OdysseyRe®

A FAIRFAX COMPANY

Global enterprise. Local expertise.

Annual Report 2012

OdysseyRe®

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Odyssey Re Holdings Corp. is a leading worldwide underwriter of reinsurance and specialty insurance, **with total assets of $11.2 billion and $3.7 billion in shareholders' equity** as of December 31, 2012.

Odyssey Re Holdings Corp., headquartered in Stamford, Connecticut, operates globally under the banner OdysseyRe. Supported by $3.2 billion of statutory policyholders' surplus, we **underwrite a wide range of property and casualty reinsurance and insurance products through our subsidiaries:** Odyssey Reinsurance Company, Odyssey Reinsurance Company Escritório de Representação no Brasil Ltda., Hudson Insurance Company, Hudson Specialty Insurance Company, Newline Underwriting Management Limited, OdysseyRe's managing agent at Lloyd's, Newline Asia Services Pte. Ltd., Newline Australia Insurance Pty. Ltd. and Newline Insurance Company Limited.

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 **$36.9 billion and $8.9 billion in shareholders' equity.**

Global enterprise.
Local expertise.

At OdysseyRe, we take pride in the fact that we write business in more than 100 countries worldwide. But success is not built on scale alone – we also know that experience and local knowledge of the markets in which we serve are equally important and key contributors to the continued growth of our organization.

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 local expertise and 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 Reinsurance Company

Operates from offices in Stamford, New York City, Miami, Mexico City, Montreal, São Paulo, Toronto, London, Paris, Stockholm, Singapore and Tokyo.

Product Offering

Property Treaty
(Assumed & Retro)

Casualty Treaty

Surety & Trade Credit

Marine & Energy

Aviation & Space

Casualty Facultative
(US & Latin America only)

Property Facultative
(Latin America only)

Agriculture
(Latin America only)

Newline Syndicate 1218

Newline Insurance Company Limited

Operates primarily in London from both Lloyd's and the LUC, an office in Manchester, with service companies based in Singapore and Melbourne, Australia.

Product Offering

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
- Space

Hudson Insurance Company

Hudson Specialty Insurance Company

Headquartered in New York City with offices throughout the United States and in Vancouver, Canada.

Product Offering

Healthcare
(Hospitals and Physicians)

Professional Liability and Environmental

Management Liability
(Public, Private and Non-Profit D&O)

Crop

Specialty Property
(DIC California Quake, Commercial Property, Offshore Energy)

Specialty Commercial Auto

General Liability / Package

Personal Umbrella

Surety

Financial Highlights

Odyssey Re Holdings Corp.

(dollars in millions)

	2012	2011	2010
Gross premiums written	$ 2,773.2	$ 2,420.7	$ 2,167.3
Net premiums written	2,402.3	2,089.7	1,853.8
Net premiums earned	2,315.3	2,014.7	1,885.7
Net investment income	162.2	284.2	327.9
Net realized investment gains	64.7	65.8	170.3
Income (loss) before income taxes	458.2	(87.0)	431.4
Net income (loss) available to common shareholders	280.3	(67.7)	327.1
Total assets	11,217.6	10,616.5	11,114.6
Shareholders' equity, as reported	3,678.8	3,335.4	3,669.0
Shareholders' equity, pro forma	3,678.8	3,335.4	3,320.5 [a]
Return on average common equity	8.1%	(2.1%)	9.2%
Combined ratio	88.7%	116.8%	98.6%

[a] Excludes Clearwater Insurance Company, which the Company transferred its ownership interest on January 1, 2011

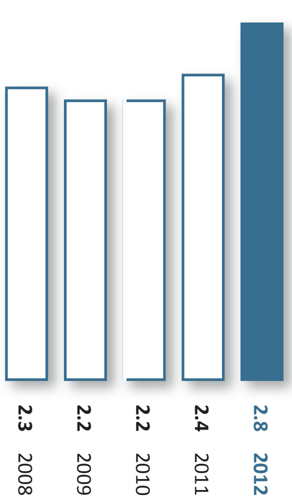
Gross Premiums Written by Division

(dollars in millions)

	2012	2011	2010
Americas	$ 1,125.3	$ 792.7	$ 747.4
EuroAsia	585.9	607.4	538.6
London Market	332.9	360.4	339.0
US Insurance	729.1	660.2	542.3
Total gross premiums written	$ 2,773.2	$ 2,420.7	$ 2,167.3

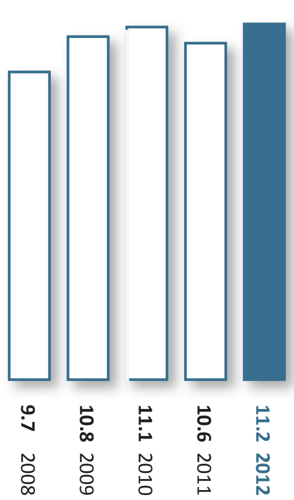
Gross Premiums Written

($ in billions)



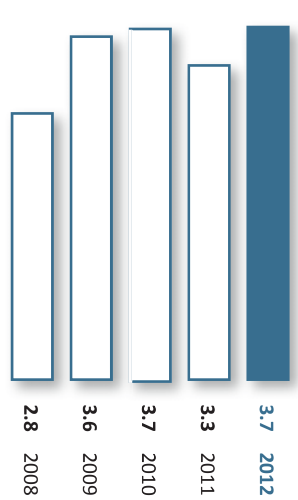
Total Assets

($ in billions)



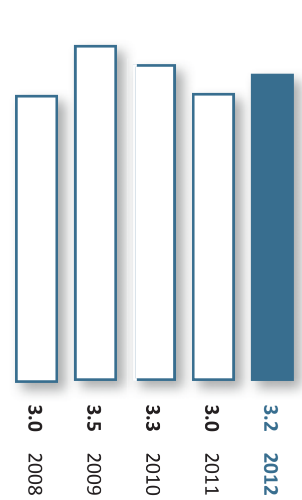
Shareholders' Equity

($ in billions)



Statutory Surplus

($ in billions)



Dear Friends, Business Partners and Colleagues

What a difference a year makes!

OdysseyRe had a fantastic year in 2012, our best ever in many respects, and it couldn't have come soon enough as we recovered a significant portion of the underwriting losses we sustained in 2011. What is especially gratifying is that our success in 2012 was driven by our underwriting performance. Whereas OdysseyRe has benefited from Fairfax's investing prowess to drive earnings and book value growth historically, it was underwriting that propelled our results in 2012.

Now more than ever, with interest rates hovering near record lows, underwriting needs to be a significant earnings generator if we are to achieve acceptable returns. While I'm confident this can be achieved, given the quality of our underwriting franchise, this needs to occur against the backdrop of a global (re)insurance market that continues to languish from an oversupply of capacity.

For the full year, OdysseyRe produced a combined ratio of 88.7% and record net underwriting profits of $262 million. To put these results into context, our previous best underwriting performance was in 2006 when net underwriting profits totaled $124 million.

Our 2012 results included a $175 million loss provision for Superstorm Sandy. The reserve we posted for Sandy, which added 7.5 points to our full year net combined ratio, was based on a market loss in excess of $25 billion.

Prior year loss reserves developed favorably for the fifth consecutive year. Reserve releases in 2012 totaled $151 million, reducing the combined ratio by 6.6 points. More than half of the releases related to the take down of prior years' catastrophe reserves.

Pre-tax earnings for 2012 totaled $458 million and GAAP equity grew 11% to $3.7 billion. Total assets increased by more than $600 million to $11.2 billion driven in large part by strong underwriting cash flows.

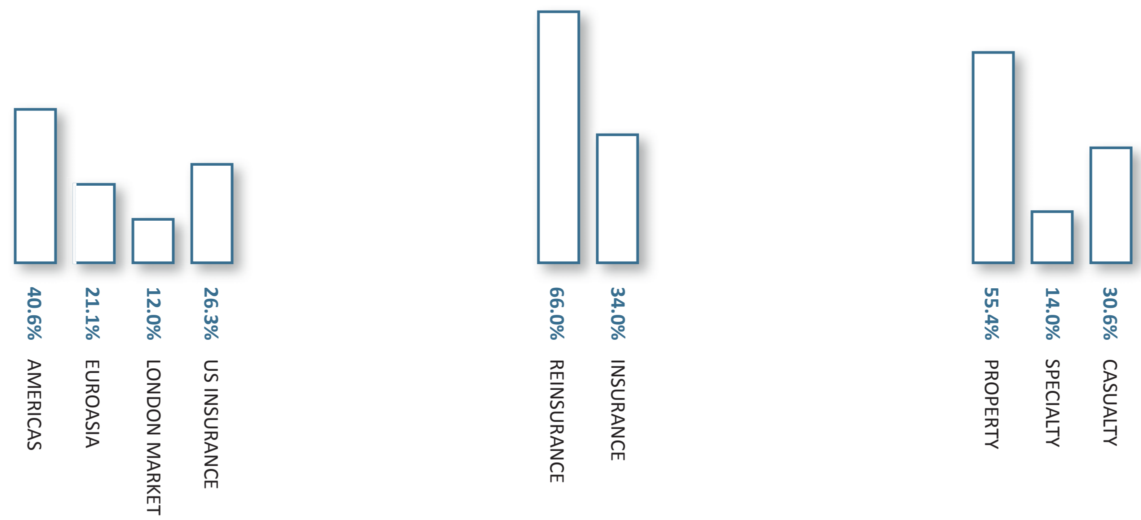
OdysseyRe is a globally diversified underwriter of property and casualty reinsurance and specialty insurance operating through four divisions (% of gross written premiums): Americas (41%), EuroAsia (21%), London Market (12%) and US Insurance (26%). We write business in more than 100 territories through a network of 24 offices located in 10 countries around the world.

We have 30 discrete business segments organized along different product, territorial and distribution lines with 16 of these segments focused in the reinsurance arena and the remaining 14 dedicated to insurance markets. Diversification is critical to our strategy as it provides stability to the portfolio and allows us to nimbly respond to business opportunities as they emerge around the world.

OdysseyRe's gross premiums written totaled $2.8 billion in 2012, an increase of 15% over the prior year, while net premiums earned also grew by 15% to $2.3 billion. We saw premium growth across our network with notable increases in US insurance and in property treaty. Territorially, we expanded our premium writings in the US, Canada, Brazil, China, Japan and Australia.

All of our reinsurance business is underwritten through our flagship company Odyssey Reinsurance Company, headquartered in Stamford, Connecticut. Odyssey Reinsurance Company writes a global reinsurance portfolio of $1.8 billion through a branch and representative office network of 12 offices located in 9 countries around the world. Our reinsurance results were excellent in 2012 producing a global combined ratio of 80.9%.

2012 Gross Premiums Written
$2.8 billion



Alongside our reinsurance operations, we underwrite an expanding portfolio of specialty insurance through the Hudson Insurance Group (Hudson) in the US and the Newline Group (Newline) internationally. In 2012, the global gross premiums written generated by our insurance operations were nearly $1 billion and the net combined ratio was 107.8%. While results were adversely affected by crop losses in the US and medical malpractice claims in Europe, the underlying fundamentals of our business remain sound.

As highlighted in prior reports, we have been expanding our property writings and this trend continued in 2012. Total property premiums, both insurance and reinsurance, accounted for 55% of gross premiums written in 2012 compared to 47% in 2011. Over the past four years, our global property portfolio has grown 70%.

Our casualty portfolio represented 31% of the global portfolio in 2012, down from 37% in 2011, however the reduction was more modest when you take into consideration the growth in the overall portfolio. A greater proportion of our casualty portfolio is weighted to insurance with roughly 66% of our total casualty writings consisting of business underwritten by Hudson and Newline. While casualty pricing fundamentals remain challenging in many of Newline's international markets, Hudson is achieving rate increases across many US casualty segments. If these favorable pricing trends continue, we expect to write more casualty business going forward not only in Hudson but also in our US treaty and facultative units.

Business written in the US represented 57% of our global portfolio. In the insurance segment, 77% of our portfolio was written in the US, while 53% of the reinsurance portfolio emanated from outside the US. In the last few years, the US element of our portfolio has increased in size as growth in US insurance and US property treaty has outpaced business expansion elsewhere.

It has been an exceptional year for OdysseyRe, one in which underwriting was the critical driver of our financial success. While it is difficult to predict the future as fortunes can turn on a dime in (re)insurance, we feel confident about our business prospects going forward. Our portfolio is growing, our product capabilities are expanding, our earnings outlook is promising and our balance sheet is stronger than ever.

I would like to thank our many clients and partners from around the world for their loyalty, trust and support. We strongly value our business relationships and are firmly committed to providing the quality service that is essential to preserving them.

To our capital provider, Fairfax, and especially to Prem Watsa and Andy Barnard, thank you for your leadership and for fostering an entrepreneurial culture that has enabled OdysseyRe to flourish.

Finally to the 782 men and women who serve this Company with dedication and distinction, it is a privilege and an honor to work with you. Congratulations to all of you for a superb performance in 2012.

Brian D. Young
President & Chief Executive Officer

The Americas Division

The Americas Division encompasses our reinsurance operations in North America, led by Brian Quinn, and Latin America, led by Philippe Mallier. Throughout the Americas we underwrite property and casualty reinsurance, surety, marine, aviation, and agricultural business through a network of seven offices in the US, Canada and Latin America.

In 2012, the Division was responsible for $1.1 billion of gross premiums, an increase of 42.0% over 2011. In North America gross premiums written were $942.5 million and in Latin America gross premiums written were $182.8 million.

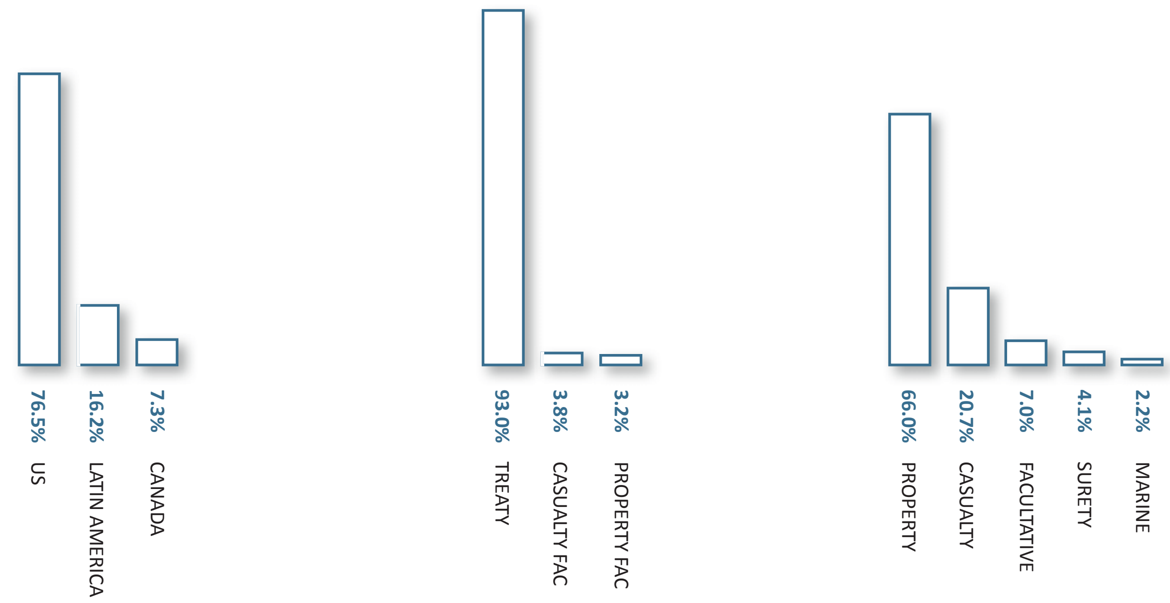
In North America we underwrite treaty reinsurance business from Stamford, Toronto and Montreal, complemented by our casualty facultative operations based in New York City. In 2012, gross premiums written in the US increased by 43.0% as we continued to take advantage of select property catastrophe opportunities offering attractive original rates and reinsurance terms. In casualty, both treaty and facultative, the risk/reward environment remained challenging, but showed signs of slow improvement. Surety volume stayed flat, with slightly deteriorating but still acceptable economics. The premium volume of our Canadian operations increased by 20.8% over 2011 due to increased risk appetite, improved terms and a broader, diversifying portfolio.

Our Latin American operations are based out of Mexico City, Miami and São Paulo. We underwrite treaty business from our Miami office and facultative and agricultural business from Mexico City. We continue to expand our presence in Brazil through our representative office in São Paulo. Gross premiums written increased 48.5% due to our expanding presence in Brazil and growth in our agricultural portfolio across the region.

The combined ratio for the Americas Division was 87.6%, an improvement of 4.3 points compared to 2011. Our underwriting performance benefited from a continued shift to higher margin shorter tail classes and favorable prior year development.

OdysseyRe underwriters strive to not only compete, but break away from the pack by providing unparalleled insight into the challenges their clients experience.

The Americas Division 2012 Gross Premiums Written
$1,125.3 million



The EuroAsia Division

The EuroAsia Division, led by Lucien Pietropoli, underwrites treaty business from its headquarters in Paris and other principal offices in Stockholm, Singapore and Tokyo.

The Paris-based underwriting teams are responsible for writing treaty business in western and central Europe, the Middle East and Africa. The Stockholm office services the Nordic, Russian and Baltic markets while our Singapore branch, supported by a representative office in Tokyo, underwrites treaty business emanating from the Asia-Pacific region.

Gross premiums written for EuroAsia totaled $585.9 million in 2012. Volume was essentially flat compared to 2011 as growth in Japan and China during the year was offset by less favorable exchange rates and lower reinstatement premiums.

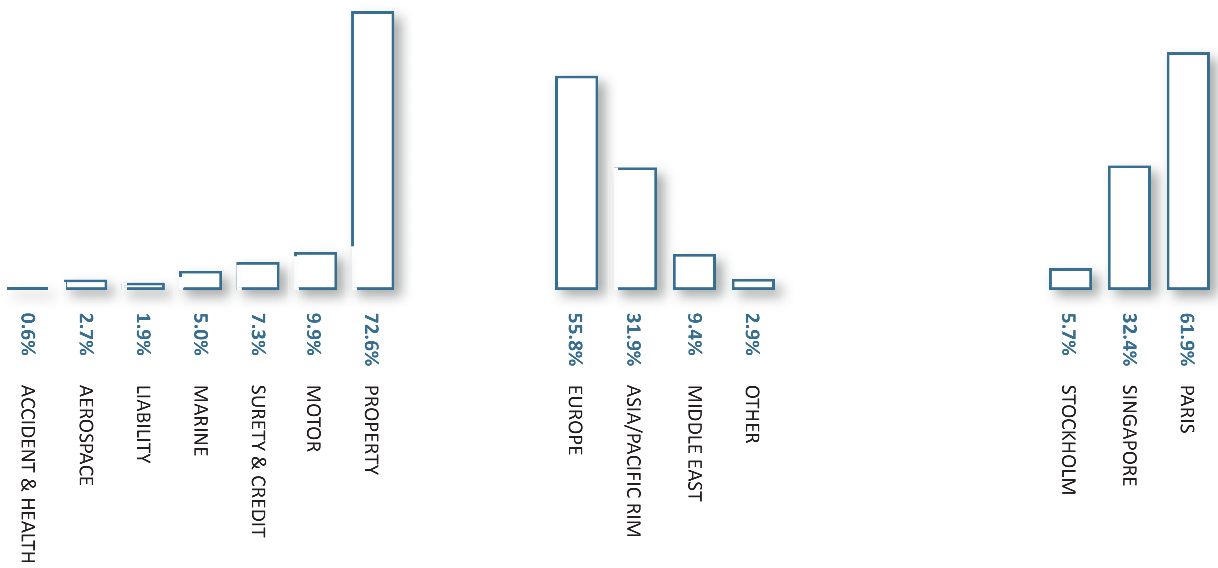
Business underwritten out of the Paris office represented 61.9% of the Division's volume, with 32.4% and 5.7% coming from our Singapore and Stockholm offices, respectively. Property treaty remains the dominant class representing more than 70% of the Division's volume. The balance of the portfolio is a mixture of motor, credit and bond, marine, aerospace and casualty treaty business.

EuroAsia's combined ratio for 2012 was 77.0%, a stellar result and vast improvement over the prior period. The Division's underwriting performance benefited from benign catastrophe loss activity and favorable reserve development principally related to 2011 events.

Our reinsurance brand across the region has never been stronger thanks to the quality and consistency of our service, a loyal customer following and a stable portfolio cultivated over many years.

With multilingual underwriters embedded in key international hubs, we help clients choose the most effective route to navigate their business terrain.

EuroAsia Division 2012 Gross Premiums Written
$585.9 million



The London Market Division

The London Market Division, led by Carl Overy, operates through three underwriting platforms: OdysseyRe's London branch and Newline Group comprised of Newline Syndicate (1218) at Lloyd's and Newline Insurance Company Limited. The three operations are headquartered at the London Underwriting Centre under a common management team.

In 2012 gross premiums written declined 7.6% to $332.9 million, mostly due to unfavorable foreign exchange rates and competitive market conditions adversely affecting the property retro and UK motor accounts. The Division's combined ratio of 90.1% benefited from better than expected catastrophe activity and favorable prior year development.

Newline Syndicate at Lloyd's is a leading casualty insurance specialist with a meaningful presence in the UK, Continental Europe, Australia, Asia-Pacific and Canada. Newline Syndicate also operates a service company in Singapore and a wholly-owned agency in Melbourne, Australia to respond to the growing demand for casualty insurance products in the region.

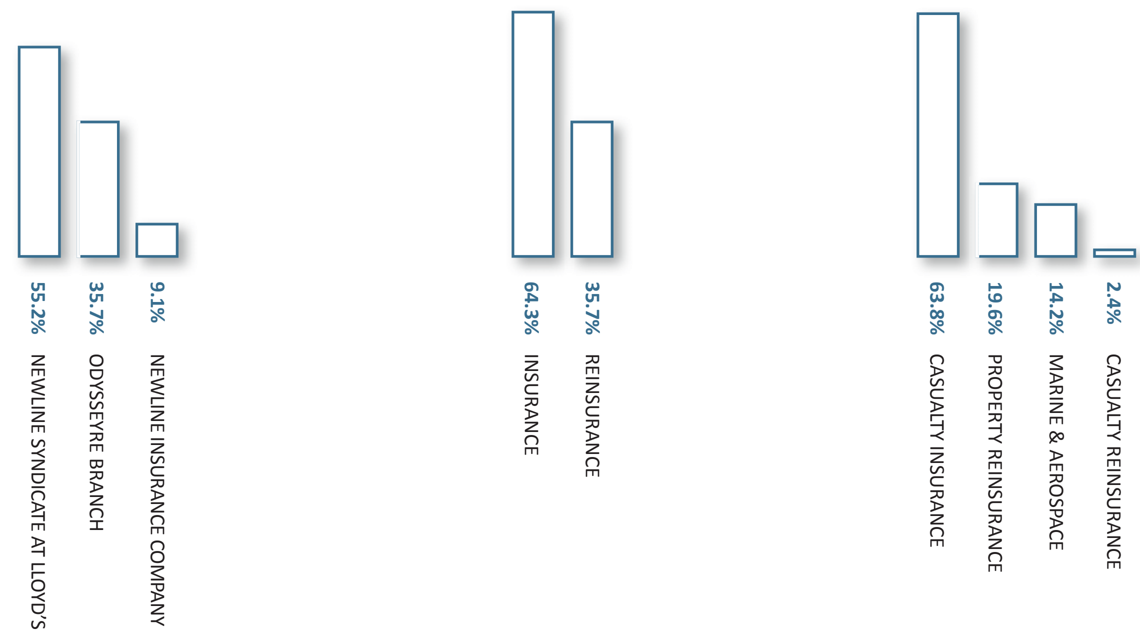
Newline Insurance Company, a Financial Services Authority licensed casualty insurer, provides access to regional distribution channels not available to the Syndicate. Newline Insurance Company is licensed to underwrite direct insurance throughout the EC and facultative reinsurance in other jurisdictions, from both its London platform and its regional office in Manchester, England.

The suite of products offered by Newline on a direct and facultative basis includes: public liability, employers liability, products liability, commercial crime, bankers blanket bond, professional liability, directors and officers liability, medical malpractice, UK motor and satellite.

OdysseyRe's London branch underwrites property, casualty, accident and health, marine and aerospace treaty reinsurance. All of OdysseyRe's retrocessional underwriting is centralized in London, where OdysseyRe is a leading provider of property catastrophe retro coverage. While its portfolio is global in scope, the branch's primary mission is to serve the reinsurance needs of clients based in the London Market, including Lloyd's. The portfolio is catastrophe oriented and predominantly written on an excess of loss basis. While property, especially retro, will remain a focal point of the portfolio, we are increasingly looking to other lines to drive business growth in the future.

Our strong and cohesive team stays on course by navigating market cycles through disciplined underwriting.

The London Market Division 2012 Gross Premiums Written
$332.9 million



The US Insurance Division

The US Insurance Division, led by Chris Gallagher, trades under the banner Hudson Insurance Group. Hudson is a specialty insurer writing business on both an admitted basis through Hudson Insurance Company and a non-admitted basis through Hudson Specialty Insurance Company and newly formed Hudson Excess Insurance Company.

Hudson Insurance Group operates from its headquarters in New York City as well as nine additional offices throughout the US and in Vancouver, Canada. We offer a diverse range of property and casualty insurance products to corporations, professional firms and individuals through retailers, wholesalers and program administrators. Our structure and service capabilities allow us to respond rapidly to market opportunities irrespective of the distribution channel.

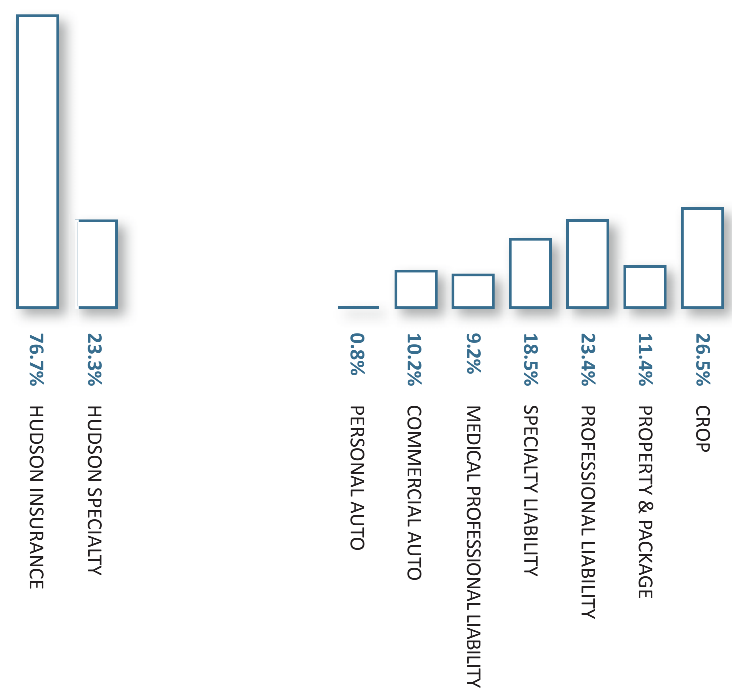
In 2012, we wrote gross premiums of $729.1 million, an increase of 10.4% over 2011. This increase was due to growth across several lines of business, but most notably in our crop, commercial property and niche casualty sectors. This increase was partially offset by reductions due to competitive market conditions in medical and non-medical professional liability. The combined ratio for 2012 was 103.4% compared to 101.2% for the prior year, mainly due to two consecutive years of drought conditions in Texas and the Midwest, and property losses arising from Superstorm Sandy.

The deep industry knowledge and vast experience of our talented team of professionals enable us to offer creative, highly personalized service tailored to meeting our clients' and business partners' exact needs. Underwriting teams are supported by dedicated claims, actuarial and risk management professionals with a focus on particular products and industry segments. We continue to invest heavily in technology and staff to expand our in-house underwriting platforms and we remain a market of choice for high quality program administrators focused on specialty lines.

Nimble. Responsive. Versatile. These characteristics, combined with our intimate knowledge of the local business landscape, mean we're always prepared to change gears to meet our clients' exact needs.

US Insurance Division 2012 Gross Premiums Written

$729.1 million



Board of Directors

Odyssey Re Holdings Corp.

V. Prem Watsa
Chairman of the Board
Chairman and Chief Executive Officer,
Fairfax Financial Holdings Limited,
a financial services holding company

Andrew A. Barnard
Vice Chairman of the Board
President and Chief Operating Officer,
Fairfax Insurance Group

James F. Dowd
Vice Chairman of the Board
President and Chief Executive Officer,
Fairfax Inc. (Retired)
Independent Business Consultant
and Corporate Director

Brian D. Young
President and Chief Executive Officer,
Odyssey Re Holdings Corp.

Anthony F. Griffiths (1) (2)
Independent Business Consultant
and Corporate Director

Alan D. Horn (2)
Chairman,
Rogers Communications Inc.

Brandon W. Sweitzer (1) (2)
Dean,
School of Risk Management,
Insurance and Actuarial Science,
St. John's University

(1) Compensation Committee
(2) Audit Committee

Officers

Odyssey Re Holdings Corp.

Brian D. Young
President and
Chief Executive Officer

Michael G. Wacek
Executive Vice President and
Chief Risk Officer

Jan Christiansen
Executive Vice President and
Chief Financial Officer

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

Senior Officers of the Company

Elise M. Ahearn
Bernard Assens
Neil P. Beaton
Robert S. Bennett
Lawrence C. Berger
Lawrence J. Boyle
Thomas C. Bredahl
Mauro Wassilewsky Caetano
Hugo A. Cardona
Alane R. Carey
Jérémie Caujole
Francis D. Cerasoli
Andrew K. Chu
Thierry Clarenc
Mary M. Coca
Richard F. Coerver IV
Patrice M. Conboy
James A. Crowe
James J. Danbrowney
Dina G. Daskalakis
Christophe Delélis-Fanien
Matthew J. Deneen
Andrew A. Dickson
Isabelle Dubots-Lafitte
Neil D. Duncan
Nicholas P. Esposito
Philip A. Evensen
Paul T. Everett
Roy Fenn
Paul A. Fields
Philip T. Foley
Christopher L. Gallagher
Daniel J. Gasser
John E. Gavigan
Patrick E. Gentile
Michael P. Gleeson
Joseph A. Guardo
Robert P. Hands
Michael Hanns
Martin S. J. Hawkins
James J. Hooghuis
Sonny Kapur
Robert B. Kastner
Margaret M. Killeen
Kimber J. Lantry
Hervé Leduc
Gaël Le Païh
Eugene R. Lock
Gary P. Maile
Philippe E. Mallier
Olivier Massot
Pär Mattsson
J. Richard F. Micklem
Sean C. Moffat
Lambert Morvan
Carl A. Overy
John J. Parker
Kent A. Petersen
Kazimierz W. Pienkawa
Lucien Pietropoli
Stephen L. Porcelli
Brian D. Quinn
Darryl M. Razzaia
Randy L. Rhodes
Patricia C. Robinson
André-François Rocque
Andrew W. Rogers
Roger M. Rossiter
Craig D. Rowsell
Jeffrey M. Rubin
James B. Salvesen
Elizabeth A. Sander
Gustavo A. Scheffler
William F. Schmidt
Susan C. Schoenberger
Anthony J. Slowski
Christopher T. Suarez
Emily Tay
Guy Tippett
Tadashi Urata
Stephen J. Van de Graaf
John F. Verbich
J. Ceri Welch
Mark A. Welshons
William F. Wetherall
Jean M. Willig
Francisco J. Zavala

Worldwide Offices

Odyssey Re Holdings Corp.

300 First Stamford Place
Stamford, CT 06902
Tel. (203) 977-8000

Odyssey Reinsurance Company

STAMFORD
300 First Stamford Place
Stamford, CT 06902
Tel. (203) 977-8000

LONDON
The London Underwriting Centre
3 Minster Court, Suite 5/4
Mincing Lane
London EC3R 7DD
England
Tel. (44) 020-7090-1800

MEXICO CITY
Insurgentes Sur No. 1605
17th Floor, Modulo III
Col. San José Insurgentes
Mexico, D.F. 03900
Tel. (52) 55-5662-8660

MIAMI
1200 Brickell Avenue
Suite 1550
Miami, FL 33131
Tel. (305) 722-8401

MONTREAL
1 Place Ville Marie
Suite 2001
Montreal, Quebec H3B 2C4
Canada
Tel. (514) 488-6652

NEW YORK
100 William Street
5th Floor
New York, NY 10038
Tel. (212) 978-2700

PARIS
15, Rue Du 4 Septembre
75002 Paris
France
Tel. (33) 1-49-26-1000

SÃO PAULO
Odyssey Reinsurance Company Escritório de Representação no Brasil Ltda.
Av. das Nações Unidas
12.399 - cj. 107-A
04578-000 - São Paulo, SP
Brazil
Tel. (55) (11) 3512-6923

SINGAPORE
1 Finlayson Green
#17-00
Singapore 049246
Tel. (65) 6438-3806

STOCKHOLM
Norrlandsgatan 16
P.O. Box 1709
SE-111 87, Stockholm
Sweden
Tel. (46) 8-598-115-00

TOKYO
Kojimachi Parkside Building 501
7, Kojimachi 4-chome, Chiyoda-ku
Tokyo 102-0083
Japan
Tel. (81) 3-3261-2570

TORONTO
55 University Avenue
Suite 1600
Toronto, Ontario M5J 2H7
Canada
Tel. (416) 862-0162

Newline Group

LONDON
London Underwriting Centre
3 Minster Court, Suite 5/4
Mincing Lane
London EC3R 7DD
England
Tel. (44) 020-7090-1700

MANCHESTER
Office 6.5a - Lowry House
17 Marble Street
Manchester M2 3AW
England
Tel. (44) 0161-638-9350

MELBOURNE
Level 31, 570 Bourke Street
Melbourne, VIC 3000
Australia
Tel. (61) (03) 9999-1901

SINGAPORE
8 Marina View
Asia Square Tower 1
#15-01
Singapore 018960
Tel. (65) 6212-1290

Hudson Insurance Group

NEW YORK
100 William Street
5th Floor
New York, NY 10038
Tel. (212) 978-2800

AVON
Avon Park North
8C Canal Court
Avon, CT 06001
Tel. (203) 977-6400

CHICAGO
101 N. Wacker Drive
Suite 1950
Chicago, IL 60606
Tel. (312) 596-0222

CORONA
2280 Wardlow Circle
Suite 205
Corona, CA 92880
Tel. (951) 278-5648

FORT WASHINGTON
500 Office Center Drive
Suite 400
Fort Washington, PA 19034
Tel. (212) 978-2711

MINEOLA
176 Mineola Boulevard
2nd Floor
Mineola, NY 11501
Tel. (212) 384-0100

NAPA
851 Napa Valley Corporate Way
Suite N
Napa, CA 94558
Tel. (707) 225-3300

OVERLAND PARK
7300 West 110th Street
Suite 850
Overland Park, KS 66210
Tel. (866) 450-1445

SAN FRANCISCO
One Sansome Street
Suite 3500
San Francisco, CA 94104
Tel. (415) 946-8872

VANCOUVER
Commonwealth Specialty
595 Burrard Street
Suite 1500
P.O. Box 49115
Bentall Tower Three
Vancouver, BC V7X 1G4
Canada
Tel. (604) 683-5511

2012 Financial Report

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Odyssey Re Holdings Corp. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and December 31, 2011, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years ended December 31, 2012.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Odyssey Re Holdings Corp. and its subsidiaries at December 31, 2012 and December 31, 2011 and the results of their operations and their cash flows for the three years ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 8, 2013

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (646) 471 8320, www.pwc.com/us

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $2,139,064 and $3,005,623, respectively)	$ 2,632,665	$ 3,514,527
Fixed income securities, held for trading, at fair value (amortized cost $1,770,449 and $805,137, respectively)	1,844,961	790,111
Preferred stocks, available for sale, at fair value (cost $54 and $54, respectively)	54	54
Preferred stocks, held for trading, at fair value (cost $240,138 and $220,543, respectively)	229,654	219,530
Equity securities:		
Common stocks, available for sale, at fair value (cost $815,322 and $720,950, respectively)	1,032,485	694,144
Common stocks, held for trading and fair value options, at fair value (cost $501,013 and $255,215, respectively)	504,029	202,102
Common stocks, at equity	122,400	135,132
Short-term investments, held for trading, at fair value (amortized cost $1,499,462 and $1,965,497, respectively)	1,499,462	1,965,504
Cash and cash equivalents	625,025	390,283
Cash and cash equivalents held as collateral	120,535	101,067
Other invested assets	472,443	414,438
Total investments and cash	9,083,713	8,426,892
Accrued investment income	56,043	63,538
Premiums receivable	605,508	557,590
Reinsurance recoverable on paid losses	55,516	80,498
Reinsurance recoverable on unpaid losses	813,573	767,651
Prepaid reinsurance premiums	115,804	120,940
Funds held by reinsureds	136,073	143,540
Deferred acquisition costs	172,714	137,255
Federal and foreign income taxes receivable	48,158	231,524
Other assets	130,457	87,047
Total assets	$ 11,217,559	$ 10,616,475
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,632,322	$ 5,517,600
Unearned premiums	834,385	739,484
Reinsurance balances payable	217,353	163,083
Funds held under reinsurance contracts	4,648	28,963
Debt obligations	448,963	446,046
Other liabilities	401,122	385,855
Total liabilities	7,538,793	7,281,031
Commitments and Contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Non-controling interest	29,299	29,299
Preferred shares, $0.01 par value; 1,200,000 shares authorized; 253,599 Series A shares issued and outstanding; 70,000 Series B shares issued and outstanding	3	3
Common shares, $10.00 par value; 60,000 shares authorized; 50,640 and 51,224 shares issued and outstanding, respectively	507	513
Additional paid-in capital	404,550	417,647
Accumulated other comprehensive income, net of deferred income taxes	497,118	381,270
Retained earnings	2,747,289	2,506,712
Total shareholders' equity	3,678,766	3,335,444
Total liabilities and shareholders' equity	$ 11,217,559	$ 10,616,475

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2012	2011	2010
		(In thousands)	
REVENUES			
Gross premiums written	$ 2,773,218	$ 2,420,744	$ 2,167,338
Ceded premiums written	370,873	331,019	313,540
Net premiums written	2,402,345	2,089,725	1,853,798
(Increase) decrease in net unearned premiums	(87,069)	(75,020)	31,916
Net premiums earned	2,315,276	2,014,705	1,885,714
Net investment income	162,168	284,161	327,875
Net realized investment gains (losses):			
Net realized investment gains	239,623	261,553	190,657
Other-than-temporary impairment losses	(174,877)	(195,781)	(20,308)
Total net realized investment gains	64,746	65,772	170,349
Total revenues	2,542,190	2,364,638	2,383,938
EXPENSES			
Losses and loss adjustment expenses	1,414,467	1,812,342	1,317,053
Acquisition costs	439,755	350,666	347,120
Other underwriting expenses	198,574	190,866	194,328
Other expense, net	3,531	62,734	63,591
Interest expense	27,689	28,924	30,464
Loss on early extinguishment of debt	-	6,121	-
Total expenses	2,084,016	2,451,653	1,952,556
Income (loss) before income taxes	458,174	(87,015)	431,382
Federal and foreign income tax provision (benefit):			
Current	82,615	84,941	115,235
Deferred	93,046	(105,993)	(17,128)
Total federal and foreign income tax provision (benefit)	175,661	(21,052)	98,107
Net income (loss)	282,513	(65,963)	333,275
Preferred dividends	(2,191)	(1,786)	(3,966)
Loss on redemption of Series A and Series B preferred shares	-	-	(2,183)
Gain on purchase of Series B preferred shares	-	-	5
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	$ 280,322	$ (67,749)	$ 327,131

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2012	2011	2010
Net income (loss)	$ 282,513	$ (65,963)	$ 333,275
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX			
Unrealized net appreciation on securities arising during the period	437,886	316,153	101,155
Reclassification adjustment for realized investment (gains) included in net income (loss)	(221,759)	(218,435)	(436,312)
Foreign currency translation adjustments	(22,257)	25,122	79,100
Benefit plan liabilities	(15,720)	(8,425)	727
Other comprehensive income (loss), before tax	178,150	114,415	(255,330)
TAX (PROVISION) BENEFIT			
Unrealized net appreciation on securities arising during the period	(153,210)	(110,814)	(23,424)
Reclassification adjustment for realized investment gains included in net income (loss)	77,616	76,452	152,709
Foreign currency translation adjustments	7,790	(8,794)	(27,685)
Benefit plan liabilities	5,502	2,948	(254)
Total tax (provision) benefit	(62,302)	(40,208)	101,346
Other comprehensive income (loss), net of tax	115,848	74,207	(153,984)
Comprehensive income	$ 398,361	$ 8,244	$ 179,291

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2012	2011	2010
	(In thousands, except share amounts)		
NON-CONTROLLING INTEREST			
Balance, beginning of year	$ 29,299	$ -	$ -
Clearwater ownership of preferred shares of subsidiaries	-	29,299	-
Balance, end of year	29,299	29,299	-
PREFERRED SHARES (par value)			
Balance, beginning of year	3	3	32
Series A and Series B preferred shares redemption	-	-	(28)
Series B preferred shares purchased	-	-	(1)
Balance, end of year	3	3	3
COMMON SHARES (par value)			
Balance, beginning of year	513	567	567
Common shares capital redemptions - Clearwater transfer	-	(59)	-
Common shares capital contributions	1	5	-
Common shares capital redemptions	(7)	-	-
Balance, end of year	507	513	567
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	417,647	456,049	515,066
Common shares capital redemptions - Clearwater transfer	-	(46,877)	-
Capital contribution	4,787	13,673	20,506
Common shares capital redemptions	(5,248)	-	-
Series A and Series B preferred shares redemption	-	-	(68,437)
Series B preferred shares purchased	-	-	(822)
Net change due to stock option exercises and restricted share awards	(12,636)	(5,198)	(10,264)
Balance, end of year	404,550	417,647	456,049
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	381,270	391,485	545,469
Clearwater transfer - unrealized appreciation of securities	-	(83,705)	-
Clearwater - foreign currency translation adjustment	-	(717)	-
Unrealized net appreciation (depreciation) on securities, net of reclassification adjustments	140,533	63,356	(205,872)
Foreign currency translation adjustments	(14,467)	16,328	51,415
Benefit plan liabilities	(10,218)	(5,477)	473
Balance, end of year	497,118	381,270	391,485
RETAINED EARNINGS			
Balance, beginning of year	2,506,712	2,820,929	2,493,798
Clearwater transfer	-	(246,468)	-
Net income (loss)	282,513	(65,963)	333,275
Loss on redemption of Series A and Series B preferred shares	-	-	(2,183)
Gain on purchase of Series B preferred shares	-	-	5
Capital redemptions	(39,745)	-	-
Dividends to preferred shareholders	(2,191)	(1,786)	(3,966)
Balance, end of year	2,747,289	2,506,712	2,820,929
TOTAL SHAREHOLDERS' EQUITY	$ 3,678,766	$ 3,335,444	$ 3,669,033
COMMON SHARES OUTSTANDING			
Balance, beginning of year	51,224	56,605	56,604,650
Reverse share split of 1 share per 1,000 shares of common stock	-	-	(56,548,045)
Repurchased and retired	(656)	(5,921)	-
Shares issued	72	540	-
Balance, end of year	50,640	51,224	56,605

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2012	2011	2010
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 282,513	$ (65,963)	$ 333,275
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Decrease (increase) in premiums receivable and funds held, net	16,368	(188,999)	32,325
Increase (decrease) in unearned premiums and prepaid reinsurance premiums, net	92,468	73,067	(16,945)
Increase in unpaid losses and loss adjustment expenses, net	8,569	455,297	264,795
Increase in current and deferred federal and foreign income taxes, net	121,048	(59,142)	(85,745)
(Increase) decrease in deferred acquisition costs	(35,610)	(18,793)	6,412
Change in other assets and liabilities, net	(59,446)	125,015	(96,863)
Net realized investment gains	(64,746)	(65,772)	(170,349)
Loss on early extinguishment of debt	-	6,121	-
Bond discount amortization, net	(12,377)	(40,689)	(21,041)
Amortization of compensation plans	6,155	5,543	24,649
Net cash provided by operating activities	354,942	225,685	270,513
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	21,597	11,254	13,983
Sales of fixed income securities, available for sale	1,171,826	1,799,224	2,061,693
Purchases of fixed income securities, available for sale	(32,184)	(635,012)	(2,385,615)
Sales of equity securities	249,360	654,588	1,057,905
Purchases of equity securities	(349,277)	(56,129)	(231,653)
Net settlements of other invested assets	(31,924)	303,816	(210,846)
Purchases of other invested assets	(311,249)	(182,000)	(451,019)
Net change in cash and cash equivalents held as collateral	(15,330)	(72,115)	25,645
Sales of trading securities	4,621,697	1,903,791	814,793
Purchases of trading securities	(5,386,222)	(4,472,058)	(757,807)
Net change in short-term investments, available for sale	-	-	43,079
Net purchases of fixed assets	(14,961)	(8,909)	(6,883)
Acquisition of net assets of a business	(4,000)	-	-
Net cash used in investing activities	(80,667)	(753,550)	(26,725)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of Series A and Series B preferred shares	-	-	(70,648)
Capital contribution	4,788	13,679	20,506
Capital redemption	(45,000)	-	-
Purchase of restricted shares	(17,693)	(10,806)	(13,168)
Dividends paid to preferred shareholders	(2,191)	(1,786)	(5,096)
Debt modification costs	-	-	(2,735)
Purchase of Series B preferred shares	-	-	(816)
Early extinguishment of debt obligations	-	(47,849)	-
Repurchase of common shares through transfer of ownership of subsidiary	-	(80,953)	-
Proceeds under revolving line of credit agreement	2,164	-	-
Net cash used in financing activities	(57,932)	(127,715)	(71,957)
Effect of exchange rate changes on cash and cash equivalents	18,399	(12,171)	(55,241)
Increase (decrease) in cash and cash equivalents	234,742	(667,751)	116,590
Cash and cash equivalents, beginning of year	390,283	1,058,034	941,444
Cash and cash equivalents, end of year	$ 625,025	$ 390,283	$ 1,058,034
Supplemental disclosures of cash flow information:			
Interest paid	$ 26,522	$ 28,188	$ 29,527
Income taxes paid	$ 55,358	$ 51,299	$ 179,482
Non-cash activity (see Note 1):			
Repurchase of common shares through transfer of ownership of subsidiary	$ -	$ (267,574)	$ -

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

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 Reinsurance Company ("ORC"), its principal operating subsidiary, which is domiciled in the state of Connecticut. ORC directly or indirectly owns all of the common shares of the following subsidiaries: Hudson Insurance Company ("Hudson"); Hudson Specialty Insurance Company ("Hudson Specialty"); Hudson Excess Insurance Company ("Hudson Excess"); 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"); Clearwater Select Insurance Company ("Clearwater Select"); and Napa River Insurance Services, Inc. Fairfax Financial Holdings Limited ("Fairfax"), a publicly traded financial services holding company based in Canada, ultimately owns 100% of the common shares of OdysseyRe, through Fairfax's United States intermediate holding company, Fairfax (US) Inc., ("Fairfax (US)"), and Fairfax (US)'s subsidiaries.

On January 1, 2011, with the approval of the Departments of Insurance of the states of Connecticut and Delaware, the regulatory authorities for ORC and Clearwater Insurance Company ("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, Clearwater distributed to ORC, by means of a dividend, its then ownership interest in the common stock of Hudson and Clearwater Select. ORC 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 $0.38 billion. The transaction was reflected by the Company as a nonreciprocal transfer between the Company and TIG, whereby the total assets of $1.12 billion and total liabilities of $0.77 billion of Clearwater were removed from the consolidated balance sheet of the Company effective January 1, 2011, offset by a reduction in the Company's shareholders' equity of $0.35 billion. There was no gain or loss recognized as a result of the transfer of ownership of Clearwater. 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. The balance sheet of Clearwater that was transferred to TIG as of January 1, 2011 included preferred shares of Hudson and Clearwater Select with an aggregate value of $29.3 million (see Note 18).

2. Summary of Significant Accounting Policies

(a) *Basis of Presentation.* The accompanying consolidated financial statements have been prepared in accordance with accounting principles general 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. The Company considers its accounting policies that are most dependent on the application of estimates and assumptions, as critical accounting estimates, which are defined as estimates that are both important to the portrayal of the Company's financial condition and results of operations, and require the Company to exercise significant judgment. These estimates, by necessity, are based on assumptions about numerous factors. Certain amounts from prior periods have been reclassified to conform to the current year's presentation.

The Company reviews its critical accounting estimates and assumptions on a quarterly basis. These reviews include the estimate of reinsurance premiums and premium related amounts, establishing deferred acquisition costs, goodwill and intangible impairment evaluations, an evaluation of the adequacy of reserves for unpaid losses and loss adjustment expenses, review of its reinsurance and retrocession agreements, estimates related to income taxes, including an analysis of the recoverability of deferred income tax assets and an evaluation of its investment portfolio, including a review for other-than-temporary declines in estimated fair value.

(b) *Investments.* The majority of the Company's investments in fixed income securities and common stocks are categorized as "available for sale" or "held for trading" and are recorded at their estimated fair value based on quoted market prices (see Note 3). Most investments in common stocks of affiliates are carried at the Company's proportionate share of the equity of those affiliates. Short-term investments, which are classified as "held for trading" and 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. Cash equivalents include certificates of deposits totaling $61.0 million and $7.4 million as of December 31, 2012 and 2011, respectively. 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 that are 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 Company has also established a reserve for potentially uncollectible premium receivable balances of $5.8 million and $11.2 million as of December 31, 2012 and 2011, respectively, which has been netted against premiums receivable.

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 reinsurance 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 are 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 premium taxes on direct insurance 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.

Included in acquisition costs in the consolidated statements of operations are amortized deferred acquisition costs of $436.5 million, $344.4 million and $344.0 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(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 analyzed 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 were not impaired as of December 31, 2012 and 2011.

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, 2012 and 2011 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2011	$ 36,734	$ 5,813	$ 6,451	$ 48,998
Amortization during 2011	-	-	(1,858)	(1,858)
Balance, December 31, 2011	36,734	5,813	4,593	47,140
Acquired during 2012	-	-	8,529	8,529
Amortization during 2012	-	-	(2,835)	(2,835)
Balance, December 31, 2012	$ 36,734	$ 5,813	$ 10,287	$ 52,834

The Company amortized $2.0 million for the year ended December 31, 2010 related to its intangible assets with a finite life. The Company did not incur any impairment of its goodwill or intangible assets during 2012, 2011 or 2010.

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

	Years Ended December 31,				
	2013	2014	2015	2016	2017
Amortization of intangible assets	$ 3,017	$ 2,165	$ 2,049	$ 2,004	$ 828

(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 reserves for unpaid losses and loss adjustment expenses are 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, 2012 and 2011, the Company had reflected $8.1 million in other assets at both dates, and in other liabilities $1.8 million and $1.9 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, 2012 and 2011, a valuation allowance was not required.

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, 2012 and 2011, 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 and short-term investments.

(j) *Operating Segments.* The Company has four operating segments that reflect the manner in which management monitors and evaluates the Company's financial performance: Americas, EuroAsia, London Market and U.S. Insurance (see Note 11).

(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 that 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 rate at which the transaction occurs or the average exchange rate for each quarter. 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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Statement of operations:			
Net investment (loss) income	$ (647)	$ 1,022	$ (442)
Net realized investment losses	(19,850)	(2,868)	(78,877)
Other income (expense), net	14,949	(47,737)	(30,208)
Loss before income taxes	(5,548)	(49,583)	(109,527)
Total federal and foreign income tax benefit	(1,942)	(17,357)	(38,334)
Net loss	(3,606)	(32,226)	(71,193)
Other comprehensive (loss) income, net of tax	(14,467)	16,328	51,415
Total effect on comprehensive income and shareholders' equity	$ (18,073)	$ (15,898)	$ (19,778)

(l) *Stock-Based Compensation Plans.* The Company accounts for awards to employees in the common stock of Fairfax in accordance with Accounting Standards Codification ("ASC") 718, "Share-Based Payment." In 2009, the Company established the Restricted Share and Equity Value Plan (the "REVR"). Under the terms of the REVR Plan, each restricted equity value right ("REVRs") has 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 the Company's common shares outstanding as of the establishment of the REVR Plan). 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 REVR 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 $25.9 million and $17.7 million as of December 31, 2012 and 2011, 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, 2012, 2011 and 2010 was $6.7 million, $5.4 million and $4.6 million, respectively.

(p) *Contingent Liabilities.* Amounts are accrued for the resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of the Company, it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises, in which case, no accrual is made until that time. For the years ended December 31, 2012 and 2011, no contingent liabilities have been recorded (see Note 13).

3. 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 assets and liabilities recorded at fair value in the consolidated balance sheets are measured and classified in a three level hierarchy for disclosure purposes based on the observability of inputs available in the marketplace used to measure fair values. 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. Market price data generally is obtained from exchange markets. The Company does not adjust the quoted price for such instruments. The majority of the Company's Level 1 investments are common stocks that are actively traded in a public market and short-term investments and cash equivalents, for which the cost basis approximates fair value.

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.

Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 include government, corporate and municipal fixed income securities, which 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. For determining the fair value of warrants, which are also classified as Level 2, the Company utilizes broker-dealer quotes. 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.

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 measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, 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.

During the years ended December 31, 2012 and December 31, 2011, no securities were transferred into or out of Level 3.

The Company uses valuation techniques to establish the fair value of Level 3 investments. During the years ended December 31, 2012 and 2011, the Company purchased $251.1 million and $126.0 million, respectively, of investments that are classified as Level 3. As of December 31, 2012 and 2011, respectively, the Company held $273.5 million and $208.2 million of investments that are classified as Level 3. The Company has included in Level 3 investments an unsecured loan and debt obligations from/to Fairfax (US) Inc., a subsidiary of Fairfax, which are reflected in debt obligations as of December 31, 2012 and other invested assets as of December 31, 2011, respectively, on the consolidated balance sheet. The unsecured loan is valued based on the callable value of the loan. Level 3 investments also included certain limited partnerships, also classified as other invested assets on the consolidated balance sheets 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, certain preferred and common stocks, and a private placement bond.

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 2012. There were no transfers of securities between Level 1 and Level 2 in 2012 or 2011.

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 to determine fair values.

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, 2012 and 2011 (in thousands):

		Fair Value Measurements as of December 31, 2011		
	Assets / Liabilities Measured at Fair Value December 31, 2011	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	$ 239,585	$ -	$ 239,585	$ -
States, municipalities and political subdivisions	2,171,707	-	2,171,707	-
Foreign governments	13,474	-	13,474	-
Corporate	207,899	13,202	194,697	-
Total fixed income securities, available for sale	2,632,665	13,202	2,619,463	-
Fixed income securities, held for trading securities:				
United States government, government agencies and authorities	367,572	-	367,572	-
States, municipalities and political subdivisions	827,938	-	827,938	-
Foreign governments	423,911	-	423,911	-
Corporate	225,540	-	207,402	18,138
Total fixed income securities, held for trading securities	1,844,961	-	1,826,823	18,138
Redeemable preferred stock, available for sale	54	-	54	-
Convertible preferred stocks, held for trading securities	229,654	-	213,805	15,849
Common stocks, available for sale	1,032,485	1,024,577	7,908	-
Common stocks, held for trading and fair value options	504,029	279,243	194,521	30,265
Short-term investments, held for trading securities	1,499,462	1,455,517	43,945	-
Cash equivalents	379,939	376,226	3,713	-
Derivatives	70,407	-	23,553	46,854
Other investments	175,299	-	10,758	164,541
Total assets measured at fair value	$ 8,368,955	$ 3,148,765	$ 4,944,543	$ 275,647
Derivative liabilities	$ 88,184	$ -	$ 88,184	$ -
Debt obligations	2,164	-	-	2,164
Total liabilities measured at fair value	$ 90,348	$ -	$ 88,184	$ 2,164

		Fair Value Measurements as of December 31, 2011		
	Assets / Liabilities Measured at Fair Value December 31, 2011	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	$ 468,811	$ -	$ 468,811	$ -
States, municipalities and political subdivisions	2,491,914	-	2,491,914	-
Foreign governments	352,165	-	352,165	-
Corporate	201,637	25,252	176,385	-
Total fixed income securities, available for sale	3,514,527	25,252	3,489,275	-
Fixed income securities, held for trading securities:				
United States government, government agencies and authorities	65,652	-	65,652	-
States, municipalities and political subdivisions	203,275	-	203,275	-
Foreign governments	344,774	-	344,774	-
Corporate	176,410	-	176,410	-
Total fixed income securities, held for trading securities	790,111	-	790,111	-
Redeemable preferred stock, available for sale	54	-	54	-
Convertible preferred stocks, held for trading securities	219,530	-	213,530	6,000
Common stocks, available for sale	694,144	680,516	13,628	-
Common stocks, held for trading and fair value options	202,102	155,974	16,518	29,610
Short-term investments, held for trading securities	1,965,504	1,961,419	4,085	-
Cash equivalents	156,041	129,571	26,470	-
Derivatives	132,024	-	45,062	86,962
Other investments	97,138	-	11,515	85,623
Total assets measured at fair value	$ 7,771,175	$ 2,952,732	$ 4,610,248	$ 208,195
Derivative liabilities	$ 81,855	$ -	$ 81,855	$ -

The Company has had cash collateral posted on its behalf by counterparties to derivative transactions in the amounts of $6.9 million and $18.4 million as of December 31, 2012 and 2011, respectively. The Company is not party to any counterparty netting transactions.

The following table provides a summary of changes in the fair value of Level 3 financial assets and liabilities for the years ended December 31, 2012 and 2011 (in thousands):

	Fixed Income Securities	Other Invested Assets	Equity Securities	Debt Obligations
Balance, January 1, 2011	$ -	$ 396,842	$ 26,913	$ -
Changes in value related to securities held	-	(127,357)	2,697	-
Purchases	-	119,971	6,000	-
Settlements	-	(216,871)	-	-
Balance, December 31, 2011	-	172,585	35,610	-
Changes in value related to securities sold	-	(257)	-	-
Changes in value related to securities held	2,050	(18,937)	(9,630)	-
Purchases	16,088	216,997	20,134	2,164
Settlements	-	(158,993)	-	-
Balance, December 31, 2012	$ 18,138	$ 211,395	$ 46,114	$ 2,164

The following tables present changes in value included in net income related to Level 3 assets for the years ended December 31, 2012 and 2011 (in thousands):

December 31, 2012	Net Investment Income	Net Realized Capital Gains (Losses)	Currency Translation	Total
Fixed income securities	$ 520	$ 1,650	$ (120)	$ 2,050
Other invested assets	-	(19,194)	-	$ (19,194)
Equity securities	-	(9,594)	(36)	(9,630)
	$ 520	$ (27,138)	$ (156)	$ (26,774)
December 31, 2011				
Other invested assets	$ -	$ (127,357)	$ -	$ (127,357)
Equity securities	-	2,697	-	2,697
	$ -	$ (124,660)	$ -	$ (124,660)

The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis at December 31, 2012 (in thousands):

Asset Type	Balance at December 31, 2012	Valuation Techniques	Significant Unobservable Inputs	Range
Fixed income – HFT	$18,138	Income approach	Risk premium for credit risk	13.7% - 17.9%
Preferred stock – HFT	784	Income approach	Risk premium for credit risk	
	15,065	Market approach	Recent transaction	
Common stock - HFT	5,021	Market approach	Recent transaction	
Common stock – FVO (1)	25,244	Market price to book value analysis	Time lag in receiving book values of comparable companies	
CPI-Linked Derivatives (2)	46,854	Market approach	Broker quotes	
Partnerships – at fair value (3)	164,541	Net asset values	Time lag in receiving distributions	

(1) The Company evaluates observable price-to-book multiples of peer companies and applies such to the most recently available book value per share.
(2) Valued using broker-dealer quotes that management has determined use market observable inputs except for the inflation volatility input which is not market observable.
(3) Includes five partnerships that are carried as held for trading securities.

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.

The Company elected the FVO for its investment in Advent Capital (Holdings) PLC ("Advent") as, at the time of the election, Advent was publicly traded and its trading price was believed to be a better indicator of its value than an amount computed under the equity method. Fairfax and its subsidiaries now own 100% of Advent's common stock, of which the Company holds 17.0%. 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, 2012 and 2011, the Company's interest in Advent was recorded at fair value of $25.2 million and $29.6 million, respectively, in common stocks held for trading and fair value options, with related changes in fair value recognized as a realized investment gain or loss in the period in which they occurred. The change in Advent's fair value resulted in the recognition of realized investment losses of $4.4 million and $6.0 million for the years ended December 31, 2012 and 2010, respectively, and a realized investment gain of $2.7 million for the year ended December 31, 2011. The value of the Company's interest in Advent as of December 31, 2012, calculated in accordance with the equity method of accounting, would have been $26.5 million.

During 2012 and 2011, the Company purchased Class H, C, G and A common shares of HWIC Asia Fund ("HWIC Asia"), which is 100% owned by Fairfax and of which the Company owns 31.3%. At the time of purchase the Company elected the FVO for these investments as HWIC Asia is a multi-class investment company that reports its investments at fair value and provides a Net Asset Value ("NAV") on a monthly basis.

The carrying value of the Company's investment in various HWIC Asia common share issues as of December 31, 2012 and 2011, which is included in common stocks held for trading and fair value option on the balance sheet, and the changes in fair value for each issue for the year then ended, are summarized below (in thousands):

	HWIC Asia Class A	HWIC Asia Class G	HWIC Asia Class C	HWIC Asia Class H	Total
Fair value at 12/31/2010	$ -	$ -	$ -	$ -	$ -
Purchases	10,000	10,250	-	-	20,250
Change in fair value	(3,114)	(618)	-	-	(3,732)
Fair value at 12/31/2011	6,886	9,632	-	-	16,518
Purchases	-	-	33,500	106,000	139,500
Change in fair value	3,255	(1,217)	16,135	865	19,038
Fair value at 12/31/2012	$ 10,141	$ 8,415	$ 49,635	$ 106,865	$ 175,056

The Company did not elect the FVO for its other affiliated investments, as these affiliated investments were ultimately 100% owned by Fairfax and its subsidiaries, and fair values were not deemed to be readily obtainable.

As of December 31, 2012 and 2011, respectively, the Company has not elected the FVO for any of its liabilities.

4. Investments and Cash

A summary of the Company's available for sale investment portfolio as of December 31, 2012 and 2011, is as follows (in thousands):

2012	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 187,891	$ 51,694	$ -	$ 239,585
States, municipalities and political subdivisions	1,750,906	420,801	-	2,171,707
Foreign governments	10,794	2,680	-	13,474
Corporate	189,473	18,426	-	207,899
Total fixed income securities	2,139,064	493,601	-	2,632,665
Preferred stocks	54	-	-	54
Common stocks	815,322	226,752	9,589	1,032,485
Total	$ 2,954,440	$ 720,353	$ 9,589	$ 3,665,204

2011	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 358,656	$ 110,155	$ -	$ 468,811
States, municipalities and political subdivisions	2,155,608	336,306	-	2,491,914
Foreign governments	308,229	43,938	2	352,165
Corporate	183,130	18,508	1	201,637
Total fixed income securities	3,005,623	508,907	3	3,514,527
Preferred stocks	54	-	-	54
Common stocks	720,950	94,346	121,152	694,144
Total	$ 3,726,627	$ 603,253	$ 121,155	$ 4,208,725

Common stocks accounted for under the equity method of accounting were carried at $122.4 million and $135.1 million as of December 31, 2012 and 2011, respectively. Common stocks at equity had gross unrealized appreciation of $0.8 million and $0.7 million as of December 31, 2012 and 2011, respectively. Common stocks at equity had gross unrealized depreciation of $14.0 million and $5.8 million as of December 31, 2012 and 2011, respectively. Other invested assets were carried at $472.4 million and $414.4 million as of December 31, 2012 and 2011, respectively, reflecting no gross unrealized appreciation or depreciation.

A summary of the Company's held for trading portfolio as of December 31, 2012 and 2011 is as follows (in thousands):

	2012 Fair Value	2011 Fair Value
Fixed income securities:		
United States government, government agencies and authorities	$ 367,572	$ 65,652
States, municipalities and political subdivisions	827,938	203,275
Foreign governments	423,911	344,774
Corporate	225,540	176,410
Total fixed income securities	1,844,961	790,111
Preferred stocks	229,654	219,530
Common stocks	504,029	202,102
Short-term investments	1,499,462	1,965,504
Cash and cash equivalents	625,025	390,283
Cash collateral for borrowed securities	120,535	101,067
Total	$ 4,823,666	$ 3,668,597

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2012, by contractual maturity, are shown below (in thousands).

	At December 31, 2012					
	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	$ 70,068	$ 70,512	2.7 %	$ 255,288	$ 245,740	13.3 %
Due after one year through five years	111,022	118,013	4.5	187,287	179,809	9.7
Due after five years through ten years	17,317	20,617	0.8	81,849	113,164	6.1
Due after ten years	1,940,657	2,423,523	92.0	1,246,025	1,306,248	70.9
Total fixed income securities	$ 2,139,064	$ 2,632,665	100.0 %	$ 1,770,449	$ 1,844,961	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 call options represent approximately 50.1% 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 0.6% 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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Interest on fixed income securities	$ 196,603	$ 289,364	$ 291,189
Dividends on preferred stocks	14,044	16,641	6,976
Dividends on common stocks	17,824	20,255	31,884
Net income of common stocks, at equity	(834)	4,988	13,823
Interest on cash and short-term investments	6,023	4,655	7,914
Other invested assets	28,681	30,644	35,310
Gross investment income	262,341	366,547	387,096
Less: investment expenses	98,066	79,432	56,026
Less: interest on funds held under reinsurance contracts	2,107	2,954	3,195
Net investment income	$ 162,168	$ 284,161	$ 327,875

The following table summarizes the Company's net realized investment gains for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Available for sale	$ 216,597	$ 207,184	$ 379,983
Held for trading:			
From sales	(234,141)	86,796	(289,034)
From mark to market adjustments	82,290	(228,208)	79,400
Total held for trading	(151,851)	(141,412)	(209,634)
Total net realized investment gains	$ 64,746	$ 65,772	$ 170,349

The following table sets forth the components of net realized investment gains and losses on the Company's available for sale securities for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Fixed income securities:			
Realized investment gains	$ 273,278	$ 203,270	$ 254,876
Realized investment losses	11,537	205,238	108,291
Net realized investment gains (losses)	261,741	(1,968)	146,585
Preferred stock:			
Realized investment gains	-	-	1,548
Realized investment losses	-	-	-
Net realized investment gains	-	-	1,548
Equity securities:			
Realized investment gains	129,733	225,228	258,039
Realized investment losses	174,877	16,076	26,189
Net realized investment (losses) gains	(45,144)	209,152	231,850
Total available for sale realized investment gains:			
Realized investment gains	403,011	428,498	514,463
Realized investment losses	186,414	221,314	134,480
Net realized investment gains	$ 216,597	$ 207,184	$ 379,983

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 held for trading securities for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Fixed income securities:			
Net realized investment gains (losses) on disposal	$ 6,587	$ 37,809	$ (25,164)
Change in fair value	89,236	(122,895)	124,571
Net realized investment gains (losses)	95,823	(85,086)	99,407
Preferred stock:			
Change in fair value	(9,471)	(614)	(7,869)
Net realized investment losses	(9,471)	(614)	(7,869)
Equity securities:			
Net realized investment gains on disposal	14,464	3,025	-
Change in fair value	56,286	(42,736)	(6,011)
Net realized investment gains (losses)	70,750	(39,711)	(6,011)
Derivative securities:			
Net realized investment (losses) gains on disposal	(251,218)	46,136	(251,764)
Change in fair value	(93,836)	(53,157)	(28,245)
Net realized investment losses	(345,054)	(7,021)	(280,009)
Other securities:			
Net realized investment losses on disposal	(3,974)	(174)	(12,106)
Change in fair value	40,075	(8,806)	(3,046)
Net realized investment gains (losses)	36,101	(8,980)	(15,152)
Total held for trading realized investment gains:			
Net realized investment (losses) gains on disposal	(234,141)	86,796	(289,034)
Change in fair value	82,290	(228,208)	79,400
Net realized investment losses	$ (151,851)	$ (141,412)	$ (209,634)

Included in net realized investment gains for the years ended December 31, 2012, 2011 and 2010 are $174.9 million, $195.8 million and $20.3 million, respectively, related to realized investment losses on the other-than-temporary impairment of investments, as follows (in thousands):

	2012	2011	2010
Fixed income securities	$ -	$ 188,780	$ 2,911
Equity securities	174,877	7,001	17,397
Total other-than-temporary impairments	$ 174,877	$ 195,781	$ 20,308

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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Fixed income securities	$ (19,827)	$ 468,311	$ (322,946)
Equity securities	235,954	(370,586)	(12,211)
Other invested assets	-	(7)	-
Increase (decrease) in unrealized net appreciation (depreciation) of investments	216,127	97,718	(335,157)
Deferred income tax (expense) benefit	(75,594)	(34,362)	129,285
Change in net unrealized appreciation (depreciation) of investments included in other comprehensive income	$ 140,533	$ 63,356	$ (205,872)

On a quarterly basis, the Company reviews its investment portfolio for declines in value, and specifically evaluates 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, 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, 2012 and 2011 (in thousands):

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
December 31, 2012									
Common stocks, at fair value.......	$ 68,569	$ (9,589)	3	$ -	$ -	-	$ 68,569	$ (9,589)	3
Total temporarily impaired securities..............	$ 68,569	$ (9,589)	3	$ -	$ -	-	$ 68,569	$ (9,589)	3
December 31, 2011									
Fixed income securities non-investment grade,									
Foreign governments...........	$ 5,923	$ (1)	1	$ 13,144	$ (1)	1	$ 19,067	$ (2)	2
Corporate............................	5,753	(1)	1	-	-	-	5,753	(1)	1
Total fixed income securities..........................	11,676	(2)	2	13,144	(1)	1	24,820	(3)	3
Common stocks, at fair value.......	261,884	(121,152)	9	-	-	-	261,884	(121,152)	9
Total temporarily impaired securities..............	$ 273,560	$ (121,154)	11	$ 13,144	$ (1)	1	$ 286,704	$ (121,155)	12

The Company believes the gross unrealized depreciation is temporary in nature and the Company has not recorded a realized investment loss related to these securities. Given the size of the Company's 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

The following table sets forth the components of common stocks, at equity, as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Fairfax Asia Limited	$ 86,901	$ 86,878
Zenith National Insurance Corp.	35,472	48,227
Other	27	27
Total common stocks, at equity	$ 122,400	$ 135,132

As of December 31, 2012, the relative ownership held by the Company was 17.4% (economic) for Fairfax Asia Limited and 6.2% (economic) for Zenith. Fairfax Asia Limited and Zenith are each 100% owned by subsidiaries of Fairfax, including the Company.

(e) Other Invested Assets

Other invested assets totaled $472.4 million as of December 31, 2012, compared to $414.4 million as of December 31, 2011. The following table shows the components of other invested assets as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Investment funds and partnerships, at equity	$ 220,007	$ 178,545
Investment funds and partnerships, at fair value	164,541	81,097
Derivatives, at fair value	70,407	132,025
Benefit plan funds, at fair value	10,758	11,515
Unsecured loan to Fairfax (US) Inc.	-	4,526
O.R.E Holdings Limited	6,730	6,730
Total other invested assets	$ 472,443	$ 414,438

The Company's investment funds and partnership investments may be subject to restrictions on redemptions or sales, which are determined by the governing documents thereof, and may limit the Company's ability to liquidate these investments in the short term. Due to a time lag in reporting by a majority of investment fund and partnership fund managers, valuations for these investments are reported by OdysseyRe on a one month or one quarter lag. For the years ended December 31, 2012, 2011 and 2010, the Company recognized net investment income of $4.2 million, $3.3 million and $14.5 million, respectively, from its investment funds and partnership investments. For the years ended December 31, 2012, 2011 and 2010, the Company recognized net realized investment gains of $36.2 million and net realized investment losses of $3.8 million and $0.6 million, respectively, from its investment funds and partnerships that are held as trading securities. With respect to the Company's $384.5 million in investments in investment funds and partnerships, the Company has commitments that may require additional funding of up to $131.3 million. As of December 31, 2012, 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, 2012, 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.

On October 14, 2011, the Company entered into a direct participation agreement pursuant to which the Company purchased collateral loans at a cost of $154.9 million. The collateral loans were sold as of December 22, 2011. The Company collected interest income on collateral loans of $1.2 million and $0.7 million for the years ended December 31, 2012 and 2011, respectively.

(f) Derivative Investments

The Company has utilized credit default swaps, warrants, total return swaps, interest rate options, forward currency contracts, swaptions and CPI-linked derivative contracts to manage against adverse changes in the values of assets and liabilities. These products are typically not directly 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, 2012, and December 31, 2011, respectively (in thousands):

As of December 31, 2012	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$ 20,408,111	$ 183,804	$ 46,854	$ -
Swaptions	10,348,974	17,558	4,039	
Short total return swaps	2,652,581	-	15,839	61,190
Long total return swaps	531,975	-	-	13,241
Forward currency contracts	502,370	-	1,874	10,682
Credit default swaps	214,799	2,287	333	-
Interest rate swaps	140,000	-	-	3,071
Warrants	90,215	2,967	1,468	-
Total		$ 206,616	$ 70,407	$ 88,184

As of December 31, 2011	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$ 19,024,800	$ 169,352	$ 86,962	$ -
Short total return swaps	2,160,169	-	19,120	34,728
Long total return swaps	724,063	-	-	35,901
Forward currency contracts	469,867	-	5,553	6,191
Credit default swaps	445,934	5,693	7,201	-
Warrants	156,365	5,682	13,189	-
Interest rate swaps	140,000	-	-	5,036
Total		$ 180,727	$ 132,025	$ 81,856

The following tables summarize the effect of the derivative instruments used to manage adverse changes in values and related items on the Company's financial position, results of operations and cash flows as of and for the years ended December 31, 2012 and 2011 (in thousands):

	Exposure / Notional Value	Carrying Value	Effect on Pre-tax: Other Comprehensive Income	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
As of and for the Year Ended December 31, 2012						
Equity risk exposures:						
Preferred stocks	$ 229,708	$ 229,708	$ -	$ (9,471)	$ (9,471)	$ -
Common stocks, at fair value	1,336,215	1,336,215	243,969	10,935	254,904	(39,934)
Other	531,975	(13,241)	-	41,594	41,594	18,934
Total equity exposure	$ 2,097,898	$ 1,552,682	243,969	43,058	287,027	(21,000)
Derivative instruments:						
Other invested assets:						
Total return swaps	$ 2,652,581	$ (45,351)	-	(293,702)	(293,702)	(263,959)
Total equity hedging instruments	$ 2,652,581	$ (45,351)	-	(293,702)	(293,702)	(263,959)
Net equity impact			$ 243,969	$ (250,644)	$ (6,675)	$ (284,959)
As of and for the Year Ended December 31, 2011						
Equity risk exposures:						
Preferred stocks	$ 219,584	$ 219,584	$ -	$ (614)	$ (614)	$ -
Common stocks, at fair value	850,118	850,118	(357,649)	170,475	(187,174)	198,982
Other	724,063	(35,901)	-	(55,320)	(55,320)	(21,628)
Total equity exposure	$ 1,793,765	$ 1,033,801	(357,649)	114,541	(243,108)	177,354
Derivative instruments:						
Other invested assets:						
Total return swaps	$ 2,160,169	$ (15,608)	-	151,184	151,184	99,945
Total equity hedging instruments	$ 2,160,169	$ (15,608)	-	151,184	151,184	99,945
Net equity impact			$ (357,649)	$ 265,725	$ (91,924)	$ 277,299

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

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 7.7 years and 8.6 years as of December 31, 2012 and 2011, respectively. 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, 2012 and 2011, the fair value of this collateral was $6.9 million and $53.5 million, respectively.

During 2012, the Company entered into swaption agreements with a notional value of $10.3 billion. The swaption agreements give the Company the option to enter into interest rate swap contracts where the Company would pay a fixed interest rate and receive a floating interest rate. Swaptions, which are included in other invested assets as of December 31, 2012, 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 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. 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 through 2012, the Company initiated U.S. equity index total return swap contracts to protect against potential future broad market downturns, which had an aggregate notional value of $2.5 billion and $2.0 billion as of December 31, 2012 and 2011, respectively. The collateral requirements related to entering the total return swaps were $262.6 million and $257.1 million as of December 31, 2012 and 2011, respectively. These total return swap transactions terminate during the second and third quarter of 2013. 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, 2012 and 2011, 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.

The Company held long position common stock total return swaps, with a total notional value of $532.0 million and $724.1 million, as of December 31, 2012 and 2011, respectively, as replications of investments in publicly-listed common stocks. The collateral requirement related to these swaps, which terminate in the third and fourth quarter of 2013, was $47.2 million as of December 31, 2012. The common stock total return swaps, which are carried at fair value, were in a loss position as of December 31, 2012 and 2011, and are recorded in other liabilities. Changes in the fair value of common stock total return swaps are recorded as realized investment gains or loss in the consolidated statements of operations and comprehensive income in the period in which they occur.

As of December 31, 2012 and 2011, the Company held short position common stock total return swaps, with a notional value of $115.3 million and $162.5 million, respectively. The collateral requirement related to these swaps, which terminate in the first and third quarter of 2013, was $7.0 million and $8.5 million, as of December 31, 2012 and 2011, respectively. The common stock total return swaps were recorded at fair value in other liabilities as of December 31, 2012 and were recorded in other invested assets as of December 31, 2011. Changes in the fair value are recorded as realized investment gains or losses in the consolidated statements of operations and comprehensive income in the period in which they occur. Pursuant to the agreements governing the total return swap contracts, 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, 2012, no collateral was required to be posted by the counterparties. As of December 31, 2011, the fair value of this collateral was $21.9 million.

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 Company’s collateral requirement related to the forward currency contracts was $2.3 million and $4.7 million as of December 31, 2012 and 2011, respectively. Forward currency contracts are recorded at fair value in other invested assets or other liabilities based on a positive or negative value as of December 31, 2012 and 2011, 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. As a result of the appreciation in the fair value of the forward contracts, counterparties to these transactions are required to place government securities as collateral, pursuant to the forward contract agreements. The fair value of the collateral as of December 31, 2012 and 2011 was $3.3 million and $0.5 million, respectively.

The Company holds credit default swap contracts under which the Company, as the buyer, agrees to pay, 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. Credit default swaps, which are included in other invested assets as of December 31, 2012 and 2011, 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, 2012 and 2011, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has investments in warrants, which are contracts that grant the holder the right, but not the obligation, to purchase an underlying financial instrument at a given price and time or at a series of prices and times. Warrants, which are included in other invested assets as of December 31, 2012 and 2011, 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.

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 for the years ended December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
CPI-linked derivative contracts:			
Net realized investment losses on disposal	$ (840)	$ (21,442)	$ -
Change in fair value	(54,560)	(102,080)	19,643
Net realized investment (losses) gains	(55,400)	(123,522)	19,643
Swaptions:			
Change in fair value	(13,519)	-	-
Net realized investment losses	(13,519)	-	-
Short total return swaps:			
Net realized investment (losses) gains on disposal	(263,959)	99,945	(257,882)
Change in fair value	(29,743)	51,239	(69,978)
Net realized investment (losses) gains	(293,702)	151,184	(327,860)
Long total return swaps:			
Net realized investment gains (losses) on disposal	18,934	(21,628)	63,360
Change in fair value	22,660	(33,692)	(2,208)
Net realized investment gains (losses)	41,594	(55,320)	61,152
Forward currency contracts:			
Net realized investment losses on disposal	(12,970)	(8,573)	(39,435)
Change in fair value	(8,170)	24,421	14,191
Net realized investment (losses) gains	(21,140)	15,848	(25,244)
Credit default swaps:			
Net realized investment losses on disposal	(3,405)	-	(14,890)
Change in fair value	(3,463)	(1,248)	13,353
Net realized investment losses	(6,868)	(1,248)	(1,537)
Interest rate swaps:			
Net realized investment losses on disposal	(2,892)	(3,107)	(3,058)
Change in fair value	1,965	360	(5,352)
Net realized investment losses	(927)	(2,747)	(8,410)

	2012	2011	2010
Warrants:			
Net realized investment gains on disposal	13,914	941	141
Change in fair value	(9,006)	7,843	2,106
Net realized investment gains	4,908	8,784	2,247
Total derivatives:			
Net realized investment (losses) gains on disposal	(251,218)	46,136	(251,764)
Change in fair value	(93,836)	(53,157)	(28,245)
Net realized investment losses	$ (345,054)	$ (7,021)	$ (280,009)

(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, 2012, restricted assets supporting these deposits and trust fund requirements totaled $1.5 billion, as depicted in the following table (in thousands):

	Restricted Assets Relating to:		
	U.S. Regulatory Requirements	Foreign Regulatory Requirements	Total
Fixed income securities	$ 589,596	$ 462,470	$ 1,052,066
Cash, cash equivalents and short-term investments	228	446,295	446,523
Total	$ 589,824	$ 908,765	$ 1,498,589

5. 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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Beginning balance of unrealized net appreciation on securities	$ 311,003	$ 331,352	$ 537,224
Clearwater transfer	-	(83,705)	-
Adjusted beginning balance	311,003	247,647	537,224
Ending balance of unrealized net appreciation on securities	451,536	311,003	331,352
Current period change in unrealized net appreciation (depreciation) on securities	140,533	63,356	(205,872)
Beginning balance of foreign currency translation adjustments	80,510	64,899	13,484
Clearwater transfer	-	(717)	-
Adjusted beginning balance	80,510	64,182	13,484
Ending balance of foreign currency translation adjustments	66,043	80,510	64,899
Current period change in foreign currency translation adjustments	(14,467)	16,328	51,415
Beginning balance of benefit plan liabilities	(10,243)	(4,766)	(5,239)
Ending balance of benefit plan liabilities	(20,461)	(10,243)	(4,766)
Current period change in benefit plan liabilities	(10,218)	(5,477)	473
Other comprehensive income (loss)	$ 115,848	$ 74,207	$ (153,984)
Beginning balance of accumulated other comprehensive income	$ 381,270	$ 391,485	$ 545,469
Other comprehensive income (loss)	115,848	74,207	(153,984)
Clearwater transfer	-	(84,422)	-
Change in accumulated other comprehensive (loss) income	115,848	(10,215)	(153,984)
Ending balance of accumulated other comprehensive income	$ 497,118	$ 381,270	$ 391,485

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, 2012 and 2011 (in thousands):

	2012	2011
Gross:		
Unrealized appreciation on securities	$ 694,221	$ 478,094
Foreign currency translation adjustments	101,670	123,927
Benefit plan liabilities	(31,479)	(15,759)
Total accumulated other comprehensive income, gross of deferred income taxes	$ 764,412	$ 586,262
Deferred taxes:		
Unrealized appreciation on securities	$ (242,685)	$ (167,091)
Foreign currency translation adjustments	(35,627)	(43,417)
Benefit plan liabilities	11,018	5,516
Total deferred taxes on accumulated other comprehensive income	$ (267,294)	$ (204,992)

6. 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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 5,517,600	$ 5,809,665	$ 5,507,766
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	767,651	952,455	841,486
Net unpaid losses and loss adjustment expenses, beginning of year	4,749,949	4,857,210	4,666,280
Add: Net incurred losses and loss adjustment expenses related to:			
Current year	1,566,488	1,863,733	1,320,651
Prior years	(152,021)	(51,391)	(3,598)
Total net incurred losses and loss adjustment expenses	1,414,467	1,812,342	1,317,053
Less: Net paid losses and loss adjustment expenses related to:			
Current year	233,620	438,955	184,373
Prior years	1,132,397	958,379	988,205
Total net paid losses and loss adjustment expenses	1,366,017	1,397,334	1,172,578
Disposition of Clearwater's net unpaid losses and loss adjustment expenses	-	(484,230)	-
Effects of exchange rate changes	20,350	(38,039)	46,455
Net unpaid losses and loss adjustment expenses, end of year	4,818,749	4,749,949	4,857,210
Add: Ceded unpaid losses and loss adjustment expenses, end of year	813,573	767,651	952,455
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,632,322	$ 5,517,600	$ 5,809,665

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, 2012. 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 incurred losses and loss adjustment expenses related to the current year were $1,566.5 million, $1,863.7 million and $1,320.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. The decrease in incurred losses and loss adjustment expenses for the year ended December 31, 2012 was principally due to a decrease in property catastrophe losses. The increase in incurred losses and loss adjustment expenses for the year ended December 31, 2011 was principally due to an increase in property catastrophe losses. For the years ended December 31, 2012, 2011 and 2010, current year catastrophe events were $305.0 million, $762.5 million and $222.2 million, respectively. For the year ended December 31, 2012, current year property catastrophe losses included $193.2 million related to hurricane Sandy, $12.0 million related to the Italy earthquake and $10.0 million related to hurricane Isaac. For the year ended December 31, 2011, current year property catastrophe losses included $398.4 million related to the Japan earthquake, $155.1 million related to the Thailand flood, $25.9 million related to the February 2011 New Zealand earthquake and $18.2 million related to hurricane Irene. 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 September 2010 New Zealand earthquake.

Net incurred losses and loss adjustment expenses related to prior years decreased $152.0 million, $51.4 million and $3.6 million for the years ended December 31, 2012, 2011 and 2010, respectively. The decreases in prior years' incurred losses and loss adjustment expenses for the years ended December 31, 2012 and 2011 were attributable to decreased loss estimates due to loss emergence lower than expectations in the year in the Americas, EuroAsia, London Market and U.S. Insurance divisions. The decrease in prior years' incurred 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 year in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by increased loss estimates in the Americas division.

Net paid losses and loss adjustment expenses related to the current year were $233.6 million, $439.0 million and $184.4 million for the years ended December 31, 2012, 2011 and 2010, respectively. The decrease in paid losses and loss adjustment expenses for the year ended December 31, 2012 was principally due to a decrease in property catastrophe paid losses. The increase in paid losses and loss adjustment expenses for the year ended December 31, 2011 was principally due to an increase in property catastrophe paid losses. For the years ended December 31, 2012, 2011 and 2010, paid losses and loss adjustment expenses related to current year catastrophe events were $17.9 million, $227.3 million, and $48.9 million, respectively.

The disposition of Clearwater's net unpaid losses and loss adjustment expenses relates to the transfer of Clearwater to TIG effective January 1, 2011 (see Note 1). Unpaid losses and loss adjustment expenses transferred as a part of this transaction were $484.2 million.

The effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in an increase of $20.4 million for the year ended December 31, 2012, a decrease of $38.0 million for the year ended December 31, 2011 and an increase of $46.5 million for the year ended December 31, 2010. 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 $813.6 million, $767.7 million and $952.5 million as of December 31, 2012, 2011 and 2010, respectively. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2012 was principally attributable to an increase in unpaid reinsurance recoverables in the U.S. Insurance division. The decrease in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2011 was principally attributable to a $264.6 million decrease in unpaid reinsurance recoverables related to the transfer of ownership of Clearwater on January 1, 2011 (see Note 1).

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 $61.4 million and $80.2 million as of December 31, 2012 and 2011, respectively. The decrease in discounted reserves was principally due to a commutation during the year ended December 31, 2012. The amount of case reserve discount was $26.1 million and $39.1 million as of December 31, 2012 and 2011, respectively. The amount of incurred but not reported reserve discount was $17.6 million and $15.0 million as of December 31, 2012 and 2011, respectively.

7. Asbestos and Environmental Losses and Loss Adjustment Expenses

As a result of the transfer of ownership of Clearwater to TIG on January 1, 2011 (see Note 1), the Company is no longer materially exposed to asbestos and/or environmental claims and accordingly no longer establishes a specific reserve for such exposures.

The Company's reserves for asbestos and environmental-related liabilities displayed below are related to business written by Clearwater prior to 1986. As of December 31, 2012 and 2011, the Company has no specific reserve for asbestos and environmental unpaid losses and loss adjustment expenses. The Company's asbestos and environmental reserve development, gross and net of reinsurance, for the year ended December 31, 2010 is set forth in the table below (in thousands):

	Asbestos	Environmental
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 386,735	$ 27,142
Add: Gross incurred losses and loss adjustment expenses	73,800	10,653
Less: Gross calendar year paid losses and loss adjustment expenses	51,136	4,179
Gross unpaid losses and loss adjustment expenses, end of year	$ 409,399	$ 33,616
Net unpaid losses and loss adjustment expenses, beginning of year	$ 241,572	$ 23,885
Add: Net incurred losses and loss adjustment expenses	44,400	8,842
Less: Net calendar year paid losses and loss adjustment expenses	34,191	3,784
Net unpaid losses and loss adjustment expenses, end of year	$ 251,781	$ 28,943

Net incurred losses and loss adjustment expenses for asbestos claims increased $44.4 million for the year ended December 31, 2010. The increase in net incurred losses and loss adjustment expenses was 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, 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 calendar year 2010.

Net incurred losses and loss adjustment expenses for environmental claims increased $8.8 million for the year ended December 31, 2010. The increase in net incurred losses and loss adjustment expense was principally attributable to the annual review of claim activity and loss emergence trend information obtained in the calendar year from ceding companies.

8. 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. 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, 2012, 2011 and 2010 follow (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Premiums Written			
Direct	$ 943,166	$ 892,801	$ 758,094
Add: assumed	1,830,052	1,527,943	1,409,244
Less: ceded	370,873	331,019	313,540
Net	$ 2,402,345	$ 2,089,725	$ 1,853,798
Premiums Earned			
Direct	$ 997,169	$ 854,934	$ 789,749
Add: assumed	1,695,434	1,480,403	1,411,227
Less: ceded	377,327	320,632	315,262
Net	$ 2,315,276	$ 2,014,705	$ 1,885,714

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2012 and 2011 was $0.9 billion and $0.8 billion, respectively. The reserve for uncollectible reinsurance recoverable was $19.9 million and $17.5 million, as of December 31, 2012 and 2011, respectively, and has been netted against reinsurance recoverables on loss payments in the consolidated balance sheets.

In accordance with the terms of certain of its reinsurance agreements, the Company has recorded interest expense associated with its ceded reinsurance agreements of $2.1 million, $3.0 million and $3.2 million for the years ended December 31, 2012, 2011 and 2010, respectively.

9. Reinsurance Recoverables

The Company's ten largest reinsurers represent 67.0% of its total reinsurance recoverables as of December 31, 2012. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $23.3 million, or 2.7%, of reinsurance recoverables as of December 31, 2012, and the average balance is less than $5.0 million. The Company held total collateral of $109.0 million as of December 31, 2012, representing 12.5% 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, 2012, 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	$ 167,506	19.1 %	$ -	A
Federal Crop Ins Corporation	114,560	13.2	-	NR
Alterra Bermuda Ltd	52,122	6.0	10,819	A
Ullico Casualty Company	50,073	5.8	50,073	B
Everest Re (Bermuda) Ltd	48,292	5.6	-	A+
Munich Reinsurance America	37,433	4.3	-	A+
Transatlantic Re	33,095	3.8	-	A
Alterra Reinsurance US	27,562	3.2	-	A
Riverstone Ins Ltd (a Fairfax subsidiary)	26,516	3.1	-	NR
Lexington Insurance Co	25,002	2.9	-	A
Sub-total	582,161	67.0	60,892	
All other	286,928	33.0	48,107	
Total	$ 869,089	100.0 %	$ 108,999	

Reinsurance recoverables were $848.1 million and collateral was $141.9 million, or 16.7% of the reinsurance recoverable balance, as of December 31, 2011.

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, 2012 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's of London	$ 167,506	19.1 %	$ -
Federal Crop Ins Corp	114,560	13.2	-
Alterra Holdings Ltd	79,684	9.2	10,819
Ullico Inc	50,073	5.8	50,073
Everest Re Holdings Inc	49,518	5.8	-
Sub-total	461,341	53.1	60,892
All other	407,748	46.9	48,107
Total	$ 869,089	100.0 %	$ 108,999

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, 2012 is $109.0 million, which represents 12.5% 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	$ 49,028	5.6 %
Funds withheld from reinsurers	3,247	0.4
Trust agreements	56,724	6.5
Total	$ 108,999	12.5 %

Each reinsurance contract between the Company and the reinsurer describes the losses that 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.

10. Debt Obligations, Common Shares, Preferred Shares and Non-Controlling Interest

Debt Obligations

The components of the Company's debt obligations as of December 31, 2012 and 2011 were as follows (in thousands):

	December 31, 2012	December 31, 2011
7.65% Senior Notes due 2013	$ 182,419	$ 181,929
6.875% Senior Notes due 2015	124,381	124,117
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
Revolving line of credit	2,163	-
Total debt obligations	$ 448,963	$ 446,046

The Company and Fairfax (US) have entered into a $350.0 million two-way revolving credit facility, under which either party may borrow up to $350.0 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. As of December 31, 2012, the Company's outstanding obligation under the revolving credit facility was $2.2 million.

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. For the years ended December 31, 2012 and 2011, the average annual interest rate on the Series C Notes was 2.96% and 2.81%, 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 and Series B Notes are callable by the Company on any interest payment date at their par value, plus accrued and unpaid interest. For the years ended December 31, 2012 and 2011, the average annual interest rate on each series of notes was 2.66% and 2.51%, respectively.

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

During the fourth quarter of 2003, the Company issued $225.0 million aggregate principal amount of senior notes due November 1, 2013 (the “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.

During the second quarter of 2011, the Company extinguished $42.2 million of its 2013 Notes by paying $47.8 million to the holders of the notes. Including the write-off of a pro-rata portion of the unamortized issuance and discount costs of $0.5 million, the Company recognized a $6.1 million loss on this early extinguishment.

As of December 31, 2012, the aggregate stated maturities of the Company’s debt obligations, at face value, were as follows (in thousands):

Year	December 31, 2012
2013	$ 182,827
2015	125,000
2016	50,000
2021	90,000
Total	$ 447,827

As of December 31, 2012, the Company has sufficient cash and invested assets at the holding company level to fully fund its debt service requirements for 2013.

As of December 31, 2012 and 2011, the amortized cost of the Company’s debt obligations was $449.0 million and $446.0 million, respectively, as reflected in the respective consolidated balance sheets. As of December 31, 2012 and 2011, the estimated fair value of the Company’s debt obligations was $463.3 million and $455.5 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 five year $200.0 million credit facility (subsequently amended to $100.0 million) (the "Credit Agreement") with a syndicate of lenders. The Credit Agreement was available for direct, unsecured borrowings by the Company and the issuance of secured letters of credit to support the Company's insurance and reinsurance business. The Credit Agreement expired on July 13, 2012 and was not renewed. All letters of credits previously issued under the Credit Agreement have been terminated. As of December 31, 2012, no obligations or balances remain outstanding under the credit facility. As of December 31, 2011, there was $34.3 million 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.

On January 1, 2011, the Company transferred ownership of Clearwater to TIG, in exchange for 5,921 common shares of the Company held by TIG. The 5,921 common shares reacquired by the Company from TIG were subsequently retired (see Note 1).

The Company did not declare or pay any common stock dividends during the years ended December 31, 2012, 2011 and 2010.

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, 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 Series B preferred shares, the Company recorded a loss of $2.2 million during 2010, which amount was 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 13, 2012, 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 $0.223046875 per share on the Company's floating rate Series B preferred shares. The total dividends of $0.1 million were paid on January 22, 2013 to Series A and Series B preferred shareholders of record on December 31, 2012.

During the year ended December 31, 2010, ORC purchased 33,700 shares of the Company's Series B preferred shares with a liquidation preference of $0.8 million for a purchase price of $0.8 million. 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, which was reflected in the Company's retained earnings and included in net income available to common shareholders.

As of December 31, 2012, 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 ORC owned 866,437 shares of the Company's Series B preferred stock. The shares owned by ORC have been eliminated in these consolidated financial statements.

Non-Controlling Interest

Clearwater holds all 23,807 shares of Hudson's 5.5% Series A preferred stock with a liquidation preference of $1,000 per share and an aggregate book value of $23.8 million, and all 5,492 shares of Clearwater Select's 5.5% Series A preferred stock, with a liquidation preference of $1,000 per share and an aggregate book value of $5.5 million. On October 9, 2012, Clearwater Select's Board of Directors declared a preferred dividend to Clearwater in the amount of $0.3 million. On October 9, 2012, Hudson's Board of Directors declared a preferred dividend to Clearwater in the amount of $1.3 million. Both dividends were paid on October 22, 2012. The aggregate amount of the preferred shares of Hudson and Clearwater Select owned by Clearwater is presented on the balance sheet as non-controlling interest in the amount of $29.3 million.

11. 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 ORC, 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, 2012, 2011 and 2010 are as follows (in thousands):

Year Ended December 31, 2012	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 1,125,282	$ 585,883	$ 332,931	$ 729,122	$ 2,773,218
Net premiums written	1,062,438	579,813	273,358	486,736	2,402,345
Net premiums earned	$ 947,872	$ 583,524	$ 278,738	$ 505,142	$ 2,315,276
Losses and loss adjustment expenses	544,339	310,147	176,692	383,289	1,414,467
Acquisition costs and other underwriting expenses	285,732	139,360	74,361	138,876	638,329
Total underwriting deductions	830,071	449,507	251,053	522,165	2,052,796
Underwriting income (loss)	$ 117,801	$ 134,017	$ 27,685	$ (17,023)	262,480
Net investment income					162,168
Net realized investment gains					64,746
Other expense, net					(3,531)
Interest expense					(27,689)
Income before income taxes					$ 458,174
Underwriting ratios:					
Losses and loss adjustment expenses	57.4 %	53.2 %	63.4 %	75.9 %	61.1 %
Acquisition costs and other underwriting expenses	30.2	23.8	26.7	27.5	27.6
Combined ratio	87.6 %	77.0 %	90.1 %	103.4 %	88.7 %

Year Ended December 31, 2011	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 792,715	$ 607,402	$ 360,374	$ 660,253	$ 2,420,744
Net premiums written	783,206	585,950	304,147	416,422	2,089,725
Net premiums earned	$ 754,428	$ 565,730	$ 301,519	$ 393,028	$ 2,014,705
Losses and loss adjustment expenses	462,014	829,806	220,591	299,931	1,812,342
Acquisition costs and other underwriting expenses	230,998	138,141	74,512	97,881	541,532
Total underwriting deductions	693,012	967,947	295,103	397,812	2,353,874
Underwriting income (loss)	$ 61,416	$ (402,217)	$ 6,416	$ (4,784)	(339,169)
Net investment income					284,161
Net realized investment gains					65,772
Other expense, net					(62,734)
Interest expense					(28,924)
Loss on early extinguishment of debt					(6,121)
Loss before income taxes					$ (87,015)
Underwriting ratios:					
Losses and loss adjustment expenses	61.2 %	146.7 %	73.2 %	76.3 %	90.0 %
Acquisition costs and other underwriting expenses	30.7	24.4	24.7	24.9	26.8
Combined ratio	91.9 %	171.1 %	97.9 %	101.2 %	116.8 %

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					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 %

Gross Premiums Written by Major Unit/Division

(in thousands)

	Years Ended December 31, 2012	2011	2010
United States	$ 860,800	$ 601,976	$ 561,048
Latin America	182,834	123,144	129,280
Canada	81,648	67,595	57,054
Total Americas	1,125,282	792,715	747,382
EuroAsia	585,883	607,402	538,614
London Market	332,931	360,374	339,039
U.S. Insurance	729,122	660,253	542,303
Total gross premiums written	$ 2,773,218	$ 2,420,744	$ 2,167,338

Gross Premiums Written by Type of Business/Business Unit
(in thousands)

	Years Ended December 31,		
	2012	2011	2010
Americas			
Property excess of loss	$ 311,052	$ 272,367	$ 210,332
Property proportional	429,655	133,069	128,717
Property facultative	36,294	29,232	22,285
Subtotal property	777,001	434,668	361,334
Casualty excess of loss	165,290	159,976	173,546
Casualty proportional	54,207	55,356	89,385
Casualty facultative	42,965	41,527	49,400
Subtotal casualty	262,462	256,859	312,331
Marine and aerospace	25,052	26,860	21,275
Surety and credit	46,223	51,824	52,442
Other lines	14,544	22,504	-
Total Americas	1,125,282	792,715	747,382
EuroAsia			
Property excess of loss	234,208	232,237	192,871
Property proportional	195,076	183,728	175,018
Property facultative	-	35	(4)
Subtotal property	429,284	416,000	367,885
Casualty excess of loss	54,471	62,764	60,376
Casualty proportional	13,884	25,927	26,598
Subtotal casualty	68,355	88,691	86,974
Marine and aerospace	45,417	48,192	39,327
Surety and credit	42,827	54,519	44,428
Total EuroAsia	585,883	607,402	538,614
London Market			
Property excess of loss	64,359	79,009	76,412
Property proportional	731	905	907
Subtotal property	65,090	79,914	77,319
Casualty excess of loss	8,214	8,146	5,908
Casualty proportional	(113)	(87)	661
Subtotal casualty	8,101	8,059	6,569
Marine and aerospace	45,696	39,853	39,360
Total reinsurance	118,887	127,826	123,248
Liability lines	212,262	229,101	209,536
Other	1,782	3,447	6,255
Total insurance	214,044	232,548	215,791
Total London Market	332,931	360,374	339,039

Gross Premiums Written by Type of Business/Business Unit
(in thousands)

	Years Ended December 31, 2012	2011	2010
U.S. Insurance			
Property and package	276,171	210,339	158,779
Professional liability	170,581	150,316	121,438
Specialty liability	134,818	129,545	110,044
Medical professional liability	67,232	91,691	88,560
Commercial automobile	74,514	71,188	55,519
Personal automobile	5,806	7,174	7,963
Total U.S. Insurance	729,122	660,253	542,303
Total gross premiums written	$ 2,773,218	$ 2,420,744	$ 2,167,338

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.

12. 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, 2012, 2011 and 2010 are as follows (in thousands):

	2012	2011	2010
Current:			
United States	$ 10,937	$ 17,509	$ 31,870
Foreign	71,678	67,432	83,365
Total current income tax provision	82,615	84,941	115,235
Deferred:			
United States	87,208	(104,650)	(18,301)
Foreign	5,838	(1,343)	1,173
Total deferred income tax provision (benefit)	93,046	(105,993)	(17,128)
Total federal and foreign income tax provision (benefit)	$ 175,661	$ (21,052)	$ 98,107

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, 2012 and 2011 are as follows (in thousands):

	2012	2011
Unpaid losses and loss adjustment expenses	$ 144,554	$ 154,362
Unearned premiums	46,176	39,226
Reserve for potentially uncollectible balances	5,037	6,061
Pension and benefit accruals	17,497	15,000
Investments	116,751	206,326
Alternative minimum tax credit	21,154	10,064
Foreign tax credit	125,478	115,843
Other	-	387
Total deferred tax assets	476,647	547,269
Deferred acquisition costs	56,633	44,226
Foreign deferred items	40,866	35,028
Subsidiary net operating loss	33,604	33,604
Other	4,179	-
Total deferred tax liabilities	135,282	112,858
Net deferred tax assets	341,365	434,411
Deferred income taxes on accumulated other comprehensive income	(267,291)	(204,990)
Deferred federal and foreign income tax asset	74,074	229,421
Current federal and foreign income tax (payable) asset	(25,916)	2,103
Federal and foreign income taxes receivable	$ 48,158	$ 231,524

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, 2012, 2011 and 2010 (in thousands):

	2012		2011		2010	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes	$ 458,174		$ (87,015)		$ 431,382	
Income tax provision computed at the U.S. statutory tax rate on income	$ 160,361	35.0 %	$ (30,455)	35.0 %	$ 150,984	35.0 %
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(3,050)	(0.7)	(3,673)	4.2	(6,036)	(1.4)
Tax-exempt income	(32,263)	(7.0)	(29,402)	33.8	(37,649)	(8.7)
Foreign tax expense	44,213	9.6	41,394	(47.6)	-	-
Other, net	6,400	1.4	1,084	(1.2)	(9,192)	(2.2)
Total federal and foreign income tax provision	$ 175,661	38.3 %	$ (21,052)	24.2 %	$ 98,107	22.7 %

Domestic pre-tax income was $98.9 million, $286.5 million and $298.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. Foreign pre-tax income (loss) was $359.3 million, $(373.5) million and $133.4 million for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company has elected to expense foreign taxes in its federal tax return for the years ended December 31, 2012 and 2011. For the year ended December 31, 2010, the Company elected to credit foreign taxes. The Company's foreign tax expense for the year ended December 31, 2011 is net of an $11.1 million benefit generated by the application of the United Kingdom group relief regime.

The Company is included in the United States tax group of Fairfax (US). The method of allocation among the companies is subject to a written agreement. Tax payments are made to, or refunds received from, Fairfax (US) in amounts equal to the amounts as if separate tax returns were filed with federal taxing authorities.

The Company paid federal and foreign income taxes of $55.4 million, $51.3 million and $179.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. As of December 31, 2012, the Company had a current tax payable of $25.9 million, which reflects $18.4 million payable to Fairfax (US) and a net payable of $7.5 million to various foreign governments. As of December 31, 2011, the Company had a current tax receivable of $2.1 million, which reflects $5.3 million receivable from Fairfax (US) and a net payable of $3.2 million to various foreign governments.

The Company files income tax returns with various federal, state and foreign jurisdictions. The Company's U.S. federal income tax returns for tax years prior to 2009 are closed. The Internal Revenue Service ("IRS") is expected to complete their audit of the Company's 2009 through 2011 tax returns and commence their audit of the Company's 2012 and 2013 tax returns during 2013. Effective for the 2013 tax year, the Company will participate in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS begins their examination of the tax year before the tax return is filed. The goal of CAP is to expedite the exam process and reduce the level of uncertainty regarding a taxpayer's filing positions by examining significant transactions and events as they occur. The IRS has not proposed any material adjustments as part of the Company's ongoing examinations. Income tax returns filed with various state and foreign jurisdictions remain open to examination in accordance with individual statutes.

The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. 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.

13. Commitments and Contingencies

(a) *Contingencies*

Plumbers & Pipefitters Union v. Fairfax Financial Holdings Limited, Odyssey Re Holdings Corp., et al. This securities class action was filed on July 25, 2011 as a replacement of the *Parks* suit (dismissed on May 24, 2011) in an effort to cure the jurisdictional problems that led to the dismissal of the *Parks* matter. As with *Parks*, the matter was filed in the U.S. District Court, Southern District of New York. Several of Fairfax's officers and directors, including some who are current or former directors of the Company, were also named as defendants in the suit. The suit, which purported to be filed on behalf of purchasers of Fairfax's securities between and including May 21, 2003 and March 22, 2006, alleged that Fairfax and the Company violated federal securities laws by making material misstatements or failing to disclose certain material information. A motion to dismiss all claims was filed in December of 2011. The motion to dismiss was granted with prejudice in August 2012 by the Southern District. In September 2012, plaintiffs filed a notice of appeal with the U.S. Court of Appeals for the Second Circuit. In October 2012, plaintiffs withdrew the appeal and stipulated to the voluntary dismissal with prejudice of the appeal, which was approved by the Second Circuit. The case is now closed.

Fairfax Financial Holdings Limited v. S.A.C. Capital Mgt., et al. – This suit was filed by Fairfax in July 2006 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. The complaint was subsequently amended to add additional allegations and two defendants. The Company was not originally a party to the suit. On January 25, 2008, two named defendants filed an answer and amended counterclaim, seeking unspecified damages, and naming OdysseyRe as a third party defendant. Defendants alleged, among other things, that the Company engaged in a fraudulent tax scheme as part of a broad conspiracy by Fairfax to retaliate against short sellers of Fairfax securities. As a result of motion practice during the course of 2008, on September 8, 2008, the defendants filed an amended counterclaim and third-party complaint that again named the Company and certain directors as defendants. In July 2011, the third-party claims against the Company were voluntarily dismissed without prejudice by those defendants, and no claims remain against the Company. On September 12, 2012, Fairfax's claims were dismissed by the court immediately before trial was scheduled to commence. Fairfax has filed notice of appeal, and certain defendants have filed notices of cross-appeal, which are pending. The Company is not a party to the pending appeals.

The Company participates in Lloyd's through its 100% ownership of the capital provider for Newline Syndicate (1218), for which the Company directly or indirectly 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, the Company has pledged securities and cash with a fair value of $340.9 million as of December 31, 2012 in a deposit trust account in favor of the Society and Council of Lloyd's. The 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. The Company'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.

ORC agreed to guarantee the performance of all the insurance and reinsurance contract obligations 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. Fairfax has agreed to indemnify ORC 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 $65.7 million as of December 31, 2012. 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.

ORC 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 17.4% economic interest owned by the Company. The guarantee by ORC was made to assist Falcon in writing business through access to ORC's financial strength ratings and capital resources. ORC 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, 2012, 2011 and 2010, Falcon paid $0.1 million, $0.1 million and $0.2 million, respectively, to ORC in connection with this guarantee. ORC's potential exposure in connection with this agreement is estimated to be $96.3 million, based on Falcon's loss reserves at December 31, 2012. Fairfax has agreed to indemnify ORC 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.

ORC 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 ORC 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, that was organized to engage in the purchase, development and sale of commercial real estate properties. As CEPL never engaged in the planned business operations and as certain funds of CEPL were diverted by ORE's joint venture partner, ORC had written down the value of its investment in ORE by $9.9 million. The joint venture agreement governing CEPL contains a provision whereby ORC 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 joint venture partner claimed that the guarantee should be available and pursued legal actions against ORC and ORE. ORC and ORE found this claim without merit and vigorously defended the legal actions, while also bringing an action to recover the invested funds that had been illegally diverted by ORE's joint venture partner. 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, plus 8% interest, within the one-year period commencing November 1, 2008, or, in the event that such amount was not paid, to convey to ORE a portion of the real property owned by CEPL's subsidiary, Vasantha Mills Limited ("VML"). ORE's joint venture partner appealed this ruling and it was affirmed by the High Court in August 2011. As of December 31, 2012, no payment on the award has been made to ORE. ORE filed an execution petition in the Indian courts to force the transfer of the VML property. This petition is still pending and the date of the hearing and the resolution remain uncertain. Because no payment of the award has yet been received and the transfer to ORE of the VML property remains in issue, despite ORE's vigorous pursuit of this objective, the Company has taken no steps to reverse the write-downs that have been taken to date.

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.

(b) *Commitments*

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

	Amount
2013	$ 9,336
2014	9,242
2015	8,956
2016	6,997
2017	5,667
2018 and thereafter	35,269
Total	$ 75,467

Rental expense, before sublease income under these operating leases, was $11.9 million, $11.2 million and $11.5 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company recovered pre-tax amount of $0.2 million for the year ended December 31, 2012 and of $0.1 million for each of the years ended December 31, 2011 and 2010, from subleases.

14. Statutory Information and Dividend Restrictions

ORC, 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, ORC 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 ORC may pay in 2013, without such prior approval, is $315.5 million, based on ORC's separate company statutory financial statements. Connecticut law further provides that (i) ORC 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) ORC 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. The full dividend capacity available during 2013 is $315.5 million; however, $100.0 million of that capacity will not become available until September 2013, and another $100.0 million will not become available until December 2013. ORC declared and paid dividends of $200.0 million to the Company during the year ended December 31, 2012. ORC did not declare any dividends to the Company during the year ended December 31, 2011. ORC declared dividends of $512.0 million during the year ended December 31, 2010, of which $225.0 million was paid during 2010. ORC paid the balance of $287.0 million in the form of the common stock of Clearwater on January 1, 2011. Hudson declared and paid dividends on its preferred shares owned by Clearwater of $1.3 million and $1.0 million during the years ended December 31, 2012 and 2011, respectively. Clearwater Select declared and paid dividends on its preferred shares owned by Clearwater of $0.3 million and $0.2 million to Clearwater during the years ended December 31, 2012 and 2011, respectively.

The following is the consolidated statutory basis net income (loss) and policyholders' surplus of ORC and its subsidiaries, for each of the years ended and as of December 31, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Net income (loss)	$ 202,448	$ (26,707)	$ 338,205
Policyholders' surplus	3,184,090	3,054,109	3,320,141

15. Related Party Transactions

The Company has entered into various reinsurance arrangements with Fairfax and its affiliates. The 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, 2012, 2011 and 2010, follow (in thousands):

	2012	2011	2010
Assumed:			
Premiums written	$ 12,774	$ 15,114	$ 13,029
Premiums earned	15,504	15,243	15,337
Losses and loss adjustment expenses	12,573	37,176	16,016
Acquisition costs	2,491	4,214	3,697
Reinsurance payable on paid losses	3,128	5,894	1,333
Reinsurance balances receivable	1,702	3,091	257
Unpaid losses and loss adjustment expenses	82,439	141,959	123,283
Unearned premiums	3,983	6,620	4,181
Ceded:			
Premiums written	$ 7,995	$ 2,332	$ (23)
Premiums earned	6,611	1,569	(23)
Losses and loss adjustment expenses	28,426	(566)	7,256
Acquisition costs	1,510	207	-
Ceded reinsurance balances payable	1,167	34	202
Reinsurance recoverables on paid losses	(543)	(578)	(249)
Reinsurance recoverables on unpaid losses	45,917	1,990	13,949
Unearned premiums	2,104	739	-

Written premiums assumed from Fairfax's affiliates in 2012 represent less than 0.5% of OdysseyRe's total gross premiums written for the year ended December 31, 2012. The largest amounts of related party assumed business in 2012 were with Northbridge General Insurance Corporation and Fairfax Brasil Seguros Corporativos S.A.

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, 2012, 2011 and 2010, total fees, including incentive fees, of $26.7 million, $27.9 million and $28.5 million, respectively, are included in the consolidated statements of operations.

Included in other expense, net, for the years ended December 31, 2012, 2011 and 2010, are accrued charitable contributions of $3.0 million, $1.1 million and $4.2 million, respectively, to be paid to 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.

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 $2.5 million and $1.9 million as of December 31, 2012 and 2011, respectively, and amounts payable to affiliates of $11.0 million and $0.7 million as of December 31, 2012 and 2011, respectively.

Effective May 1, 2010, the Company and Fairfax (US) 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. On April 1, 2011, the facility amount was raised to $350.0 million. 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 US under the facility. During 2012 and 2011, Fairfax US repaid $6.7 million and $195.5 million, respectively, to the Company, resulting in a revolver loan payable balance of $2.2 million as of December 31, 2012, which is included in debt obligations (See Note 10). As of December 31, 2011, the Company had a loan receivable balance of $4.5 million which was included in other invested assets. During the years ended December 31, 2012, 2011 and 2010, the Company received $4.2 million, $16.1 million and $6.8 million, respectively, of interest from Fairfax (US), related to these loans. As of December 31, 2012, the Company had an accrued interest payable of less than $0.1 million, due to Fairfax (US), which is included in other liabilities on the balance sheet. As of December 31, 2011, the Company had an accrued interest receivable of $0.1 million, due from Fairfax (US), which is included in accrued investment income on the balance sheet.

Effective May 1, 2012, Hudson entered into an agreement with Northbridge Indemnity Insurance Company and Commonwealth Insurance Company (“Commonwealth”) which are Fairfax subsidiaries, to acquire the renewal rights for certain insurance business underwritten by Commonwealth in the U.S. market (the “CW Business”). The purchase price for these renewal rights was $4.0 million in cash plus a contingent obligation to pay up to $5.0 million in additional consideration based upon the underwriting profitability of the CW Business for the ensuing five years. The total consideration for the contract of $8.5 million (which consists of the $4.0 million cash payment plus the net present value of expected contingent payments as of the acquisition date) has been recorded as an intangible asset and is included in other assets as of December 31, 2012; the asset is being amortized over five years. As of December 31, 2012, the net present value of the contingent consideration obligation was $3.6 million and was included in other liabilities.

In December, 2012, the Company redeemed 656 of its common shares held by United States Fire Insurance Company, a subsidiary of Fairfax, for $45.0 million in cash.

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.

16. Employee Benefits

The Company provides its employees with benefits through various plans as described below. Effective August 1, 2011, the Company implemented modifications to the qualified defined benefit pension plan, the non-qualified excess benefit plans, the qualified deferred compensation plan, the non-qualified deferred compensation plan, and the postretirement benefit plan. The changes to these plans did not affect eligibility for, or benefit levels provided to, employees hired prior to August 1, 2011. However, employees hired on or after August 1, 2011 are not eligible to participate in the qualified defined benefit pension plan, the non-qualified excess benefit plans, or the post-retirement benefit plan. Such employees are eligible for enhanced benefits under the qualified deferred compensation plan and, if applicable, the non-qualified deferred compensation plan, as described below under "Other Plans."

Defined Benefit Pension Plan

The Company maintains a qualified, non-contributory, defined benefit pension plan ("Pension Plan") covering substantially all employees hired prior to August 1, 2011 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 Pension Plan's unfunded status and accrued pension cost recognized in the Company's consolidated financial statements as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 95,038	$ 76,346
Service cost	7,286	6,632
Interest cost	4,678	4,493
Actuarial loss	17,940	8,548
Benefits paid	(4,632)	(928)
Effect of curtailment	-	(53)
Benefit obligation at end of year	120,310	95,038
Change in Plan assets:		
Fair value of Pension Plan assets at beginning of year	76,595	66,949
Actual return on Pension Plan assets	9,898	6,574
Actual contributions during the year	6,968	4,000
Benefits paid	(4,632)	(928)
Fair value of Pension Plan assets at end of year	88,829	76,595
Unfunded status and accrued pension cost	$ (31,481)	$ (18,443)

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $31.5 million and $18.4 million, as of December 31, 2012 and 2011, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $16.0 million and $3.3 million, before taxes, as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the fair value and percentage of fair value of the total Pension Plan assets are as follows (in thousands):

	As of December 31,			
	2012		2011	
Equity securities	$ 43,840	49.4 %	$ 40,506	52.9 %
Fixed income securities	20,898	23.5	20,237	26.4
Pooled investment hedge fund	10,758	12.1	8,777	11.5
Money market	13,333	15.0	7,075	9.2
Fair value of Plan assets	$ 88,829	100.0 %	$ 76,595	100.0 %

The Pension 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 Pension 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 the years ended December 31, 2012 and 2011, the Company contributed $7.0 million and $4.0 million, respectively, to the Pension Plan. The Company currently expects to make a contribution to the Pension Plan of $5.8 million in 2013.

The Company accounts for its Pension Plan assets at fair value as required by GAAP. The Company has categorized its Pension 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 Pension Plan assets, quoted market prices are used. The majority of these Pension Plan assets are common stocks that are actively traded in a public market. The Pension 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 Pension 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 Pension Plan assets are valued by a third party, providing a net asset value, by using valuation techniques that include unobservable inputs. Generally, hedge funds invest in securities that trade in active markets, and as a result, their net asset values reflect their fair values. During the year ended December 31, 2012, the Pension Plan investments that are classified as Level 3 had a fair value of $10.8 million. During the year ended December 31, 2012, there was no activity for the investments that are classified as Level 3, other than an increase in market value of $2.0 million. During the year ended December 31, 2011, the Pension Plan investments that are classified as Level 3 had a fair value of $8.8 million. During the year ended December 31, 2011, there was no activity for the Pension Plan investments that are classified as Level 3, other than an increase in market value of $0.8 million.

The following tables present the fair value hierarchy for those Pension Plan assets measured at fair value on a recurring basis as of December 31, 2012 (in thousands):

	Assets Measured at Fair Value December 31, 2012	Fair Value Measurements as of December 31, 2012		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 43,840	$ 43,840	$ -	$ -
Debt securities	20,898	-	20,898	-
Pooled investment hedge fund	10,758	-	-	10,758
Money market	13,333	13,333	-	-
Total Pension Plan assets measured at fair value	$ 88,829	$ 57,173	$ 20,898	$ 10,758

	Assets Measured at Fair Value December 31, 2011	Fair Value Measurements as of December 31, 2011		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 40,506	$ 40,506	$ -	$ -
Debt securities	20,237	-	20,237	-
Pooled investment hedge fund	8,777	-	-	8,777
Money market	7,075	7,075	-	-
Total Pension Plan assets measured at fair value	$ 76,595	$ 47,581	$ 20,237	$ 8,777

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	4.25 %	5.00 %
Rate of compensation increase	3.66 %	3.66 %

The discount rate represents the Company's estimate of the interest rate at which the Pension 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, 2012, 2011 and 2010 is comprised of the following (in thousands):

	2012	2011	2010
Net Periodic Benefit Cost:			
Service cost	$ 7,286	$ 6,632	$ 5,898
Interest cost	4,678	4,493	3,925
Return on Plan assets	(4,655)	(4,019)	(3,444)
Net amortization and deferral	48	95	63
Net periodic benefit cost	$ 7,357	$ 7,201	$ 6,442

The Company estimates that it will record a $9.3 million expense related to the net periodic benefit cost during the year ended December 31, 2013. The Company does not expect any refunds of Pension Plan assets during the year ended December 31, 2013.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Discount rate	5.00 %	6.00 %	6.00 %
Rate of compensation increase	3.66 %	5.69 %	5.62 %
Expected long term rate of return on Pension Plan assets	6.00 %	6.00 %	6.00 %

The accumulated benefit obligation for the Pension Plan is $99.4 million and $79.0 million as of the December 31, 2012 and 2011 measurement dates, respectively.

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

Year	Amount
2013	$ 8,410
2014	4,340
2015	5,610
2016	5,770
2017	8,830
2018 - 2022	44,580

Excess Benefit Plans

The Company maintains two non-qualified excess benefit plans ("Excess Plans") that provide more highly compensated officers and employees, hired prior to August 1, 2011, 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, 2012 and 2011 (in thousands):

	2012	2011
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 17,150	$ 16,714
Service cost	761	873
Interest cost	831	975
Actuarial loss (gain)	790	(644)
Benefits paid	(975)	(768)
Benefit obligation at end of year	18,557	17,150
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	-	-
Actual contributions during the year	975	768
Benefits paid	(975)	(768)
Fair value of Excess Plans' assets at end of year	-	-
Unfunded status and accrued pension cost	$ (18,557)	$ (17,150)

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $18.6 million and $17.1 million, as of December 31, 2012 and 2011, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $2.7 million and $2.0 million, before taxes, as of December 31, 2012 and 2011, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	4.25 %	5.00 %
Rate of compensation increase	3.66 %	3.66 %

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 statements of operations for the years ended December 31, 2012, 2011 and 2010 is comprised of the following (in thousands):

	2012	2011	2010
Net Periodic Benefit Cost:			
Service cost	$ 761	$ 873	$ 719
Interest cost	831	975	914
Recognized net actuarial loss	126	133	110
Recognized prior service cost	(37)	(37)	(37)
Net periodic benefit cost	$ 1,681	$ 1,944	$ 1,706

The Company estimates that it will record a $1.7 million expense related to the net periodic benefit cost during the year ended December 31, 2013.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Discount rate	5.00 %	6.00 %	6.00 %
Rate of compensation increase	3.66 %	5.69 %	5.62 %

The accumulated benefit obligation for the Excess Plans is $14.3 million and $13.4 million as of December 31, 2012 and 2011, respectively.

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

Year	Amount
2013	$ 1,070
2014	1,090
2015	1,070
2016	1,610
2017	1,020
2018 - 2022	14,330

A trust fund, which was established related to the Excess Plans, is included in other invested assets, and had a fair value of $1.9 million and $2.6 million as of December 31, 2012 and 2011, respectively. Plan benefits are paid by the Company as they are incurred by the participants, accordingly, there are no assets held directly by the Excess Plans.

The Company expects to contribute $1.1 million to the Excess Plans during the year ended December 31, 2013, which represents the amount necessary to fund the 2013 expected benefit payments.

Postretirement Benefit Plan

The Company provides certain health care and life insurance ("postretirement") benefits for retired employees. Substantially all employees hired prior to August 1, 2011 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 in the Company's consolidated financial statements as of December 31, 2012 and 2011 (in thousands):

	2012	2011
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 38,182	$ 30,047
Service cost	4,229	3,338
Interest cost	1,652	1,606
Actuarial loss	3,104	3,730
Benefits paid	(628)	(626)
Other	154	87
Benefit obligation at end of year	46,693	38,182
Unfunded status and accrued prepaid pension cost	$ (46,693)	$ (38,182)

The net amount recognized in the consolidated balance sheets related to the accrued benefit cost of $46.7 million and $38.2 million, as of December 31, 2012 and 2011, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss, before taxes, recognized is $12.9 million and $10.5 million as of December 31, 2012 and 2011, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2012 and 2011 are as follows:

	2012	2011
Discount rate	3.95 %	4.36 %
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 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, 2012, 2011 and 2010 is comprised of the following (in thousands):

	2012	2011	2010
Net Periodic Benefit Cost:			
Service cost	$ 4,229	$ 3,338	$ 2,946
Interest cost	1,652	1,606	1,394
Net amortization and deferral	733	409	252
Net periodic benefit cost	$ 6,614	$ 5,353	$ 4,592

The Company estimates that it will record $7.5 million in net periodic benefit costs relating to this plan during the year ended December 31, 2013.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Discount rate	4.36 %	5.39 %	5.75 %
Rate of compensation increase	4.00 %	4.00 %	4.00 %

The accumulated benefit obligation for the postretirement plan was $46.7 million and $38.2 million as of December 31, 2012 and 2011, respectively.

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

Year	Amount
2013	$ 706
2014	837
2015	1,019
2016	1,240
2017	1,458
2018 - 2022	11,925

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 7.68% in 2012, 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 $9.1 million (19.6% of the benefit obligation as of December 31, 2012) and the service and interest cost components of net periodic postretirement benefit costs by $1.3 million for 2012. 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 2012 by $7.3 million and $1.0 million, respectively.

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 2012, 2011 or 2010.

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 ($17,000 in 2012). 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 $2.4 million in 2012, $2.0 million in 2011 and $2.3 million in 2010, are included in other underwriting expenses in the consolidated statements of operations.

Effective January 1, 2012, all employees hired on or after August 1, 2011 will be eligible for an annual profit sharing contribution, subject to Plan limitations. The Company will make this contribution regardless of whether or not elective deferrals were made during the year. The first profit sharing contribution will be paid in January 2013 and then each January thereafter and will use prior year's 401(k) compensation (base pay, short-term disability earnings and any overtime earnings) to determine the actual contribution for each employee. These profit sharing contributions will be calculated as a percentage of earnings at the end of each year and allocated to participant accounts in January of the following year.

The profit sharing contribution percentages are based upon each employee's years of service as follows:

Years of Service	Percent
Less than or equal to 5 years	6%
More than 5 years but less than or equal to 15	7%
More than 15 years	8%

The profit sharing contribution amounts will vest based upon the following vesting schedule:

Years of Service	Percent
Less than 2 years	0%
2 years but less than 3	20%
3 years but less than 4	40%
4 years but less than 5	60%
5 years but less than 6	80%
6 years or more	100%

17. 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 delisting of the Company's publicly-traded stock in 2009, the Stock-Based Compensation Plans were amended to allow for the conversion, substitution and issuance of REVRs (see Note 2(l)).

REVR Plan

In connection with the delisting of the Company's publicly-traded stock, 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. Under the terms 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 delisting of the Company's publicly-traded stock, 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 the Company's common shares outstanding as of the establishment of the REVR Plan. 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, 2012:

	Restricted Cash Units	REVRs
Outstanding as of December 31, 2011	2,685	336,664
Vested	(2,685)	(268,098)
Forfeited	-	(542)
Outstanding as of December 31, 2012	-	68,024

As of December 31, 2012 and 2011, the Company recorded a liability of $3.4 million and $13.6 million for the REVRs and Restricted Cash Units, respectively. For the years ended December 31, 2012, 2011 and 2010, the Company recognized an expense related to the REVRs and Restricted Cash Units of $6.4 million, $11.9 million and $24.6 million, respectively. The total tax benefit relating to the REVRs and Restricted Cash Units recognized for the years ended December 31, 2012, 2011 and 2010 was $2.2 million, $4.2 million and $8.6 million, respectively.

The remaining REVRs generally vest over the next two years. The amount of the future REVR obligations to be expensed during the next two years is $1.3 million. The average vesting period of the remaining REVRs is 1.2 years.

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") (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 three to seven years. The Company had 83,786 Restricted Share Awards outstanding as of December 31, 2012.

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, 2012, there was $28.1 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 2.7 years. The total fair value of the Restricted Share Awards granted during 2012, 2011 and 2010 was $17.7 million and $10.8 million and $13.5 million, respectively. As of December 31, 2012, the aggregate fair value of the Restricted Share Awards outstanding was $32.6 million. For the years ended December 31, 2012, 2011 and 2010, the Company recognized expense related to the Fairfax Restricted Share Plan of $6.2 million, $4.4 million and $1.3 million, respectively.

The following table summarizes activity for the Fairfax Restricted Share Plan and the Option Plan for the year ended December 31, 2012:

	Shares / Options	Weighted-Average Value at Grant Date
Restricted share awards outstanding as of December 31, 2011	65,036	$ 372.37
Granted	19,400	398.99
Vested	(254)	351.47
Forfeited	(396)	385.10
Restricted share awards outstanding as of December 31, 2012	83,786	$ 378.54
Vested and exercisable as of December 31, 2012	230	$ 217.60

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, 2012, the Company purchased 10,212 Fairfax common shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of $372.30. The compensation expense recognized by the Company for purchases of Fairfax's common shares under the 2010 ESPP was $0.8 million, $0.9 million and $0.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

18. Transfer of Ownership of Clearwater (Unaudited)

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

Consolidated Statement of Operations

	For the Year Ended December 31, 2010		
	As Reported	Less Clearwater	OdysseyRe Excluding Clearwater
Gross premiums written	$ 2,167,338	$ 288	$ 2,167,626
Net premiums written	1,853,798	(168)	1,853,630
Net premiums earned	1,885,714	(190)	1,885,524
Net investment income	327,875	(39,942)	287,933
Total net realized investment gains	170,349	(28,638)	141,711
Total revenues	2,383,938	(68,770)	2,315,168
Losses and loss adjustment expenses	1,317,053	(65,650)	1,251,403
Acquisition costs and other underwriting expenses	541,448	(1,837)	539,611
Interest and other expense, net	94,055	-	94,055
Total expenses	1,952,556	(67,487)	1,885,069
Income before income tax	431,382	(1,283)	430,099
Total federal and foreign income tax provision	98,107	15,915	114,022
Net Income	333,275	(17,198)	316,077
Preferred dividends	(3,966)	-	(3,966)
Loss on redemption of preferred shares	(2,183)	-	(2,183)
Gain on purchase of preferred shares	5	-	5
Net income available to common shareholders	$ 327,131	$ (17,198)	$ 309,933
Underwriting Ratio:			
Loss and loss adjustment expense ratio	69.8 %		66.4 %
Acquisition costs and other underwriting expense ratio	28.8		28.6
Combined ratio	98.6 %		95.0 %

OdysseyRe®

300 First Stamford Place
Stamford, CT 06902

odysseyre.com