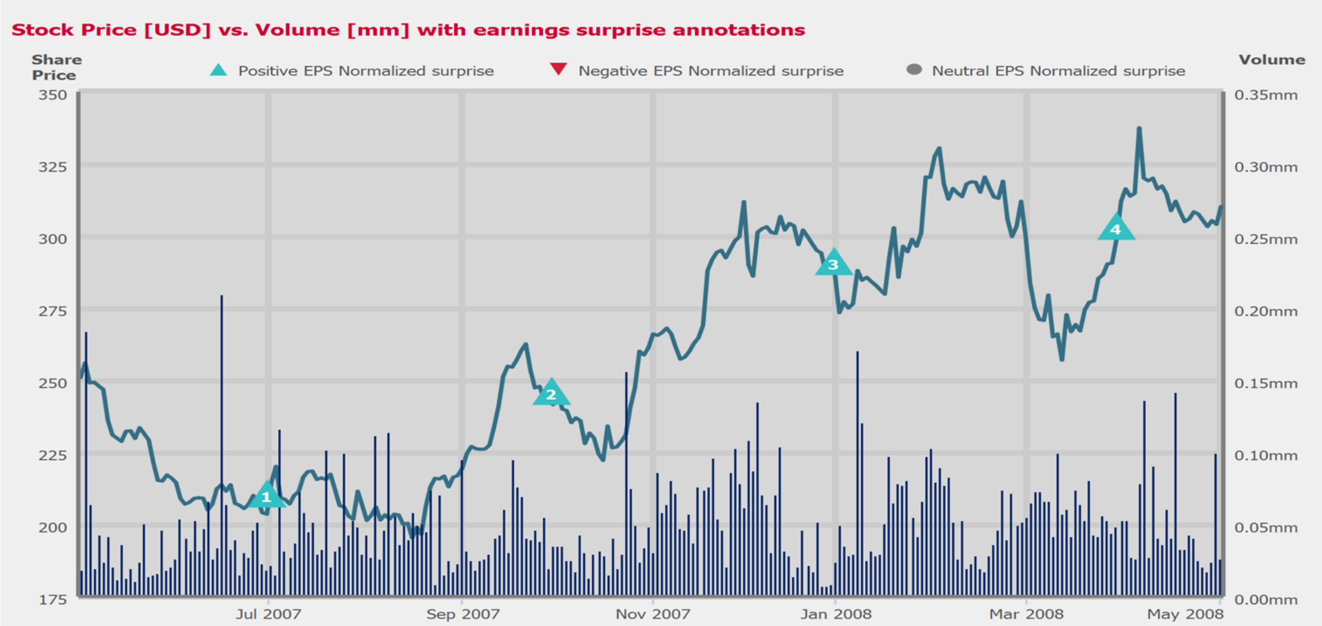
S&P Global
Market Intelligence

Fairfax Financial Holdings Limited
TSX:FFH
FQ2 2008 Earnings Call Transcripts
Friday, August 01, 2008 12:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2008-			-FQ3 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.97	6.08	▲(12.77 %)	6.04	53.43	30.72
Revenue	-	-	▲(9.76 %)	-	-	-
Revenue (mm)	1379.95	1245.30	-	1375.25	5802.25	5379.30

Currency: USD
Consensus as of Jul-30-2008 8:33 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2007	2.52	3.62	▲43.65 %
FQ3 2007	8.90	12.94	▲45.39 %
FQ4 2007	9.93	12.46	▲25.48 %
FQ1 2008	24.40	34.72	▲42.30 %

Table of Contents

Call Participants

EXECUTIVES

Brad Martin

Greg Taylor

Prem Watsa

ANALYSTS

Jeff Fenwick
Cormark Securities

Mark Dwelle
RBC Capital Markets

Peter Lambert
Netcom Ventures

Richard Alton
Bright Ridge Capital

Ron Bobman
Capital Returns

Tom MacKinnon
Scotia Capital

Presentation

Operator

Good morning and welcome to Fairfax's 2008 second-quarter results conference call. Your lines have been placed on a listen-only mode. After the presentation, we will conduct a question-and-answer session. (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, but Brad Martin will make a brief statement first. Please go ahead, Mr. Martin.

Brad Martin

Good morning. Welcome to the conference call to discuss Fairfax's 2008 second-quarter 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 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.

Prem Watsa

Thank you, Brad. Good morning, ladies and gentlemen. Welcome to Fairfax's second-quarter conference call. I plan to give you some of the highlights and then pass it on to Greg Taylor, our CFO, for additional financial details. We are pleased with our six-month results. As a result of excellent performance by our operating and investment teams, we earned $659.4 million after taxes or approximately $35 per share. Book value per share increased by 9.5% to [$52] per share, not including the $5 per share dividend paid in the first quarter of 2008. Our results continue to be lumpy as most of the earnings came in the first quarter. In the second quarter, we earned $0.84 per share.

Let me give you the highlights for the second quarter. First, two exceptional items that affected the quarter. The first one was the Crum & Forster commutation. Crum & Forster decided to commute a reinsurance agreement in the second quarter, receiving cash proceeds of approximately $302 million for a $386.7 million recoverable, resulting in a non-cash charge of $84.2 million.

The reason Crum & Forster decided to commute this contract was because the discount rate was attractive relative to our ability to invest these funds. While book value went down because of this transaction, we believe that the intrinsic value of our company has increased. Excluding this commutation in the second quarter Crum & Forster had a combined ratio of 98% and Fairfax had a combined ratio of 98.3%.

The second was other than temporary impairment. We recorded $112.8 million in other than temporary impairments. This resulted from accounting standards requiring write-downs for impairment if stock prices declined below cost by a significant amount for a significant period of time, generally felt to be six months to a year.

As long-term value investors, we did not believe that there was a significant drop in the underlying intrinsic value of our common stock investments, even though we took the impairment. As these were mainly Canadian common stocks, the impairment mainly affected Northbridge. Also, our hedges did not protect Northbridge in the second quarter because the S&P/TSX composite was one of the few industries in the world that was up, up about 8% in the quarter. So our hedges also cost us at the Northbridge level.

Our long-term value-oriented philosophy, which has worked for us for over 30 years, is long-term and is based on the fact that stock prices reflect intrinsic values over time and not in any one or two-year period.

As far as the quarter is concerned, excluding this commutation, all of our insurance and reinsurance operations made underwriting profits, were well-reserved, and also were very well capitalized. Our runoff operation had pretax income of $18.4 million, including net investment gains of $25.4 million. As our runoff operations continue to shrink, we now report our U.S./European runoff as one unit.

During the second quarter, TIG Insurance Company, the U.S. runoff company dividended approximately $210 million of which $100 million are cash and $10 million are securities were distributed to Fairfax and approximately $100 million was distributed to the nSpire Re company. Our investment returns continue to be excellent, while we maintain very conservative investment portfolios.

Cash and government bonds continued to constitute approximately 70% of the portfolio at June 30, 2008. We never reached for yield by buying asset-backed securities or CDOs, and our corporate bond exposure is very low. Our equity portfolios are hedged against a market decline to the tune of over 95% of our equity portfolios.

We have included a table in our press release and on page 24 of our second-quarter interim report which summarizes for you the history of our CDS contract since the inception of this investment position, including the cumulative realized and unrealized gains as of July 21, 2008. We have used non-GAAP measures to make it easier for you to understand.

As the table shows, during the second quarter of 2008, we sold $855 million notional in CDS contracts for $190 million. Economically, since our original cost of these contracts was $22.8 million, we realized a gain on these sales of $167.2 million. In accounting terms, since these contracts are mark to market on our financial statements and their mark-to-market value at the end of the first quarter of 2008 was already well above their cost, we reported a realized gain on the sale of these contracts in the second quarter of only $22.8 million.

On a cumulative basis up to July 25, 2008, we have sold $6.5 billion notional of CDS contracts for proceeds of $1.4 billion and a realized gain of $1.25 billion. That is, we received approximately 9 times our cost. At July 25, 2008, the market value of the remaining CDS positions was $679 million. On a cumulative basis, our realized and unrealized gain was approximately $1.65 billion, but only $1.25 billion was realized. As of July 25, 2008, total cash proceeds realized from the sale of CDS was $1.4 billion, compared to the total original cost of all of our CDS contracts, both those sold and those still held of $436 million.

The market value of our CDS positions at March 31, 2008 of $991 million has remained approximately the same at June 30 and July 25, when realized proceeds since March 31 are added to the unrealized market values as at those dates. I have to emphasize, as I do each time we discuss credit default swaps, that these swaps are extremely volatile, with the result that their market value and their liquidity may vary dramatically, either up or down, in short periods, and their ultimate value will therefore only be known upon their disposition. Having said that, we are not uncomfortable going into this period of significant economic uncertainty with $16 billion worth of CDS remaining.

Moving on, on July 29, 2008, Fairfax, after receiving nonbinding letters of intent from two shareholders wanting to sell 20% of Advent shares at 1.65 pence, as required by UK law, announced an offer to all shareholders at the same price. The offer provides liquidity to any shareholder of Advent who wants to sell at 1.65 pence. Fairfax has no intention of selling its 45% interest.

Our holding company had cash and marketable securities of over $1.1 billion at June 30, 2008, after a number of payments in the second quarter, including repayment of maturing notes of $62 million, the repurchase of $30.5 million of preferred stocks, and $21.4 million of Fairfax common stocks, and an additional investment in Fairfax Asia for an ICICI Lombard rights issue of $24 million.

Subsidiary debt decreased by $121.6 million since year-end, mainly due to the Cunningham Lindsey debt being repaid at maturity. The company's total debt to total capital ratio declined to 23% at June 30, 2008 from 27.1% at year-end 2007.

Our company continues to be very strong financially, and this has been reflected in upgrades by the rating agencies. We are particularly gratified by A.M. Best's upgrade of Crum & Forster to A's table. At June 30, 2008, approximately 25% of Fairfax's common shareholders equity is in cash and marketable securities at the holding company, and approximately 75% of Fairfax's total assets consist of marketable investment portfolios.

Earlier this week, the IRS completed its regularly scheduled examination of the 2003 and 2004 U.S. Federal Income Tax returns of Fairfax's U.S. consolidated tax group, including Odyssey Re and Crum & Forster. As a result, the 2003 and 2004 tax years for the companies in that group are now closed. As part of the examination, the IRS reviewed our purchase of Odyssey Re shares in March, 2003 and our issuance of debentures exchangeable into the shares of Odyssey Re and payment for that purchase.

No changes were made to the consolidated 2003 and 2004 tax returns with respect to that purchase of shares and issuance of exchangeable debentures or the inclusion of Odyssey Re and its subsidiaries in Fairfax's U.S. consolidated tax group as a result.

I mention this, because a body we have sued in a New Jersey lawsuit has relentlessly and very publicly asserted that those transactions constituted tax fraud. The closings of the 2003 and 2004 audit covering those transactions establishes definitively that these accusations were false.

Just two more comments before I pass it on to Greg. The insurance markets continue to soften and our business volumes will continue to come down in 2008. I want to emphasize again that we are very focused on maintaining underwriting profitability and will not shy away from cutting business if it is at unprofitable prices.

As I've said before, we are particularly careful about the grass is greener on the other side theory of underwriting. The second point I wanted to make was that we continue to be well-protected from a 1-in-50 to 1-in-100 year storm on the financial markets.

As mentioned in earlier calls, the credit market storm that we feared is on us, now magnified by a recession. As I've said on our previous calls, we remain very vigilant of its potential corrosive impact in unexpected places.

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

Greg Taylor

Great. Thank you, Prem. As is our custom, I'll focus my remarks on three things. First, we'll talk about consolidated second-quarter results, including our underwriting results and investment results. Second, we will talk about operating company results. And last, we'll conclude with some comments on our financial position.

So beginning with our Fairfax consolidated results for the second quarter and for the six months, while we are at it, net earnings, as Prem said, for the second quarter were $27.6 million; fully-diluted EPS basis, that's $0.84. For a six-month basis, we had $659.4 million in net earnings, largely reflecting first-quarter investment performance. And in terms of EPS six-month results, $34.72 per share.

Now, these results include the following items in the second quarter, all on a pretax basis, that are worth highlighting for you. Firstly, our credit default swap gains, as Prem set out, so these are gains on sales as well as the mark-to-market impact in the P&L for the quarter it was just $10.8 million, in stark contrast to six-month results of gains of $708 million. So the CDS has a very modest earnings impact on Q2 results compared to a significant impact in our six-month results.

Second noteworthy item is the investment write-downs that Prem talked about. And again, these were on available-for-sale securities, principally common equities and principally Canadian equities, $112.8 million. That cost us in earnings about $2.50 a share.

Third item, Prem mentioned the Crum & Forster commutation loss in the second quarter, again, pretax $84.2 million. That cost us in earnings about $3 per share. So those last two items, the investment write-downs and the Crum & Forster commutation, for those that are inclined to look at these as one-time items, add up to about $5.50 per diluted share in earnings impact.

Just a little bit of background on two of those, on those items themselves, on the investment write-downs on the common stock positions. Again, in the second quarter we had $112.8 million in write-downs, but we also wrote down some U.S. equities, largely in the first quarter. So our six-month investment write-downs totaled $206.9 million. Again, just making sure that people understand these relate to unrealized capital losses on equity positions. And again, you should note the interplay between the P&L charge here that we have taken and what was largely already reflected in our book value per share through accumulated OCI.

So, really, most of it is just a change in geography in the financial statements from OCI through earnings into retained earnings. I might also note, as Prem said, that we are essentially fully hedged on our equity portfolio. And what does this mean? Well, in Q2, we had a fairly modest gain on our equity hedges of about $23 million. For the six months, the P&L on our equity derivative positions, our equity shorts, short industry positions, was a gain of $372 million. So place that in context when you think about six months' worth of our prior investment write-downs totaling $206 million.

A little bit of background on the Crum & Forster reinsurance commutation. The contract that was commuted was a 1998 aggregate stop-loss cover. This was negotiated at the time with the vendor. We bought Crum & Forster in 1998 and we negotiated this cover with the vendor to protect us from adverse development on reserves from prior years prior to our ownership.

Fast forward to today. The cover, as Prem said, has been fully utilized by Crum, actually, fully utilized for a number of years to its full capacity of $386 million. And we believe that Crum negotiated a very good deal with the reinsurer in commuting this. Our reinsurance recoverable declines by $386 million. We received cash proceeds before the end of the quarter of $302.5 million. This did necessitate an $84.2 million non-cash pretax charge to earnings, and as I said, it cost us in Fairfax earnings about $3 per diluted share.

So now moving on to our underwriting results. These results obviously are heavily colored by two things. First of all, the Crum & Forster commutation transaction, and secondly, the very evident tougher market conditions in the industry in reinsurance and insurance. So our combined ratio for the second quarter was 105.8% and we had an underwriting loss of $64.7 million as a result of these two factors. So our 105.8% combines the second quarter compares to the second quarter of a year ago of 92.4%. Our six-month combined ratios this year, 103.2%, again because of those factors. That compares to the six-month period in 2007 of a 94% combined, a significant deterioration because of the transaction and because of tougher market conditions.

Underwriting results, again, you should note three things in there when you look at it. Firstly is that transaction, as I said, Crum & Forster commutation, $84.2 million. That gives us -- if you look at that in terms of combined ratio points, that accounted for 7.5 combined ratio points in our 105.8% reported combined for the quarter. So again, if you look at Fairfax underwriting results excluding that Crum item, we had a 98.3 combined for the quarter.

Breaking that down further, in that 98.3 calendar year basis result was favorable prior years' reserve development -- obviously everything other than that Crum commutation added up to about $19.5 million worth of favorable development in our reserves. That was about 1.7 points of favorable development. So again, adjusting for that, our accident year combined ratio, again, excluding that Crum commutation, was about 100%. And benchmarking that against the year-ago accident year combined, that was 95.3%. So you can see the deterioration year-over-year in our combined, due largely to the tougher market conditions that the whole industry is experiencing.

One last thing to break out for you is catastrophe losses in there. So we had catastrophe losses in the quarter of a total across all the companies of $52 million. The year-ago quarter we had $35 million. So it was definitely a more active quarter in terms of cat losses. There was nothing really big in the there; lots of small activity. Notable things I guess, Odyssey was impacted by the China storm and the China quake. And then Crum & Forster and Northbridge both experienced wind and storm losses in North America in a pretty active spring season on the weather front.

So again, $52 million worth of cat losses in the results; that is about 4.6 points, so those people that love to look at accident year results, ex the cats, we were at 95.4%. And if you look at our results a year ago on that basis, they were 92.2%. Again, so you can see a roughly 3 point decline in our results year-over-year, again, reflective of those tougher market conditions.

While we are on cat losses, I might just take a second or two to note for you recent developments. In Q2, we experienced the Midwest flooding. The impact on us in Q2 was not significant at all at any of our companies. And I know just the question is going to come up, so I will just address these more recent events. We had Hurricane Dolly and its impact in Texas, California fires, LA quake. And based on our current information, none of these is expected to be significant for our companies at all. And again, that is based on current information and current estimates.

Continuing on underwriting results, with these tougher market conditions as the backdrop, obviously we have seen deterioration in rates out in the marketplace right across almost all commercial lines in North America, for sure, is affecting insurance and reinsurance. We are also seeing very competitive behavior for renewals and new business competition; in some cases, irrational behavior in terms of pricing of risk by some competitors in the marketplace. And so the results of these market conditions that are observable in the markets, not surprisingly, had an impact on our premium production across our operating companies. So we had gross premiums written in the second quarter of $1.4 billion. That was down 3.9% versus the quarter a year ago. And on a six-month basis, our gross premiums were down 3% compared to the six-month period a year-ago.

In terms of net premiums written, we wrote net $1.17 billion in the second quarter. That is down year-over-year 1.7%. And on a six-month basis, our net premiums written are down 1.1%. So just to dissect that little bit for you, in terms of gross premiums written, we had really principally; the biggest decline was coming at Crum & Forster, which was down about 19%. We actually had increases at Northbridge and at Odyssey Re , and a large portion of those increases were actually due to foreign currency translation for premiums written in countries other than the United States. We also had an increase at Fairfax Asia.

Net premiums written, again, we had declines at Crum & Forster, 21% decline at Crum. We had a small decline at Odyssey. But we had a significant increase at Northbridge. In U.S. dollar terms, we had Northbridge up 21 plus percent. And again, explained in the first quarter, that's largely due to the reengineered reinsurance program at Northbridge in 2008 resulted in increased premium retention by Northbridge. And we also had increases in net premiums written at Fairfax Asia.

While we are on underwriting, good time to take a quick look at the individual operating company results, just briefly. So at Odyssey Re second quarter, our combined ratio in the second quarter was 98.7% that is compared to 93.9% in the year-ago. On an accident year basis, Odyssey had a 97.6% combined compared to 92.9% in the year-ago period. On the six-month basis, Odyssey's accident year combined was 98.2%. That compares to 94.4% in the six months of '07.

Those results, as I said, they included cat losses, significantly the China snowstorm, China quake, of about $36 million in the quarter. That was about 6.9 combined ratio points in the quarter. That would compare to 3.6 points in the quarter last year. So we have got a heavier incidence of cat losses this quarter year-over-year. And again, for those that like to see the accident year excluding the cat losses, Odyssey ran in the second quarter at 90.7%. It was 89.2% a year ago. So tougher market conditions for sure have us about 4 points worse at Odyssey on an accident year result basis, whether you are looking at the quarter or the six-month basis.

Investment income; and you will see my comments on Odyssey's investment income really apply to our companies across the board. You're going to see two things. First is lower investment gains compared to recent quarters. And obviously, lower interest and dividend yields; everybody knows what has happened to the short-term interest rate environment year-over-year, with about a 300 basis point decline in short-term rates year over year. Net income for Odyssey then, bottom line on all this, was $65 million for the quarter. That was net income available for common shareholders, or about $1 a share. That $1 a share took Odyssey's book value per share to $40.61 at June 30, which is up about 10.5% year to date and it's up about 34% from this time one year ago.

Crum & Forster, the combined ratio as a result of the commutation transaction for the quarter was 130%. That commutation represented 32 combined ratio points. So the calendar year result, excluding that commutation transaction, was 98%. Crum had favorable development included in that 98% of about 4.8 points. So Crum had an accident year result of 102.7%, and that would compare to the prior year's quarter accident year result of 97.3%.

I just want to point two things out in terms of that accident year result for Crum. One, that there obvious is a deterioration in market conditions. But surprisingly, that has not led to a big increase in the accident year loss ratio at Crum. So Crum's loss -- accident year basis loss ratio for the second quarter was 71%. The year-ago number was 70.4%. So the real culprit in deterioration of the Crum accident year combined ratio actually was the expense ratio.

Crum, as I said, had a 21% decline in net premiums written, and that decline in premium volume is definitely reflected in earned premium. Crum's second-quarter earned premium was about $263 million. The year-ago number was about $306 million, so we have a 14% decline there. When you look at operating expenses, year-over-year, largely unchanged $83.3 million in Q2 of '08 versus $82.4 million in Q2 of '07.

But with the lower premium base that those expenses are spread over, we get an expense ratio in Q2 of '08 of 31.7% compared to 26.9% in the prior year. So the expense ratio it is about is 4.8 points worse on pretty much the same operating expense base, and this, again, explains much of the slippage in the Crum & Forster accident year basis underwriting results.

Quickly on Northbridge, second-quarter combined ratio was 99.6%. That compares to 86.9% a year ago. Favorable development of prior years' reserves in the results both quarters, 4 points worth this year; 11.5% points worth a year ago. And so on an accident year basis, the combined ratio for the second quarter was 103.6%; and that was 98.4% a year ago. So we've got a 5-point, roughly, deterioration there. And you see that in the loss ratio. Accident year loss ratio deteriorated by 5 points year-over-year. So for the second quarter this year was 74.8. That had been 69.8 in the year-ago quarter.

Northbridge's expense ratio held pretty steady at 28.7% versus 28.6% in the prior year. So again at Northbridge, the deterioration largely comes from challenging market conditions, but also winter and spring weather had its impact on loss severity. And so you did see the accident year loss ratio increasing to about 75 from about 70 a year ago.

Fairfax Asia was the company that defied the trend of its sister companies. We had premiums increased in Fairfax Asia. We had underwriting results improve at Fairfax Asia. The combined ratio in the second quarter improved to 74.4% from 85.9%. On an accident year basis, the combined ratio improved to 77.1% from 80.2%, so a very good quarter at Fairfax Asia.

I will just take the opportunity, as well, here -- it's not related to underwriting, but while we're on Fairfax Asia quickly, to talk about really the valuation of our 26% equity interest in ICICI Lombard General insurance Company, that you are no doubt familiar with. We carry this on the equity basis of accounting because of our 26% ownership interest. And again, the valuations I'm about to talk about, these are for financial reporting disclosure purposes only. These are not the carrying values on our books. And I will tell you what those are in a sec. But on a valuation basis, at year-end and at Q1, we had been using an older valuation from 2007, and it resulted in a valuation of our stake at about $146 million. In the second quarter, the company commissioned a valuation exercise via third party, by a major global investment bank, the company being ICICI Lombard, not Fairfax.

And that resulted in an updated valuation, based upon the usual things you look at in and these things, comparable company valuations, transaction, multiples and things like that. And the bottom line is that at Q2 for disclosure purposes, as you can see in our quarterly report, the valuation we are reporting for our 26% stake is $455 million. Again, that has increased from $146 million. And then one more piece of information for you is that in July, ICICI Lombard completed another equity-raising exercise, and we subscribed pro rata for our portion. And that involved -- as that resulted in us investing an additional $30 million. And so the bottom line is that pro forma this latest rights equity offering, our carrying value today for our stake is $87 million, and that is what it is on our books for. And the value of that stake is $485 million. So that is ICICI Lombard update.

Lastly, it is not really underwriting, but update on runoff quite an uneventful quarter for our runoff segment. It also showed improved year-over-year results. The operating loss for runoff in the second quarter decreased to $7 million. That was $20.2 million a year ago. Runoff had increased investment gains year-over-year, largely on credit default swaps and on equity total return swaps. So there were gains of $25.4 million compared to $8.3 million a year ago. Bottom line for runoff is that runoff generated pretax income in the second quarter of $18.4 million U.S. One year ago, our bottom line in runoff was a pretax loss of $11.9, so quite a turnaround for runoff year-over-year and a pretty good quarter.

On the investment income front, talk separately about investment interest and dividend income, and then just a little bit on the investment gains. Interest and dividend income, you will see was down. We had $164 million interest in dividend income. That compared to $202 million a year ago.

Our second quarter, our annualized yield was 3.32%; and that compares to 4.67% a year ago. Again the driver, principal driver on this was the average short-term rate decline year-over-year. And if you just look at, again, at U.S. T-bills, three-month bills, they're down over 300 basis points in average yield for the second quarters', year-over-year. And all of these declines came, in spite of the average increase in our investment portfolio.

Our investment portfolio year-over-year actually increased by $2.5 billion. But the effect of short-term rates on our substantial holdings of cash and short-term investments took its toll. Our bond portfolio, our yield to maturity on that again declined a little bit year-over-year. We are sitting at about a 4.6% yield at the end of the second quarter. That compares to about 5% a year ago. And the duration on our portfolio is about 8 and change. It had been about 7 and change the year before.

Investment gains as we said were actually negative for the quarter, negative $45.6 million loss and that compared to $230 million in gains in the second quarter of '07. That '07 performance was largely driven by the gain on our sale of our stake in Hub International, that gain was $220 million of the $230 million. So looking to this year, our $45 million loss, you can disaggregate it into the common stock writedowns that I've talked about of $112.8 million. What that leaves is $67 million in other gains that we made, and those gains were on sales of bonds, government bonds, on credit default swaps, and on equity total return swaps.

So quite a quiet quarter for the credit default swaps in terms of movement in their market value. But let me just give you some real year-over-year perspective. One year ago, so June 30, '07, the market value of our CDS portfolio was $198 million, and we had not sold any of them. Fast-forward to July, and I'm just repeating the numbers that Prem already gave you -- but we had harvested cash proceeds of $1.4 billion, and the market value of the remainder of our portfolio is $678 million at July 25. So, total value of almost $2.1 billion compared to that $198 million, just 12 months ago.

Quickly on financial position, Prem gave you the numbers. I will just repeat them. Our holding company cash, short-term investments and marketable securities at the end of the quarter totaled over $1.1 billion. Hardly changed from the first quarter end balance, but up significantly from our December 31, '07 balance of $963 million.

In terms of capital management, we actually had quite a busy quarter and a busy six months. This year, we have retired Fairfax Senior Notes at their maturity, we have retired Fairfax convertible debenture. We have retired in full Cunningham Lindsey debt. We have repurchased Fairfax preferreds. And we have common stock buybacks by all three of our public companies.

First, in terms of our debt, our total debt to total capital ratio at the end of the quarter was 23%. That was 27% at year-end. And again, during the six months, total debt retired and preferred stock repurchases are more than $340 million for the six month period. And again, just some historic perspective, since January 1st of '05, we have retired more than $700 million in debt and preferreds, and taken our debt to capital ratio from 43% to 23% today.

Other capital management things, Prem mentioned, the TIG dividend, upstreamed to Fairfax of $210 million. I just want to mention that, this leaves TIG, the core of US runoff, with a very comfortable RBC, risk-based capital ratio, and a very robust statutory capital, after this $210 million dividend that was upstreamed to Fairfax and its affiliates.

In terms of the share buybacks, I want to mention that Odyssey has bought back 3.6 million shares in the quarter, or about 5% of its outstanding shares. Year-to-date, Odyssey has bought back 8.9 million shares. Northbridge has bought back 482,000 shares, about 1% of its outstanding shares. Fairfax has bought back 216,900 of its shares, more than 1% of our outstanding shares. And the result of the Fairfax buybacks contributed in a small way to our book value per share growth. Prem mentioned that our book value per share is about $252, and I would like to mention that year-to-date, that's up 11.7%, when you include the $5 dividend we paid early this year, and from one year ago, our book value per share is up 55%.

Prem, that's all I have.

Prem Watsa

Thank you, Greg. That was an excellent view of our second quarter and year-to-date. So, you can see we've had an excellent first half. While our insurance and reinsurance companies made underwriting profits, with -- in Crum & Forster's case, excluding the reinsurance commutation and the asbestos lawsuit settlement, our Runoff operations are well under control, our investment results were excellent, our investment portfolios are positioned well. All that is very good. We have completed only the first half of this year.

We continue to face headwinds and in the insurance markets are extremely competitive worldwide, and we expect our premiums to shrink. Now we are very happy to answer your questions. Please give us your name, your company name, and try to limit your questions to only one, so that it is fair to all on the call. Jill, we are ready for the questions.

Question and Answer

Operator

Thank you, sir. (Operator Instructions) Our first question comes from Ron Bobman with Capital Returns. Sir, your line is open.

Ron Bobman
Capital Returns

Good morning. I guess everyone else is sleeping late. I had three quick questions on Fairfax Asia, if you would. The rights offering, I guess that indicates that -- were there any new third parties participating in that investment, new to the entity, or was everyone just sort of re-upping --?

Prem Watsa

It is the pro rata share, the 26%, Ron.

Ron Bobman
Capital Returns

Okay. And then what is the book value of that entity in its entirety?

Prem Watsa

The shareholders' equity, Greg, in the entity, do you remember off the top?

Greg Taylor

I don't.

Prem Watsa

Our holding is how much, you said -- our costs --?

Greg Taylor

The carrying value of our investment at June 30 was $57 million. And with our new $30 million we have put in, it's $87 million.

Prem Watsa

So, it's probably four times $87 million, Ron because we have about 26% (multiple speakers).

Ron Bobman
Capital Returns

Thanks a lot. And, equally important, congrats on an outstanding investment record.

Prem Watsa

Well, thank you Ron.

Ron Bobman
Capital Returns

Thank you.

Prem Watsa

Next question, Jill.

Operator

Our next question comes from Jeff Fenwick with Cormark Securities. Sir, your line is open.

Jeff Fenwick
Cormark Securities

Good morning, gentlemen. I just wanted to circle back to the commutation at Crum. Just a question around, why was it determined to do the commutation this quarter? It sounds like the cover had been fully used for several years, as Greg, or Prem, you described. Why not, do it back in 2006, when you did the other large one? Can you just kind of give us the logic around that?

Prem Watsa

Yes, Jeff. These commutations are negotiated deals, and it's a question of when the person on the other side wants to do the deal. So it just came together in the second quarter and that's when we did it. It happens on a negotiated basis, and you can't predict when that can happen. Of course, we need to do it at a price and terms that are attractive to us. And in the second quarter, as Greg said very clearly, Crum & Forster was quite attracted to the offer and consummated the deal.

Jeff Fenwick
Cormark Securities

Okay. I guess following on with that, I believe that there was a second contract still at Crum that's of a similar nature. And if I am correct on that, is that something that we could see commuted as well in the future?

Prem Watsa

Yes, that was basically not used. And, Greg, do you want to highlight the --?

Greg Taylor

I think Jeff is talking about the other --.

Prem Watsa

Oh, an additional one, yes.

Greg Taylor

We have one contract in place. Jeff, I wouldn't want to comment on prospects for commutation of that one.

Jeff Fenwick
Cormark Securities

Okay. But has the cover been fully used there, Greg? Or it hasn't been touched yet?

Greg Taylor

It has not been fully utilized yet. That is a good distinction to make. The one that we commuted has been fully utilized. Commercially, it afforded us no additional protection. The one that's still open does have additional capacity for us.

Jeff Fenwick
Cormark Securities

Okay. And then I guess in timing of when that -- the contract you did commute had been fully utilized. Do you know exactly, when was that full cover utilized? Is it several years ago or is it more recently?

Greg Taylor

I think it was -- I am going to say it's 2.5 to 3 years ago.

Prem Watsa

This is the [380] -- that's the one we commuted. Yes, I think that's right, Greg.

Jeff Fenwick
Cormark Securities

Okay, great. Just one question on the investment portfolio. It looks like you've exited all of your SPDR positions that you had. Sort of what was the thinking there, and --?

Prem Watsa

All we did Jeff, was to convert it from a SPDR, a straight short position, to a total return swap. And the collateral arrangements are such that we have less exposure to the counter party and we just thought that was appropriate at this time.

Jeff Fenwick
Cormark Securities

Okay. And then can you just reiterate the percentage of your total equity portfolio that has been -- covered today, your hedges?

Prem Watsa

Yes, as Greg was saying, it was almost 100% covered and I said, over 95%. So, it's very significantly covered.

Jeff Fenwick
Cormark Securities

Okay, excellent. Thank you very much. That's it for me.

Prem Watsa

Thank you, Jeff. Jill, next question please.

Operator

Our next question comes from Tom MacKinnon with Scotia Capital. Sir, your line is open.

Tom MacKinnon
Scotia Capital

Thanks very much, good morning.

Prem Watsa

Good morning.

Tom MacKinnon
Scotia Capital

Prem, you've got a lot of cash now at the hold co. I remember before you wanted to -- you talked about maintaining somewhere around $500 million now, you are double that. And while you are doing a job of paying down some debt and maybe investing a little bit into Asia and Advent. Do you have any kind of threshold of a level you want to keep at that, and where would you see some opportunities?

Prem Watsa

Well, on the threshold, no, we don't have any number, Tom. We just like the fact that it is cash and marketable in excess of $1.1 billion; that is just a good number to have. But there's no threshold. We like it to be simple enough that you, for example, seeing it, you say, my goodness, they are in very strong financial shape. But we don't have any specific number. In terms of opportunity, well, it does give you -- it protects you from the downside. And we expect this recession Tom, as we've said before, to last some time. So, this cash in the holding company is going to be a plus for us. In terms of where are the opportunities -- we really can't forecast them. We keep looking at them, and we have always reacted to opportunities as they come to us, they have to be attractively priced. But we won't do it at the expense of our strong cash and marketable position in the holding company.

Tom MacKinnon
Scotia Capital

Can you comment on the runoff market and how you might want to utilize, what you deem to have as a good asset here and leverage on that?

Prem Watsa

Sure, we will just talk about that. The other point just on the cash and marketable, Tom, is that, unlike most companies, we of course have the ability to invest not only our subsidiary investment portfolios, but we do invest the investment portfolios in the holding company. Half of it, as Greg has said, is in cash, the other half is in marketable investments. And if you look and see, we have been investing it, I think, for the last two or three years and you'll see that the returns have been pretty significant. So, it's not like we are not getting a good return on the holding company cash and marketable securities. As far as runoff is concerned, your question was in terms of opportunity there, Tom?

Tom MacKinnon
Scotia Capital

Yes.

Prem Watsa

Our runoff is shrinking very well. It is well under control. We feel very comfortable with the management. As Dennis Gibbs has said for many times, including our recent annual meeting. When we look at opportunities in the runoff area, we're just very, very careful. It has to meet all the conditions, terms and conditions, and particularly for downside protection. Now, we do have a very significant expertise in this area, as you know, Tom. And so, we keep looking at projects that come our way, but we have nothing to report.

Tom MacKinnon
Scotia Capital

Okay, thank you.

Prem Watsa

Thanks, Tom. Next question, Jill.

Operator

Our next question comes from Mark Dwelle with RBC Capital Markets. Sir, your line is open.

Mark Dwelle
RBC Capital Markets

Good morning.

Prem Watsa

Good morning, Mark.

Mark Dwelle
RBC Capital Markets

Two questions. The first one relates to your probable acquisition of Advent. Would you carry that as a separate operating unit or will it be folded into Odyssey or nSpire or someplace else?

Prem Watsa

No, that will be a separate unit. We already have an investment in it, as you know, of approximately 45%. So, this just increases our investment to 20% that we have today takes us to 65%. So, it will increase it and it's separate and distinct from Odyssey.

Mark Dwelle
RBC Capital Markets

Okay. I presume then that would be fully consolidated onto the books, with a minority share and just like any of the other units.

Prem Watsa

Yes, it will be -- given that it closes, it will be fully consolidated.

Mark Dwelle
RBC Capital Markets

Okay. And the other question I wanted to ask about was, I noted in your financials, a small acquisition or an investment position in Arab Orient. Could you tell us a little bit about that and which subsidiary owns that?

Prem Watsa

Yes. That Mark, is a -- we have seen some interesting opportunities in the Middle East. And if you will remember how we began Fairfax Asia, we started with a very small investment; I think it was $9 million for ICICI Lombard in 2000, 2001. And of course, that has developed since that time. And so, the whole Middle East area, we quite like, and have identified a few companies in that area. So this is -- we said about $10 million, a 20% position approximately. And it's the leading company in Jordan. We like the management team, we like the ownership in that company. And we've -- it is listed, but it is mainly -- it's got one large shareholder, who owns 65%. We own, as I said, 20% and there's some public shares, but it's mainly in big chunks. And the company that owns it is Crum & Forster. So, in Crum & Forster's filing, its 10-Q, that will come out, you will see that they'll own 20%.

Mark Dwelle
RBC Capital Markets

Okay, that's all my questions. Thanks.

Prem Watsa

Thank you, Mark. Jill, next question please.

Operator

Our next question comes from [Richard Alton with Bright Ridge Capital]. Sir, your line is open.

Richard Alton
Bright Ridge Capital

Good morning, gentlemen.

Prem Watsa

Good morning, Richard.

Richard Alton
Bright Ridge Capital

I just wanted to ask you about how you are thinking about cycling through the CDS portfolio, as you are drawing down on some of the names. Are there certain sort of names or sectors that, you are sort of harvesting more so? Is there sort of a change in the composition and makeup of the current portfolio?

Prem Watsa

Richard, there is no real change in the current portfolio. We have not been able to predict it, but if you just look back in the past, it began with -- Countrywide Financial was the first one that had its spreads widen very significantly. The mortgage insurers were after that and then the next wave was the bond guarantors. You had spreads increase in some insurance companies in the United States. And of course, it has slowly spread to European banks and European insurance companies. So, they seem to come in waves as problems get identified, and we are reactive. And so, we look at these spreads widen and then take, realize the profits that we have realized. To date, as Greg said and I said earlier, we have had $1.4 billion in total proceeds. And that compares to something like $435 million in our total cost, meaning all our purchases overtime.

Our unrealized positions -- at the end of the year 2007, we had $1.1 billion in unrealized. At the end of the first quarter, we had $991 million unrealized. At the end of the second quarter, $819 million unrealized, while at the end of July 25th, it was $679 million. So, unrealized is coming down very significantly, while we are realizing and in total, as I said to you, it was close to $2.1 billion. But who knows, how these spreads will react as time goes by. It is going to be a function of the economy in the United States and elsewhere. And as I said, until all of these positions are sold, we won't know what our final proceeds are going to be.

Richard Alton
Bright Ridge Capital

That's really helpful. I guess just to go one step deeper, one of the thoughts I had was, if you think about sort of the bond insurers, there is sort of a debate out there about whether or not there's sort of kind of a go-to-zero case, in which case I would imagine there's more upside for certain CDS positions, even though the spreads already widened considerably or do they just sort of [consider all] things like that?

Prem Watsa

No, that's right. But we have said publicly, we've sold our bond guarantors. And in some cases they might have doubled after we sold it. But we look at our costs. We look at what we've sold it. And it's usually eight to 10 times our cost. And so, the fact that it doubled after that is, we leave it to others who are smarter than us to make that money. But we are comfortable with what we've realized for our shareholders.

Richard Alton
Bright Ridge Capital

That's fantastic. Thank you very much.

Prem Watsa

Thank you, Richard and Jill next question.

Operator

(Operator Instructions) We have a last question at this time comes from [Peter Lambert with Netcom Ventures]. Sir, your line is open.

Peter Lambert
Netcom Ventures

Good morning.

Prem Watsa

Good morning, Rich.

Peter Lambert
Netcom Ventures

Is it possible to have an update on the multibillion dollar lawsuit against hedge funds, mostly in terms of the timing of the lawsuit -- timing of the trial. And is there a prospect for an out-of-court settlement in Fairfax's favor? If you can comment.

Prem Watsa

Yes. On the lawsuit, as you well know and we have mentioned this previously, that we really are not able to comment on it. And if there is anything significant, then we will report to you, our shareholders. But we really are not permitted to make any comment on the lawsuit.

Peter Lambert
Netcom Ventures

Okay. I just asked the question because there was an article where you mentioned that you felt the trial might go on after August, because there was one more appeal --.

Prem Watsa

Yes. No, the lawsuit is in progress. There's one more dismissal in August, motion to dismiss, and then after that it continues. And it has -- it is uncertain how long it takes. But other than that, Peter I can't really make more comments on it.

Peter Lambert
Netcom Ventures

Thank you very much.

Prem Watsa

Jill, next question please.

Operator

Mr. Watsa, that was our last question at this time.

Prem Watsa

Well, Jill, thank you very much. Thank you, ladies and gentlemen, for participating in this call and we look forward to our next call, our third-quarter call, with you. Thank you again.

Operator
That does conclude today's conference call everyone. You may now disconnect and enjoy your weekend. Thank you.