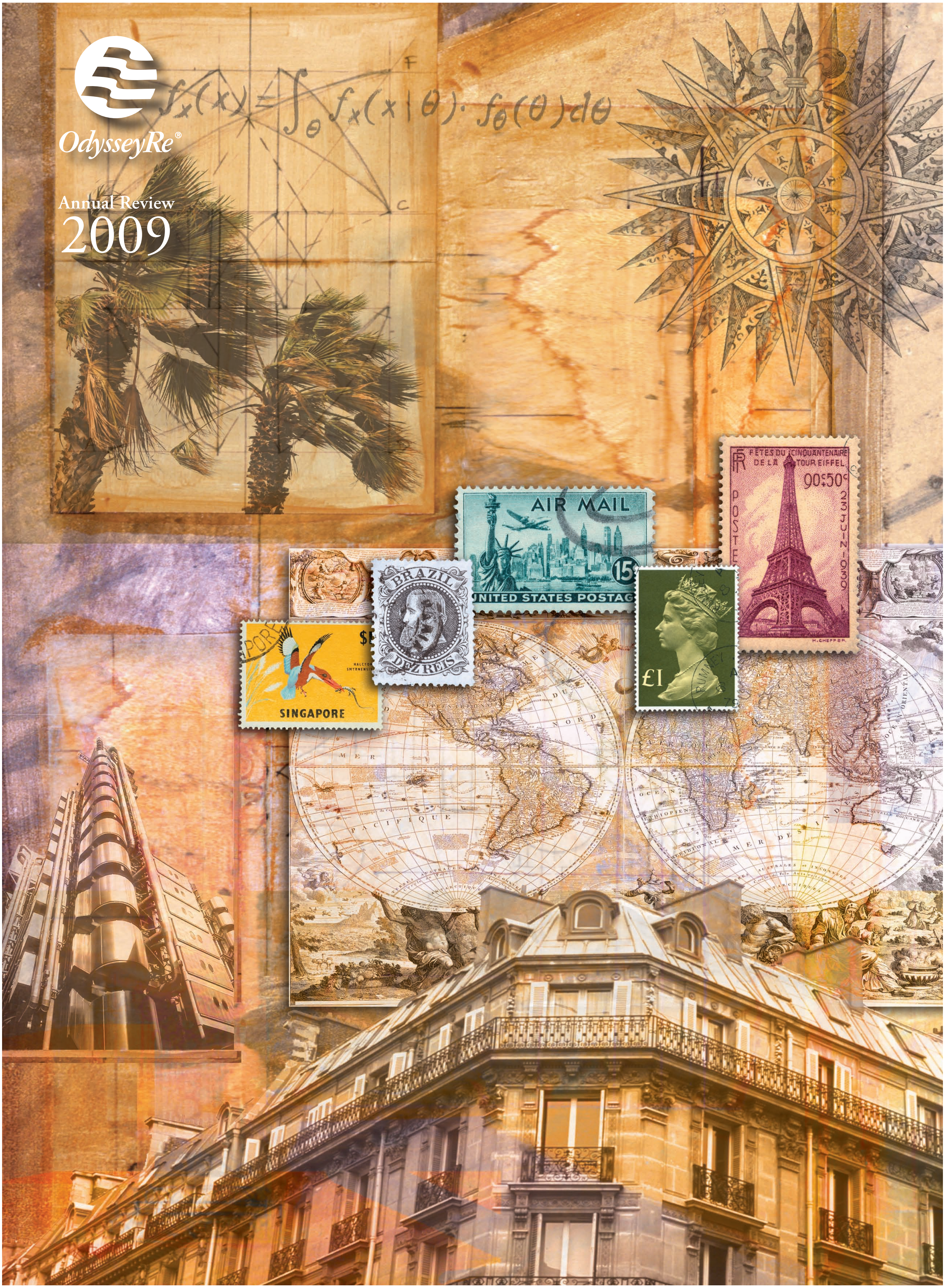
OdysseyRe®

Annual Review 2009



OdysseyRe®

Odyssey Re Holdings Corp. is a leading worldwide underwriter of reinsurance and specialty insurance, with total assets of $10.8 billion and $3.6 billion in shareholders' equity as of December 31, 2009.

Odyssey Re Holdings Corp., headquartered in Stamford, Connecticut, operates globally under the banner OdysseyRe. Supported by $3.5 billion of statutory policyholders' surplus, we underwrite a wide range of property and casualty reinsurance and insurance products through our subsidiaries: Odyssey America Reinsurance Corporation, Hudson Insurance Company, Hudson Specialty Insurance Company, Newline Insurance Company Limited, Newline Asia Services Pte. Limited, Newline Underwriting Management Limited, OdysseyRe's managing agent at Lloyd's, Connect Liability Solutions Pty Ltd and Odyssey America Reinsurance Corporation Escritório de Representação no Brasil Ltda. OdysseyRe is rated "A" (Excellent) by A.M. Best Company and "A-" (Strong) by Standard & Poor's.

Odyssey Re Holdings Corp. is a wholly-owned subsidiary of Fairfax Financial Holdings Limited. Fairfax is a financial services holding company publicly traded on the Toronto Stock Exchange under the symbol FFH with total assets of C$29.8 billion and C$8.0 billion in shareholders' equity.

At a Glance

OdysseyRe conducts its business through four operating divisions: Americas, EuroAsia, London Market and US Insurance. Each division is managed by talented underwriters and staffed by skilled pricing actuaries, auditors, claims professionals and catastrophe modelers, all with the technical resources to assess and underwrite risk. We offer a broad range of products customized by experts with the capacity to listen, understand the need and design the appropriate solution for our business partners. Our diverse platform and strong capitalization provide a stable market to our business partners across all lines of business.

Odyssey America Reinsurance Corporation	Newline Syndicate 1218 Newline Insurance Company Limited	Hudson Insurance Company Hudson Specialty Insurance Company
Operates from offices in Stamford, New York City, Miami, Mexico City, Toronto, London, Paris, Stockholm and Singapore, with a representative office in Tokyo.	Operates primarily in London from both Lloyd's and the LUC with wholly-owned managing agents based in Singapore and Melbourne, Australia.	Headquartered in New York City with 9 other principal offices throughout the US.
Product Offering	**Product Offering**	**Product Offering**
Property Treaty (Assumed & Retro) Casualty Treaty Surety & Trade Credit Marine & Energy Aviation & Space Casualty Facultative (US only) Property Facultative (Latin America only)	International Casualty Insurance including: Bankers Blanket Bond / Commercial Crime Professional Liability Directors & Officers Liability General Liability / Products Liability / Employers Liability Medical Professional Liability Motor Insurance	Healthcare (Hospitals and Physicians) Professional Liability and Environmental Management Liability (Public, Private and Non-Profit D&O) Crop Specialty Property (DIC and Offshore Energy) Specialty Commercial Auto General Liability/Package Personal Umbrella Surety

Financial Highlights

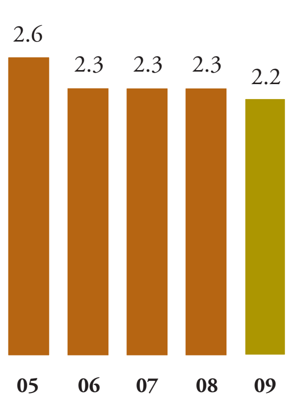
Odyssey Re Holdings Corp.
(dollars in millions)

	2009	2008	2007
Gross premiums written	$ 2,195.0	$ 2,294.5	$ 2,282.7
Net premiums written	1,893.8	2,030.8	2,089.4
Net premiums earned	1,927.4	2,076.4	2,120.5
Net investment income	317.9	255.2	329.4
Net realized investment gains	186.0	692.3	539.1
Income before income taxes	492.9	827.5	913.2
Net income available to common shareholders	375.1	543.1	587.2
Total assets	10,785.4	9,726.5	9,501.0
Shareholders' equity	3,555.2	2,827.7	2,654.7
Return on average common equity	12.1%	20.5%	25.9%
Combined ratio	96.7%	101.2%	95.5%

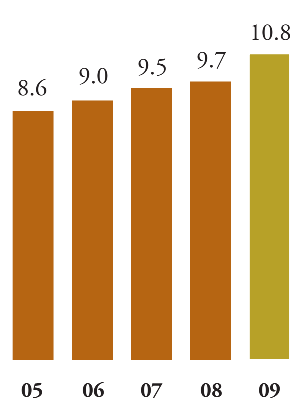
Gross Premiums Written by Division
(dollars in millions)

	2009	2008	2007
Americas	$ 745.9	$ 776.4	$ 834.9
EuroAsia	559.2	596.7	565.6
London Market	342.9	381.7	349.9
US Insurance	547.0	539.7	532.3
Total Gross Premiums Written	**$ 2,195.0**	**$ 2,294.5**	**$ 2,282.7**

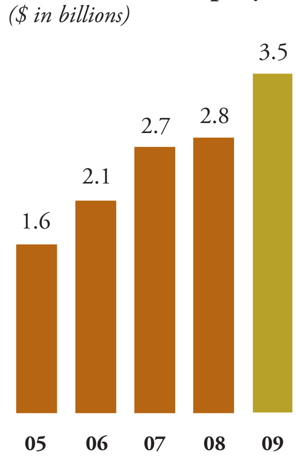
Gross Premiums Written
($ in billions)



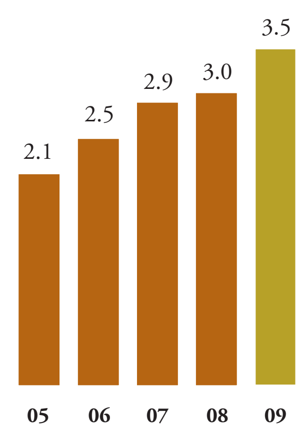
Total Assets
($ in billions)



Shareholders' Equity
($ in billions)



Statutory Surplus
($ in billions)



Letter from the CEO

I am pleased to report that 2009 marks another exceptional year of financial performance at OdysseyRe. We closed the year with pre-tax income of $493 million and after-tax income of $375 million. Cumulatively over the last three years, OdysseyRe has generated pre-tax income of $2.2 billion.

These results have fueled an increase in the statutory policyholders' surplus of our flagship operating company, Odyssey America Reinsurance Corporation, to more than $3.5 billion as of December 31, 2009.

Needless to say, we feel very fortunate to have produced this track record during a time of unprecedented financial turbulence in the global markets.

OdysseyRe has thrived by pursuing a two-pronged strategy of underwriting discipline, coupled with the value-focused investing approach of our parent, Fairfax Financial Holdings Limited. Over the last ten years, we have more than tripled in size by most metrics, including premiums, equity and invested assets.

Today we operate in an industry that continues to experience softening market trends. Maintaining the financial integrity of our balance sheet through sound, disciplined underwriting is now more important than ever. As investment returns sag and combined ratios creep upward, pressure will build for a rebound in pricing. In the meantime, we will continue to focus on enhancing the many franchises around the world that collectively make up our Company.

Several notable events affecting OdysseyRe have transpired in 2009.

First, we have undertaken a significant management realignment. Most importantly, Brian Young, who has been part of the OdysseyRe team since our formation in 1996, has been promoted to the new position of Chief Operating Officer. In that capacity, Brian has assumed responsibility for the oversight and direction of all underwriting activities worldwide and the four heads of our operating divisions now report directly to him. Brian's report commenting on our underwriting affairs immediately follows my letter.

Secondly, we have given a significant further boost to our Enterprise Risk Management (ERM) efforts by establishing a dedicated Global Risk Strategies unit led by Mike Wacek, charged with building on the existing risk management culture that served us so well over the last decade. By expanding the implementation of ERM best practices throughout our group, Mike's team will

2009 marks another exceptional year of financial performance at OdysseyRe.

OdysseyRe has thrived by pursuing a two-pronged strategy of underwriting discipline, coupled with the value-focused investing approach.

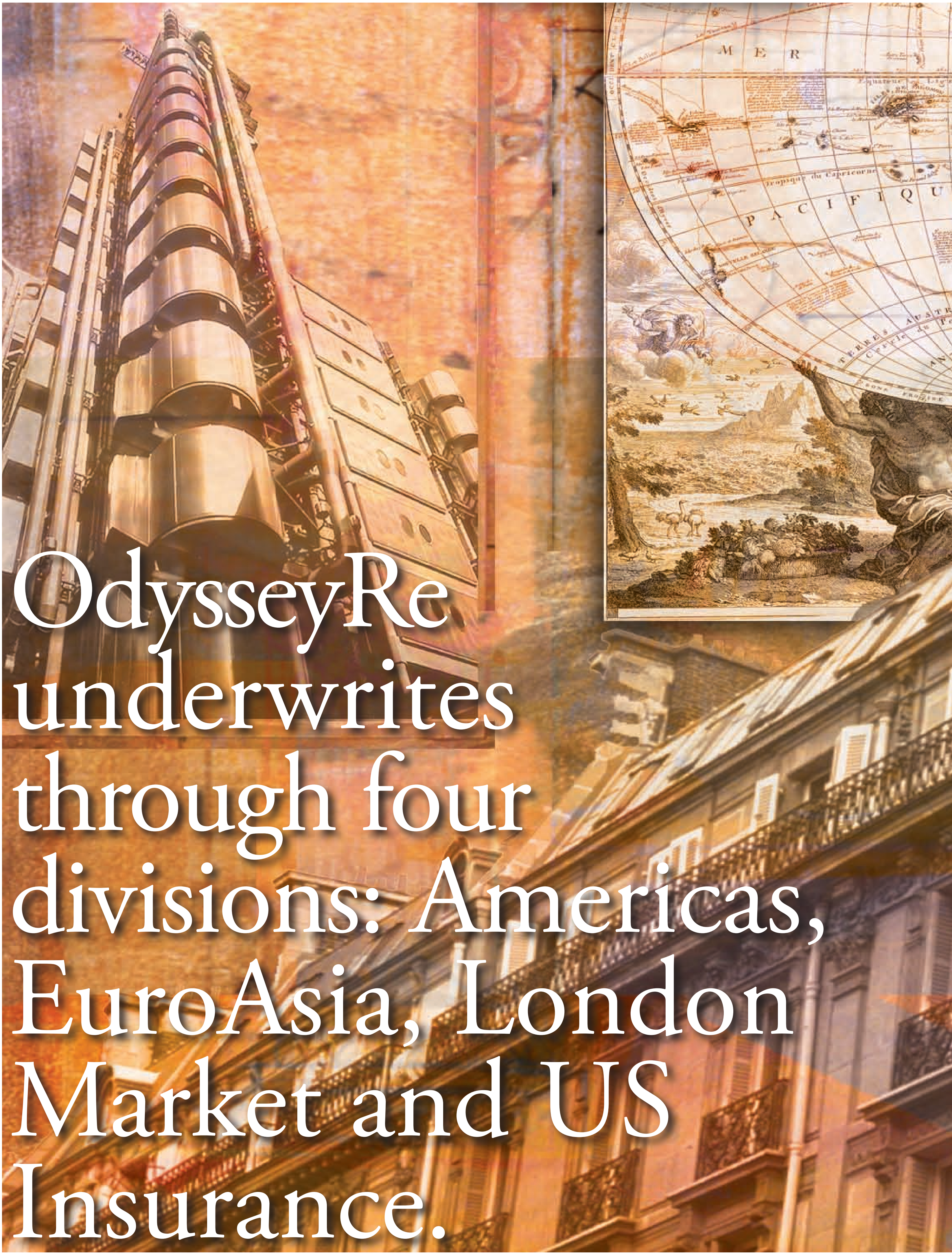
help equip us with the tools and knowledge not only to safely navigate the challenges ahead but also to seize new opportunities with greater confidence.

Finally, after almost a decade as a public company, in 2009 our controlling shareholder, Fairfax, decided to buy out our minority shareholders and bring OdysseyRe back to wholly-owned status within the Fairfax family. Those shareholders fortunate to have held onto their shares over the length of our listing on the NYSE were rewarded with a compound annual rate of return of 17%.

No changes are planned to OdysseyRe's operating strategy as a result of the buyout. Our operations will remain independent, however, we will benefit from the financial strength of our parent, Fairfax, with its equity base of $7.6 billion, which will further fortify OdysseyRe's capability in the reinsurance and specialty insurance markets around the world.

I would like to thank all of our insureds, reinsureds, brokers, agents and varied business partners. Our success is built upon the relationships we have established, and without the strong bond of trust and confidence we have enjoyed, that success would not be possible. I would also like to thank Prem Watsa and the team at Fairfax for their support over the years. And, most importantly, I wish to express my gratitude to all the employees of OdysseyRe whose efforts distinguish our Company.

Andrew A. Barnard
President and Chief Executive Officer



OdysseyRe underwrites through four divisions: Americas, EuroAsia, London Market and US Insurance.

Dear Friends, Business Partners and Colleagues

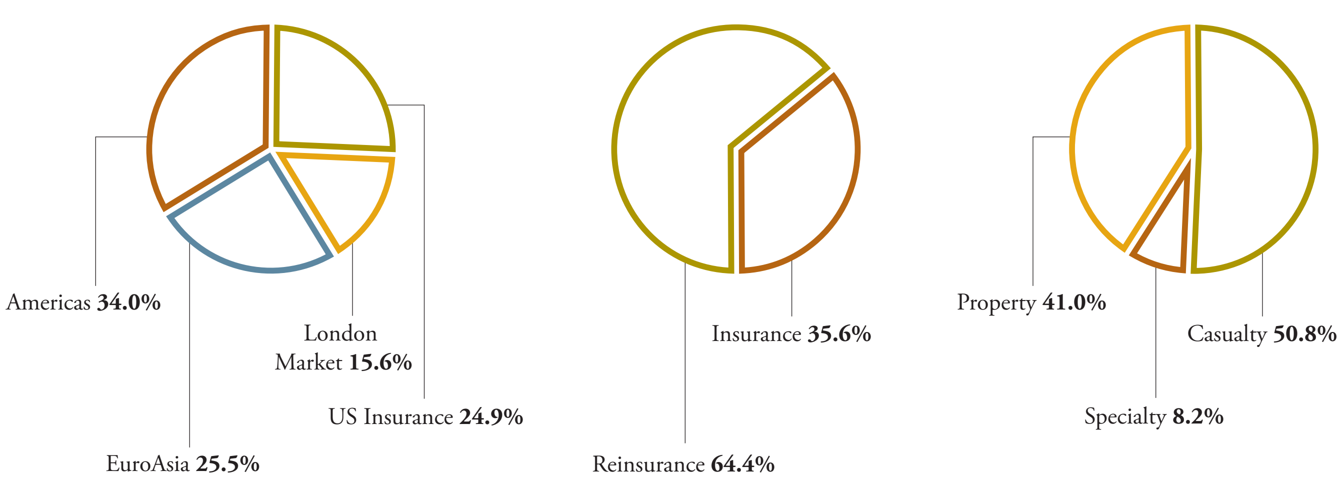
We are very proud of the scope and breadth of the businesses we have built at OdysseyRe over the last ten years. I would like to share with you the highlights of our operations and describe some important developments that took place during 2009.

OdysseyRe wrote $2.2 billion of gross premiums and booked net premiums earned of $1.9 billion in 2009. We achieved a combined ratio of 96.7%, reflecting a mix of results across our global operations. As Andy mentioned in his letter, pre-tax income was nearly $500 million for the full year 2009, generating a total return on shareholders' equity of 12.1%.

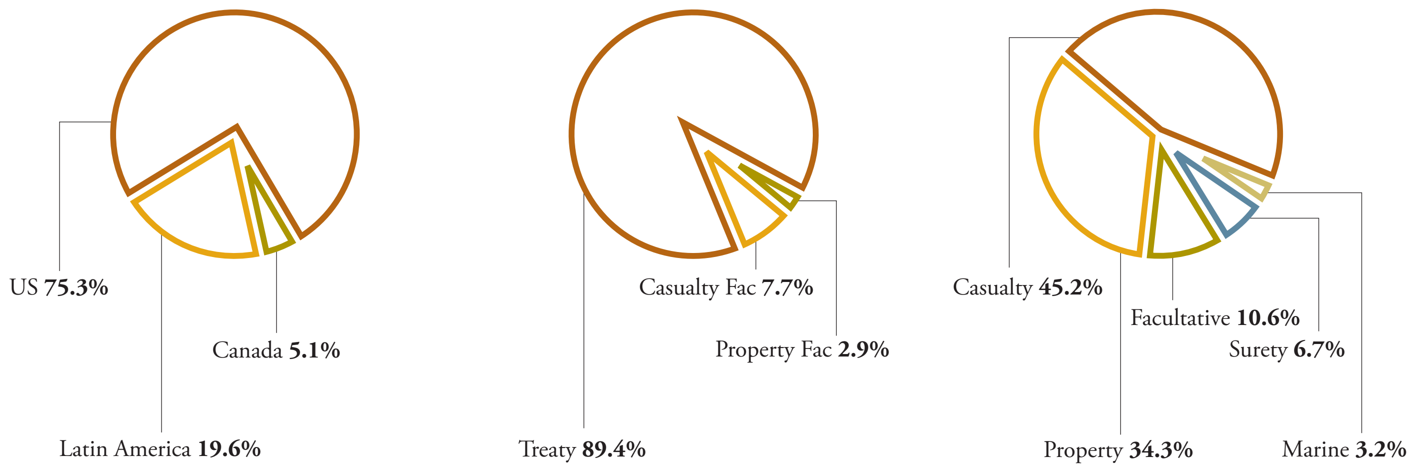
Discipline is one of the two pillars of our underwriting strategy. We employ highly skilled professionals around the world who are focused on producing an underwriting profit while meeting the needs of our clients. While we have a healthy risk appetite and pride ourselves in the consistency of our underwriting and pricing, we exercise discipline in areas of the marketplace where the fundamentals are deteriorating.

Diversification is the second pillar of our underwriting strategy. We operate globally from a network of 21 offices in 10 countries around the world (including São Paulo, Brazil, opening in the first quarter of 2010). OdysseyRe has 28 distinct underwriting units: 15 focused in the reinsurance marketplace and the remaining 13 dedicated to insurance product lines. We underwrite business in more than 100 countries through multiple distribution channels, providing us the ability to respond rapidly to market opportunities as well as the flexibility to recalibrate the portfolio as required to optimize performance.

2009 Gross Premiums Written **$2.2 billion**



Americas Division
2009 Gross Premiums Written **$745.9 million**



The **Americas Division,** led by Brian Quinn (US and Canada) and Philippe Mallier (Latin America), underwrites reinsurance through a network of five offices. Treaty business is written from Stamford (US), Toronto (Canada) and Miami (Latin America). US casualty facultative business is written from New York City, and Latin American property facultative business from Mexico City.

We wrote $746 million of gross premiums in the Americas in 2009, while net premiums earned totaled $775 million. The combined ratio for the year was 102.5%. Trading conditions across the Americas have been mixed. Property rates, particularly in catastrophe-prone areas, remain at historically attractive levels. We took advantage of opportunities to expand our property catastrophe book in 2009 and we expect further growth in selected areas across the region in the year ahead.

A leader in the US casualty reinsurance market, we pared back our portfolio as rates fell to unattractive levels in some lines. In 2009 the US treaty and facultative casualty book represented 46% of the Americas volume overall. Our casualty treaty portfolio continued to consolidate as we sought to concentrate in specialty areas less prone to the market cycle. Our casualty facultative business, on the other hand, has been a notable bright spot. As others have restructured or exited the facultative market in the US, OdysseyRe's facultative deal flow has increased, allowing us to maintain premium volume and rate levels. Going forward we will maintain a cautious approach to US casualty business while we selectively grow our casualty portfolios in Canada and Latin America.

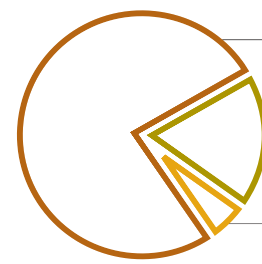
OdysseyRe has a strong position in the surety market. We are an established leader in North America and have an increasing appetite for this business in Latin America. Rates have been stable but the top line has suffered, particularly in the US, as work programs have shrunk in this recessionary environment.

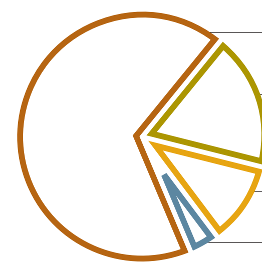
Finally, during the spring of 2009 we reorganized the management of the Americas Division due to my changing role and that of Mike Wacek as described in Andy's letter. At an operational level we separated the management of North America (US and Canada) from Latin America to coincide with the appointments of Brian Quinn and Philippe Mallier. Each of these operations continues to form part of the Americas Division for segment reporting.

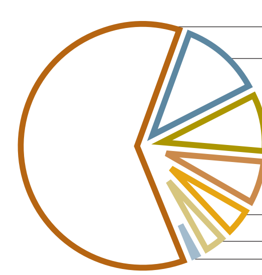
Within North America several other management changes took place. Lambert Morvan was hired to lead our Canadian branch, Pat Gentile was promoted to head up our US casualty treaty operation and Tom Bredahl was promoted to run our US casualty facultative operation.

These changes give more management depth to our largest division. The new leadership team is energized to deliver superior service and performance in the years ahead.

EuroAsia Division
2009 Gross Premiums Written **$559.2 million**







The **EuroAsia Division** is headquartered in Paris and is led by Lucien Pietropoli. The Paris-based underwriting staff is comprised of three territorially focused underwriting teams, responsible for business written within western and central Europe, the Middle East and Africa. We have an office in Stockholm to service the Nordic, Russian and Baltic markets, as well as a branch in Singapore, supported by a representative office in Japan, to underwrite reinsurance business emanating from the Asia Pacific region.

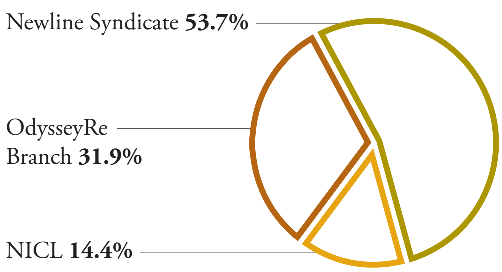
We wrote $559 million of gross premiums in EuroAsia in 2009, with net premiums earned of $543 million and a combined ratio of 97.4%. Property claims from regional catastrophe events accounted for 17 combined ratio points, diminishing what was otherwise a very solid result. Windstorm Klaus, which affected France and Spain, accounted for more than half of the total catastrophe losses experienced by EuroAsia during the year.

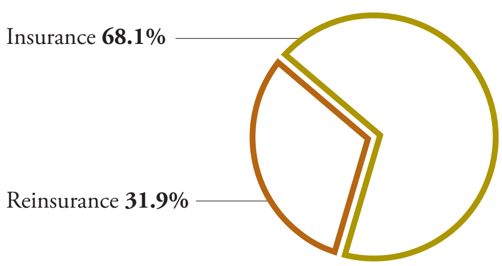
"Stable" is the operative term to describe our business and results for OdysseyRe's second largest division. While current market conditions are competitive, and consolidation within the insurance industry – especially in Europe, Turkey and Japan – has limited our near-term growth prospects, we continue to benefit from the excellent long-term relationships established and cultivated over many years by our experienced underwriting staff.

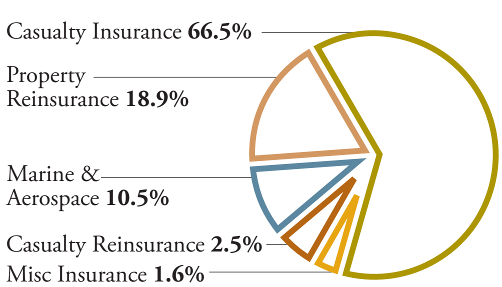
The EuroAsia Division writes only non-life treaty reinsurance. The portfolio is well spread geographically and by line of business. Apart from France, no single territory contributes more than 7% to EuroAsia's premium volume. Property business accounts for 66% of the portfolio with the balance consisting of a mixture of motor, credit & bond, marine, aerospace and accident & health business.

We have generated a consistent stream of underwriting profits throughout the decade and our reinsurance brand across the region is strong. Though market conditions continue to be challenging, our talented staff, business spread and loyal customer following should help portfolio premiums and profitability remain stable in the year ahead.

London Market Division
2009 Gross Premiums Written **$342.9 million**







The **London Market Division,** led by Carl Overy and headquartered in London, operates through three underwriting platforms: Newline Syndicate (1218) at Lloyd's, Newline Insurance Company Ltd. (NICL) and OdysseyRe's London branch. The Newline Syndicate also operates a service company in Singapore, Newline Asia, and a wholly-owned agency in Melbourne, Australia, Connect Liability Solutions.

The London Market wrote $343 million of gross premiums and booked $252 million of net premiums earned in 2009. The combined ratio was a healthy 84.4% with results benefiting from benign catastrophe activity and favorable prior period loss trends. The underwriting track record of the London Market has been excellent throughout the decade, particularly in the last four years.

Newline Syndicate and NICL, collectively referred to as Newline, is an international casualty insurance specialist in its 13th year of operation. During 2009 we appointed Phil Foley as the new Chief Underwriting Officer for Newline. Phil brings a wealth of experience to our management team.

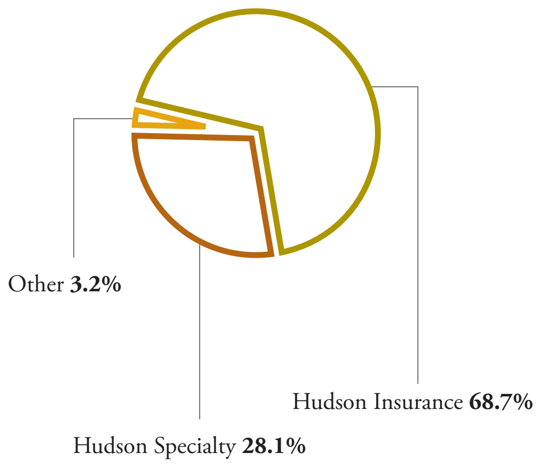
Newline operates through six business units offering a range of products to non-US clients located in most regions and territories around the world. Newline's key product lines are: public and products liability; employers liability; professional liability; D&O; bankers blanket bond / commercial crime; medical malpractice; and UK motor. All of these products are offered through our Lloyd's Syndicate and NICL platforms with the exception of motor, which is offered only through NICL.

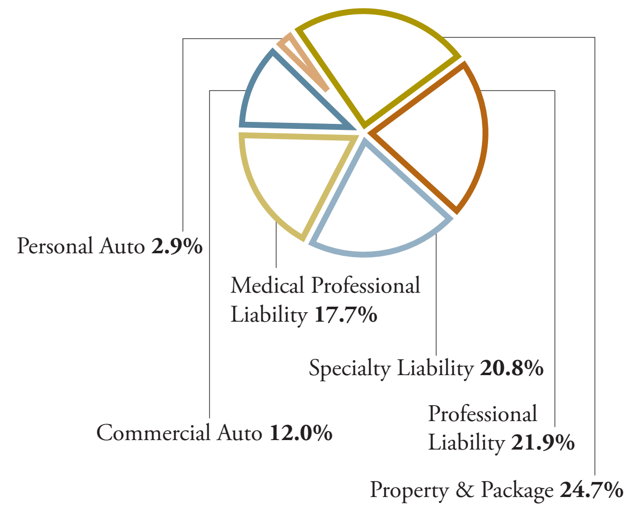
OdysseyRe's London branch underwrites property, casualty, motor, marine, aerospace and accident & health business worldwide with a primary emphasis on providing treaty solutions to clients operating in the Lloyd's, London and broader UK markets. The branch book of business is predominately excess of loss and has a catastrophe-oriented focus. We centralize all of our retrocessional underwriting in London, where OdysseyRe is a leading provider of property catastrophe retro coverage.

Market conditions in most of Newline's key territories have been under pressure for some time, forcing us to maintain a cautious approach to the business. More recently, however, rates have stabilized and even begun to improve in certain sectors, such as financial institutions and UK motor. As for the branch, while the market continues to be competitive in our target areas, price levels, broadly speaking, remain attractive and we expect to selectively deploy more capacity in the year ahead.

US Insurance Division

2009 Gross Premiums Written **$547.0 million**





The **US Insurance Division,** headquartered in New York City, is run by Chris Gallagher, Chief Executive Officer and Chris Suarez, Chief Underwriting Officer, both appointed during the spring of 2009 following the retirement of Jim Migliorini. In addition to our New York center of operations, we have nine other offices throughout the US.

In 2009, US Insurance wrote $547 million of gross premiums and booked $358 million of net premiums earned. Underwriting results were very solid with a combined ratio of 91.5% for the full year.

The US Insurance Division trades under the name Hudson Insurance Group (Hudson) and writes business in two principal operating companies: Hudson Insurance Company and Hudson Specialty Insurance Company. Hudson Insurance is licensed as an admitted carrier in all states and Hudson Specialty is approved nationwide as a non-admitted carrier. Hudson delivers a broad range of specialty property and casualty insurance products and services through seven specialized business units.

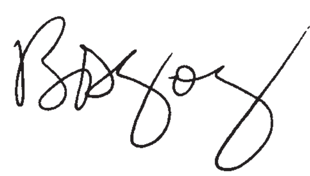
Over the last several years, we have undertaken steps at Hudson to broaden our direct underwriting capabilities, while at the same time maintaining an active presence in the market served by program administrators. To that end, we have invested in new staff, technology and product capabilities to grow Hudson Crop, Hudson Environmental Products and Hudson Financial Products. We have opened new offices in San Francisco, Philadelphia and Overland Park, and expanded our presence in Chicago. Other initiatives have been under way to expand in personal umbrella, specialty property, offshore energy and surety as well as in the specialty segment serving "quick serve" restaurants.

While patience is the watchword today, given current market conditions, we expect these efforts to generate favorable results in the years ahead. Hudson Healthcare has continued to yield favorable results since its entry into our Company in 2003, writing both physician and hospital risks on a surplus lines basis in selected states around the country.

Portfolio diversification, through our 28 underwriting units located in 21 offices around the world, is a cornerstone of our business.

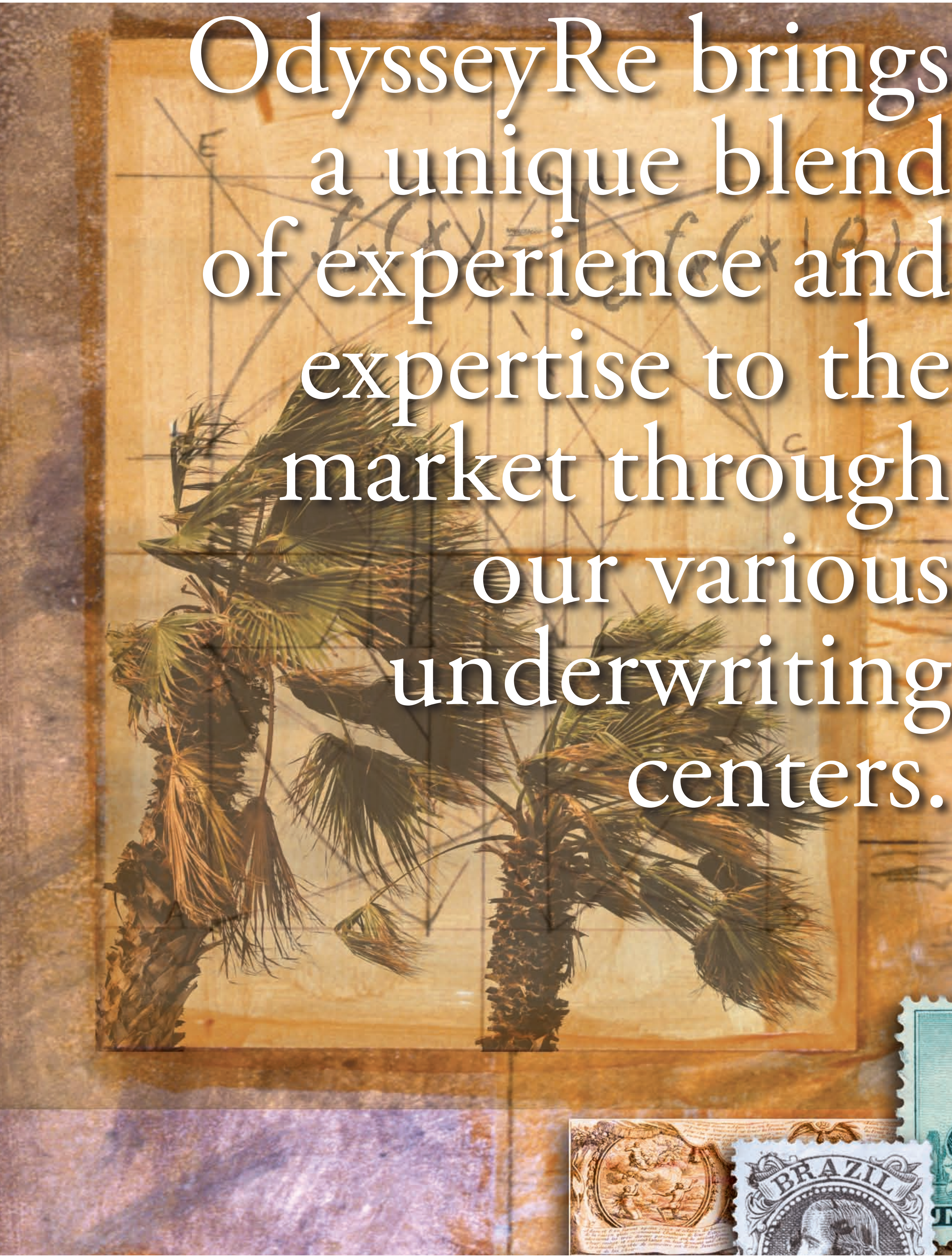
In closing, OdysseyRe's business is global, our product mix diverse and our portfolio readily adaptable to changing market conditions. As we move forward, we will continue to seek out disciplined growth opportunities that broaden the scope of our business and add value to our franchise.

I would like to thank all our business partners – we are immensely grateful for your continued loyalty and support. I would also like to thank Fairfax, Prem, Andy and the rest of my 719 colleagues at OdysseyRe – it is your hard work and commitment to the business that have been instrumental to our success. It is a privilege to work with each and every one of you, and I am confident that, working together, the next ten years will prove to be as rewarding as the last.



Brian D. Young
Chief Operating Officer

OdysseyRe brings a unique blend of experience and expertise to the market through our various underwriting centers.



2009
Financial Report

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To The Board of Directors and Shareholders of Odyssey Re Holdings Corp.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Odyssey Re Holdings Corp. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 25, 2010

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $3,971,139 and $3,429,226, respectively)	$ 4,373,965	$ 3,594,278
Fixed income securities, held as trading securities, at fair value (amortized cost $598,918 and $474,465, respectively)	532,718	338,209
Redeemable preferred stock, at fair value (cost $108 and $510, respectively)	108	114
Convertible preferred stock, held as trading securities, at fair value (cost $75,000)	82,470	—
Equity securities:		
Common stocks, at fair value (cost $1,679,748 and $1,628,611, respectively)	2,071,037	1,555,142
Common stocks, at equity	158,460	141,473
Short-term investments, at fair value (amortized cost $125,100 and $1,202,366, respectively)	125,100	1,202,360
Short-term investments, held as trading securities, at fair value (cost $238,419)	238,403	—
Cash and cash equivalents	941,444	755,747
Cash and cash equivalents held as collateral	56,720	82,374
Other invested assets	146,728	222,841
Total investments and cash	8,727,153	7,892,538
Accrued investment income	79,400	66,575
Premiums receivable	473,878	496,418
Reinsurance recoverable on paid losses	70,511	82,999
Reinsurance recoverable on unpaid losses	841,486	690,171
Prepaid reinsurance premiums	113,047	94,797
Funds held by reinsureds	140,480	128,543
Deferred acquisition costs	126,466	139,069
Federal and foreign income taxes receivable	45,333	52,096
Other assets	167,686	83,303
Total assets	$ 10,785,440	$ 9,726,509
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,507,766	$ 5,250,484
Unearned premiums	691,213	701,955
Reinsurance balances payable	178,428	116,388
Funds held under reinsurance contracts	41,250	55,495
Debt obligations	489,402	489,278
Other liabilities	322,147	285,174
Total liabilities	7,230,206	6,898,774
Commitments and Contingencies (Note 16)		
SHAREHOLDERS' EQUITY		
Preferred shares, $0.01 par value; 200,000,000 shares authorized; 2,000,000 and 2,000,000 Series A shares issued and outstanding, respectively; 1,167,263 and 1,872,000 Series B shares issued and outstanding, respectively	32	39
Common shares, $0.01 par value; 500,000,000 shares authorized; 56,604,650 and 60,264,270 shares issued, respectively	567	603
Additional paid-in capital	515,066	614,203
Treasury shares, at cost (21,321 shares in 2008)	—	(795)
Accumulated other comprehensive income, net of deferred income taxes	546,580	82,421
Retained earnings	2,492,989	2,131,264
Total shareholders’ equity	3,555,234	2,827,735
Total liabilities and shareholders’ equity	$ 10,785,440	$ 9,726,509

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2009	2008	2007
	(In thousands, except per share and per share amounts)		
REVENUES			
Gross premiums written	$ 2,195,035	$ 2,294,542	$ 2,282,682
Ceded premiums written	301,222	263,721	193,239
Net premiums written	1,893,813	2,030,821	2,089,443
Decrease in net unearned premiums	33,599	45,543	31,094
Net premiums earned	1,927,412	2,076,364	2,120,537
Net investment income	317,894	255,199	329,422
Net realized investment gains (losses):			
Net realized investment gains	312,964	1,050,951	593,626
Other-than-temporary impairment losses	(127,013)	(358,692)	(54,490)
Total net realized investment gains	185,951	692,259	539,136
Total revenues	2,431,257	3,023,822	2,989,095
EXPENSES			
Losses and loss adjustment expenses	1,301,996	1,508,725	1,408,364
Acquisition costs	375,259	418,005	437,257
Other underwriting expenses	185,688	175,013	178,555
Other expense, net	44,416	60,419	14,006
Interest expense	31,040	34,180	37,665
Total expenses	1,938,399	2,196,342	2,075,847
Income before income taxes	492,858	827,480	913,248
Federal and foreign income tax provision (benefit):			
Current	153,250	533,899	201,803
Deferred	(32,706)	(255,427)	115,870
Total federal and foreign income tax provision	120,544	278,472	317,673
Net income	372,314	549,008	595,575
Preferred dividends	(5,233)	(7,380)	(8,345)
Gain on purchase of Series B preferred shares	7,997	1,456	—
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 375,078	$ 543,084	$ 587,230
BASIC			
Weighted average common shares outstanding	N/A	63,384,032	70,443,600
Basic earnings per common share	$ N/A	$ 8.46	$ 8.26
DILUTED			
Weighted average common shares outstanding	N/A	63,870,337	71,387,255
Diluted earnings per common share	$ N/A	$ 8.43	$ 8.19
DIVIDENDS			
Dividends declared per common share	$ 0.225	$ 0.275	$ 0.250
COMPREHENSIVE INCOME			
Net income	$ 372,314	$ 549,008	$ 595,575
Other comprehensive income (loss), net of tax	464,159	(1,217)	76,190
Comprehensive income	$ 836,473	$ 547,791	$ 671,765

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2009	2008	2007
	(In thousands, except share amounts)		
PREFERRED SHARES (par value)			
Balance, beginning of year	$ 39	$ 40	$ 40
Preferred shares purchased	(7)	(1)	—
Balance end of year	32	39	40
COMMON SHARES (par value)			
Balance, beginning of year	603	697	712
Common shares repurchased and retired	(18)	(95)	(26)
Common shares cancelled due to Merger (see Note 1)	(18)	—	—
Common shares issued	—	1	11
Balance end of year	567	603	697
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	614,203	970,020	1,029,349
Adjustment to the beginning balance due to a change in accounting	—	—	11,170
Adjusted beginning balance	614,203	970,020	1,040,519
Common shares repurchased and retired	(73,745)	(351,258)	(94,457)
Preferred shares purchased	(17,173)	(3,119)	—
Net change due to stock option exercises and restricted share awards	(13,105)	(12,028)	(10,384)
Net effect of share-based compensation	4,701	9,465	8,211
Common shares issued	167	1,123	25,825
Common shares cancelled due to Merger (see Note 1)	18	—	—
Effect of a change in accounting standard	—	—	306
Balance end of year	515,066	614,203	970,020
TREASURY SHARES (at cost)			
Balance, beginning of year	(795)	(6,250)	(2,528)
Purchases of treasury shares	(18,001)	(14,048)	(16,555)
Reissuance of treasury shares	17,606	19,503	12,833
Cancellation of treasury shares due to Merger (see Note 1)	1,190	—	—
Balance end of year	—	(795)	(6,250)
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	82,421	85,023	25,329
Unrealized net appreciation (depreciation) on securities, net of reclassification adjustments	463,169	(13,149)	77,783
Foreign currency translation adjustments	2,768	4,109	(1,658)
Benefit plan liabilities	(1,778)	7,823	65
Cumulative effect of changes in accounting	—	(1,385)	(16,496)
Balance end of year	546,580	82,421	85,023
RETAINED EARNINGS			
Balance, beginning of year	2,131,264	1,605,170	1,030,677
Adjustment to the beginning balance due to a change in accounting	—	—	(11,170)
Adjusted beginning balance	2,131,264	1,605,170	1,019,507
Net income	372,314	549,008	595,575
Gain on purchase of Series B preferred shares	7,997	1,456	—
Dividends to preferred shareholders	(5,233)	(7,380)	(8,345)
Dividends to common shareholders	(13,353)	(17,357)	(17,757)
Cumulative effect of changes in accounting	—	367	16,190
Balance end of year	2,492,989	2,131,264	1,605,170
TOTAL SHAREHOLDERS' EQUITY	$ 3,555,234	$ 2,827,735	$ 2,654,700
COMMON SHARES OUTSTANDING			
Balance, beginning of year	60,242,949	69,521,494	71,140,948
Shares cancelled due to Merger (see Note 1)	(1,847,272)	—	—
Repurchased and retired	(1,789,100)	(9,480,756)	(2,636,989)
Net treasury shares (acquired) reissued	(10,927)	141,911	(85,564)
Shares issued	9,000	60,300	1,103,099
Balance end of year	56,604,650	60,242,949	69,521,494

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 372,314	$ 549,008	$ 595,575
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Decrease (increase) in premiums receivable and funds held, net	66,698	(15,960)	(31,559)
Decrease in unearned premiums and prepaid reinsurance premiums, net	(33,399)	(37,495)	(27,099)
Increase in unpaid losses and loss adjustment expenses, net	43,246	293,754	72,436
Change in current and deferred federal and foreign income taxes, net	(235,274)	(73,183)	93,738
Decrease (increase) in deferred acquisition costs	13,612	8,304	(914)
Change in other assets and liabilities, net	(57,257)	64,422	(8,791)
Net realized investment gains	(185,951)	(692,259)	(539,136)
Bond (discount) premium amortization, net	(13,319)	6,091	(3,582)
Amortization of compensation plans	26,226	9,466	6,714
Net cash (used in) provided by operating activities	(3,104)	112,148	157,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	206,909	121,418	19,829
Sales of fixed income securities, available for sale	446,906	4,650,338	536,372
Purchases of fixed income securities, available for sale	(1,134,974)	(3,581,390)	(1,531,002)
Sales of equity securities	597,640	65,838	358,483
Purchases of equity securities	(623,844)	(1,255,902)	(365,399)
Sales of other invested assets	29,366	1,159,278	59,087
Purchases of other invested assets	(29,828)	(35,707)	(56,182)
Net change in cash and cash equivalents held as collateral	30,407	196,573	63,929
Net change in obligation to return borrowed securities	—	(47,853)	1,342
Sales of trading securities	247,669	6,351	52,672
Purchases of trading securities	(622,721)	(243,573)	(21,311)
Net change in short-term investments	1,096,288	(712,105)	(348,637)
Acquisition of subsidiary and net assets of a business, net of cash acquired	(3,357)	(9,132)	—
Net cash provided by (used in) investing activities	240,461	314,134	(1,230,817)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares repurchased and retired	(72,573)	(354,076)	(92,165)
Purchase of treasury shares	(18,001)	(14,048)	(17,259)
Purchase of Series B preferred shares	(9,183)	(1,664)	—
Dividends paid to preferred shareholders	(5,882)	(7,526)	(8,369)
Dividends paid to common shareholders	(13,353)	(17,357)	(17,757)
Proceeds from exercise of stock options	851	3,527	2,530
Excess tax benefit from compensation plans	3,816	1,301	1,503
Net cash used in financing activities	(114,325)	(389,843)	(131,517)
Effect of exchange rate changes on cash and cash equivalents	62,665	(178,655)	41,119
Increase (decrease) in cash and cash equivalents	185,697	(142,216)	(1,163,833)
Cash and cash equivalents, beginning of year	755,747	897,963	2,061,796
Cash and cash equivalents, end of year	$ 941,444	$ 755,747	$ 897,963
Supplemental disclosures of cash flow information:			
Interest paid	$ 30,555	$ 33,779	$ 36,985
Income taxes paid	$ 355,943	$ 348,390	$ 224,621
Non-cash activity (see Note 13)			
Conversion of 4.375% convertible debentures	$ —	$ —	$ (23,474)
Issuance of common stock	$ —	$ —	$ 23,474

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Odyssey Re Holdings Corp. (together with its subsidiaries, the "Company" or "OdysseyRe") is an underwriter of reinsurance, providing a full range of property and casualty products on a worldwide basis, and an underwriter of specialty insurance, primarily in the United States and through the Lloyd's of London marketplace. Odyssey Re Holdings Corp. was formed as a holding company and incorporated in Delaware in 2001 in conjunction with its initial public offering. Odyssey Re Holdings Corp. owns all of the common shares of Odyssey America Reinsurance Corporation ("Odyssey America"), its principal operating subsidiary, which is domiciled in the state of Connecticut. Odyssey America directly or indirectly owns all of the common shares of the following subsidiaries: Clearwater Insurance Company ("Clearwater"); Clearwater Select Insurance Company; Newline Holdings U.K. Limited, Newline Underwriting Management Limited, which manages Newline Syndicate (1218), a member of Lloyd's of London, Newline Insurance Company Limited ("NICL"), Newline Corporate Name Limited ("NCNL"), which provides capital for and receives the distributed earnings from Newline Syndicate (1218) (collectively, "Newline"); Hudson Insurance Company ("Hudson"); Hudson Specialty Insurance Company ("Hudson Specialty") and Napa River Insurance Services, Inc. As of December 31, 2009, Fairfax Financial Holdings Limited ("Fairfax"), a publicly traded financial services holding company based in Canada, owned 100.0% of OdysseyRe.

On September 18, 2009, Fairfax and OdysseyRe announced that they had entered into an agreement and plan of merger (the "Merger Agreement") pursuant to which Fairfax would promptly commence a tender offer to acquire all of the outstanding shares of common stock of OdysseyRe that Fairfax and its subsidiaries did not currently own, for $65.00 in cash per share, representing total cash consideration of approximately $1.1 billion. Pursuant to the Merger Agreement, on September 23, 2009, Fairfax commenced a tender offer for all of the outstanding shares of common stock of OdysseyRe (the "Offer") other than shares owned by Fairfax and its subsidiaries for $65.00 in cash per share. The Board of Directors of OdysseyRe, following the unanimous recommendation of a special committee comprised solely of independent directors which had been formed to review and consider any Fairfax proposal, recommended that OdysseyRe's minority stockholders tender their shares to the Fairfax offer and vote or consent to approve and adopt the Merger Agreement if it were to be submitted for their approval and adoption.

Pursuant to the Offer, which expired on October 21, 2009 at 12:00 midnight, New York City time, Fairfax acquired a total of approximately 14.3 million shares of common stock of OdysseyRe (the "Tendered Shares"). The Tendered Shares, combined with the shares previously owned by Fairfax and its subsidiaries, represented approximately 97.1% of the 58,451,922 shares of common stock of OdysseyRe outstanding. Following the purchase of the Tendered Shares, Fairfax caused a short-form merger pursuant to which Fairfax Investments USA Corp., a newly-formed, wholly-owned subsidiary of Fairfax, merged with and into OdysseyRe (the "Merger").

The Merger was effected on October 28, 2009 pursuant to Section 253 of the General Corporation Law of the State of Delaware (the "DGCL") by the execution and filing of a Certificate of Ownership and Merger with the Secretary of State of the State of Delaware. As a result of the Merger, all of the remaining shares of OdysseyRe's common stock held by the remaining minority shareholders of OdysseyRe (the "Remaining Shares") were cancelled and, subject to appraisal rights under Delaware law, converted into the right to receive $65.00 per share in cash, without interest, and subject to any applicable withholding of taxes. As a result of the Merger, Fairfax and its subsidiaries became the owner of 100% of the outstanding shares of the Company's common stock. The Company subsequently withdrew its shares of common stock from listing on the New York Stock Exchange and terminated registration of these shares under the Securities Exchange Act of 1934. All common shares remaining in treasury following the Merger were cancelled.

2. Summary of Significant Accounting Policies

(a) *Basis of Presentation.* The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions have been eliminated. The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions, which could differ materially from actual results that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Certain amounts from prior periods have been reclassified to conform to the current year's presentations.

(b) *Investments.* The majority of the Company's investments in fixed income securities and common stocks are categorized as "available for sale" and are recorded at their estimated fair value based on quoted market prices. Certain investments, including fixed income securities that contain embedded derivatives, are reflected in trading securities (see Note 3), while most investments in common stocks of affiliates are carried at the Company's proportionate share of the equity of those affiliates. Short-term investments (some of which are classified as "available for sale", and some of which are classified as "held as trading"), which have a maturity of one year or less from the date of purchase, are carried at fair value. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments in limited partnerships and investment funds have been reported in other invested assets. Other invested assets also include trust accounts relating to the Company's benefit plans and derivative securities, all of which are carried at fair value. The Company routinely evaluates the carrying value of its investments in common stocks of affiliates and in partnerships and investment funds. In the case of limited partnerships and investment funds, the carrying value is generally established on the basis of the net valuation criteria as determined by the managers of the investments. Such valuations could differ significantly from the values that would have been available had markets existed for the securities. Investment transactions are recorded on their trade date, with balances pending settlement reflected in the consolidated balance sheet as a component of other assets or other liabilities.

Investment income, which is reported net of applicable investment expenses, is recorded as earned. Realized investment gains or losses are determined on the basis of average cost. The Company records, in investment income, its proportionate share of income or loss, including realized gains or losses, for those securities for which the equity method of accounting is utilized, which include most common stocks of affiliates, limited partnerships and investment funds. Due to the timing of when financial information is reported by equity investees and received by the Company, including limited partnerships and investment funds, results attributable to these investments are generally reported by the Company on a one month or one quarter lag. Unrealized appreciation and depreciation related to trading securities is recorded as realized investment gains or losses in the consolidated statements of operations.

The net amount of unrealized appreciation or depreciation on the Company's available for sale investments, net of applicable deferred income taxes, is reflected in shareholders' equity in accumulated other comprehensive income. A decline in the fair value of an available for sale investment below its cost or amortized cost that is deemed other-than-temporary is recorded as a realized investment loss in the consolidated statements of operations, resulting in a new cost or amortized cost basis for the investment. Other-than-temporary declines in the carrying values of investments recorded in accordance with the equity method of accounting are recorded in net investment income in the consolidated statements of operations.

(c) *Premium Revenue Recognition.* Reinsurance assumed premiums written and related costs are based upon reports received from ceding companies. Where reinsurance assumed premiums written have not been reported by the ceding company, they are estimated, at the individual contract level, based on historical patterns and experience from the ceding company and judgments of the Company. Subsequent adjustments to premiums written, based on actual results or revised estimates from the ceding company, are recorded in the period in which they become known. Reinsurance assumed premiums written related to proportional treaty business are established on a basis that is consistent with the coverage periods under the terms of the underlying insurance contracts. Reinsurance assumed premiums written related to excess of loss and facultative reinsurance business are recorded over the coverage term of the contracts, which is generally one year. Unearned premium reserves are established for the portion of reinsurance assumed premiums written to be recognized over the remaining contract period. Unearned premium reserves related to proportional treaty contracts are computed based on reports received from ceding companies, which show premiums written but not yet earned. Premium adjustments made over the life of the contract are recognized as earned premiums based on the applicable contract period to which they apply. Insurance premiums are earned on a pro rata basis over the policy period, which is generally one year. A reserve for uncollectible premiums is established when deemed necessary.

The cost of reinsurance purchased by the Company (reinsurance premiums ceded) is reported as prepaid reinsurance premiums and amortized over the contract period in proportion to the amount of insurance protection provided. The ultimate amount of premiums, including adjustments, is recognized as premiums ceded, and amortized over the applicable contract period to which they apply. Reserves are established for the unexpired portion of premiums ceded and recorded as an asset in prepaid reinsurance premiums. Premiums earned are reported net of reinsurance ceded premiums earned in the consolidated statements of operations. Amounts paid by the Company for retroactive reinsurance that meets the conditions for reinsurance accounting are reported as reinsurance receivables to the extent those amounts do not exceed the associated liabilities. If the liabilities exceed the amounts paid, reinsurance receivables are increased to reflect the difference, and the resulting gain is deferred and amortized over the estimated settlement period. If the amounts paid for retroactive reinsurance exceed the liabilities, the Company will increase the related liabilities or reduce the reinsurance receivable, or both, at the time the reinsurance contract is effective, and the excess is charged to net income. Changes in the estimated amount of liabilities relating to the underlying reinsured contracts are recognized in net income in the period of the change.

Assumed and ceded reinstatement premiums represent additional premiums related to reinsurance coverages, principally catastrophe excess of loss contracts, which are paid when the incurred loss limits have been utilized under the reinsurance contract and such limits are reinstated. Premiums written and earned premiums related to a loss event are estimated and accrued as earned. The accrual is adjusted based upon any change to the ultimate losses incurred under the contract.

(d) *Deferred Acquisition Costs.* Acquisition costs, which are reported net of acquisition costs ceded, consist of commissions and brokerage expenses incurred on insurance and reinsurance business written, and are deferred and amortized over the period in which the related premiums are earned, which is generally one year. Commission adjustments are accrued based on changes in premiums and losses recorded by the Company in the period in which they become known. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premium, which considers anticipated losses and loss adjustment expenses and estimated remaining costs of servicing the business, all based on historical experience. The realizable value of the Company's deferred acquisition costs is determined without consideration of investment income.

(e) *Goodwill and Intangible Assets.* The Company accounts for goodwill and intangible assets as permitted or required by GAAP. A purchase price paid that is in excess of net assets arising from a business combination is recorded as an asset ("goodwill") and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statements of operations. The Company has determined that its goodwill and intangible assets are not impaired as of December 31, 2009 and 2008.

The following table reflects the carrying amount of goodwill, intangible assets with an indefinite life and intangible assets with a finite life as of December 31, 2009 and 2008 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2008	$ 24,708	$ 5,813	$ 4,375	$ 34,896
Acquired during 2008	8,669	—	8,340	17,009
Amortization during 2008	—	—	(1,575)	(1,575)
Balance, December 31, 2008	33,377	5,813	11,140	50,330
Acquired during 2009	3,357	—	—	3,357
Amortization during 2009	—	—	(2,642)	(2,642)
Balance, December 31, 2009	$ 36,734	$ 5,813	$ 8,498	$ 51,045

The Company amortized $0.8 million for the year ended December 31, 2007, related to its intangible assets with a finite life. The Company did not incur any impairment of its intangible assets during 2009, 2008 or 2007.

The following table provides the estimated amortization expense related to intangible assets for the succeeding five years (in thousands):

	Years Ended December 31,				
	2010	2011	2012	2013	2014
Amortization of intangible assets	$ 2,047	$ 1,858	$ 1,698	$ 1,312	$ 459

(f) *Unpaid losses and loss adjustment expenses.* The reserves for losses and loss adjustment expenses are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates are based on assumptions related to the ultimate cost to settle such claims. The inherent uncertainties of estimating reserves are greater for reinsurers than for primary insurers, due to the diversity of development patterns among different types of reinsurance contracts and the necessary reliance on ceding companies for information regarding reported claims. As a result, there can be no assurance that the ultimate liability will not exceed amounts reserved, with a resulting adverse effect on the Company.

The reserve for unpaid losses and loss adjustment expenses is based on the Company's evaluations of reported claims and individual case estimates received from ceding companies for reinsurance business or the estimates advised by the Company's claims adjusters for insurance business. The Company utilizes generally accepted actuarial methodologies to determine reserves for losses and loss adjustment expenses on the basis of historical experience and other estimates. The reserves are reviewed continually during the year and changes in estimates in losses and loss adjustment expenses are reflected as an expense in the consolidated statements of operations in the period the adjustment is made. Reinsurance recoverables on unpaid losses and loss adjustment expenses are reported as assets. A reserve for uncollectible reinsurance recoverables is established based on an evaluation of each reinsurer or retrocessionaire and historical experience. The Company uses tabular reserving for workers' compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5%. Workers' compensation indemnity loss reserves have been discounted using the Life Table for Total Population: United States, 2004.

(g) *Deposit Assets and Liabilities.* The Company may enter into assumed and ceded reinsurance contracts that contain certain loss limiting provisions and, as a result, do not meet the risk transfer provisions of GAAP accounting standards. These contracts are accounted for using the deposit accounting method in accordance with GAAP. Under the deposit method of accounting, revenues and expenses from reinsurance contracts are not recognized as written premium and incurred losses. Instead, the profits or losses from these contracts are recognized net, as other income or expense over the contract or contractual settlement periods. In accordance with this accounting standard, these contracts are deemed as either transferring only significant timing risk or only significant underwriting risk or transferring neither significant timing nor underwriting risk.

For such contracts, the Company initially records the amount of consideration paid as a deposit asset or received as a deposit liability. Revenue or expense is recognized over the term of the contract, with any deferred amount recorded as a component of assets or liabilities until such time it is earned. The ultimate asset or liability under these contracts is estimated, and the asset or liability initially established, which represents consideration received, is increased or decreased over the term of the contract. The change during the period is recorded in the Company's consolidated statements of operations, with increases and decreases in the ultimate asset or liability shown in other expense, net. As of December 31, 2009 and 2008, the Company had reflected in other assets $7.8 million and $8.0 million, respectively, and in other liabilities $1.6 million and $1.1 million, respectively, related to deposit contracts. In cases where cedants retain the consideration on a funds held basis, the Company records those assets in other assets, and records the related investment income on the assets in the Company's consolidated statements of operations as investment income.

(h) *Income Taxes.* The Company records deferred income taxes to provide for the net tax effect of temporary differences between the carrying values of assets and liabilities in the Company's consolidated financial statements and their tax bases. Such differences relate principally to deferred acquisition costs, unearned premiums, unpaid losses and loss adjustment expenses, investments and tax credits. Deferred tax assets are reduced by a valuation allowance when the Company believes it is more likely than not that all or a portion of deferred taxes will not be realized. As of December 31, 2009 and 2008, a valuation allowance was not required. During the third quarter of 2006, Fairfax reduced its ownership of the Company to below 80%, and as a result, the Company was deconsolidated from the United States tax group of Fairfax. Accordingly, the Company filed or will file separate company tax returns for the period August 2, 2006 to October 20, 2009. As a result of the Merger, effective October 28, 2009, the Company rejoined the United States tax group of Fairfax. The Merger had no effect on the Company's tax position (see Note 15). The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. As of December 31, 2009 and 2008, the Company has not recorded any interest or penalties.

(i) *Derivatives.* The Company utilizes derivative instruments to manage against potential adverse changes in the value of its assets and liabilities. Derivatives include credit default swaps, call options and warrants, total return swaps, interest rate swaps, forward currency contracts and other equity and credit derivatives. In addition, the Company holds options on certain securities within its fixed income portfolio, which allows the Company to extend the maturity date on fixed income securities or convert fixed income securities to equity securities. The Company categorizes these investments as trading securities, and changes in fair value are recorded as realized investment gains or losses in the consolidated statements of operations. All derivative instruments are recognized as either assets or liabilities on the consolidated balance sheet and are measured at their fair value. Gains or losses from changes in the derivative values are reported based on how the derivative is used and whether it qualifies for hedge accounting. As the Company's derivative instruments do not qualify for hedge accounting, changes in fair value are included in realized investment gains and losses in the consolidated statements of operations. Margin balances required by counterparties in support of derivative positions are included in fixed income securities, available for sale.

(j) *Operating Segments.* The Company has four operating segments that reflect the manner in which management monitors and evaluates the Company's financial performance. The Company's four segments include: Americas, EuroAsia, London Market and U.S. Insurance (see Note 14).

(k) *Foreign Currency.* Foreign currency transaction gains or losses resulting from a change in exchange rates between the currency in which a transaction is denominated, or the original currency, and the functional currency are reflected in the consolidated statements of operations in the period in which they occur. The Company translates the financial statements of its foreign subsidiaries and branches, which have functional currencies other than the U.S. dollar, into U.S. dollars by translating balance sheet accounts at the balance sheet date exchange rate and income statement accounts at the average exchange rate for the year. Translation gains or losses are recorded, net of deferred income taxes, as a component of accumulated other comprehensive income.

The following table presents the foreign exchange effect, net of tax, on certain line items in the Company's financial statements for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Statement of operations:			
Net investment income	$ 1,771	$ (4,693)	$ 2,797
Net realized investment gains	7,449	11,435	87,942
Other expense, net	(4,233)	(45,796)	1,204
Income before income taxes	4,987	(39,054)	91,943
Total federal and foreign income tax (benefit) provision	(1,745)	13,669	(32,180)
Net income	3,242	(25,385)	59,763
Other comprehensive income (loss), net of tax	2,768	4,109	(1,658)
Total effect on comprehensive income and shareholders' equity	$ 6,010	$ (21,276)	$ 58,105

(l) *Earnings Per Share.* Prior to the Merger, the Company calculated earnings per share using the two-class method. The Company treated unvested share-based payment awards that had non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in the calculation. Under the Company's former restricted share plan, the grantees had non-forfeitable rights to dividends before the vesting date and, accordingly, the restricted shares were considered participating securities. During the fourth quarter of 2009, Fairfax attained 100% ownership of the Company; accordingly, the Company has not presented earnings per share for the year ended December 31, 2009.

(m) *Stock-Based Compensation Plans.* Prior to the Merger, the Company accounted for its share-based payments to employees in accordance with Accounting Standards Codification ("ASC") 718, "Share-Based Payment." Following the acquisition, the Company established the Restricted Share and Equity Value Plan (the "Plan"). Under the terms of the Plan, each restricted equity value right ("REVRs") will have a value (the "REVR Value") equal to the total shareholders' equity of the Company attributable to the common equity as of the last day of the most recently completed quarter of the Company for which Fairfax has publicly released its earnings report, or in the event that Fairfax does not intend to publicly release an earnings report, for which financial statements that report the Company's book value are available, as adjusted for dividends, capital contributions or other extraordinary events (in each case, as determined by the Board of Directors of the Company or the Compensation Committee thereof, in its sole discretion), divided by 58,443,149 (which is the number of Company common shares outstanding as of September 30, 2009). Upon vesting of a REVR, a participant will receive a single sum cash payment equal to the REVR Value as of the applicable vesting date, less any applicable withholding of taxes. The Company accounts for the Plan as a liability plan in accordance with ASC 718.

(n) *Payments.* Payments of claims by the Company, as reinsurer, to a broker on behalf of a reinsured company are recorded on the Company's books as a paid loss at the time the cash is disbursed. The payment is treated as a paid claim to the reinsured. Premiums due to the Company from the reinsured are recorded as receivables from the reinsured until the cash is received by the Company, either directly from the reinsured or from the broker.

(o) *Funds Held Balances.* Funds held under reinsurance contracts is an account used to record a liability, in accordance with the contractual terms, arising from the Company's receipt of a deposit from a reinsurer or the withholding of a portion of the premiums due as a guarantee that a reinsurer will meet its loss and other obligations. Interest generally accrues on withheld funds in accordance with contract terms. Funds held by reinsured is an account used to record an asset resulting from the ceding company, in accordance with the contractual terms, withholding a portion of the premium due the Company as a guarantee that the Company will meet its loss and other obligations.

(p) *Fixed Assets.* Fixed assets, with a net book value of $11.5 million and $10.7 million as of December 31, 2009 and 2008, respectively, are included in other assets. Property and equipment are recorded at cost. Depreciation and amortization are generally computed on a straight-line basis over the following estimated useful lives:

Leasehold improvements	10 years or term of lease, if shorter
Electronic data processing equipment and furniture	5 years
Personal computers and software	3 years

Depreciation and amortization expense for the years ended December 31, 2009, 2008 and 2007 was $4.6 million, $5.1 million and $9.5 million, respectively.

3. Recent Accounting Pronouncements

In December 2008, the FASB issued an accounting standard to require enhanced disclosures regarding the major categories of plan assets, concentrations of risk, inputs and valuation techniques used to measure the fair value of plan assets and the effect of using unobservable inputs (Level 3 classification under the fair value accounting standard). The disclosure requirements of this standard were adopted as of December 31, 2009 and are included in these consolidated financial statements.

In June 2009, the FASB issued an accounting standard to provide a timeline for the application of the codification project (“Codification”), which, effective July 1, 2009, eliminated the current four levels of hierarchy of authoritative accounting and reporting guidance and provides one source for authoritative accounting and reporting. The Codification does not change existing GAAP, as such affects the Company. The Codification was adopted by the Company in the third quarter of 2009.

In April 2009, the FASB issued an accounting standard to provide additional guidance in estimating the fair value of assets and liabilities when the volume of activity has significantly decreased. The new accounting standard requires additional disclosures to discuss interim and annual significant assumptions and valuation techniques used to determine the fair value of the assets and liabilities. The accounting standard does not change the principles of fair value measurement but instead enhances it to provide further guidance on inactive markets. The Company adopted the accounting standard as of April 1, 2009. The adoption of this accounting standard did not have an impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued an accounting standard that provides additional guidance for the measurement of other-than-temporary impairments on debt securities classified as available-for-sale and held-to-maturity. This accounting standard requires entities to separate their other-than-temporary impairment charges on available-for-sale or held-to-maturity debt securities into credit and other components. An other-than-temporary impairment charge resulting from credit-related losses associated with an impaired debt security should be recorded to earnings, while an other-than-temporary impairment resulting from other factors (i.e., interest rates and market conditions) should be recognized in other comprehensive income. In addition, if an other-than-temporary impairment exists that is related to factors other than credit, and it is more likely than not that the Company will have to sell the security prior to recovery, the other-than-temporary impairment should be recorded in earnings. Also, this accounting standard provides additional presentation and disclosure guidance for debt and equity securities. The adoption of this accounting standard as of April 1, 2009, did not have an impact on consolidated shareholders’ equity or net income.

In April 2009, the FASB issued an accounting standard to require additional interim period disclosures regarding the fair value of financial instruments. Entities are required to disclose how the amounts in the disclosure relate to amounts in the balance sheet, the method used to determine the fair value and significant assumptions used in the valuation. The Company adopted this accounting standard as of April 1, 2009, which had no impact on the Company's disclosures.

In June 2008, the FASB issued an accounting standard that addresses the calculation of earnings per share for entities with instruments granted in share-based payment transactions that are participating securities prior to vesting and therefore should be included in the earnings allocation in calculating earnings per share under the two-class method. This accounting standard requires entities to treat unvested share-based payment awards that have non-forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. Under the Company's restricted share plan, the grantees have non-forfeitable rights to dividends before the vesting date and, accordingly, the restricted shares are participating securities. On January 1, 2009, the Company adopted the accounting standard on a retrospective basis. The adoption of this accounting standard resulted in a reduction of diluted earnings per share to common shareholders of $0.07 and $0.04 for the years ended December 31, 2008 and 2007, respectively.

In May 2008, the FASB issued an accounting standard to clarify the guidance related to convertible debt with options to settle partially or fully in cash. This accounting standard does not change the accounting for convertible debt that does not offer a cash settlement feature, nor does it apply if the conversion feature is accounted for as an embedded derivative or for convertible preferred stock. On January 1, 2009, the Company adopted the accounting standard and applied it on a retrospective basis to the Company's convertible senior debentures issued in June 2002 (see Note 13). As of May 1, 2007, all of the convertible senior debentures had been either repurchased by the Company or converted into shares of the Company's common stock. The adoption of this accounting standard resulted in a cumulative increase, as of May 1, 2007, to additional paid-in capital and a corresponding decrease to retained earnings of $11.5 million.

In March 2008, the FASB issued an accounting standard that requires additional disclosures for derivative and hedging activities. On January 1, 2009, the Company adopted the disclosure provisions of this accounting standard.

4. Business Combinations

In 2004, Hudson Specialty purchased 40% of Hooghuis Group LLC ("Hooghuis"), an underwriting agency specializing in U.S. directors' and officers' liability insurance. On June 9, 2008, Hudson Specialty purchased the remaining 60% of the outstanding shares of Hooghuis at a cost of $5.3 million. As a result of the acquisition, the Company acquired $9.9 million in assets (including $2.9 million in intangible assets, which is being amortized over the expected lives of such assets, and $1.0 million in goodwill) and $5.5 million in liabilities. As of December 31, 2009, the unamortized balance of the intangible assets was $1.8 million. On May 27, 2009, Hudson Specialty made a $3.4 million payment as final settlement for contingent consideration on its original 40% interest in Hooghuis, which has been reflected as additional goodwill.

On August 29, 2008, Hudson purchased certain assets and liabilities associated with the crop insurance business previously produced by CropUSA Insurance Agency, Inc. ("CropUSA") for cash consideration of $8.0 million. Since 2006, CropUSA had acted as managing general underwriter for Hudson in the crop insurance sector. The acquisition resulted in an increase of $34.1 million in assets (including $7.7 million in goodwill and $5.5 million in intangible assets, which will be amortized over the expected lives of such assets) and $26.1 million in liabilities. As of December 31, 2009, the unamortized balance of the intangible assets was $3.8 million.

5. Earnings Per Common Share

As discussed in Note 3 to the consolidated financial statements, on January 1, 2009 the Company adopted, on a retrospective basis, an accounting standard that resulted in the Company treating its unvested share-based payment awards as a separate class of securities for the purpose of calculating earnings per share. As a result of the Merger (see Note 1), Fairfax attained 100% ownership of the Company; accordingly, the Company has not presented earnings per common share for the year ended December 31, 2009. The following table shows the allocation of net income as calculated in accordance with the accounting standard for the years ended December 31, 2008 and 2007 (in thousands):

	2008	2007
Net income	$ 549,008	$ 595,575
Preferred dividends	(7,380)	(8,345)
Gain on purchase of Series B preferred shares	1,456	—
Net income available to common shareholders	$ 543,084	$ 587,230
Allocation of net income for basic earnings per share:		
Common shares	$ 536,135	$ 581,535
Participating securities	6,949	5,695
Net income available to common shareholders	$ 543,084	$ 587,230

Net income per common share for the years ended December 31, 2008 and 2007 as presented in the following table has been computed based upon weighted average common shares outstanding (in thousands, except share and per share amounts):

	2008	2007
Net income to common shares — basic	$ 536,135	$ 581,535
Interest on 4.375% convertible senior debentures, net of tax	—	177
Undistributed earnings allocated to share-based payments	2,544	2,749
Net income to common shares — diluted	$ 538,679	$ 584,461
Weighted average common shares outstanding — basic	63,384,032	70,443,600
Effect of dilutive shares:		
Stock options	106,912	171,897
Restricted shares	379,393	420,038
4.375% convertible senior debentures	—	351,720
Total effect of dilutive shares	486,305	943,655
Weighted average common shares outstanding — diluted	63,870,337	71,387,255
Net earnings per common share:		
Basic	$ 8.46	$ 8.26
Diluted	8.43	8.19

In calculating diluted earnings per share, the Company is required to evaluate each stock option and restricted stock grant to determine if it is dilutive or anti-dilutive in nature. For the years ended December 31, 2008 and 2007, respectively, 110,537, and 31,926 existing stock options and restricted stock awards outstanding were excluded from the computation of weighted average common shares for diluted earnings per common share, due to the anti-dilutive effect.

Net income per participating security for the years ended December 31, 2008 and 2007, as presented in the following table, has been computed based upon weighted average restricted shares outstanding (in thousands, except share and per share amounts):

	2008	2007
Net income to participating securities — basic	$ 6,949	$ 5,695
Weighted average restricted shares outstanding — basic	822,928	690,847
Net earnings per participating security — basic	$ 8.45	$ 8.24

6. Fair Value Measurements

The Company accounts for a significant portion of its financial instruments at fair value as permitted or required by GAAP.

Fair Value Hierarchy

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Gains and losses for assets and liabilities categorized within the Level 3 table below, therefore, may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Financial assets and liabilities recorded in the consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1: Level 1 financial instruments are financial assets and liabilities for which the values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

Level 2: Level 2 financial instruments are financial assets and liabilities for which the values are based on quoted prices in markets that are not active, or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets;

c) Pricing models, the inputs for which are observable for substantially the full term of the asset or liability; and

d) Pricing models, the inputs for which are derived principally from, or corroborated by, observable market data through correlation or other means, for substantially the full term of the asset or liability.

Level 3: Level 3 financial instruments are financial assets and liabilities for which the values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's own assumptions about the methodology and valuation techniques that a market participant would use in pricing the asset or liability.

The Company is responsible for determining the fair value of its investment portfolio by utilizing market driven fair value measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques that make use of current market data. For the majority of the Company's investment portfolio, the Company uses quoted prices and other information from independent pricing sources in determining fair values.

For determining the fair value of its Level 1 investments, the Company utilizes quoted market prices. The majority of the Company's Level 1 investments are common stocks that are actively traded in a public market. Short-term investments and cash equivalents, for which the cost basis approximates fair value, are also classified as Level 1 investments.

The Company's Level 2 investments, the majority of which are in government, corporate and municipal fixed income securities, are priced using publicly traded over-the-counter prices and broker-dealer quotes. Observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments. For determining the fair value of credit default swaps, which are classified as Level 2, the Company utilizes broker-dealer quotes that include observable credit spreads. Also included in Level 2 are inactively traded convertible corporate debentures that are valued using a pricing model that includes observable inputs such as credit spreads and discount rates in the calculation. During the year ended December 31, 2009, the Company transferred $47.8 million of Level 3 investments to Level 2 after determining that broker-dealer quotes were available to determine the fair value of the instruments.

The Company uses valuation techniques to establish the fair value of Level 3 investments. During the year ended December 31, 2009, the Company purchased $19.9 million of investments that are classified as Level 3. As of December 31, 2009, the Company held $47.5 million of investments that are classified as Level 3. These Level 3 investments are valued using a discounted cash flow model, including unobservable inputs that are supported by limited market-based activity. To verify Level 3 pricing, the Company assesses the reasonableness of the fair values by comparison to economic pricing models, by reference to movements in credit spreads and by comparing the fair values to recent transaction prices for similar assets, where available.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are generally reported as transfers in or out of the Level 3 category as of the beginning of the period in which the reclassifications occur. The Company has determined, after carefully considering the impact of recent economic conditions and liquidity in the credit markets on the Company's portfolio, that it should not re-classify any of its investments from Level 1 or Level 2 to Level 3. However, during the third quarter of 2009, the Company transferred its investment in Advent Capital (Holdings) PLC ("Advent") from Level 2 to Level 3, following Advent's delisting from the London Stock Exchange.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008 (in thousands):

	Asset / Liability Measured at Fair Value December 31, 2009	Fair Value Measurements as of December 31, 2009: Quoted Prices in Active Markets for Identical Assets / Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 141,037	$ —	$ 141,037	$ —
States, municipalities and political subdivisions	3,087,556	—	3,087,556	—
Foreign governments	796,611	—	796,611	—
Corporate	348,761	—	348,761	—
Total fixed income securities, available for sale	4,373,965	—	4,373,965	—
Fixed income securities, held as trading securities:				
Foreign governments	99,399	—	99,399	—
Mortgage-related	70,344	—	56,098	14,246
Corporate	362,975	—	362,975	—
Total fixed income securities, held as trading securities	532,718	—	518,472	14,246
Redeemable preferred stock, available for sale	108	—	108	—
Convertible preferred stock, held as trading securities	82,470	—	82,470	—
Common stocks, available for sale	2,071,037	2,035,131	35,906	—
Short-term investments, available for sale	125,100	125,100	—	—
Short-term investments, held as trading securities	238,403	238,403	—	—
Cash equivalents	776,136	776,136	—	—
Derivatives	19,981	—	19,981	—
Other investments	46,131	1,553	11,280	33,298
Total assets measured at fair value	$ 8,266,049	$ 3,176,323	$ 5,042,182	$ 47,544
Derivative liabilities	$ 39,295	$ —	$ 39,295	$ —

	Asset / Liability Measured at Fair Value December 31, 2008	Fair Value Measurements as of December 31, 2008: Quoted Prices in Active Markets for Identical Assets / Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 353,709	$ —	$ 353,709	$ —
States, municipalities and political subdivisions	2,278,452	—	2,278,452	—
Foreign governments	840,203	—	839,203	1,000
Corporate	121,914	—	121,914	—
Total fixed income securities, available for sale	3,594,278	—	3,593,278	1,000
Fixed income securities, held as trading securities:				
Foreign governments	84,055	—	84,055	—
Mortgage-related	66,423	—	—	66,423
Corporate	187,731	—	187,731	—
Total fixed income securities, held as trading securities	338,209	—	271,786	66,423
Redeemable preferred stock, available for sale	114	7	107	—
Common stocks, available for sale	1,555,142	1,527,825	27,317	—
Short-term investments, available for sale	1,202,360	1,174,016	28,344	—
Cash equivalents	472,544	472,544	—	—
Derivatives	111,069	—	111,069	—
Other investments	27,693	1,552	26,141	—
Total assets measured at fair value	$ 7,301,409	$ 3,175,944	$ 4,058,042	$ 67,423
Derivative liabilities	$ 101	$ 68	$ 33	$ —

The following tables provide a summary of changes in the fair value of Level 3 financial assets for the years ended December 31, 2009 and 2008 (in thousands):

	Year Ended December 31, 2009 Fixed Income Securities	2008 Fixed Income Securities	2009 Other Invested Assets	2008 Equity Securities
Beginning balance	$ 67,423	$ 1,000	$ —	$ 8,147
Total realized investment (losses) gains included in net income	(266)	(4,767)	(25)	7,827
Purchases	19,159	72,663	700	—
Settlements	(24,283)	(1,473)	—	(15,974)
Transfers from Level 2 to Level 3	—	—	32,623	—
Transfers from Level 3 to Level 2	(47,787)	—	—	—
Ending balance	$ 14,246	$ 67,423	$ 33,298	$ —

The following table presents realized investment gains (losses) included in net income related to Level 3 assets for the years ended December 31, 2009 and 2008 (in thousands):

	Year Ended December 31,	
	2009	2008
	Net Realized Investment Gains (Losses) on Fixed Income Securities	Net Realized Investment Gains (Losses) on Fixed Income Securities
Realized investment gains related to securities sold	$ 6,466	$ 916
Realized investment losses related to securities held	(6,732)	(5,683)
Total net realized investment losses relating to Level 3 assets	$ (266)	$ (4,767)

	Year Ended December 31,	
	2009	2008
	Net Realized Investment Losses on Other Invested Assets	Net Realized Investment Gains on Equity Securities
Realized investment gains related to securities sold	$ —	$ 7,827
Realized investment losses related to securities held	(25)	—
Total net realized investment (losses) gains relating to Level 3 assets	$ (25)	$ 7,827

Fair Value Option

The fair value option ("FVO") available under GAAP allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in the fair value of assets and liabilities for which the election is made will be recognized in net income as they occur. The FVO election is permitted on an instrument-by-instrument basis at initial recognition of an asset or liability or upon the occurrence of an event that gives rise to a new basis of accounting for that instrument.

On January 1, 2008, the Company elected the FVO for its investment in Advent. At the time, Advent was publicly traded on a foreign stock exchange and its traded price was determined to be a better indicator of its value than its carrying value under the equity method. During the third quarter of 2009, Fairfax and certain of its subsidiaries, including the Company, purchased additional shares of Advent, bringing Fairfax's ownership in Advent to 97.0%. The remaining 3.0% of the outstanding shares of Advent were purchased by Fairfax during the fourth quarter of 2009, resulting in 100.0% ownership in Advent's common stock, of which the Company holds 22.8%.

During the fourth quarter of 2007, the Company recognized an impairment adjustment to its investment in Advent, under the equity method of accounting, and wrote-down Advent's value to its publicly traded fair value as of December 31, 2007. Accordingly, the Company's election of the FVO had no effect on Advent's carrying value or the Company's shareholders' equity as of January 1, 2008. Upon the election of the FVO for Advent, the Company recorded a cumulative adjustment of $2.4 million, or $1.5 million net of tax, to reclassify foreign currency unrealized gains from the foreign currency translation account (included in accumulated other comprehensive income) to retained earnings as of January 1, 2008.

To determine the fair value of Advent, the Company evaluates observable price-to-book multiples of peer companies and applies such to Advent's most recently available book value per share. As of December 31, 2009, Advent is recorded at fair value of $32.9 million in other invested assets, with related changes in fair value recognized as a realized investment gain or loss in the period in which they occur. The change in Advent's fair value resulted in the recognition of a realized investment gain of $6.2 million for the year ended December 31, 2009 and a realized investment loss of $9.0 million for the year ended December 31, 2008. Advent's value as of December 31, 2009, calculated in accordance with the equity method of accounting, would have been $38.6 million.

As of December 31, 2009, the Company has not elected the FVO for any of its liabilities.

7. Investments and Cash

A summary of the Company's investment portfolio as of December 31, 2009, excluding common stocks, at equity, other invested assets, fixed income securities held as trading securities, convertible preferred stock held as trading securities and short-term investments held as trading securities is as follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 138,033	$ 7,309	$ 4,305	$ 141,037
States, municipalities and political subdivisions	2,808,873	318,037	39,354	3,087,556
Foreign governments	748,680	48,060	129	796,611
Corporate	275,553	73,292	84	348,761
Total fixed income securities, available for sale	3,971,139	446,698	43,872	4,373,965
Redeemable preferred stock, at fair value	108	—	—	108
Common stocks, at fair value	1,679,748	395,222	3,933	2,071,037
Short-term investments, at fair value	125,100	—	—	125,100
Cash and cash equivalents	941,444	—	—	941,444
Cash and cash equivalents held as collateral	56,720	—	—	56,720
Total	$ 6,774,259	$ 841,920	$ 47,805	$ 7,568,374

Common stocks accounted for under the equity method of accounting were carried at $158.5 million as of December 31, 2009, reflecting gross unrealized appreciation of $34.1 million and no gross unrealized depreciation. Other invested assets were carried at $146.7 million as of December 31, 2009, reflecting no gross unrealized appreciation or depreciation. Fixed income securities held as trading securities were carried at fair value of $532.7 million as of December 31, 2009, with changes in fair value reflected as realized investment gains or losses in the consolidated statements of operations. Fixed income securities held as trading securities include corporate, foreign government and mortgage-related securities, with fair values of $363.0 million, $99.4 million and $70.3 million, respectively, as of December 31, 2009. Convertible preferred stock and short-term investments held as trading securities were carried at fair value of $82.5 million and $238.4 million, respectively, as of December 31, 2009, with changes in fair value reflected in realized investment gains or losses in the consolidated statement of operations.

A summary of the Company's investment portfolio as of December 31, 2008, excluding common stocks, at equity, other invested assets and fixed income securities held as trading securities, is as follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 303,859	$ 49,850	$ —	$ 353,709
States, municipalities and political subdivisions	2,209,040	93,467	24,055	2,278,452
Foreign governments	781,933	58,307	37	840,203
Corporate	134,394	1,373	13,853	121,914
Total fixed income securities, available for sale	3,429,226	202,997	37,945	3,594,278
Redeemable preferred stock, at fair value	510	—	396	114
Common stocks, at fair value	1,628,611	55,578	129,047	1,555,142
Short-term investments, at fair value	1,202,366	—	6	1,202,360
Cash and cash equivalents	755,747	—	—	755,747
Cash and cash equivalents held as collateral	82,374	—	—	82,374
Total	$ 7,098,834	$ 258,575	$ 167,394	$ 7,190,015

Common stocks accounted for under the equity method of accounting were carried at $141.5 million as of December 31, 2008, reflecting gross unrealized appreciation of $26.6 million and gross unrealized depreciation of $2.1 million. Other invested assets were carried at $222.8 million as of December 31, 2008, reflecting no gross unrealized appreciation or depreciation. Fixed income securities held as trading securities were carried at fair value of $338.2 million as of December 31, 2008, with changes in fair value reflected as realized investment gains or losses in the consolidated statements of operations. Fixed income securities held as trading securities include corporate, foreign government securities, and mortgage-related securities, with fair values of $187.7 million, $84.1 million and $66.4 million, respectively, as of December 31, 2008.

The fair values of fixed income securities and common stocks are based on the quoted market prices of the investments as of the close of business on December 31 of the respective years.

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2009, by contractual maturity, are shown below (in thousands).

	At December 31, 2009					
	Available for Sale			Held for Trading		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 23,514	$ 23,955	0.5 %	$ 95,143	$ 99,180	18.6 %
Due after one year through five years	464,337	501,183	11.5	305,284	204,868	38.4
Due after five years through ten years	256,357	279,612	6.4	37,750	52,552	9.9
Due after ten years	3,226,931	3,569,215	81.6	160,741	176,118	33.1
Total fixed income securities	$ 3,971,139	$ 4,373,965	100.0 %	$ 598,918	$ 532,718	100.0 %

Actual maturities may differ from the contractual maturities shown in the table above due to the existence of call or put options. In the case of securities containing call options, the actual maturity will be the same as the contractual maturity if the issuer elects not to exercise its call option. Total securities subject to a call option represent approximately 53.0% of the total fair value. In the case of securities containing put options, the actual maturity will be the same as the contractual maturity if the Company elects not to exercise its put option. Total securities containing the put option represent approximately 3.2% of the total fair value.

(b) Net Investment Income and Realized Investment Gains (Losses)

The following table sets forth the components of net investment income for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Interest on fixed income securities	$ 253,100	$ 197,097	$ 205,886
Dividends on preferred stocks	—	—	143
Dividends on common stocks, at fair value	52,564	31,893	22,351
Net income of common stocks, at equity	9,192	2,196	15,032
Interest on cash and short-term investments	8,818	52,940	79,827
Other invested assets	22,688	11,372	44,875
Gross investment income	346,362	295,498	368,114
Less: investment expenses	24,817	35,009	30,665
Less: interest on funds held under reinsurance contracts	3,651	5,290	8,027
Net investment income	$ 317,894	$ 255,199	$ 329,422

Net income of common stocks, at equity includes an other-than-temporary impairment of $5.3 million for the year ended December 31, 2007 related to the Company's investment in Advent.

The following table sets forth the components of net realized investment gains and losses for the year ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Fixed income securities, available for sale:			
Realized investment gains	$ 114,973	$ 324,921	$ 68,675
Realized investment losses	26,253	27,548	22,285
Net realized investment gains	88,720	297,373	46,390
Fixed income securities, held as trading securities:			
Realized investment gains	132,589	1,282	21,568
Realized investment losses	2,673	144,450	23,835
Net realized investment gains (losses)	129,916	(143,168)	(2,267)
Redeemable preferred stock:			
Realized investment gains	—	—	4
Realized investment losses	394	833	397
Net realized investment losses	(394)	(833)	(393)
Convertible preferred stock, held as trading securities:			
Realized investment gains	7,470	—	—
Net realized investment gains	7,470	—	—
Equity securities:			
Realized investment gains	136,916	25,574	153,441
Realized investment losses	129,262	354,509	47,228
Net realized investment gains (losses)	7,654	(328,935)	106,213
Derivative securities:			
Realized investment gains	14,730	985,700	337,086
Realized investment losses	133,358	34,000	53,435
Net realized investment (losses) gains	(118,628)	951,700	283,651
Other securities:			
Realized investment gains	136,700	116,956	167,902
Realized investment losses	65,487	200,834	62,360
Net realized investment gains (losses)	71,213	(83,878)	105,542
Total realized investment gains:			
Realized investment gains	543,378	1,454,433	748,676
Realized investment losses	357,427	762,174	209,540
Net realized investment gains	$ 185,951	$ 692,259	$ 539,136

Included in net realized investment gains for the year ended December 31, 2009, is a net decrease in fair value of $15.5 million, as compared to a net decrease for the year ended December 31, 2008 of $290.7 million and a net increase for the year ended December 31, 2007 of $259.0 million, principally related to derivatives and investments designated as trading securities.

Included in net realized investment gains for the years ended December 31, 2009, 2008 and 2007 are $127.0 million, $358.7 million and $54.5 million, respectively, related to realized investment losses on the other-than-temporary impairment of investments, as follows (in thousands):

	2009	2008	2007
Fixed income securities	$ 3,361	$ 18,902	$ 12,004
Preferred stock	216	833	389
Equity securities	123,436	338,957	42,097
Total other-than-temporary impairments	$ 127,013	$ 358,692	$ 54,490

For those fixed income securities that were determined to be other-than-temporarily impaired, the Company determined that such impairments were related to credit, requiring the recognition of an impairment charge to income, and not related to other factors (e.g., interest rates and market conditions), which would have required charges to other comprehensive income.

(c) Unrealized Appreciation (Depreciation)

The following table sets forth the changes in unrealized net appreciation (depreciation) of investments, and the related tax effect, reflected in accumulated other comprehensive income for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Fixed income securities	$ 237,773	$ 133,792	$ 77,337
Redeemable preferred stock	395	504	(899)
Equity securities	474,391	(154,688)	23,486
Short-term investments	6	(6)	—
Other invested assets	—	169	(20)
Increase (decrease) in unrealized net appreciation of investments	712,565	(20,229)	99,904
Deferred income tax (expense) benefit	(249,396)	7,080	(34,966)
Change in net unrealized appreciation (depreciation) of investments, net of tax	463,169	(13,149)	64,938
Cumulative effect of a change in accounting principle, net of tax	—	—	12,845
Change in net unrealized appreciation (depreciation) of investments included on other comprehensive income	$ 463,169	$ (13,149)	$ 77,783

The Company reviews, on a quarterly basis, its investment portfolio for declines in value, and specifically considers securities with fair values that have declined to less than 80% of their cost or amortized cost at the time of review. Declines in the fair value of investments which are determined to be temporary are recorded as unrealized depreciation, net of tax, in accumulated other comprehensive income. If the Company determines that a decline relating to credit issues is "other-than-temporary," the cost or amortized cost of the investment will be written down to the fair value, and a realized loss will be recorded in the Company's consolidated statements of operations. If the Company determines that a decline related to other factors (e.g., interest rates or market conditions) is "other-than-temporary," the cost or amortized cost of the investment will be written down to the fair value within other comprehensive income.

In assessing the value of the Company's debt and equity securities held as investments, and possible impairments of such securities, the Company reviews (i) the issuer's current financial position and disclosures related thereto, (ii) general and specific market and industry developments, (iii) the timely payment by the issuer of its principal, interest and other obligations, (iv) the outlook and expected financial performance of the issuer, (v) current and historical valuation parameters for the issuer and similar companies, (vi) relevant forecasts, analyses and recommendations by research analysts, rating agencies and investment advisors, and (vii) other information the Company may consider relevant. Generally, a change in the market or interest rate environment would not, of itself, result in an impairment of an investment. In addition, the Company considers its ability and intent to hold the security to recovery when evaluating possible impairments.

The facts and circumstances involved in making a decision regarding an other-than-temporary-impairment are those that exist at that time. Should the facts and circumstances change such that an other-than-temporary impairment is considered appropriate, the Company will recognize the impairment, by reducing the cost, amortized cost or carrying value of the investment to its fair value, and recording the loss in its consolidated statements of operations. Upon the disposition of a security where an other-than-temporary impairment has been taken, the Company will record a gain or loss based on the adjusted cost or carrying value of the investment.

The following tables reflect the fair value and gross unrealized depreciation of the Company's fixed income securities, preferred stocks and common stocks, at fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized depreciation position, as of December 31, 2009 and 2008 (in thousands):

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2009	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities investment grade:									
United States government, government agencies and authorities	$ 62,215	$ (4,305)	9	$ —	$ —	—	$ 62,215	$ (4,305)	9
States, municipalities and political subdivisions	571,987	(39,267)	6	1,035	(87)	1	573,022	(39,354)	7
Foreign governments	—	—	—	8,539	(129)	1	8,539	(129)	1
Corporate	4,880	(57)	1	—	—	—	4,880	(57)	1
Total investment grade	639,082	(43,629)	16	9,574	(216)	2	648,656	(43,845)	18
Fixed income securities non-investment grade, corporate	41,888	(27)	3	—	—	—	41,888	(27)	3
Total fixed income securities	680,970	(43,656)	19	9,574	(216)	2	690,544	(43,872)	21
Common stocks, at fair value	36,153	(3,933)	7	—	—	—	36,153	(3,933)	7
Total temporarily impaired securities	$ 717,123	$ (47,589)	26	$ 9,574	$ (216)	2	$ 726,697	$ (47,805)	28

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2008	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities investment grade:									
States, municipalities and political subdivisions	$ 578,977	$ (23,386)	34	$ 7,947	$ (669)	2	$ 586,924	$ (24,055)	36
Foreign governments	—	—	—	8,370	(37)	1	8,370	(37)	1
Total investment grade	578,977	(23,386)	34	16,317	(706)	3	595,294	(24,092)	37
Fixed income securities non-investment grade, corporate	90,491	(13,795)	4	6	(58)	1	90,497	(13,853)	5
Total fixed income securities	669,468	(37,181)	38	16,323	(764)	4	685,791	(37,945)	42
Redeemable preferred stocks, at fair value	115	(396)	2	—	—	—	115	(396)	2
Common stocks, at fair value	596,337	(129,047)	15	—	—	—	596,337	(129,047)	15
Total temporarily impaired securities	$ 1,265,920	$ (166,624)	55	$ 16,323	$ (764)	4	$ 1,282,243	$ (167,388)	59

The Company believes the gross unrealized depreciation is temporary in nature and we have not recorded a realized investment loss related to these securities. Given the size of our investment portfolio and capital position, the Company believes it is likely that it will not be required to sell or liquidate these securities before the fair value recovers the gross unrealized depreciation.

(d) Common Stocks, at Equity

Common stocks, at equity, totaled $158.5 million as of December 31, 2009 and $141.5 million as of December 31, 2008. The following table sets forth the components of common stocks, at equity, as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Fairfax Asia Limited	$ 84,086	$ 67,092
TRG Holding Corporation	74,347	74,354
Other	27	27
Total common stocks, at equity	$ 158,460	$ 141,473

On June 4, 2009, the Company purchased additional shares of Fairfax Asia Limited (“Fairfax Asia”) at a cost of $1.0 million. For common stocks, at equity, as of December 31, 2009, the relative ownership held by the Company was 13.0% for TRG Holding Corporation (which is 100% owned by Fairfax) and 26.2% (economic) for Fairfax Asia Limited (which is 100% owned by Fairfax).

(e) Other Invested Assets

Other invested assets totaled $146.7 million as of December 31, 2009, compared to $222.8 million as of December 31, 2008. The following table shows the components of other invested assets as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Hedge funds, at equity	$ 51,510	$ 51,802
Private equity partnerships, at equity	22,375	25,547
Private equity partnerships, at fair value	374	—
Derivatives, at fair value	19,982	111,069
Benefit plan funds, at fair value	12,833	13,443
Advent Capital (Holdings) PLC	32,924	14,250
Other	6,730	6,730
Total other invested assets	$ 146,728	$ 222,841

The Company's hedge fund and private equity partnership investments may be subject to restrictions on redemptions or sales, which are determined by the governing documents thereof, and limit the Company's ability to liquidate these investments in the short term. Due to a time lag in reporting by a majority of hedge fund and private equity fund managers, valuations for these investments are reported by OdysseyRe on a one month or one quarter lag. For the years ended December 31, 2009 and 2007, the Company recognized net investment income of $17.9 million and $8.2 million, respectively, from its hedge funds and private equity investments and incurred a loss of $19.6 million, which is netted against net investment income, for the year ended December 31, 2008. For the year ended December 31, 2009, the Company recognized a loss of $0.3 million from its private equity investments that are held as trading securities. Interest and dividend income, and realized and unrealized gains and losses of hedge funds and private equity partnerships, are included in net investment income. With respect to the Company's $22.7 million investment in private equity partnerships included in other invested assets as of December 31, 2009, the Company has commitments that may require additional funding of up to $128.3 million. As of December 31, 2009, other invested assets include $6.7 million related to the Company's investment in O.R.E Holdings Limited, which is net of other-than-temporary write-downs of $9.9 million.

As of December 31, 2009, the Company held one collateral loan which constituted a financial instrument without a quoted price, or a "non-traded investment." This collateral loan was fully impaired during 2005. The Company periodically evaluates the carrying values of non-traded investments by reviewing the borrowers' current financial position and the timeliness of their interest and principal payments.

(f) Derivative Investments and Short Sales

The Company has utilized, credit default swaps, call options and warrants, total return swaps, interest rate options, forward currency contracts, futures contracts and short sales to manage against adverse changes in the values of assets and liabilities. These products are typically not linked to specific assets or liabilities on the consolidated balance sheets or a forecasted transaction and, therefore, do not qualify for hedge accounting. The following tables set forth the Company's derivative positions, which are included in other invested assets or other liabilities in the consolidated balance sheets, as of December 31, 2009, and December 31, 2008, respectively (in thousands):

	As of December 31, 2009			
	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
Credit default swaps	$ 1,295,187	$ 20,583	$ 9,986	$ —
Total return swaps	818,416	—	3,132	—
Other	605,743	4,017	4,063	—
Forward currency contracts	416,293	—	—	39,251
Warrants	163,116	5,318	2,801	—
Interest rate swaps	140,000	—	—	43

	As of December 31, 2008			
	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
Credit default swaps	$ 1,782,868	$ 30,776	$ 82,843	$ —
Futures contracts	791,000	—	—	68
Forward currency contracts	533,890	—	28,225	—
Warrants	163,116	5,577	1	—
Interest rate swaps	140,000	—	—	33
Call options	75,324	22	—	—

The following tables summarize the effect of the hedging instruments and related hedged items on the Company's historical financial position, results of operations and cash flows as of and for the years ended December 31, 2009 and 2008 (in thousands):

	As of and for the Year Ended December 31, 2009					
			Effect on Pre-tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Income	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Equity risk exposures:						
Preferred stocks	$ 82,578	$ 82,578	$ 395	$ 7,076	$ 7,471	$ (1,096)
Common stocks, at fair value	2,071,037	2,071,037	464,758	7,654	472,412	30,039
Total equity exposure	$ 2,153,615	$ 2,153,615	465,153	14,730	479,883	28,943
Hedging instruments:						
Other invested assets:						
Total return swaps	$ 818,416	$ 3,132	—	(30,592)	(30,592)	(33,724)
Total equity hedging instruments	$ 818,416	$ 3,132	—	(30,592)	(30,592)	(33,724)
Net equity impact			$ 465,153	$ (15,862)	$ 449,291	$ (4,781)
Credit risk exposures:						
Fixed income securities	$ 4,906,683	$ 4,906,683	$ 237,773	$ 218,636	$ 456,409	$ 124,396
Derivatives - other invested assets	6,864	6,864	—	2,868	2,868	(237)
Cash, cash equivalents and short-term investments	1,361,667	1,361,667	6	65,932	65,938	65,932
Premiums receivable	473,878	473,878	—	(2,500)	(2,500)	(2,500)
Reinsurance recoverable	1,165,524	1,165,524	—	2,647	2,647	—
Total credit risk exposure	$ 7,914,616	$ 7,914,616	237,779	287,583	525,362	187,591
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Banking	$ 410,643	$ 3,098	—	(1,348)	(1,348)	12,836
Insurance	884,544	6,888	—	(27,358)	(27,358)	21,124
Total credit default swaps	$ 1,295,187	$ 9,986	—	(28,706)	(28,706)	33,960
Net equity impact			$ 237,779	$ 258,877	$ 496,656	$ 221,551

	As of and for the Year Ended December 31, 2008					
			Effect on Pre-tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Loss	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Equity risk exposures:						
Preferred stocks	$ 114	$ 114	$ 504	$ (833)	$ (329)	$ —
Common stocks, at fair value	1,555,142	1,555,142	(153,513)	(326,892)	(480,405)	12,064
Total equity exposure	$ 1,555,256	$ 1,555,256	(153,009)	(327,725)	(480,734)	12,064
Hedging instruments:						
Other invested assets:						
Total return swaps	$ —	$ —	—	536,364	536,364	540,212
Short positions	—	—	—	12,822	12,822	14,457
Call options	75,324	—	—	(1,151)	(1,151)	(2,191)
Total equity hedging instruments	$ 75,324	$ —	—	548,035	548,035	552,478
Net equity impact			$ (153,009)	$ 220,310	$ 67,301	$ 564,542
Credit risk exposures:						
Fixed income securities	$ 3,932,487	$ 3,932,487	$ 133,792	$ 154,205	$ 287,997	$ 316,316
Derivatives - other invested assets	28,226	28,226	—	62,395	62,395	35,138
Cash, cash equivalents and short-term investments	2,040,481	2,040,481	(6)	(87,985)	(87,991)	(87,985)
Premiums receivable	496,418	496,418	—	(1,517)	(1,517)	(1,517)
Reinsurance recoverable	996,510	996,510	—	(120)	(120)	—
Total credit risk exposure	$ 7,494,122	$ 7,494,122	133,786	126,978	260,764	261,952
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Mortgage	$ —	$ —	—	126,222	126,222	269,432
Banking	689,691	21,577	—	38,812	38,812	32,738
Insurance	1,093,177	61,266	—	185,697	185,697	209,882
Total credit default swaps	$ 1,782,868	$ 82,843	—	350,731	350,731	512,052
Net equity impact			$ 133,786	$ 477,709	$ 611,495	$ 774,004

In the normal course of effecting its economic hedging strategy with respect to credit risk and equity risk, the Company expects that there may be periods where the notional value of the hedging instrument may exceed or be less than the exposure item being hedged. This situation may arise when management compensates for imperfect correlations between the hedging item and the hedge, due to the timing of opportunities related to the Company's ability to exit and enter hedged or hedging items at attractive prices or when management desires to only partially hedge an exposure.

The Company holds credit default swaps, referenced to certain issuers in the banking and insurance sectors of the financial services industry worldwide, that serve as an economic hedge against declines in the fair value of investments and other corporate assets resulting from systemic financial and credit risk. Under a credit default swap, as the buyer, the Company agrees to pay to a specific counterparty, at specified periods, fixed premium amounts based on an agreed notional principal amount in exchange for protection against default by the issuers of specified referenced debt securities. The credit events, as defined by the respective credit default swap contracts, establishing the rights to recover amounts from the counterparties are comprised of ISDA-standard credit events, which are: bankruptcy, obligation acceleration, obligation default, failure to pay, repudiation/moratorium and restructuring. As of December 31, 2009 all credit default swap contracts held by the

Company have been purchased from and entered into with either Citibank, N.A., Deutsche Bank AG or Barclays Bank PLC as the counterparty, with positions on certain covered risks with more than one of these counterparties. The Company obtains market-derived fair values for its credit default swaps from third-party providers, principally broker-dealers. The Company assesses the reasonableness of the fair values obtained from these providers by comparison to models validated by qualified personnel, by reference to movements in credit spreads and by comparing the fair values to recent transaction prices for similar credit default swaps, where available.

The initial premium paid for each credit default swap contract is recorded as a derivative asset and is subsequently adjusted for changes in the unrealized fair value of the contract at each balance sheet date. As these contracts do not qualify for hedge accounting, changes in the unrealized fair value of the contract are recorded as net realized investment gains or losses in the Company's consolidated statements of operations and comprehensive income. Sales of credit default swap contracts required the Company to reverse through net realized investment gains previously recorded unrealized fair value changes since the inception of the contract, and to record the actual amount based upon the final cash settlement. Derivative assets are reported gross, on a contract-by-contract basis, at fair value in other invested assets in the consolidated balance sheets. The sale, expiration or early settlement of a credit default swap will not result in a cash payment owed by the Company; rather, such an event can only result in a cash payment by a third party purchaser of the contract, or the counterparty, to the Company. Accordingly, there is no opportunity for netting of amounts owed in settlement. Cash receipts at the date of sale of the credit default swaps are recorded as cash flows from investing activities arising from net sales of assets and liabilities classified as held for trading.

The fair values of credit default swaps may be subject to significant volatility, given potential differences in the perceived risk of default of the underlying issuers, movements in credit spreads and the length of time to the contracts' maturities. The fair value of the credit default swaps may vary dramatically either up or down in short periods, and their ultimate value may therefore only be known upon their disposition. Credit default swap transactions generally settle in cash. As the Company funds all of its obligations relating to these contracts upon initiation of the transaction, there are no requirements in these contracts for the Company to provide collateral.

The Company's holdings of credit default swap contracts have declined significantly in 2009 relative to prior years, largely as a result of significant sales in 2008. In the latter part of 2008, the Company revised the financial objectives of its hedging program by determining not to replace its credit default swap hedge position as sales or expiries occurred, primarily based on the Company's judgment that its exposure to elevated levels of credit risk had moderated, but also due to (i) the significant increase in the cost of purchasing credit protection (reducing the attractiveness of the credit default swap contract as a hedging instrument), (ii) improvement in the Company's capital and liquidity (having benefited significantly from, among other things, more than $568.9 million in gains from sales of credit default swaps realized since 2007), and (iii) the Company's judgment that managing credit risk through means other than the use of derivatives was, given the market environment, once again appropriate for mitigating the Company's credit exposure arising from financial assets.

For the year ended December 31, 2009, the Company sold a portion of its credit default swaps, which contributed to the decrease in the fair value of the portfolio to $10.0 million as of December 31, 2009, from $82.8 million as of December 31, 2008. The credit default swap portfolio has an average term to expiration of 1.5 years as of December 31, 2009, a decrease from 2.5 years as of December 31, 2008.

The Company has entered into forward currency contracts to manage its foreign currency exchange rate risk on a macro basis. Under a forward currency contract, the Company and the counterparty are obligated to purchase or sell an underlying currency at a specified price and time. Forward currency contracts are recorded at fair value in other liabilities as of December 31, 2009 and other invested assets as of December 31, 2008, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has investments in warrants, which are contracts that grant the holder the right, but not the obligation, to purchase an underlying financial instrument at a given price and time or at a series of prices and times. Warrants, which are included in other invested assets, are recorded at fair value, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has entered into interest rate swaps to protect it from adverse movements in interest rates. Under its current interest rate swap contracts, the Company receives a floating interest rate and pays a fixed interest rate based on the notional amounts in the contracts. Interest rate swaps are recorded in other invested assets or other liabilities based on their positive or negative fair value with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has purchased equity index total return swaps as an "economic hedge" against a broad market downturn. During the fourth quarter of 2008, the Company had removed the then-existing economic hedge on its portfolio, closing all of its total return swap contracts for a gain. Since closing these positions, however, the Company has increased its holdings in equity securities through additional acquisitions. In addition, the equity markets have experienced significant appreciation in value since the end of 2008, further increasing the value of the Company's holdings as well as the Company's exposure to market volatility. As a result, in late September 2009, the Company initiated U.S. equity index total return swap contracts, which had a notional value of $818.4 million as of December 31, 2009, to protect against potential future broad market downturns. The collateral requirement related to entering the total return swaps was $78.5 million as of December 31, 2009. These total return swap transactions terminate during the third quarter of 2010. The equity index total return swaps, in the aggregate, were in a gain position as of December 31, 2009, and are recorded in other invested assets. Changes in the fair values of equity index and common stock total return swaps are recorded as realized gains or losses in the consolidated statements of operations in the period in which they occur.

In connection with the 2008 total return swap transactions, the Company owned a series of index call options on Standard & Poor's depository receipts ("SPDRs") and the iShares Canadian S&P/TSX60 (XIU), the majority of which expired in 2008 and the last of which was closed out as of January 14, 2009. A call option gives the purchaser the right, but not the obligation, to purchase an underlying security at a specific price or prices at or for a certain time. The call options were recorded at fair value in other invested assets, and changes in the fair value were recorded as realized investment gains or losses in the consolidated statements of operations.

During 2008, the Company entered into Eurodollar futures contracts to manage its interest rate risk with respect to certain investments. During the first quarter of 2009, the Company closed the futures contracts. A futures contract is a variation of a forward contract, with some additional features, such as a clearinghouse guarantee against credit losses, a daily settlement of gains and losses, and trading on an organized electronic or floor trading facility. Futures contracts are entered either long or short. The Company had entered into the long position, which agrees to buy the underlying currency at the future date at the price agreed upon. As of December 31, 2008, futures contracts were recorded at fair value in other liabilities, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company held short positions, primarily in equity securities, all of which were closed out during the second quarter of 2008. In connection with the short positions, the Company purchased a SPDR call option as protection against a decline in the value of the short positions. The call option was closed out on July 7, 2008. The call option was recorded at fair value in other invested assets in the consolidated balance sheets, and changes in the fair value were recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

Counterparties to the derivative instruments expose the Company to credit risk in the event of non-performance. The Company believes this risk is low, given the diversification among various highly rated counterparties. The credit risk exposure is reflected in the fair value of the derivative instruments.

The Company holds options on certain securities within its fixed income portfolio, which allows the Company to extend the maturity date of fixed income securities or allows the Company to convert fixed income securities to equity securities. As a result of changes in accounting, on January 1, 2007, the Company no longer bifurcates these options from the host fixed income securities, and, beginning on January 1, 2007, changes in the fair value of the hybrid financial instruments are recorded as realized investment gains and losses in the Company's consolidated statements of operations. Prior to these changes in accounting, changes in the fair value of the host instrument were recorded as unrealized investment gains and losses, a component of shareholders' equity, while changes in the fair value of the embedded options were recorded as realized investment gains and losses. Upon adopting these changes in accounting, the Company recorded a cumulative adjustment of $16.5 million to reclassify unrealized investment gains, net of tax, including foreign currency effects, to retained earnings as of January 1, 2007. The following sets forth the components of the cumulative adjustment as of January 1, 2007 (in thousands):

	As of January 1, 2007			
	Cost or Amortized Cost	Fair Value	Gain, pre-tax	Loss, pre-tax
Corporate securities	$ 150,658	$ 168,403	$ 18,941	$ (1,196)
Foreign government securities	76,877	84,511	8,426	(792)
Net cumulative effect of a change in accounting	$ 227,535	$ 252,914	$ 27,367	$ (1,988)

The net realized investment gains or losses on disposal in the table below represent the total gains or losses from the purchase dates of the investments and have been reported in net realized investment gains in the consolidated statements of operations. The change in fair value presented below consists of two components: (i) the reversal of the gain or loss recognized in previous years on securities sold and (ii) the change in fair value resulting from mark-to-market adjustments on contracts still outstanding. The following table sets forth the total net realized investment gains and losses on derivatives and short sales for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Credit default swaps:			
Net realized investment gain on disposal	$ 33,960	$ 512,052	$ 22,838
Change in fair value	(62,666)	(161,321)	275,486
Net realized investment (loss) gain	(28,706)	350,731	298,324
Total return swaps:			
Net realized investment (loss) gain on disposal	(33,724)	540,212	(9,608)
Change in fair value	3,132	(3,848)	4,394
Net realized investment (loss) gain	(30,592)	536,364	(5,214)
Other:			
Change in fair value	46	—	—
Net realized investment gain	46	—	—
Forward currency contracts:			
Net realized investment gain on disposal	7,592	35,728	—
Change in fair value	(67,475)	30,988	(2,763)
Net realized investment (loss) gain	(59,883)	66,716	(2,763)
Warrants:			
Net realized investment loss on disposal	(237)	(590)	(8)
Change in fair value	3,059	(3,731)	(3,167)
Net realized investment gain (loss)	2,822	(4,321)	(3,175)
Interest rate swaps:			
Net realized investment loss on disposal	(2,030)	—	—
Change in fair value	(10)	(32)	—
Net realized investment loss	(2,040)	(32)	—
Futures contracts:			
Net realized investment (loss) gain on disposal	(275)	3,393	—
Net realized investment (loss) gain	(275)	3,393	—
Call options:			
Net realized investment (loss) gain on disposal	—	(2,191)	4,887
Change in fair value	—	1,040	(8,408)
Net realized investment loss	—	(1,151)	(3,521)
Total derivatives:			
Net realized investment gain on disposal	5,286	1,088,604	18,109
Change in fair value	(123,914)	(136,904)	265,542
Net realized investment (loss) gain	$ (118,628)	$ 951,700	$ 283,651

	2009	2008	2007
Short positions:			
Net realized investment gain on disposal	—	14,457	54,338
Change in fair value	—	(1,635)	6,128
Total net realized investment gain	$ —	$ 12,822	$ 60,466

(g) Assets on Deposit

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutes and regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. The Company utilizes trust funds in certain transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit requirements. As of December 31, 2009, restricted assets supporting these deposits and trust fund requirements totaled $1,074.0 million, as depicted in the following table (in thousands):

	As of December 31, 2009		
	Restricted Assets Relating to:		
	U.S. Regulatory Requirements	Foreign Regulatory Requirements	Total
Fixed income securities	$ 431,700	$ 517,327	$ 949,027
Cash, cash equivalents and short-term investments	5,745	119,187	124,932
Total	$ 437,445	$ 636,514	$ 1,073,959

8. Accumulated Other Comprehensive Income

The following table shows the components of the change in accumulated other comprehensive income, net of deferred income taxes, for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Beginning balance of unrealized net appreciation on securities	$ 75,166	$ 88,315	$ 23,377
Adjustment to beginning balance due to a change in accounting standards (see Note 7)	—	—	(12,845)
Adjusted beginning balance of net appreciation on securities	75,166	88,315	10,532
Ending balance of unrealized net appreciation on securities	538,335	75,166	88,315
Current period change in unrealized net appreciation (depreciation) on securities	463,169	(13,149)	77,783
Beginning balance of foreign currency translation adjustments	10,716	8,138	13,447
Adjustment to beginning balance due to a change in accounting standards (see Notes 6 and 7)	—	(1,531)	(3,651)
Adjusted beginning balance of foreign currency translation adjustments	10,716	6,607	9,796
Ending balance of foreign currency translation adjustments	13,484	10,716	8,138
Current period change in foreign currency translation adjustments	2,768	4,109	(1,658)
Beginning balance of benefit plan liabilities	(3,461)	(11,430)	(1,259)
Adjustment to beginning balance due to a change in accounting standards	—	146	(10,236)
Adjusted beginning balance of benefit plan liabilities	(3,461)	(11,284)	(11,495)
Ending balance of benefit plan liabilities	(5,239)	(3,461)	(11,430)
Current period change in benefit plan liabilities	(1,778)	7,823	65
Other comprehensive income (loss)	$ 464,159	$ (1,217)	$ 76,190
Beginning balance of accumulated other comprehensive income	$ 82,421	$ 85,023	$ 25,329
Other comprehensive income (loss)	464,159	(1,217)	76,190
Effect of changes in accounting (see Notes 6 and 7)	—	(1,385)	(16,496)
Change in accumulated other comprehensive income (loss)	464,159	(2,602)	59,694
Ending balance of accumulated other comprehensive income	$ 546,580	$ 82,421	$ 85,023

The components of comprehensive income for the years ended December 31, 2009 2008 and 2007 are shown in the following table (in thousands):

	2009	2008	2007
Net income	$ 372,314	$ 549,008	$ 595,575
Other comprehensive income (loss), before tax:			
Unrealized net appreciation (depreciation) on securities arising during the period	837,143	(101,258)	247,052
Reclassification adjustment for realized investment (gains) losses included in net income	(124,578)	81,029	(127,387)
Foreign currency translation adjustments	4,258	6,321	(2,551)
Benefit plan liabilities	(2,735)	12,035	100
Other comprehensive income (loss), before tax	714,088	(1,873)	117,214
Tax (provision) benefit:			
Unrealized net (appreciation) depreciation on securities arising during the period	(292,998)	35,440	(86,468)
Reclassification adjustment for realized investment gains (losses) included in net income	43,602	(28,360)	44,586
Foreign currency translation adjustments	(1,490)	(2,212)	893
Benefit plan liabilities	957	(4,212)	(35)
Total tax (provision) benefit	(249,929)	656	(41,024)
Other comprehensive income (loss), net of tax	464,159	(1,217)	76,190
Comprehensive income	$ 836,473	$ 547,791	$ 671,765

9. Unpaid Losses and Loss Adjustment Expenses

The following table sets forth the activity in the liability for unpaid losses and loss adjustment expenses for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 5,250,484	$ 5,119,085	$ 5,142,159
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	690,171	643,509	739,019
Net unpaid losses and loss adjustment expenses, beginning of year	4,560,313	4,475,576	4,403,140
Add: Net losses and loss adjustment expenses incurred related to:			
Current year	1,313,319	1,518,780	1,367,857
Prior years	(11,323)	(10,055)	40,507
Total net losses and loss adjustment expenses incurred	1,301,996	1,508,725	1,408,364
Less: Net paid losses and loss adjustment expenses related to:			
Current year	230,610	264,784	251,373
Prior years	1,024,182	1,016,008	1,111,139
Total net paid losses and loss adjustment expenses	1,254,792	1,280,792	1,362,512
Effects of exchange rate changes	58,763	(143,196)	26,584
Net unpaid losses and loss adjustment expenses, end of year	4,666,280	4,560,313	4,475,576
Add: Ceded unpaid losses and loss adjustment expenses, end of year	841,486	690,171	643,509
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,507,766	$ 5,250,484	$ 5,119,085

Estimates of reserves for unpaid losses and loss adjustment expenses, with respect to loss events that have occurred on or before the balance sheet date, are contingent on many assumptions that may or may not occur in the future. These assumptions include loss estimates attributable to a variety of loss events, including hurricanes, windstorms and floods. The eventual outcome of these loss events may be different from the assumptions underlying the Company's reserve estimates. When the business environment and loss trends diverge from expected trends, the Company may have to adjust its reserves accordingly, potentially resulting in adverse or favorable effects to the Company's financial results. The Company believes that the recorded estimate represents the best estimate of unpaid losses and loss adjustment expenses based on the information available as of December 31, 2009. The estimate is reviewed on a quarterly basis and the ultimate liability may be more or less than the amounts provided, for which any adjustments will be reflected in the periods in which they become known.

Net losses and loss adjustment expenses incurred related to the current year, as reflected in the table above, were $1,313.3 million, $1,518.8 million and $1,367.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in losses and loss adjustment expenses incurred for the year ended December

31, 2009 was principally attributable to a reduction in property catastrophe losses. The increase in losses and loss adjustment expenses for the year ended December 31, 2008 was primarily attributable to increased property catastrophe losses. For the years ended December 31, 2009, 2008 and 2007, current year catastrophe events were $131.1 million, $264.7 million and $105.9 million, respectively. For the year ended December 31, 2009, current year property catastrophe losses included $53.5 million related to Windstorm Klaus, $16.2 million related to Windstorm Wolfgang and $10.4 million related to the floods in Turkey. For the year ended December 31, 2008, current year property catastrophe losses included $143.8 million related to Hurricane Ike, $45.9 million related to the China winter storm, $19.1 million related to Windstorm Emma and $11.3 million related to Hurricane Gustav. For the year ended December 31, 2007, the total catastrophe losses included $38.5 million for Windstorm Kyrill, $12.3 million for Cyclone Gonu and $10.0 million for the Mexico flood in Tabasco.

Net losses and loss adjustment expenses incurred related to prior years decreased $11.3 million and $10.1 million for the years ended December 31, 2009 and 2008, respectively, and increased $40.5 million for the year ended December 31, 2007. The decrease in prior period losses and loss adjustment expenses for the year ended December 31, 2009 was attributable to reduced loss estimates due to loss emergence lower than expectations in the period on business written in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by increased loss estimates due to loss emergence greater than expectations in the period in the Americas division. The decrease in prior period losses and loss adjustment expenses for the year ended December 31, 2008 was attributable to decreased loss estimates due to loss emergence lower than expectations in the period in the London Market and U.S. Insurance divisions, partially offset by increased loss estimates due to loss emergence greater than expectations in the period in the Americas division. The increase in prior period losses and loss adjustment expenses for the year ended December 31, 2007 was attributable to increased loss estimates due to loss emergence greater than expectations in the period in the Americas division and included $21.2 million related to settlement of litigation. This increase was partially offset by decreased loss estimates due to loss emergence lower than expectations in the period in the EuroAsia, London Market, and U.S. Insurance divisions.

The effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in an increase of $58.8 million for the year ended December 31, 2009, a decrease of $143.2 million for the year ended December 31, 2008 and an increase of $26.6 million for the year ended December 31, 2007. The effects of exchange rate changes were attributable to changes in foreign currency exchange rates for unpaid losses and loss adjustment expenses in the London Market division.

Ceded unpaid losses and loss adjustment expenses were $841.5 million, $690.2 million and $643.5 million as of December 31, 2009, 2008 and 2007, respectively. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2009 was principally attributable to a $139.5 million increase in unpaid reinsurance recoverables related to non-catastrophe exposure, principally in the London Market division. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2008 was attributable to a $62.9 million increase in unpaid reinsurance recoverables related to property catastrophe events, principally Hurricane Ike.

The Company uses tabular reserving for workers’ compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5%. Workers’ compensation indemnity loss reserves have been discounted using the Life Table for Total Population: United States, 2004. Reserves reported at the discounted value were $115.8 million and $118.2 million as of December 31, 2009 and 2008, respectively. The amount of case reserve discount was $54.3 million and $55.6 million as of December 31, 2009 and 2008, respectively. The amount of incurred but not reported reserve discount was $21.9 million and $24.0 million as of December 31, 2009 and 2008, respectively.

10. Asbestos and Environmental Losses and Loss Adjustment Expenses

The Company has exposure to losses from asbestos, environmental pollution and other latent injury damage claims. Net unpaid asbestos and environmental losses and loss adjustment expenses as of December 31, 2009 were $265.5 million, representing 5.7% of total net unpaid losses and loss adjustment expenses, compared to $260.3 million, or 5.7% of total net unpaid losses and loss adjustment expenses as of December 31, 2008. Exposure arises from reinsurance contracts written by Clearwater prior to 1986 under which the Company has assumed liabilities, on an indemnity or assumption basis, from ceding companies, primarily in connection with general liability insurance policies issued by such ceding companies. The Company's estimate of its ultimate liability for these exposures includes "case basis" reserves and a provision for liabilities incurred but not reported. Case basis reserves are a combination of reserves reported to the Company by ceding companies and additional case reserves determined by the Company. The provision for liabilities incurred but not reported is established based on an annual review of the Company's experience and external trends in reported loss and claim payments, with monitoring of emerging experience on a quarterly basis.

Estimation of ultimate asbestos and environmental liabilities is unusually complex due to several factors resulting from the long period between exposure and manifestation of these claims. This lag can complicate the identification of the sources of asbestos and environmental exposure, the verification of coverage, and the allocation of liability among insurers and reinsurers over multiple years. This lag also exposes the claim settlement process to changes in underlying laws and judicial interpretations. There continues to be substantial uncertainty regarding the ultimate number of insureds with injuries resulting from these exposures.

In addition, other issues have emerged regarding asbestos exposure that have further impacted the ability to estimate ultimate liabilities for this exposure. These issues include an increasingly aggressive plaintiffs' bar, an increased involvement of defendants with peripheral exposure, the use of bankruptcy filings due to asbestos liabilities as an attempt to resolve these liabilities to the disadvantage of insurers, the concentration of litigation in venues favorable to plaintiffs, and the potential of asbestos litigation reform at the state or federal level.

The Company's reserves for asbestos and environmental-related liabilities displayed below are from business written prior to 1986. The Company's asbestos and environmental reserve development, gross and net of reinsurance, for the years ended December 31, 2009, 2008 and 2007, is set forth in the table below (in thousands):

	2009	2008	2007
Asbestos			
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 360,733	$ 339,271	$ 308,747
Add: Gross losses and loss adjustment expenses incurred	69,384	73,816	85,923
Less: Gross calendar year paid losses and loss adjustment expenses	43,382	52,354	55,399
Gross unpaid losses and loss adjustment expenses, end of year	$ 386,735	$ 360,733	$ 339,271
Net unpaid losses and loss adjustment expenses, beginning of year	$ 230,486	$ 222,426	$ 189,015
Add: Net losses and loss adjustment expenses incurred	39,959	41,007	62,970
Less: Net calendar year paid losses and loss adjustment expenses	28,873	32,947	29,559
Net unpaid losses and loss adjustment expenses, end of year	$ 241,572	$ 230,486	$ 222,426
Environmental			
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 34,242	$ 41,984	$ 35,935
Add: Gross losses and loss adjustment expenses incurred	863	2,613	14,180
Less: Gross calendar year paid losses and loss adjustment expenses	7,963	10,355	8,131
Gross unpaid losses and loss adjustment expenses, end of year	$ 27,142	$ 34,242	$ 41,984
Net unpaid losses and loss adjustment expenses, beginning of year	$ 29,819	$ 34,485	$ 26,745
Add: Net losses and loss adjustment expenses incurred	578	4,078	14,474
Less: Net calendar year paid losses and loss adjustment expenses	6,512	8,744	6,734
Net unpaid losses and loss adjustment expenses, end of year	$ 23,885	$ 29,819	$ 34,485

Net losses and loss adjustment expenses for asbestos claims increased $40.0 million, $41.0 million and $63.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. The increases in net losses and loss adjustment expenses incurred were primarily attributable to the annual reviews of claim activity and loss emergence trend information obtained in the calendar periods from ceding companies and other industry sources. Upon consideration of this new loss emergence information received in 2009, 2008 and 2007, the

Company revised its loss development assumptions used in its asbestos loss reserving analyses, which had the effect of increasing the asbestos loss estimates for these calendar periods.

Net losses and loss adjustment expenses for environmental claims increased $0.6 million, $4.1 million and $14.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. The increases in net losses and loss adjustment expenses incurred for the years ended December 31, 2009, 2008 and 2007 were attributable to the annual reviews of claim activity and loss emergence trend information obtained in the calendar year from ceding companies.

The Company's survival ratio for asbestos and environmental-related liabilities as of December 31, 2009 is seven years. The Company's underlying survival ratio for asbestos-related liabilities is eight years and for environmental-related liabilities is three years. The asbestos and environmental-related liability survival ratio represents the asbestos and environmental reserves, net of reinsurance, as of December 31, 2009, divided by the average paid asbestos and environmental claims for the last three years of $37.8 million, which are net of reinsurance. Our survival ratios may fluctuate over time due to the variability of large payments and adjustments to liabilities.

11. Reinsurance and Retrocessions

The Company utilizes reinsurance and retrocessional agreements to reduce and spread the risk of loss on its insurance and reinsurance business and to limit exposure to multiple claims arising from a single occurrence. The Company is subject to accumulation risk with respect to catastrophic events involving multiple treaties, facultative certificates and insurance policies. To protect against these risks, the Company purchases catastrophe excess of loss protection. The retention, the level of capacity purchased, the geographical scope of the coverage and the costs vary from year to year. In 2009, the Company purchased catastrophe excess of loss protection for certain non-U.S. exposures as well as various additional specific protections for its facultative property account in Latin America. Additionally, the Company purchases specific protections related to the insurance business underwritten by its London Market and U.S. Insurance divisions.

There is a credit risk with respect to reinsurance, which would result in the Company recording a charge to earnings in the event that such reinsuring companies are unable, at some later date, to meet their obligations under the reinsurance agreements in force. Reinsurance recoverables are recorded as assets and a reserve for uncollectible reinsurance recoverables is established, based on the Company's evaluation of each reinsurer's or retrocessionaire's ability to meet its obligations under the agreements. Premiums written and earned are stated net of reinsurance ceded in the consolidated statements of operations. Direct, reinsurance assumed, reinsurance ceded and net amounts for the years ended December 31, 2009, 2008 and 2007 follow (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Premiums Written			
Direct	$ 780,467	$ 792,351	$ 736,822
Add: assumed	1,414,568	1,502,191	1,545,860
Less: ceded	301,222	263,721	193,239
Net	$ 1,893,813	$ 2,030,821	$ 2,089,443
Premiums Earned			
Direct	$ 741,074	$ 773,042	$ 738,116
Add: assumed	1,472,116	1,525,516	1,566,392
Less: ceded	285,778	222,194	183,971
Net	$ 1,927,412	$ 2,076,364	$ 2,120,537

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2009 and 2008 was $912.0 million and $773.2 million, respectively. The reserve for uncollectible recoverables as of December 31, 2009 and 2008 was $41.9 million and $44.5 million, respectively, and has been netted against reinsurance recoverables on loss payments in the consolidated balance sheets. The Company has also established a reserve for potentially uncollectible assumed reinsurance balances of $5.5 million and $3.0 million as of December 31, 2009 and 2008, respectively, which has been netted against premiums receivable.

In accordance with the terms of certain of its reinsurance agreements, the Company has recorded interest expense associated with its ceded reinsurance agreements of $3.7 million, $5.3 million and $8.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

12. Reinsurance Recoverables

The Company's ten largest reinsurers represent 46.0% of its total reinsurance recoverables as of December 31, 2009. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $22.7 million, or 2.5%, of reinsurance recoverables as of December 31, 2009, and the average balance is less than $1.5 million. The Company held total collateral of $220.2 million as of December 31, 2009, representing 24.1% of total reinsurance recoverables. The following table shows the total amount that is recoverable from each of the Company's ten largest reinsurers for paid and unpaid losses as of December 31, 2009, the amount of collateral held, and each reinsurer's A.M. Best rating (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral	A.M. Best Rating
Lloyd's of London	$ 128,778	14.2 %	$ —	A
Federal Crop Insurance Corporation	43,963	4.8	—	NR
Underwriters Reinsurance Company (Barbados)	37,298	4.1	37,298	NR
Everest Re (Bermuda) Ltd.	36,813	4.0	—	A+
D.E. Shaw Bermuda Ltd.	34,981	3.8	34,981	NR
Max Bermuda Ltd.	32,865	3.6	17,208	A-
Swiss Reinsurance America Corporation	31,978	3.5	—	A
Arch Reinsurance Company	25,367	2.8	15,207	A
Brit Insurance Ltd.	24,445	2.7	—	A
Swiss Reinsurance Europe S.A.	22,907	2.5	—	A
Sub-total	419,395	46.0	104,694	
All Other	492,602	54.0	115,526	
Total	$ 911,997	100.0 %	$ 220,220	

Reinsurance recoverables were $773.2 million and collateral was $225.7 million, or 29.2% of the reinsurance recoverable balance, as of December 31, 2008.

Several individual reinsurers are part of the same corporate group. The following table shows the five largest aggregate amounts that are recoverable from all individual entities that form part of the same corporate group as of December 31, 2009 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's of London	$ 128,778	14.2 %	$ —
Swiss Re Group	106,578	11.6	37,354
Federal Crop Insurance Corporation	43,963	4.8	—
Everest Re Group Ltd.	37,576	4.1	—
Platinum Underwriters Holding Ltd.	35,524	3.9	—
Sub-total	352,419	38.6	37,354
All Other	559,578	61.4	182,866
Total	$ 911,997	100.0 %	$ 220,220

The Company is the beneficiary of letters of credit, cash and other forms of collateral to secure certain amounts due from its reinsurers. The total amount of collateral held by the Company as of December 31, 2009 is $220.2 million, which represents 24.1% of the total amount of reinsurance recoverables, comprised of the following forms of collateral (in thousands):

Form of Collateral	Collateral	% of Recoverables
Letters of credit	$ 112,625	12.3 %
Funds withheld from reinsurers	41,250	4.5
Trust agreements	66,345	7.3
Total	$ 220,220	24.1 %

Each reinsurance contract between the Company and the reinsurer describes the losses which are covered under the contract and terms upon which payments are to be made. The Company generally has the ability to utilize collateral to settle unpaid balances due under its reinsurance contracts when it determines that the reinsurer has not met its contractual obligations. Letters of credit are for the sole benefit of the Company to support the obligations of the reinsurer, providing the Company with the unconditional ability, in its sole discretion, to draw upon the letters of credit in support of any unpaid amounts due under the relevant contracts. Cash and investments supporting funds withheld from reinsurers are included in the Company's invested assets. Funds withheld from reinsurers are typically used to automatically offset payments due to the Company in accordance with the terms of the relevant reinsurance contracts. Amounts held under trust agreements are typically comprised of cash and investment grade fixed income securities and are not included in the Company's invested assets. The ability of the Company to draw upon funds held under trust agreements to satisfy any unpaid amounts due under the relevant reinsurance contracts is typically unconditional and at the sole discretion of the Company.

13. Debt Obligations, Common Shares and Preferred Shares

Debt Obligations

The components of the Company's debt obligations as of December 31, 2009 and 2008 were as follows (in thousands):

	2009	2008
7.65% Senior Notes due 2013	$ 224,833	$ 224,790
6.875% Senior Notes due 2015	124,569	124,488
Series A Floating Rate Senior Debentures due 2021	50,000	50,000
Series B Floating Rate Senior Debentures due 2016	50,000	50,000
Series C Floating Rate Senior Debentures due 2021	40,000	40,000
Total debt obligations	$ 489,402	$ 489,278

On November 28, 2006, the Company completed the private sale of $40.0 million aggregate principal amount of floating rate senior debentures, series C, due December 15, 2021 (the "Series C Notes"). Interest on the Series C Notes accrues at a rate per annum equal to the three-month London Interbank Offer Rate ("LIBOR"), reset quarterly, plus 2.50%, and is payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The Company has the option to redeem the Series C Notes at par, plus accrued and unpaid interest, in whole or in part on any interest payment date on or after December 15, 2011. For the years ended December 31, 2009 and 2008, the average annual interest rate on the Series C Notes was 3.48% and 5.71%, respectively.

On February 22, 2006, the Company issued $100.0 million aggregate principal amount of floating rate senior debentures, pursuant to a private placement. The net proceeds from the offering, after fees and expenses, were $99.3 million. The debentures were sold in two tranches: $50.0 million of series A, due March 15, 2021 (the "Series A Notes"), and $50.0 million of series B, due March 15, 2016 (the "Series B Notes"). Interest on each series of debentures is due quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The interest rate on each series of debentures is equal to the three-month LIBOR, reset quarterly, plus 2.20%. The Series A Notes are callable by the Company on any interest payment date on or after March 15, 2011 at their par value, plus accrued and unpaid interest, and the Series B Notes are callable by the Company on any interest payment date on or after March 15, 2009 at their par value, plus accrued and unpaid interest. For the years ended December 31, 2009 and 2008, the average annual interest rate on each series of notes was 3.18% and 5.41%, respectively.

During the second quarter of 2005, the Company issued $125.0 million aggregate principal amount of senior notes due May 1, 2015. The issue was sold at a discount of $0.8 million, which is being amortized over the life of the notes. Interest accrues on the senior notes at a fixed rate of 6.875% per annum, which is due semi-annually on May 1 and November 1.

During the fourth quarter of 2003, the Company issued $225.0 million aggregate principal amount of senior notes due November 1, 2013. The issue was sold at a discount of $0.4 million, which is being amortized over the life of the notes. Interest accrues on the senior notes at a fixed rate of 7.65% per annum, which is due semi-annually on May 1 and November 1.

In June 2002, the Company issued $110.0 million aggregate principal amount of convertible senior debentures, due 2022 (the "Convertible Notes"). Interest accrued on the Convertible Notes at a fixed rate of 4.375% per annum, due semi-annually on June 15 and December 15. The Convertible Notes became redeemable at the Company's option on June 22, 2005. Under certain conditions specified in the indenture under which the Convertible Notes were issued (the "Indenture"), each Convertible Notes holder had the right to request conversion of its Convertible Notes into 46.9925 of the Company's common shares for every $1,000 principal amount of the Convertible Notes held by such holder, which represented a conversion price of $21.28 per share. These conditions included the common stock of the Company trading at or above $25.54 per share for a specified period of time. Pursuant to the terms of the Indenture, the Company was permitted to satisfy the conversion obligations in stock or in cash, or in a combination thereof. The conversion conditions were first satisfied on August 9, 2006, and in accordance with the Indenture, the Convertible Notes became convertible, at the option of the holders, on August 14, 2006. As of March 31, 2007, 1.9 million shares of the Company's common stock were issued to the Convertible Notes holders who elected to convert their Convertible Notes. In March 2007, the Company announced that it had called for the redemption of the remaining $22.5 million principal value of the outstanding Convertible Notes. At the close of business on April 30, 2007, all holders of the Convertible Notes had exercised their rights of conversion with respect to the Convertible Notes. Accordingly, on May 1, 2007, the Company issued 1,056,107 shares of its common stock related to the final conversion of $22.5 million principal value of the Convertible Notes, and no Convertible Notes remained outstanding as of such date.

As of December 31, 2009, the aggregate maturities of the Company's debt obligations, at face value, were as follows (in thousands):

Year	Amount
2013	$ 225,000
2015	125,000
2016	50,000
2021	90,000
Total	$ 490,000

As of December 31, 2009 and 2008, the amortized cost of the Company's debt obligations was $489.4 million and $489.3 million respectively, as reflected in the respective consolidated balance sheets. As of December 31, 2009 and 2008, the estimated fair value of the Company's debt obligations was $503.6 million and $407.0 million, respectively. The estimated fair value is based on quoted market prices of the Company's debt, where available, and for debt similar to the Company's, and discounted cash flow calculations.

On July 13, 2007, the Company entered into a $200.0 million credit facility (the "Credit Agreement") with Wachovia Bank National Association ("Wachovia"), KeyBank National Association and a syndicate of lenders. The original Credit Agreement provided for a five-year credit facility of $200.0 million, $100.0 million of which was available for direct, unsecured borrowings by the Company, and all of which was available for the issuance of secured letters of credit to support the Company's insurance and reinsurance business. As of June 17, 2009, the Credit Agreement was amended to explicitly permit the Company to pledge collateral to secure its obligations under swap agreements, subject to certain financial limitations, in the event that such collateral is required by the counterparty or counterparties. As of February 24, 2010, the Credit Agreement was amended (i) to reduce the size of the facility to $100.0 million, removing the unsecured $100.0 million tranche, (ii) to remove the previous limitation on dividends and other "restricted payments" that the Company may pay to its shareholders and (iii) amend certain of the covenants and default provisions, the minimum ratings requirement, and the pricing of the credit facility.

The amended Credit Agreement contains an option that permits the Company to request an increase in the aggregate amount of the facility by an amount up to $50.0 million, to a maximum facility size of $150.0 million. Following such a request, each lender has the right, but not the obligation, to commit to all or a portion of the proposed increase. As of December 31, 2009, there was $54.9 million outstanding under the Credit Agreement, all of which was in support of secured letters of credit, which included $21.0 million in letters of credit that were cancelled effective January 15, 2010 (see Note 17).

In December 2008, the Company entered into interest rate swaps, with an aggregate notional value of $140.0 million, to protect it from adverse movements in interest rates. Under these swap contracts, the Company receives a floating interest rate of three-month LIBOR and pays a fixed interest rate of 2.49% on the $140.0 million notional value of the contracts, for a five-year period ending in December 2013.

Common Shares

The Company's Board of Directors authorized a share repurchase program whereby the Company was authorized to repurchase shares of its common stock on the open market from time to time through December 31, 2009, up to an aggregate repurchase price of $600.0 million. Shares repurchased under the program were retired. During the year ended December 31, 2009, the Company repurchased and retired 1,789,100 shares of its common stock, at a cost of $72.6 million, an average repurchase price of $40.56 per share. From the inception of the program through October 21, 2009, the Company repurchased and retired 13,906,845 shares of its common stock at a total cost of $518.4 million.

During the year ended December 31, 2007, the Company converted the remaining Convertible Notes into 1,103,099 shares of the Company's common stock, resulting in a decrease to Convertible Notes, and a corresponding increase to shareholders' equity, of $23.5 million.

In each of the first three quarters of 2009, the Company paid a dividend of $0.075 per common share, resulting in an aggregate annual dividend of $0.225 per common share, totaling $13.4 million. The dividends were paid on March 31, 2009, June 30, 2009 and September 30, 2009. No common stock dividend was declared or paid during the fourth quarter of 2009. On March 28, 2008 and June 27, 2008, the Company paid dividends of $0.0625 per common share, and on September 26, 2008 and December 30, 2008, the Company paid dividends of $0.075 per common share. These common share dividends resulted in an aggregate annual dividend of $0.275 per common share in 2008, totaling $17.4 million.

Preferred Shares

The Company's 8.125% Series A preferred shares (2.0 million shares outstanding) have a liquidation preference of $25.00 per share and are redeemable at $25.00 per share at the Company's option, in whole, or in part from time to time, starting on or after October 20, 2010. Dividends on the Company's floating rate Series B preferred shares (1.2 million shares outstanding) are payable at an annual rate equal to 3.25% above the three-month LIBOR on the applicable quarterly determination date. The Series B preferred shares have a liquidation preference of $25.00 per share and are redeemable at the Company's option, in whole or in part from time to time, at the redemption prices below (in thousands, except per share amounts):

	Redemption Price	
Period	Per Share	In Aggregate
October 20, 2010 through October 19, 2011	$ 25.375	$ 29,619
October 20, 2011 through October 19, 2012	25.250	29,473
October 20, 2012 through October 19, 2013	25.125	29,327
October 20, 2013 and thereafter	25.000	29,182

Dividends on each series of preferred shares are deferrable on a non-cumulative basis, provided that no dividends or other distributions have been declared or paid or set apart for payment on any other class or series of the Company's capital shares ranking junior to or equal with the preferred shares. Dividends on Series A and Series B preferred shares will each be payable when, as and if declared by the Company's Board of Directors, quarterly in arrears on the 20th day of January, April, July, and October of each year. Deferred dividends on either series will not accrue interest prior to the date of redemption. On December 16, 2009, the Company's Board of Directors declared quarterly dividends of $0.5078125 per share on the Company's 8.125% Series A preferred shares and $0.2208788 per share on the Company's floating rate Series B preferred shares. The total dividends of $1.5 million were paid on January 20, 2010 to Series A and Series B preferred shareholders of record on December 31, 2009.

During the first quarter of 2009 and the fourth quarter of 2008, Odyssey America purchased 704,737 and 128,000 shares, respectively, of the Company's Series B preferred shares, with a liquidation preference of $17.2 million and $3.1 million, respectively, for $9.2 million and $1.7 million, respectively. As a result of the purchase of the Series B preferred shares, the Company recorded a gain of $8.0 million for the year ended December 31, 2009, and $1.4 million for the year ended December 31, 2008, which amounts were reflected in the Company's retained earnings and included in net income available to common shareholders.

As of December 31, 2009, a subsidiary of Fairfax owned 253,599 shares and 70,000 shares of the Company's Series A and Series B preferred stock, respectively.

14. Segment Reporting

The Company's operations are managed through four operating divisions: Americas, EuroAsia, London Market and U.S. Insurance. The Americas division is comprised of the Company's reinsurance operations in the United States, Canada and Latin America, and writes property and casualty reinsurance business on a treaty and facultative basis. The EuroAsia division writes treaty reinsurance business. The London Market division operates through three distribution channels: Newline Syndicate (1218) at Lloyd's and NICL, which focus on casualty insurance, and the London branch of Odyssey America, which focuses on worldwide property and casualty reinsurance. The U.S. Insurance division writes specialty insurance lines and classes of business, such as medical professional liability, professional liability, crop and commercial automobile.

The financial results of these divisions for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

Year Ended December 31, 2009	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 745,936	$ 559,165	$ 342,925	$ 547,009	$ 2,195,035
Net premiums written	731,228	532,981	254,462	375,142	1,893,813
Net premiums earned	$ 775,000	$ 542,777	$ 251,596	$ 358,039	$ 1,927,412
Losses and loss adjustment expenses	548,686	392,709	140,807	219,794	1,301,996
Acquisition costs and other underwriting expenses	245,903	135,777	71,590	107,677	560,947
Total underwriting deductions	794,589	528,486	212,397	327,471	1,862,943
Underwriting (loss) income	$ (19,589)	$ 14,291	$ 39,199	$ 30,568	64,469
Net investment income					317,894
Net realized investment gains (losses):					
Net realized investment gains					312,964
Other-than-temporary impairment losses					(127,013)
Total net realized investment gains					185,951
Other expense, net					(44,416)
Interest expense					(31,040)
Income before income taxes					$ 492,858
Underwriting ratios:					
Losses and loss adjustment expenses	70.8 %	72.4 %	56.0 %	61.4 %	67.6 %
Acquisition costs and other underwriting expenses	31.7	25.0	28.4	30.1	29.1
Combined ratio	102.5 %	97.4 %	84.4 %	91.5 %	96.7 %

Year Ended December 31, 2008	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 776,387	$ 596,710	$ 381,764	$ 539,681	$ 2,294,542
Net premiums written	760,696	569,289	306,526	394,310	2,030,821
Net premiums earned	$ 780,027	$ 566,517	$ 314,616	$ 415,204	$ 2,076,364
Losses and loss adjustment expenses	645,550	397,203	188,566	277,406	1,508,725
Acquisition costs and other underwriting expenses	253,542	147,091	81,672	110,713	593,018
Total underwriting deductions	899,092	544,294	270,238	388,119	2,101,743
Underwriting (loss) income	$ (119,065)	$ 22,223	$ 44,378	$ 27,085	(25,379)
Net investment income					255,199
Net realized investment gains (losses):					
Net realized investment gains					1,050,951
Other-than-temporary impairment losses					(358,692)
Total net realized investment gains					692,259
Other expense, net					(60,419)
Interest expense					(34,180)
Income before income taxes					$ 827,480
Underwriting ratios:					
Losses and loss adjustment expenses	82.8 %	70.1 %	59.9 %	66.8 %	72.7 %
Acquisition costs and other underwriting expenses	32.5	26.0	26.0	26.7	28.5
Combined ratio	115.3 %	96.1 %	85.9 %	93.5 %	101.2 %

Year Ended December 31, 2007	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 834,921	$ 565,608	$ 349,874	$ 532,279	$ 2,282,682
Net premiums written	817,849	542,058	305,601	423,935	2,089,443
Net premiums earned	$ 841,869	$ 543,141	$ 306,799	$ 428,728	$ 2,120,537
Losses and loss adjustment expenses	661,429	348,593	150,413	247,929	1,408,364
Acquisition costs and other underwriting expenses	270,812	149,424	80,636	114,940	615,812
Total underwriting deductions	932,241	498,017	231,049	362,869	2,024,176
Underwriting (loss) income	$ (90,372)	$ 45,124	$ 75,750	$ 65,859	96,361
Net investment income					329,422
Net realized investment gains (losses):					
Net realized investment gains					593,626
Other-than-temporary impairment losses					(54,490)
Total net realized investment gains					539,136
Other expense, net					(14,006)
Interest expense					(37,665)
Income before income taxes					$ 913,248
Underwriting ratios:					
Losses and loss adjustment expenses	78.6 %	64.2 %	49.0 %	57.8 %	66.4 %
Acquisition costs and other underwriting expenses	32.1	27.5	26.3	26.8	29.1
Combined ratio	110.7 %	91.7 %	75.3 %	84.6 %	95.5 %

Gross Premiums Written by Major Unit/Division

	Years Ended December 31,		
	2009	2008	2007
United States	$ 561,773	$ 577,931	$ 649,201
Latin America	146,163	158,140	141,433
Canada	38,000	40,316	43,287
Total Americas	745,936	776,387	834,921
EuroAsia	559,165	596,710	565,608
London Market	342,925	381,764	349,874
U.S. Insurance	547,009	539,681	532,279
Total gross premiums written	$ 2,195,035	$ 2,294,542	$ 2,282,682

Gross Premiums Written by Type of Business/Business Unit

	Years Ended December 31, 2009	2008	2007
Americas			
Property excess of loss	$ 157,690	$ 144,227	$ 125,053
Property proportional	97,925	132,432	123,331
Property facultative	21,810	17,948	19,479
Subtotal property	277,425	294,607	267,863
Casualty excess of loss	203,448	150,529	181,470
Casualty proportional	134,389	186,617	232,542
Casualty facultative	57,131	71,975	81,995
Subtotal casualty	394,968	409,121	496,007
Marine and aerospace	23,865	27,578	25,427
Surety and credit	49,678	45,081	45,592
Other lines	—	—	32
Total Americas	745,936	776,387	834,921
EuroAsia			
Property excess of loss	193,428	187,469	159,985
Property proportional	183,388	201,887	195,290
Property facultative	14	245	2,275
Subtotal property	376,830	389,601	357,550
Casualty excess of loss	67,604	75,647	66,755
Casualty proportional	28,061	36,867	41,492
Subtotal casualty	95,665	112,514	108,247
Marine and aerospace	44,285	49,100	48,158
Surety and credit	42,385	45,495	51,653
Total EuroAsia	559,165	596,710	565,608
London Market			
Property excess of loss	63,813	62,116	66,318
Property proportional	867	1,430	1,107
Subtotal property	64,680	63,546	67,425
Casualty excess of loss	5,321	4,851	6,789
Casualty proportional	3,550	13,462	15,964
Subtotal casualty	8,871	18,313	22,753
Marine and aerospace	35,916	47,234	55,153
Total reinsurance	109,467	129,093	145,331
Liability lines	227,844	248,185	201,492
Other	5,614	4,486	3,051
Total insurance	233,458	252,671	204,543
Total London Market	342,925	381,764	349,874

Gross Premiums Written by Type of Business/Business Unit

	Years Ended December 31,		
	2009	2008	2007
U.S. Insurance			
Property and package	135,047	111,489	68,457
Professional liability	119,918	130,926	139,320
Specialty liability	113,938	90,918	90,398
Medical professional liability	96,957	113,922	130,150
Commercial automobile	65,594	68,159	52,374
Personal automobile	15,555	24,267	51,580
Total U.S. Insurance	547,009	539,681	532,279
Total gross premiums written	$ 2,195,035	$ 2,294,542	$ 2,282,682

The Company does not maintain separate balance sheet data for each of its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

15. Federal and Foreign Income Taxes

The components of the federal and foreign income tax provision (benefit) included in the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

	2009	2008	2007
Current:			
United States	$ 77,775	$ 463,222	$ 123,527
Foreign	75,475	70,677	78,276
Total current income tax provision	153,250	533,899	201,803
Deferred:			
United States	(1,782)	(258,303)	113,621
Foreign	(30,924)	2,876	2,249
Total deferred income tax (benefit) provision	(32,706)	(255,427)	115,870
Total federal and foreign income tax provision	$ 120,544	$ 278,472	$ 317,673

Deferred federal and foreign income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Components of federal and foreign income tax assets and liabilities as of December 31, 2009 and 2008 are as follows (in thousands):

	2009	2008
Unpaid losses and loss adjustment expenses	$ 156,444	$ 164,552
Unearned premiums	36,374	38,946
Reserve for potentially uncollectible balances	11,469	13,958
Pension and benefit accruals	10,075	8,015
Investments	152,869	116,928
Foreign tax credit	74,946	110,631
Other	4,461	—
Total deferred tax assets	446,638	453,030
Deferred acquisition costs	40,335	48,675
Foreign deferred items	35,198	66,122
Other	—	3,648
Total deferred tax liabilities	75,533	118,445
Net deferred tax assets	371,105	334,585
Deferred income taxes on accumulated other comprehensive income	(294,308)	(44,378)
Deferred federal and foreign income tax asset	76,797	290,207
Current taxes payable	(31,464)	(238,111)
Federal and foreign income taxes receivable	$ 45,333	$ 52,096

The following table reconciles federal and foreign income taxes at the statutory federal income tax rate to the Company's tax provision and effective tax rate for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes	$ 492,858		$ 827,480		$ 913,248	
Income tax provision computed at the U.S. statutory tax rate on income	$ 172,500	35.0 %	$ 289,618	35.0 %	$ 319,637	35.0 %
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(8,622)	(1.7)	(4,141)	(0.5)	(3,238)	(0.4)
Tax-exempt income	(38,010)	(7.7)	(7,448)	(0.9)	(2,163)	(0.2)
Other, net	(5,324)	(1.1)	443	0.1	3,437	0.4
Total federal and foreign income tax provision	$ 120,544	24.5 %	$ 278,472	33.7 %	$ 317,673	34.8 %

Domestic pre-tax income was $288.0 million, $642.4 million and $692.8 million for the years ended December 31, 2009, 2008 and 2007, respectively. Foreign pre-tax income was $204.9 million, $185.1 million and $220.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

During the third quarter of 2006, Fairfax reduced its ownership of the Company to below 80%, and as a result, the Company was deconsolidated from the United States tax group of Fairfax. Accordingly, the Company filed or will file separate company tax returns for the period August 2, 2006 to October 20, 2009. As a result of the Merger (see Note 1), effective October 21, 2009, the Company rejoined the United States tax group of Fairfax. The Merger had no effect on the Company's tax position. The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. As of December 31, 2009 and 2008, the Company has not recorded any interest or penalties. The Company paid federal and foreign income taxes of $355.9 million, $348.4 million and $224.6 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, the Company had a current tax payable of $31.5 million, which reflects $21.1 million payable to Fairfax and a net payable of $10.4 million to the U.S. federal government and various foreign governments. As of December 31, 2008, the Company had a current tax payable of $238.1 million, which reflects $9.3 million payable to Fairfax and a net payable of $228.8 million to the U.S. federal government and various foreign governments. The federal income tax provision is allocated to each of the Company's subsidiaries in the consolidated group pursuant to a written agreement, on the basis of each subsidiary's separate taxable income.

The Company files income tax returns with various federal, state and foreign jurisdictions. The Company's U.S. federal income tax return for 2007 and 2008 remain open for examination. The Internal Revenue Service completed their audit of the Company's 2005 and 2006 tax returns in January 2010 and will commence their audit of the Company's 2007 and 2008 tax returns in 2010. There have been no material adjustments proposed under the current audit cycle. Income tax returns filed with various state and foreign jurisdictions remain open to examination in accordance with individual statutes.

The Company does not have any material unrecognized tax benefits and, accordingly, has not recognized any accrued interest or penalties associated with uncertain tax positions.

16. Commitments and Contingencies

On February 8, 2007, the Company was added as a co-defendant in an amended and consolidated complaint in an existing action against the Company's then-majority (now 100%) shareholder, Fairfax, and certain of Fairfax's officers and directors, who include certain of the Company's current and former directors. The amended and consolidated complaint has been filed in the United States District Court for the Southern District of New York by the lead plaintiffs, who seek to represent a class of all purchasers and acquirers of securities of Fairfax between May 21, 2003 and March 22, 2006, inclusive, and allege, among other things, that the defendants violated U.S. federal securities laws by making material misstatements or failing to disclose certain material information. The amended and consolidated complaint seeks, among other things, certification of the putative class, unspecified compensatory damages, unspecified injunctive relief, reasonable costs and attorneys' fees and other relief. These claims are at a preliminary stage. Pursuant to the scheduling stipulations, the various defendants filed their respective motions to dismiss the amended and consolidated complaint, the lead plaintiffs filed their opposition thereto, and the defendants filed their replies to those oppositions; the motions to dismiss were argued before the Court in December 2007. The Court has not yet issued a ruling on these motions. In November 2009, the Court granted a motion by the lead plaintiffs to withdraw as lead plaintiffs, and allowed other prospective lead plaintiffs 60 days to file motions seeking appointment as replacement lead plaintiff. Two entities filed such motions and subsequently asked the Court to appoint them as co-lead plaintiffs. These motions remain pending. The Company intends to vigorously defend against the allegations. At this early stage of the proceedings, it is not possible to make any determination regarding the likely outcome of this matter.

In July 2006, Fairfax, the Company's then-majority (now 100%) shareholder, filed a lawsuit in the Superior Court, Morris County, New Jersey, seeking damages from a number of defendants who, the complaint alleges, participated in a stock market manipulation scheme involving Fairfax shares, and the complaint was subsequently amended to add additional allegations and two defendants. In January 2008, two of these defendants filed a counterclaim against Fairfax and a third-party complaint against, among others, OdysseyRe and certain of its directors. Those counterclaims and third-party claims were voluntarily withdrawn in March 2008. In September 2008, the same two defendants filed an amended counterclaim and third-party complaint that again named OdysseyRe and certain directors as defendants. The complaint alleges, among other things, claims of racketeering, intentional infliction of emotional distress, tortious interference with economic advantage and other torts, and seeks unspecified compensatory and punitive damages and other relief. OdysseyRe denies the allegations and intends to vigorously defend against these claims. OdysseyRe has not yet responded to the complaint, and the timing of that response has not been set. At this early stage of the proceedings, it is not possible to make any determination regarding the likely outcome of this matter.

On September 7, 2005, the Company announced that it had been advised by Fairfax, the Company's then-majority (now 100%) shareholder, that Fairfax had received a subpoena from the SEC requesting documents regarding any nontraditional insurance and reinsurance transactions entered into or offered by Fairfax and any of its affiliates, which included OdysseyRe. On June 25, 2009, the Company announced that Fairfax had been informed by the New York Regional Office of the SEC that its investigation as to Fairfax had been completed, and that it did not intend to recommend any enforcement action by the SEC.

The Company participates in Lloyd's through its 100% ownership of Newline Syndicate (1218), for which the Company provides 100% of the capacity. The results of Newline Syndicate (1218) are consolidated in the financial statements of the Company. In support of Newline Syndicate (1218)'s capacity at Lloyd's, NCNL and Odyssey America have pledged securities and cash with a fair value of $139.1 million and $123.5 million, respectively, as of December 31, 2009 in a deposit trust account in favor of the Society and Council of Lloyd's. These securities may be substituted with other securities at the discretion of the Company, subject to approval by Lloyd's. The securities are carried at fair value and are included in investments and cash in the Company's consolidated balance sheets. Interest earned on the securities is included in investment income. The pledge of assets in support of Newline Syndicate (1218) provides the Company with the ability to participate in writing business through Lloyd's, which remains an important part of the Company's business. The pledged assets effectively secure the contingent obligations of Newline Syndicate (1218) should it not meet its obligations. NCNL and Odyssey America's contingent liability to the Society and Council of Lloyd's is limited to the aggregate amount of the pledged assets. The Company has the ability to remove funds at Lloyd's annually, subject to certain minimum amounts required to support outstanding liabilities as determined under risk-based capital models and approved by Lloyd's. The funds used to support outstanding liabilities are adjusted annually and the obligations of the Company to support these liabilities will continue until they are settled or the liabilities are reinsured by a third party approved by Lloyd's. The Company expects to continue to actively operate Newline Syndicate (1218) and support its requirements at Lloyd's. The Company believes that Newline Syndicate (1218) maintains sufficient liquidity and financial resources to support its ultimate liabilities and the Company does not anticipate that the pledged assets will be utilized.

As of July 14, 2000, Odyssey America agreed to guarantee the performance of all the insurance and reinsurance contract obligations, whether incurred before or after the agreement, of Compagnie Transcontinentale de Réassurance ("CTR"), a subsidiary of Fairfax, in the event CTR became insolvent and CTR was not otherwise indemnified under its guarantee agreement with a Fairfax affiliate. The guarantee, which was entered into while Odyssey America and CTR were each 100% owned by Fairfax, was provided by Odyssey America to facilitate the transfer of renewal rights to CTR's business, together with certain CTR employees, to Odyssey America in 2000 in order to further expand the Company's international reinsurance business. The guarantee was terminated effective December 31, 2001. There were no amounts received from CTR under the guarantee, and the Company did not provide any direct consideration for the renewal rights to the business of CTR. CTR was dissolved and its assets and liabilities were assumed by subsidiaries of Fairfax that have the responsibility for the run-off of its liabilities. Although CTR's liabilities were assumed by Fairfax subsidiaries, the guarantee only pertains to those liabilities attaching to the policies written by CTR. Fairfax has agreed to indemnify Odyssey America for all its obligations incurred under its guarantee. The Company's potential exposure in connection with this agreement stems from CTR's remaining gross reserves, which are estimated to be $113.5 million as of December 31, 2009. The Company believes that the financial resources of the Fairfax subsidiaries that have assumed CTR's liabilities provide adequate protection to satisfy the obligations that are subject to this guarantee. The Company does not expect to make payments under this guarantee and does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

Odyssey America agreed, as of April 1, 2002, to guarantee the payment of all of the insurance contract obligations (the “Subject Contracts”), whether incurred before or after the agreement, of Falcon Insurance Company (Hong Kong) Limited (“Falcon”), a subsidiary of Fairfax Asia Limited (“Fairfax Asia”), in the event Falcon becomes insolvent. Fairfax Asia is 100% owned by Fairfax, which includes a 26.2% economic interest owned by the Company. The guarantee by Odyssey America was made to assist Falcon in writing business through access to Odyssey America’s financial strength ratings and capital resources. Odyssey America is paid a fee for this guarantee of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For the years ended December 31, 2009, 2008 and 2007, Falcon paid $0.3 million, $0.3 million and $0.5 million, respectively, to Odyssey America in connection with this guarantee. Odyssey America’s potential exposure in connection with this agreement is estimated to be $52.9 million, based on Falcon’s loss reserves at December 31, 2009. Falcon’s shareholders’ equity on a U.S. GAAP basis is estimated to be $58.4 million as of December 31, 2009. Fairfax has agreed to indemnify Odyssey America for any obligation under this guarantee. The Company believes that the financial resources of Falcon provide adequate protection to support its liabilities in the ordinary course of business. The Company anticipates that Falcon will meet all of its obligations in the normal course of business and does not expect to make any payments under this guarantee. The Company does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

The Company organized O.R.E Holdings Limited (“ORE”), a corporation domiciled in Mauritius, on December 30, 2003 to act as a holding company for various investments in India. On January 29, 2004, ORE was capitalized by the Company in the amount of $16.7 million. ORE is consolidated in the Company’s consolidated financial statements. During 2004, ORE entered into a joint venture agreement relating to the purchase by ORE of 45% of the shares of Cheran Enterprises Private Limited (“CEPL”). CEPL is a corporation domiciled in India, engaged in the purchase, development and sale of commercial real estate properties. The joint venture agreement governing CEPL contains a provision whereby Odyssey America could have been called upon to provide a guarantee of a credit facility, if such a facility had been established by CEPL, in an amount up to $65.0 million for the funding of proposed developments. The credit facility was never established, and the requisite conditions for any future provision of the guarantee no longer exist. ORE’s Indian joint venture partner claimed that the guarantee should be available and pursued legal actions against the Company. The Company found this claim without merit and vigorously defended the legal actions. On August 13, 2008, the Company Law Board in Chennai, India ruled in ORE’s favor and directed CEPL to return to ORE the full amount of its investment in CEPL, plus 8% interest, within the one-year period commencing November 1, 2008. As of December 31, 2009, the Company had written down the value of its investment in ORE by $9.9 million. The carrying value of the Company’s investment in ORE as of both December 31, 2009 and 2008 was $6.7 million. Because no payment of the award has yet been received and collection may require additional legal action on the part of ORE, the Company has taken no steps to reverse the write-downs that have been taken to date. The Company continues to vigorously pursue collection of the award.

The Company and its subsidiaries are involved from time to time in ordinary litigation and arbitration proceedings as part of the Company’s business operations. In the Company’s opinion, the outcome of these suits, individually or collectively, is not likely to result in judgments that would be material to the financial condition or results of operations of the Company.

The Company and its subsidiaries lease office space and furniture and equipment under long-term leases expiring through the year 2022. Minimum annual rentals follow (in thousands):

	Amount
2010	$ 9,502
2011	7,641
2012	6,131
2013 and thereafter	43,101
Total	$ 66,375

The amounts above are reduced by an aggregate minimum rental recovery of $1.0 million resulting from the sublease of space to other companies.

Rental expense, before sublease income under these operating leases, was $11.4 million, $11.3 million and $8.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. The Company recovered pre-tax amounts of less than $0.1 million for the year ended December 31, 2009 and $0.1 million for each of the years ended December 31, 2008 and 2007, from subleases.

17. Statutory Information and Dividend Restrictions

Odyssey America, the Company's principal operating subsidiary, is subject to state regulatory restrictions that limit the maximum amount of dividends payable. In any 12-month period, Odyssey America may pay dividends equal to the greater of (i) 10% of statutory capital and surplus as of the prior year end or (ii) net income for such prior year, without prior approval of the Insurance Commissioner of the State of Connecticut (the "Connecticut Commissioner"). The maximum amount of dividends which Odyssey America may pay in 2010, without such prior approval is $351.3 million, based on Odyssey America's separate company statutory financial statements. Connecticut law further provides that (i) Odyssey America must report to the Connecticut Commissioner, for informational purposes, all dividends and other distributions within five business days after the declaration thereof and at least ten days prior to payment and (ii) Odyssey America may not pay any dividend or distribution in excess of its earned surplus, defined as the insurer's "unassigned funds surplus" reduced by 25% of unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as reflected in its most recent statutory annual statement on file with the Connecticut Commissioner, without the Connecticut Commissioner's approval. Odyssey America paid dividends to the Company of $200.0 million, $410.0 million and $155.0 million during the years ended December 31, 2009, 2008 and 2007, respectively.

The following is the consolidated statutory basis net income and policyholders' surplus of Odyssey America and its subsidiaries, for each of the years ended and as of December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Net income	$ 374,884	$ 602,133	$ 335,783
Policyholders' surplus	$ 3,512,819	$ 2,951,335	$ 2,922,758

The statutory provision for potentially uncollectible reinsurance recoverables due from unauthorized companies is reduced to the extent collateral is held. Pursuant to indemnification agreements between the Company and Clearwater, and between the Company and Hudson, the Company previously provided a $20.5 million letter of credit to Clearwater and a $0.5 million letter of credit to Hudson as of December 31, 2008, which were used as collateral for balances due from unauthorized reinsurers in regard to the indemnification agreements. The use of such collateral provided by the Company is a permitted accounting practice approved by the Insurance Department of the State of Delaware, the domiciliary state of Clearwater and Hudson. Effective January 15, 2010, the letters of credit were cancelled at the request of Clearwater and Hudson, and the indemnification agreements have been terminated. The indemnification agreements do not affect the accompanying consolidated financial statements, although Odyssey America's, Clearwater's and Hudson's policyholders' surpluses as of December 31, 2009 were negatively impacted by $14.4 million, $14.2 million and $0.2 million, respectively.

18. Related Party Transactions

The Company has entered into various reinsurance arrangements with Fairfax and its affiliates. The approximate amounts included in or deducted from income, expense, assets and liabilities in the accompanying consolidated financial statements, with respect to reinsurance assumed and ceded from and to affiliates, as of and for the years ended December 31, 2009, 2008 and 2007 follow (in thousands):

	2009	2008	2007
Assumed:			
Premiums written	$ 14,434	$ 18,188	$ 26,385
Premiums earned	15,956	21,633	30,368
Losses and loss adjustment expenses	15,868	11,404	6,629
Acquisition costs	3,989	6,592	4,506
Reinsurance payable on paid losses	(86)	2,235	2,721
Reinsurance balances receivable	1,441	2,269	5,203
Unpaid losses and loss adjustment expenses	131,446	148,495	179,377
Unearned premiums	6,489	8,012	11,456
Ceded:			
Premiums written	$ 39	$ 444	$ (653)
Premiums earned	39	656	(276)
Losses and loss adjustment expenses	(882)	14,283	(7,094)
Acquisition costs	(8)	9	(13)
Ceded reinsurance balances payable	333	258	1,180
Reinsurance recoverables on paid losses	(192)	7	463
Reinsurance recoverables on unpaid losses	9,318	13,223	14,258
Prepaid reinsurance premiums	—	—	212

Written premiums assumed from Fairfax's affiliates in 2009 represent 0.7% of OdysseyRe's total gross premiums written for the year ended December 31, 2009. Ceded premiums written represent less than 0.1% of OdysseyRe's total ceded premiums written for the year ended December 31, 2009. The largest amounts of related party assumed business in 2009 were received from Commonwealth Insurance Company and Lombard General Insurance Company of Canada.

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly-owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements provide for an annual base fee of 0.20% (20 basis points), calculated and paid quarterly based upon the subsidiary's average invested assets for the preceding three months. The agreements also include incentive fees of 0.10% (10 basis points), which are payable if realized gains exceed 1% of the average investment portfolio in any given year, subject to cumulative realized gains on investments exceeding 1% of the average investment portfolio. Additional incentive fees are paid based upon the performance of the subsidiary's equity portfolio equal to 10% of the return on equities (subject to an annual maximum) in excess of the Standard & Poor's 500 index plus 200 basis points, provided that the equity portfolio has achieved such excess on a cumulative basis. If the performance of the equity portfolio does not equal or exceed this benchmark in a given year, the annual base fee, on the equity portion of the portfolio, is reduced to 0.18% (18 basis points). The aggregate annual investment management fee payable by each subsidiary, including incentive fees, is capped at 0.40% (40 basis points) of its investment portfolio, with any excess amounts carried into the following year. These agreements may be terminated by either party on 30 days' notice. For the years ended December 31, 2009, 2008 and 2007, total fees, including incentive fees, of $28.8 million, $21.4 million and $17.3 million, respectively, are included in the consolidated statements of operations.

The OdysseyRe Foundation, a not-for-profit entity through which the Company provides funding to charitable organizations active in the communities in which the Company operates, was formed in February 2007. Prior to the formation of the OdysseyRe Foundation, the Company provided funding to charitable organizations through the Sixty-Four Foundation, a not-for-profit affiliate of Fairfax and the Company. Included in other expense, net for the years ended December 31, 2009, 2008 and 2007, are incurred charitable contributions of $5.0 million, $3.7 million and $2.5 million, respectively, related to these entities.

Due to expense sharing and investment management agreements with Fairfax and its affiliates, the Company has accrued, on its consolidated balance sheet, amounts receivable from affiliates of $0.3 million and $1.0 million as of December 31, 2009 and 2008, respectively, and amounts payable to affiliates of $13.3 million and $1.6 million as of December 31, 2009 and 2008, respectively.

In the ordinary course of the Company's investment activities, the Company makes investments in investment funds, limited partnerships and other investment vehicles in which Fairfax or its affiliates may also be investors.

19. Employee Benefits

The Company measures the assets and liabilities of its employee benefit plans as of the date of the Company's financial statements, as required by GAAP. During 2008, the measurement date for the Company's defined benefit pension plan and the supplemental employee retirement plan (the "Supplemental Plan") were changed from October 1 to December 31. The Company elected to apply the "fifteen-month" approach to these two benefit plans to measure plan assets and liabilities from the plans' previous measurement date of October 1, 2007, for a fifteen-month period through December 31, 2008. As of January 1, 2008, the net periodic benefit costs of $1.8 million ($1.2 million, after tax) and the change in the minimum benefit plan liabilities of $0.2 million ($0.1 million, after tax) for the period October 1 through December 31, 2007 related to the defined benefit pension plan and Supplemental Plan have been reflected as a direct charge to retained earnings and an increase to accumulated other comprehensive income, respectively.

Defined Benefit Pension Plan

The Company maintains a qualified, non-contributory, defined benefit pension plan ("Plan") covering substantially all employees who have reached age twenty-one and who have completed one year of service. Employer contributions to the Plan are in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended.

The amortization period for unrecognized pension costs and credits, including prior service costs, if any, and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits. Actuarial gains and losses result when actual experience differs from that assumed or when actuarial assumptions are changed.

The following tables set forth the Plan's unfunded status and accrued pension cost recognized in the Company's consolidated financial statements as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 59,980	$ 66,690
Service cost	5,121	6,650
Interest cost	3,432	3,816
Actuarial loss (gain)	3,140	(6,238)
Benefits paid	(4,935)	(3,270)
Settlement of retiree benefit obligations	—	(7,668)
Benefit obligation at end of year	66,738	59,980
Change in Plan assets:		
Fair value of Plan assets at beginning of year	47,931	52,388
Actual return on Plan assets	10,480	2,663
Actual contributions during the year	3,800	3,818
Settlement of retiree benefit obligations	—	(7,668)
Benefits paid	(4,935)	(3,270)
Fair value of Plan assets at end of year	57,276	47,931
Unfunded status and accrued pension cost	$ (9,462)	$ (12,049)

As of December 31, 2009 and 2008, the fair value and percentage of fair value of the total Plan assets are as follows (in thousands):

	As of December 31,			
	2009		2008	
	$	%	$	%
Equity securities	$ 34,671	60.5 %	$ 37,749	78.8 %
Fixed income securities	13,104	22.9	—	—
Pooled investment hedge fund	6,573	11.5	—	—
Money market	2,928	5.1	10,182	21.2
Fair value of Plan assets	$ 57,276	100.0 %	$ 47,931	100.0 %

The Plan seeks to maximize the economic value of its investments, by applying a long-term, value-oriented approach to optimize the total investment returns of the Plan's invested assets. Assets are transferred and allocated among various investment vehicles, when appropriate. The long-term rate of return assumption is based on this flexibility to adjust to market conditions. The actual return on assets has historically been in line with the Company's assumptions of expected returns. During 2009, the Company contributed $3.8 million to the Plan. The Company currently expects to make a contribution to the Plan in 2010 of $3.2 million.

The Company accounts for its Plan assets at fair value as required by GAAP. The Company has categorized its Plan assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The Company uses the three-level hierarchy approach that is described in Note 6.

For determining the fair value of the Company's Level 1 Plan assets, quoted market prices are used. The majority of these Plan assets are common stocks that are actively traded in a public market. The Plan's money market account, for which the cost basis approximates fair value, is also classified as a Level 1 investment.

The Company's Level 2 Plan assets, the majority of which are in government, corporate and municipal fixed income securities, are priced using publicly traded over-the-counter prices and broker-dealer quotes. Observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments.

The Company's Level 3 Plan assets are valued by a third party by using valuation techniques that include unobservable inputs. To verify Level 3 pricing, the Company's investment manager assesses the reasonableness of the fair values by comparing them to the market's overall performance. During the year ended December 31, 2009, the Company purchased $6.0 million of investments that are classified as Level 3, which had a fair value of $6.6 million as of December 31, 2009.

The following tables present the fair value hierarchy for those Plan assets measured at fair value on a recurring basis as of December 31, 2009 (in thousands):

		Fair Value Measurements as of December 31, 2009		
	Assets Measured at Fair Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 34,671	$ 34,671	$ —	$ —
Debt securities	13,104	—	13,104	—
Pooled investment hedge fund	6,573	—	—	6,573
Money market	2,928	2,928	—	—
Total Plan assets measured at fair value	$ 57,276	$ 37,599	$ 13,104	$ 6,573

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $9.5 million and $12.0 million, as of December 31, 2009 and 2008, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $0.3 million and $5.5 million, before taxes, as of December 31, 2009 and 2008, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2009 and 2008 are as follows:

	2009	2008
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.62 %	5.75 %

The discount rate represents the Company's estimate of the interest rate at which the Plan's benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated postretirement benefit obligations and the service and interest cost components of net periodic postretirement benefit cost.

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 is comprised of the following components (in thousands):

	2009	2008	2007
Net Periodic Benefit Cost:			
Service cost	$ 5,121	$ 5,323	$ 5,071
Interest cost	3,432	2,976	2,982
Return on Plan assets	(2,188)	(2,199)	(2,486)
Settlement of retiree benefit obligations	—	1,571	—
Net amortization and deferral	55	572	714
Net periodic benefit cost	$ 6,420	$ 8,243	$ 6,281

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	6.00 %	5.25 %	5.25 %
Rate of compensation increase	5.75 %	5.75 %	5.73 %
Expected long term rate of return on Plan assets	5.25 %	5.25 %	5.50 %

The accumulated benefit obligation for the Plan is $49.6 million and $45.4 million as of the December 31, 2009 and 2008 measurement dates, respectively.

The Plan's expected future benefit payments are shown below (in thousands):

Year	Amount
2010	$ 2,650
2011	1,000
2012	2,340
2013	2,510
2014	2,660
2015 — 2019	18,350

The Company estimates that it will record a $6.4 million expense related to the net periodic benefit cost during the year ended December 31, 2010. The Company does not expect any refunds of Plan assets during the year ended December 31, 2010.

The Company recorded a one-time pension settlement expense of $1.6 million ($1.0 million after-tax) and a corresponding increase to other comprehensive income, during the second quarter of 2008 related to the settlement of retiree benefit obligations from the defined benefit pension plan. The settlement of the retiree benefit obligations resulted in the immediate recognition of a portion of a previously unrecognized actuarial loss. The settlement of retiree benefit obligations had no effect on total shareholders' equity. Annuities have been purchased for those individuals whose retiree benefit obligations were settled under the defined benefit pension plan. Additionally, as a result of the settlement, the Company's retiree benefit obligations and the fair value of the plan assets decreased by $7.7 million.

Excess Benefit Plans

The Company maintains two non-qualified excess benefit plans (“Excess Plans”) that provide more highly compensated officers and employees with defined retirement benefits in excess of qualified plan limits imposed by federal tax law. The following tables set forth the combined amounts recognized for the Excess Plans in the Company’s consolidated financial statements as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 16,387	$ 16,732
Service cost	733	840
Interest cost	950	894
Actuarial gain	(33)	(1,302)
Benefits paid	(2,261)	(777)
Benefit obligation at end of year	15,776	16,387
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	—	—
Actual contributions during the year	2,261	777
Benefits paid	(2,261)	(777)
Fair value of Excess Plans' assets at end of year	—	—
Unfunded status and accrued prepaid pension cost	$ (15,776)	$ (16,387)

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $15.8 million and $16.4 million, as of December 31, 2009 and 2008, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $2.1 million and $2.2 million, before taxes, as of December 31, 2009 and 2008, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2009 and 2008 are as follows:

	2009	2008
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.62 %	5.75 %

The discount rate represents the Company’s estimate of the interest rate at which the Excess Plans’ benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated post retirement benefit obligations and the service and interest cost components of net periodic post retirement benefit cost.

Net periodic benefit cost included in the Company's consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007 is comprised of the following components (in thousands):

	2009	2008	2007
Net Periodic Benefit Cost:			
Service cost	$ 733	$ 840	$ 801
Interest cost	950	852	830
Recognized net actuarial loss	126	244	280
Recognized prior service cost	(37)	(37)	(37)
Other	—	—	5
Net periodic benefit cost	$ 1,772	$ 1,899	$ 1,879

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	6.00 %	5.25 %	5.25 %
Rate of compensation increase	5.75 %	5.75 %	5.73 %

The accumulated benefit obligation for the Excess Plans is $11.2 million and $11.7 million as of December 31, 2009 and 2008, respectively.

The Excess Plans' expected benefit payments are shown below (in thousands):

Year	Amount
2010	$ 1,080
2011	1,020
2012	1,170
2013	920
2014	990
2015 — 2019	4,870

A trust fund, which was established related to the Excess Plans, is included in other invested assets, and had a fair value of $3.8 million and $5.6 million as of December 31, 2009 and 2008, respectively. During 2009, the trust fund reallocated its invested assets from U.S. government securities to money market accounts. Plan benefits are paid by the Company as they are incurred by the participants, accordingly, there are no assets held directly by the Excess Plans.

The Company expects to contribute $1.1 million to the Excess Plans during the year ended December 31, 2010, which represents the amount necessary to fund the 2010 expected benefit payments.

The Company estimates that it will record a $1.7 million expense related to the net periodic benefit cost during the year ended December 31, 2010.

Postretirement Benefit Plan

The Company provides certain health care and life insurance (“postretirement”) benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the Company. The Company’s cost for providing postretirement benefits other than pensions is accounted for in accordance with ASC 715, “Compensation – Retirement Benefits.” The following tables set forth the amounts recognized for the postretirement benefit plan, which has a measurement date of December 31, in the Company’s consolidated financial statements as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 14,151	$ 14,222
Service cost	1,743	1,787
Interest cost	1,052	879
Actuarial loss (gain)	7,934	(2,429)
Benefits paid	(474)	(357)
Other	65	49
Benefit obligation at end of year	24,471	14,151
Unfunded status and accrued prepaid pension cost	$ (24,471)	$ (14,151)

The net amount recognized in the consolidated balance sheets related to the accrued benefit cost of $24.5 million and $14.2 million, as of December 31, 2009 and 2008, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss, before taxes, recognized is $5.7 million as of December 31, 2009 and accumulated other comprehensive income, before taxes, of $2.3 million as of December 31, 2008.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2009 and 2008 are as follows:

	2009	2008
Discount rate	5.75 %	7.34 %
Rate of compensation increase	4.00 %	4.00 %

The discount rate represents the Company’s estimate of the interest rate at which the postretirement benefit plan benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated post retirement benefit obligations and the service and interest cost components of net periodic post retirement benefit cost.

Net periodic benefit cost included in the Company’s consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 is comprised of the following components (in thousands):

	2009	2008	2007
Net Periodic Benefit Cost:			
Service cost	$ 1,743	$ 1,787	$ 1,792
Interest cost	1,052	879	681
Net amortization and deferral	(131)	(104)	(104)
Net periodic benefit cost	$ 2,664	$ 2,562	$ 2,369

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	7.34 %	6.25 %	5.50 %
Rate of compensation increase	4.00 %	4.00 %	4.00 %

The accumulated benefit obligation for the postretirement plan was $24.5 million and $14.2 million as of December 31, 2009 and 2008, respectively.

The postretirement plan's expected benefit payments are shown below (in thousands):

Year	Amount
2010	$ 445
2011	539
2012	649
2013	801
2014	951
2015 — 2019	8,049

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8.75% in 2009, decreasing to 5.00% in 2015 and remaining constant thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by $4.1 million (16.9% of the benefit obligation as of December 31, 2009) and the service and interest cost components of net periodic postretirement benefit costs by $0.5 million for 2009. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit cost for 2009 by $3.4 million and $0.4 million, respectively.

The Company estimates that it will record $4.6 million in benefit costs relating to this plan during the year ended December 31, 2010.

Other Plans

The Company also maintains a defined contribution profit sharing plan for all eligible employees. Each year, the Board of Directors may authorize payment of an amount equal to a percentage of each participant's basic annual earnings based on the experience of the Company for that year. These amounts are credited to the employee's account maintained by a third party, which has contracted to provide benefits under the plan. No contributions were authorized in 2009, 2008 or 2007.

The Company maintains a qualified deferred compensation plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute up to 50% of base salary on a pre-tax basis, subject to annual maximum contributions set by law ($16,500 in 2009). The Company contributes an amount equal to 100% of each employee's pre-tax contribution up to certain limits. The maximum matching contribution is 4% of annual base salary, with certain government-mandated restrictions on contributions to highly compensated employees. The Company also maintains a non-qualified deferred compensation plan to allow for contributions in excess of qualified plan limitations. The Company's contributions to these plans of $2.0 million in 2009, and $1.8 million in both 2008 and 2007, are included in other underwriting expenses in the consolidated statements of operations.

20. Restricted Equity Value Rights and Stock-Based Compensation Plans

The Company had previously established three stock-based compensation plans (the "Stock-Based Compensation Plans"): the Odyssey Re Holdings Corp. 2002 Stock Incentive Plan (the "2002 Option Plan"), the Odyssey Re Holdings Corp. Stock Option Plan (the "2001 Option Plan") and the Odyssey Re Holdings Corp. Restricted Share Plan (the "Restricted Share Plan"). The Stock-Based Compensation Plans generally provided officers, key employees and directors who were employed by or provided services to the Company, with stock options and/or restricted share awards. As a result of the Merger (see Note 1), the Stock-Based Compensation Plans were amended to allow for the conversion, substitution and issuance of restricted equity value rights ("REVRs"). Specifically, the Restricted Share Plan was amended and restated, as of October 28, 2009, as the "Odyssey Re Holdings Corp. Restricted Share and Equity Value Plan" (the "REVR Plan").

REVR Plan

In connection with the Merger, the common shares underlying each unvested option granted under the 2001 Option Plan and the 2002 Option Plan were converted into 1.2524 REVRs. Each REVR became exercisable for REVRs, subject to the same terms and conditions, including the vesting schedule, as applicable to such option prior to the conversion.

In connection with the Merger, each unvested restricted share under the Restricted Share Plan (a "Restricted Share") was cancelled and converted into a right to acquire $65.00 in cash, without interest (a "Restricted Cash Unit"), subject to the same vesting, transfer and other restrictions that applied to the Restricted Shares. Following the amendment and restatement of the REVR Plan, certain holders of Restricted Cash Units elected to convert each of their Restricted Cash Units into 1.2524 REVRs, which REVRs are subject to the same vesting, transfer and other restrictions that applied to the Restricted Cash Units.

Under the terms of the REVR Plan, each REVR has a value (the "REVR Value") equal to the most recently reported common shareholders' equity of the Company, as adjusted in accordance with the REVR Plan, divided by 58,443,149, which was the number of Company common shares outstanding as of September 30, 2009. Upon vesting of a REVR, a participant will receive a single sum cash payment equal to the REVR value as of the applicable vesting date, less any applicable withholding of taxes. The REVRs will be subject to the terms and conditions of the REVR Plan, including vesting and termination of employment provisions, and will not be paid until a participant satisfies the applicable vesting requirements.

The following table summarizes activity for the Restricted Cash Units and REVR Plan for the year ended December 31, 2009:

	Restricted Cash Units	REVR
Converted from Stock-Based Compensation Plans	751,628	160,837
Converted to REVRs	(724,093)	906,860
Vested	—	(5,589)
Forfeited	—	(3,113)
Outstanding as of December 31, 2009	27,535	1,058,995

As of December 31, 2009, the Company recorded a liability of $21.2 million for the REVRs and Restricted Cash Units. For the period October 21, 2009, the effective date of issuance of the Restricted Cash Units and REVRs, through December 31, 2009, the Company recognized an expense related to the REVRs and Restricted Cash Units of $15.0 million. The total tax benefit recognized for the year ended December 31, 2009 was $5.3 million.

Employee Share Purchase Plan

In 2001, the Company established the Employee Share Purchase Plan (the "ESPP"). Under the terms of the ESPP, eligible employees were given the election to purchase Company common shares in an amount up to 10% of their annual base salary. The Company issued, or purchased on the employee's behalf, a number of the Company's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieved a return on equity of at least 15% in any calendar year, additional shares were issued, or purchased by the Company for the employee's benefit, in an amount equal in value to 20% of the employee's contribution during that year. As a result of the Merger (see Note 1), the Company suspended issuances, purchases and contributions made for the ESPP. During the years ended December 31, 2009, 2008 and 2007, the Company purchased 58,699 shares, 75,757 shares and 68,542 shares, respectively, on behalf of employees pursuant to the ESPP, at average purchase prices of $43.23, $38.46 and $38.67, respectively. The compensation expense recognized by the Company for purchases of the Company's common shares under the ESPP was $0.8 million for the year ended December 31, 2009 and $0.9 million for each of the years ended December 31, 2008 and 2007.

General

For the years ended December 31, 2009, 2008 and 2007, the Company received $0.9 million, $3.6 million and $2.5 million, respectively, in cash from employees for the exercise of stock options. For the years ended December 31, 2009, 2008 and 2007, the Company recognized an expense related to all stock-based compensation of $11.9 million, $9.5 million and $6.7 million, respectively. The total tax benefits recognized for the years ended December 31, 2009, 2008 and 2007 were $4.2 million, $3.3 million and $2.3 million, respectively.

The following tables summarize the activity for the Stock-Based Compensation Plans for the year ended December 31, 2009:

	2002 Option Plan	2001 Option Plan
Outstanding as of December 31 ,2008	177,399	172,645
Granted	—	52,496
Exercised	(176,149)	(92,562)
Forfeited	—	(5,407)
Replaced with REVRs	(1,250)	(127,172)
Outstanding as of December 31, 2009	—	—

	Restricted Share Plan
Outstanding as of December 31 ,2008	833,915
Granted	371,543
Vested	(424,009)
Forfeited	(29,821)
Converted to REVRs and Restricted Cash Units	(751,628)
Outstanding as of December 31, 2009	—

21. Financial Guaranty Reinsurance

The Company previously underwrote assumed financial guaranty reinsurance. The maximum exposure to loss related to this business, in the event of nonperformance by the underlying insured and assuming that the underlying collateral proved to be of no value, was $9.7 million and $10.0 million as of December 31, 2009 and 2008, respectively. It is the responsibility of the ceding insurer to collect and maintain collateral under financial guaranty reinsurance. The Company ceased writing financial guaranty business in 1992.

As of December 31, 2009, financial guaranty reinsurance in force had a remaining maturity term of one (1) to 19 years. The approximate distribution of the estimated debt service (principal and interest) of bonds, by type, for the years ended December 31, 2009 and 2008 is as follows (in thousands):

	2009	2008
Municipal obligations:		
General obligation bonds	$ 7,418	$ 7,671
Special revenue bonds	2,271	2,352
Total	$ 9,689	$ 10,023

The Company has been provided with a geographic distribution of the debt service from all of its cedants. The following table summarizes the information which has been received by the Company from its cedants (in thousands):

State	2009 Debt Service
Mississippi	$ 2,984
Florida	2,521
Subtotal	5,505
States less than $1.5 million exposure per state	4,184
Total	$ 9,689

22. Quarterly Financial Information (Unaudited)

A summary of selected quarterly financial information follows for each of the quarters in the years ended December 31, 2009 and 2008 (in thousands, except share amounts):

	Quarters Ended				
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	Year
Gross premiums written	$ 554,920	$ 511,388	$ 630,891	$ 497,836	$ 2,195,035
Net premiums written	478,979	459,807	524,028	430,999	1,893,813
Net premiums earned	470,018	480,471	493,896	483,027	1,927,412
Net realized investment income	67,461	92,966	76,655	80,812	317,894
Total net realized investment (losses) gains	(99,363)	55,199	144,156	85,959	185,951
Total revenues	438,116	628,636	714,707	649,798	2,431,257
Total expenses	465,987	456,134	531,871	484,407	1,938,399
(Loss) income before income taxes	(27,871)	172,502	182,836	165,391	492,858
Net income available to common shareholders	870	121,797	128,159	124,252	375,078
Net income per common share:					
Basic	$ 0.01	$ 2.04	$ 2.19	$ N/A	$ N/A
Diluted	$ 0.01	$ 2.03	$ 2.18	$ N/A	$ N/A

	Quarters Ended				
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	Year
Gross premiums written	$ 577,554	$ 566,158	$ 656,744	$ 494,086	$ 2,294,542
Net premiums written	517,820	503,482	571,807	437,712	2,030,821
Net premiums earned	511,428	515,538	545,393	504,005	2,076,364
Net investment income	73,128	64,696	62,505	54,870	255,199
Total net realized investment gains	322,994	45,631	196,743	126,891	692,259
Total revenues	907,550	625,865	804,641	685,766	3,023,822
Total expenses	523,311	525,228	618,739	529,064	2,196,342
Income before income taxes	384,239	100,637	185,902	156,702	827,480
Net income available to common shareholders	249,032	65,166	121,471	107,415	543,084
Net income per common share:					
Basic	$ 3.62	$ 0.99	$ 1.95	$ 1.79	$ 8.46
Diluted	$ 3.61	$ 0.99	$ 1.95	$ 1.78	$ 8.43

Due to changes in the number of weighted average common shares outstanding during 2009 and 2008, the sum of quarterly earnings per common share amounts will not equal the total for the year. As a result of the Merger (see Note 1), the Company has not presented net income per share for the quarter and year ended December 31, 2009.

Board of Directors

Odyssey Re Holdings Corp.

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Chairman and Chief Executive Officer,
Fairfax Financial Holdings Limited,
a financial services holding company

James F. Dowd
Vice Chairman of the Board
President and Chief Executive Officer,
Fairfax Inc., a holding company

Andrew A. Barnard
President and Chief Executive Officer,
Odyssey Re Holdings Corp.

Anthony F. Griffiths [1] [2]
Independent Business Consultant
and Corporate Director

Alan D. Horn [2]
Chairman, Rogers Communications Inc.

Brandon W. Sweitzer [1] [2]
Senior Fellow of the Chamber
of Commerce of the United States

[1] Compensation Committee
[2] Audit Committee

Officers

Odyssey Re Holdings Corp.

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President and Chief Executive Officer

Brian D. Young
Executive Vice President and
Chief Operating Officer

Michael G. Wacek
Executive Vice President

Jan Christiansen
Executive Vice President and
Chief Financial Officer
(effective April 1, 2010)

Peter H. Lovell
Senior Vice President,
General Counsel and
Corporate Secretary

Senior Officers of the Company

Bernard Assens
Robert S. Bennett
Lawrence C. Berger
Lawrence J. Boyle
Thomas C. Bredahl
Mauro Wassilewsky Caetano
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Alane R. Carey
Jérémie Caujole
Francis D. Cerasoli
Andrew K. Chu
Thierry Clarenc
Mary M. Coca
Richard F. Coerver
Patrice M. Conboy
James A. Crowe
James J. Danbrowney
Christophe Delélis-Fanien
Matthew J. Deneen
R. Scott Donovan
Executive Vice President and
Chief Financial Officer
(until March 31, 2010)
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Gerard A. Dugan
Neil D. Duncan
Nicholas P. Esposito
Philip A. Evensen
Paul Everett
Arturo E. Falcon
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Guy Fraser
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