from our insurance and reinsurance contracts of $45 million and $1.6 billion for the full year. And that reflected the benefit in the increased discount rates in those respective periods of $125 million and $1.9 billion as a result of the change in the interest rate environment being more pronounced in the full year of '22 compared to '23.

It was partially offset by the interest accretion or an expense of $80 million in the fourth quarter and $311 million in the full year of '22 that relates to the unwinding of the effects of the discount associated with our net claims payments made during the period.

Turning to a few comments on our noninsurance company results in the quarter and full year of 2023. Our noninsurance companies reported an operating loss in the fourth quarter of '23 of $40 million, compared to operating income of $61 million in the fourth quarter of '22. You exclude the impact of Fairfax India's performance fees to Fairfax, which was an accrual of $28 million and $9 million in the fourth quarter of '23 and '22, respectively, which are offset upon consolidation, and noncash goodwill impairment charges of $64 million and $24 million recorded in the fourth quarters of '23 and '22 related to our noninsurance companies.

The operating income for the noninsurance company reporting segment was $52 million in the fourth quarter of '23, and that's compared to operating income of $94 million in the fourth quarter of '22.. Our operating income in the non-insurance reporting segment decreased to $122 million in the full year '23 from $222 million in the full quarter of '22.

Excluding the impact of Fairfax India's performance fees, which are offset again on consolidation, and the impact of the noncash impairment charges of $108 million recorded throughout the year related to noninsurance companies, including Farmers Edge, operating income decreased modestly to $299 million for the full year of '23 and $318 million for the full year of '22.

The decrease of $19 million reflected operating loss from our other reporting subsegment of $1 million in 2023 compared to an operating income of $44 million in '22, reflecting higher operating expenses at AGT primarily related to foreign exchange, and Grivalia Hospitality, lower operating income in restaurant retail of $20 million primarily due to higher operating expenses. It was partially offset by higher operating income at Fairfax India of $21 million related to their increase in share from their profits of associates, and higher operating income at Thomas Cook India of $25 million related to higher business volumes in all segments resulted from increased domestic and international travel as the hospitality industry had continued to show significant recovery throughout 2023.

At December 31, '23, the holding company had a performance fee receivable of $110 million pursuant to its investment advisory agreement with Fairfax India for the period January 1, 2021, to December 31, 2023. Fairfax has elected to receive the performance fee payable in cash and expects receipt of payment within the first 6 months of 2024.

Looking at our share of profits from our investments in associates for the fourth quarter and full year. Share profit of associates decreased in the fourth quarter to $128 million, compared to $258 million in the prior quarter '22. [Technical Difficulty]

Operator

Standby, the conference will resume momentarily.

Thank you for continuing to hold your conference will resume momentarily.

Jennifer J. S. Allen
VP & CFO

Profits, this is related to our fourth quarter 2023 compared to 2022. We had increased share of profits from Eurobank of $94 million, compared to $33 million in the prior year, and Stelco at $12 million compared to no share in profit in the prior year due to commencement of equity method of accounting on Stelco on August 31, '22.

Share of profit on our investments in associates remained steady for the full year of '23 compared to the full year of '22, with share profit of associates of approximately $1 billion in each respective period. It related to no share profit from Resolute in 2023 as a result of our disposition of the investment, compared to '22 that included $159 million, reduced share profits from Atlas of $150 million compared to $258 million in the prior period, reflecting higher interest expense and transaction costs related to the first quarter '23 privatization of Atlas or Poseidon. The company expects Poseidon's earnings will normalize over time.

This was offset by increased share of profits from the following: Eurobank $438 million compared to $263 million in the prior year, EXCO Resources $129 million compared to $82 million in the prior year, and Digit's share of profit of $43 million compared to share of losses of $11 million in the prior year.

Turning to a few comments on transactions. On December 26, '23, we acquired an additional 46.3% interest in Gulf Insurance for $756 million, which increased the company's interest to a controlling equity interest of 90%. On closing the transaction, the company, in accordance with IFRS, remeasured its previously held accounted investment in Gulf Insurance and recognized a pretax gain of $280 million, and commenced consolidating the assets and liabilities of Gulf Insurance within the property and casualty operations that are being consolidated in the international insurance and reinsurance reporting segment, and the life insurance operations will be consolidated within the life insurance and runoff reporting segment.

The remaining 10% equity interest in Gulf Insurance not held by Fairfax is subject to a mandatory tender offer. Fairfax intends, in accordance with the regulations of the Capital Market Authority in Kuwait, to initiate the mandatory tender offer to all other holders of Gulf Insurance shares and expect the transaction will close in the second quarter of 2024.

I will close with a few comments on our financial condition. On December 7, 2023, we completed an offering of $400 million principal amount of 6% unsecured senior notes due in 2033, for net proceeds of $394 million. And then subsequent to December 31, '23, on January 12, '24, the company completed the reopening of those same notes for $200 million principal amount on January 29, 2024.

We're using a portion of those aggregate net proceeds from the issuances to redeem our remaining $279 million principal amount senior notes that are due in 2024 for cash consideration of $286 million. And then on February 14, 2024, we announced that on March 15, 2024, we will use the remainder of the net proceeds to redeem our CAD 348.6 million principal amount of our senior notes that are due in 2025.

The liquidity position of the company remains strong with our cash and investments at the holding company at $1.8 billion at December 31, 2023, principally held in cash and short-dated investments, and access to our facility of $2 billion fully undrawn.

At December 31, 2023, the excess of fair value over carrying value of our investments in noninsurance associates and market traded consolidated noninsurance subsidiary was $1 billion, compared to $310 million at December 31, '22, with $350 million of that increase related to publicly traded Eurobank. The pretax assets of $1 billion is not reflected in the company's book value per share but is regularly reviewed by management as an indicator of investment performance.

The company's debt to cap ratio, excluding our noninsurance companies, improved to 23.1% at December 31, '23, compared to 23.7% at December 31, '22, reflecting increased common shareholders' equity as a result of the record net earnings that we reported in '23. And this was partially offset by the issuance of our $400 million principal amount of the 6% unsecured notes and the recognition of a note payable of $579 million relating to the Gulf acquisition.

And lastly, our common shareholders' equity increased by $3.8 billion to $21.6 billion at December 31, '23, from $17.8 billion at December 31, '22, principally as a result of the company's record net earnings attributable to shareholders of Fairfax for the full year of '23 of $4.4 billion, that was partially offset by the payment of common shares and preferred dividends of $291 million and the purchase of approximately 111,000 of subordinate voting shares for treasury and 365,000 for cancellation, for an aggregate cash consideration of $363 million or approximately at $764 per share.

That concludes my remarks for the fourth quarter and full year 2023. I'll now turn the call back over to Prem. Thank you.

V. Prem Watsa
Founder, Chairman & CEO

Thank you, Jen. There were a few comments on the Muddy Waters report before we open it up for questions.

The management team and the Board of Fairfax has now reviewed all the 72 pages of the Muddy Waters report and reviewed the allegations and insinuations. We categorically deny and refute all of them, without exception, as false and misleading. To the best of our knowledge, Muddy Waters had never attended our conference calls, never asked a question, called us or written to us, but instead went to CNBC during our quiet period with these one-sided, ill-informed allegations and insinuations, in a transparent attempt to profit by short selling our stock.

They may have successfully done this with other companies, but they have woefully misjudged the strength of Fairfax Financial and prospects. We are confident that marketplace will reflect our strong fundamentals.

As you can see, the market has already spoken. Our stock price dropped by 12% last Thursday after the Muddy Waters report came out, a week later, we are back at the price we were trading before their report.

A couple of points on the report before I pass it on to Jen Allen, our Chief Financial Officer. The short seller says Fairfax has not made a 15% return since 2008. We have discussed this repeatedly in our annual reports. This is not news. Also, over 38 years, our book value has compounded at a rate of 18.9% annually, and our stock price by 18%. More recently, in the last 3 years, our book value has increased by 25%, 22% and 34%, and our stock price has doubled.

Muddy Waters says Allied World was a poor investment. We know they're short, but Allied World's gross premium is up 2.2x since 2017, cumulative underwriting profit of $740 million, and net income of $2.5 billion, despite catastrophe losses of $2 billion. In our minds, Allied World is a star performer.

Lastly, in the report, Muddy Waters questioned the valuation of some of our investments. As many of you are aware, for companies we have between 20% and 50% ownership, we equity-account for these investments. At any point in time, the carrying value can be below market value or above market value, and quarterly we review these investments for impairments.

At December 31, 2023, that Jen Allen just pointed out, our equity accounted investments and consolidated noninsurance investments, in aggregate, exceed carrying values on our balance sheet by $1 billion. Muddy Waters highlights a number of these investments in its report, all with carrying value above market value, never mentioning one that is carried below. Clearly, a one-sided argument.

Let me now pass it on to Jen Allen.

Jennifer J. S. Allen
VP & CFO

Thank you, Prem. The Muddy Waters' 72-page short investment position report is principally focused on allegations involving inappropriate accounting and unsupported view on valuations of select investments within Fairfax's portfolio.

First, to set the stage, we remind everyone that Fairfax's financial reporting framework is IFRS and not U.S. GAAP. As a Canadian public company, Fairfax adopted IFRS in 2010. I want to emphasize that, to ensure the accuracy and integrity over our consolidated financial statements and related disclosures, Fairfax has robust processes for complex transactions and valuations that document our accounting positions, valuation methodology and underlying support, which are then incorporated into the financial results of the company's interim reports and audited annual reports.

As a public company for over 38 years, Fairfax has always taken this responsibility very seriously. I will comment on the allegations contained in the Muddy Waters report by grouping them into 4 categories and will provide further comments on some of the allegations.

First is the fair value of Fairfax's investment in Digit Insurance as disclosed on our prior period reports, the company holds convertible preferred shares that are carried at fair value, as well as common shares that are equity-accounted for at a 49% investment in associates. The mark-to-market gain recorded on Fairfax's investment in Digit convertible preferred shares back in 2021 was based off of third-party capital raises valuing Digit at $3.5 billion, with the capital raise led by Sequoia Capital, a large venture capital firm in the U.S.

Fairfax's fair value of the investment in the Digit convertible preferred shares is supported by a very robust quarterly review process that includes the company's discounted cash flow model that incorporates the cash flows received directly from Digit's management. We then corroborate the results of the DCS model by factoring in market specifics, such as the current growth in India, where Digit has increased its market share, and as well as compared to applicable market transactions.

Contrary to the Muddy Waters report, Digit was profitable in 2021 under IFRS. As disclosed on Digit's website where they provide a reconciliation to Indian GAAP, Digit also was profitable reporting net income of $30.6 million for the 12 months ended March 31, 2023, and for the 9 months ended December 31, '23 of $38.2 million.

Second, valuations. I commented on our robust process for Level 3 private investments as demonstrated with Digit, and similar processes are followed to support the carrying values of our investments in associates and goodwill and intangibles recorded on our consolidated subsidiaries. Fairfax prepares value in use or discounted cash flow models that include cash flow projections obtained directly for management of the operating companies. We then corroborate the results with models by factoring in market metrics and compare where applicable to market transactions and peer comparables.

As an example, for the Recipe take private transaction, Fairfax prepared an accounting memo that was reviewed by our auditors, where it's noted the arrangement agreement followed the recommendation of an independent special committee of Recipe's Board of Directors. The special committee had obtained an independent valuation prepared by Greenhill & Company Canada Limited, and fairness opinion which opined that the purchase price was fair and had unanimously recommended the transaction. Recipe's Board of Directors then determined that pursuing that transaction was best interest of Recipe and recommended Recipe shareholders to vote in favor of it.

Finally on Recipe is to state that the difference between Recipe's local goodwill and intangibles as audited by KPMG, and the goodwill and intangibles at the Fairfax level audited by PwC, primarily relates to Fairfax's original 2015 acquisition of Recipe or back then known as Cara before the rebranding. Under IFRS 3 on acquisition of Recipe or Cara at the time, Fairfax was required to record the assets and liabilities of Recipe at fair value, including any recognized and unrecognized intangible assets.

Recipe had created a number of very successful restaurant brands for which the brand names have not been ascribed any value on Recipe's local balance sheet given they have been internally created and, therefore, not permitted to be recognized under IFRS. These well-known brands included Swiss Chalet, Harvey's and Montana's, 3 of Recipe's largest operations that represented 62% of Recipe's system sales at that time.

Fairfax's carrying value of Recipe is approximately 6x EBITDA based on an enterprise value of 8x EBITDA, with system sales in 2023 of CAD 3.6 billion.

A few comments on EXCO. Since its emergence from bankruptcy protection in 2019, the common shares of EXCO only trade in the pink open market or OTC Pink. The OTC Pink market is recognized as one of the lowest tier of the available marketplaces for trading over-the-counter stocks. The OTC traded value is not representative of fair value as the stock is very thinly traded in an illiquid market. This is on the basis that executed transactions are limited and lack sufficient frequency, bid-ask spreads for trades are not readily available, and price quotations are not developed using current information as EXCO's financial information is not publicly available and only accessible by shareholders.

Share profit of associates earned from EXCO in 2023 was $129.1 million or $5.64 per share and $81.9 million or $3.58 per share in 2022. At December 31, '23, the fair value of EXCO was approximately $19 per share, compared to Fairfax's carrying value of $418 million or approximately $18 per share, reflecting growth in EXCO when you look at Fairfax's carrying value at December 31, '22 of about $12.50 per share. Carrying value in 2023 net earnings is just over 3x.

Looking at Quest, in accordance with IFRS, in the fourth quarter of '23, the company followed the quarterly value in use, which resulted in a calculated value in use below equity method carrying value. And as a result, an impairment of approximately $53 million was recorded on Fairfax's investment in Quest.

Additional impairments have been recorded on the company's invest when, back in 2019, $190.6 million impairment was recorded related to Thomas Cook India spin-off, noncash spin-off of Quest, with a further 98.3 impairment recorded in 2020.

In 2021, Fairfax sold 3 million shares of Quest at INR 900 per share, above our carrying value. And then in '23, when the share price dropped, we bought 6.6 million shares at INR 384 per share. Quest's carrying value to EBITDA is approximately 15.8x.

The third category is accounting for transactions with third parties. The Odyssey, Brit, Allied World transactions were done with large, sophisticated third-party investors with their own rigorous due diligence and government processes. I will provide some remarks on the Odyssey transaction where Fairfax sold 10% ownership in Odyssey and the shares are classified as equity under IFRS.

Fairfax has no obligation to redeem those shares. The investors do not have the right to put the shares back to Fairfax, and Fairfax is under no obligation to exercise its call options. After Fairfax's call options expire, a minority investor may IPO their shares or, failing that, request sale of the operating company with a priority on the proceeds.

In 2021, Fairfax was balancing buying back our own shares, which the company viewed as being undervalued, and providing capital to our insurance operations to take advantage of the significant growth from the hard market. In December '21, Fairfax decided to sell a 10% stake in Odyssey Group at approximately 1.7x book value to third-party participants, where the $900 million proceeds were used for a tender offer to buy back 2 million shares of Fairfax at 0.9% price to book or USD 500 per share.

When a minority stake in the subsidiary is sold to a third party, IFRS requires any difference between the sale price and the carrying value of only the shares sold. So as an example, only the 10% sold in Odyssey, to be recorded directly in equity. This applies whether it's a gain or a loss. There's no accounting policy choice to defer that gain or loss.

And my final remarks, we'll be on the new accounting standard for insurance contracts, IFRS 17. Fairfax's transition impact for IFRS 17 as of January 1, 2022, the transition date, amounted to $150.2 million or 1% of the common shareholders' equity. When compared to the correct peer group data points referenced in the E&Y report, Fairfax is well within the range of the peer group, which had transition impacts within the range of negative 2% to positive 3% of common shareholders' equity.

Fiscal 2023 included a pretax benefit of only $210 million related to IFRS 17. Irrespective of the incorrect data points used in the allegations, it's also not appropriate to compare Fairfax's transition impact to other Canadian peers as many of those peers had elected to discount claims liabilities prior to the adoption of IFRS 17 to align with reporting requirements of OSFI. In contrast, free adoption of IFRS 17, Fairfax was not required to discount its claims liabilities as the holding company is not regulated by OSFI. Under IFRS 4, pre-adoption of IFRS 17, reporting on an undiscounted basis allowed us to remain comparable to our peers in the U.S., our largest market.

A straight comparison is also not a true reflection of the underlying drivers as Fairfax's business and claims maturity profiles are materially different than the comparables, given more than 70% of the company's net reserves are from longer-tail casualty classes, predominantly from risks written in the U.S.

During 2022, interest rates moved significantly, therefore, impacting Fairfax's net reserves to a greater degree due to the reserves having a longer duration of 3.8 years compared to Fairfax's very short duration on the fixed income portfolio of 1.6 years, which had resulted in the company recording unrealized losses on our bonds in '22 of $1.1 billion. Under IFRS 17, discounting net reserves now more closely matches the fair value accounting required on the fixed income portfolio.

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

V. Prem Watsa
Founder, Chairman & CEO

Thank you very much, Jen, for your very comprehensive comments. As you can see, Muddy Waters, a short seller, is using one-sided, in-informed allegations and insinuation, to profit by short selling our stock. We have built our company over 38 years on honesty and integrity, full and complete disclosure in our reports to our shareholders. Our Board and management will protect our shareholders from false and misleading information. We continue to focus on building our company over the long term.
We now look forward to answering your questions. Please give us your name, your company name, and try to limit your questions to only one, so that it's fair to all on the call. Frederick, we're ready for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Tom MacKinnon with GMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

I want to talk a little bit about the top line and what's happening at Odyssey and Brit. We had a nonrenewal of a quota share agreement at Odyssey. If you can talk about what drove the decision to not renew that. What are you seeing with respect to property cat businesses with Brit, where you seem to be taking a bit more of a cautious stand, kind of outlook with respect to D&O and cyber?

And any other areas of concern? Markets seem to remain pretty firm, but there's always -- you can always exercise some caution in some lines. So where do you see the best opportunities? And kind of where do you see other areas where you should be cautious?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Thank you, Tom. Peter, you want to take that question?

Peter S. Clarke
President & COO

Sure. Thanks, Tom. Just, I guess, to address the Odyssey question first. Yes, in the fourth quarter, Odyssey nonrenewed a large residential property quota share, around $340 million of unearned premium they returned to the client, and that reduced their premium in the fourth quarter.

But for us, it's -- it just shows the discipline Odyssey has and the focus on underwriting profit. And that's -- for us, that's a great thing. And they wrote that quota share for about 2 years. In their mind, the margins weren't there going forward, and they took the action necessary. So that was very good.

On the Brit side, we mentioned in prior quarters that they were reducing their catastrophe exposure, rebalancing it. And you continue to see that coming through the top line and the premium. And a lot of the exposure they're dropping is in the binder business, which takes a little longer to run off, and that's why you've seen it come through a number of quarters.

On the pricing side, on the reinsurance side we're still seeing, for most of our companies, double-digit pricing, mainly on the property side. And then in insurance, mid-single-digit price increases. With the exception, as you highlighted, D&O and cyber, which had a lot of price increases over the last number of years, has been slowing down and actually reducing. So we haven't been growing in those lines as much.

Operator

Our next question comes from Nik Priebe with CIBC Capital Markets.

Nikolaus Priebe
CIBC Capital Markets, Research Division

Okay. Maybe just staying in the same vein as Tom's question. It sounds like the Odyssey Group nonrenewal was a bit of a one-off in the quarter. With respect to Brit, it sounds like the action taken to reduce property cat exposure was the culprit of lower top line there. Do you see that having a dampening effect on top line growth into 2024? Or was that more of a Q4 phenomenon?

Peter S. Clarke
President & COO

Yes. No, I think it was more of a 2023 effect. You'll see most of that have gone through their numbers already. And you can see the benefits in their combined ratio, posting record combined ratio since we've owned Brit at around 91%. Mind you, they did benefit from catastrophes were lower this year than in past years.

But we're very happy to see the actions that they've taken are affected on the bottom line and on the underwriting profit. But yes, I think you'll see -- you won't see a significant effect or see that effect coming through in 2024.

Operator

Next question comes from Carson Block with Muddy Waters.

Carson Cutler Block
Muddy Waters, LLC

I appreciate you calling on me. I guess, with only one question. We published 5 questions yesterday. And the first one that we're asking is for disclosure regarding associates that have been on the balance sheet at any time since Jan 1 of 2020. To summarize, what we're looking for is basically disclosure by associate of cash that's been invested versus cash that's come back, and also profits that have been booked, as well as contingent liabilities arising, say, with the disposals. Will you be disclosing these associated transactions?

V. Prem Watsa
Founder, Chairman & CEO

Thank you very much, Mr. Block for your question. Jen, would you answer that?

Jennifer J. S. Allen
VP & CFO

Sure. Our disclosure with respect to the associates is disclosed in respect of those transactions as applicable in our annual reports and in accordance with the IFRS framework that Fairfax follows.

Carson Cutler Block
Muddy Waters, LLC

Well, I mean, rather than going for the bare minimum that IFRS requires, I mean, why not provide transparent, enhanced disclosure to be very investor-friendly. I mean that's -- obviously, you could do the bare minimum, but why leave it there?

V. Prem Watsa
Founder, Chairman & CEO

So Mr. Block, just for your information, we've taken a lot of time to go through the allegations you've made. We've made the point very clearly that we will not tolerate false and misleading information. That's the reason we've taken time to explain all that to our shareholders. And so we appreciate your question. Next question please.

Operator

Our next question comes from Jaeme Gloyn with National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Yes. Just on the interest income going forward. Yes. Can you hear me?

V. Prem Watsa
Founder, Chairman & CEO

Yes. No problem.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. On the interest income outlook, run rate is just over $2 billion today. How should we think about upside on that outlook for interest on a consolidated basis? Is there more juice to squeeze, let's say, from extending duration, from expanding more into the corporate bonds asset allocation, where can we see some upside?

V. Prem Watsa
Founder, Chairman & CEO

So Jaeme, that's a very good question. That's a big change for us, as I mentioned. That's where intrinsic value comes from. That's the fact that we got such a big bond portfolio now. We got an investment portfolio, almost $65 billion.

Interest and dividend income we basically lock with treasuries, government bonds, all over the place at $2 billion a year for the next 4 years approximately.

What can happen is if we get a soft landing, as people expect, then we'll be able to continue to renew these rates. But if you have a hard landing interest rates -- government bond rates could come down, but the spread on corporates, as I've said previously, could increase. And our interest and dividend income can actually decrease. We don't know that.

But we've got a $2 billion pretty well locked up. There's lots of possibilities for us. And then you add the interest -- then you add the underwriting profit and the associated income -- by the way, our associate income, Atlas has provided the disclosure because of the new build program, before they were taken private, they give you a forecast, $300 million going to $600 million by 2025. And as of today, we still think that forecast is appropriate.

So when you put all of that together, we look at that operating income of $4 billion as a pretty conservative number.

So Jaeme perhaps we could take one last question? Frederick, is there one more question?

Operator

Jaeme, your line is still open. If not, we'll move on. Our next question comes from Scott Heleniak with RBC Capital Markets.

Scott Gregory Heleniak
RBC Capital Markets, Research Division

Just a quick question on the reserve releases, they were pretty meaningful in the quarter. You kind of compared that to some of the peers that are reporting weaker reserving. I just wondered if you could give detail on that. I'm sure you did a year-end reserve review, but just wondering if you can give some detail on either segment or line or accident year or anything that kind of drove that in the quarter, if it was widespread or there are specific areas that we got the benefit from?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Scott, that's a good question. And before Peter answer, let me just say that we've got a long history of reserve redundancies. And the -- we're very conservative in our reserving as we should be. And we think over time, that our reserve releases could well be significant.

But with that, Peter, you want to address that question?

Peter S. Clarke
President & COO

Sure. Yes. No, as we've mentioned before, during the fourth quarter, all our insurance and reinsurance operations go through thorough actuarial reviews, that's -- some do it more often, but in the fourth quarter is when we do our full reviews. And yes, we continue to see, in aggregate, favorable development like we've seen in the past.

And similar to the industry, there has been some development in Allied and Crum & Forster on the 2016 and 2018 years, but more than offset or offset by favorable development on other lines of business and the more recent years. I think our companies are still being very prudent on the hard market years, the 2020, 2021, 2022, holding back from a lot of the favorable development that they're seeing in those lines, and just waiting that through for the -- to see how it ultimately plays out. We're very focused on the effects of inflation and claims inflation, in particular. So -- but generally speaking, we think our reserve is in a very good position and we're hoping going forward will benefit us.

V. Prem Watsa
Founder, Chairman & CEO

Thank you, Peter. Just past 9:30 now. So we thank you all for joining us on this call. We particularly thank our loyal long-term shareholders who supported us for so many years. We are looking forward to our annual report coming out and then for -- to see you all at our Annual General Meeting in Toronto on April 11.

So thank you very much, Frederick, and this will end the call. Thank you.

Operator
Thank you, and that concludes today's conference. You may all disconnect at this time. Speakers, you may stand by for post conference.