S&P Global
Market Intelligence

Fairfax Financial Holdings Limited
TSX:FFH
FY 2008 Earnings Call Transcripts
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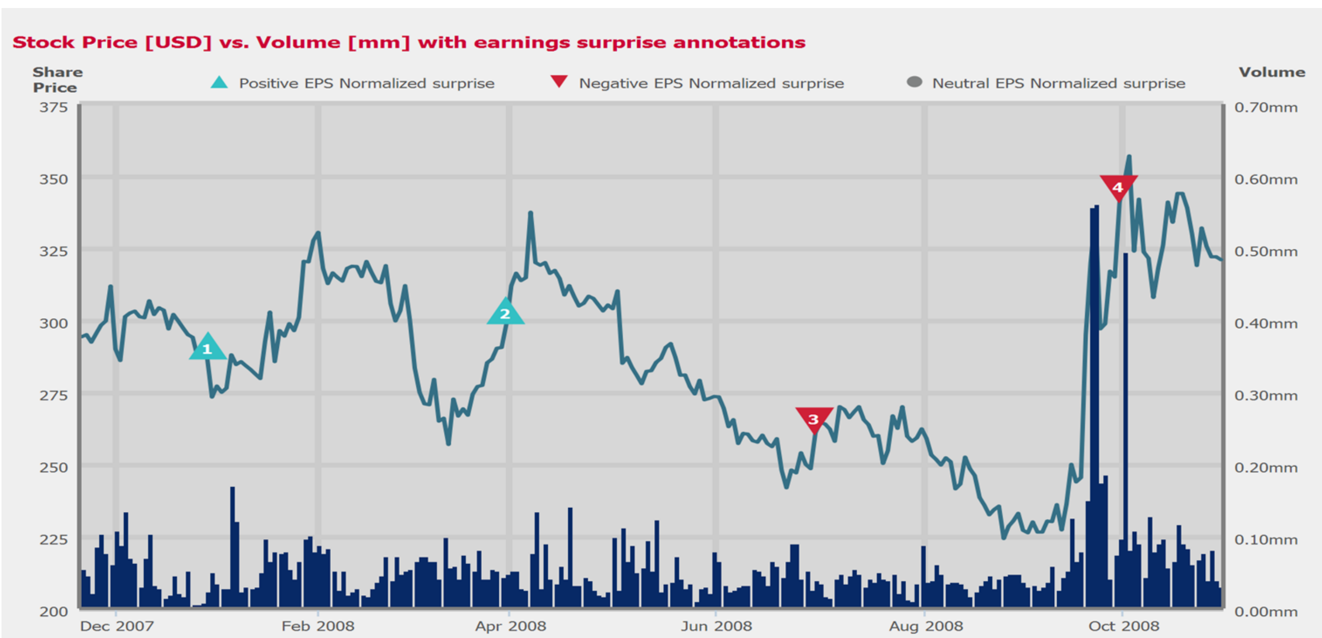
S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	12.92	19.62	▲51.86	9.18	-	72.84
Revenue	-	-	▲38.68	-	▲(17.47 %)	-
Revenue (mm)	1574.95	2184.20	-	1466.90	-	7365.55

Currency: USD
Consensus as of Jan-23-2009 5:59 PM GMT



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Call Participants

EXECUTIVES

Bradley Martin

Greg Taylor

V. Prem Watsa

ANALYSTS

Jeff Fenwick
Cormark Securities

Mark Dwelle
RBC Capital Markets

Unidentified Analyst

Presentation

Operator

Good morning and welcome to the Fairfax's 2008 Year End Results Conference Call. Your lines have been placed on a listen-only mode. After the presentation, we will conduct a question-answer session. (Operator Instructions). Today's conference is being recorded. If you have any objection you may disconnect at this time.

Your host for today's call is Prem Watsa, but Brad Martin will make a brief statement first. Please go ahead, Mr. Martin.

Bradley Martin

Good morning. Welcome to the conference call to discuss Fairfax's 2008 year-end results. The comments we make during this conference call may contain forward-looking statements. Actual results may differ perhaps materially from those contained in such forward-looking statements, as a result of a large variety of uncertainties and risks factors, the most foreseeable of which are listed in Fairfax's annual report, which is the available on our website at fairfax.ca, or set out under Risk Factors in Fairfax's base shelf prospectus, filed with the securities regulatory authorities in Canada and the United States, which is available on SEDAR and EDGAR.

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

V. Prem Watsa

Thank you, Brad. Good morning ladies and gentlemen. Welcome to Fairfax's year-end conference call. I plan to give you some of the highlights and then pass it on to Greg Taylor, our CFO for additional financial details.

We were very fortunate with our results (ph) of 2008 with a 23-year history. As a result of exceptional performance by our management teams, and in spite of challenging industry and economic conditions, we achieved record earnings of approximately $1.5 million, resulting in a 21% increase in our book value per share to $278.28, not including the $5 per share dividend paid in the first quarter of 2008.

We also ended the year with in excess of $1.5 billion in cash and marketable securities at the holding company level. Our earnings for 2008 of approximately $1.5 billion were after we recorded almost 1 billion in other than temporary impairments and mark-to-market losses of 504 million primarily related to convertible bonds.

We are really grateful to the management and employees of all our companies with these results and particularly thankful for the support of all our long-term shareholders.

Let me go over the highlights for 2008 review. First, we reported a combined ratio of 110.1% in 2008. Our underwriting results were impacted by three major unusual items in the year. One, foreign exchange translation losses of our claims reserves because of the strengthening in the U.S. dollar impacted us by 189.2 million or about four combined ratio points. As we generally hedge our foreign exchange claim (ph) exposures, these translation losses are almost fully matched by translation gains on our investment portfolio.

Two, Hurricanes Ike and Gustav produced losses of 326.3 million or about seven combined ratio points. Hurricane Ike was the third most destructive hurricane ever in the United States, after Katrina and Andrew.

Third and finally, Crum & Forster had a 109.7 million of losses or about 2.5 combined ratio points related to a lawsuit settlement and a reinsurance commutation.

The underlying business, our insurance and reinsurance business, excluding these exceptional items and in a very challenging insurance environment, had a combined ratio of 96.2%. Accident year combined ratios for all our companies are close to 100% in all cases with good reserving.

Moving onto runoff operations, we had a pre-tax profit of 393 million in 2008, including 473 million in pre-tax investment gains.

Third, our investment team produced the best returns ever, in a brutal investment environment. The 1 in 50 or 1 in 100 years storm in the financial markets that we worried about arrived in the fall of 2008. All major stock markets worldwide were down about 30% and all corporate and non-federal government bond spreads widened to historically high levels. There were very few places to hide, let alone prosper.

Fortunately, we were perfectly positioned with our cash and government bonds position exceeding 75% of our portfolios, our stock positions being fully hedged and our large CDS holdings, credit default swap holdings.

The total return, including unrealized gains and losses in our investment portfolios, and including our CDS position and hedges, was 16%. Total interest, dividend and net investment gains in 2008 were 3.3 billion after recording, as I said earlier, almost 1 billion in other than temporary impairments and mark-to-market losses primarily on convertible bonds of 504 million.

Interest and dividend income dropped in 2008 from $761 million to $626 million because of the collapse in short-term interest rates. Our total realized gains increased to 2.7 billion from 1.6 in 2007. These are very good results, and we are very fortunate to have achieved them.

We had... fourth, we had pre-tax income of approximately 2.4 billion after taxes and minority interest, we earned approximately 1.5 billion.

Fifth, we increased our cash, short-term investments and marketable securities at the holding company level to over $1.5 billion at the end of 2008, even after paying 62 million to retire debt, 48 million to retire preferreds, 282 million to retire common stock and 99 million of common and preferred dividends paid during the year.

Sixth point I wanted to make to you was at December 31st, 2008, our subsidiary portfolio investments of 18.4 million primarily consisted of approximately 46% or $8.4 billion of bonds, approximately 30% or 5.5 billion of cash and short-term investments and approximately 22% or $4 billion of common stock.

During the fourth quarter, Fairfax sold almost all of its U.S. treasury bonds for $5.8 billion for net gains of 471.5 million and reinvested a significant portion of the sale proceeds in U.S. state, municipal and other tax-exempt bonds which were purchased... with purchases of approximately $2.9 billion.

At December 31st, 2008, subsidiary portfolio investments included $4 billion of tax-exempt bonds with an average yield at purchase of approximately 5.79% and approximately 87% of these muni bonds are insured by Berkshire Hathaway Assurance Corporation.

During the fourth quarter, Fairfax removed all its equity hedges and invested approximately $2.3 billion in common stock.

Seventh, late in the fourth quarter of 2008, after receiving U.S. 350 million dividend from Crum & Forster, we decided to take Northbridge private at a fair price for all our minority shareholders. Our $39 per share offer was unanimously recommended by the independent committee of the Board of Northbridge who had retained Scotia Capital as their financial advisors.

As many of you will remember, we took Northbridge public in 2003 at $15 a share. At $39 per share in the approximately five and half years of Northbridge as public, Northbridge minority shareholders have earned a 20% plus annual compounded rate of return, including dividends. This compares with 5% for the DFC 300 (ph) during the same period.

We took Northbridge public at 1.2 times book value and private at 1.3 times book value in an environment where the whole property casualty industry in North America, including us, was selling at approximately book value.

Northbridge had never traded at $39 per share before. You can see why we consider the offer a fair price for Northbridge's minority shareholders, and as yesterday's vote suggested, 99.98% of those shareholders agreed.

Finally, our performance in 2008 did not go unnoticed by the rating agencies. A.M. Best upgraded Crum & Forster and Northbridge to an A rating and Fairfax to an investment grade rating. DBRS also upgraded us to investment grade, and Standard & Poor's followed early in 2009. We are very grateful for these upgrades.

Just two more comments before I pass it on to Greg. The losses on the left hand side of the balance sheet for most participants in the property casualty industry in North America and other parts of the world have been very significant. Combined with losses from Hurricanes Ike and Gustav and extremely tight credit conditions, we think the insurance market might turn. All our companies are well positioned to take advantage of the market turn if it takes place. If it does not take place, our written premiums will continue to shrink in 2009.

The last comment I wanted to make before I pass it on to Greg was just to say we think we are facing a long and deep recession as we've mentioned before to you with many unintended consequences. But as value investors, we're seeing some excellent buying opportunities in common stocks for the first time in a long time, and we're taking advantage of them.

While our focus on operating income and reaching for yield has led our industry astray, because of a lack of risk premium in the past, we think at current credit spreads, it is likely that our operating income will increase significantly in the years to come.

As I said earlier, we have purchased a significant amount of tax-exempt state and municipal bonds in the United States, and more recently, corporate bonds in North America. Consequently, our dividend and investment income is going to increase significantly in 2009 and future years.

Now I'd like to turn it over to Greg, so he can give you some more information on the underlying financials.

Greg Taylor

Great. Thank you, Prem. Good morning to everybody. As is our custom, I'll structure the remarks accordingly. First, we'll talk about Fairfax consolidated results for the fourth quarter and for the fiscal year '08. We'll again focus on investment results and the underwriting results separately. Then we will talk about the results of our operating companies. Finally, we'll turn to financial position as of December 31, '08, focusing on investments, on liquidity, financial leverage, and our capital position.

Just to remind everybody and probably most of you on the phone know this, but a comprehensive report on these fourth quarter and fiscal year '08 results is posted on our website there for you. Our full annual report is scheduled for release on March 6.

So turning first to Fairfax consolidated results. As you saw Prem talk about record earnings, net earnings for the fourth quarter $346.8 million, $19.62 per share for the fiscal year, $1.47 billion that compares to about $1.1 billion a year ago. And in terms of EPS for the fiscal year, $79.53 a share earned in '08 compared to $58.38 in '07.

Prem talked to you about the book value increase. I might just point out that at $278 book value per share, when you add back that $5 dividend, the increase year-over-year is about 23.2% on the year.

Obviously the driver of '08 earnings was significant investment gains. And Prem gave you a breakdown in our disclosures to the same, but I'll just touch on some of the points again. So we had 2.7 billion in net investment gains in '08 compared to 1.6 billion in '07. Just run through some of the components and the changes.

Obviously the gains on our equity hedges paid off largely this year. We had almost $2.1 billion worth of those gains. And as Prem mentioned, we should mention them in the same breath. We did take impairment charges against the portfolio for unrealized losses of almost $1.996 billion in '08. So those numbers in '07 were gains on equity hedges of $143 million and we took OTTI write-downs in the portfolio last year of $112 million. So our hedges, as Prem points out, did the job for us.

On credit default swaps, we had $1.29 billion in gains in 2008 compared to $1.145 billion in gains in '07. On the bond side, I'll just break it out a little bit for you. I sort of think of it in three pieces. As Prem mentioned, we saw a good portion of our... in fact, almost all of our portfolio of U.S. treasury bonds and the gains on those... the realized gains on those sales in 2008 were $630 million. The comparable '07 number was $100 million in bond... in realized gains, not just treasury bonds, all bonds sales.

The municipal bonds are relatively new to our portfolio. This year we had mark-to-market gains on those as spreads narrowed at the time we bought them to the end of the year. So, we had mark-to-market gains of $150 million included in our results on the muni portfolio.

And then on, as Prem said, on mainly convertible bond investments, we did have mark-to-market losses that we recorded of $504 million in the results and that the prior year number was about 40 million. So, again we've got the OTTI charges and the mark-to-market losses on mainly the convertible bonds adding up to 1.5 billion. And after that we still have $2.7 billion in gains.

Common stocks is the last one and not a lot to report. This year common stocks, realized gains on sales of common stock just $20 million. Last year we had $140 million in gains, and we had the gain on our sale of Hub International Limited of $227 million, just so you can keep track of that.

The other piece of the investment income, obviously interest and dividend income declined substantially in 2008. As Prem said, the corporate really is lower, short-term rates year-over-year and that's despite substantial growth in our portfolio, mainly because of investment gains but also because of operating cash flow.

So we had interest and dividend income for the fourth quarter of 146 million. It was 158 million in the prior year's quarter. For the full year, we had $626 million in investment, in interest and dividend income, that compared to 671 million in the prior year.

The average portfolio, as we walked about, in Q4 of this year, our average portfolio... so this includes the subsidiary portfolios and the holding company investments, cash and investments, was $20.55 billion. And on that we had a Q4 yield that we annualized of about 2.84%. And that compares to Q4 of '07 where we had an average portfolio substantially smaller of 18.75 billion, the yield on that further... the quarter (ph) yield on that annualized was 3.37%. So you can see the year-over-year decline in annualized yield of about half a point basically.

For the full year, the average portfolio for '08 came in at 19.7 billion. And on that average portfolio, our average yield was about 3.2%. And that's about 1 percentage point lower than the prior year where in '07 our average portfolio was substantially smaller at 18 billion. But we did realize a yield on it of 4.2%.

Now as Prem highlighted, all this is about to change. Our bond portfolio mainly has changed significantly at the end of the year. And we believe that our interest income obviously in '09 is going to be affected significantly.

U.S. Treasury bonds, as Prem said, at the end of last year, we had $6 million U.S. Treasury bond portfolio. Our year-end '08 holdings $985 million, down more than 5 billion net change. Our municipals and state and other tax-exempt securities at the end of last year, we held just $191 million with those securities.

We ended this year with $4.1 billion worth of muni, as Prem has outlined. So obviously that's going to drive a big change in our interest income in 2009.

Turning to underwriting results, we'll lay it out for you, begin just to quickly go over them. We had underwriting losses for the fourth quarter and for the full fiscal year compared to underwriting profits in the prior year.

So, Q4 underwriting loss was 207 million compared to 82 million underwriting profit in the prior year's quarter. For the full year, $457 million underwriting loss compared to 281 underwriting profit. Combined ratio for the fourth quarter was 118.6 as compared to 93%. Combined ratio for the year, as Prem said, was 110.1 and that compared to 94.

Definitely worth taking some time in reading our disclosures, dissect this 110, if we could just focus on the 110 combined ratio for the year. And as Prem said, there are three components worth looking at. And the first is catastrophe losses.

Obviously it was a big year with Hurricane Ike, the number three hurricane in history. So our total cat losses in '08 were $462 million. That compares to $120 million in '07 and that 462 in cat losses are pretty much the same number as our 457 underwriting loss for the full year. The 462 million in cat losses represented 10.3 points of that 110% combined ratio. Ike alone accounted for net losses of 304 million. That was 6.7 combined ratio points of the 110.

Second point of interest is the foreign exchange, foreign currency impact on our results. The U.S. dollar strengthening had a pronounced effect on lots of companies and ours included, mainly in the fourth quarter. And it affected Advent, it affected Odyssey Re, and it affected Northbridge. And the effect... the full year effect was $189 million included in our underwriting results. And that translates to 4.2 combined ratio points. So 4.2 points of that 110, due to the impact of U.S. dollar strengthening largely against the other currencies that we do business with, around the world and have claims reserves in.

Now worth noting again and we lay it out in our disclosure. But Fairfax policy, our foreign currency hedging policy here is to generally match our claims liabilities in any given currency with investment assets in that same currency. And that has stood us in good stead over time.

And so what happens is that any foreign exchange gains or losses in underwriting results, such as those that I just talked about are generally mitigated by gains or losses in investment income or in realized gains, basically, in net earnings or in other comprehensive income. And so it all comes out in wash (ph) in terms of retained earnings shareholders' equity and book value per share. So, important to keep that in mind when you are reading our commentaries.

The third item affecting that 110 combined was the items that we talked about previously. In the first quarter and the second quarter we talked to you about two items at Crum & Forster that were worth noting, just because of their size. And we had a loss on the reinsurance commutation of about $84 million pre-tax. And we settled a large lawsuit again for about $25.5 million pre-tax. Total impact of that was $109 million. And again, of that 110 combined, this represents about 2.4 combined ratio points in the fiscal year results.

I mentioned to you that if you exclude the Ike, if you exclude the foreign currency impact that basically are offset on the investment side, and if you exclude those two Crum items, Prem mentioned that combined ratio about 96.2, just to get us on an apples-to-apples footing, give you a comparison year-over-year. If I take that but if I exclude all cat losses, not just Ike and Gustav, in both years, that puts us at about 93.2 combined for '08 and that was 92.3 in '07. So the underlying business is, not a lot were soft, a little were soft and that just really reflects the general soft market conditions is our observations.

Operating company results, just quickly Odyssey Re had another better year. Odyssey Re's conference call is at 10 AM this morning, but you too listen to that obviously. The combined ratio of 103.4 for the fourth quarter and 103.5 for the fiscal year. Again just running quickly through the same types of items, it was a big catastrophes loss year because of Ike. Odyssey's 103.5 included 11.8 points of cat losses.

In terms of prior period development, excluding foreign exchange, Odyssey had favorable development on the year of about half a point. So Odyssey's accident year number is about 101.8 accident year, excluding foreign exchange is about the same, accident year ex-cats because of the significant year is about 90. So Odyssey's underlying underwriting results are quite attractive and it flows through to their results. The cat losses of 242 million... were $242 million primarily, net of reinstatement premiums, as I said almost 12 points of the 103.5, Ike and Gustav in there that 242 was $137 million.

So, again, just comparing to the '07 results, at 242 million of cat losses for Odyssey compared to just 98 million in 2007 and that represented 4.7 combined ratio points in '07 compared to the 11.8 point addition by... due to cat losses in '08.

Again with Odyssey's results, obviously the significantly higher investment gains with a primary driver of U.S. GAAP earnings, Odyssey at U.S. GAAP earnings of $549 million. This is the third year in a row of Odyssey posting 500 plus earnings, 549 this year, 595 million in '07, 507 million in '06. So three very good years in a row for Odyssey Re.

Just want to point out as well, during the year Odyssey repurchased and retired 9.5 million of its common shares using excess capital and all repurchased below its book value per share, due to capital management at Odyssey Re. Because of that Fairfax ownership of Odyssey has risen to 70 plus percent.

Last thing I would point out is Odyssey's book value per share at the year-end, because of these earnings has risen to $45.37, in the year it's up 23.4%, which is truly remarkable given the industry conditions.

Crum & Forster 2008 underwriting performance basically speaks to the state of U.S. commercial lines market conditions in terms of pricing, in terms and volumes. Combined ratio for the fourth quarter for Crum was 104%, for the full fiscal year was 117.6, again just strolling through these items. Catastrophe losses for Crum $93 million, representing 9.3 points of that 117. Ike and Gustav alone were $74 million or 7.4 points of those 117 combined ratio.

I mentioned the Q1 and the Q2, the lawsuit settlement and the reinsurance commutation. Both of those affect prior year results, but their underwriting $109 million pretax combined loss from those two events represented 10.9 combined ratio points of that 117. Accident year basis then, including Ike and Gustav, and other cats for Crum for the year was 111.8. Accident year ex-cats again trying to look at its underlying business. So the accident year ex-catastrophe losses for Crum for the year was 102.4. In '07 that apples-to-apples number was 96.1%. So, you can see the impact of the soft market on commercial lines in the United States.

Definitely worth mentioning the Crum & Forster reserves position very strong via the results that I just mentioned. Prior period development of reserves were favorable. So excluding that lawsuit settlement and the commutation loss, there was net favorable development. And it was mainly on workers' compensation lines, umbrella and the Seneca specialty lines. And so in '08 we had favorable... net favorable development of five points in the Crum results. That was about $50 million, very comparable to the '07 results, very consistent results at Crum in that respect, net favorable development in '07 of four points, that was about $47 million. So indicative of the strong reserve position at Crum & Forster.

Overall earnings at Crum, again significant investment gains produced very strong earnings. U.S. GAAP earnings for '08, $332 million. And just like Odyssey, it's the third year in a row strong earnings plus, minus 300 is the range for Crum in the last three years, $332 million in '08, $293 million in '07, $312 million in '06, so three very strong earning years in a row.

Crum ends '08 with very strong capital as well. U.S. GAAP equity 1.17 billion, combined statutory surplus $1.4 billion, and both of those numbers compare to Crum & Forster that wrote last year net premiums written of less than $1 billion. So, it's very well capitalized. And of course, all of this is after having paid dividends, total dividends to Fairfax in 2008 of $494 million, very strong capital base. That did get Crum recognized that capital base. A.M. Best upgraded Crum and its operating companies, its financial strength ratings to A and obviously has Crum well positioned to compete in 2009 markets.

Northbridge, underwriting performance at Northbridge. The combined ratio in the fourth quarter was 119.1%. That did include unfavorable effects of U.S. dollar strengthening on Northbridge's U.S. dollar denominated reserves representing about 14 points of that 119. Cat losses were small in the fourth quarter for Northbridge, just under one combined ratio point.

For the full fiscal year, Northbridge had a 107.3 combined ratio and the unfavorable effect of U.S. dollar strengthening accounted for about five points of that 107. Cat losses, because Northbridge did incur some losses on Ike and Gustav added about 3.4 points on top of those five points of currency effect, so in terms of that 107 combined. Again an indicator of the reserve strength at Northbridge, prior period reserve development, excluding the foreign currency effects.

For the quarter, at Northbridge it was favorable about 10.1 points. For the full year at Northbridge favorable to the tune of about 5.9 points. At Northbridge, the investment gain side not as strong as in prior years and not as strong in '08 as her sister companies.

Different portfolio, did not have the U.S. Treasury bonds but its sister companies in the United States did, and a bit different reaction in terms of stock markets Canadian versus U.S. stock markets. So different investment result there.

And as a result, net earnings were well down for Northbridge in '08 compared to '07. Northbridge earned $45 million in U.S. dollar terms in '08 that compared to 273 million net earnings in U.S. dollars for Northbridge in 2007.

Book value per share, as we mentioned in our press release that Northbridge for year end was in Canadian dollars 29.21, that's a 2.2% increase in '08 because of those earnings. Again small increment but in this kind of market compared to the peer group any increment is good news for most companies.

As is the case at Crum, the capital is strong at Northbridge as we look into 2009 and competing. Northbridge ended the year with 1.4 billion in Canadian GAAP equity. And again that compares to about 1.2 billion in net premiums written in '08 by Northbridge.

Ratings are very strong. A.M. Best upgraded Northbridge operating companies to A, S&P upgraded the Northbridge operating companies to A minus. So Northbridge is on a very solid footing to compete in '09. And obviously as Prem noted, with yesterday's conclusion to the Fairfax offer process for, to Northbridge shareholders, we now own 100% of Northbridge. And that's how we'll report on it obviously in our '09 financial reporting to you.

Just running quickly through the other ones in the interest of time, Fairfax Asia, its contribution to Fairfax financial results in '08 included a combined ration of 92.1%, very good underwriting result. 32.6% growth in gross premiums written and that number grew to $227 million in 2008. Fairfax Asia is becoming a very substantial company both in the Fairfax group and within its own marketplace.

It had 22.7% growth in net premiums written as well. The growth is mainly coming from First Capital Insurance in Singapore while our new local management team continues to reposition Falcon Insurance in Hong Kong and make some very good progress there. So overall '08 was a year of very satisfying progress and growth for Fairfax Asia.

You'll see...in our report, you'll see a new segment, a new reporting segment called other reinsurance. So this comprises Group Re, which is our existing business unit that you know. It now has Advent Capital in it because we own approximately 67% of Advent. And we've included it in that segment since September of '08 on a consolidated basis, when we stepped up to our larger ownership position.

Now its consolidation in our results this year coincided basically with Hurricane Ike. So you will see that it looks a little funny. So Fairfax results for Advent include these significant cat losses but we only have modest premiums included since September. So make sure that you go and look at the standalone Advent reporting which was released today and that will be of interest to you.

The last part of the other reinsurance segment, you won't see it in our reporting now. but Polish Re, a brand newly acquired 100% owned Warsaw based reinsurer, we will report those results in this segment in 2009. So again in the interest of time, I'll leave you to read our report on this segment.

Runoff, in 2008 runoff continued to shrink its remaining claims. And last year again, runoff downsized the organization and reduced operating costs. In fiscal '08, runoff contributed pre-tax income to Fairfax results of $392 million. And that was driven by investment gains of $472 million. And just point to out that in Q2 runoff paid a dividend in cash and securities to Fairfax of 220 million out of excess capital. So, obviously points to a very good continuing progress at runoff.

Lastly our financial position, in terms of liquidity, Prem mentioned that we ended the year with cash, short-term investments and marketable securities at the holding company level of $1.55 billion.

In our report, we lay out for you our expenditures in Q1 to give you a flavor for what cash might look like in the New Year. Chief item obviously is our Northbridge acquisition. We have spent the first part it, and we are about to pay off the second installment to complete the purchase of the Northbridge shares.

Total purchase price for us is, in Canadian dollars is about $675 million. In U.S. dollars that's about $550 million. So, obviously we have spent some money here. We think it's an excellent investment obviously in the first quarter of '09.

Quickly in terms of financial leverage, quiet-ish year, last year, hold co debt, we retired about 200 billion in debt. We retired Canadian $50 million worth of preferreds at par value and our shareholders' equity obviously went from 4.25 billion at the end of last year to just shy of $5 billion at the end of '08.

Subsidiary debt is largely unchanged. We did have a $100 million reduction in subsidiary debt that was basically offset when we consolidated Advent and picked up its debt on our balance sheet. So, sub debt basically unchanged on the year.

Bottom line of all that is that our debt-to-capital ratio improved to 23.7% from 27% at the end of last year. In terms of our debt maturity profile and debt service requirements, as you know we have no significant maturities until 2012 and then to 2017 after that in terms of significant maturities.

Interest expense on our remaining 869 million of Fairfax bonds is very modest compared to our resources. The result is vastly improved financial ratios over the long term and improvement over last year and that's finally begun to reflect in our ratings.

Last year, we had Fairfax upgraded and early this year upgraded to investment grade by A.M. Best, by S&P and in fact, by four of the five rating agencies that follow the company.

On the investment portfolio, Prem has commented on some very major portfolio changes year-over-year. I provided some yield and some other information earlier in discussing the investment income. And so with that Prem, I will just wrap up.

V. Prem Watsa

Thank you, Greg. So you can see we had an excellent 2008. Our insurance and reinsurance companies are well capitalized, well reserved and very focused on making an underwriting profit.

Our runoff operations, as Greg has said, are well under control and our investment portfolios are positioned for opportunity. At year-end we had over 1.5 billion in cash and marketable securities at the holding company level. All in all, our company has never been in a better position.

Now we are very happy to answer your questions. Please give us your name, your company name, and as always, try to limit your questions to only one so that it is fair to all on the call.
So, Tanya, we're ready for questions.

Question and Answer

Operator

Thank you. At this time we are ready for the question and answer session. (Operator Instructions). Our first question comes from Jeff Fenwick of Cormark Securities. Your line is open.

Jeff Fenwick
Cormark Securities

Good morning, gentlemen.

V. Prem Watsa

Hi, Jeff.

Jeff Fenwick
Cormark Securities

Well, clearly a very interesting quarter. I guess the one area I just wanted to understand little bit better and Greg, you did describe just a little in your commentary. But just the FX impact on the combined ratios, I am wondering why would be a negative development there? And is this the case where you wrote the business in U.S. dollars and reserve in a local currency? It seems that the US dollar's strengthening might actually benefit you a little bit. Can you get into that?

Greg Taylor

An easy example is to take, just pick one, just pick Northbridge. So, North Bridge has U.S. dollar denominated claims reserves because of principally Commonwealth but a little bit at Markel as well. And again when the exchange rate moves such as it does, it produces a pronounced swing. And when you bring those reserves back you've got a lot more in liabilities than you had in the previous year at the old exchange rate.

So, again when you multiply that by the euro and sterling around the world for our businesses that have U.S. dollar claims liabilities and who's it (ph) in there and functional currency if you will is not the U.S. dollar. That hurts them economically if they're unhedged. And so again, so in the underwriting results, we see the effect of the U.S. dollar's strengthening on the underwriting results because it does impact the carrying value for those companies out there, claims reserves.

Now, again, economically and financially for Fairfax as long as we have in Northbridge U.S. dollar investments to match those U.S. dollar liabilities, we're okay in terms of financial, management and risk management.

V. Prem Watsa

Greg, let me just give... Jeff, it's a very good question. It's a little confusing for all our shareholders. I just wanted to give a little example of what Greg just mentioned to you. So if we had in Commonwealth $100 million in reserves, what we would do is have $100 million of assets. So it's balanced. So when the Canadian dollar goes from par to $0.80, those reserves go up to 1.5 million Canadian, up $25 million, our assets go up by 25 million, it's balanced.

The way the combined ratio works is that 25 million increase in reserve goes into the combined ratio and creates a higher combined ratio. But as Greg was saying the $25 million and the gain in the investment portfolio of course balances it all out. But it's not netted against the $25 million that's affecting our combined ratio. And as Greg was saying the same idea implies, goes over (ph) the euro and for the other currencies that were involved, but what we have tried to do is to match our assets and liabilities. And so that's why we think, as Greg did and I did, we take the foreign exchange impact out, because that's the best way to look at our underlying results.

Jeff Fenwick
Cormark Securities

Okay, great. I think that's an important distinction. And I guess also in terms of the FX impact on your premiums written, there is clearly a bit of a decline in the quarter. I know part of that as you say was your strategy of just not writing unprofitable business. But is there anyway you can kind of give us a sense of the swing or the impact of the split between the two at all? I know it's probably to...

V. Prem Watsa

It's very, very difficult to quantify it. The one place you would get some sense maybe is on the Odyssey Re call, because as Greg said, the euro has weakened. And of course, Odyssey Re does a lot of business in Europe. And so that translation, of course, reflects in lower net premiums written. But the point I wanted to leave with is that if it's a soft industry environment, which is what it is today, we will be shrinking our business in any way where you can look at it, whether the foreign exchange effects will increase or decrease, that is perhaps less important than the fact that we'll shrink. But if it changes, we have the ability, the management, the capital, our reserves are in very strong shape to take advantage of it. We have in that 2001 cycle, it's how our premiums expand by more than two times. And this time our reactions will be very similar.

Jeff Fenwick
Cormark Securities

Okay, interesting. And have you seen, I mean you expect that may occur and have you seen any evidence in any of those markets of that happening yet?

V. Prem Watsa

In the catastrophe area, you have seen the, for windstorm in Florida you have seen that. It's very tight, it's very prices are high and perhaps haven't been as high even after Katrina. But in a broad basis, you're just looking at year-end results for the industry, and if you see what's happened to shareholders' equity for a broad range of companies in the United States and in Europe, you will see that -- you will see that their shareholders' equity has been shrinking very significantly for some very large companies insurance and reinsurance companies. And ultimately that's what causes a hard market. The exact timing of it, Jeff is very difficult to say.

Jeff Fenwick
Cormark Securities

Of course. Okay, thank you, I'll get back into queue.

V. Prem Watsa

Okay, thank you. Next question, Tanya.

Operator

Our next question comes from Mark Dwelle of RBC Capital Markets. Your line is open.

Mark Dwelle
RBC Capital Markets

Good morning. A couple of questions. First, the on the P&L statement, you had 99 million of other. Is that the Ridley Company?

Greg Taylor

It is, Mark, yes. So in prior years you'll see it was Conning Helinzy (ph) and now it's Ridley. So we've got the we identify the Ridley revenues on a separate line for you and the Ridley operating expenses on the separate line for you.

Mark Dwelle

RBC Capital Markets

Just, I know you don't typically give guidance, but with respect to that particular company, I mean can you give us a general idea of what the kind of annualized revenues have historical looked like?

V. Prem Watsa

It's a public company Mark, and if look at that, we don't give guidance of course. But if you look at the results you'll see a pretty stable business and it's been public for the better part of I'd say better part of 10 years. So, you'll get a very good sense for the numbers when you look at Ridley.

To the point that I think Greg made and I wanted to emphasize is that Ridley, we happen to have more than 50%, so we have to consolidate. Advent, we happen to have more than 50% we consolidate, but consider both of them as investments.

Mark Dwelle
RBC Capital Markets

Okay. Sort of to that point then, with the inclusion of Advent, the acquisition of Polish Re, it would appear that you are taking on a little bit more catastrophe exposure relative to where you had been in the past. Are you considering or would you consider scaling back Group Re and its activities to kind of keep the catastrophe exposure level with where it had been?

V. Prem Watsa

Yes, no Group Re has scaled in the past, scaled down. It's very opportunistic Group Re. So after September 11, we wrote a lot of business but then since you've seen it come down significantly, in 2008 down significantly.

So, Group Re will be opportunistic. But the Advent, we went through the results and Greg showed you all the underwriting results and cat exposures. We do really think of that as an investment term, Mark. So we don't think of those numbers coming into our cat exposures. We are not... we don't put a cap on Advent's results. Advent is independently won. And so but we are very conscious of our own exposures and our exposures in terms of our investment in Advent.

Polish Re doesn't have any significant catastrophe exposure; we've reviewed that. But Polish Re is a 100% owned by us as Greg was saying. And so what that means is that of course, we manage the investment portfolios, and we, our actuaries are very much on top of all exposures including cat exposures. So but that's how we look at those investments, Mark.

Mark Dwelle
RBC Capital Markets

Okay, that's helpful. Thank you.

V. Prem Watsa

Thank you Mark. Our next question, Tanya.

Operator

Our next question Rich Gross of Stark Investments. Your line is open.

Unidentified Analyst

Hey, how are you guys doing?

V. Prem Watsa

Good morning, Rich.

Unidentified Analyst

Hey just a quick question for you. I was curious, so what kind of duration are you looking on your muni bonds?

V. Prem Watsa

Our muni bonds are in that seven or 10 year term. They're callable, not portable, but callable at 10 years, but the maturities of course can last longer than that. But they're callable between seven and 10 year, and we think it's likely they'll be called at that time.

Unidentified Analyst

All right. Thanks and then if you won't mind comment just on your increased risk appetite?

V. Prem Watsa

Increased risk appetite and what?

Unidentified Analyst

Just in general taking off your equity hedges last quarter (ph) and your additional common stock purchases?

V. Prem Watsa

That's good. For years, even last year and years before, we had 75%. For the better part of four or five years we've had 75% in government bonds and paid those. We've had equity positions hedged and we've had credit default swaps. But today and during that time period, just observing what happened. Most participants in the industry felt that the Federal Reserve do no wrong. That if there was any problems the Fed would come in and drop interest rates, perhaps even have some additional fiscal stimulus, and then the markets were high, and credit spreads were very narrow.

Today we think it's interesting. The markets have already come done 50% worldwide including the U.S. and Europe and elsewhere. Credit spreads are at record levels. It's come down some in the last month but still very, very high. President Obama has got a stimulus bill, which is huge 800 billion. The Treasury Secretary has come out with a plan, still trying to fill the details, $2 trillion and the market believes that this is not going to work after a 50% drop in the stock market and with wide spreads.

So we consider this is a time of opportunity. We think, we have always looked at downside protection first and foremost. And so we think there is a lot of outside protection available in credit spreads and muni bonds, corporate bonds all of those things. And we think there's a lot of downside protection in common stock, common stock is properly selected. Good quality companies, good management teams who can navigate these tough times and who are financially strong.

Having said all of that, we always look to hedge our exposures, and we look at different ways, we can protect ourselves. And so we've always done that. But we think this right now and perhaps for the next few years will be a time of significant opportunity. And when I say that, I always say that with a five-year view. We really don't know what will happen next three months, six months, a year from now. But in five years from now looking back we think these prices will seem attractive.

Unidentified Analyst

Thanks for your comments. Perfect year for you guys.

V. Prem Watsa

Thank you. Thank you, Rich.

Operator

Our next question comes from Martin Rohr of MSR Capital Management. Your line is open.

Unidentified Analyst

Thank you. Returning to a 100% ownership in Northbridge certainly is going to improve further your financial flexibility. Does it do anything to move the needle on the debt to capital ratio that you mentioned at year-end 2008? Or has that already been consolidated?

V. Prem Watsa

It's been consolidated. You had minority interest in there but our cash positions will come down some. But the major advantage Martin is the fact that we'll have, Crum & Forster 100% owned and we'll have Northbridge 100% owned. And over time the dividend capability, Greg highlighted the dividends of Crum & Forster. Dividend capability from Northbridge will be very significant over time and that will, of course, impact our financial position.

Unidentified Analyst

Thank you very much and good luck.

V. Prem Watsa

Thank you. Thank you, Marty.

Operator

Our next question comes from Gary North of Canadian Press. Your line is open.

Unidentified Analyst

Yes, good morning.

V. Prem Watsa

Good morning, Gary.

Unidentified Analyst

On a relatively minor issue perhaps but when it's well publicized, what can you tell us about CanWest?

V. Prem Watsa

Yeah and we can't say anything about CanWest, Gary. Our policy has always been 23 years now that we don't talk about our individual investment. We talk broadly about where we have invested our monies but we don't talk about individual companies or individual bonds or anything like that.

Unidentified Analyst

And quickly one even more minor issue, are you going to get a raise this year?

V. Prem Watsa

I'll take your comment to our Board but I don't think so.

Unidentified Analyst

Thank you very much.

V. Prem Watsa

Thanks again, Gary. Thank you. Tanya, next question please.

Operator

Our next question comes from John Morris (ph) Snyder Management. Your line is open.

Unidentified Analyst

Good morning guys. Congrats on a great year.

V. Prem Watsa

Good morning, John.

Unidentified Analyst

I was wondering if you could tell me after moving into almost half muni bonds in your fixed income portfolio, what's the average yield on that at end of the year and what's it today?

V. Prem Watsa

Yeah, the yield, as we said in our press release, is about 5.79, as you know 5.75% to be approximate. They are both 87% guaranteed by Berkshire Hathaway. We've mentioned that. Today, John, it's probably, the yield has come down depending on the day, might be in the 5% area but it fluctuates up and down but has come down from year end.

Unidentified Analyst

That's the yield on just muni, right (ph).

V. Prem Watsa

Sorry, it's come down from our purchase price because our purchase cost is what we said. It had already come down at the end of December. And we had some unrealized gains at the end of December but it's come down further since.

The muni bonds, by the way just because you asked the question, the 5.75% is tax exempt. So, that means you don't pay any taxes on that 5.75%. And as we said in our press release we were able to sell our U.S. Treasury bonds at 3.5% in that area 3% and but that 3, 3.5% is a pre-tax number. So you pay tax on that.

And we are able to sell that and by 5.75% bonds, tax free predominantly guaranteed by Berkshire Hathaway. We just like that trade and there was ton of opportunity available and so we did that.

Unidentified Analyst

Yeah, that was fantastic but what was the impact on the total yield for the total 8.4 billion, what's the average on that?

V. Prem Watsa

No, the rest is different bonds that we have. We continue to have some treasury. We don't provide that return other than... the yield other than in the past but in the annual report we'll give you some sense. In the annual report, John, we'll give you the yield on the total portfolio, so on the total bond portfolio. So we'll provide that for you.

On that, Greg just reminded me, on the munis by the way there is a small tax. Sometimes there's a 5% tax that you might have to pay. So it's predominantly a tax free muni bonds but you might have to pay a 5% tax on some of them.

Unidentified Analyst

All right Thanks very much.

V. Prem Watsa

Thank you, thanks again. Next question, Tanya.

Operator

There are no further questions.

V. Prem Watsa

Any further questions? No. So, Tanya, thank you very much. We thank you all for joining us on this call. And we look forward to talking to you again at our first quarter. Thank you, thank you, Tanya.

Operator
Thank you. That concludes today's conference call. All lines may disconnect. Once again that concludes today's conference call. All lines may disconnect.