S&P Global
Market Intelligence

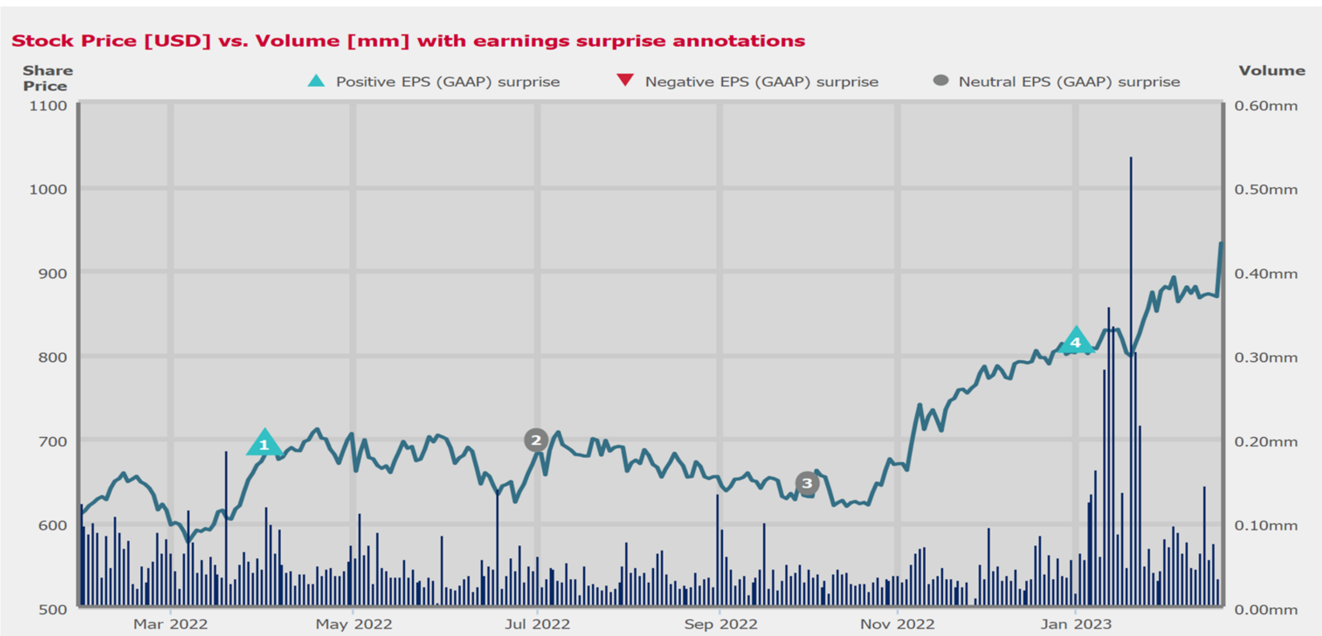
Fairfax Financial Holdings Limited TSX:FFH
FY 2022 Earnings Call Transcripts

Friday, February 17, 2023 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS (GAAP)	67.92	78.33	▲15.33	29.47	31.93	43.49	▲36.20	98.87
Revenue (mm)	7788.60	9720.50	▲24.80	7450.90	27466.00	28050.00	▲2.13	31076.02

Currency: USD
Consensus as of Feb-17-2023 9:00 PM GMT



- EPS (GAAP) -

	CONSENSUS	ACTUAL	SURPRISE
FY 2022	31.93	43.49	▲1 36.20 %

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Call Participants

EXECUTIVES

Derek Bulas
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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BMO Capital Markets Equity Research

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Presentation

Operator

Welcome to Fairfax's 2022 Year-end Results Conference Call. [Operator Instructions] Today's call 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
VP & Chief Legal Officer

Good morning, and welcome to our call to discuss Fairfax's 2022 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 2022 Year-end Conference Call. I plan to give you a couple of highlights and then pass the call to Peter Clark, our President and Chief Operating Officer, to comment on our insurance and reinsurance operations; and Jen Allen, our Chief Financial Officer, to provide some additional financial details.

2022 was an outstanding year for Fairfax. Our gross premiums increased by 16%, and despite heavy catastrophe losses driven by Hurricane Ian, our insurance and reinsurance operations had a combined ratio below 95%. And record underwriting profit of $1.1 billion. We benefit greatly from diversification and global presence when dealing with events such as catastrophes, COVID or war to name a few. Congratulations, of course, to all our presidents who continue to grow profitably in a strong rating environment. Our decentralized approach works.

Our operating income in 2022 was up significantly, increasing year-over-year by approximately 64%. For the year, we had record operating earnings of $2.6 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 increased by 6% adjusted for our dividend in 2022 to $658 per share, notwithstanding net losses are on our investment portfolio of $1.7 billion, primarily unrealized. Our net losses under investments were driven by losses of $1.1 billion on our bond portfolio due to rising interest rates during the year, $244 million was from mark-to-market movements on our common stocks and reflecting the decline in the stock markets, and $404 million, primarily from foreign exchange losses due to the strengthening of the U.S. dollar against most other currencies.

In the fourth quarter, we closed the sale of our Pet insurance business to JAB for the total proceeds of $1.4 billion, $1.15 billion in cash on closing and a note for $250 million. The transaction resulted in a pretax gain of $1.2 billion. JAB has a very impressive track record, so we decided to invest $200 million of the proceeds back into that Fund 5.

Interest rates decreased somewhat in the fourth quarter, but did not offset the increases within the first 9 months of 2022. As a result, most of our competitors will still show large declines in book value per share. For the full year, declines will range in the main from 10% to 30%, 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 2022 on our fixed income portfolio. Our low duration on our $38 billion fixed income portfolio reduced the impact of rising interest rates on our bonds to a decrease of only 2.8% on the fixed income portfolio, much less than the 8% to 15% drop for many, many companies in our industry.

Notwithstanding our low duration, we had $1 billion of unrealized bond losses for the year. We expect much of this will reverse over the short term.

In the meantime, we have been able to invest at higher interest rates, increasing our current normalized annual run rate for interest and dividend income to $1.5 billion, up from approximately $530 million at December 31, 2021, and $1.2 billion at September 30, 2022, a very significant, almost 3x what we had at the end of 2021.

As I've said previously many times, long-term value investing has gone through a very difficult time for about a decade now, as just a quote what I said in the past, 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 main with value-oriented stocks coming to the fall.

We continue to believe our common stock positions are very undervalued. I remind you that in the years 2000 to 2002, in that downturn, more stock market indices were down about 50%, but our portfolio was up 100%. In 2022, particularly the third quarter of this year, as we discussed in our third quarter call, technology stocks, including FRANK Stocks and Microsoft have come down significantly. From its high in 2021, currently, Alphabet is down 37%; Amazon, 48%; Facebook, 54%; Microsoft, 25%; Netflix, 48%; Tesla, 50%. And only Apple has dropped by less than 20%. Of course, smaller tech companies like Zoom and Shopify are down 70% plus.

And if history is any guide, there's 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. Early in 2023, we announced the sale of Ambridge and MDA owned by Brit to the Amynta Group for $400 million, comprised of cash of $275 million, a note for $125 million and an additional $100 million that may be receivable based on 2023 performance targets for Ambridge, which will continue to provide a significant amount of the Ambridge business going forward.

On closing of this transaction, we will record a pretax gain of approximately $275 million. We wish Jeff and Jack, the principles behind Ambridge and the entire team, all the best and look forward to working together with them into the future. We continue to do all 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 will now pass the call to Peter Clark, our President and Chief Operating Officer, for further updates. Peter?

Peter S. Clarke
President & COO

Thank you, Prem. We had net earnings of $1.1 billion for the full year 2022, driven by a strong fourth quarter with net earnings of $2 billion in the quarter. As Prem highlighted, we had an outstanding year with record operating income of $2.6 billion generated through underwriting income of $1.1 billion, interest and dividend income of $746 million from our insurance and reinsurance operations, and our share of profits of associates of $721 million. Our combined ratio for 2022 was 94.7%, and included above-average catastrophe losses of $1.3 billion, while our gross premium was up 16%. In the fourth quarter, we had a combined ratio of 91, which included 3 points of catastrophe losses, while premium growth moderated, with gross premiums up 5% compared to the fourth quarter of 2021.

We continue to see favorable market conditions in many of our major lines of business, more on underwriting results later. The net loss on our bond portfolio, primarily unrealized, was $1.1 billion in 2022, and was generally the result of the significant increase in interest rates in the year. Due to our short duration, the majority of these losses are expected to unwind over the short term.

I will remind you that under IFRS accounting, all mark-to-market movements in our bond portfolio go through net earnings. Our net losses on our equity and equity-related holdings were $244 million in the year, driven by the overall drop in equity markets. Unrealized losses on BlackBerry, Entity Wilson, Asian Value Fund and Stelco were the main contributors to the loss. Other investment losses of $404 million consisted primarily from unrealized foreign exchange losses on the Indian rupee, Egyptian pound and Canadian dollar.

As mentioned in previous quarters, our book value per share of $658 does not include unrealized gains or losses in our equity accounted investments or our consolidated investments -- our noninsurance 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 $310 million and unrealized gain position for $13 per share on a pretax basis. Our insurance and reinsurance businesses continued to grow rapidly all over the world, with $27.6 billion of gross premium in 2022. We finished the year off strong with a 91 combined ratio in the fourth quarter, a combined ratio of 94.7% for the year. Our gross premiums were up 16%, an increase of approximately $3.8 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 among all our companies growing 23% in 2022, adding $867 million of gross premium year-over-year. Crum & Forster's growth reflected increased business volumes across most of its segments, driven by its ANH, Surplus and Specialty and Commercial Lines division. Odyssey Group's gross premiums were up 18%, or just over $1 billion for the year, driven by their U.S. Reinsurance division in both its property and casualty business segments. Odyssey Group's Insurance segment, led by Hudson Insurance, continued to expand, but at a slower rate with single-digit growth.

Brit grew 23% in the year, with gross premiums approaching $4 billion. Brit's growth was driven by Ki, which contributed $834 million to the top line, and was up over 100% from the previous year. As you know, Brit has control of Ki, so it's consolidated in their numbers. Excluding Ki, Brit grew 10% for the year, driven by its direct business and casualty treaty.

Allied World, Northbridge and Zenith all grew as well at lower levels, increasing their premium by 12%, 9% and 1%, respectively. The premium of our international operations was up 11% for the year, with gross premium of almost $3 billion. Although they are not seeing the broad rate increases experienced from the hard market conditions in North America, gross premiums were up $280 million in 2022. Fairfax LatAm was up 17%, and Colonnade was up 10%.

The increase for the year also includes a full year of Singapore Re in the 2022 results versus half a year in 2021. The international operations growth was muted in U.S. dollar terms by the strengthening of the U.S. dollar against most currencies as well as the war in Ukraine. 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. Although that growth has been slowing, growth premium in the fourth quarter was up 5%. While absolute rate increases may reduce in some lines, overall rate level is expected to remain attractive. And with a very hard reinsurance market at the 1:1 renewals, and other macro factors, the hard market could be extended throughout 2023 or longer.

As previously mentioned, our combined ratio was 94.7%, producing a record underwriting profit of $1.1 billion. This is the first time we had underwriting income above $1 billion in a year. The combined ratio included above-average catastrophe losses for the year, adding 6.1 combined ratio points, about half of which was from Hurricane Ian. This compares to a combined ratio of 95% and catastrophe losses of 7.2 points for 2021. As our premium base has expanded significantly, and with the benefits of diversification, we have been able to absorb significant catastrophe losses within underlying underwriting profit.

Northbridge had another outstanding year, posting an 89.4 combined ratio, benefiting from the compounding of year-over-year price increases and increased new business.

Allied World generated a record $389 million of underwriting profit, the most in the Fairfax group, while Crum & Forster continued its steady improvement with a combined ratio of 94.5%, down from 95.9% a year ago.

Zenith had another good year at 94.7%, benefiting from favorable prior year reserve development.

Odyssey and Brit were affected the most by catastrophe losses in 2022, although both finished very strong in the fourth quarter, posting full year combined ratios of 96.3% and 97.8% .

Our international operations had a combined ratio for the year of 99.3%. Fairfax Asia had another strong year, with a combined ratio of 88.6%, our Eastern European operations of 94.4%, notwithstanding the headwinds from the war in Ukraine, and Fairfax LatAm, excluding Brazil, produced another year of underwriting profit. Significant drought conditions in Brazil resulted in [AGT] losses at Fairfax Brazil that resulted in a combined ratio of 128. And historic floods in South Africa, combined with the difficult environment for motor business, ratio to 108. Our international companies continue to navigate the headwinds of inflationary pressures in many of their countries, especially in Fairfax LatAm. For the year, our insurance and reinsurance companies recorded favorable reserve development of $196 million, or the benefit of 0.9 points on our combined ratio. This compares $356 million or the benefit of 2.2 points in 2021.

Essentially, all our insurance and reinsurance companies had favorable development in 2022, with the exception of Allied World, who had $30 million of unfavorable reserve development on late reported 2021 catastrophe losses that were reported early in 2022.

RiverStone, our runoff operation, who manage essentially all our latent liabilities, strengthened prior year reserves by $147 million, principally related to asbestos liabilities and other latent type claims. RiverStone continues to do an excellent job handling some of our most difficult claims.

Our expense ratio continues to benefit, with our earned premium volume outpacing expenses. Our overall underwriting expense ratio is 1.6 points lower year-over-year, with the underwriting expense ratio decreasing at essentially all our insurance and reinsurance operations. We had another strong year of underwriting profit and expect that to continue throughout 2023. Our insurance and reinsurance operations have very strong management teams and are very well positioned to capitalize on their opportunities in their respective markets.

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. I will begin my remarks on the results of our noninsurance consolidated companies for the fourth quarter and the full year of 2022. Looking at the fourth quarter results, if you exclude the impact of Fairfax India's performance fees in both periods, and a noncash goodwill impairment charge recorded in the fourth quarter of 2022 related to the company's investment in Farmers Edge, operating income for the noninsurance companies improved by $31 million to $94 million in the fourth quarter of 2022 from an operating income of $64 million in the fourth quarter of 2021.

This continued improvement of $31 million in the fourth quarter of 2022 reflected the same factors that resulted in increased operating income for the full year of 2022 from the noninsurance companies, which was a significant increase of $240 million to $318 million for the full year of 2022 compared to operating income of $78 million in the full year of 2021. The increase in the operating income of $240 million excludes the impact of Fairfax India's performance fee of $36 million reversal of a payable for 2022, and an accrual of $85 million or an expense in 2021, and it also excludes the impact of a noncash goodwill impairment charge recorded in 2022 of $133 million related to the company's investment in Farmers Edge.

The significant improvement of $240 million from the noninsurance companies reflected the easing of COVID-19 restrictions that had previously negatively impacted this reporting segment. The $240 million improvement for the full year of 2021 was driven by improvements reported in all underlying operating segments. With Fairfax India reporting higher operating income of $101 million, reflecting stronger share of profit of associates from its underlying investments in Sanmar and CSB Bank, and lower share of losses from its investment in Bangalore Airport.

Thomas Cook India benefited the reporting segment by contributing $55 million higher operating income, reflecting improved business volumes resulting from continued easing of COVID-19-related travel restrictions that significantly benefited both their domestic and international travel as well as its subsidiary, Sterling Resorts, whose resorts were fully operational again in 2022.

The restaurant and retail segment reported higher operating income of $51 million, primarily reflecting higher business volumes at Recipe, principally due to reduced COVID-19-related operating restrictions in 2022, and that was partially offset by increased cost of sales as a result of food and wage inflation.

The higher operating income in this segment also reflected the deconsolidation of Toys "R" Us Canada in 2021, which reported an operating loss in that period, and that was partially offset by marginally lower business volumes of Gulf County in 2022. And finally, the other operating segment reported higher operating income of $33 million that primarily reflected higher business volumes and improved margins at AGT, which were partially offset by the deconsolidation of Mosaic Capital in August 2021.

If we turn and look to the investment performance from our investments in associates in the fourth quarter and the full year, our consolidated share of profit of associates of $256 million in the fourth quarter of 2022, reflected continued strong results from our associates, and was principally comprised of share profits of $78 million from Atlas Corp., $41 million from Golf Insurance, $39 million from EXCO Resources, and $33 million from Eurobank. And that compared to share profits of only $55 million in the fourth quarter of 2021 that was comprised of share of profits of $62 million from Atlas Corp. $20 million from Eurobank, and that was partially offset by a share of loss of $31 million from Resolute.

Similarly, for the full year of 2022, the consolidated profit of share of associates of just over $1 billion reflected strong results from our investments with share of profits of $263 million from Eurobank, $258 million from Atlas Corp., $159 million from Resolute and $82 million for Mexico Resources, that was significantly higher compared to the share of profit of associates of $402 million that we reported for the full year of 2021.

If we turn now for a couple of comments on the key transactions in the quarter. A few key transactions that were closed in the fourth quarter of 2022, with first, on October 31, '22, we sold our interest in the Crum & Forster Pet insurance group and Pet health that included all of their worldwide operations to the Independence Pet Group and certain of its affiliates, which are majority owned by JAB holding company for $1.4 billion, paid as cash at as $1.15 billion in cash and $250 million in debentures. As a result of that sale, the company recorded a pretax gain of just over $1.2 billion and an after-tax gain of $934 million, and we deconsolidated the assets and liabilities with carrying values of $149 million and $32 million, respectively.

Secondly, on October 28, 2022, the company acquired all the multiple voting shares and subordinate voting shares in the capital of Recipe, other than the shares that were owned by the company and approximately 9.4 million multiple voting shares that were owned by Kara Holding Company at a cash purchase price of CAD 20.73 per share or U.S. $342 million in aggregate. That was comprised of cash consideration of $243 million and an increase in borrowings by Recipe of $100 million. As a result of that transaction, the company recorded a loss in retained earnings of $66 million and a decrease in noncontrolling interest of $276 million at December 31, 2022, and we had an equity ownership in Recipe of 84%, inclusive of the Recipe shares that are held in the ABLN that we entered into with RiverStone Barbados.

Recipe was then subsequently delisted from the Toronto Stock Exchange.

Subsequent to December 31, 2022, we announced the sale of Ambridge by Brit. As noted by Prem in his opening remarks, on January 7, 2023, Brit entered into agreement to sell Ambridge Group, it's managing underwriter operations to InmintaGroup. The company will receive approximately $400 million on closing, and an additional $100 million may be receivable based on 2023 performance targets of Ambridge.

Closing of this transaction is subject to customary closing conditions, including regulatory approvals, and is expected to occur in the next few months.

Upon closing that transaction, we expect to record a pretax gain of approximately $275 million and that's prior to ascribing any fair value to that additional receivables.

Before I close with commentary on the company's financial condition, I wanted to provide an update on the adoption of the new accounting standard for insurance contracts, IFRS 17, which the company adopted on January 1, 2023. IFRS 17 will first be presented in the company's consolidated financial report in the first quarter of 2023, with all comparative periods restated in compliance with IFRS 17.

IFRS 17 brings considerable changes to the measurement, presentation and disclosure of the company's insurance and reinsurance operations. It will not, however, affect the company's underwriting strategy, its prudent reserving, management's use of traditional performance metrics such as gross premiums written, net premiums written and combined ratios or the company's cash flows. The company anticipates recording on transition and adjustment that will increase opening common shareholders' equity as at January 1, 2022, and that will not exceed 2.5% of the common shareholders' equity at December 31, 2021.

There will also be an increase to opening common shareholders' equity reflected for the full year 2022 due to the discounting of the claims reserves under IFRS 17. We anticipate recording a material benefit to the restated consolidated statement of earnings for the full year of '22 and to the common shareholders' equity as at December 31, 2022.

This is in relation to the introduction primarily of the discounting of claim reserves under the new standard. In closing, a few comments on our financial condition, the liquidity position of the company remains strong with our cash and investments at the holding company at $1.346 billion at December 31, 2022, that's principally held in cash and short-dated investments and our access to our $2 billion unsecured revolving credit facility. As discussed on previous calls, that holding company cash and investments is to meet any and every contingency that Fairfax may face, and we are not making any long-term investments with this cash other than to support the company's decentralized structure of our insurance and reinsurance companies.

In closing, a few remarks to total debt to total cap ratio and excluding the investments in our consolidated noninsurance companies, the ratio was 26.2% at December 31, 2022, an increase compared to the 24.1% at December 31, 2021, primarily result of the increase in total debt from our issuance of $750 million of our senior notes in August 2022, and a decrease in the noncontrolling interest that reflected the company's acquisition of the additional shares of Allied World from noncontrolling interest in the third quarter of 2022.

At December 31, 2022, the common shareholders' equity increased by $291 million. That reflected the net earnings attributed to shareholders of Fairfax of $1.147 billion, and that was partially offset by other comprehensive income losses of $383 million that reflected unrealized foreign currency losses, net of our hedges. We had common preferred and share dividends paid in 2022 of $295 million and purchased for cancellation of approximately 388,000 subordinate voting shares under the normal course issuer bid for a cost of $200 million at an average cost per share of USD 515.

And finally, just to note, the company's annual 2022 annual report, which will include the Chairman's letter to shareholders, will be posted on the company's website after 5 p.m. on March 10, 2023, and -- and that concludes my remarks for the quarter and the full year 2022.

I will turn the call back over to Prem.

V. Prem Watsa
Founder, Chairman & CEO
Thank you very much, Jen. We now look forward to answering your questions. Please give us your name and your company name and try to limit your questions to only one, so that it's fair to all on the call. Okay, Jill, we are ready for the questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from Nick Priebe with CIBC Capital Markets.

Nikolaus Priebe
CIBC Capital Markets, Research Division

Okay. Thanks for the question. In your prepared remarks, you discussed firming market conditions in the reinsurance space and your belief that hard market conditions could be extended here you participate across many different lines and geographies, which are probably difficult to paint with a broad brush. But given where we might be in the insurance cycle, how do you believe the magnitude of rate increases that you're achieving compares to projected loss cost trend? Like as you look forward, would you expect to be building additional margins from here?

V. Prem Watsa
Founder, Chairman & CEO

Yes. We think broadly speaking, you made the point that we operate in different segments, different parts of the world. Broadly speaking, rate increases will exceed loss costs. But, Peter, you want to add to that, Peter?

Peter S. Clarke
President & COO

Sure, Prem. Yes. No, for 2022, on average, we got maybe around 7% price increase. So we still think that, that's greater than our loss costs in the businesses that we operate in. We operate in over 200 profit centers around the world. So it's very difficult to put a broad number on it. But -- and then at 1:1, the reinsurance market was extremely hard, especially on the property cat side. We -- the business that we wrote on a risk-adjusted basis was up anywhere in the neighborhood of 40% to 50%. That's on a risk-adjusted basis.

So as that flows through to the insurance companies, we think that would be a major factor that keeping the hard market going for 2023, and we'll see how the market -- the reinsurance market goes for the rest of the year.

Operator

Our next question is from Tom MacKinnon with BMO.

Tom MacKinnon
BMO Capital Markets Equity Research

Question with respect to gross premium written increases and net premium written increases in the fourth quarter. With respect to Odyssey in particular, seems the trends seem to be slowing a little bit. Not sure what would be driving that? Is there any kind of change in your participation in any kind of quota share arrangements? What's the renewals have been like, et cetera?

V. Prem Watsa
Founder, Chairman & CEO

Odyssey had a -- if you noticed the fourth quarter 2021 was a very significant fourth quarter for them. For the year, they had an increase, as you can see, of, whether the increase in Odyssey was about 18%, right? And -- which is phenomenal. But we take a long-term view term. So what's happened in the last 5 years as our premiums have gone from $13.6 billion to $27 billion, up 100%. $27 billion puts us among the top 20, 25 companies in the world, that's in the world. And a combined ratio during that 5 years is 96%, with excellent reserving, very conservative reserving. And so that's how we look at it. And the impact of this, you've recognized it now, but what's happened is for the longest time, we didn't reach for yield. And so around, at the end of 2021, we had interest and dividend income of $500 million, $530 million, to be exact. 50% of our portfolios were in cash and short term earnings 6 basis points, nothing. But we take a long-term view. And in 2022, our interest and dividend income went up significantly, and they're running today at $1.5 billion, and we are slowly increasing duration to 2, which means that '23, $1.5 billion, '24, $1.5 billion. That's probably more than we've ever had in the past, interest and dividend income of that amount. Underwriting profit with our business, as you've seen, $1.1 billion last year, $1 billion, we think, is not -- it's conservative. And associates, which Jen highlighted very well. Associates and noninsurance income is -- on a conservative basis is $0.5 billion. So you add that up, $1.5 billion, $1 billion of [indiscernible] profit,

$0.5 billion, $3 billion of operating income, which was up to about $100 a share for Fairfax shareholders. This would be the first time that we can make that comment that we've got $100 of earnings per share for the next couple of years.

And then on top of that, historically, we've made a lot of gains. And as you know, value investing is coming back nicely. So that's how we see our company, not on a quarter-by-quarter basis, but over time. We built our company over the long term. It's quite transformational, going from $13.6 billion to $27.6 billion now. That's all in U.S. dollars. And with operating income, on a conservative basis, of $100 a share. And that's -- on top of that, we expect to make gains as we have for 37 years, we just completed 37 years. So I just wanted to put that in perspective for you, Tom.

Tom MacKinnon
BMO Capital Markets Equity Research

Yes. And if I could just squeeze one more in. The transition to IFRS 17, Jan 1, 2022, at most 2.5%. But then you talk about when you state the full year 2022, there's going to be even additional benefits. So does that mean if we look at the transition on the book at Jan 1, 2023, that it could be greater than 2.5%?

V. Prem Watsa
Founder, Chairman & CEO

Why doesn't Jen answer that? And perhaps, Peter, you can add to it, too. But Jen, your comments on IFRS 17?

Jennifer J. S. Allen
VP & CFO

Sure. Thanks, Tom. I think maybe I'll just give a little bit more color on IFRS 17, Tom. The biggest takeaway is your net reserves will now be discounted under IFRS 17 so you have to do that retrospectively. So as you indicated, we would have to have a starting point, which is Jan 1, '22. That's the comment that it will not be in excess of the 2.5% of book value per share. But then, in accordance with the standard, we have to restate all the periods in 2022, which we're currently undergoing. But just to put it in context, given the current interest rate environment in 2022, where significant interest rate increases, you can kind of look at the comparison to our bond portfolio duration, which was about 1.2% up to 1.6% by year-end, that cost us about $1 billion of mark-to-market losses.

If you translate that into a net reserve position, that's larger. At year-end '21, we had net reserves of $25.5 billion. That kind of gives you a sense of why we're claiming that it will be material because the bond portfolio was less than that net reserve position. But you're correct that at Jan 1, 2023, it will be the cumulative opening, plus the change in '22.

The only other comment I want to make is, in the financial statements, we will do the IFRS 17 basis and along with the note, where we're going to try to maintain the key metrics that the company evaluates performance on such as a combined ratio, gross premiums written, net premiums written, that will be done in the MD&A bridging you between the IFRS 17 and the old kind of management performance metrics, with the biggest difference is taking out that impact of the discounting on the claims.

V. Prem Watsa
Founder, Chairman & CEO

Tom, thank you. Peter, any comments to add to that.

Peter S. Clarke
President & COO

No, I think the only thing I would stress is what Jen said on the -- the way we're going to manage our insurance and reinsurance operations will not change. We'll look at our reserves on a discount -- undiscounted basis. There is a lot of uncertainty in the reserves, and again, we'll look at our combined ratios on a discounted basis. But otherwise, Jen summed it up quite nicely.

V. Prem Watsa
Founder, Chairman & CEO

So that's a very important point to make to all our shareholders on the line. This discounting is very dangerous. It's IFRS 17. It's something that the accounting profession has come on. We don't have a choice. But as Peter said, and Jen said, we're going to not manage our affairs on a discounted basis, and we're going to mitigate the effects of this discounting as much as possible. Because it's -- discounting, long-tail liabilities, 0.5%, 1% can change things very dramatically. So all our companies that decentralized, they're run on us on the same basis that we've run in the past. No change on that.

Jill, next, the question?

Operator

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

Mark Alan Dwelle
RBC Capital Markets, Research Division

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Just a small numbers question first. In the Brit unit, there was a small amount of adverse reserve development. Could you talk a little bit about what that might have involved?

V. Prem Watsa
Founder, Chairman & CEO

Sure. Peter?

Peter S. Clarke
President & COO

I'm trying to think through. In total, they had favorable development. I think they did strengthen a little bit of their casualty reserves, I think, on the 2016 to 2018 years. Nothing significant. Their reserves are still in a very strong position. It's just with claims inflation, all our companies are actually trying to be prudent and maybe not releasing as many reserves on those years and taking a wait-and-see approach. So nothing significant.

V. Prem Watsa
Founder, Chairman & CEO

So, Mark, an important point there for you. Reserve releases, as I think, as Peter said and as Jen said, were very much less this year compared to last year. And that's had been conservative. Like our reserve position, we think, is an excellent shape because we've expanded in a hard market. In 2000, 2002. 2001 it was the hard market. Began at the end of the year because of September 11, 2002, '03 and '04, we doubled our premium.

And then we saw in the case of [ADT], for example, reserve redundancies for the next almost a decade. And at that time, we had reserve deficiencies coming from TIG. And so it sort of netted off. But at this time, of course, we have -- our companies are in a very good position. And so we expect our reserve redundancies -- expect, no certainty on this, by the way, to last for some time. And our reserve position, as Peter said, is -- reserve redundancies last, in '22, very small.

Mark Alan Dwelle
RBC Capital Markets, Research Division

I appreciate the color, Prem. There's not a lot to pick on in these numbers. So I had to find at least to take a poke at.

Other question that I had, just wanted to continue the dialogue you've been doing share buybacks fairly steadily over the last several years. The fourth quarter was a little lower than some of the recent quarters. But maybe just update your thinking on how you're thinking about buybacks. The stock price has come up quite a bit, which is good.

V. Prem Watsa
Founder, Chairman & CEO

I'll take a crack on it, Mark, and then pass it on to Peter. So share buybacks, we just think is the right way to do -- go forward for our shareholders. We bought 2 million shares in 2021, and we continue to buy an normal course issue a bit. And so point #1, I've said many times, financial position, financial strength. We're not going to buy back stock at the expense of our financial position. You'd expect me to say that because on a long-term basis that you have to have financial strength, and we have that. #2 is our insurance business. I mean we've expanded our insurance business huge, doubled our premium and become one of the world's largest insurance companies, property casualty companies with excellent underwriting and excellent reserving and a very diversified base so that you have $1.3 billion of Cap losses and you still have 96% combined ratio, a 95% combined ratio last year with, as I said, very small result redundancies taken. So that's a very good position to be in. But as the insurance cycle changes and flattens out some, Peter?

Peter S. Clarke

President & COO

Yes. No, just to add, if we look back over the last 3 years, as Prem said, we've grown significantly. And we've generally funded the capital required to grow through internal means through our operating earnings. And there'll be a time when growth will slow. And the expectation is when growth slows, And our earnings will then produce dividends to Fairfax. And then we can look at all the options available and buying back our own shares, especially at these prices would be something -- would be of great interest to us.

V. Prem Watsa
Founder, Chairman & CEO

Mark, we're looking at why have we buy back our stock, you might say? And so if you feel comfortable with what I said earlier about $100 a share, and our stock is selling at $650 U.S. You have to look at it and everything is in U.S. dollars. And so we're looking at it, and with our track record and what we've built, at 6.5x earnings, we think it's a terrific purchase for all our shareholders. Our book value is going up. Our intrinsic value, and I've said this many times, I'm repeating myself. The intrinsic value is much, much higher than where the book value is. So our focus is that, but not at the expense of our financial position, not at the expense of allowing insurance companies to expand and take advantage of a good market.

Operator

Our next question is from Kara Campion with Leucadia.

Unknown Analyst

I have a few questions for Jennifer in India, how much exposure do we have to the Adani Group debt? What are the current plans for the Bangalore Airport in 2023? And lastly, are we going to get caught up in the Modi-Adani political alliance situation?

V. Prem Watsa
Founder, Chairman & CEO

Yes, 3 things. We have no exposure to the Adani Group, point #1. Point #2, on Bangalore International Airport, we said in our press release in the Indian -- Fairfax India, press release that the Bangalore International Airport is coming back in space. It's a wonderful airport. I was there when Prime Minister Modi opened it. And it is perhaps for the best efforts you'll ever see if you go there. the number of passengers has come back to the pre-COVID levels domestically. And I think we've said something like 85%, 88% for international travel.

The T2, it's called the second term numbers already operating domestically. And anyone that goes there is just the base that what this has -- how this has been built in 4 years, including 2 years of COVID in India. So it's quite a miracle. And it's [indiscernible], the guy who is the President and Chief Executive Officer, who's done that.

In terms of Adani and he's one of the investors -- one of the companies in India. And as you've seen in the United States or Canada or elsewhere, you have these instances. And so I think India will continue to do extremely well. We're very excited about India, all the possibilities of India notwithstanding the Adani event that took place recently.

Unknown Analyst

Okay. That sounds like good news. Is there any plans on the airport for this year?

V. Prem Watsa
Founder, Chairman & CEO

Plans in what sense?

Unknown Analyst

About the IPO or the sale of our stakes?

V. Prem Watsa
Founder, Chairman & CEO

Yes. Sorry, yes. The anchorage is a company that we are putting in our interest in the Bangalore International Airport, and it's an infrastructure development company, more airports for infrastructure. And we've got an application in process. And when that application is approved, and when the opportunity is right, we look at doing an IPO.

Unknown Analyst

Okay. Thanks for the info. Just to reiterate, I think I've spoken before about this. I prefer to have an increase in the dividend instead of the buybacks to benefit the long-term shareholders.

V. Prem Watsa
Founder, Chairman & CEO

Thank you for that, [indiscernible] and we'll -- we bought a lot of shares and we think it's the best thing we could do for our shareholders. Fairfax India has bought 3 million shares, I think, approximately last year at about $12 a share and bought at about the same price at 19 million shares over a longer period of time. But we'll consider what you say. We look at all of those Dividend versus buyback, and we'll consider what you say as we go forward.

Operator

Our next question comes from Ruby Longhi with Red Rock.

Unknown Analyst

Hello. Thank you, Prem and team. It's Ruby Layton. Thank you very much for your stewardship of the value in Fairfax -- many of us are very happy shareholders over time, as you say, it's about the long term. My question is about of [both kinds] and forward-looking. You said in the conference call about the potential for growth and profit in North America in the international markets. And looking forward to that growth in the future. But I've got some questions about your African investments, both on your insurance in South Africa, with the combined ratio being 108, and there just seems to be so much uncertainty and challenges ahead and both in the insurance and in your investment in Helios Fairfax as well as is it time in the operating companies and your insurance operations to reallocate some of those resources from where the potential isn't as great, like as an example, in Africa or, as an example, would you shift investment from something like BlackBerry into more AGT where there is much more long-term potential?

So again, thank you for your stewardship, and I look forward to your comments.

V. Prem Watsa
Founder, Chairman & CEO

Thank you very much for your question. In Africa, we've got terrific -- I'll ask Peter to talk about Bright South African operation. But on our Helios Fairfax company, it's run by Tope and Baba. These guys are excellent. They've started a company from scratch. 15, 20 years of track record in Africa, in all parts of Africa. And we are shareholders with them, we support them. And we are -- Fairfax Africa, I'm sorry to say, didn't have much success in Africa. And so we decided to merge, as you know, with Helios. And now you've got perhaps the using Blackstone, you've got the Blackstone of Africa, who is focus on Africa. And we've decided to go with them and invest with them for the long term. We've just begun. It's maybe a year, 1.5 years that we've begun and digesting some of the old Fairfax Africa. If i am [indiscernible] so Africa is not particularly yet involved right now, but it will be the lots of opportunity there. And these 2 gentlemen, Tope and Baba know it calls. So that's on Helios Fairfax, Africa.

On BlackBerry, AGT, yes, we look at that all the time. And I'll have some comments in the annual report about that. On South Africa and Bright. Peter?

Peter S. Clarke
President & COO

Yes. All I'd add there is Bright has had a couple of tough years, and it's mainly driven from catastrophe type losses. They had significant losses from COVID, which were really unexpected. And then this -- the last couple of years, there's been significant floods in South Africa, and that's affected their results. So they've had 2 years now with a combined ratio about of a [100]. But one of the biggest strengths of Fairfax is we take a long-term approach, and we think over the long term, Bright will produce strong underwriting results. That's the focus of the team there. And they're putting through significant rate increases, especially on property cat exposed business. And I think over time, will be very fine.

V. Prem Watsa
Founder, Chairman & CEO

And just to add to what Peter said, we have no intention of selling Bright that you talk about allocation of capital. No intention of selling Bright. We have no intension of selling any of our companies. We have a very good team. We're very happy with the team that we have there. and we expect them to perform in the years to come.

Jill, next question?

Operator

Our next question is from Jeame Gloyn with National Bank Financial.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Yes. Thanks. Sorry, a little late joining in. Just wanted to dig deeper on the top line growth of 7% in the quarter from a gross premiums written perspective, a little lighter than maybe what we had and maybe a little bit lighter than trend given the hard market conditions we're in. So I'm just curious if there's any onetime factors of no and anything you're intentionally pulling back on in certain markets or types of risks or geographies or something along those lines?

V. Prem Watsa
Founder, Chairman & CEO

Some lines, Jaeme, like D&O for public companies, the pricing has come down some. But as Peter said, broadly speaking, you have a hard market reinsurance rates at 1:1 were up significantly. We have a reinsurance business, we benefit from that. But like he said, reinsurance costs will have to be passed on by insurance companies. And so there will be a mitigating effect on pricing. Sometimes pricing will come down, flatten out and come down. We don't know when that will be. We don't expect that to be in 2023. But we are very excited about the fact as I said in an earlier question, the fact that in this hard market, Fairfax has grown to be one of the largest companies in the business and has terrific management.

We've done it internally. For example, the last acquisition was Allied, as you know, and it had about $3 billion in premium in that area, gross written premium, and it's running at $6.5 billion and 90s combined ratio and an outstanding track record all over the world, similar to Odyssey.

And -- but all our companies are doing very well and our expense ratios have come down. The reserving is excellent. And -- but we do see growth in the future. We do see growth. And if growth slows down, as it will some time, then we expect, as Peter said, to look at continuing to buy back stock at significant amounts.

Jaeme Gloyn
National Bank Financial, Inc., Research Division

Okay. So if I understand, I guess, the view near term is that, that growth rate will reaccelerate, or there's a view that it should reaccelerate and that you'll sort of maintain. And if it doesn't reaccelerate, you'll maintain underwriting leverage through share buybacks? Is that...

V. Prem Watsa
Founder, Chairman & CEO

That's the exact way, right? We don't forecast, right? We don't forecast it. We take it as it comes, and it's a very decentralized operation. And we can tell you that the rating environment is good. I can tell you, we'll expand at 15% or 10%, didn't tell you last year, didn't tell you 2 years ago. We just look at what our companies face and doing the right thing for our shareholders long term.

Jill, maybe last question, Jill?

Operator

It will come from Tom MacKinnon with BMO.

Tom MacKinnon
BMO Capital Markets Equity Research

Just trying to get -- I think you mentioned restaurants and retail, other with in respect to some of your noninsurance pretax operating earnings. I don't -- did you mention Thomas Cook India. I'm just trying to get the things that sum up to the $61 million that you've put?

V. Prem Watsa
Founder, Chairman & CEO

Yes, Tom. I will a lot of that will be put in our value report. But Jen did mention it. Jen comment on Thomas Cook.

Jennifer J. S. Allen
VP & CFO

Yes. So Tom, you're looking at the quarter or the YTD number?

Tom MacKinnon
BMO Capital Markets Equity Research

The quarter.

Jennifer J. S. Allen
VP & CFO

The quarter of $61 million. Yes. So the way we look at it, if you adjust for the goodwill in Paramount Farmers Edge and the Fairfax India, you've got a $94 million compared to $63 million. And most of that is driven by the restaurant and retail list. We will give more details on that in the annual report, but it's approximately up maybe $10 million in that segment. And then Thomas Cook, India, appreciate last year they were in restrictions and COVID lockdown. So negative impact in '21, that's flipped to a profit in 2022 for the quarters.

Tom MacKinnon
BMO Capital Markets Equity Research

Okay. So we'll just have to wait to get the details of the $61 million that you've provided just wait until we get the annual report, I assume then, right?

Jennifer J. S. Allen
VP & CFO

Correct.

V. Prem Watsa
Founder, Chairman & CEO

We'll disclose all of that in the report. And so -- but this takes us through the 9:30 our time. Thank you very much for joining us on this call. And we look forward to seeing you all at our Annual General Meeting in Toronto on April 20. And Jill, thank you very much for the call.

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