OdysseyRe™

Annual Review 2010

ODYSSEYRE™

Odyssey Re Holdings Corp. is a leading **worldwide underwriter of reinsurance and specialty insurance,** with total assets of $11.1 billion and $3.7 billion in shareholders' equity as of December 31, 2010.

Odyssey Re Holdings Corp., headquartered in Stamford, Connecticut, operates globally under the banner OdysseyRe. Supported by **$3.3 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. Ltd., Newline Underwriting Management Limited, OdysseyRe's managing agent at Lloyd's, Newline Australia Insurance Pty Ltd and Odyssey America Reinsurance Company 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 $31.7 billion and $8.7 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, São Paulo, 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 nine 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

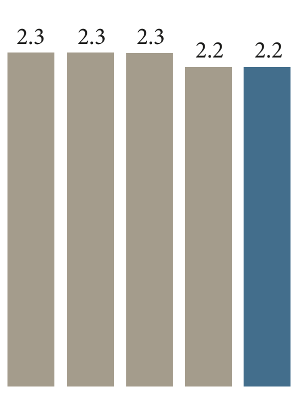
Odyssey Re Holdings Corp.
(dollars in millions)

	2010	2009	2008
Gross premiums written	$ 2,167.3	$ 2,195.0	$ 2,294.5
Net premiums written	1,853.8	1,893.8	2,030.8
Net premiums earned	1,885.7	1,927.4	2,076.4
Net investment income	327.9	316.3	254.9
Net realized investment gains	170.3	189.1	692.3
Income before income taxes	431.4	494.4	827.2
Net income available to common shareholders	327.1	376.1	542.9
Total assets	11,114.6	10,785.1	9,725.9
Shareholders' equity	3,669.0	3,554.9	2,827.1
Return on average common equity	9.2%	12.1%	20.5%
Combined ratio	98.6%	96.7%	101.2%

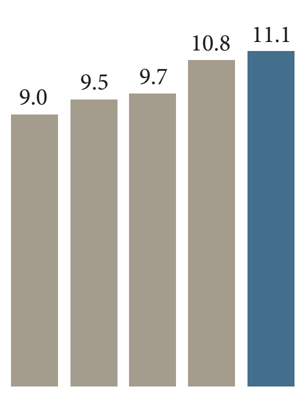
Gross Premiums Written by Division
(dollars in millions)

	2010	2009	2008
Americas	$ 747.4	$ 745.9	$ 776.4
EuroAsia	538.6	559.2	596.7
London Market	339.0	342.9	381.7
US Insurance	542.3	547.0	539.7
Total Gross Premiums Written	$ 2,167.3	$ 2,195.0	$ 2,294.5

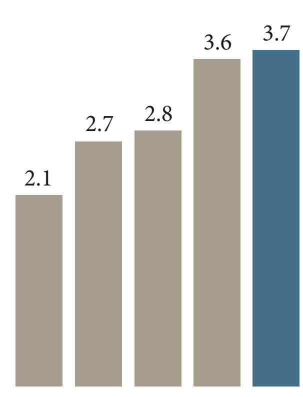
Gross Premiums Written
($ in billions)



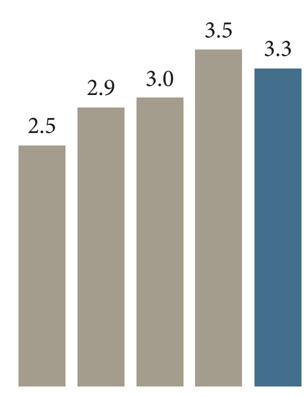
Total Assets
($ in billions)



Shareholders' Equity
($ in billions)



Statutory Surplus
($ in billions)



Letter from the CEO

OdysseyRe has solidified into **a world-class player** in the risk transfer arena.

It is with much pride I submit my final message as Chief Executive Officer of OdysseyRe.

The chapters in the OdysseyRe saga are too voluminous to bear recounting here. While my time at the helm has been challenging, it has also been thoroughly rewarding. During my tenure at OdysseyRe, I've been fortunate to have enjoyed the support of a remarkable team of management professionals. In fact, I believe this consistency of management has been one of the critical factors in our success.

Having been privileged to lead this organization for the last 15 years, I am honored to pass on the leadership to my longtime colleague Brian Young. Brian will share his perspective on OdysseyRe in the following pages. From my perspective, OdysseyRe will be led into the future by a new and improved CEO, steeped in the business and brimming with energy.

OdysseyRe has solidified into a world-class player in the risk transfer arena. We've built numerous capabilities, supported by an ample balance sheet and a vital service culture. Every year, our company has evolved, deepening our relationships and fortifying our resources.

The support we have received from our parent, Fairfax Financial, has been indispensable. Without Fairfax, OdysseyRe's success would have been far less. It will now be my pleasure to broaden my management responsibilities across the full spectrum of Fairfax's Property and Casualty operations.

I look forward with much excitement and great confidence as the future chapters of the OdysseyRe story unfold.

Andrew A. Barnard
President and Chief Executive Officer

Dear Friends, Business Partners and Colleagues

We are pleased to report another solid year of financial results in 2010. OdysseyRe generated pre-tax net income of $431 million and an after-tax return on equity of 9.2% for the full year. Total assets and GAAP equity at year-end 2010 were $11.1 billion and $3.7 billion, respectively.

For the full year, OdysseyRe wrote $2.2 billion of gross premiums and booked net premiums earned of $1.9 billion. Premium production in 2010 was fairly stable with gross written premiums declining a modest 1.3% and net earned premiums down 2.2% compared to 2009. We were able to maintain our portfolio size by shifting emphasis to those business segments, most notably property, where margins remain attractive.

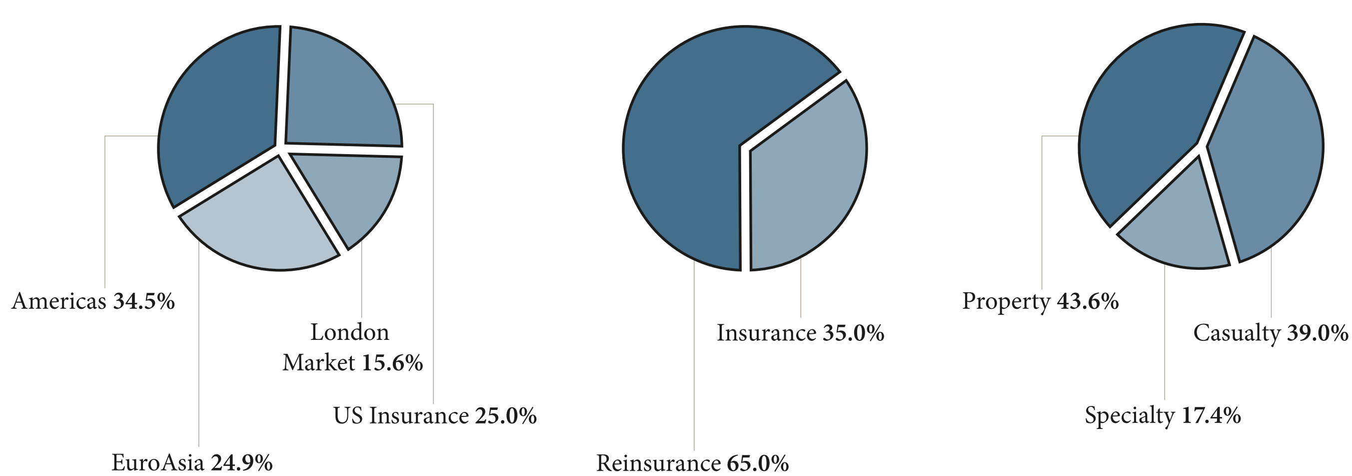
An initiative that began in earnest in 2009 to increase the proportion of property business in our portfolio accelerated in 2010. Property premiums grew 16% during the year, particularly in the US, Japan and Canada, and now property is our largest business segment, representing 44% of our global portfolio.

While we expanded in property, we further consolidated our positions in the casualty and motor sectors, as margins in these classes continued their inexorable decline. Casualty business declined 14% during the year, and now represents only 39% of the global portfolio while motor business declined 11% in 2010, and now only represents 8% of OdysseyRe's gross written premiums.

The rest of the portfolio consists of surety, trade credit, marine, aerospace and accident & health business. These lines have been broadly stable in their contribution to the top line, accounting for 9% of the overall portfolio.

We conduct our global reinsurance business, representing 65% of total premiums, through our flagship company, OdysseyRe. Insurance, representing 35% of total premiums, is written in the US through Hudson Insurance Group and internationally through Newline Group. It is

2010 Gross Premiums Written **$2.2 billion**



worthwhile noting that 85% of our global property portfolio is written as reinsurance, whereas 60% of our global casualty portfolio is written as insurance.

The mix of business between the US and international remains evenly split fifty-fifty. However, 60% of the reinsurance portfolio is non-US, while slightly more than 70% of the insurance portfolio is written in the US.

Our diversified platform is vital to our underwriting strategy and critical to our ability to maximize returns in a challenging market. We operate globally through an extensive network of 21 offices in 10 countries around the world. OdysseyRe has 30 distinct underwriting units: 15 operating in reinsurance business sectors and the remaining 15 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 business opportunities around the world and the flexibility to recalibrate the portfolio as required to optimize performance.

Our underwriting discipline, a cornerstone of our strength and business culture, continues to be tested in this prolonged soft market now entering its seventh year. If market conditions were not difficult enough, 2010 had its share of big losses with the Chilean and New Zealand earthquakes, Windstorm Xynthia and the Deepwater Horizon explosion grabbing headlines and challenging our results.

For the full year, OdysseyRe achieved a combined ratio of 98.6%. Catastrophe losses in the aggregate contributed 13.2% to the combined ratio in 2010, compared to 6.0% in 2009. Prior period loss development was favorable for the third consecutive year, albeit the contribution was a modest 0.2% improvement to the combined ratio in 2010.

Our underwriting performance could not have been more different between the first and second halves of the year. The combined ratio for the first six months of 2010, burdened by $116.9 million of net losses attributable to the Chilean earthquake and the Deepwater Horizon explosion, came in at 104.8%. With relatively benign catastrophe loss conditions prevailing in the second half of the year, OdysseyRe produced a 92.5% combined ratio — the lowest ever combined ratio for any six month period in our history. The improved performance in the second half is a rewarding achievement and reflects the combined efforts of our Division heads and business unit leaders to rebalance our portfolio to those lines of business offering the best underwriting returns.

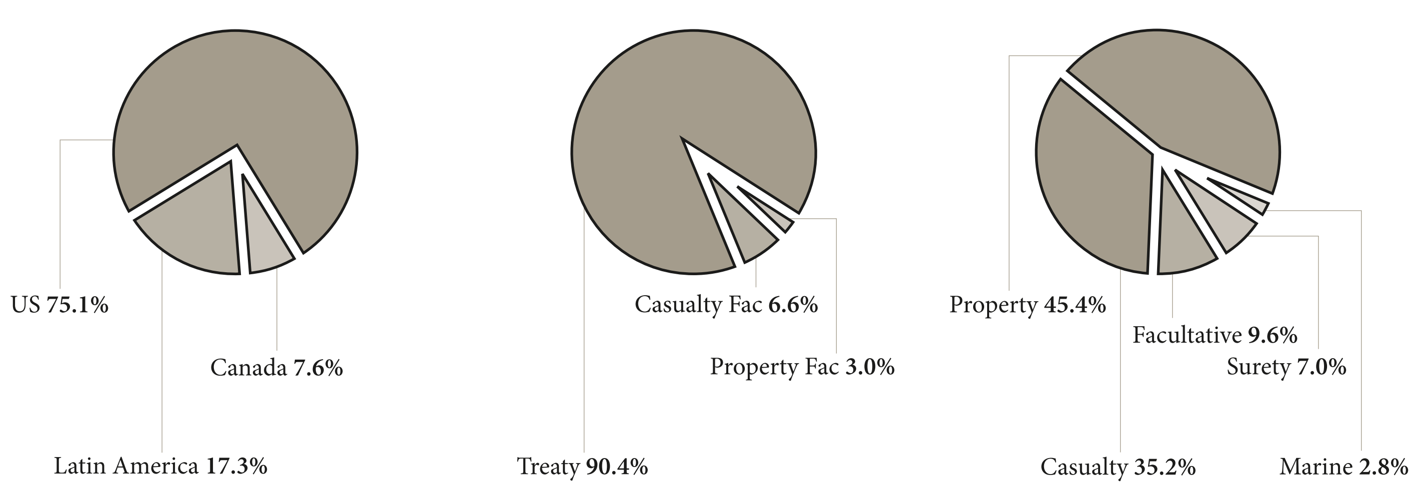
The Americas Division,

led by Brian Quinn (North America) and Philippe Mallier (Latin America), underwrites reinsurance through a network of seven 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. More recently we established a local presence in São Paulo to build our business in Brazil and in Montreal to expand our marketing presence in Canada.

We wrote $747 million of gross premiums in the Americas in 2010. Premiums written totaled $618 million in North America and $129 million in Latin America.

Gross written premiums in the US were stable as growth in property offset declines in casualty. Our Canadian portfolio grew 50% in 2010 across all lines, while in Latin America the portfolio declined 12%, as consolidation in various motor and property markets more than offset growth in our Brazilian and Caribbean portfolios.

Americas Division
2010 Gross Premiums Written **$747.4 million**

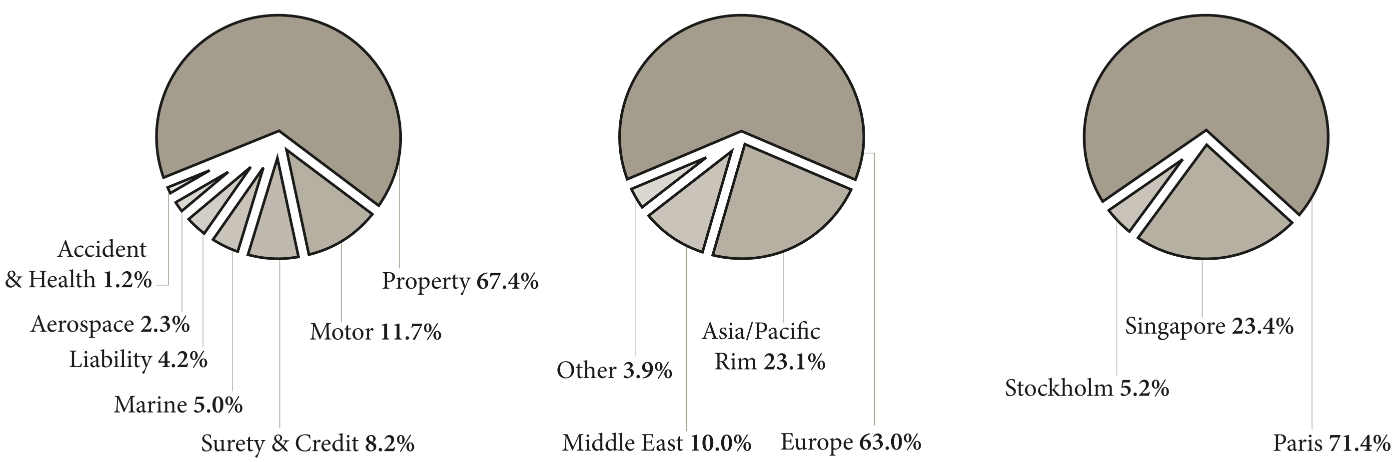


The combined ratio in the Americas for the year was 111.4%. Catastrophe losses, a significant portion of which relates to the Chilean earthquake, added 18.5% to the combined ratio in 2010 compared to only 2.8% in 2009. Prior period mass tort reserve movements, the bulk of which relate to asbestos, also added 7.3% to the Division's combined ratio in 2010.

We have taken significant steps in the Americas to make our portfolio more resilient to the corrosive effects of this soft market. The result of these re-balancing efforts will result in property business being the main engine of profitability for the Division in the year ahead. Another notable segment of our portfolio in the Americas which deserves recognition and continues to shine brightly is surety. OdysseyRe has been a leader in the US surety market for many years. The portfolio has performed extremely well through the years even in the aftermath of the credit crisis. The surety account in Latin America has also generated excellent profits and our market share is expanding as our portfolio grew 31% in 2010, driven mainly by expansion in Brazil.

EuroAsia Division

2010 Gross Premiums Written **$538.6 million**



The EuroAsia Division

The EuroAsia Division is headquartered in Paris and is led by Lucien Pietropoli. The Paris-based underwriting operation 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 $539 million of gross premiums in EuroAsia in 2010, a decrease of 3.7% from the previous year. Business written from Paris and Stockholm totaled $412 million, a decline of 10% from the prior year, as competitive forces required us to consolidate our positions in property and motor. Meanwhile, premiums written from Singapore grew 24%, mainly due to expanded property writings in Japan and China.

The business mix of our portfolio by class remained stable in 2010. Property business continues to be the main emphasis of the portfolio, accounting for two-thirds of our volume in the Division. Motor business is the next largest segment, accounting for 12% of gross written premiums. The balance of the portfolio consists of credit & bond, marine, aerospace, and accident & health business.

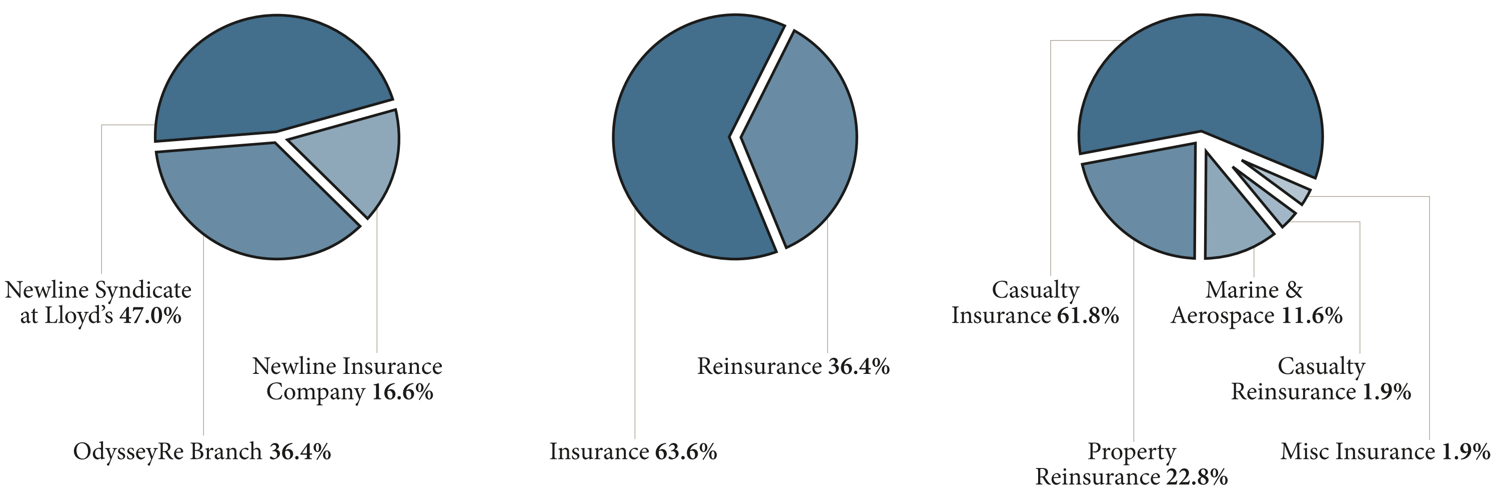
The portfolio is well spread and geographically diverse; we write business in 64 countries. France and Japan continue to be our largest markets, between them accounting for 35% of business written in the Division.

For the rest of the portfolio, no other territory represents more than 7.5% of EuroAsia's premium volume.

The combined ratio for the full year was 92.2%, an improvement of roughly 5% compared to the prior year. Reduced catastrophe activity was the principal reason for the improved performance as catastrophe losses accounted for only 14% of the combined ratio in 2010 compared to 17% in 2009.

The underwriting performance of our EuroAsia Division has been consistently good over the course of the market cycle. We have generated an underwriting profit in each of the last nine years. This proven track record of profitability is a testament to the strength of our underwriting teams, our franchise and the quality of our portfolio. Looking forward, growth prospects will remain limited in the near term due to excessive competition and industry consolidation in many of our key markets. However, with a stable mature portfolio cultivated over many years, we expect to continue to deliver solid results in the year to come.

London Market Division
2010 Gross Premiums Written **$339.0 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 Limited and OdysseyRe's London branch. The Newline Syndicate also operates service companies from Singapore and Melbourne.

The Newline Syndicate at Lloyd's and Newline Insurance, collectively referred to as Newline Group, is an international casualty insurance specialist in its 14th year of operation. Newline Group operates through six business units offering a range of products to non-US clients located in most regions and territories around the world. Newline Group'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 Newline Insurance platforms with the exception of motor, which is offered only through Newline Insurance.

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, as well as Bermuda. The branch book of business is predominantly 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 retrocessional coverage.

The London Market Division wrote $339 million of gross premiums in 2010. Premiums were stable compared to the prior year, with growth in certain segments, such as UK motor, liability and treaty property, offsetting reductions in the Newline

Group's medical malpractice and financial institutions businesses. The split of business is roughly the same as in years past, with two-thirds written as insurance by Newline Group and the balance written as reinsurance by OdysseyRe.

The combined ratio for the full year was 87.7%. Property treaty results in the OdysseyRe branch and favorable prior period loss development in Newline Group's liability and commercial professional liability units powered the Division's underwriting result.

The underwriting track record of the Division has been excellent over the past decade. Nowhere are the benefits of our business strategy more prevalent than in our London Market Division. Newline Group has shown tremendous restraint managing the business cycle in a market that has been softening since 2004. In recent years the OdysseyRe branch, and more specifically the property treaty account, has been the main profit generator for the Division. That is where the opportunity has been to generate decent returns, and that is where it will likely remain for the forseeable future as the other business units, especially those within Newline Group, patiently wait for the next market turn.

The US Insurance Division, headquartered in New York City, is run by Chris Gallagher, Chief Executive Officer and Chris Suarez, Chief Underwriting Officer.

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. In addition to its headquarters in New York City, Hudson has a network of nine other offices located throughout the US.

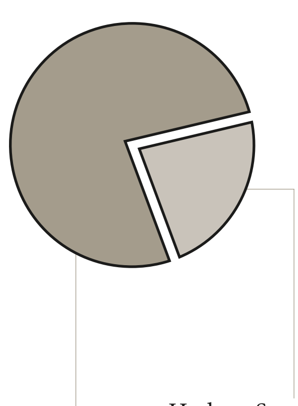
Hudson delivers a broad range of specialty insurance products on both an individual risk and program basis through nine specialized business units. These include: professional liability; auto; tribal; liability/package; financial products; specialty property; healthcare; surety and crop.

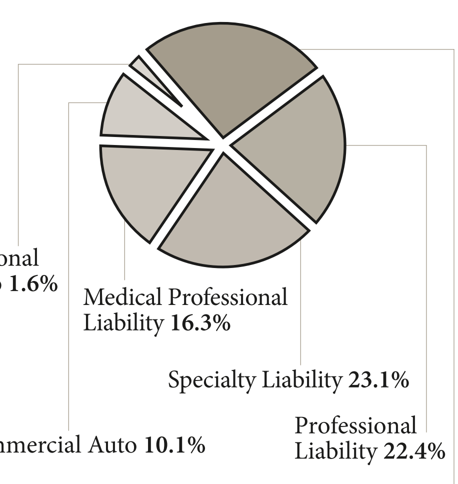
Gross written premiums in Hudson were $542 million in 2010. Premium volume was stable year over year, with growth in crop, offshore energy, personal umbrella and management liability offsetting declines in other specialty casualty classes.

The combined ratio for the full year was 90.3%, with profitability buoyed by the results in offshore energy and prior year reserve releases in our healthcare and tribal business segments.

Healthcare and tribal are two of the notable successful business franchises at Hudson. In addition, Hudson has many other long-standing profitable program relationships in the professional liability and auto sectors. More recently, and as we reported last year, Hudson has invested significantly in staffing and infrastructure to expand its individual risk underwriting capabilities. Crop, financial products, environmental, surety, offshore energy and personal umbrella have been the main beneficiaries of this investment. There is significant growth potential in these businesses and we remain firmly committed to our expansion efforts. Unfortunately the market environment has prevented us from generating scale in many of these businesses as fast as we would like, so we will be patient and build them at a pace consistent with our disciplined underwriting culture.

US Insurance Division
2010 Gross Premiums Written **$542.3 million**





OdysseyRe is truly a **global diversified franchise:** a profitable collection of 30 businesses strategically located around the world, run by **experienced professionals.**

We take great pride in the portfolio, the network and the team of professionals we have assiduously assembled the past 15 years. OdysseyRe is truly a global diversified franchise: a profitable collection of 30 businesses strategically located around the world, run by experienced professionals.

Before closing, one important announcement: we are pleased to advise that we will be changing the name of Odyssey America Reinsurance Corporation in the first quarter of 2011. Odyssey America Reinsurance Corporation, our flagship reinsurance enterprise, was established in 1999 as the successor company to TIG Re. At that time, OdysseyRe's business was predominately US based and so having "America" in the legal entity name was appropriate. Today, this geographic label no longer befits a company that writes reinsurance in more than 100 countries. So, henceforth the legal entity supporting all of our reinsurance business around the world will be called: Odyssey Reinsurance Company.

I would like to offer my sincere thanks to our business partners, our parent company, Fairfax, and OdysseyRe's 738 employees for your contributions to our company's success in 2010. We are humble enough to recognize and thankful enough to appreciate that we owe much of our good fortune as a company to your loyalty, commitment and dedicated service.

Finally, as I get ready for the next chapter in my career, taking the helm of OdysseyRe, a company it's been my pleasure to work for the past 14 years, I need to acknowledge the one person most responsible for my career development and success: Andy Barnard. The best career decision I ever made was agreeing to work for Andy one day in 1990 over lunch at the North Star Pub. Since then Andy has been my boss, my mentor and my friend for over two decades. He provided the education and the opportunities to prepare me for this next challenge in my life. Thank you Andy, I am eternally grateful to you for what you have done for me and what you have done for OdysseyRe.

Andy leaves OdysseyRe in the best shape it has ever been. Our balance sheet and business have never been stronger. He built the company, defined the culture and set the strategy that has been instrumental to our success. Andy will be a hard act to follow, but fortunately for OdysseyRe and for me, Andy is not going away. While he will be assuming new responsibilities at our parent company, Fairfax, I will continue to report to him so he can keep a watchful eye over my stewardship of OdysseyRe. So it's not goodbye….it's aloha Andy.

Brian D. Young
Chief Operating Officer

OdysseyRe™

2010 Financial Report

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows present fairly, in all material respects, the financial position of Odyssey Re Holdings Corp. and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 3, 2011

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ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $4,595,904 and $3,971,139, respectively)	$ 4,675,782	$ 4,373,965
Fixed income securities, held for trading, at fair value (amortized cost $309,454 and $598,918, respectively)	364,489	532,718
Redeemable preferred stock, at fair value (cost $54 and $108, respectively)	54	108
Convertible preferred stock, held for trading, at fair value (cost $214,543 and $75,000, respectively)	214,144	82,470
Equity securities:		
Common stocks, available for sale, at fair value (cost $1,093,015 and $1,620,818, respectively)	1,463,600	2,009,517
Common stocks, at equity	226,551	219,516
Short-term investments, at fair value (amortized cost $125,100)	—	125,100
Short-term investments, held for trading, at fair value (amortized cost $250,253 and $238,419, respectively)	250,253	238,403
Cash and cash equivalents	1,058,034	941,444
Cash and cash equivalents held as collateral	31,075	56,720
Other invested assets	620,165	146,728
Total investments and cash	8,904,147	8,726,689
Accrued investment income	78,312	79,400
Premiums receivable	424,893	473,878
Reinsurance recoverable on paid losses	49,528	70,511
Reinsurance recoverable on unpaid losses	952,455	841,486
Prepaid reinsurance premiums	111,280	113,047
Funds held by reinsureds	155,851	140,480
Deferred acquisition costs	119,578	126,466
Federal and foreign income taxes receivable	225,011	45,495
Other assets	93,589	167,686
Total assets	$ 11,114,644	$ 10,785,138
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,809,665	$ 5,507,766
Unearned premiums	662,787	691,213
Reinsurance balances payable	167,247	178,428
Funds held under reinsurance contracts	42,317	41,250
Debt obligations	487,148	489,402
Other liabilities	276,447	322,147
Total liabilities	7,445,611	7,230,206
Commitments and Contingencies (Note 14)		
SHAREHOLDERS' EQUITY		
Preferred shares, $0.01 par value; 1,200,000 shares and 200,000,000 shares authorized, respectively; 253,599 and 2,000,000 Series A shares issued and outstanding, respectively; 70,000 and 1,167,263 Series B shares issued and outstanding, respectively	3	32
Common shares, $10.00 and $0.01 par value; respectively; 60,000 shares and 500,000,000 shares authorized, respectively; 56,605 and 56,604,650 shares issued and outstanding, respectively	567	567
Additional paid-in capital	456,049	515,066
Accumulated other comprehensive income, net of deferred income taxes	391,485	545,469
Retained earnings	2,820,929	2,493,798
Total shareholders' equity	3,669,033	3,554,932
Total liabilities and shareholders' equity	$ 11,114,644	$ 10,785,138

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2010	2009	2008
		(In thousands)	
REVENUES			
Gross premiums written	$ 2,167,338	$ 2,195,035	$ 2,294,542
Ceded premiums written	313,540	301,222	263,721
Net premiums written	1,853,798	1,893,813	2,030,821
Decrease in net unearned premiums	31,916	33,599	45,543
Net premiums earned	1,885,714	1,927,412	2,076,364
Net investment income	327,875	316,329	254,866
Net realized investment gains (losses):			
Net realized investment gains	190,657	316,101	1,050,957
Other-than-temporary impairment losses	(20,308)	(127,013)	(358,692)
Total net realized investment gains	170,349	189,088	692,265
Total revenues	2,383,938	2,432,829	3,023,495
EXPENSES			
Losses and loss adjustment expenses	1,317,053	1,301,996	1,508,725
Acquisition costs	347,120	375,259	418,005
Other underwriting expenses	194,328	185,688	175,013
Other expense, net	63,591	44,416	60,419
Interest expense	30,464	31,040	34,180
Total expenses	1,952,556	1,938,399	2,196,342
Income before income taxes	431,382	494,430	827,153
Federal and foreign income tax provision (benefit):			
Current	115,235	153,250	533,899
Deferred	(17,128)	(32,156)	(255,541)
Total federal and foreign income tax provision	98,107	121,094	278,358
Net income	333,275	373,336	548,795
Preferred dividends	(3,966)	(5,233)	(7,380)
Loss on redemption of Series A and Series B preferred shares	(2,183)	—	—
Gain on purchase of Series B preferred shares	5	7,997	1,456
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 327,131	$ 376,100	$ 542,871
COMPREHENSIVE INCOME			
Net income	$ 333,275	$ 373,336	$ 548,795
Other comprehensive (loss) income, net of tax	(153,984)	463,473	(1,642)
Comprehensive income	$ 179,291	$ 836,809	$ 547,153

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2010	2009	2008
	(In thousands, except share amounts)		
PREFERRED SHARES (par value)			
Balance, beginning of year	$ 32	$ 39	$ 40
Series A and Series B preferred shares redemption	(28)	—	—
Series B preferred shares purchased	(1)	(7)	(1)
Balance, end of year	3	32	39
COMMON SHARES (par value)			
Balance, beginning of year	567	603	697
Common shares repurchased and retired	—	(18)	(95)
Common shares cancelled due to Merger (see Note 1)	—	(18)	—
Common shares issued	—	—	1
Balance, end of year	567	567	603
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	515,066	614,203	970,020
Capital contribution	20,506	—	—
Series A and Series B preferred shares redemption	(68,437)	—	—
Common shares repurchased and retired	—	(73,745)	(351,258)
Series B preferred shares purchased	(822)	(17,173)	(3,119)
Net change due to stock option exercises and restricted share awards	(10,264)	(13,105)	(12,028)
Net effect of share-based compensation	—	4,701	9,465
Common shares issued	—	167	1,123
Common shares cancelled due to Merger (see Note 1)	—	18	—
Balance, end of year	456,049	515,066	614,203
TREASURY SHARES (at cost)			
Balance, beginning of year	—	(795)	(6,250)
Purchases of treasury shares	—	(18,001)	(14,048)
Reissuance of treasury shares	—	17,606	19,503
Cancellation of treasury shares due to Merger (see Note 1)	—	1,190	—
Balance, end of year	—	—	(795)
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	545,469	81,996	85,023
Unrealized net (depreciation) appreciation on securities, net of reclassification adjustments	(205,872)	462,483	(13,574)
Foreign currency translation adjustments	51,415	2,768	4,109
Benefit plan liabilities	473	(1,778)	7,823
Cumulative effect of changes in accounting	—	—	(1,385)
Balance, end of year	391,485	545,469	81,996
RETAINED EARNINGS			
Balance, beginning of year	2,493,798	2,131,051	1,605,170
Net income	333,275	373,336	548,795
Loss on redemption of Series A and Series B preferred shares	(2,183)	—	—
Gain on purchase of Series B preferred shares	5	7,997	1,456
Dividends to preferred shareholders	(3,966)	(5,233)	(7,380)
Dividends to common shareholders	—	(13,353)	(17,357)
Cumulative effect of changes in accounting	—	—	367
Balance, end of year	2,820,929	2,493,798	2,131,051
TOTAL SHAREHOLDERS' EQUITY	$ 3,669,033	$ 3,554,932	$ 2,827,097
COMMON SHARES OUTSTANDING			
Balance, beginning of year	56,604,650	60,242,949	69,521,494
Reverse share split of 1 share per 1,000 shares of common stock	(56,548,045)	—	—
Shares cancelled due to Merger (see Note 1)	—	(1,847,272)	—
Repurchased and retired	—	(1,789,100)	(9,480,756)
Net treasury shares (acquired) reissued	—	(10,927)	141,911
Shares issued	—	9,000	60,300
Balance, end of year	56,605	56,604,650	60,242,949

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 333,275	$ 373,336	$ 548,795
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in premiums receivable and funds held, net	32,325	66,698	(15,960)
Decrease in unearned premiums and prepaid reinsurance premiums, net	(16,945)	(33,399)	(37,495)
Increase in unpaid losses and loss adjustment expenses, net	264,795	43,246	293,754
Increase in current and deferred federal and foreign income taxes, net	(85,745)	(234,724)	(73,297)
Decrease in deferred acquisition costs	6,412	13,612	8,304
Change in other assets and liabilities, net	(103,746)	(55,692)	64,755
Net realized investment gains	(170,349)	(189,088)	(692,265)
Bond (discount) premium amortization, net	(21,041)	(13,319)	6,091
Amortization of compensation plans	24,649	26,226	9,466
Net cash provided by (used in) operating activities	263,630	(3,104)	112,148
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	13,983	206,909	121,418
Sales of fixed income securities, available for sale	2,061,693	446,906	4,650,338
Purchases of fixed income securities, available for sale	(2,385,615)	(1,134,974)	(3,581,390)
Sales of equity securities	1,057,905	597,640	65,838
Purchases of equity securities	(231,653)	(623,844)	(1,255,902)
Settlement of other invested assets	(210,846)	29,366	1,159,278
Purchases of other invested assets	(451,019)	(29,828)	(35,707)
Net change in cash and cash equivalents held as collateral	25,645	30,407	196,573
Net change in obligation to return borrowed securities	—	—	(47,853)
Sales of trading securities	814,793	247,669	6,351
Purchases of trading securities	(757,807)	(622,721)	(243,573)
Net change in short-term investments	43,079	1,096,288	(712,105)
Acquisition of subsidiary and net assets of a business, net of cash acquired	—	(3,357)	(9,132)
Net cash (used in) provided by investing activities	(19,842)	240,461	314,134
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of Series A and Series B preferred shares	(70,648)	—	—
Capital contribution	20,506	—	—
Purchase of restricted shares	(13,168)	—	—
Dividends paid to preferred shareholders	(5,096)	(5,882)	(7,526)
Debt modification costs	(2,735)	—	—
Purchase of Series B preferred shares	(816)	(9,183)	(1,664)
Common shares repurchased and retired	—	(72,573)	(354,076)
Purchase of treasury shares	—	(18,001)	(14,048)
Dividends paid to common shareholders	—	(13,353)	(17,357)
Proceeds from exercise of stock options	—	851	3,527
Excess tax benefit from compensation plans	—	3,816	1,301
Net cash used in financing activities	(71,957)	(114,325)	(389,843)
Effect of exchange rate changes on cash and cash equivalents	(55,241)	62,665	(178,655)
Increase (decrease) in cash and cash equivalents	116,590	185,697	(142,216)
Cash and cash equivalents, beginning of year	941,444	755,747	897,963
Cash and cash equivalents, end of year	$ 1,058,034	$ 941,444	$ 755,747
Supplemental disclosures of cash flow information:			
Interest paid	$ 29,527	$ 30,555	$ 33,779
Income taxes paid	$ 179,482	$ 355,943	$ 348,390

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

Odyssey Re Holdings Corp., a Delaware corporation (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. 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") (see Note 20); Clearwater Select Insurance Company ("Clearwater Select"); 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. Fairfax Financial Holdings Limited ("Fairfax"), a publicly traded financial services holding company based in Canada, owns 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.

On May 20, 2010, Fairfax announced that it had completed the acquisition of all of the outstanding shares of Zenith National Insurance Corp.'s ("Zenith") common stock that it did not currently own. With Fairfax's completion of the Zenith acquisition, the Company has determined that it is appropriate to change the classification of its 6.3% ownership in Zenith from a common stock at fair value to a common stock at equity. As a result of this change, the Company has retrospectively adjusted its consolidated financial statements to reflect its ownership of Zenith as if the equity method of accounting had been utilized since the date of the original purchase, as required by GAAP. This change in accounting principle resulted in the following adjustments to the respective captions of the Company's previously reported consolidated financial statements:

	Previously Reported	Adjustment	As Adjusted
As of December 31, 2009:			
Consolidated Balance Sheet:			
Assets:			
Common stocks, available for sale, at fair value	$ 2,071,037	$ (61,520)	$ 2,009,517
Common stocks, at equity	158,460	61,056	219,516
Federal and foreign income taxes receivable	45,333	162	45,495
Total assets	$ 10,785,440	$ (302)	$ 10,785,138
Shareholders' Equity:			
Accumulated other comprehensive income, net of deferred income taxes	$ 546,580	$ (1,111)	$ 545,469
Retained earnings	2,492,989	809	2,493,798
Total shareholders' equity	$ 3,555,234	$ (302)	$ 3,554,932
For the Year Ended December 31, 2009:			
Consolidated Statements of Operations and Comprehensive Income:			
Net investment income	$ 317,894	$ (1,565)	$ 316,329
Net realized investment gains	312,964	3,137	316,101
Federal and foreign income tax (benefit) provision — deferred	(32,706)	550	(32,156)
Net income	372,314	1,022	373,336
Net income available to common shareholders	$ 375,078	$ 1,022	$ 376,100
For the Year Ended December 31, 2008:			
Consolidated Statements of Operations and Comprehensive Income:			
Net investment income	$ 255,199	$ (333)	$ 254,866
Net realized investment gains	1,050,951	6	1,050,957
Federal and foreign income tax (benefit) provision — deferred	(255,427)	(114)	(255,541)
Net income	549,008	(213)	548,795
Net income available to common shareholders	$ 543,084	$ (213)	$ 542,871

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 4), 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 for 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 sheets 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, 2010 and 2009.

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, 2010 and 2009 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2009	$ 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
Amortization during 2010	—	—	(2,047)	(2,047)
Balance, December 31, 2010	$ 36,734	$ 5,813	$ 6,451	$ 48,998

The Company amortized $0.8 million for the year ended December 31, 2008, related to its intangible assets with a finite life. The Company did not incur any impairment of its intangible assets during 2010, 2009 or 2008.

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

	Years Ended December 31,				
	2011	2012	2013	2014	2015
Amortization of intangible assets	$ 1,858	$ 1,698	$ 1,312	$ 459	$ 343

(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, 2010 and 2009, the Company had reflected in other assets $7.9 million and $7.8 million, respectively, and in other liabilities $1.8 million and $1.6 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, 2010 and 2009, 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 separate company tax returns for the period August 2, 2006 to October 20, 2009. As a result of the Merger, 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 (see Note 13). 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, 2010 and 2009, 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, CPI-linked derivative 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 are as follows: Americas, EuroAsia, London Market and U.S. Insurance (see Note 12).

(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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Statement of operations:			
Net investment income	$ (442)	$ 1,771	$ (4,693)
Net realized investment gains	(78,877)	7,449	11,435
Other expense, net	(30,208)	(4,233)	(45,796)
(Loss) income before income taxes	(109,527)	4,987	(39,054)
Total federal and foreign income tax (benefit) provision	(38,334)	(1,745)	13,669
Net income	(71,193)	3,242	(25,385)
Other comprehensive income, net of tax	51,415	2,768	4,109
Total effect on comprehensive income and shareholders' equity	$ (19,778)	$ 6,010	$ (21,276)

(l) *Stock-Based Compensation Plans.* The Company accounts for awards to employees in the common stock of Fairfax, and, prior to the Merger, for awards in its own common shares 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 was the number of Company common shares outstanding as of September 30, 2009). Upon vesting of a REVR, participants 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.

(m) *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.

(n) *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.

(o) *Fixed Assets.* Fixed assets, with a net book value of $14.1 million and $11.5 million as of December 31, 2010 and 2009, 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, 2010, 2009 and 2008 was $4.6 million, $4.6 million and $5.1 million, respectively.

3. Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") is the organization whose primary responsibility is to develop GAAP. In October 2010, the FASB issued Accounting Standards Update No. 2010-26, "Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts" ("Update No. 2010-26"), which provides clarification for the definition of capitalizable deferred acquisition costs, to the codified pronouncements constituting GAAP. Update No. 2010-26 is required to be adopted by the Company effective January 1, 2012. As the Company's existing policy with respect to the deferral of acquisition costs is consistent with the clarified guidance, there is no expected impact to the Company's financial statements from the adoption of Update No. 2010-26.

4. 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. During the fourth quarter ended December 31, 2010, the Company transferred $165.0 million of Level 2 investments to Level 3 after determining that the inflation volatility input used in the valuation of its CPI-linked derivative contracts had ceased to be observable as these contracts were out-of-the money and their average term to maturity no longer corresponded with the term of more actively traded 10-year contracts.

The Company uses valuation techniques to establish the fair value of Level 3 investments. During the year ended December 31, 2010, the Company purchased $238.5 million of investments that are classified as Level 3. As of December 31, 2010, the Company held $423.8 million of investments that are classified as Level 3. These Level 3 investments include an unsecured loan to Fairfax Inc., a subsidiary of Fairfax, which is reflected in other invested assets on the consolidated balance sheet and valued based on the callable value of the loan. Level 3 investments also include certain limited partnerships, also classified as other invested assets on the consolidated balance sheet based on the net asset values received from the general partners. Generally, these limited partnerships invest in securities that trade in active markets and as a result, their net asset values reflect their fair values. The Company classifies such investments as Level 3 within the fair value hierarchy when the Company is required to provide the general partner with more than three months notice prior to liquidation or redemption of the partnership interest. Level 3 investments also include CPI-linked derivative contracts.

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 in 2010 other than those previously identified. 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. There were no transfers of securities between Level 1 and Level 2 in 2010 or 2009.

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, 2010 and 2009 (in thousands):

		Fair Value Measurements as of December 31, 2010		
	Asset / Liability Measured at Fair Value December 31, 2010	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	$ 917,645	$ —	$ 917,645	$ —
States, municipalities and political subdivisions	2,784,337	—	2,784,337	—
Foreign governments	725,852	—	725,852	—
Corporate	247,948	—	247,948	—
Total fixed income securities, available for sale	4,675,782	—	4,675,782	—
Fixed income securities, held as trading securities:				
Foreign governments	110,173	—	110,173	—
Corporate	254,316	—	254,316	—
Total fixed income securities, held as trading securities	364,489	—	364,489	—
Redeemable preferred stock, available for sale	54	—	54	—
Convertible preferred stock, held as trading securities	214,144	—	214,144	—
Common stocks, available for sale	1,463,600	1,438,361	25,239	—
Short-term investments, held as trading securities	250,253	247,200	3,053	—
Cash equivalents	804,934	804,934	—	—
Derivatives	185,397	—	18,358	167,039
Other investments	268,696	—	11,980	256,716
Total assets measured at fair value	$ 8,227,349	$ 2,490,495	$ 5,313,099	$ 423,755
Derivative liabilities	$ 99,846	$ —	$ 99,846	$ —

	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	2,009,517	1,973,611	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	$ 8,204,529	$ 3,114,803	$ 5,042,182	$ 47,544
Derivative liabilities	$ 39,295	$ —	$ 39,295	$ —

The following table provides a summary of changes in the fair value of Level 3 financial assets for the years ended December 31, 2010 and 2009 (in thousands):

	Year Ended December 31, 2010 Fixed Income Securities	2009 Fixed Income Securities	2010 Other Invested Assets	2009 Other Invested Assets
Beginning balance	$ 14,246	$ 67,423	$ 33,298	$ —
Total realized investment gains (losses) included in net income	16,532	(266)	(4,631)	(25)
Purchases	8,408	19,159	230,072	700
Settlements	(39,186)	(24,283)	—	—
Transfers from Level 2 to Level 3	—	—	165,016	32,623
Transfers from Level 3 to Level 2	—	(47,787)	—	—
Ending balance	$ —	$ 14,246	$ 423,755	$ 33,298

The following tables present realized investment gains (losses) included in net income related to Level 3 assets for the years ended December 31, 2010 and 2009 (in thousands):

	Year Ended December 31, 2010 Net Realized Investment Gains (Losses) on Fixed Income Securities	Year Ended December 31, 2009 Net Realized Investment Gains (Losses) on Fixed Income Securities
Realized investment gains related to securities sold	$ 16,532	$ 6,466
Realized investment losses related to securities held	—	(6,732)
Total net realized investment losses relating to Level 3 assets	$ 16,532	$ (266)

	Year Ended December 31, 2010 Net Realized Investment Losses on Other Invested Assets	Year Ended December 31, 2009 Net Realized Investment Losses on Other Invested Assets
Realized investment gains related to securities sold	$ —	$ —
Realized investment losses related to securities held	(6,654)	(25)
Total net realized investment (losses) gains relating to Level 3 assets	$ (6,654)	$ (25)

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%.

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, 2010, Advent is recorded at fair value of $26.9 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 loss of $6.0 million for the year ended December 31, 2010, 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, 2010, calculated in accordance with the equity method of accounting, would have been $38.7 million.

As of December 31, 2010, the Company has not elected the FVO for any of its liabilities.

5. Investments and Cash

A summary of the Company's investment portfolio as of December 31, 2010, 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	$ 958,733	$ 13,150	$ 54,236	$ 917,647
States, municipalities and political subdivisions	2,668,208	155,500	39,374	2,784,334
Foreign governments	739,467	17,921	31,536	725,852
Corporate	229,496	28,144	9,691	247,949
Total fixed income securities, available for sale	4,595,904	214,715	134,837	4,675,782
Redeemable preferred stock, at fair value	54	—	—	54
Common stocks, at fair value	1,093,015	374,984	4,399	1,463,600
Cash and cash equivalents	1,058,034	—	—	1,058,034
Cash and cash equivalents held as collateral	31,075	—	—	31,075
Total	$ 6,778,082	$ 589,699	$ 139,236	$ 7,228,545

Common stocks accounted for under the equity method of accounting were carried at $226.6 million as of December 31, 2010, reflecting gross unrealized appreciation of $40.9 million and no gross unrealized depreciation. Other invested assets were carried at $620.2 million as of December 31, 2010, reflecting no gross unrealized appreciation or depreciation. Fixed income securities held as trading securities were carried at fair value of $364.5 million as of December 31, 2010, 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, with fair values of $254.3 million and $110.2 million, respectively, as of December 31, 2010. Convertible preferred stock and short-term investments held as trading securities were carried at fair value of $214.1 million and $250.3 million, respectively, as of December 31, 2010, 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, 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	1,620,818	392,632	3,933	2,009,517
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	$ 6,715,329	$ 839,330	$ 47,805	$ 7,506,854

Common stocks accounted for under the equity method of accounting were carried at $219.5 million as of December 31, 2009, reflecting gross unrealized appreciation of $35.0 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) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2010, by contractual maturity, are shown below (in thousands).

	At December 31, 2010					
	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	$ 51,077	$ 51,412	1.0 %	$ 17,895	$ 18,459	5.0 %
Due after one year through five years	161,232	157,867	3.4	172,556	173,461	47.6
Due after five years through ten years	192,941	195,132	4.2	39,669	60,444	16.6
Due after ten years	4,190,654	4,271,371	91.4	79,334	112,125	30.8
Total fixed income securities	$ 4,595,904	$ 4,675,782	100.0 %	$ 309,454	$ 364,489	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 42.4% 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 2.6% 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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Interest on fixed income securities	$ 291,189	$ 253,100	$ 197,097
Dividends on preferred stocks	6,976	—	—
Dividends on common stocks, at fair value	31,884	50,387	31,492
Net income of common stocks, at equity	13,823	9,804	2,264
Interest on cash and short-term investments	7,914	8,818	52,940
Other invested assets	35,310	22,688	11,372
Gross investment income	387,096	344,797	295,165
Less: investment expenses	56,026	24,817	35,009
Less: interest on funds held under reinsurance contracts	3,195	3,651	5,290
Net investment income	$ 327,875	$ 316,329	$ 254,866

The following table sets forth the components of net realized investment gains and losses for the years ended December 31, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Fixed income securities, available for sale:			
Realized investment gains	$ 254,876	$ 114,973	$ 324,921
Realized investment losses	108,291	26,253	27,548
Net realized investment gains	146,585	88,720	297,373
Fixed income securities, held as trading securities:			
Realized investment gains	109,519	132,589	1,282
Realized investment losses	10,112	2,673	144,450
Net realized investment gains (losses)	99,407	129,916	(143,168)
Redeemable preferred stock:			
Realized investment gains	1,548	—	—
Realized investment losses	—	394	833
Net realized investment gains (losses)	1,548	(394)	(833)
Convertible preferred stock, held as trading securities:			
Realized investment gains	9,546	7,470	—
Realized investment losses	17,415	—	—
Net realized investment (losses) gains	(7,869)	7,470	—
Equity securities:			
Realized investment gains	258,039	140,053	25,580
Realized investment losses	26,189	129,262	354,509
Net realized investment gains (losses)	231,850	10,791	(328,929)
Derivative securities:			
Realized investment gains	182,962	14,730	985,700
Realized investment losses	462,971	133,358	34,000
Net realized investment (losses) gains	(280,009)	(118,628)	951,700
Other securities:			
Realized investment gains	79,948	136,700	116,956
Realized investment losses	101,111	65,487	200,834
Net realized investment (losses) gains	(21,163)	71,213	(83,878)
Total realized investment gains:			
Realized investment gains	896,438	546,515	1,454,439
Realized investment losses	726,089	357,427	762,174
Net realized investment gains	$ 170,349	$ 189,088	$ 692,265

Included in net realized investment gains for the year ended December 31, 2010, is a net increase in fair value of $82.4 million, as compared to a net decrease for the year ended December 31, 2009 of $15.5 million and a net decrease for the year ended December 31, 2008 of $290.7 million, principally related to derivatives and investments designated as trading securities.

Included in net realized investment gains for the years ended December 31, 2010, 2009 and 2008 are $20.3 million, $127.0 million and $358.7 million, respectively, related to realized investment losses on the other-than-temporary impairment of investments, as follows (in thousands):

	2010	2009	2008
Fixed income securities	$ 2,911	$ 3,361	$ 18,902
Preferred stock	—	216	833
Equity securities	17,397	123,436	338,957
Total other-than-temporary impairments	$ 20,308	$ 127,013	$ 358,692

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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Fixed income securities	$ (322,946)	$ 237,773	$ 133,792
Redeemable preferred stock	—	395	504
Equity securities	(12,211)	473,336	(155,342)
Short-term investments	—	6	(6)
Other invested assets	—	—	169
(Decrease) increase in unrealized net (depreciation) appreciation of investments	(335,157)	711,510	(20,883)
Deferred income tax benefit (expense)	129,285	(249,027)	7,309
Change in net unrealized (depreciation) appreciation of investments included in other comprehensive income	$ (205,872)	$ 462,483	$ (13,574)

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, 2010 and 2009 (in thousands):

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2010	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	$ 535,462	$ (52,667)	8	$ 9,271	$ (1,569)	1	$ 544,733	$ (54,236)	9
States, municipalities and political subdivisions	562,147	(37,188)	31	17,526	(2,185)	1	579,673	(39,373)	32
Foreign governments	259,392	(10,133)	7	—	—	—	259,392	(10,133)	7
Total investment grade	1,357,001	(99,988)	46	26,797	(3,754)	2	1,383,798	(103,742)	48
Fixed income securities non-investment grade,									
Foreign governments	204,380	(21,403)	5	—	—	—	204,380	(21,403)	5
Corporate	3	(4)	2	24,089	(9,688)	1	24,092	(9,692)	3
Total non-investment grade	204,383	(21,407)	7	24,089	(9,688)	1	228,472	(31,095)	8
Total fixed income securities	1,561,384	(121,395)	53	50,886	(13,442)	3	1,612,270	(134,837)	56
Common stocks, at fair value	245,372	(3,983)	4	6,561	(416)	2	251,933	(4,399)	6
Total temporarily impaired securities	$ 1,806,756	$ (125,378)	57	$ 57,447	$ (13,858)	5	$ 1,864,203	$ (139,236)	62

	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

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 $226.6 million as of December 31, 2010 and $219.5 million as of December 31, 2009. The following table sets forth the components of common stocks, at equity, as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Fairfax Asia Limited	$ 100,347	$ 84,086
TRG Holding Corporation	74,336	74,347
Zenith National Insurance Corp.	51,841	61,056
Other	27	27
Total common stocks, at equity	$ 226,551	$ 219,516

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, 2010, the relative ownership held by the Company was 13.0% for TRG Holding Corporation (which is 100% owned by Fairfax), and 25.9% (economic) for Fairfax Asia Limited (which is 100% owned by Fairfax) and 6.2% (economic) for Zenith (which is 100% owned by Fairfax).

(e) Other Invested Assets

Other invested assets totaled $620.2 million as of December 31, 2010, compared to $146.7 million as of December 31, 2009. The following table shows the components of other invested assets as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Hedge funds, at equity	$ 132,625	$ 51,510
Private equity partnerships, at equity	26,717	22,375
Private equity partnerships, at fair value	29,803	374
Derivatives, at fair value	185,397	19,982
Benefit plan funds, at fair value	11,980	12,833
Advent Capital (Holdings) PLC	26,913	32,924
Unsecured loan with Fairfax	200,000	—
Other	6,730	6,730
Total other invested assets	$ 620,165	$ 146,728

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, 2010 and 2009, the Company recognized net investment income of $14.5 million and $17.9 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 years ended December 31, 2010 and 2009, the Company recognized a loss of $0.6 million and $0.3 million, respectively, 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 $56.5 million investment in private equity partnerships included in other invested assets as of December 31, 2010, the Company has commitments that may require additional funding of up to $215.1 million. As of December 31, 2010, 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, 2010, 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, CPI-linked derivative 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, 2010, and December 31, 2009, respectively (in thousands):

	As of December 31, 2010			
	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$ 17,363,108	$ 147,351	$ 167,039	$ —
Total return swaps	2,909,742	—	336	69,391
Forward currency contracts	566,246	—	—	25,060
Credit default swaps	459,171	5,693	8,449	—
Warrants	165,671	9,984	9,573	—
Interest rate swaps	140,000	—	—	5,396

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

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, 2010 and 2009 (in thousands):

	As of and for the Year Ended December 31, 2010					
			Effect on Pre-tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Income	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Equity Exposures:						
Preferred stocks	$ 214,198	$ 214,198	$ —	$ (6,321)	$ (6,321)	$ 1,288
Common stocks, at fair value	1,463,600	1,463,600	(18,113)	232,992	214,879	242,210
Other	633,512	(2,208)	—	61,152	61,152	63,360
Total equity exposure	$ 2,311,310	$ 1,675,590	(18,113)	287,823	269,710	306,858
Hedging instruments:						
Other invested assets:						
Total return swaps	$ 2,276,230	$ (66,847)	—	(327,859)	(327,859)	(257,881)
Total equity hedging instruments	$ 2,276,230	$ (66,847)	—	(327,859)	(327,859)	(257,881)
Net equity impact			$ (18,113)	$ (40,036)	$ (58,149)	$ 48,977
Credit risk exposures:						
Fixed income securities	$ 5,040,271	$ 5,040,271	$ (322,946)	$ 245,992	$ (76,954)	$ 120,774
Derivatives - other invested assets	17,528,779	176,613	—	21,890	21,890	141
Cash, cash equivalents and short-term investments	1,339,361	1,339,361	—	(13,866)	(13,866)	(13,866)
Premiums receivable	424,893	424,893	—	313	313	313
Reinsurance recoverable	1,269,114	1,269,114	—	(697)	(697)	—
Total credit risk exposure	$ 25,602,418	$ 8,250,252	(322,946)	253,632	(69,314)	107,362
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Banking	$ 214,647	$ 3,449	—	351	351	(1,868)
Insurance	244,524	5,000	—	(1,888)	(1,888)	(13,022)
Total credit default swaps	$ 459,171	$ 8,449	—	(1,537)	(1,537)	(14,890)
Net exposure			$ (322,946)	$ 252,095	$ (70,851)	$ 92,472

	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	2,009,517	2,009,517	463,703	10,791	474,494	30,039
Total equity exposure	$ 2,092,095	$ 2,092,095	464,098	17,867	481,965	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			$ 464,098	$ (12,725)	$ 451,373	$ (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

In the normal course of affecting 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, 2010 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 a result of the appreciation in the fair value of the credit default swaps, counterparties to these transactions are required to place government securities as collateral, pursuant to the swap agreements. The fair value of the collateral as of December 31, 2010 was $3.8 million. 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 fair value of the credit default swaps portfolio was $8.4 million as of December 31, 2010, compared to $10.0 million as of December 31, 2009. The credit default swaps portfolio has an average term to expiration of 2.4 years as of December 31, 2010, an increase from 1.5 years as of December 31, 2009.

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. The collateral requirement related to the forward currency contracts was $6.4 million as of December 31, 2010. Forward currency contracts are recorded at fair value in other liabilities as of December 31, 2010 and 2009, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations and comprehensive income 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 as of December 31, 2010 and 2009, 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 at fair value in other liabilities as of December 31, 2010 and 2009, 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 holds significant investments in equities and equity-related securities, which the Company believes will significantly appreciate in value over time. The market values and the liquidity of these investments are volatile and may vary significantly either up or down in short periods. Their ultimate value, therefore, will only be known over the long term. During the second quarter of 2010, as a result of volatility in the equity markets and the uncertainty caused by credit concerns related to the sovereign debt of certain countries in the European Union, the Company determined to increase the level of protection of its equity and equity-related holdings against a potential decline in equity markets by way of additional short positions effected through equity index total return swaps. As a result, beginning in September 2009 and continuing into 2010, the Company re-initiated U.S. equity index total return swap contracts, which had an aggregate notional value of $2.3 billion as of December 31, 2010, to protect against potential future broad market downturns. The collateral requirement related to entering the total return swaps was $239.1 million as of December 31, 2010. These total return swap transactions terminate during the second quarter of 2011. The equity index total return swaps are recorded at fair value in other invested assets or other liabilities based on a positive or negative value as of December 31, 2010 and 2009, respectively, with the related changes in the fair values recorded as realized investment gains or losses in the consolidated statements of operations and comprehensive income in the period in which they occur.

During 2010, the Company purchased long position common stock total return swaps, with a total notional value of $633.5 million, as replications of investments in publicly-listed common stocks. The collateral requirement related to these swaps, which terminate in the third quarter of 2011, was $54.6 million as of December 31, 2010. The common stock total return swaps were in a loss position as of December 31, 2010, and are recorded in other liabilities. Changes in the fair value of common stock total return swaps are recorded as realized investment gains or losses in the consolidated statements of operations and comprehensive income in the period in which they occur.

As an economic hedge against the potential adverse impact on the Company of decreasing price levels in the economy, the Company has purchased derivative contracts referenced to consumer price indices ("CPI") in the geographic regions in which the Company operates. These contracts have a remaining average life of 9.3 years and 10.0 years as of December 31, 2010 and 2009. As the remaining life of a contract declines, the fair value of the contract (excluding the impact of CPI changes) will generally decline. The initial premium paid for the contracts is recorded as a derivative asset and subsequently adjusted for changes in the unrealized fair value of the contracts at each balance sheet date. Changes in the unrealized fair value of the contracts are recorded as realized gains or losses on investments in the Company's consolidated statements of operations and comprehensive income with a corresponding adjustment to the carrying value of the derivative asset. In the event of a sale, expiration or early settlement of one of the Company's CPI-linked derivative contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential cash loss is limited to the premiums paid to enter into the derivative contracts. Pursuant to the agreements governing the CPI-linked derivatives, counterparties to these transactions are contractually required to periodically deposit eligible collateral for the benefit of the Company in support of the then-current fair value of the derivative contracts. As of December 31, 2010, the fair value of this collateral was $49.3 million.

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 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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
CPI-linked derivative contracts:			
Change in fair value	$ 19,643	$ 46	$ —
Net realized investment gain	19,643	46	—
Total return swaps:			
Net realized investment (loss) gain on disposal	(194,522)	(33,724)	540,212
Change in fair value	(72,186)	3,132	(3,848)
Net realized investment (loss) gain	(266,708)	(30,592)	536,364
Forward currency contracts:			
Net realized investment (loss) gain on disposal	(39,435)	7,592	35,728
Change in fair value	14,191	(67,475)	30,988
Net realized investment (loss) gain	(25,244)	(59,883)	66,716
Credit default swaps:			
Net realized investment (loss) gain on disposal	(14,890)	33,960	512,052
Change in fair value	13,353	(62,666)	(161,321)
Net realized investment (loss) gain	(1,537)	(28,706)	350,731
Warrants:			
Net realized investment gain (loss) on disposal	141	(237)	(590)
Change in fair value	2,106	3,059	(3,731)
Net realized investment gain (loss)	2,247	2,822	(4,321)
Interest rate swaps:			
Net realized investment loss on disposal	(3,058)	(2,030)	—
Change in fair value	(5,352)	(10)	(32)
Net realized investment loss	(8,410)	(2,040)	(32)
Futures contracts:			
Net realized investment (loss) gain on disposal	—	(275)	3,393
Net realized investment (loss) gain	—	(275)	3,393

	2010	2009	2008
Call options:			
Net realized investment loss on disposal	—	—	(2,191)
Change in fair value	—	—	1,040
Net realized investment loss	—	—	(1,151)
Total derivatives:			
Net realized investment (loss) gain on disposal	(251,764)	5,286	1,088,604
Change in fair value	(28,245)	(123,914)	(136,904)
Net realized investment (loss) gain	$ (280,009)	$ (118,628)	$ 951,700
Short positions:			
Net realized investment gain on disposal	—	—	14,457
Change in fair value	—	—	(1,635)
Total net realized investment gain	$ —	$ —	$ 12,822

(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, 2010, restricted assets supporting these deposits and trust fund requirements totaled $1.3 billion, as depicted in the following table (in thousands):

	As of December 31, 2010 Restricted Assets Relating to:		
	U.S. Regulatory Requirements	Foreign Regulatory Requirements	Total
Fixed income securities	$ 540,758	$ 581,454	$ 1,122,212
Cash, cash equivalents and short-term investments	5,742	138,711	144,453
Total	$ 546,500	$ 720,165	$ 1,266,665

6. 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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Beginning balance of unrealized net appreciation on securities	$ 537,224	$ 74,741	$ 88,315
Ending balance of unrealized net appreciation on securities	331,352	537,224	74,741
Current period change in unrealized net appreciation (depreciation) on securities	(205,872)	462,483	(13,574)
Beginning balance of foreign currency translation adjustments	13,484	10,716	8,138
Adjustment to beginning balance due to a change in accounting standards	—	—	(1,531)
Adjusted beginning balance of foreign currency translation adjustments	13,484	10,716	6,607
Ending balance of foreign currency translation adjustments	64,899	13,484	10,716
Current period change in foreign currency translation adjustments	51,415	2,768	4,109
Beginning balance of benefit plan liabilities	(5,239)	(3,461)	(11,430)
Adjustment to beginning balance due to a change in accounting standards	—	—	146
Adjusted beginning balance of benefit plan liabilities	(5,239)	(3,461)	(11,284)
Ending balance of benefit plan liabilities	(4,766)	(5,239)	(3,461)
Current period change in benefit plan liabilities	473	(1,778)	7,823
Other comprehensive income (loss)	$ (153,984)	$ 463,473	$ (1,642)
Beginning balance of accumulated other comprehensive income	$ 545,469	$ 81,996	$ 85,023
Other comprehensive (loss) income	(153,984)	463,473	(1,642)
Effect of changes in accounting	—	—	(1,385)
Change in accumulated other comprehensive (loss) income	(153,984)	463,473	(3,027)
Ending balance of accumulated other comprehensive income	$ 391,485	$ 545,469	$ 81,996

The following table shows the components of accumulated other comprehensive income (loss), and the related deferred income taxes on each component, as of December 31, 2010 and 2009 (in thousands):

	2010	2009
Gross:		
Unrealized appreciation on securities	$ 491,338	$ 826,494
Foreign currency translation adjustments	99,844	20,744
Benefit plan liabilities	(7,334)	(8,060)
Total accumulated other comprehensive income, gross of deferred income taxes	$ 583,848	$ 839,178
Deferred taxes:		
Unrealized appreciation on securities	$ (159,986)	$ (289,270)
Foreign currency translation adjustments	(34,945)	(7,260)
Benefit plan liabilities	2,568	2,821
Total deferred taxes on other accumulated other comprehensive income	$ (192,363)	$ (293,709)

The components of comprehensive income for the years ended December 31, 2010, 2009 and 2008 are shown in the following table (in thousands):

	2010	2009	2008
Net income	$ 333,275	$ 373,336	$ 548,795
Other comprehensive income (loss), before tax:			
Unrealized net appreciation (depreciation) on securities arising during the period	101,155	836,090	(101,912)
Reclassification adjustment for realized investment (gains) losses included in net income	(436,312)	(124,578)	81,029
Foreign currency translation adjustments	79,100	4,258	6,321
Benefit plan liabilities	727	(2,735)	12,035
Other comprehensive (loss) income, before tax	(255,330)	713,035	(2,527)
Tax (provision) benefit:			
Unrealized net (appreciation) depreciation on securities arising during the period	(23,424)	(292,631)	35,669
Reclassification adjustment for realized investment gains (losses) included in net income	152,709	43,602	(28,360)
Foreign currency translation adjustments	(27,685)	(1,490)	(2,212)
Benefit plan liabilities	(254)	957	(4,212)
Total tax (provision) benefit	101,346	(249,562)	885
Other comprehensive (loss) income, net of tax	(153,984)	463,473	(1,642)
Comprehensive income	$ 179,291	$ 836,809	$ 547,153

7. 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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 5,507,766	$ 5,250,484	$ 5,119,085
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	841,486	690,171	643,509
Net unpaid losses and loss adjustment expenses, beginning of year	4,666,280	4,560,313	4,475,576
Add: Net losses and loss adjustment expenses incurred related to:			
Current year	1,320,651	1,313,319	1,518,780
Prior years	(3,598)	(11,323)	(10,055)
Total net losses and loss adjustment expenses incurred	1,317,053	1,301,996	1,508,725
Less: Net paid losses and loss adjustment expenses related to:			
Current year	184,373	230,610	264,784
Prior years	988,205	1,024,182	1,016,008
Total net paid losses and loss adjustment expenses	1,172,578	1,254,792	1,280,792
Effects of exchange rate changes	46,455	58,763	(143,196)
Net unpaid losses and loss adjustment expenses, end of year	4,857,210	4,666,280	4,560,313
Add: Ceded unpaid losses and loss adjustment expenses, end of year	952,455	841,486	690,171
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,809,665	$ 5,507,766	$ 5,250,484

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 earthquakes, 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, 2010. The estimate is reviewed on a quarterly basis and the ultimate liability may be greater 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 $1,320.7 million, $1,313.3 million and $1,518.8 million for the years ended December 31, 2010, 2009 and

2008, respectively. The increase in losses and loss adjustment expenses incurred for the year ended December 31, 2010 was principally due to an increase in property catastrophe losses. The decrease in losses and loss adjustment expenses for the year ended December 31, 2009 was principally attributable to a reduction in property catastrophe losses. For the years ended December 31, 2010, 2009 and 2008, current year catastrophe events were $222.2 million, $131.1 million and $264.7 million, respectively. For the year ended December 31, 2010, current year property catastrophe losses included $83.3 million related to the Chile earthquake, $16.8 million related to Windstorm Xynthia, and $16.0 million related to the New Zealand earthquake. 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.

Net losses and loss adjustment expenses incurred related to prior years decreased $3.6 million, $11.3 million, and $10.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. The decrease in prior period losses and loss adjustment expenses for the year ended December 31, 2010 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, 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 effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in increases of $46.5 million and $58.8 million for the years ended December 31, 2010 and 2009, respectively, and a decrease of $143.2 million for the year ended December 31, 2008. The effects of exchange rate changes were attributable to changes in foreign currency exchange rates for unpaid losses and loss adjustment expenses in the Americas, EuroAsia and London Market divisions.

Ceded unpaid losses and loss adjustment expenses were $952.5 million, $841.5 million and $690.2 million as of December 31, 2010, 2009 and 2008, respectively. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2010 was principally attributable to a $72.4 million increase in unpaid reinsurance recoverables related to non-catastrophe exposure, principally in the London Market and U.S. Insurance divisions. 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 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 $116.5 million and $115.8 million as of December 31, 2010 and 2009, respectively. The amount of case reserve discount was $54.0 million and $54.3 million as of December 31, 2010 and 2009, respectively. The amount of incurred but not reported reserve discount was $20.9 million and $21.9 million as of December 31, 2010 and 2009, respectively.

8. 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, 2010 were $280.7 million, representing 5.8% of total net unpaid losses and loss adjustment expenses, compared to $265.5 million, representing 5.7% of total net unpaid losses and loss adjustment expenses as of December 31, 2009. 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, 2010, 2009 and 2008, is set forth in the table below (in thousands):

	2010	2009	2008
Asbestos			
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 386,735	$ 360,733	$ 339,271
Add: Gross losses and loss adjustment expenses incurred	73,800	69,384	73,816
Less: Gross calendar year paid losses and loss adjustment expenses	51,136	43,382	52,354
Gross unpaid losses and loss adjustment expenses, end of year	$ 409,399	$ 386,735	$ 360,733
Net unpaid losses and loss adjustment expenses, beginning of year	$ 241,572	$ 230,486	$ 222,426
Add: Net losses and loss adjustment expenses incurred	44,400	39,959	41,007
Less: Net calendar year paid losses and loss adjustment expenses	34,191	28,873	32,947
Net unpaid losses and loss adjustment expenses, end of year	$ 251,781	$ 241,572	$ 230,486
Environmental			
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 27,142	$ 34,242	$ 41,984
Add: Gross losses and loss adjustment expenses incurred	10,653	863	2,613
Less: Gross calendar year paid losses and loss adjustment expenses	4,179	7,963	10,355
Gross unpaid losses and loss adjustment expenses, end of year	$ 33,616	$ 27,142	$ 34,242
Net unpaid losses and loss adjustment expenses, beginning of year	$ 23,885	$ 29,819	$ 34,485
Add: Net losses and loss adjustment expenses incurred	8,842	578	4,078
Less: Net calendar year paid losses and loss adjustment expenses	3,784	6,512	8,744
Net unpaid losses and loss adjustment expenses, end of year	$ 28,943	$ 23,885	$ 29,819

Net losses and loss adjustment expenses for asbestos claims increased $44.4 million, $40.0 million and $41.0 million for the years ended December 31, 2010, 2009 and 2008, respectively. The increases in net losses and loss adjustment expenses incurred were principally 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 2010, 2009 and 2008, 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 $8.8 million, $0.6 million and $4.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. The increases in net losses and loss adjustment expenses incurred for the years ended December 31, 2010, 2009 and 2008 were principally 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, 2010 is seven years. The Company's underlying survival ratio for asbestos-related liabilities is eight years and for environmental-related liabilities is five years. The asbestos and environmental-related liability survival ratio represents the asbestos and environmental reserves, net of reinsurance, as of December 31, 2010, divided by the average paid asbestos and environmental claims for the last three years of $38.2 million, which are net of reinsurance. Our survival ratios may fluctuate over time due to the variability of large payments and adjustments to liabilities.

9. 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 2010, 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, 2010, 2009 and 2008 follow (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Premiums Written			
Direct	$ 758,094	$ 780,467	$ 792,351
Add: assumed	1,409,244	1,414,568	1,502,191
Less: ceded	313,540	301,222	263,721
Net	$ 1,853,798	$ 1,893,813	$ 2,030,821
Premiums Earned			
Direct	$ 789,749	$ 741,074	$ 773,042
Add: assumed	1,411,227	1,472,116	1,525,516
Less: ceded	315,262	285,778	222,194
Net	$ 1,885,714	$ 1,927,412	$ 2,076,364

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2010 and 2009 was $1.0 billion and $0.9 billion, respectively. The reserve for uncollectible recoverables as of December 31, 2010 and 2009 was $42.5 million and $41.9 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 $5.2 million and $5.5 million as of December 31, 2010 and 2009, 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 $3.2 million, $3.7 million and $5.3 million for the years ended December 31, 2010, 2009 and 2008, respectively.

10. Reinsurance Recoverables

The Company's ten largest reinsurers represent 47.4% of its total reinsurance recoverables as of December 31, 2010. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $22.9 million, or 2.3%, of reinsurance recoverables as of December 31, 2010, and the average balance is less than $2.5 million. The Company held total collateral of $227.1 million as of December 31, 2010, representing 22.7% 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, 2010, 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	$ 141,079	14.0 %	$ —	A
D.E. Shaw Re Bermuda Ltd.	58,168	5.8	58,168	NR
Federal Crop Ins Corporation	46,556	4.6	—	NR
Alterra Bermuda Ltd.	38,266	3.8	13,953	A
Everest Re (Bermuda) Ltd.	36,874	3.7	—	A+
Underwriters Re of Barbados	33,744	3.4	33,744	A
Swiss Re America Corporation	32,592	3.3	—	A
Ullico Casualty Company	31,697	3.2	31,697	B+
Brit Insurance Ltd.	31,021	3.1	—	A
Munich Reinsurance America	25,142	2.5	—	A+
Sub-total	475,139	47.4	137,562	
All Other	526,844	52.6	89,584	
Total	$ 1,001,983	100.0 %	$ 227,146	

Reinsurance recoverables were $912.0 million and collateral was $220.2 million, or 24.1% of the reinsurance recoverable balance, as of December 31, 2009.

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, 2010 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's of London	$ 141,079	14.0 %	$ —
Swiss Re Group	91,368	9.2	33,859
D.E. Shaw Re Bermuda Ltd	58,168	5.8	58,168
Alterra Holdings	47,462	4.8	13,953
Federal Crop Ins Corp	46,556	4.6	—
Sub-total	384,633	38.4	105,980
All Other	617,350	61.6	121,166
Total	$ 1,001,983	100.0 %	$ 227,146

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, 2010 is $227.1 million, which represents 22.7% 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	$ 91,788	9.2 %
Funds withheld from reinsurers	42,317	4.2
Trust agreements	93,041	9.3
Total	$ 227,146	22.7 %

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.

11. Debt Obligations, Common Shares and Preferred Shares

Debt Obligations

The components of the Company's debt obligations as of December 31, 2010 and 2009 were as follows (in thousands):

	2010	2009
7.65% Senior Notes due 2013	$ 223,294	$ 224,833
6.875% Senior Notes due 2015	123,854	124,569
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	$ 487,148	$ 489,402

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, 2010 and 2009, the average annual interest rate on the Series C Notes was 2.84% and 3.48%, 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, 2010 and 2009, the average annual interest rate on each series of notes was 2.54% and 3.18%, respectively.

During the second quarter of 2005, the Company issued $125.0 million aggregate principal amount of senior notes due May 1, 2015 (the "2015 Notes"). 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 "2013 Notes"). 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.

As of December 31, 2010, 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, 2010 and 2009, the amortized cost of the Company's debt obligations was $487.1 million and $489.4 million respectively, as reflected in the respective consolidated balance sheets. As of December 31, 2010 and 2009, the estimated fair value of the Company's debt obligations was $515.9 million and $503.6 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, 2010 and 2009, there was $33.8 million and $54.9 million, respectively, outstanding under the Credit Agreement, all of which was in support of secured letters of credit.

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

On December 21, 2010, the Company filed a certificate of amendment to its amended and restated certificate of incorporation with the State of Delaware. The certificate of amendment, which was approved by the Company's shareholders and Board of Directors, reduced the number of authorized shares of capital stock of the Company to 1,260,000 shares, consisting of 60,000 shares of common stock, par value $10.00 per share, and 1,200,000 shares of preferred stock, par value $0.01 per share. Prior to the filing of the certificate of amendment, the Company's authorized capital stock consisted of 700,000,000 shares (500,000,000 shares of common stock, par value $0.01 per share, and 200,000,000 shares of preferred stock, par value $0.01 per share). Upon the effectiveness of the certificate of amendment, the Company effected a 1 for 1,000 share reverse stock split of its common shares, such that each 1,000 shares of the Company's old common stock, par value $0.01 per share, automatically were combined and reclassified into one (1) share of the Company's new common stock, par value $10.00 per share.

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.

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 (253,599 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 (70,000 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	$ 1,776
October 20, 2011 through October 19, 2012	25.250	1,768
October 20, 2012 through October 19, 2013	25.125	1,759
October 20, 2013 and thereafter	25.000	1,750

On October 20, 2010, the Company redeemed for cash all of the issued and outstanding shares of its Series A and Series B preferred stock not owned by affiliates, at a per share redemption price of $25.00 and $25.375, respectively. The total redemption cost of the Series A and Series B preferred shares for the year ended December 31, 2010 was $43.6 million and $27.0 million, respectively. As a result of the redemption of the Series A and B preferred shares, the Company recorded a loss of $2.2 million, which amounts were reflected in the Company's retained earnings and included in net income available to common shareholders.

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 1, 2010, 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 $0.2211912 per share on the Company's floating rate Series B preferred shares. The total dividends of

$0.3 million were paid on January 20, 2011 to Series A and Series B preferred shareholders of record on December 31, 2010.

For the years ended December 31, 2010, 2009 and 2008, Odyssey America purchased 33,700, 704,737, and 128,000 shares, respectively, of the Company's Series B preferred shares, with a liquidation preference of $0.8 million, $17.2 million, and $3.1 million, respectively, with a purchase price of $0.8 million, $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 less than $0.1 million for the year ended December 31, 2010, $8.0 million for the year ended December 31, 2009, and $1.5 million for the year ended December 31, 2008, which amount was reflected in the Company's retained earnings and included in net income available to common shareholders.

As of December 31, 2010, a subsidiary of Fairfax owned 253,599 shares and 70,000 shares of the Company's Series A and Series B preferred stock, respectively, and Odyssey America owned 866,437 shares of the Company's Series B preferred stock. The shares owned by Odyssey America have been eliminated in these consolidated financial statements.

12. 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, 2010, 2009 and 2008 are as follows (in thousands):

Year Ended December 31, 2010	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 747,382	$ 538,614	$ 339,039	$ 542,303	$ 2,167,338
Net premiums written	724,840	518,869	288,188	321,901	1,853,798
Net premiums earned	$ 726,978	$ 520,282	$ 292,952	$ 345,502	$ 1,885,714
Losses and loss adjustment expenses	581,057	348,084	178,991	208,921	1,317,053
Acquisition costs and other underwriting expenses	228,713	131,819	78,033	102,883	541,448
Total underwriting deductions	809,770	479,903	257,024	311,804	1,858,501
Underwriting (loss) income	$ (82,792)	$ 40,379	$ 35,928	$ 33,698	27,213
Net investment income					327,875
Net realized investment gains (losses):					
Net realized investment gains					190,657
Other-than-temporary impairment losses					(20,308)
Total net realized investment gains					170,349
Other expense, net					(63,591)
Interest expense					(30,464)
Income before income taxes					$ 431,382
Underwriting ratios:					
Losses and loss adjustment expenses	79.9 %	66.9 %	61.1 %	60.5 %	69.8 %
Acquisition costs and other underwriting expenses	31.5	25.3	26.6	29.8	28.8
Combined ratio	111.4 %	92.2 %	87.7 %	90.3 %	98.6 %

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					316,329
Net realized investment gains (losses):					
Net realized investment gains					316,101
Other-than-temporary impairment losses					(127,013)
Total net realized investment gains					189,088
Other expense, net					(44,416)
Interest expense					(31,040)
Income before income taxes					$ 494,430
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					254,866
Net realized investment gains (losses):					
Net realized investment gains					1,050,957
Other-than-temporary impairment losses					(358,692)
Total net realized investment gains					692,265
Other expense, net					(60,419)
Interest expense					(34,180)
Income before income taxes					$ 827,153
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 %

Gross Premiums Written by Major Unit/Division

	Years Ended December 31,		
	2010	2009	2008
United States	$ 561,048	$ 561,773	$ 577,931
Latin America	129,280	146,163	158,140
Canada	57,054	38,000	40,316
Total Americas	747,382	745,936	776,387
EuroAsia	538,614	559,165	596,710
London Market	339,039	342,925	381,764
U.S. Insurance	542,303	547,009	539,681
Total gross premiums written	$ 2,167,338	$ 2,195,035	$ 2,294,542

Gross Premiums Written by Type of Business/Business Unit

	Years Ended December 31,		
	2010	2009	2008
Americas			
Property excess of loss	$ 210,332	$ 157,690	$ 144,227
Property proportional	128,717	97,925	132,432
Property facultative	22,285	21,810	17,948
Subtotal property	361,334	277,425	294,607
Casualty excess of loss	173,546	203,448	150,529
Casualty proportional	89,385	134,389	186,617
Casualty facultative	49,400	57,131	71,975
Subtotal casualty	312,331	394,968	409,121
Marine and aerospace	21,275	23,865	27,578
Surety and credit	52,442	49,678	45,081
Other lines	—	—	—
Total Americas	747,382	745,936	776,387
EuroAsia			
Property excess of loss	192,871	193,428	187,469
Property proportional	175,018	183,388	201,887
Property facultative	(4)	14	245
Subtotal property	367,885	376,830	389,601
Casualty excess of loss	60,376	67,604	75,647
Casualty proportional	26,598	28,061	36,867
Subtotal casualty	86,974	95,665	112,514
Marine and aerospace	39,327	44,285	49,100
Surety and credit	44,428	42,385	45,495
Total EuroAsia	538,614	559,165	596,710
London Market			
Property excess of loss	76,412	63,813	62,116
Property proportional	907	867	1,430
Subtotal property	77,319	64,680	63,546
Casualty excess of loss	5,908	5,321	4,851
Casualty proportional	661	3,550	13,462
Subtotal casualty	6,569	8,871	18,313
Marine and aerospace	39,360	35,916	47,234
Total reinsurance	123,248	109,467	129,093
Liability lines	209,536	227,844	248,185
Other	6,255	5,614	4,486
Total insurance	215,791	233,458	252,671
Total London Market	339,039	342,925	381,764

Gross Premiums Written by Type of Business/Business Unit

	Years Ended December 31,		
	2010	2009	2008
U.S. Insurance			
Property and package	158,779	135,047	111,489
Professional liability	121,438	119,918	130,926
Specialty liability	110,044	113,938	90,918
Medical professional liability	88,560	96,957	113,922
Commercial automobile	55,519	65,594	68,159
Personal automobile	7,963	15,555	24,267
Total U.S. Insurance	542,303	547,009	539,681
Total gross premiums written	$ 2,167,338	$ 2,195,035	$ 2,294,542

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.

13. 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, 2010, 2009 and 2008 are as follows (in thousands):

	2010	2009	2008
Current:			
United States	$ 31,870	$ 77,775	$ 463,222
Foreign	83,365	75,475	70,677
Total current income tax provision	115,235	153,250	533,899
Deferred:			
United States	(18,301)	(1,232)	(258,417)
Foreign	1,173	(30,924)	2,876
Total deferred income tax (benefit) provision	(17,128)	(32,156)	(255,541)
Total federal and foreign income tax provision	$ 98,107	$ 121,094	$ 278,358

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, 2010 and 2009 are as follows (in thousands):

	2010	2009
Unpaid losses and loss adjustment expenses	$ 157,835	$ 156,444
Unearned premiums	34,593	36,374
Reserve for potentially uncollectible balances	12,238	11,469
Pension and benefit accruals	11,790	10,075
Investments	121,381	152,433
Alternative minimum tax credit	2,383	—
Foreign tax credit	118,889	74,946
Other	4,072	4,461
Total deferred tax assets	463,181	446,202
Deferred acquisition costs	39,015	40,335
Foreign deferred items	36,371	35,198
Total deferred tax liabilities	75,386	75,533
Net deferred tax assets	387,795	370,669
Deferred income taxes on accumulated other comprehensive income	(192,365)	(293,710)
Deferred federal and foreign income tax asset	195,430	76,959
Current taxes payable	29,581	(31,464)
Federal and foreign income taxes receivable	$ 225,011	$ 45,495

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, 2010, 2009 and 2008 (in thousands):

	2010		2009		2008	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes	$ 431,382		$ 494,430		$ 827,153	
Income tax provision computed at the U.S. statutory tax rate on income	$ 150,984	35.0 %	$ 173,051	35.0 %	$ 289,504	35.0 %
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(6,036)	(1.4)	(8,622)	(1.7)	(4,141)	(0.5)
Tax-exempt income	(37,649)	(8.7)	(38,010)	(7.7)	(7,448)	(0.9)
Other, net	(9,192)	(2.1)	(5,325)	(1.1)	443	0.1
Total federal and foreign income tax provision	$ 98,107	22.7 %	$ 121,094	24.5 %	$ 278,358	33.7 %

Domestic pre-tax income was $298.0 million, $289.5 million and $642.1 million for the years ended December 31, 2010, 2009 and 2008, respectively. Foreign pre-tax income was $133.4 million, $204.9 million and $185.1 million for the years ended December 31, 2010, 2009 and 2008, 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 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, 2010 and 2009, the Company has not recorded any interest or penalties. The Company paid federal and foreign income taxes of $179.5 million, $355.9 million and $348.4 million for the years ended December 31, 2010, 2009 and 2008, respectively. As of December 31, 2010, the Company had a current tax receivable of $29.6 million, which reflects $53.5 million receivable from Fairfax and a net payable of $23.9 million to the U.S. federal government and various foreign governments. 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. 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 returns for 2007 through 2009 remain open for examination. The Internal Revenue Service completed their audit of the Company's 2005 and 2006 tax returns and commenced their audit of the Company's 2007 and 2008 tax returns during 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.

14. 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 was filed in the United States District Court for the Southern District of New York by the lead plaintiffs, who sought 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 sought, among other things, certification of the putative class, unspecified compensatory damages, unspecified injunctive relief, reasonable costs and attorneys' fees and other relief. Motions to dismiss were argued before the Court in December 2007. On March 29, 2010, the Court granted defendants' motion to dismiss on the grounds that the Court lacked subject matter jurisdiction over the case. The Court also denied plaintiffs' request to move for leave to file a second amended complaint. On June 8, 2010, the Court denied the motion of plaintiffs and two non-parties to alter or amend the Court's judgment dismissing the case. Plaintiffs did not appeal the Court's judgment. On July 1, 2010, one of the non-party movants filed a motion to intervene in the lawsuit for the purpose of appealing and thereafter filed a notice of appeal to the United States Court of Appeals for the Second Circuit. On July 29, 2010, the non-party's motion to intervene was denied, while the notice of appeal is pending.

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 against Fairfax, as well as third-party claims against certain Fairfax executives, OdysseyRe and certain directors, Fairfax's outside legal counsel and PricewaterhouseCoopers. 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. In September 2008, the Court granted a motion for summary judgment brought by two defendants, and dismissed Fairfax's claims against those defendants without prejudice. 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.

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 $140.4 million and $119.8 million, respectively, as of December 31, 2010 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 $78.5 million as of December 31, 2010. 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 25.9% 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 quarter of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For the years ended December 31, 2010, 2009 and 2008, Falcon paid \$0.2 million, \$0.3 million and \$0.3 million, respectively, to Odyssey America in connection with this guarantee. Odyssey America's potential exposure in connection with this agreement is estimated to be \$73.9 million, based on Falcon's loss reserves at December 31, 2010. Falcon's shareholders' equity on a U.S. GAAP basis is estimated to be \$58.9 million as of December 31, 2010. 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, 2010, 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, 2010 and 2009 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
2011	$ 9,835
2012	8,674
2013	6,964
2014	6,947
2015	6,831
2016 and thereafter	29,382
Total	$ 68,633

The amounts above are reduced by an aggregate minimum rental recovery of $0.3 million resulting from the sublease of space to other companies.

Rental expense, before sublease income under these operating leases, was $11.5 million, $11.4 million and $11.3 million for the years ended December 31, 2010, 2009 and 2008, respectively. The Company recovered pre-tax amounts of less than $0.1 million for the year ended December 31, 2010 and $0.1 million for each of the years ended December 31, 2009 and 2008, from subleases.

15. 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 2011, without such prior approval is $602.4 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 declared dividends to the Company of $512.0 million, of which $225.0 million was paid, during the year ended December 31, 2010. Odyssey America paid $200.0 million and $410.0 million during the years ended December 31, 2009 and 2008, 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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Net income	$ 338,205	$ 374,884	$ 602,133
Policyholders' surplus	$ 3,320,141	$ 3,512,819	$ 2,951,335

16. 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, 2010, 2009 and 2008, follow (in thousands):

	2010	2009	2008
Assumed:			
Premiums written	$ 13,029	$ 14,434	$ 18,188
Premiums earned	15,337	15,956	21,633
Losses and loss adjustment expenses	16,016	15,868	11,404
Acquisition costs	3,697	3,989	6,592
Reinsurance payable on paid losses	1,333	(86)	2,235
Reinsurance balances receivable	257	1,441	2,269
Unpaid losses and loss adjustment expenses	123,283	131,446	148,495
Unearned premiums	4,181	6,489	8,012
Ceded:			
Premiums written	$ (23)	$ 39	$ 444
Premiums earned	(23)	39	656
Losses and loss adjustment expenses	7,256	(882)	14,283
Acquisition costs	—	(8)	9
Ceded reinsurance balances payable	202	333	258
Reinsurance recoverables on paid losses	(249)	(192)	7
Reinsurance recoverables on unpaid losses	13,949	9,318	13,223

Written premiums assumed from Fairfax's affiliates in 2010 represent less than 1.0% of OdysseyRe's total gross premiums written for the year ended December 31, 2010. The largest amounts of related party assumed business in 2010 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, 2010, 2009 and 2008, total fees, including incentive fees, of $28.5 million, $28.8 million and $21.4 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. Included in other expense, net for the years ended December 31, 2010, 2009 and 2008, are incurred charitable contributions of $4.2 million, $5.0 million and $3.7 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 $3.9 million and $0.3 million as of December 31, 2010 and 2009, respectively, and amounts payable to affiliates of $11.4 million and $13.3 million as of December 31, 2010 and 2009, respectively.

Effective May 1, 2010, the Company and Fairfax, Inc. (a wholly-owned subsidiary of Fairfax, and the direct and indirect holder of 100% of the common shares of the Company) entered into a $300.0 million two-way revolving credit facility, under which either party may borrow up to $300.0 million from the other party. Loans under the facility are unsecured and bear interest at a rate of 7.5% per annum, payable quarterly, and the principal amount is payable on demand. Either party may terminate the facility at any time upon demand, at which time all outstanding principal and unpaid interest shall become due. On May 3, 2010, the Company loaned $200.0 million to Fairfax, Inc. under the facility. During the year ended December 31, 2010, the Company received $6.8 million of interest from Fairfax, Inc. related to this loan. As of December 31, 2010, the Company has accrued interest receivable of $3.2 million, due from Fairfax, Inc., which is included in accrued investment income on the balance sheet.

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.

17. 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.

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, 2010 and 2009 (in thousands):

	2010	2009
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 66,738	$ 59,980
Service cost	5,898	5,121
Interest cost	3,925	3,432
Actuarial loss	1,453	3,140
Benefits paid	(1,668)	(4,935)
Benefit obligation at end of year	76,346	66,738
Change in Plan assets:		
Fair value of Plan assets at beginning of year	57,276	47,931
Actual return on Plan assets	7,630	10,480
Actual contributions during the year	3,711	3,800
Benefits paid	(1,668)	(4,935)
Fair value of Plan assets at end of year	66,949	57,276
Unfunded status and accrued pension cost	$ (9,397)	$ (9,462)

As of December 31, 2010 and 2009, the fair value and percentage of fair value of the total Plan assets are as follows (in thousands):

	As of December 31,			
	2010		2009	
	$	%	$	%
Equity securities	$ 37,853	56.5 %	$ 34,671	60.5 %
Fixed income securities	14,507	21.7	13,104	22.9
Pooled investment hedge fund	8,028	12.0	6,573	11.5
Money market	6,561	9.8	2,928	5.1
Fair value of Plan assets	$ 66,949	100.0 %	$ 57,276	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 2010, the Company contributed $3.7 million to the Plan. The Company currently expects to make a contribution to the Plan in 2011 of $4.0 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 4.

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, 2010, the Company's investments that are classified as Level 3 had a fair value of $8.0 million. During the year ended December 31, 2010, there was no activity for the investments that are classified as Level 3, other than the change in market value of $1.4 million, which had a fair value of $8.0 million as of the December 31, 2010. During the year ended December 31, 2009, the Company purchased $6.0 million of investments that were 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, 2010 (in thousands):

		Fair Value Measurements as of December 31, 2010		
	Assets Measured at Fair Value December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 37,853	$ 37,853	$ —	$ —
Debt securities	14,507	—	14,507	—
Pooled investment hedge fund	8,028	—	—	8,028
Money market	6,561	6,561	—	—
Total Plan assets measured at fair value	$ 66,949	$ 44,414	$ 14,507	$ 8,028

		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 $9.4 million and $9.5 million, as of December 31, 2010 and 2009, respectively, is included in other liabilities. The net amount of accumulated other comprehensive (income) loss recognized is $(2.5) million and $0.3 million, before taxes, as of December 31, 2010 and 2009, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2010 and 2009 are as follows:

	2010	2009
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.69 %	5.62 %

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, 2010, 2009 and 2008 is comprised of the following components (in thousands):

	2010	2009	2008
Net Periodic Benefit Cost:			
Service cost	$ 5,898	$ 5,121	$ 5,323
Interest cost	3,925	3,432	2,976
Return on Plan assets	(3,444)	(2,188)	(2,199)
Settlement of retiree benefit obligations	—	—	1,571
Net amortization and deferral	63	55	572
Net periodic benefit cost	$ 6,442	$ 6,420	$ 8,243

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Discount rate	6.00 %	6.00 %	5.25 %
Rate of compensation increase	5.62 %	5.75 %	5.75 %
Expected long term rate of return on Plan assets	6.00 %	5.25 %	5.25 %

The accumulated benefit obligation for the Plan is $57.7 million and $49.6 million as of the December 31, 2010 and 2009 measurement dates, respectively.

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

Year	Amount
2011	$ 2,910
2012	2,700
2013	2,650
2014	3,610
2015	3,660
2016 — 2020	30,880

The Company estimates that it will record a $7.2 million expense related to the net periodic benefit cost during the year ended December 31, 2011. The Company does not expect any refunds of Plan assets during the year ended December 31, 2011.

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, 2010 and 2009 (in thousands):

	2010	2009
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 15,776	$ 16,387
Service cost	719	733
Interest cost	914	950
Actuarial loss/(gain)	714	(33)
Benefits paid	(1,409)	(2,261)
Benefit obligation at end of year	16,714	15,776
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	—	—
Actual contributions during the year	1,409	2,261
Benefits paid	(1,409)	(2,261)
Fair value of Excess Plans' assets at end of year	—	—
Unfunded status and accrued pension cost	$ (16,714)	$ (15,776)

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $16.7 million and $15.8 million, as of December 31, 2010 and 2009, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $2.7 million and $2.1 million, before taxes, as of December 31, 2010 and 2009, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2010 and 2009 are as follows:

	2010	2009
Discount rate	6.00 %	6.00 %
Rate of compensation increase	5.69 %	5.62 %

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, 2010, 2009 and 2008 is comprised of the following components (in thousands):

	2010	2009	2008
Net Periodic Benefit Cost:			
Service cost	$ 719	$ 733	$ 840
Interest cost	914	950	852
Recognized net actuarial loss	110	126	244
Recognized prior service cost	(37)	(37)	(37)
Net periodic benefit cost	$ 1,706	$ 1,772	$ 1,899

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Discount rate	6.00 %	6.00 %	5.25 %
Rate of compensation increase	5.62 %	5.75 %	5.75 %

The accumulated benefit obligation for the Excess Plans is $11.3 million and $11.2 million as of December 31, 2010 and 2009, respectively.

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

Year	Amount
2011	$ 930
2012	1,060
2013	960
2014	970
2015	1,150
2016 — 2020	6,200

A trust fund, which was established related to the Excess Plans, is included in other invested assets, and had a fair value of $3.0 million and $3.8 million as of December 31, 2010 and 2009, 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 $0.9 million to the Excess Plans during the year ended December 31, 2011, which represents the amount necessary to fund the 2011 expected benefit payments.

The Company estimates that it will record a $1.9 million expense related to the net periodic benefit cost during the year ended December 31, 2011.

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, 2010 and 2009 (in thousands):

	2010	2009
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 24,471	$ 14,151
Service cost	2,946	1,743
Interest cost	1,394	1,052
Actuarial loss	1,681	7,934
Benefits paid	(517)	(474)
Other	72	65
Benefit obligation at end of year	30,047	24,471
Unfunded status and accrued prepaid pension cost	$ (30,047)	$ (24,471)

The net amount recognized in the consolidated balance sheets related to the accrued benefit cost of $30.0 million and $24.5 million, as of December 31, 2010 and 2009, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss, before taxes, recognized is $7.2 million and $5.7 million as of December 31, 2010 and 2009, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2010 and 2009 are as follows:

	2010	2009
Discount rate	5.39 %	5.75 %
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, 2010, 2009 and 2008 is comprised of the following components (in thousands):

	2010	2009	2008
Net Periodic Benefit Cost:			
Service cost	$ 2,946	$ 1,743	$ 1,787
Interest cost	1,394	1,052	879
Net amortization and deferral	252	(131)	(104)
Net periodic benefit cost	$ 4,592	$ 2,664	$ 2,562

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2010, 2009 and 2008 are as follows:

	2010	2009	2008
Discount rate	5.75 %	7.34 %	6.25 %
Rate of compensation increase	4.00 %	4.00 %	4.00 %

The accumulated benefit obligation for the postretirement plan was $30.0 million and $24.5 million as of December 31, 2010 and 2009, respectively.

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

Year	Amount
2011	$ 539
2012	649
2013	801
2014	951
2015	1,135
2016 — 2020	9,420

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 8.16% in 2010, decreasing to 4.50% in 2027 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 $4.5 million (14.9% of the benefit obligation as of December 31, 2010) and the service and interest cost components of net periodic postretirement benefit costs by $0.9 million for 2010. 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 2010 by $3.6 million and $0.7 million, respectively.

The Company estimates that it will record $5.4 million in benefit costs relating to this plan during the year ended December 31, 2011.

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 2010, 2009 and 2008.

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 2010). The Company contributes an amount equal to 100% of each employee's pre-tax contribution up to certain limits. The maximum matching contribution is 4.0% 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 $2.3 million in 2010, $2.0 million in 2009 and $1.8 million in 2008, are included in other underwriting expenses in the consolidated statements of operations.

18. 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, 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.

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

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, 2010:

	Restricted Cash Units	REVRs
Outstanding as of December 31, 2009	27,535	1,058,995
Granted	—	117,666
Vested	(12,784)	(373,471)
Converted to Fairfax restricted shares	—	(159,346)
Forfeited	(2,358)	(10,949)
Outstanding as of December 31, 2010	12,393	632,895

As of December 31, 2010 and 2009, the Company recorded a liability of $20.1 million and $21.2 million for the REVRs and Restricted Cash Units, respectively. For year ended December 31, 2010, the Company recognized an expense related to the REVRs and Restricted Cash Units of $24.6 million. For the period from 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 relating to the REVRs and Restricted Cash Units recognized for the year ended December 31, 2010 and 2009 was $8.6 million and $5.3 million, respectively.

Fairfax Restricted Share Plan and Share Option Plan

In 1999, Fairfax established the Fairfax Financial 1999 Restricted Share Plan (the "Fairfax Restricted Share Plan") and the Share Option Plan (the "Option Plan'), and collectively, (the "Plans"), in which the Company was allowed to participate. The Plans generally provided officers, key employees and directors who were employed by or provided services to the Company with awards of restricted shares or stock options (with a grant price of zero) of Fairfax common stock (collectively, "Restricted Share Awards"). The Restricted Share Awards generally vest over a period of four to seven years. The Company had 44,080 Restricted Share Awards outstanding as of December 31, 2010.

In accordance with GAAP, the fair value of the Restricted Share Awards is estimated on the date of grant based on the market price of Fairfax's stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. The Company purchases Fairfax common stock on the open market following the grant of a Restricted Share Award and reflects such purchase as a reduction in the Company's additional paid-in capital. As of December 31, 2010, there was $10.3 million of unrecognized compensation cost related to unvested Restricted Share Awards granted from the Plans that was netted against additional paid-in capital, which is expected to be recognized over a remaining weighted-average vesting period of 4.6 years. The total fair value of the Restricted Share Awards granted during 2010 was $13.5 million. No Restricted Share Awards were granted in 2009 or 2008. As of December 31, 2010, the aggregate fair value of the Restricted Share Awards outstanding was $18.1 million. For the year ended December 31, 2010, the Company recognized expense related to the Fairfax Restricted Share Plan of $1.3 million. There was no expense recognized for the year ended December 31, 2009 or for the year ended December 31, 2008, as all then outstanding awards have been fully amortized.

The following table summarizes activity for the Fairfax Restricted Share Plan and the Option Plan for the year ended December 31, 2010:

	Shares / Options	Weighted-Average Value at Grant Date
Restricted share awards outstanding as of December 31, 2009	9,076	$ 170.00
Granted	35,004	385.89
Restricted share awards outstanding as of December 31, 2010	44,080	341.44
Vested and exercisable as of December 31, 2010	176	170.00

Employee Share Purchase Plans

In 2010, the Company established the Odyssey Re Holdings Corp. (Non-Qualified) 2010 Employee Share Purchase Plan (the "2010 ESPP"). Under the terms of the 2010 ESPP, eligible employees are given the election to purchase Fairfax common shares in an amount up to 10% of their annual base salary. The Company purchases, on the employee's behalf, a number of Fairfax's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieves a growth in common shareholders' equity of at least 15% in any calendar year, additional shares are 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. During the year ended December 31, 2010, the Company purchased 9,379 shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of $388.08. The compensation expense recognized by the Company for purchases of Fairfax's common shares under the 2010 ESPP was $0.5 million for the year ended December 31, 2010.

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 and 2008, the Company purchased 58,699 shares and 75,757 shares, respectively, on behalf of employees pursuant to the ESPP, at average purchase prices of $43.23 and $38.46, respectively. The compensation expense recognized by the Company for purchases of the Company's common shares under the ESPP was $0.8 million and $0.9 million for the years ended December 31, 2009 and 2008, respectively.

General

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

	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	—

19. 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 $5.7 million and $9.7 million as of December 31, 2010 and 2009, 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, 2010, financial guaranty reinsurance in force had a remaining maturity term of one (1) to 18 years. The approximate distribution of the estimated debt service (principal and interest) of bonds, by type, for the years ended December 31, 2010 and 2009 is as follows (in thousands):

	2010	2009
Municipal obligations:		
General obligation bonds	$ 3,914	$ 7,418
Special revenue bonds	1,759	2,271
Total	$ 5,673	$ 9,689

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	2010 Debt Service
Mississippi	$ 2,666
States less than $1.5 million exposure per state	3,007
Total	$ 5,673

20. Subsequent Event

On January 1, 2011, with the approval of the Departments of Insurance of the states of Connecticut and Delaware, the regulatory authorities for Odyssey America and Clearwater, respectively, the Company transferred ownership of Clearwater to TIG Insurance Group, Inc. ("TIG"), which is a Fairfax subsidiary and a shareholder of the Company, in exchange for 5,921 common shares of the Company held by TIG. Prior to the transaction, certain Clearwater business was reinsured with Odyssey America, and Clearwater distributed by means of a dividend its ownership interest in the common stock of Hudson and Clearwater Select to Odyssey America. Odyssey America then distributed all of the issued and outstanding shares of common stock of Clearwater to the Company, by means of a dividend with a value of $373.0 million. The transaction will be reflected by the Company as a nonreciprocal transfer between the Company and TIG, whereby the total assets ($1.1 billion) and total liabilities ($0.7 billion) of Clearwater are removed from the consolidated balance sheet of the Company effective January 1, 2011, offset by a reduction in the Company's shareholders' equity ($0.4 billion). The number of common shares re-acquired by the Company from TIG, which were subsequently retired, was based upon the estimated fair values of Clearwater and OdysseyRe as of September 30, 2010, which had not changed appreciably as of December 31, 2010. Included in the balance sheet of Clearwater that was transferred to TIG as of January 1, 2011 was $29.3 million in preferred shares of Hudson and Clearwater Select.

On February 18, 2011, the Secretary of State of Connecticut approved the filing by Odyssey America of an amended and restated certificate of incorporation, reflecting the change in Odyssey America's name from Odyssey America Reinsurance Corporation to Odyssey Reinsurance Company.

The Company has evaluated the significance of events occurring subsequent to December 31, 2010 with respect to disclosing the nature and expected impact of such events as of March 3, 2011, the date these consolidated financial statements were available to be issued.

21. Transfer of Ownership of Clearwater (Unaudited)

The following tables summarize the Company's consolidated balance sheets as of December 31, 2010 and 2009 and the Company's consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008 (in thousands), as reported and on a pro forma basis as if the transfer of ownership of Clearwater to TIG occurred on January 1, 2008.

Consolidated Balance Sheets

	As of December 31,					
	2010			2009		
	As Reported	Less Clearwater	OdysseyRe Excluding Clearwater	As Reported	Less Clearwater	OdysseyRe Excluding Clearwater
Total investments and cash	$ 8,904,147	$ (771,379)	$ 8,132,768	$ 8,726,689	$ (757,692)	$ 7,968,997
Accrued investment income	78,312	(8,765)	69,547	79,400	(9,928)	69,472
Premiums receivable	424,893	(4,931)	419,962	473,878	(14,468)	459,410
Reinsurance recoverable	1,269,114	(238,676)	1,030,438	1,165,524	(231,546)	933,978
Deferred acquisition costs	119,578	—	119,578	126,466	—	126,466
Federal and foreign income taxes receivable	225,011	(34,658)	190,353	45,495	(1,177)	44,318
Other assets	93,589	(2,778)	90,811	167,686	(21,527)	146,159
Total assets	$ 11,114,644	$ (1,061,187)	$ 10,053,457	$ 10,785,138	$ (1,036,338)	$ 9,748,800
Unpaid losses and loss adjustment expenses	$ 5,809,665	$ (696,431)	$ 5,113,234	$ 5,507,766	$ (690,902)	$ 4,816,864
Unearned premiums	662,787	(2)	662,785	691,213	(25)	691,188
Reinsurance balances payable	167,247	(13,485)	153,762	178,428	(11,226)	167,202
Debt obligations	487,148	—	487,148	489,402	—	489,402
Other liabilities	318,764	(7,588)	311,176	363,397	(4,562)	358,835
Total liabilities	7,445,611	(717,506)	6,728,105	7,230,206	(706,715)	6,523,491
Non-controlling interests	—	29,299	29,299	—	29,299	29,299
Total shareholders' equity	3,669,033	(372,980)	3,296,053	3,554,932	(358,922)	3,196,010
Total liabilities and shareholders' equity	$ 11,114,644	$ (1,061,187)	$ 10,053,457	$ 10,785,138	$ (1,036,338)	$ 9,748,800

ODYSSEY RE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Consolidated Statement of Operations

	For the Years Ended December 31,					
	2010			2009		
	As Reported	Less Clearwater	OdysseyRe Excluding Clearwater	As Reported	Less Clearwater	OdysseyRe Excluding Clearwater
Gross premiums written	$ 2,167,338	$ 287	$ 2,167,625	$ 2,195,035	$ (479)	$ 2,194,556
Net premiums written	1,853,798	(169)	1,853,629	1,893,813	(479)	1,893,334
Net premiums earned	1,885,714	(191)	1,885,523	1,927,412	(481)	1,926,931
Net investment income	327,875	(39,960)	287,915	316,329	(43,464)	272,865
Total net realized investment gains	170,349	(28,411)	141,938	189,088	2,376	191,464
Total revenues	2,383,938	(68,562)	2,315,376	2,432,829	(41,569)	2,391,260
Losses and loss adjustment expenses	1,317,053	(65,650)	1,251,403	1,301,996	(56,710)	1,245,286
Acquisition costs and other underwriting expenses	541,448	(1,838)	539,610	560,947	(2,212)	558,735
Interest and other expense, net	94,055	—	94,055	75,456	—	75,456
Total expenses	1,952,556	(67,488)	1,885,068	1,938,399	(58,922)	1,879,477
Income before income tax	431,382	(1,074)	430,308	494,430	17,353	511,783
Total federal and foreign income tax provision	98,107	15,980	114,087	121,094	16,647	137,741
Net Income	333,275	(17,054)	316,221	373,336	706	374,042
Preferred dividends	(3,966)	—	(3,966)	(5,233)	—	(5,233)
Loss gain on redemption of preferred shares	(2,183)	—	(2,183)	7,997	—	7,997
Gain on purchase of preferred shares	5	—	5	—	—	—
Net income available to common shareholders	$ 327,131	$ (17,054)	$ 310,077	$ 376,100	$ 706	$ 376,806
Underwriting Ratio:						
Loss and loss adjustment expense ratio	69.8 %		66.4 %	67.6 %		64.6 %
Acquisition costs and other underwriting expense ratio	28.8		28.6	29.1		29.0
Combined ratio	98.6 %		95.0 %	96.7 %		93.6 %

	For the Year Ended December 31, 2008		
	As Reported	Less Clearwater	OdysseyRe Excluding Clearwater
Gross premiums written	$ 2,294,542	$ 3,284	$ 2,297,826
Net premiums written	2,030,821	3,332	2,034,153
Net premiums earned	2,076,364	3,277	2,079,641
Net investment income	254,866	(22,621)	232,245
Total net realized investment gains	692,265	(8,718)	683,547
Total revenues	3,023,495	(28,062)	2,995,433
Losses and loss adjustment expenses	1,508,725	(54,443)	1,454,282
Acquisition costs and other underwriting expenses	593,018	(3,118)	589,900
Interest and other expense, net	94,599	—	94,599
Total expenses	2,196,342	(57,561)	2,138,781
Income from continuing operations before income tax	827,153	29,499	856,652
Total federal and foreign income tax provision	278,358	13,674	292,032
Net Income	548,795	15,825	564,620
Preferred dividends	(7,380)	—	(7,380)
Loss gain on redemption of preferred shares	1,456	—	1,456
Net income available to common shareholders	$ 542,871	$ 15,825	$ 558,696
Underwriting Ratio:			
Loss and loss adjustment expense ratio	72.7 %		69.9 %
Acquisition costs and other underwriting expense ratio	28.5		28.4
Combined ratio	101.2 %		98.3 %

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Chairman and Chief Executive Officer,
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a financial services holding company

James F. Dowd
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President and Chief Executive Officer,
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President and Chief Executive Officer,
Odyssey Re Holdings Corp.

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Alan D. Horn [(2)]
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Brandon W. Sweitzer [(1) (2)]
Senior Fellow of the Chamber
of Commerce of the United States

[(1)] Compensation Committee
[(2)] Audit Committee

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Jan Christiansen
Executive Vice President and
Chief Financial Officer

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

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