Investing in

Annual Report 2013

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Investing in Service.

At OdysseyRe, service excellence is at the core of everything we do; it drives every aspect of our organization and permeates our business philosophy. We believe that success is only possible with continued investment in our service culture.

Odyssey Re Holdings Corp. is a leading worldwide underwriter of reinsurance and specialty insurance, **with total assets of $11.0 billion and $3.7 billion in shareholders' equity** as of December 31, 2013.

Odyssey Re Holdings Corp., headquartered in Stamford, Connecticut, operates globally under the banner OdysseyRe. Supported by $3.1 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, Hudson Excess 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 **$36.0 billion and $8.5 billion in shareholders' equity.**

At a Glance

OdysseyRe conducts its business through four operating divisions: Americas, EuroAsia, London Market and U.S. 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 (U.S. & Latin America only)

Property Facultative (Latin America only)

Agriculture

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

Cargo & Specie

Space

International Casualty Insurance including:

- Bankers Blanket Bond / Commercial Crime
- Professional Liability
- Directors & Officers Liability
- General Liability / Products Liability / Employers Liability
- Medical Professional Liability

Hudson Insurance Company

Hudson Specialty Insurance Company

Hudson Excess 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

Financial Highlights

Odyssey Re Holdings Corp.

(dollars in millions)

	2013	2012	2011
Gross premiums written	$ 2,715.5	$ 2,773.2	$ 2,420.7
Net premiums written	2,376.9	2,402.3	2,089.7
Net premiums earned	2,373.6	2,315.3	2,014.7
Net investment income	209.5	162.2	284.2
Operating income (loss) before income taxes[a]	577.6	393.4	(146.7)
Net realized investment gains (losses)	(426.7)	64.7	65.8
Income (loss) before income taxes	150.9	458.2	(87.0)
Net income (loss)	136.9	282.5	(66.0)
Total assets	11,026.0	11,217.6	10,616.5
Shareholders' equity	3,730.7	3,678.8	3,335.4
Underwriting income (loss)	376.0	262.5	(339.2)
Combined ratio	84.2%	88.7%	116.8%

[a] Represents income (loss) before income taxes excluding net realized investment gains and losses on early extinguishment of debt

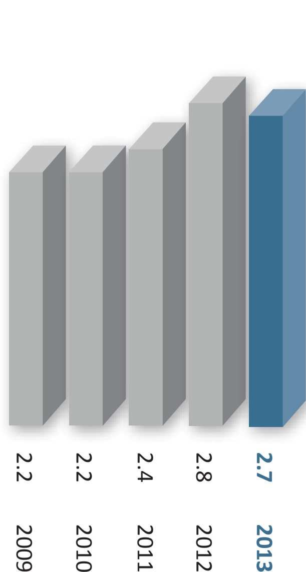
Gross Premiums Written by Division

(dollars in millions)

	2013	2012	2011
Americas	$ 1,000.5	$ 1,125.3	$ 792.7
EuroAsia	582.3	585.9	607.4
London Market	284.7	332.9	360.4
U.S. Insurance	848.0	729.1	660.2
Total gross premiums written	$ 2,715.5	$ 2,773.2	$ 2,420.7

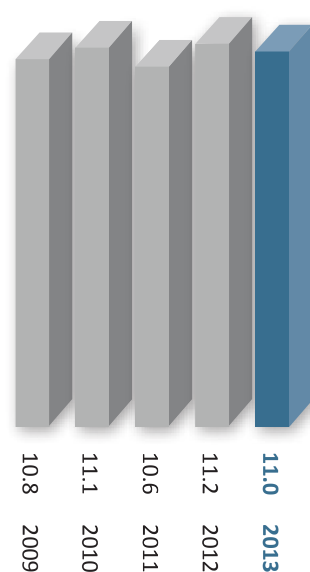
Gross Premiums Written

($ in billions)



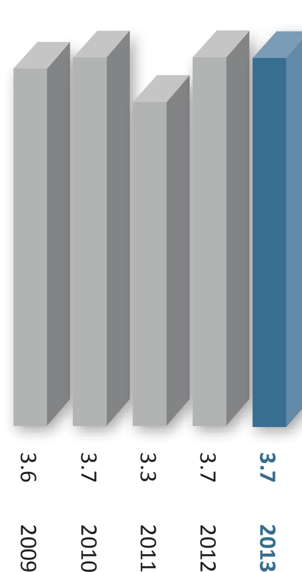
Total Assets

($ in billions)



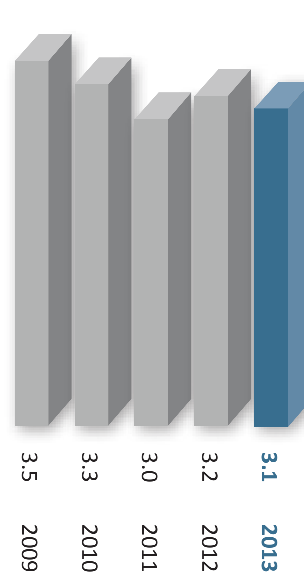
Shareholders' Equity

($ in billions)



Statutory Surplus

($ in billions)



Dear Friends, Business Partners and Colleagues

"IT WAS the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness..."

– A Tale of Two Cities
by Charles Dickens

OdysseyRe, like many of our peers, posted excellent underwriting results in 2013, and yet our performance stands in stark contrast to market fundamentals that are challenged and getting weaker by the day.

It wasn't that long ago when many market commentators proclaimed the end of the underwriting cycle. Enterprise Risk Management, Sarbanes-Oxley, models, better data and faster claim recognition would stabilize pricing to the benefit of both buyers and sellers. Fast forward to today and many are forecasting the demise of the reinsurance market as we know it. The thesis goes: a deep, never ending pool of alternative capital and increasing buyer retentions will lead to ceaseless and unrelenting price cutting.

We at OdysseyRe never bought into the notion that new market discipline would prevent prices from falling too low and we have a hard time believing now that blind capacity is here to stay. In our view, the more things change, the more they stay the same. Losses will come, capital will dissipate, fear will permeate the market again, and when it does, the demand and price for (re)insurance will rise as it always has.

While the price of (re)insurance will continue to rise and fall, there remains one constant – the importance of service. At OdysseyRe, service excellence matters: long-term partnerships are built on it, clients value it and we are committed to providing it in every aspect of our business. The theme of our annual report this year is *Investing in Service.* We are proud of our service culture at OdysseyRe. We do many things well, but are humble enough to know that we can do things better and we will not stop working to improve the quality of the service we provide to our clients and business partners.

Turning to our results, OdysseyRe's underwriting performance in 2013 was excellent, even better than 2012 when we achieved an 88.7% combined ratio.

For the full year, our combined ratio came in at 84.2%, well below our target of 94.6%. Two factors bolstered our underwriting performance: lower than anticipated cat activity and favorable prior year reserve development.

Pre-tax operating earnings totaled $578 million, representing a pre-tax operating return of 15.6% on average GAAP equity. Net income for the year declined sharply to $137 million from $283 million in the prior period as rising interest rates and strong equity markets took their toll on our defensively positioned investment portfolio.

We finished the year with $11.0 billion of total assets and $8.7 billion of invested assets, both of which were down moderately from the prior year due to losses in the investment portfolio. GAAP equity is up $52 million to close the year at $3.7 billion.

OdysseyRe is a globally diversified underwriter of property and casualty reinsurance and specialty insurance operating through four divisions (% of gross premiums written): Americas (37%), EuroAsia (21%), London Market (11%) and U.S. Insurance (31%). We write business in more than 100 territories through a network of 29 offices located in 10 countries around the world.

OdysseyRe's gross premiums written totaled $2.7 billion in 2013, down 2% from the prior year, while net premiums earned grew by 2% to $2.4 billion. Reductions in reinsurance volume across our network were more or less offset by growth in our U.S. specialty insurance business.

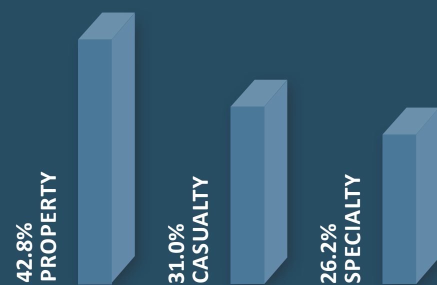
We have 32 business units organized along different product, territorial and distribution lines with 17 of these focused in the reinsurance arena and the remaining 15 dedicated to insurance markets. Diversification is critical to our strategy as it provides portfolio stability and allows us to rapidly respond to business opportunities as they emerge around the world.

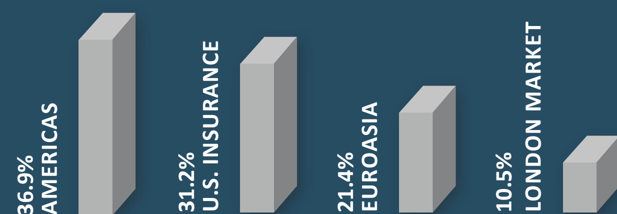
All of our reinsurance business is underwritten through our flagship Company, Odyssey Reinsurance Company. Odyssey Reinsurance Company, headquartered in Stamford, Connecticut, writes a global reinsurance portfolio of $1.7 billion through a branch and representative office network of 12 offices located in 9 countries around the world. Our reinsurance results were excellent in 2013 producing a global combined ratio of 76.3%.

In addition to our core reinsurance operations, we underwrite an expanding portfolio of specialty insurance through Hudson Insurance Group (Hudson) in the U.S. and Newline Group (Newline) internationally. In 2013, the global gross premiums written generated by our insurance operations was $1 billion and the net combined ratio was 102%. Results in our global insurance business were affected by adverse U.S. crop experience due to severe weather, but the portfolio as a whole is on solid footing. Excluding the crop results, the rest of the insurance portfolio ran to a respectable combined ratio of 95%.

In recent years we have highlighted the expansion of our property reinsurance portfolio. Due to market pressures the

2013 Gross Premiums Written
$2.7 billion





"We are guided by the principle that service is not just about what we do for our clients, but also about how we serve each other and the communities in which we work."

portfolio reduced 10.6% in 2013, and as the rate softening accelerates in 2014, further reductions are expected. Total property premiums, both insurance and reinsurance, accounted for 43% of gross premiums written in 2013 compared to 46% in 2012.

Our casualty portfolio represented 31% of the global portfolio in 2013 and was unchanged from the prior year. A greater proportion of our casualty portfolio is weighted to insurance with roughly 67% of our total casualty writings consisting of business underwritten by Hudson and Newline. Casualty insurance pricing is challenging around the world, especially in many of Newline's core international markets. Hudson achieved modest rate increases in 2013 across most of its U.S. casualty business segments, apart from Healthcare, but there are signs the rating environment will get tougher in the year ahead. The casualty reinsurance market has deteriorated rapidly, especially in the U.S., as reinsurers reach for top-line growth.

Specialty classes including crop, surety, credit, marine, aerospace and motor represented 26% of our overall portfolio in 2013 up from 23% in 2012. We expect these segments, especially crop, to offer opportunities for further expansion in the year to come.

Business written in the U.S. represented 60% of our global portfolio, up from 57% in the prior year. In the insurance segment, 81% of our portfolio was written in the U.S., while 54% of the reinsurance portfolio emanated from outside the U.S. In the last few years, the U.S. element of our portfolio overall has increased in size as growth in U.S. insurance has outpaced business expansion elsewhere.

OdysseyRe's performance was excellent in 2013; for the second year running underwriting results have been the critical driver of our financial success. While the broad market outlook is negative, we feel cautiously optimistic about our business prospects going forward thanks to our diversified business mix, disciplined underwriting culture, expanding product offering, strong trading partnerships and rock solid balance sheet.

I would like to thank our many clients and partners across the world for their business and loyal support. Mahatma Gandhi has been credited with having said: *"A customer is the most important visitor on our premises, he is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so."* We embrace these words and we remain steadfast in our commitment to providing quality service to all of our customers.

To our parent, Fairfax, and especially to Prem Watsa and Andy Barnard, thank you for your leadership and for fostering a culture that promotes discipline, service and a long term business outlook.

Finally to the 855 men and women who serve this Company proudly, it is a privilege and an honor to work with you. Congratulations on another great year and thank you for embracing the principle that service is not just about what we do for our clients, but also about how we serve each other and the communities in which we work.

Brian D. Young
President & Chief Executive Officer

The Americas Division

The Americas division encompasses our operations in North America, led by Brian Quinn, and Latin America, led by Philippe Mallier. We underwrite property, casualty, surety, marine, aviation and agricultural reinsurance business. With 296 employees, we serve our business partners through a network of eight offices in the U.S., Canada and Latin America. The division was responsible for $1.0 billion of gross premiums in 2013, a decrease of 11.1% over 2012 primarily as a result of reduced U.S. property writings. Gross premiums written were $855.7 million in North America and $144.8 million in Latin America.

In North America, we underwrite treaty reinsurance business from Stamford, Toronto and Montreal, complemented by our casualty facultative operations located in New York City and Chicago. In 2013, gross premiums written in the U.S. decreased by 9.7% due to reduced property pro rata writings and the impact of declining, but still adequate, catastrophe excess pricing. We continue to take advantage of select property catastrophe opportunities offering attractive original rates and reinsurance terms. In casualty, both treaty and facultative, we are managing our core portfolio amid difficult trading conditions, with an emphasis on identifying superior underwriters and unique opportunities. Surety volume remains steady despite increased competition following an extended period of favorable results. Our Canadian gross premiums written decreased by 3.2% from 2012 as a result of share reductions on renewal business, higher retentions and cedent consolidations.

In Latin America, we underwrite treaty business from our Miami office and facultative and agro business from our Mexico City office. All business in Brazil is being coordinated through our São Paulo office. Gross premiums written were stable apart from the restructuring of one large reinsurance program.

The combined ratio for the Americas division was 75.6%, an improvement of 12 points compared to 2012, an excellent result due to a combination of disciplined underwriting, continued business mix shift towards shorter tail lines, the absence of major catastrophe losses and favorable reserve development.

The Americas Division 2013 Gross Premiums Written
$1,000.5 million

"We are an underwriting company rich with talent and dedicated to addressing customer needs. We are steadfast about maintaining our underwriting focus, understanding our clients' challenges and objectives, and providing timely and effective solutions."

The EuroAsia Division

The EuroAsia division, led by Lucien Pietropoli and supported by 94 employees, 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.

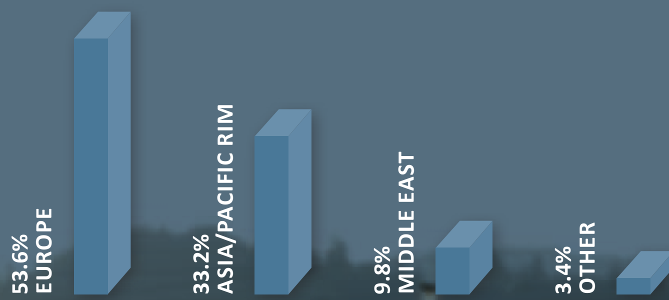
Gross premiums written for EuroAsia totaled $582.3 million in 2013. Volume was essentially flat compared to 2012 as growth in Japan and China during the year was offset by less favorable exchange rates and lower reinstatement premiums.

Business underwritten from the Paris office represented 60.7% of the division's volume, with 33.8% and 5.5% coming from our Singapore and Stockholm offices, respectively. Property treaty remains the dominant class representing 74% 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 2013 was 85.2%, compared to 77.0% in 2012, with the increase due principally to property catastrophe loss activity in Central Europe and surety bond losses in Spain.

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.

EuroAsia Division 2013 Gross Premiums Written
$582.3 million



"OdysseyRe has been active throughout the region for many years and has developed a loyal base of customers that know they can count on us for consistent, expert advice."

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 at Lloyd's and Newline Insurance Company Limited. The three operations are headquartered at the London Underwriting Centre with 118 staff under a common management team.

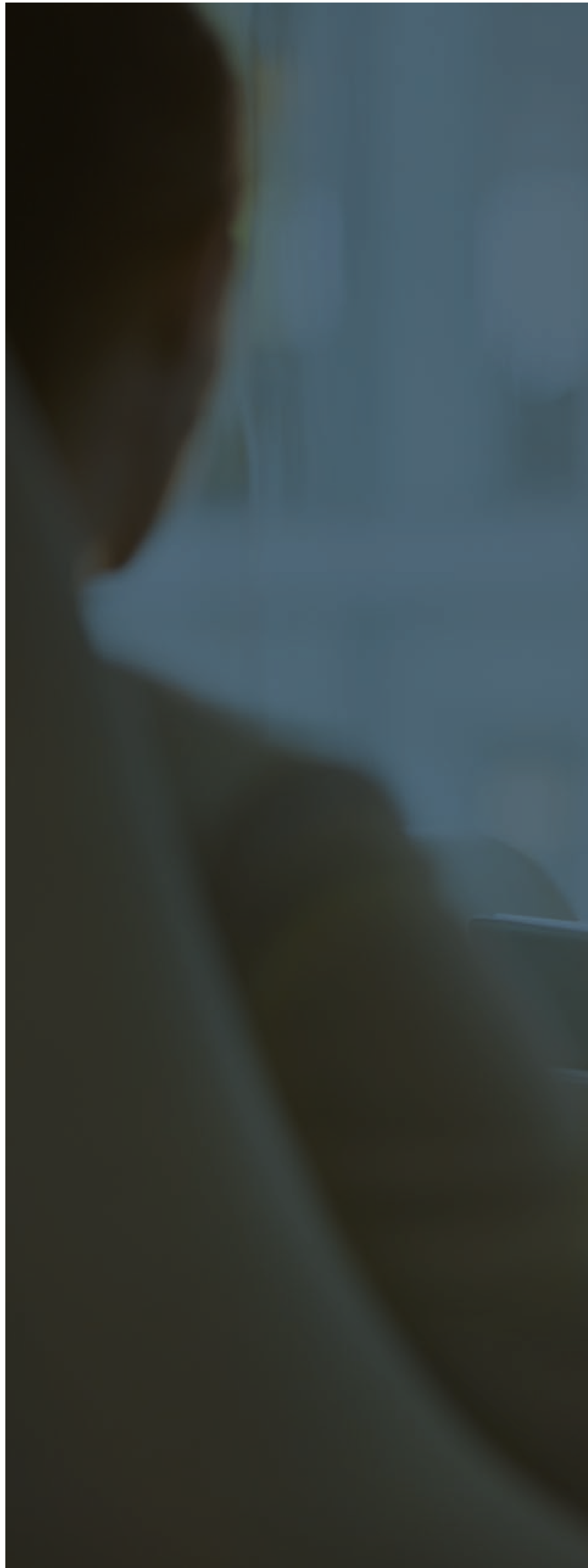
In 2013, gross premiums written declined 14.5% to $284.7 million, mostly due to unfavorable foreign exchange rates and competitive market conditions. The division's combined ratio for 2013 was 70.9% compared to 90.1% in 2012, a stellar result and vast improvement over the prior period. The division's underwriting performance benefited from a benign catastrophe year together with prior year reserve releases in both the London branch and Newline.

Newline Syndicate is a leading casualty insurance specialist with a meaningful presence in the U.K., 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.

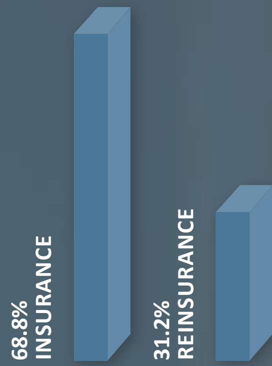
Newline Insurance Company Limited provides access to regional distribution channels not available to the Syndicate. Newline Insurance Company is licensed to underwrite direct insurance throughout the EC and facultative reinsurance in other jurisdictions, from both its London platform and its regional 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 indemnity, directors and officers liability, medical malpractice, satellite and new in 2013, cargo & specie.

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.



The London Market Division 2013 Gross Premiums Written
$284.7 million



"Our strong, cohesive team continues to respond to the needs of the London Market by providing disciplined underwriting, clear communication and timely payment of claims."

The U.S. Insurance Division

The U.S. Insurance division, led by Chris Gallagher, trades under the banner Hudson Insurance Group. Hudson, a specialty insurer supported by 347 employees, writes business on both an admitted basis through Hudson Insurance Company and a non-admitted basis through Hudson Specialty Insurance Company and Hudson Excess Insurance Company.

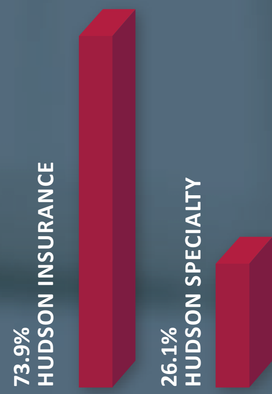
Hudson operates from its headquarters in New York City as well as 13 additional offices throughout the U.S. and an office in Vancouver, Canada. We offer a diverse range of property and casualty insurance products to corporations, professional firms and individuals through retailers, wholesalers and program administrators. Our structure and service capabilities allow us to respond rapidly to market opportunities irrespective of the distribution channel.

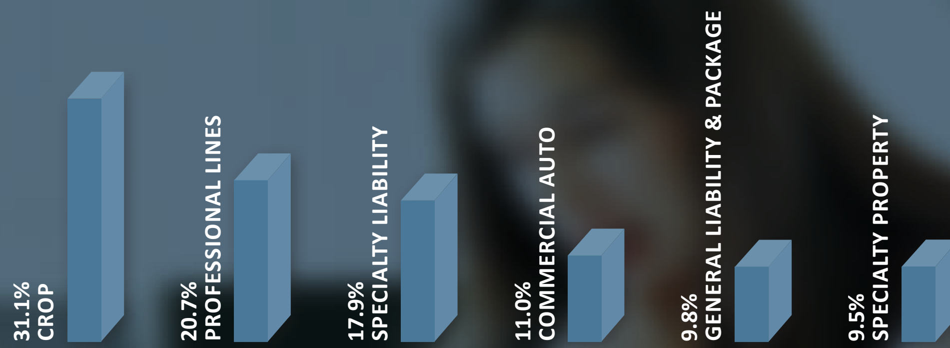
The combined ratio for 2013 was 103.2% compared to 103.4% for the prior year. In 2013, we wrote gross premiums of $848.0 million, an increase of 16.3% over 2012. This increase was due to growth across several lines of business, but most notably in our crop, commercial property and niche casualty sectors. This increase was partially offset by reductions due to competitive market conditions in professional liability.

The recent acquisition of American Safety's surety platform and the assumption of Crum & Forster's management liability business should lead to Hudson's growth in both product segments in 2014.

The deep industry knowledge and vast experience of our talented team of professionals enables us to offer creative, highly customized service tailored to meeting the needs of our clients and business partners. 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.

U.S. Insurance Division 2013 Gross Premiums Written
$848.0 million





"Our clients and partners benefit from our extensive knowledge and experience that enables us to develop creative, tailored solutions to meet their needs."

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

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
Francis D. Cerasoli
Andrew K. Chu
Michael P. Cifone
Thierry Clarenc
Mary M. Coca
Richard F. Coerver IV
Patrice M. Conboy
Loic Alandou d'Arboussier
James J. Danbrowney
Dina G. Daskalakis
Christophe Delélis-Fanien
Matthew J. Deneen
Andrew A. Dickson
Isabelle Dubots-Lafitte
Neil D. Duncan
Philip A. Evensen
Paul T. Everett
Paul A. Fields
Philip T. Foley
Christopher L. Gallagher
Marc J. Garganigo
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
Deborah A. Irving
Sonny Kapur
Robert B. Kastner
Margaret M. Killeen
Jean-Raymond Kingsley
Guy R. Landymore
Hervé Leduc
Gaël Le Païh
Eugene R. Lock
Gary P. Maile
Philippe E. Mallier
Olivier Massot
Pär Mattsson
J. Richard F. Micklem
Carl A. Overy
John J. Parker
Kazimierz W. Pienkawa
Lucien Pietropoli
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
Anthony J. Slowski
Christopher T. Suarez
Leslie D. Svoboda
Emily Tay
Anthony Terracciano
Guy Tippett
Tadashi Urata
Stephen J. Van de Graaf
John F. Verbich
Janine M. Walter
J. Ceri Welch
Mark A. Welshons
William F. Wetherall
Jean M. Willig
Francisco J. Zavala

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Singapore 018960
Tel. (65) 6212-1290

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5th Floor
New York, NY 10038
Tel. (212) 978-2800

ATLANTA
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2013 Financial Report

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, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years ended December 31, 2013.

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, 2013 and December 31, 2012 and the results of their operations and their cash flows for the three years ended December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 7, 2014

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
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ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $2,011,441 and $2,139,064, respectively)	$ 2,247,607	$ 2,632,665
Fixed income securities, held for trading, at fair value (amortized cost $1,917,023 and $1,770,449, respectively)	1,823,289	1,844,961
Preferred stocks, available for sale, at fair value (cost $54 and $54 respectively)	2,103	54
Preferred stocks, held for trading, at fair value (cost $261,074 and $240,138, respectively)	292,979	229,654
Equity securities:		
Common stocks, available for sale, at fair value (cost $561,077 and $815,322, respectively)	670,951	1,032,485
Common stocks, held for trading and fair value options, at fair value (cost $504,561 and $501,013, respectively)	700,148	504,029
Common stocks, at equity	128,944	122,400
Short-term investments, held for trading, at fair value (amortized cost $931,576 and $1,499,462, respectively)	931,576	1,499,462
Cash and cash equivalents	643,234	625,025
Cash and cash equivalents held as collateral	255,085	120,535
Other invested assets	965,392	472,443
Total investments and cash	8,661,308	9,083,713
Accrued investment income	55,205	56,043
Premiums receivable	669,798	605,508
Reinsurance recoverable on paid losses	95,810	55,516
Reinsurance recoverable on unpaid losses	790,642	813,573
Prepaid reinsurance premiums	103,976	115,804
Funds held by reinsureds	146,043	136,073
Deferred acquisition costs	182,791	172,714
Federal and foreign income taxes receivable	205,713	48,158
Other assets	114,711	130,457
Total assets	$ 11,025,997	$ 11,217,559
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,569,515	$ 5,632,322
Unearned premiums	825,649	834,385
Reinsurance balances payable	176,030	217,353
Funds held under reinsurance contracts	4,551	4,648
Debt obligations	264,645	448,963
Other liabilities	454,873	401,122
Total liabilities	7,295,263	7,538,793
Commitments and Contingencies (Note 12)		
SHAREHOLDERS' EQUITY		
Non-controlling 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; 53,440 and 50,640 shares issued and outstanding, respectively	535	507
Additional paid-in capital	587,994	404,550
Accumulated other comprehensive income, net of deferred income taxes	231,057	497,118
Retained earnings	2,881,846	2,747,289
Total shareholders' equity	3,730,734	3,678,766
Total liabilities and shareholders' equity	$ 11,025,997	$ 11,217,559

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
REVENUES			
Gross premiums written	$ 2,715,546	$ 2,773,218	$ 2,420,744
Ceded premiums written	338,604	370,873	331,019
Net premiums written	2,376,942	2,402,345	2,089,725
Increase in net unearned premiums	(3,358)	(87,069)	(75,020)
Net premiums earned	2,373,584	2,315,276	2,014,705
Net investment income	209,496	162,168	284,161
Net realized investment (losses) gains:			
Net realized investment (losses) gains	(426,722)	239,623	261,553
Other-than-temporary impairment losses	(6)	(174,877)	(195,781)
Total net realized investment (losses) gains	(426,728)	64,746	65,772
Total revenues	2,156,352	2,542,190	2,364,638
EXPENSES			
Losses and loss adjustment expenses	1,309,591	1,414,467	1,812,342
Acquisition costs	476,077	439,755	350,666
Other underwriting expenses	211,882	198,574	190,866
Other (income) expense, net	(16,920)	3,531	62,734
Interest expense	24,856	27,689	28,924
Loss on early extinguishment of debt	—	—	6,121
Total expenses	2,005,486	2,084,016	2,451,653
Income (loss) before income taxes	150,866	458,174	(87,015)
Federal and foreign income tax (benefit) provision:			
Current	(29,115)	82,615	84,941
Deferred	43,037	93,046	(105,993)
Total federal and foreign income tax provision (benefit)	13,922	175,661	(21,052)
Net income (loss)	$ 136,944	$ 282,513	$ (65,963)

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
Net income (loss)	$ 136,944	$ 282,513	$ (65,963)
OTHER COMPREHENSIVE (LOSS) INCOME , BEFORE TAX			
Unrealized net (depreciation) appreciation on securities arising during the period	(234,191)	437,886	316,153
Reclassification adjustment for realized investment gains included in net income (loss)	(130,535)	(221,759)	(218,435)
Foreign currency translation adjustments	(57,030)	(22,257)	25,122
Benefit plan liabilities	12,483	(15,720)	(8,425)
Other comprehensive (loss) income, before tax	(409,273)	178,150	114,415
TAX BENEFIT (PROVISION)			
Unrealized net depreciation (appreciation) on securities arising during the period	81,892	(153,210)	(110,814)
Reclassification adjustment for realized investment gains included in net income (loss)	45,687	77,616	76,452
Foreign currency translation adjustments	20,002	7,790	(8,794)
Benefit plan liabilities	(4,369)	5,502	2,948
Total tax benefit (provision)	143,212	(62,302)	(40,208)
Other comprehensive (loss) income, net of tax	(266,061)	115,848	74,207
Comprehensive (loss) income	$ (129,117)	$ 398,361	$ 8,244

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2013	2012	2011
	(In thousands, except share amounts)		
NON-CONTROLLING INTEREST			
Balance, beginning of year	$ 29,299	$ 29,299	$ —
Clearwater ownership of preferred shares of subsidiaries	—	—	29,299
Balance, end of year	29,299	29,299	29,299
PREFERRED SHARES (par value)			
Balance, beginning and end of year	3	3	3
COMMON SHARES (par value)			
Balance, beginning of year	507	513	567
Common shares capital redemptions — Clearwater transfer	—	—	(59)
Common shares capital contributions	28	1	5
Common shares capital redemptions	—	(7)	—
Balance, end of year	535	507	513
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	404,550	417,647	456,049
Common shares capital redemptions — Clearwater transfer	—	—	(46,877)
Capital contribution	188,173	4,787	13,673
Common shares capital redemptions	342	(5,248)	—
Net change due to stock option exercises and restricted share awards	(5,071)	(12,636)	(5,198)
Balance, end of year	587,994	404,550	417,647
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	497,118	381,270	391,485
Clearwater transfer — unrealized appreciation of securities	—	—	(83,705)
Clearwater — foreign currency translation adjustment	—	—	(717)
Unrealized net (depreciation) appreciation on securities, net of reclassification adjustments	(237,147)	140,533	63,356
Foreign currency translation adjustments	(37,028)	(14,467)	16,328
Benefit plan liabilities	8,114	(10,218)	(5,477)
Balance, end of year	231,057	497,118	381,270
RETAINED EARNINGS			
Balance, beginning of year	2,747,289	2,506,712	2,820,929
Clearwater transfer	—	—	(246,468)
Net income (loss)	136,944	282,513	(65,963)
Capital redemptions	(343)	(39,745)	—
Dividends to preferred shareholders	(2,044)	(2,191)	(1,786)
Balance, end of year	2,881,846	2,747,289	2,506,712
TOTAL SHAREHOLDERS' EQUITY	$ 3,730,734	$ 3,678,766	$ 3,335,444
COMMON SHARES OUTSTANDING			
Balance, beginning of year	50,640	51,224	56,605
Repurchased and retired	—	(656)	(5,921)
Shares issued	2,800	72	540
Balance, end of year	53,440	50,640	51,224

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2013	2012	2011
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 136,944	$ 282,513	$ (65,963)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
(Increase) decrease in premiums receivable and funds held, net	(144,570)	16,368	(188,999)
(Decrease) increase in unearned premiums and prepaid reinsurance premiums, net	(466)	92,468	73,067
(Decrease) increase in unpaid losses and loss adjustment expenses, net	(73,076)	8,569	455,297
(Increase) decrease in current and deferred federal and foreign income taxes, net	(14,278)	121,048	(59,142)
Increase in deferred acquisition costs	(8,853)	(35,610)	(18,793)
Change in other assets and liabilities, net	21,201	(59,446)	125,015
Net realized investment losses (gains)	426,728	(64,746)	(65,772)
Loss on early extinguishment of debt	—	—	6,121
Bond discount amortization, net	(8,367)	(12,377)	(40,689)
Amortization of compensation plans	9,000	6,155	5,543
Net cash provided by operating activities	344,263	354,942	225,685
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	4,088	21,597	11,254
Sales of fixed income securities, available for sale	217,432	1,171,826	1,799,224
Purchases of fixed income securities, available for sale	(80,629)	(32,184)	(635,012)
Sales of equity securities	434,070	249,360	654,588
Purchases of equity securities	(95,896)	(349,277)	(56,129)
Net settlements of other invested assets	(470,924)	(31,924)	303,816
Purchases of other invested assets	(648,965)	(311,249)	(182,000)
Net change in cash and cash equivalents held as collateral	(142,218)	(15,330)	(72,115)
Sales of trading securities	4,015,785	4,621,697	1,903,791
Purchases of trading securities	(3,496,044)	(5,386,222)	(4,472,058)
Net purchases of fixed assets	(6,135)	(14,961)	(8,909)
Acquisition of net assets of a business	(10,000)	(4,000)	—
Net cash used in investing activities	(279,436)	(80,667)	(753,550)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution	188,201	4,788	13,679
Capital redemption	—	(45,000)	—
Repayment of debt obligations maturity	(182,827)	—	—
Purchase of restricted shares	(13,775)	(17,693)	(10,806)
Dividends paid to preferred shareholders	(2,044)	(2,191)	(1,786)
Early extinguishment of debt obligations	—	—	(47,849)
Repurchase of common shares through transfer of ownership of subsidiary	—	—	(80,953)
(Repayments of) proceeds under revolving line of credit agreement	(2,164)	2,164	—
Net cash used in financing activities	(12,609)	(57,932)	(127,715)
Effect of exchange rate changes on cash and cash equivalents	(34,009)	18,399	(12,171)
Increase (decrease) in cash and cash equivalents	18,209	234,742	(667,751)
Cash and cash equivalents, beginning of year	625,025	390,283	1,058,034
Cash and cash equivalents, end of year	$ 643,234	$ 625,025	$ 390,283
Supplemental disclosures of cash flow information:			
Interest paid	$ 26,223	$ 26,522	$ 28,188
Income taxes paid	$ 27,615	$ 55,358	$ 51,299
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"; on a stand-alone basis, "ORH"), 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 ("Lloyd's") 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"); Clearwater Select Insurance Company ("Clearwater Select"): Newline Holdings U.K. Limited, Newline Underwriting Management Limited, which manages Newline Syndicate (1218), a member of Lloyd's of London, Newline Insurance Company Limited ("NICL"), Newline Corporate Name Limited ("NCNL"), which provides capital for and receives the distributed earnings from Newline Syndicate (1218) (collectively, "Newline"); 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 ORH, 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.

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 i) important to the portrayal of the Company's financial condition and results of operations and ii) require the Company to exercise significant judgment. These estimates, by necessity, are based on assumptions about numerous factors.

The Company reviews its critical accounting estimates and assumptions on a quarterly basis, including: 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 $13.9 million and $61.0 million as of December 31, 2013 and 2012, 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 written are based upon the effective date of the underlying policy and 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 $7.3 million and $5.8 million as of December 31, 2013 and 2012, 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. 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 meet 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 costs recovered under ceded contracts, 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 $474.4 million, $436.5 million and $344.4 million for the years ended December 31, 2013, 2012 and 2011, 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, 2013 and 2012.

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, 2013 and 2012 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2012	$ 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
Acquired during 2013	—	—	10,000	10,000
Amortization during 2013	—	—	(3,582)	(3,582)
Balance, December 31, 2013	$ 36,734	$ 5,813	$ 16,705	$ 59,252

The Company amortized $1.9 million for the year ended December 31, 2011 related to its intangible assets with a finite life. The Company did not incur any impairment of its goodwill or intangible assets for the years ended December 31, 2013, 2012 or 2011.

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

	Years Ended December 31,				
	2014	2015	2016	2017	2018
Amortization of intangible assets	$ 4,100	$ 4,049	$ 4,004	$ 2,828	$ 1,726

(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% and 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 which 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 other 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, 2013 and 2012, the Company had reflected $8.3 million and $8.1 million in other assets and $2.0 million and $1.8 million, in other liabilities, 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, 2013 and 2012, 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, 2013 and 2012, 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 total return swaps, interest rate swaps, forward currency contracts, CPI-linked derivative contracts, credit default swaps, call options and warrants 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, reflecting the manner in which management monitors and evaluates the Company's financial performance: Americas, EuroAsia, London Market and U.S. Insurance (see Note 10).

(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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Statement of operations:			
Net investment income (loss)	$ 220	$ (647)	$ 1,022
Net realized investment losses	(7,582)	(19,850)	(2,868)
Other income (expense), net	33,777	14,949	(47,737)
Income (loss) before income taxes	26,415	(5,548)	(49,583)
Total federal and foreign income tax provision (benefit)	9,246	(1,942)	(17,357)
Net income (loss)	17,169	(3,606)	(32,226)
Other comprehensive (loss) income , net of tax	(37,028)	(14,467)	16,328
Total effect on comprehensive loss and shareholders's equity	$ (19,859)	$ (18,073)	$ (15,898)

(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."

(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 $24.1 million and $25.9 million as of December 31, 2013 and 2012, 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, 2013, 2012 and 2011 was $8.1 million, $6.7 million and $5.4 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. As of December 31, 2013 and 2012, no contingent liabilities have been recorded (see Note 12).

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, and publicly traded call options.

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. Preferred stocks are also classified as Level 2 and are priced using a model which utilizes underlying stock prices and volatility, credit spreads and SWAP curves. 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 is categorized 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.

For the year ended December 31, 2013, the Company transferred $106.9 million of a Level 2 security to Level 3 after determining that the underlying invested assets of the investee had changed. For the year ended December 31, 2012, 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, 2013 and 2012, the Company purchased $594.5 million and $251.1 million, respectively, of investments that are classified as Level 3. As of December 31, 2013 and 2012, respectively, the Company held $912.9 million and $273.5 million of investments that are classified as Level 3. The Company categorizes unsecured loans receivable from and payable to Fairfax (US) as Level 3 financial instruments, reflecting receivable amounts in other investments and payable amounts in debt obligations, with reported amounts based upon 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 bonds, warrants, and preferred and common stocks.

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 2013 and 2012. During 2013, $2.5 million of common stock –available for sale was transferred from Level 1 to Level 2 due to low trading volume. There were no transfers of securities between Level 1 and Level 2 in 2012.

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, 2013 and 2012 (in thousands):

	Fair Value Measurements as of December 31, 2013			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 167,619	$ —	$ 167,619	$ —
States, municipalities and political subdivisions	1,945,123	—	1,945,123	—
Foreign governments	11,513	—	11,513	—
Corporate	123,352	24,123	99,229	—
Total fixed income securities, available for sale	2,247,607	24,123	2,223,484	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	319,119	—	319,119	—
States, municipalities and political subdivisions	911,547	—	911,547	—
Foreign governments	352,023	—	352,023	—
Corporate	240,600	—	141,169	99,431
Total fixed income securities, held for trading	1,823,289	—	1,723,858	99,431
Redeemable preferred stock, available for sale	2,103	—	2,103	—
Convertible preferred stocks, held for trading	292,979	—	256,558	36,421
Common stocks, available for sale	670,951	658,351	12,600	—
Common stocks, held for trading and fair value options	700,148	492,942	82,592	124,614
Short-term investments, held for trading	931,576	925,779	5,797	—
Cash equivalents	354,476	354,476	—	—
Derivatives	123,547	931	42,453	80,163
Other investments	584,236	—	12,015	572,221
Total assets measured at fair value	$ 7,730,912	$ 2,456,602	$ 4,361,460	$ 912,850
Derivative liabilities	$ 118,122	$ —	$ 118,122	$ —
Total liabilities measured at fair value	$ 118,122	$ —	$ 118,122	$ —

	Fair Value Measurements as of December 31, 2012			
	Reported Fair Value	Level 1	Level 2	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:				
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	1,844,961	—	1,826,823	18,138
Redeemable preferred stock, available for sale	54	—	54	—
Convertible preferred stocks, held for trading	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	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

The Company has had cash collateral posted on its behalf by counterparties to derivative transactions in the amounts of $16.1 million and $6.9 million as of December 31, 2013 and 2012, 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, 2013 and 2012 (in thousands):

	Fixed Income Securities	Other Invested Assets	Equity Securities	Debt Obligations
Balance, January 1, 2012	$ —	$ 172,585	$ 35,610	$ —
Change in value related to securities sold	—	(257)	—	—
Change in value related to to securities held	2,050	(18,937)	(9,630)	—
Purchases / advances / draws	16,088	216,997	20,134	2,164
Settlements	—	(158,993)	—	—
Balance, December 31, 2012	18,138	211,395	46,114	2,164
Change in value related to securities sold	4,506	(19,196)	289	—
Change in value related to securities held	(225)	(2,658)	5,779	—
Purchases / advances	99,657	469,828	25,018	—
Settlements / paydowns	(22,645)	(6,985)	(23,030)	(2,164)
Transfers from Level 2 to Level 3	—	—	106,865	—
Balance, December 31, 2013	$ 99,431	$ 652,384	$ 161,035	$ —

The following tables present changes in value included in net income related to Level 3 assets for the years ended December 31, 2013, 2012, and 2011 (in thousands):

Year ended December 31, 2013	Net Investment Income	Net Realized Capital Gains (Losses)	Currency Translation	Total
Fixed income securities	$ 368	$ 4,185	$ (272)	$ 4,281
Other invested assets	—	(24,062)	2,208	$ (21,854)
Equity securities	—	7,629	(1,561)	6,068
	$ 368	$ (12,248)	$ 375	$ (11,505)
Year ended December 31, 2012				
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)
Year ended 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, 2013 and 2012 (in thousands):

Valuation Technique/Asset Type	As of December 31, 2013	As of December 31, 2012	Significant Unobservable Inputs	Range 2013	Range 2012
Market Approach					
Fixed income securities, held for trading	$ 99,231	$ —	Recent transaction		
Preferred stock, held for trading	18,856	15,065	Recent transaction		
Common stock, held for trading	—	5,021	Recent transaction		
CPI-Linked Derivatives (2)	80,143	46,854	Broker quotes		
Warrants	20	—	Recent transaction		
Total valued using market approach	198,250	66,940			
Income Approach					
Fixed income securities, held for trading	200	18,138	Risk premium for credit risk	14.5%-14.9%	13.7%-17.9%
Preferred stock, held for trading	540	784	Risk premium for credit risk		
Preferred stock, held for trading	17,025	—	Yield to maturity	4.0%	
Common stock, held for trading	9,728	—	EV/EBITDA multiple	7.5x	
Total valued using income approach	27,493	18,922			
Net Asset Value					
Common stock, held for trading	83,359	—	Risk premium for credit risk for underlying loan within the fund		
Partnerships, at fair value (3)	372,961	164,541	Time lag in receiving distributions		
Total valued using net asset value approach	456,320	164,541			
Market Price to Book Value					
Common stocks, fair value option (1)	31,527	25,244	Time lag in receiving book value of comparable companies		
Par Value					
Other investments	199,260	—	Loan valued at par		
Total — Level 3	$ 912,850	$ 275,647			

(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 ten interests in limited partnerships that are carried as held for trading securities.

Fair Value Option

The fair value option ("FVO") 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 are 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, 2013 and 2012, the Company's interest in Advent was recorded at fair value of $31.5 million and $25.2 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 gains of $6.3 million and $2.7 million for the years ended December 31, 2013, and 2011, respectively, and a realized investment loss of $4.4 million for year ended December 31, 2012. The value of the Company's interest in Advent as of December 31, 2013, calculated in accordance with the equity method of accounting, would have been $27.4 million.

The Company owns or owned Class A, G, C and H common shares of HWIC Asia Fund ("HWIC Asia"), which is 100% owned by Fairfax and of which the Company owns 26.3% as of December 31, 2013. At the time of the purchase of each class of shares, 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 the various HWIC Asia common share issues as of December 31, 2013 and 2012, 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 12/31/2011	$ 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
(Sales)/Purchases	(8,796)	19,900	(11,793)	(23,030)	(23,719)
Change in fair value	(1,345)	(1,195)	(4,809)	(476)	(7,825)
Fair value at 12/31/2013	$ —	$ 27,120	$ 33,033	$ 83,359	$ 143,512

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 deemed to be not readily obtainable.

As of December 31, 2013 and 2012, 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, 2013 and 2012, is as follows (in thousands):

2013	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 157,827	$ 11,005	$ 1,213	$ 167,619
States, municipalities and political subdivisions	1,723,929	226,525	5,330	1,945,124
Foreign governments	9,954	1,559	—	11,513
Corporate	119,731	3,620	—	123,351
Total fixed income securities	2,011,441	242,709	6,543	2,247,607
Preferred stocks	54	2,049	—	2,103
Common stocks	561,077	124,197	14,323	670,951
Total	$ 2,572,572	$ 368,955	$ 20,866	$ 2,920,661

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

Common stocks accounted for under the equity method of accounting were carried at $128.9 million and $122.4 million as of December 31, 2013 and 2012, respectively. Common stocks at equity had gross unrealized appreciation of $0.6 million and $0.8 million as of December 31, 2013 and 2012, respectively. Common stocks at equity had gross unrealized depreciation of $14.9 million and $14.0 million as of December 31, 2013 and 2012, respectively. Other invested assets were carried at $965.4 million and $472.4 million as of December 31, 2013 and 2012, respectively, reflecting no gross unrealized appreciation or depreciation.

A summary of the Company's held for trading and fair value option portfolios as of December 31, 2013 and 2012 is as follows (in thousands):

	2013 Fair Value	2012 Fair Value
Fixed income securities:		
United States government, government agencies and authorities	$ 319,119	$ 367,572
States, municipalities and political subdivisions	911,547	827,938
Foreign governments	352,023	423,911
Corporate	240,600	225,540
Total fixed income securities	1,823,289	1,844,961
Preferred stocks	292,979	229,654
Common stocks	700,148	504,029
Short-term investments	931,576	1,499,462
Cash and cash equivalents	643,234	625,025
Cash collateral for borrowed securities	255,085	120,535
Total	$ 4,646,311	$ 4,823,666

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2013, by contractual maturity, are shown below (in thousands).

	At December 31, 2013					
	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	$ 43,633	$ 43,633	1.9 %	$ 202,858	$ 195,486	10.7 %
Due after one year through five years	65,401	65,500	2.9 %	69,665	77,839	4.3
Due after five years through ten years	17,183	19,488	0.9 %	107,929	112,925	6.2
Due after ten years	1,885,224	2,118,986	94.3 %	1,536,571	1,437,039	78.8
Total fixed income securities	$ 2,011,441	$ 2,247,607	100.0 %	$ 1,917,023	$ 1,823,289	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 52.5% 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 (Losses) Gains

The following table sets forth the components of net investment income for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Interest on fixed income securities	$ 178,933	$ 196,603	$ 289,364
Dividends on preferred stocks	15,626	14,044	16,641
Dividends on common stocks	16,917	17,824	20,255
Net income of common stocks, at equity	12,154	(834)	4,988
Interest on cash and short-term investments	5,892	6,023	4,655
Other invested assets	70,438	28,681	30,644
Gross investment income	299,960	262,341	366,547
Less: investment expenses	90,462	98,066	79,432
Less: interest on funds held under reinsurance contracts	2	2,107	2,954
Net investment income	$ 209,496	$ 162,168	$ 284,161

The following table summarizes the Company's net realized investment (losses) gains for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Available for sale	$ 115,281	$ 216,597	$ 207,184
Held for trading:			
From sales and settlements	(515,337)	(234,141)	86,796
From mark to market adjustments	(26,672)	82,290	(228,208)
Total held for trading	(542,009)	(151,851)	(141,412)
Total net realized investment (losses) gains	$ (426,728)	$ 64,746	$ 65,772

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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Fixed income securities:			
Realized investment gains	$ 20,305	$ 273,278	$ 203,270
Realized investment losses	12,584	11,537	205,238
Net realized investment gains (losses)	7,721	261,741	(1,968)
Equity securities:			
Realized investment gains	107,560	129,733	225,228
Realized investment losses	—	174,877	16,076
Net realized investment gains (losses)	107,560	(45,144)	209,152
Total available for sale securities			
Realized investment gains	127,865	403,011	428,498
Realized investment losses	12,584	186,414	221,314
Net realized investment gains	$ 115,281	$ 216,597	$ 207,184

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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Fixed income securities:			
Net realized investment gains on disposal	$ 32,197	$ 6,587	$ 37,809
Change in fair value	(168,201)	89,236	(122,895)
Net realized investment (losses) gains	(136,004)	95,823	(85,086)
Preferred stock:			
Change in fair value	42,389	(9,471)	(614)
Net realized investment gains (losses)	42,389	(9,471)	(614)
Equity securities:			
Net realized investment gains on disposal	66,328	14,464	3,025
Change in fair value	189,369	56,286	(42,736)
Net realized investment gains (losses)	255,697	70,750	(39,711)
Derivative securities:			
Net realized investment (losses) gains on disposal	(615,085)	(251,218)	46,136
Change in fair value	(115,149)	(93,836)	(53,157)
Net realized investment losses	(730,234)	(345,054)	(7,021)
Other securities:			
Net realized investment gains (losses) on disposal	1,223	(3,974)	(174)
Change in fair value	24,920	40,075	(8,806)
Net realized investment gains (losses)	26,143	36,101	(8,980)
Total held for trading securities:			
Net realized investment (losses) gains on disposal	(515,337)	(234,141)	86,796
Change in fair value	(26,672)	82,290	(228,208)
Net realized investment losses	$ (542,009)	$ (151,851)	$ (141,412)

The following table sets forth realized investment losses on the other-than-temporary impairment of investments, for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Fixed income securities	$ 6	$ —	$ 188,780
Equity securities	—	174,877	7,001
Total other-than-temporary impairments	$ 6	$ 174,877	$ 195,781

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 (Depreciation) Appreciation

The following table sets forth the changes in unrealized net (depreciation) appreciation of investments, and the related tax effect, reflected in accumulated other comprehensive income for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Fixed income securities	$ (258,372)	$ (19,827)	$ 468,311
Preferred stock	2,049	—	—
Equity securities	(108,403)	235,954	(370,586)
Other invested assets	—	—	(7)
(Decrease) increase in unrealized net (depreciation) appreciation of investments	(364,726)	216,127	97,718
Deferred income tax benefit (provision)	127,579	(75,594)	(34,362)
Change in net unrealized (depreciation) appreciation of investments included in other comprehensive income	$ (237,147)	$ 140,533	$ 63,356

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, 2013 and 2012 (in thousands):

	Duration of Unrealized Loss Less than 12 Months		
December 31, 2013	**Fair Value**	**Gross Unrealized Depreciation**	**Number of Securities**
Fixed income securities			
United States Government, government agencies and authorities	$ 35,055	$ (1,213)	2
States, municipalities and political subdivisions	79,567	(5,330)	7
Total fixed income securities	114,622	(6,543)	9
Common stocks, at fair value	180,518	(14,323)	3
Total temporarily impaired securities	$ 295,140	$ (20,866)	12
December 31, 2012			
Common stocks, at fair value	68,569	(9,589)	3
Total temporarily impaired securities	$ 68,569	$ (9,589)	3

As of December 31, 2013 and 2012, the Company did not own securities with a duration of unrealized losses greater than 12 months.

The Company believes the gross unrealized depreciation is temporary in nature and 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, 2013 and 2012 (in thousands):

	2013	2012
Fairfax Asia Limited ("Fairfax Asia")	$ 99,019	$ 86,901
Zenith National Insurance Corp. ("Zenith")	29,898	35,472
Other	27	27
Total common stocks, at equity	$ 128,944	$ 122,400

As of December 31, 2013, the relative ownership held by the Company was 16.8% (economic) of Fairfax Asia and 6.1% (economic) of Zenith. Fairfax Asia and Zenith are each 100% owned by subsidiaries of Fairfax, including the Company.

(e) Other Invested Assets

Other invested assets totaled $965.4 million as of December 31, 2013, compared to $472.4 million as of December 31, 2012. The following table shows the components of other invested assets as of December 31, 2013 and 2012 (in thousands):

	2013	2012
Investment funds and partnerships, at equity	$ 250,878	$ 220,007
Investment funds and partnerships, at fair value	372,961	164,541
Derivatives, at fair value	123,548	70,407
Benefit plan funds, at fair value	12,015	10,758
Unsecured loan to Fairfax (US) Inc.	199,260	—
O.R.E Holdings Limited	6,730	6,730
Total other invested assets	$ 965,392	$ 472,443

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 recorded by OdysseyRe on a one month or one quarter lag. For the years ended December 31, 2013, 2012 and 2011, the Company recognized net investment income of $45.8 million, $4.2 million and $3.3 million, respectively, from its investment funds and partnership investments. For the years ended December 31, 2013, 2012 and 2011, the Company recognized net realized investment gains of $32.5 million and $36.2 million and net realized investment losses of $3.8 million, respectively, from its investment funds and partnerships that are held as trading securities. With respect to the Company's $623.8 million in investments in investment funds and partnerships, the Company has commitments that may require additional funding of up to $132.5 million. As of December 31, 2013, 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, 2013, 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 CPI-linked derivative contracts, swaptions, total return swaps, forward currency contracts, credit default swaps, warrants and call options 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, 2013, and December 31, 2012, respectively (in thousands):

As of December 31, 2013	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$ 43,363,390	$ 254,342	$ 80,143	$ —
Swaptions	36,518,948	85,353	22,618	—
Short total return swaps	2,165,522	—	4,089	95,162
Forward currency contracts	604,357	—	5,550	15,504
Credit default swaps	222,243	2,287	25	—
Long total return swaps	134,333	—	10,126	7,456
Warrants	90,399	2,985	66	—
Call options	7,275	—	931	—
Total		$ 344,967	$ 123,548	$ 118,122
As of December 31, 2012				
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

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, 2013 and 2012 (in thousands):

			Effect on Pre-tax:			
As of and for the year ended December 31, 2013	Exposure/ Notional Value	Carrying Value	Other Comprehensive Income	Net Investment/ Income Realized Gains (Losses)	Net Equity Impact	Net Cash Flow from Disposals
Equity risk exposures:						
Common stocks, at fair value	$ 1,367,536	$ 1,367,536	$ (107,276)	$ 359,694	$ 252,418	$ 19,081
Preferred stocks	295,082	295,082	2,049	42,389	44,438	—
Bonds-convertible	137,479	137,479	—	9,042	9,042	20,427
Partnerships	623,839	623,839	—	78,277	78,277	4,887
Total return swaps-long	134,333	2,670	—	141,165	141,165	125,254
Equity warrants	398	65	—	(161)	(161)	—
Total equity exposure	$ 2,558,667	$ 2,426,671	(105,227)	630,406	525,179	169,649
Hedging instruments						
Other invested assets:						
Total return swaps-short	$ 2,165,522	$ (91,073)	—	(767,767)	(767,767)	(722,043)
Total equity hedging instruments	$ 2,165,522	$ (91,073)	—	(767,767)	(767,767)	(722,043)
Net equity impact			$ (105,227)	$ (137,361)	$ (242,588)	$ (552,394)

			Effect on Pre-tax:			
As of and for the year ended December 31, 2012	Exposure/ Notional Value	Carrying Value	Other Comprehensive Income	Net Investment/ Income Realized Gains (Losses)	Net Equity Impact	Net Cash Flow from Disposals
Equity risk exposures:						
Common stocks, at fair value	$ 1,536,514	$ 1,536,514	$ 243,969	$ 25,606	$ 269,575	$ (39,934)
Preferred stocks	229,708	229,708	—	(9,471)	(9,471)	—
Bonds-convertible	168,388	168,388	—	42,182	42,182	22,936
Partnerships	384,548	384,548	—	41,962	41,962	10,375
Total return swaps-long	531,975	(13,241)	—	41,594	41,594	18,934
Equity warrants	2	208	—	(312)	(312)	—
Total equity exposure	$ 2,851,135	$ 2,306,125	243,969	141,561	385,530	12,311
Hedging Instruments						
Other invested assets:						
Total return swaps-short	$ 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	$ (152,141)	$ 91,828	$ (251,648)

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 had a remaining average life of 8.0 years and 7.7 years as of December 31, 2013 and 2012, 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. The Company has deposited collateral related to entering the CPI-linked derivative contracts of $48.0 million as of December 31, 2013. 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, 2013 and 2012, the fair value of this collateral was $14.3 million and $6.9 million, respectively.

The Company has entered into swaption agreements with a notional value of $36.5 billion and $10.3 billon, as of December 31, 2013 and 2012, respectively. 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. The initial premium paid for the contracts is recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contracts at each balance sheet date. Changes in fair value are recognized as

realized investment gains or losses in the consolidated statements of operations in the period in which they occur. The Company has deposited collateral related to entering the swaption contracts of $33.9 million as of December 31, 2013.

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 2013, 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 $1.9 billion and $2.5 billion as of December 31, 2013 and 2012, respectively. The collateral requirements related to entering the total return swaps were $232.2 million and $262.6 million as of December 31, 2013 and 2012, respectively. These total return swap transactions terminate during the second and third quarter of 2014. 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, 2013 and 2012, 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 $134.3 million and $532.0 million, as of December 31, 2013 and 2012, respectively, as replications of investments in publicly-listed common stocks. The collateral requirement related to these swaps, which terminate in the fourth quarter of 2014, was $8.4 million and $47.2 million as of December 31, 2013 and 2012 respectively. The common stock total return swaps, which are carried at fair value, are recorded in other invested assets or other liabilities based on a positive or negative value as of December 31, 2013 and 2012. 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, 2013 and 2012, the Company held short position common stock total return swaps, with a notional value of $271.4 million and $115.3 million, respectively. The collateral requirement related to these swaps, which terminate throughout 2014, was $14.0 million and $7.0 million, as of December 31, 2013 and 2012, respectively. The common stock total return swaps were recorded at fair value in other invested assets or other liabilities based on a positive or negative value as of December 31, 2013 and 2012, respectively. 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.

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 as of December 31, 2012. 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, 2013 and 2012, 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, 2013 and 2012 was $1.8 million and $3.3 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, 2013 and 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 entered into interest rate swaps to protect it from adverse movements in interest rates. Under its interest rate swap contracts, the Company received a floating interest rate and paid a fixed interest rate based on the notional amounts in the contracts. Interest rate swaps were recorded at fair value in other liabilities as of December 31, 2012, 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 interest rate swaps expired in December 2013.

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, 2013 and 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 has investments in call options, which are contracts that grant the holder the right (but not the obligation) to purchase a stock at a specified price within a specific time period. Call options which are included in other invested assets as of December 31, 2013, are recorded at fair value, with changes in fair value recognized as realized investment gains or losses in the consolidated statement 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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
CPI-linked derivative contracts:			
Net realized investment losses on disposal	$ (19,290)	$ (840)	$ (21,442)
Change in fair value	(37,250)	(54,560)	(102,080)
Net realized investment losses	(56,540)	(55,400)	(123,522)
Swaptions:			
Change in fair value	(49,216)	(13,519)	—
Net realized investment losses	(49,216)	(13,519)	—
Short total return swaps:			
Net realized investment (losses) gains on disposal	(722,044)	(263,959)	99,945
Change in fair value	(45,721)	(29,743)	51,239
Net realized investment (losses) gains	(767,765)	(293,702)	151,184
Forward currency contracts			
Net realized investment gains (losses) on disposal	4,125	(12,970)	(8,573)
Change in fair value	(1,146)	(8,170)	24,421
Net realized investment gains (losses)	2,979	(21,140)	15,848
Credit default swaps:			
Net realized investment losses on disposal	—	(3,405)	—
Change in fair value	(308)	(3,463)	(1,248)
Net realized investment losses	(308)	(6,868)	(1,248)
Long total return swaps:			
Net realized investment gains (losses) on disposal	125,254	18,934	(21,628)
Change in fair value	15,911	22,660	(33,692)
Net realized investment gains (losses)	141,165	41,594	(55,320)
Warrants:			
Net realized investment gains on disposal	—	13,914	941
Change in fair value	(1,420)	(9,006)	7,843
Net realized investment (losses) gains	(1,420)	4,908	8,784
Call options:			
Change in fair value	931	—	—
Net realized investment gains	931	—	—
Interest Rate Swaps			
Net realized investment loss on disposal	(3,130)	(2,892)	(3,107)
Change in fair value	3,070	1,965	360
Net realized investment losses	(60)	(927)	(2,747)
Total derivatives:			
Net realized investment (losses) gains on disposal	(615,085)	(251,218)	46,136
Change in fair value	(115,149)	(93,836)	(53,157)
Net realized investment losses	$ (730,234)	$ (345,054)	$ (7,021)

(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, 2013, restricted assets supporting these deposits and trust fund requirements totaled $1.4 billion, as depicted in the following table (in thousands):

	Restricted Assets Relating to:				
	U.S. Regulatory Requirements	Foreign Regulatory Requirements	Derivative Collateral Requirements	Reinsurance Collateral Requirements	Total
Fixed income securities	$ 71,865	$ 235,354	$ 321,126	$ 411,546	$ 1,039,891
Cash, cash equivalents and short-term investments	1,499	258,154	15,336	53,948	328,937
Common stocks	—	—	—	31,604	31,604
Total	$ 73,364	$ 493,508	$ 336,462	$ 497,098	$ 1,400,432

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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Beginning balance of unrealized net appreciation on securities	$ 451,536	$ 311,003	$ 331,352
Clearwater transfer	—	—	(83,705)
Adjusted beginning balance	451,536	311,003	247,647
Ending balance of unrealized net appreciation on securities	214,389	451,536	311,003
Current period change in unrealized net (depreciation) appreciation on securities	(237,147)	140,533	63,356
Beginning balance of foreign currency translation adjustments	66,043	80,510	64,899
Clearwater transfer	—	—	(717)
Adjusted beginning balance	66,043	80,510	64,182
Ending balance of foreign currency translation adjustments	29,015	66,043	80,510
Current period change in foreign currency translation adjustments	(37,028)	(14,467)	16,328
Beginning balance of benefit plan liabilities	(20,461)	(10,243)	(4,766)
Ending balance of benefit plan liabilities	(12,347)	(20,461)	(10,243)
Current period change in benefit plan liabilities	8,114	(10,218)	(5,477)
Other comprehensive (loss) income	$ (266,061)	$ 115,848	$ 74,207
Beginning balance of accumulated other comprehensive income	$ 497,118	$ 381,270	$ 391,485
Other comprehensive (loss) income	(266,061)	115,848	74,207
Clearwater transfer	—	—	(84,422)
Change in accumulated other comprehensive (loss) income	(266,061)	115,848	(10,215)
Ending balance of accumulated other comprehensive income	$ 231,057	$ 497,118	$ 381,270

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, 2013 and 2012 (in thousands):

	2013	2012
Gross:		
Unrealized appreciation on securities	$ 329,495	$ 694,221
Foreign currency translation adjustments	44,640	101,670
Benefit plan liabilities	(18,996)	(31,479)
Total accumulated other comprehensive income, gross of deferred income taxes	$ 355,139	$ 764,412
Deferred taxes:		
Unrealized appreciation on securities	$ (115,106)	$ (242,685)
Foreign currency translation adjustments	(15,625)	(35,627)
Benefit plan liabilities	6,649	11,018
Total deferred taxes on accumulated other comprehensive income	$ (124,082)	$ (267,294)

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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 5,632,322	$ 5,517,600	$ 5,809,665
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	813,573	767,651	952,455
Net unpaid losses and loss adjustment expenses, beginning of year	4,818,749	4,749,949	4,857,210
Add: Net incurred losses and loss adjustment expenses related to:			
Current year	1,524,295	1,566,488	1,863,733
Prior years	(214,704)	(152,021)	(51,391)
Total net incurred losses and loss adjustment expenses	1,309,591	1,414,467	1,812,342
Less: Net paid losses and loss adjustment expenses related to:			
Current year	293,266	233,620	438,955
Prior years	1,066,090	1,132,397	958,379
Total net paid losses and loss adjustment expenses	1,359,356	1,366,017	1,397,334
Disposition of Clearwater's net unpaid losses and loss adjustment expenses	—	—	(484,230)
Effect of exchange rate changes	9,889	20,350	(38,039)
Net unpaid losses and loss adjustment expenses, end of year	4,778,873	4,818,749	4,749,949
Add: Ceded unpaid losses and loss adjustment expenses, end of year	790,642	813,573	767,651
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,569,515	$ 5,632,322	$ 5,517,600

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, 2013. 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 $1,524.3 million, $1,566.5 million and $1,863.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decreases in incurred losses and loss adjustment expenses for the years ended December 31, 2013 and 2012 were principally due to decreases in property catastrophe losses. For the years ended December 31, 2013, 2012 and

2011, current year catastrophe events were $220.4 million, $305.0 million and $762.5 million, respectively. For the year ended December 31, 2013, current year property catastrophe losses included $30.0 million related to typhoon Fitow, $27.9 million related to the Calgary floods and $26.6 million related to Germany hailstorms. 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.

Net incurred losses and loss adjustment expenses related to prior years decreased $214.7 million, $152.0 million and $51.4 million for the years ended December 31, 2013, 2012 and 2011, respectively. The decreases in prior years' incurred losses and loss adjustment expenses for the years ended December 31, 2013, 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.

Net paid losses and loss adjustment expenses related to the current year were $293.3 million, $233.6 million and $439.0 million for the years ended December 31, 2013, 2012 and 2011, respectively. The increase in paid losses and loss adjustment expenses for the year ended December 31, 2013 was principally due to growth in the U.S. Insurance division. 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. For the years ended December 31, 2012 and 2011, paid losses and loss adjustment expenses related to current year catastrophe events were $17.9 million and $227.3 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 increases of $9.9 million and $20.4 million for the years ended December 31, 2013 and 2012, respectively, and a decrease of $38.0 million for the year ended December 31, 2011. 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 $790.6 million, $813.6 million and $767.7 million as of December 31, 2013, 2012 and 2011, respectively. The decrease in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2013 was principally attributable to a decrease in ceded unpaid reinsurance recoverables in the EuroAsia and London Market divisions. 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 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 $61.8 million and $61.4 million as of December 31, 2013 and 2012, respectively. The amount of case reserve discount was $25.0 million and $26.1 million as of December 31, 2013 and 2012, respectively. The amount of incurred but not reported reserve discount was $19.7 million and $17.6 million as of December 31, 2013 and 2012, respectively.

The Company is not materially exposed to asbestos and environmentally-related liabilities and does not establish a specific reserve for such exposures.

7. 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, 2013, 2012 and 2011 follow (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Premiums Written			
Direct	$ 1,043,864	$ 943,166	$ 892,801
Add: assumed	1,671,682	1,830,052	1,527,943
Less: ceded	338,604	370,873	331,019
Net	$ 2,376,942	$ 2,402,345	$ 2,089,725
Premiums Earned			
Direct	$ 1,020,575	$ 997,169	$ 854,934
Add: assumed	1,703,897	1,695,434	1,480,403
Less: ceded	350,888	377,327	320,632
Net	$ 2,373,584	$ 2,315,276	$ 2,014,705

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2013 and 2012 was $886.5 million and $869.1 million, respectively. The reserve for uncollectible reinsurance recoverable was $20.3 million and $19.9 million, as of December 31, 2013 and 2012, 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 $0.1 million, $2.1 million and $3.0 million for the years ended December 31, 2013, 2012 and 2011, respectively.

8. Reinsurance Recoverables

The Company's ten largest reinsurers represent 66.4% of its total reinsurance recoverables as of December 31, 2013. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $22.5 million, or 2.5%, of reinsurance recoverables as of December 31, 2013, and the average balance is less than $2.0 million. The Company held total collateral of $97.3 million as of December 31, 2013, representing 11.0% 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, 2013, 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	$ 158,803	17.9 %	$ —	A
Federal Crop Insurance Corporation	137,476	15.5	—	NR
Markel Bermuda Ltd.	47,943	5.5	6,712	A
Everest Re (Bermuda) Ltd.	47,407	5.3	—	A+
Munich Reinsurance America Inc.	35,948	4.1	—	A+
Ullico Casualty Company	35,681	4.0	35,681	E
Transatlantic Reinsurance Company	34,914	3.9	3	A
Alterra Reinsurance USA Inc.	33,476	3.8	—	A
Lexington Insurance Company	28,670	3.2	—	A
ACE Tempest Reinsurance Company Ltd.	28,521	3.2	28,521	A+
Sub-total	588,839	66.4	70,917	
All other	297,613	33.6	26,349	
Total	$ 886,452	100.0 %	$ 97,266	

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, 2013 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's	$ 158,803	17.9 %	$ —
Federal Crop Insurance Corporation	137,476	15.5	—
Markel Corporation	82,911	9.3	6,712
Everest Re Group Ltd.	48,455	5.5	—
Munich Re Group	43,438	4.9	1,008
Sub-total	471,083	53.1	7,720
All other	415,369	46.9	89,546
Total	$ 886,452	100.0 %	$ 97,266

Reinsurance recoverables were $869.1 million and collateral was $109.0 million, or 12.5% of the reinsurance recoverable balance, as of December 31, 2012.

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, 2013 is $97.3 million, which represents 11.0% 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	$ 48,623	5.5 %
Funds withheld from reinsurers	3,149	0.4
Trust agreements	45,494	5.1
Total	$ 97,266	11.0 %

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.

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

Debt Obligations

The components of the Company's debt obligations as of December 31, 2013 and 2012 were as follows (in thousands):

	December 31, 2013	December 31, 2012
7.65% Senior Notes due 2013	$ —	$ 182,419
6.875% Senior Notes due 2015	124,645	124,381
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	$ 264,645	$ 448,963

The Company's 7.65% Senior Notes matured on November 1, 2013. An amount of $182.8 million was distributed to note holders as a result of the debt maturity.

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, 2013, the Company did not have any outstanding obligations under the revolving credit facility. 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, 2013 and 2012, the average annual interest rate on the Series C Notes was 2.78% and 2.96%, 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, 2013 and 2012, the average annual interest rate on each series of notes was 2.48% and 2.66%, 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.

As of December 31, 2013, the aggregate stated maturities of the Company's debt obligations, at face value, were as follows (in thousands):

Year	December 31, 2013
2015	125,000
2016	50,000
2021	90,000
Total	$ 265,000

As of December 31, 2013 and 2012, the amortized cost of the Company's debt obligations was $264.6 million and $449.0 million, respectively, as reflected in the respective consolidated balance sheets. As of December 31, 2013 and 2012, the estimated fair value of the Company's debt obligations was $269.9 million and $463.3 million, respectively. The estimated fair value is based on quoted market prices of the Company's debt, where available, for debt similar to the Company's, and discounted cash flow calculations.

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 received a floating interest rate of three-month LIBOR and paid a fixed interest rate of 2.49% on the $140.0 million notional value of the contracts, for a five-year period that ended in December 2013.

Common Shares

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 for the years ended December 31, 2013, 2012 and 2011.

For the year ended December 31, 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. The 656 common shares were subsequently retired.

The Company issued 2,800 common shares, 72 common shares and 540 common shares during the years ended December 31, 2013, 2012 and 2011, respectively, of which 105 shares, 72 shares and 540 shares related to a cost reimbursement agreement with Fairfax (US) during the years ended December 31, 2013, 2012 and 2011, respectively. The Company received a $182.5 million capital contribution from a Fairfax affiliate to fund the payment of the Company's debt maturity, and issued an additional 2,695 common shares during the year ended December 31, 2013.

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 at any time. 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 $25.00 per share at the Company's option, in whole or in part at any time.

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 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. The Company declared and paid Series A and Series B preferred dividends for the years ended December 31, 2013, 2012 and 2011 as follows (in thousands):

	2013		2012		2011	
Preferred dividends	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**
Series A	$ 386	$ 515	$ 515	$ 515	$ 515	$ 515
Series B	620	829	866	872	833	826
Total dividends paid and declared	$ 1,006	$ 1,344	$ 1,381	$ 1,387	$ 1,348	$ 1,341

As of December 31, 2013, 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 3, 2013, Clearwater Select's Board of Directors declared a preferred dividend to Clearwater in the amount of $0.3 million. On October 3, 2013, Hudson's Board of Directors declared a preferred dividend to Clearwater in the amount of $1.3 million. Both dividends were paid on October 21, 2013. 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.

10. 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, 2013, 2012 and 2011 are as follows (in thousands):

Year Ended December 31, 2013	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 1,000,551	$ 582,263	$ 284,693	$ 848,039	$ 2,715,546
Net premiums written	965,498	580,153	225,195	606,096	2,376,942
Net premiums earned	$ 976,784	$ 576,003	$ 242,935	$ 577,862	$ 2,373,584
Losses and loss adjustment expenses	412,280	355,914	102,930	438,467	1,309,591
Acquisition costs and other underwriting expenses	326,307	134,652	69,260	157,740	687,959
Total underwriting deductions	738,587	490,566	172,190	596,207	1,997,550
Underwriting income (loss)	$ 238,197	$ 85,437	$ 70,745	$ (18,345)	376,034
Net investment income					209,496
Net realized investment losses					(426,728)
Other income net					16,920
Interest expense					(24,856)
Income before income taxes					$ 150,866
Underwriting ratios:					
Losses and loss adjustment expenses	42.2 %	61.8 %	42.4 %	75.9 %	55.2 %
Acquisition costs and other underwriting expenses	33.4	23.4	28.5	27.3	29.0
Combined ratio	75.6 %	85.2 %	70.9 %	103.2 %	84.2 %

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 %

Gross Premiums Written by Major Unit/Division
(in thousands)

	Years Ended December 31,		
	2013	2012	2011
United States	$ 776,757	$ 860,800	$ 601,976
Latin America	144,797	182,834	123,144
Canada	78,997	81,648	67,595
Total Americas	1,000,551	1,125,282	792,715
Europe	312,010	326,858	362,081
Asia	270,253	259,025	245,321
Total EuroAsia	582,263	585,883	607,402
London Branch	88,868	118,887	127,826
Newline Syndicate (1218)	166,213	183,895	193,053
NICL	29,612	30,149	39,495
Total London Market	284,693	332,931	360,374
U.S. Insurance	848,039	729,122	660,253
Total gross premiums written	$ 2,715,546	$ 2,773,218	$ 2,420,744

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

	Years Ended December 31,		
	2013	2012	2011
Americas			
Property excess of loss	$ 265,843	$ 311,052	$ 272,367
Property proportional	362,143	429,655	133,069
Property facultative	22,914	36,294	29,232
Subtotal property	650,900	777,001	434,668
Casualty excess of loss	153,702	165,290	159,976
Casualty proportional	50,588	54,207	55,356
Casualty facultative	50,630	42,965	41,527
Subtotal casualty	254,920	262,462	256,859
Marine and aerospace	25,196	25,052	26,860
Surety and credit	46,638	46,223	51,824
Other lines	22,897	14,544	22,504
Total Americas	1,000,551	1,125,282	792,715
EuroAsia			
Property excess of loss	234,003	234,208	232,272
Property proportional	206,776	195,076	183,728
Subtotal property	440,779	429,284	416,000
Casualty excess of loss	50,888	54,471	62,764
Casualty proportional	14,652	13,884	25,927
Subtotal casualty	65,540	68,355	88,691
Marine and aerospace	39,754	45,417	48,192
Surety and credit	36,190	42,827	54,519
Total EuroAsia	582,263	585,883	607,402
London Market			
Property excess of loss	42,437	64,359	79,009
Property proportional	821	731	905
Subtotal property	43,258	65,090	79,914
Casualty excess of loss	7,148	8,214	8,146
Casualty proportional	182	(113)	(87)
Subtotal casualty	7,330	8,101	8,059
Marine and aerospace	38,280	45,696	39,853
Total reinsurance	88,868	118,887	127,826
Liability lines	193,917	212,262	229,101
Other	1,908	1,782	3,447
Total insurance	195,825	214,044	232,548
Total London Market	284,693	332,931	360,374

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

	Years Ended December 31,		
	2013	2012	2011
U.S. Insurance			
Crop	263,595	192,972	152,493
Specialty liability	191,189	134,818	129,545
Professional liability	142,362	170,581	150,316
Property and package	92,007	83,199	57,846
Commercial automobile	91,025	74,514	71,188
Medical professional liability	65,557	67,232	91,691
Personal automobile	2,304	5,806	7,174
Total U.S. Insurance	848,039	729,122	660,253
Total gross premiums written	$ 2,715,546	$ 2,773,218	$ 2,420,744

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.

11. 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, 2013, 2012 and 2011 are as follows (in thousands):

	2013	2012	2011
Current:			
United States	$ (15,289)	$ 10,937	$ 17,509
Foreign	(13,826)	71,678	67,432
Total current income tax (benefit) provision	(29,115)	82,615	84,941
Deferred:			
United States	42,563	87,208	(104,650)
Foreign	474	5,838	(1,343)
Total deferred income tax provision (benefit)	43,037	93,046	(105,993)
Total federal and foreign income tax provision (benefit)	$ 13,922	$ 175,661	$ (21,052)

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, 2013 and 2012 are as follows (in thousands):

	2013	2012
Unpaid losses and loss adjustment expenses	$ 130,015	$ 144,554
Unearned premiums	46,792	46,176
Reserve for potentially uncollectible balances	5,745	5,037
Pension and benefit accruals	23,840	17,497
Net operating loss carry forward	23,875	—
Investments	49,090	116,751
Alternative minimum tax credit	32,147	21,154
Foreign tax credit	124,568	125,478
Total deferred tax assets	436,072	476,647
Deferred acquisition costs	60,801	56,633
Foreign deferred items	41,340	40,866
Subsidiary net operating loss	33,604	33,604
Other	1,997	4,176
Total deferred tax liabilities	137,742	135,279
Net deferred tax assets	298,330	341,368
Deferred income taxes on accumulated other comprehensive income	(124,082)	(267,294)
Deferred federal and foreign income tax asset	174,248	74,074
Current federal and foreign income tax asset (payable)	31,465	(25,916)
Federal and foreign income taxes receivable	$ 205,713	$ 48,158

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, 2013, 2012 and 2011 (in thousands):

	2013		2012		2011	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income (loss) before income taxes	$ 150,866		$ 458,174		$ (87,015)	
Income tax provision computed at the U.S. statutory tax rate on income	$ 52,803	35.0 %	$ 160,361	35.0 %	$ (30,455)	35.0 %
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(1,132)	(0.8)	(3,050)	(0.7)	(3,673)	4.2
Tax-exempt income	(30,535)	(20.2)	(32,263)	(7.0)	(29,402)	33.8
Foreign tax expense	(7,826)	(5.2)	44,213	9.6	41,394	(47.6)
Other, net	612	0.4	6,400	1.4	1,084	(1.2)
Total federal and foreign income tax provision (benefit)	$ 13,922	9.2 %	$ 175,661	38.3 %	$ (21,052)	24.2 %

Domestic pre-tax (loss) income was $(174.1) million, $98.9 million and $286.5 million for the years ended December 31, 2013, 2012 and 2011, respectively. Foreign pre-tax income (loss) was $325.0 million, $359.3 million and $(373.5) million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company has elected to expense foreign taxes in its federal tax return for the years ended December 31, 2013, 2012 and 2011. 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 $27.6 million, $55.4 million and $51.3 million for the years ended December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, the Company had a current tax receivable of $31.5 million, which reflects $10.5 million receivable from Fairfax (US) and a net receivable of $21.0 million from various foreign governments. 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. 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 2012 are closed. The Internal Revenue Service ("IRS") is expected to complete their audit of the Company's 2012 returns during 2014. Effective for 2013 and 2014 tax years, the Company participates 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.

12. Commitments and Contingencies

(a) *Contingencies*

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 $322.6 million as of December 31, 2013 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 $69.8 million as of December 31, 2013. 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 16.8% 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 each of the years ended December 31, 2013, 2012 and 2011, Falcon paid $0.1 million to ORC in connection with this guarantee. ORC’s potential exposure in connection with this agreement is estimated to be $110.7 million, based on Falcon’s loss reserves at December 31, 2013. 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. ORE is consolidated in the Company’s consolidated financial statements. On January 29, 2004, ORE was capitalized by ORC in the amount of $16.7 million. On January 30, 2004, ORE entered into a joint venture agreement for the purchase of 45% of the shares of Cheran Enterprises Private Limited (“CEPL”) for $16.7 million. CEPL is a corporation, domiciled in India, organized to engage in the purchase, development and sale of commercial real estate properties. CEPL never engaged in the planned business operations and it was discovered in mid-2005 that K.C. Palanisamy (“KCP”), the managing director of CEPL and ORE’s principal joint venture partner, had diverted a substantial portion of the funds of CEPL to unauthorized purposes. The discovery of this diversion of funds led to a general deterioration in the relationship with KCP, resulting in the filing of cross-suits by KCP and ORE in the Company Law Board in Chennai, India in September 2005, with both sides seeking control over CEPL. During the course of this litigation, due to the risks inherent in litigation, ORC wrote down the value of its investment in ORE by $9.9 million. On August 13, 2008, the Company Law Board 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”). KCP appealed this ruling and it was affirmed by the Madras High Court in August 2011. No payment on the award was made to ORE during the time permitted. In September 2011, ORE filed an execution petition in the Company Law Board seeking to force the transfer of the VML property to ORE. As of December 31, 2013, 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, ORC 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 2028. Minimum annual rentals follow (in thousands):

	Amount
2014	$ 10,523
2015	9,865
2016	8,175
2017	6,487
2018	6,384
2019 and thereafter	29,778
Total	$ 71,212

Rental expense, before sublease income under these operating leases, was $11.6 million, $11.9 million and $11.2 million for the years ended December 31, 2013, 2012 and 2011, respectively. The Company recovered pre-tax amounts of $0.1 million, $0.2 million and $0.1 million for the years ended December 31, 2013, 2012, and 2011, respectively, from subleases.

13. 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 2014, without such prior approval, is $310.3 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 2014 is $310.3 million; however, $50.0 million of that capacity will not become available until June 2014, another $65.0 million will not become available until September 2014 and another $85.0 million will not become available until December 2014. ORC declared and paid dividends of $200.0 million to ORH during each of the years ended December 31, 2013 and 2012. ORC did not declare any dividends to ORH during the year ended December 31, 2011. Hudson declared and paid dividends on its preferred shares owned by Clearwater of $1.3 million during each of the years ended December 31, 2013 and 2012, and $1.0 million during the year ended December 31, 2011. Clearwater Select declared and paid dividends on its preferred shares owned by Clearwater of $0.3 million to Clearwater during each of the years ended December 31, 2013 and 2012, and $0.2 million during the year ended December 31, 2011.

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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Net income (loss)	$ 133,277	$ 202,448	$ (26,707)
Policyholders' surplus	3,131,848	3,184,090	3,054,109

14. 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, 2013, 2012 and 2011, follow (in thousands):

	2013	2012	2011
Assumed:			
Premiums written	$ 15,912	$ 12,774	$ 15,114
Premiums earned	12,307	15,504	15,243
Losses and loss adjustment expenses	19,052	12,573	37,176
Acquisition costs	2,198	2,491	4,214
Reinsurance payable on paid losses	1,787	3,128	5,894
Reinsurance balances receivable	5,622	1,702	3,091
Unpaid losses and loss adjustment expenses	66,211	82,439	141,959
Unearned premiums	7,552	3,983	6,620
Ceded:			
Premiums written	$ 8,687	$ 7,995	$ 2,332
Premiums earned	8,925	6,611	1,569
Losses and loss adjustment expenses	(3,361)	28,426	(566)
Acquisition costs	1,100	1,510	207
Ceded reinsurance balances payable	2,723	1,167	34
Reinsurance recoverables on paid losses	(271)	(543)	(578)
Reinsurance recoverables on unpaid losses	48,585	45,917	1,990
Unearned premiums	1,806	2,104	739

Written premiums assumed from Fairfax's affiliates in 2013 represent less than 0.6% of OdysseyRe's total gross premiums written for the year ended December 31, 2013. The largest amounts of related party assumed business in 2013 were with Northridge General Insurance Corporation and United States Fire Insurance Company.

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, 2013, 2012 and 2011, total fees, including incentive fees, of $28.8 million, $26.7 million and $27.9 million, respectively, are included in the consolidated statements of operations.

Included in other expense, net, for the years ended December 31, 2013, 2012 and 2011, are accrued charitable contributions of $2.1 million, $3.0 million and $1.1 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 $2.8 million and $2.5 million as of December 31, 2013 and 2012, respectively, and amounts payable to affiliates of $8.0 million and $11.0 million as of December 31, 2013 and 2012, 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. For the year ended December 31, 2012, Fairfax US repaid $6.7 million 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 9). During the years ended December 31, 2013, 2012 and 2011, the Company received $2.5 million, $4.2 million and $16.1 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. The interest was paid to the Company in 2013.

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, 2013 and 2012; the asset is being amortized over five years. As of December 31, 2013 and 2012, the net present value of the contingent consideration obligation was $2.8 million and $3.6 million, respectively, and was included in other liabilities.

Effective October 2, 2013, Hudson negotiated with TIG to acquire the renewal rights from TIG's subsidiary, American Safety Casualty Insurance ("ASI"), for surety insurance business underwritten by ASI in the U.S. market. The purchase price for the renewal rights was $10.0 million in cash. The total consideration for the renewal rights of $10.0 million has been recorded as an intangible asset and is included in other assets as of December 31, 2013; the asset is being amortized over five years.

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.

15. 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 in the United States 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 unamortized 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, 2013 and 2012 (in thousands):

	2013	2012
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 120,310	$ 95,038
Service cost	9,070	7,286
Interest cost	4,934	4,678
Actuarial (gain) loss	(4,715)	17,940
Benefits paid	(3,478)	(4,632)
Benefit obligation at end of year	126,121	120,310
Change in Plan assets:		
Fair value of Pension Plan assets at beginning of year	88,829	76,595
Actual return on Pension Plan assets	8,927	9,898
Actual contributions during the year	7,800	6,968
Benefits paid	(3,478)	(4,632)
Fair value of Pension Plan assets at end of year	102,078	88,829
Unfunded status and accrued pension cost	$ (24,043)	$ (31,481)

The net amount reported in the consolidated balance sheets related to the accrued pension cost of $24.0 million and $31.5 million, as of December 31, 2013 and 2012, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss is $7.1 million and $16.0 million, before taxes, as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, the fair value and percentage of fair value of the total Pension Plan assets are as follows (in thousands):

	As of December 31,			
	2013		2012	
Equity securities	$ 61,404	60.2 %	$ 43,840	49.4 %
Fixed income securities	17,598	17.2	20,898	23.5
Pooled investment hedge fund	—	0.0	10,758	12.1
Money market	23,076	22.6	13,333	15.0
Fair value of Plan assets	$ 102,078	100.0 %	$ 88,829	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, 2013, 2012 and 2011, the Company contributed $7.8 million, $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 $8.3 million in 2014.

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 3.

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. As of December 31, 2013, 2012 and 2011, the Pension Plan investments that are classified as Level 3 had a fair value of $0.0 million, $10.8 million and $8.8 million, respectively. For the year ended December 31, 2013, there was an increase in the market value of $0.8 million for the Pension Plan investments that are classified as Level 3 which were then subsequently sold during 2013. For the years ended December 31, 2012 and 2011, there was no activity for the investments that are classified as Level 3, other than an increase in the market value of $2.0 million and $0.7 million respectively.

The following table provides a summary of changes in the fair value of investments that are classified as Level 3:

	Pooled Hedge Fund
Balance, January 1, 2011	$ 8,028
Unrealized investment gains related to securities held	749
Balance, December 31, 2011	8,777
Unrealized investment gains related to securities held	1,981
Balance, December 31, 2012	10,758
Unrealized investment gains related to securities held	824
Settlements	(11,582)
Balance, December 31, 2013	$ —

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, 2013 and 2012 (in thousands):

		Fair Value Measurements as of December 31, 2013		
	Assets Measured at Fair Value December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 61,404	$ 61,404	$ —	$ —
Debt securities	17,598	—	17,598	—
Money market	23,076	23,076	—	—
Total Pension Plan assets measured at fair value	$ 102,078	$ 84,480	$ 17,598	$ —

		Fair Value Measurements as of December 31, 2012		
	Assets Measured at Fair Value 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

Target asset allocations:	
Equities	60.00 %
Fixed income securities	40.00 %
Total target asset allocations	100.00 %

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	4.50 %	4.25 %
Rate of compensation increase	3.80 %	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, 2013, 2012 and 2011 is comprised of the following (in thousands):

	2013	2012	2011
Net Periodic Benefit Cost:			
Service cost	$ 9,070	$ 7,286	$ 6,632
Interest cost	4,934	4,678	4,493
Return on Plan assets	(5,221)	(4,655)	(4,019)
Recognized actuarial loss	427	—	—
Recognized prior service cost	46	48	95
Net periodic benefit cost	$ 9,256	$ 7,357	$ 7,201

	2013	2012	2011
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 15,968	$ 3,319	$ (2,526)
Actuarial (gain) loss arising during the year	(8,421)	12,697	5,940
Amortization of actuarial loss recognized in net periodic costs	(427)	—	—
Amortization of prior service costs recognized in net periodic costs	(46)	(48)	(95)
Accumulated other comprehensive loss at end of year	$ 7,074	$15,968	$ 3,319

The Company estimates that it will record an $8.1 million expense related to the net periodic benefit cost during the year ended December 31, 2014. The Company does not expect any refunds of Pension Plan assets during the year ended December 31, 2014.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Discount rate	4.25 %	5.00 %	6.00 %
Rate of compensation increase	3.66 %	3.66 %	5.69 %
Expected long term rate of return on Pension Plan assets	6.00 %	6.00 %	6.00 %

The accumulated benefit obligation for the Pension Plan was $105.8 million and $99.4 million as of the December 31, 2013 and 2012 measurement dates, respectively.

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

Year	Amount
2014	$ 8,570
2015	5,530
2016	5,650
2017	7,760
2018	8,060
2019 — 2023	44,150

Excess Benefit Plans

The Company maintains two non-qualified excess benefit plans ("Excess Plans") that provide more highly compensated officers and employees in the United States 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, 2013 and 2012 (in thousands):

	2013	2012
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 18,557	$ 17,150
Service cost	893	761
Interest cost	766	831
Actuarial (gain) loss	(620)	790
Benefits paid	(695)	(975)
Benefit obligation at end of year	18,901	18,557
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	—	—
Actual contributions during the year	695	975
Benefits paid	(695)	(975)
Fair value of Excess Plans' assets at end of year	—	—
Unfunded status and accrued pension cost	$ (18,901)	$ (18,557)

The net amount reported in the consolidated balance sheets related to the accrued pension cost of $18.9 million and $18.6 million, as of December 31, 2013 and 2012, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss is $2.0 million and $2.7 million, before taxes, as of December 31, 2013 and 2012, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	4.50 %	4.25 %
Rate of compensation increase	3.80 %	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, 2013, 2012 and 2011 is comprised of the following (in thousands):

	2013	2012	2011
Net Periodic Benefit Cost:			
Service cost	$ 893	$ 761	$ 873
Interest cost	766	831	975
Recognized net actuarial loss	110	126	133
Recognized prior service cost	(37)	(37)	(37)
Net periodic benefit cost	$ 1,732	$ 1,681	$ 1,944

	2013	2012	2011
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 2,657	$ 1,956	$ 2,697
Actuarial (gain) loss arising during the year	(620)	790	(645)
Amortization of actuarial loss recognized in net periodic costs	(110)	(126)	(133)
Amortization of prior service costs recognized in net periodic costs	37	37	37
Accumulated other comprehensive loss at end of year	$ 1,964	$ 2,657	$ 1,956

The Company estimates that it will record a $1.8 million expense related to the net periodic benefit cost during the year ended December 31, 2014.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Discount rate	4.25 %	5.00 %	6.00 %
Rate of compensation increase	3.66 %	3.66 %	5.69 %

The accumulated benefit obligation for the Excess Plans was $14.4 million and $14.3 million as of December 31, 2013 and 2012, respectively.

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

Year	Amount
2014	$ 960
2015	970
2016	1,590
2017	960
2018	1,240
2019 — 2023	14,450

A trust fund, which was established related to the Excess Plans, is included in other invested assets, and had a fair value of $1.5 million and $1.9 million as of December 31, 2013 and 2012, 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 $1.0 million to the Excess Plans during the year ended December 31, 2014, which represents the amount necessary to fund the 2014 expected benefit payments.

Postretirement Benefit Plan

The Company provides certain health care and life insurance ("postretirement") benefits for retired employees in the United States. Substantially all employees in the United States 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, 2013 and 2012 (in thousands):

	2013	2012
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 46,693	$ 38,182
Service cost	4,803	4,229
Interest cost	1,830	1,652
Actuarial (gain) loss	(1,998)	3,104
Benefits paid	(620)	(628)
Particpant contributions	41	39
Retiree Drug Subsidy receipts	3	115
Benefit obligation at end of year	50,752	46,693
Unfunded status and accrued prepaid pension cost	$ (50,752)	$ (46,693)

The net amount reported in the consolidated balance sheets related to the accrued benefit cost of $50.8 million and $46.7 million, as of December 31, 2013 and 2012, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss, before taxes, is $10.0 million and $12.9 million as of December 31, 2013 and 2012, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2013 and 2012 are as follows:

	2013	2012
Discount rate	4.50 %	3.95 %
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, 2013, 2012 and 2011 is comprised of the following (in thousands):

	2013	2012	2011
Net Periodic Benefit Cost:			
Service cost	$ 4,803	$ 4,229	$ 3,338
Interest cost	1,830	1,652	1,606
Recognized actuarial loss	900	733	409
Net periodic benefit cost	$ 7,533	$ 6,614	$ 5,353

	2013	2012	2011
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 12,855	$ 10,484	$ 7,190
Actuarial (gain) loss arising during the year	(1,998)	3,104	3,730
Amortization of actuarial loss recognized in net periodic costs	(900)	(733)	(436)
Accumulated other comprehensive loss at end of year	$ 9,957	$ 12,855	$ 10,484

The Company estimates that it will record $7.1 million in net periodic benefit costs relating to this plan during the year ended December 31, 2014.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2013, 2012 and 2011 are as follows:

	2013	2012	2011
Discount rate	3.95 %	4.36 %	5.39 %
Rate of compensation increase	4.00 %	4.00 %	4.00 %

The accumulated benefit obligation for the postretirement plan was $50.8 million and $46.7 million as of December 31, 2013 and 2012, respectively.

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

Year	Amount
2014	$ 701
2015	907
2016	1,148
2017	1,383
2018	1,625
2019 — 2023	13,305

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 7.4% in 2013, decreasing to 4.5% 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 $9.2 million (18.1% of the benefit obligation as of December 31, 2013) and the service and interest cost components of net periodic postretirement benefit costs by $1.5 million for the year ended December 31, 2013. 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 the year ended December 31, 2013 by $7.4 million and $1.2 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 for the years ended December 31, 2013, 2012 or 2011.

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 ($17,500 in 2013). 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 were $2.5 million, $2.4 million, and $2.0 million for the years ended December 31, 2013, 2012 and 2011, respectively, are included in other underwriting expenses in the consolidated statements of operations.

Effective January 1, 2012, all employees in the United States hired on or after August 1, 2011 are eligible for an annual profit sharing contribution, subject to Plan limitations. The Company makes this contribution regardless of whether or not elective deferrals were made during the year. The profit sharing contribution is paid each January 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 %

16. 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 Restricted Equity Value Rights ("REVRs").

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. All the Restricted Cash Units were vested as of December 31, 2012.

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 receives a single sum cash payment equal to the REVR value as of the applicable vesting date, less any applicable withholding of taxes. The REVRs are subject to the terms and conditions of the REVR Plan, including vesting and termination of employment provisions, and are not paid until a participant satisfies the applicable vesting requirements.

The following table summarizes activity for the REVR Plan for the year ended December 31, 2013:

	REVRs
Outstanding as of December 31, 2012	68,024
Vested	(11,766)
Forfeited	(536)
Outstanding as of December 31, 2013	55,722

As of both December 31, 2013 and 2012, the Company recorded a liability of $3.4 million for the REVRs. For the year ended December 31, 2013, the Company recognized an expense related to the REVRs of $1.1 million. For the years ended December 31, 2012 and 2011, the Company recognized an expense related to the REVRs and Restricted Cash Units of $6.4 million and $11.9 million, respectively. The total tax benefit relating to the REVRs recognized for the year ended December 31, 2013 was $0.4 million. The total tax benefit relating to the REVRs and Restricted Cash Units recognized for the years ended December 31, 2012 and 2011 was $2.2 million and $4.2 million, respectively.

The remaining REVRs will fully vest over the next year. The amount of the future REVR obligations to be expensed during the next year is $0.5 million.

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 129,675 Restricted Share Awards outstanding as of December 31, 2013.

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, 2013, there was $33.2 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 3.4 years. The total fair value of the Restricted Share Awards granted for the years ended December 31, 2013, 2012 and 2011 were $18.3 million and $17.7 million and $10.8 million, respectively. As of December 31, 2013, the aggregate fair value of the Restricted Share Awards outstanding was $33.2 million. For the years ended December 31, 2013, 2012 and 2011, the Company recognized expense related to the Fairfax Restricted Share Plan of $9.0 million, $6.2 million and $4.4 million, respectively.

The following table summarizes activity for the Fairfax Restricted Share Plan and the Option Plan for the year ended December 31, 2013:

	Shares / Options	Weighted-Average Value at Grant Date
Restricted share awards outstanding as of December 31, 2012	83,786	$ 378.54
Granted	48,714	376.41
Vested	(851)	374.30
Forfeited	(1,974)	367.33
Restricted share awards outstanding as of December 31, 2013	129,675	$ 377.94
Vested and exercisable as of December 31, 2013	176	$ 170.00

Employee Share Purchase Plans

In 2010, the Company established the Odyssey Re Holdings Corp. (Non-Qualified) 2010 Employee Share Purchase Plan (the “2010 ESPP”). Under the terms of the 2010 ESPP, eligible employees are given the election to purchase Fairfax common shares in an amount up to 10% of their annual base salary. The Company purchases, on the employee’s behalf, a number of Fairfax’s common shares equal in value to 30% of the employee’s contribution. In the event that the Company achieves a growth in common shareholders’ equity of at least 15% in any calendar year, additional shares are purchased by the Company for the employee’s benefit, in an amount equal in value to 20% of the employee’s contribution during that year. During the year ended December 31, 2013, the Company purchased 10,163 Fairfax common shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of $398.01. The compensation expense recognized by the Company for purchases of Fairfax’s common shares under the 2010 ESPP was $0.9 million, $0.8 million and $0.9 million for the years ended December 31, 2013, 2012 and 2011, respectively.

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