S&P Capital IQ

CONTENTS

Fairfax Financial Holdings Limited TSX:FFH

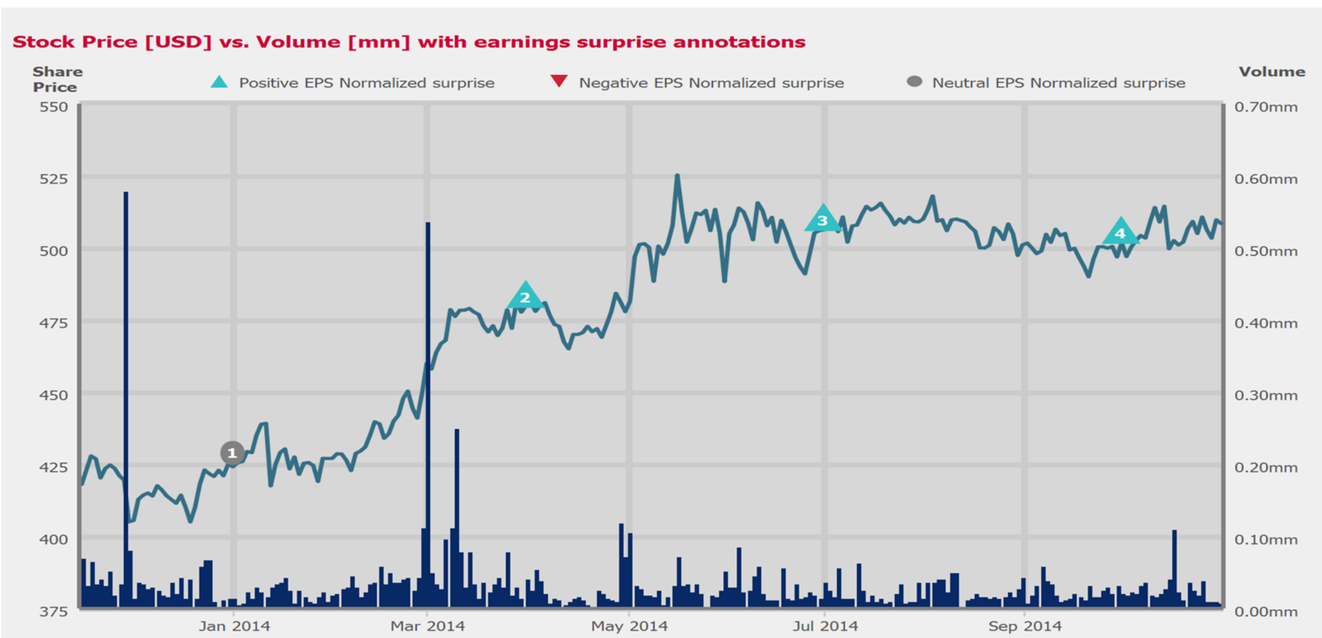
FY 2014 Earnings Call Transcripts

Friday, February 13, 2015 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	(1.33)	0.49	NM	4.28	▼(5.24 %)	71.23
Revenue (mm)	1845.45	2073.70	▲12.37	2084.65	▲10.79	9787.55

Currency: USD
Consensus as of Jan-27-2015 4:40 AM GMT



Call Participants

EXECUTIVES

David J. Bonham
Chief Financial Officer and Vice President

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

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

ANALYSTS

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BMO Capital Markets Equity Research

Unknown Analyst

Presentation

Operator

Good morning, and welcome to Fairfax's 2014 Year-end Results Conference Call. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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

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

Yes. Good morning, and welcome to our call to discuss Fairfax's 2014 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.

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

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Rick. Good morning, ladies and gentlemen. Welcome to Fairfax's Fourth Quarter Conference Call. I plan to give you some of the highlights and then pass it, as always, to Dave Bonham, our CFO, for additional financial details.

Our results in 2014 were the best in our 29-year history, with record underwriting profits of $552 million and record net earnings of $1.63 billion. We had a record combined ratio of 90.8%, with OdysseyRe at 84.7% and all our major insurance companies having combined ratios less than 100%.

We also had net investment gains of $1.74 billion in 2014, including realized gains of $791 million. We are maintaining our defensive equity hedges and deflation protection as we remain concerned about the financial markets and the economic outlook in this global deflationary environment.

Our insurance and reinsurance businesses' premium volume remained flat in 2014. The combined ratio for our insurance and reinsurance operations in 2014 was 86.3% for the fourth quarter and, as I said earlier, a record 90.8% for the whole year. We made a record underwriting profit of $552 million in 2014.

At the subsidiary level, the increase in net premiums written in 2014 compared to 2013 and combined ratios were as follows: OdysseyRe, up 0.7% in 2014 in terms of premium, combined ratio of 84.7%; Crum & Forster, premiums up 9.2%, combined ratio 99.8%; Northbridge, in Canadian dollars up 0.6%, with a 95.5% combined ratio; Zenith, up 2.9% with an 87.5% combined ratio; Fairfax Asia, 8.8%, up in net premiums written, 86.7% combined ratio.

The insurance and reinsurance operations produced operating income excluding net gains of losses and investments of $915.4 million compared to $770.2 million in 2013, primarily as a result of improved underwriting profit and higher interest and dividend income.

As shown on Page 2 of our press release, we have realized gains on our investment portfolio of $790.6 million here in 2014. Now excluding all hedging losses and before mark-to-market fluctuations in our investment portfolio, we earned $1.4 billion in pretax income. If you include all hedging losses and mark-to-market fluctuations in our investment portfolio, we reported a pretax income of $2.3 billion, an after-tax income of $1.7 billion in 2014.

In 2014, you will note the investment portfolios went up to $26.2 billion from $24.9 billion at the end of last year in spite of being hedged 25% in cash and short-term investments throughout the year and having little exposure to corporate bonds.

So how did this happen? Long U.S. government bond rates continue to drop, and our common stocks did much better than the Russell Index, which increased 3.5% in the year. We have yet to significantly benefit from our hedges and our approximately $112 billion notional amount of deflation swaps. And of course, our cash position gives us great optionality.

At our last annual meeting, we made the point that while we were protecting our capital on the downside, our investment portfolios could also do very well. 2014 was a case in point. Our common stock portfolios continue to be hedged at approximately 90%. We selectively bought more stocks during the year, but we did not add to our index hedges. Our common stocks outperformed that index, as I mentioned to you.

On the investment side, net investment gains of $1.7 billion in 2014 consisted of the following, please refer to Page 2 of our press release: net gains on equity and equity-related investments after equity hedges of $347.4 million, resulting from net gains of $541.9 million in our equity and equity-related investments, partially offset by a $194.5 million net loss in our equity hedges, reflecting the 3.5% increase in the Russell Index. We realized gains of $596.9 million in our equity and equity-related holdings in 2014. Also, at the end of 2014, we had unrealized gains of $1.1 billion in our municipal and treasury bond portfolio, which basically reversed what -- the unrealized losses of 2013.

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

Core inflation continues to be at or below 1% in the United States and Europe, levels that we have not seen since the 1950s. In fact, it may be a surprise to many of you to know that in the second half of 2014, the U.S. had deflation of 1.5% or an annualized rate of 3%, and Europe had deflation of 0.05% or an annualized rate of 1%. What this is saying is that prices went down in the second half of 2014 at an annualized rate of 3% in the United States and 1% in Europe. This is in spite of QE1, QE2, QE3 and now quantitative easing in Europe.

Long-term government bond rates in Europe are making record lows, quite often the lowest in 200 years. In Germany, almost half of the German government bond market is yielding negative interest rates. Also, 6 or 7 countries in Europe are already experiencing deflation.

30-year German government bond rates are below 1%. The spread between 30-year U.S. long-term rates and 30-year German government bond rates is at a record as German rates have fallen much faster than the United States. Now our CPI-linked derivatives, deflation swaps as we call it, with a notional value of approximately $112 billion, doubled in market value in the fourth quarter. This was the first significant increase in market value since we purchased these CPI-linked derivatives.

With deflation in the air, these contracts have come to life, but they continue to be very volatile. The majority of these contracts are based on the underlying U.S. CPI index, about 52.5% of those contracts are in the United States, or the European Union CPI index, approximately 40% of the contracts. Further information is available on Page 3 of our press release, but we have included our table on our deflation swaps. On average, they have approximately 7.5 years to run. As I've said to you before, our CDS experience comes to mind.

Just to keep a perspective, I'll remind you that it took 5 years in Japan before deflation set in for the next 18 years. When you review our statements, also please note that we own more than -- when we own more than 20% of a company, we equity account, and about 50%, we consolidate so that mark-to-market gains in these companies are not reflected in our results.

As you see on Page 11 of our quarterly report, the fair value of our investment in associates is approximately $2.1 billion, with a carrying value of approximately $1.6 billion and unrealized gain of $453 million, which is not on our balance sheet.

Also, Ridley and Thomas Cook, which are consolidated in our financial statements, are doing very well compared to our original purchase price. We purchased Ridley in 2008 at approximately CAD 8.5 per share, and the stock is at $30.75 per share after significant dividend payments of approximately $2 a share in the last 3 years. We purchased Thomas Cook at INR 52 per share in 2012, and it is now trading at about INR 200.

We continue to be concerned about the prospects for the financial markets and the economies of North America and Western Europe, accentuated, as we have said many times before, by the potential significant weakness in China. We have said for some time that we believe there continues to be a disconnect between the financial markets and the underlying economic fundamentals.

As of December 31, 2014, we have $6.1 billion in cash and short-term investments in our portfolio, which is 23% of our total investment portfolio, to take advantage of opportunities that may come our way. As a result, in the short term, our investment income will likely be reduced.

On November 14, 2014 -- in November 2014, Fairfax completed its acquisition of Pethealth for cash of approximately USD 89 million or CAD 100 million. Pethealth operates in the United States, Canada and the United Kingdom under the leadership of Sean Smith and is North America's second-largest provider of medical insurance for dogs and cats.

On -- in December 2014, Fairfax announced that it had agreed to acquire the Malaysian general insurance business of MCIS Zurich Insurance through its wholly owned subsidiary, Pacific Insurance. The transaction is expected to close in the first quarter of 2015. The business generated approximately $55 million in gross premiums, and Gobi Athappan will lead the combined business.

In December 2014, the company, Fairfax, entered into an agreement with QBE to acquire their insurance operations in the Czech Republic, Hungary and Slovakia. The transaction is expected to close by the third quarter of 2015. In its most recent fiscal year, QBE's operations in these 3 countries generated over $40 million in gross premiums, written in a range of general insurance classes. Peter Csakvari, with 17 years at AIG in Eastern Europe, is leading the business.

We continue to be soundly financed with year-end cash and marketable securities in the holding company of $1.2 billion. The company's total debt-to-total capital ratio improved to 24.6% at the end of the year compared to 26% at the end of the previous year.

Subsequent to year-end, Fairfax India Holdings Company (sic) [Fairfax India Holdings Corporation] completed a $1 billion offering of common shares of which the company, Fairfax Financial, purchased all of the multiple voting shares for $300 million, constituting a controlling interest. We are very excited about the opportunities in India under the Prime Minister Modi, and we believe Fairfax India will earn attractive returns for its shareholders, including Fairfax.

Now I would like to turn it over to Dave Bonham, our CFO, so we can give you some more information on the underlying financials. David?

David J. Bonham
Chief Financial Officer and Vice President

Thank you, Prem. First, I'll focus on Fairfax's consolidated results for the fourth quarter of 2014 then move on to the operating company results and finish with our consolidated financial position.

For the fourth quarter of 2014, Fairfax has reported net earnings of $24 million or $0.49 per share on a fully diluted basis. And that compares with the fourth quarter of 2013 when we reported a net loss of $6 million or $0.98 per fully diluted share.

Year-to-date, Fairfax has reported net earnings of just over $1.6 billion or $73 per share on a fully diluted basis. That reflects a significant improvement relative to 2013 when we incurred a year-to-date net loss of $573 million, and that was $31 per fully diluted share.

Underwriting profit at our insurance and reinsurance operations in the fourth quarter and full year of 2014 increased to $207 million and $552 million, with combined ratios of 86% and 91%. And that's compared to underwriting profit of $165 million and $440 million last year when we had combined ratios of 89% and 93% in the fourth quarter and full year, respectively. On a year-to-date and a quarter-to-date basis, underwriting profit is up by $112 million and $42 million, respectively.

Our combined ratios benefited from net favorable prior year reserve development in the fourth quarter and full year of 2014 of $218 million and $446 million, translating into 14 and 7 combined ratio points. And that was similar to net favorable development of $212 million and $440 million in the fourth quarter and full year of 2013. And that also represented 14 combined ratio points on the quarter, 7 on the year.

Current period catastrophe losses were lower in the fourth quarter of 2014 and totaled $38 million or 2.5 combined ratio points and were $189 million or 3.2 combined ratio points for the full year. By way of comparison, cat losses in the fourth quarter and full year of 2013 were higher at $71 million and $289 million, representing 4.7 and 4.8 combined ratio points, respectively.

Please note that during the fourth quarter of 2014, OdysseyRe changed the manner in which it recognizes premiums from its U.S. Multi Peril Crop Insurance business, similar to the adjustment that it made in Q2 earlier in this year. OdysseyRe recognized the majority of the premium from the winter planting season in the fourth quarter of 2014, whereas in 2013, these premiums were recognized in the first quarter of the following year.

After making the adjustments in 2013 and 2014 that we set out on Page 48 of our fourth quarter report, net premiums written by our insurance and reinsurance operations were relatively unchanged in the fourth quarter of 2014 and increased by 1.1% in the full year.

Now turning to our operating company results. We'll start with OdysseyRe. In the fourth quarter and full year of 2014, OdysseyRe reported underwriting profits of $142 million and $360 million and combined ratios of 76% and 85%. And that was compared to underwriting profits last year of $122 million in the quarter, $380 million year-to-date, where the combined ratios were 79% and 84%.

Catastrophe losses in the fourth quarter and full year of 2014 totaled $33 million and $145 million, and that translated into 5.6 and 6.2 combined ratio points. The fourth quarter of 2014 included only attritional catastrophe losses, while Windstorm Ela was the largest individual catastrophe loss at $38 million in the full year of 2014. That compares to catastrophe losses of $65 million and $203 million last year, which translated into 11 and 9 combined ratio points on the -- combined ratio points in the fourth quarter and full year of 2013.

OdysseyRe's combined ratios in 2014 in the quarter included the benefit of $108 million and, year-to-date, $189 million of net favorable prior year reserve development, principally related to casualty and non-catastrophe property loss reserves in the quarter and year-to-date. And the full year-to-date net favorable development also included development related to property cat loss reserves.

After adjusting for timing differences in the recognition of crop insurance premiums that we mentioned earlier, OdysseyRe rewrote $562 million and a little under $2.4 billion of net premiums in the fourth quarter and full year of 2014, respectively. That reflects decreases of 2.4% and 1.4% in those periods. And those decreases principally recognized declines in the writings of reinsurance business, primarily in property lines due to the competitive market conditions now prevailing. And that was partially offset by growth across most lines of business in the U.S. insurance division.

Turning to Crum & Forster. Crum & Forster reported an underwriting loss of $3 million and a combined ratio of 100.9% in the fourth quarter of 2014 and an underwriting profit of $3 million and a combined ratio of 99.8% for the full year of 2014. That compared to underwriting losses of $21 million and $24 million and combined ratios of 107% and 102% in the fourth quarter and full year of 2013.

While there is no net prior year reserve development in 2014, Crum & Forster's combined ratios in the fourth quarter and full year of 2013 included $8 million of net unfavorable prior year reserve development, representing 2.6 and 0.7 combined ratio point.

Current period catastrophe losses were modest at $1.5 million and $14 million in the fourth quarter and full year of 2014 and added 0.4 and 1.1 points to the combined ratios during those periods. 2013 catastrophe losses were not significant.

Crum & Forster's net premiums written increased by 6% and 9% in the fourth quarter and full year of 2014, primarily reflecting growth in the Fairmont accident and health business and organic growth in the environmental casualty business, partially offset by planned reductions in the legacy CoverX business. The full year of 2014 also reflected the contribution to the environmental casualty business of American Safety and growth at Seneca.

Turning to Zenith. Zenith reported underwriting profits in the fourth quarter and full year of 2014 of $26 million and $90 million, with corresponding combined ratios of 86% and 88%. And that compared to underwriting profits of $22 million and $19 million and combined ratios of 88% and 97% in the fourth quarter and full year of 2013.

The improvement in 2014 reflected the following: a year-over-year decrease in the fourth quarter and full year of 2014 estimated current accident year loss ratios of 2.9 and 4.6 percentage points. And that was due to the favorable loss development trends that are emerging on the 2013 accident year. There were also price increases that were equal to estimated loss trends for accident year 2014. And finally, net favorable development of prior year's reserves in the full year of 2014, representing 10 combined ratio points, was an increase over 2013. And that reflected net favorable emergence on the 2011, '12, and '13 accident years.

Net premiums written by Zenith of $128 million and $721 million in the fourth quarter and full year of 2014 increased by 1.3% and 2.9% year-over-year. And that principally reflected premium rate increases.

Northbridge reported underwriting profits of $17 million and $43 million and combined ratios of 93% and 96% in the fourth quarter and full year of 2014. And that compared to underwriting profits of $24 million and $18 million and combined ratios of 90% and 98% reported in those same periods in 2013.

The decrease in Northbridge's underwriting profit quarter-over-quarter principally reflected increased large losses in the fourth quarter of 2014 in transportation logistics and personal auto lines.

Northbridge's underwriting results in the fourth quarter and full year of 2014 included the benefit of net favorable prior year reserve development across most accident years and lines of business of $54 million and $110 million, representing 23 combined ratio points and 12 combined ratio points in those periods. That compared to net favorable development of $46 million and $154 million that represented 19, 16 combined ratio points in the fourth quarter and full year of 2013.

Current period catastrophe losses were lower in the fourth quarter and the full year of 2014, accounting for 0.2 and 0.9 of the combined ratio point during those respective periods, whereas the Alberta and Toronto floods in 2013 were principally responsible for adding 2.1 and 6.2 points to the combined ratio point -- to the combined ratios in the fourth quarter and full year of 2013.

In Canadian dollar terms, net premiums written by Northbridge in the fourth quarter and full year of 2014 increased by 6.5% and 4.4% after excluding the onetime impact of the intercompany unearned premium portfolio transfer on January 1, 2013, between Northbridge and Group Re that we described on Page 41 of our fourth quarter report.

Increased writings principally reflected rate increases across most segments and increased volume at Federated Insurance and in the Western region of Northbridge Insurance. And that was partially offset by the strategic nonrenewal of an unprofitable portfolio business in 2014.

Fairfax Asia reported improved underwriting profits of $10 million and $36 million and combined ratios of 84% and 87% in the fourth quarter and full year of 2014, compared to underwriting profits of $9 million and $32 million and combined ratio points of 88% -- combined ratios of 88% in each of the comparable 2013 periods.

The combined ratios in the fourth quarter and full year of 2014 included 20 combined ratio points and 8 combined ratio points of net favorable prior year reserve development, primarily related to engineering, workers' compensation, property and commercial automobile loss reserves.

The insurance and reinsurance other segment produced underwriting profits of $15 million and $21 million and combined ratios of 85% and 95% in the fourth quarter and full year of 2014 compared to underwriting profits of $10 million and $15 million and combined ratios of 92% and 97% in those same periods in 2013. The improvement in underwriting profit in the fourth quarter and full year of 2014 principally reflected increased net favorable prior year reserve development, partially offset by lower non-catastrophe-related underwriting margins in the current accident year.

Net premiums written by the insurance and reinsurance other segment increased by 9% in the fourth quarter of 2014, primarily reflecting increases at Advent related to writings of new business in marine, property and accident and health insurance lines of business. Net premiums written decreased by 7% in the full year of 2014, primarily reflecting decreases at Polish Re and Advent principally due to the nonrenewal of certain classes of business where terms and conditions were considered inadequate and after the adjustment to exclude the onetime impact of the intercompany unearned premium portfolio transfer that we mentioned earlier. So that suppressed the gross premiums written and net premiums written to Group Re in 2013 by $39 million.

Runoff reported operating losses of $22 million and $89 million in the fourth quarter and full year of 2014. That compared to operating income of $91 million and $77 million in the same periods in 2013. The decrease in the fourth quarter and full year operating profitability at runoff principally reflected net adverse prior year reserve development at U.S. runoff and incremental operating expenses associated with American Safety, which we had acquired in 2013.

In the fourth quarter of 2014, runoff agreed to reinsure an Italian medical malpractice runoff portfolio, and that added $67 million to net premiums earned and a corresponding increase of $66 million to losses on claims.

Looking at our consolidated results. Consolidated interest and dividend income increased from $104 million in the fourth quarter of 2013 to $119 million in the fourth quarter 2014, reflecting a modest increase in interest income earned, partially offset by higher total return swap expense.

Consolidated interest and dividend income increased from $377 million in the full year of 2013 to $404 million in the full year of 2014, reflecting an increase in interest income earned and lower total return swap expense, partially offset by lower dividends earned on common stocks as a result of sales of dividend-paying equities during 2013.

In 2014, the company recorded income tax provisions of $41 million at an effective tax rate of 52% in the fourth quarter and $673 million at an effective tax rate of 29% in the full year.

Notable in the fourth quarter and full year of 2014 was a $38 million provision that followed from an internal reorganization of the U.S. shareholders of OdysseyRe that added 48 points to the quarter-to-date effective tax rate and 1.6 points to the year-to-date effective tax rate.

The year-to-date effective tax rate was also increased by the impact of significant investment gains and improved underwriting results in the U.S. where the statutory income tax rate of 35% is significantly higher than the Canadian statutory income tax rate. Those reconciling items just mentioned were offset quarter-to-date and year-to-date by the impact of our regularly recurring adjustments for nontaxable investment income in the U.S. and Canada, which lower our effective tax rate.

We ended the year with an investment portfolio which included holding company cash and investments of $26.2 billion compared to $24.9 billion at the end of 2013. The majority of the increase related to net appreciation of investments, principally bond and common stock investments.

Moving to our financial position. Our total debt-to-total capital ratio decreased to 24.6% at December 31, 2014, from 26.1% last year in December, primarily as a result of the increase in our common shareholders' equity, reflecting the net earnings for the year, partially offset by the issuance on August 13, 2014, of $300 million principal amount of our senior notes due 2024 for net proceeds of $294 million.

We used a portion of those proceeds from that offering in the fourth quarter to redeem $50 million principal amount of OdysseyRe unsecured senior notes and to redeem $25 million principal amount of American Safety trust preferred securities. And we intend to use the remainder of that funding to repay upon maturity the Fairfax and OdysseyRe unsecured notes coming due in 2015. With that, I'll pass it back to you, Prem.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer
Thank you, Dave. I'm now very happy to answer your questions. Please give us your name, your company name. [Operator Instructions] So Rebecca, we are ready for the questions.

Question and Answer

Operator

Our first question comes from Paul Holden with CIBC.

Paul David Holden
CIBC World Markets Inc., Research Division

I want to ask a couple of questions on the CPI-linked derivatives to start. So the first one would be since we're so close, at least in the U.S., to the weighted average strike, is there any way you can give us the dispersion of strike prices so we get a sense of how close you might be to the first sort of really relevant contract price? And then the second question would be just to verify that indeed, these are American-style options and not European, i.e., you can exercise them at any time?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, so we can exercise them at any time. And the way to think of these, these things are very volatile, as I said. So if you have -- if you look at the tip bonds, the inflation-adjusted bonds would -- and you'll see they fluctuate. Maybe a few years ago, the underlying inflation rate in a tip bond, for 5-year tip bonds, would -- may have been 2% inflation. Might have come right down to 1.1% early in the year, now bounce back to about 1.3%. So it moves up and down. And that inflation rate, underlying inflation rate, still inflation, not deflation, has an impact on the bonds and -- on the deflation swaps rather. And it's tradable but American-style in the sense that these are tradable bonds, tradable deflation swaps that we can sell at any time in the marketplace. But I guess it's exercisable at the end, yes. So just a correction there, Paul, European-style in the sense that they're exercisable in the end but can trade in the marketplace at any time, reflecting the fact that it's exercisable at the end.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. Any kind of just a suggestion, any kind of disclosure you could -- additional disclosure you could provide us to give us a sense of significant trigger points on the CPI index levels would be helpful. Averages are always helpful but only are as helpful as an average is.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

First of all, the averages is not a bad way to look at it. And think of it like this. It's an option contract, which is not in the money. So there's -- if you think of those contracts as, say, 1% of out of the money, and you have 5% deflation, then the intrinsic value is 4%. And then you'd build a premium because it's got a life, 6, 7 years, 7.5 years on average to go. And on top of that, you just have the emotional element that comes in when people worry about deflation.

Paul David Holden
CIBC World Markets Inc., Research Division

Okay. And then just final question for me on a different topic. Your newest investment and vehicle, Fairfax India, big part of the investment thesis there was a favorable change in government, i.e., a much more business-friendly government, and that makes a lot of sense to me. On the flip side, I would argue that in Greece, we've seen a change in government to a less-business friendly government. Wondering if you agree with that opinion and if it changes your thesis on any of the investments you're made in Greece.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. So yes, that's a very good point you make. There has been a change in the Greek government. We've actually met them. And for what it's worth, they have reassured us that they want private investment.

They've emphasized that Eurobank is the only private bank in the sense that the other 3 banks -- there's 4 banks now, and the other 3 banks are 65% owned by the government. Eurobank is less than 35%. And so they have said to us that they like -- we asked them very specifically of what their views on private investment were, and they said they wanted to encourage it. And so the bottom line, Paul, you never know what will happen in these negotiations. Our view is that eventually, a deal will be done.

Operator

Our next question comes from Tom MacKinnon with BMO Capital.

Tom MacKinnon
BMO Capital Markets Equity Research

Prem, just a comment about the cash position. Still pretty heavy, and it's been -- you've had this heavy cash position over the last several years when equity markets have moved up significantly. Trying to figure out what is really the underlying reason for holding so much cash. Does it have -- as the insurance business tends to slow a little bit, it's not like you really need to pump a lot of money into growing that. We're getting certainly increased capacity here in global reinsurance markets, and prices are starting to fall a little bit in commercial lines in North America. So it's not as if there's a need to throw it into those operations to fund growth. And to what extent does the cash settlement on the equity hedges have anything to do with your thinking to keep a significant cash holding at this level?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Tom, we've had cash, significant amounts of cash over the years long before we had hedges. And -- but the way we get the cash, it's a resultant. When we don't see opportunity, we're not trying to meet some quarterly earnings estimate that you or others might have, and we're looking at building our company over the long term. So when we don't see opportunity with significant downside protection, then we'd rather keep it in cash. And when we buy something, as we bought things in Greece, it doesn't mean we are right. Sometimes we think there's downside protection, and it changes. But every time we buy a stock or a bond, we're looking at protection on the downside. And right now, our view is there's very little protection on the downside. Now if you were meeting quarterly estimates or yearly estimates, then you'd be reaching for yield. You'd be buying corporate bonds or you'd be buying other things that would give you income and so that you can meet these goals that you have. Our goal is increase book value 15% a year over the long term. So we're not -- we don't respond to quarterly numbers. And so that cash gives us tremendous optionality. So for example, in '08, '09, most people didn't buy stocks. They're all buying stocks today in the last few years. And you're exactly right, Tom. If we were smart, we'd have had -- we'd be fully invested in 2012 particularly because 2013 was a terrific year, up 35%. And I hate to say it, but we basically didn't benefit from that. But it's investing. I've been in the business for 40 years. It's a long-term game. And if you measure yourself every 3 months and 6 months or 1 year or 2, you might do the wrong thing. And for example, in 2007 and '06, you might have thought we were totally wrong. And of course, things changed in '08 and '09, and some companies didn't make it in '08, '09. The biggest company in our industry was bankrupt, and the U.S. government had to come to back it. So we don't want to be ever in a position for that to happen. And we think, as we've said for some time, that there's a lot of unintended consequences here, Tom. The price of oil dropping from $100 to $50, totally unexpected for most people. We said in the -- in our annual report last year that commodity prices could collapse. And we monitored the prices, and it hadn't changed for 2 or 3 years. You can see $100 price of oil in our annual report year-after-year, and then bang, it dropped to $50. Now if you didn't hedge and you expanded significantly in the oil industry, like we've seen many of the oil companies, you may not survive. So we are very sensitive to that. That price of oil coming down, by the way, we think, is not only supply in the United States, but it's reflecting decreasing demand in -- from China. And China's a big -- and we've talked about it for some time, that China is a big potential negative. And you never know when it'll strike, but you have to be careful about it. So when we look at all of these things, Tom, we'd rather be safe than sorry. And we just stay on the sidelines. We let other people reach for yield. But you can see, in spite of all that, last year, all in, all out, we had a very good return, significant realized gains. Our underwriting profitability was exceptional. And so in spite of being very defensive and watching the downside, we're making good returns.

Operator

I'm showing one more question [Operator Instructions] Our next question comes from Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just a couple of questions. First, I was trying to follow along. You had a note in the interim report on the OdysseyRe organization, and I was trying to follow along. Was there any net cash distributed from the holding company at the end by the time all the ins and outs were all settled? Was there any net cash distributed from that?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Dave, you want to take that?

David J. Bonham
Chief Financial Officer and Vice President

Yes. It wasn't very significant, in the neighborhood of about $80 million or so from the holding company cash.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

What we did there, Mark, is very simply simplify our corporate structure so that Odyssey was basically owned by Fairfax, so a Fairfax holding company as opposed to being owned at Crum & Forster or in our runoff companies.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

It definitely seemed like it would streamline the org chart a little bit. The second question that I had, I mean, congratulations on very significant amounts of favorable reserve development in the quarter. What I was trying to determine is, was there an impact from currency in that amount? It seemed like some other units, particularly the other reinsurers, the European group and the Northbridge, had lost a relatively larger amounts than I might have expected. And I was curious if currency was involved there.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No. The currency was not significant at all, Mark. Basically, we like to have that kind of reserve redundancies. We're always keeping our accident year loss ratios at a good level so that we'll have reserve redundancies. But as you pointed out in the fourth quarter, we had perhaps more than we expected. But our reserves -- there are 2 things that our company is focused on: underwriting profitability all across the spectrum and reserve redundancies every year. And I must say, as I look across all our company's reserve position, if you look at it year-end, are excellent, and the prospects for our combined ratio are good. But we get -- we've got catastrophes coming in at any time, and so you have to take all of that into account. But at the moment, things look good.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. And one last question if I may on the OdysseyRe. I just wanted to clarify and make sure I understood the table in the report. So it was $41 million of premium that was recorded in the December quarter that, all else equal, had it been under the old way you did it, would've been otherwise recorded in January of '15. Is that the right way to think about it?

David J. Bonham
Chief Financial Officer and Vice President

That's right. That's the impact on the fourth quarter. And then when you're comparing year-over-year, you would make the same adjustment to the beginning of the years to adjust for the premium that needs to come out of the first quarter 2015 [ph].

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Right. So the -- when I'm thinking about my 1Q '15 estimate, I would want to assume that I started out $40 million kind of in the hole as it were and then build up my estimate from there.

David J. Bonham
Chief Financial Officer and Vice President

I think that's the way to look at it, yes.

Operator

Our next question comes from Howie Flinker with Flinker & Company.

Howard Flinker

Prem, John (sic) [Dave], I have a few comments. One, as an insight into the oil business, which was really helpful to me on the short side, is that PetroChina and Sinopec, in their quarterly or semiannual statements, break out marketing volumes, not dollars, dollars, too, but units. And you could see in the last 1.5 years that their growth in marketing volumes of oil and diesel and all that stuff was growing -- were growing anywhere between 1% and minus 4%. 2 years ago, they were growing 10%, 11%. And the imports were supposedly growing 7% or 8%. So the conclusion had to be they were stockpiling, and then one day they would have too much. And they probably have cut back that extra, but it doesn't look as if they're eating into that inventory yet. So it's possible they could reduce demand even more. That's one point I'd like to make. Second, in 1922, oil traded at $2.40 a barrel in the United States. 1972, it was $3. Oil could go nowhere for a long time.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes. I remember looking at the history of the price of oil. You're exactly right, until 1974, I think it then...

Howard Flinker

'73 or '74, overnight, they quadrupled, I think [indiscernible]. That's in a bear market. And finally, I'll pass on something I heard yesterday because I went to a presentation at the Columbia Business School. This Japanese professor who, between -- who, among various educational stints, was a consultant to the Ministry of Finance or the Japanese investment funds, et cetera. And I wanted to hear what he had to say about deflation. In summary, they view the oil impact on the deflationary statistics as purely numerical. They think that once the oil stabilizes, deflation won't continue. And I didn't want to ask any questions. I didn't want to give them any clues. But -- yes, I'm serious. But because I thought about this 2 years ago in relation to what would happen in relation to the oil business, what would happen to deflationary statistics if you had a minus in oil, a big minus in oil. And from what I'm reading and from what he said, they think, well, it's just an oil problem. You and I don't think so. You and I think it's broader.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Exactly right, Howard.

Howard Flinker

Yes. But it'll you an -- and I -- then somebody asked, "Will there be a QQE3?" They've -- they call it QQE. They've done 1 and 2. He said no unless something comes wrong or happens wrongly. So that means that if our view, your view and mine, about deflation, is on the mark, they're going to be surprised, and not only them but Carney and fellows [ph] and...

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

There are a few more people, Howard, that might be surprised, but...

Howard Flinker

Yes. But I give you an insight as to how they're thinking and how you can capitalize further. I just wanted to pass that on.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

No. Thank you very much, Howard. You're very kind, and your observations are good particularly on the price of oil. The fact that it has, as you've said, 1922 to 1974, '73, '74, that's a long time.

Howard Flinker

Yes, that was a tough trade. 25% in 50 years is below my hurdle rate.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

But thank you very much, Howard.

Operator

Next question comes from Vinoy Agrawal [ph] with Sunidhi Securities & Financial Ltd.

Unknown Analyst

Prem, wanted to ask your thoughts on Fairfax India. I believe when we had acquired Thomas Cook India, we said that Thomas Cook India would be the investment vehicle for Fairfax Financial's investments in India. And now that we've raised $1 billion, how should we look at Thomas Cook? Likewise, how should we look at Fairfax India? Your thoughts, please.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Yes, Vinoy [ph], thank you for asking that question. That's a good question. And Thomas Cook was our investment vehicle for India prior to Mr. Modi getting elected. We thought with the fact that Mr. Modi got elected with a majority, business-friendly track record and good to us [ph], it's a game changer for India. We think it's going to be transformed over time, especially if he gets -- we think he's going to get elected at least once and maybe twice. And as long as his health is good, he'll continue for a long time and transform India. So in that situation, Vinoy [ph], we had to think about whether we continue with the resources we have or the opportunity could be so significant that we set up a different company. We thought about it long and hard, and we decided to set up a Fairfax India. And Fairfax India, with USD 1 billion, $300 million from us, has got a ton of possibilities in India over the long term. We are very attracted to India. But as far as Thomas Cook is concerned, we see significant opportunity with -- for Thomas Cook particularly in their areas of operation. We see acquisitions, expansions. The type of acquisitions that Fairfax India will do, Vinoy [ph], is sizable ones, couple of hundred million, which would be tough for Thomas Cook to finance. And ultimately, we'd have to finance it because we own 75% of it. But that'd be a lot of potential acquisitions in the fields that Thomas Cook is in that -- going forward. We like the leadership of Madhavan Menon. We're very encouraged by his leadership, by what he's already done. We like Ajit Isaac, of course, in Ikya and Ramesh Ramanathan in Sterling Resorts. So there's a lot of opportunity in that company, and we will continue to acquire companies in Thomas Cook. The Modi election changed things, and that's why we created Fairfax India.

Unknown Analyst

Just a follow-up on this. So should we view Thomas Cook India to grow in its domain and likewise, Fairfax in the other domain? So for instance, if Thomas Cook is in travel, tourism, human resource, should it be restrict -- should we view Thomas Cook as being restricted in these particular areas?

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

I don't think you should view it as being restricted, but that's its area of expertise. And we've kept it nice and broad, Vinoy [ph], so that both companies can flourish.

Operator

I'm showing no further questions.

V. Prem Watsa
Founder, Chairman and Chief Executive Officer

Thank you, Rebecca. Since there are no more questions, thank you, all, for joining us on this call. We look forward to presenting to you again after the next quarter and, of course, looking forward to seeing a lot of you at our Annual Meeting in April. Thank you, Rebecca.

Operator
Thank you. Thank you, all, for attending today's conference. You may now disconnect.