OdysseyRe®

A FAIRFAX Company

FOCUSED ON FUNDAMENTALS

ANNUAL REPORT 2014

CONTENTS

fun·da·men·tal

noun

A central or primary rule or principle;
something of central importance

Being responsive to clients' needs by providing exceptional service… having the necessary skills to assess complex risks… adapting to changing market conditions while maintaining a consistent, disciplined underwriting approach… having a well-defined, clearly articulated risk appetite… expanding our global reach through product and territorial diversification.

At OdysseyRe, these are just some of the guiding principles that are of central importance to our operations and define who we are. Our focus on these fundamentals sets us apart and enables us to develop enduring relationships with our clients based on mutual trust and understanding.

In the end, we are guided by one fundamental truth: *our prosperity and good fortune are dependent on our clients' success.*

GROSS PREMIUMS WRITTEN:
$2,739.5

COMBINED RATIO:
84.8%

NET INCOME:
$590.7

IN FOCUS: **NUMBERS**
(U.S. $ IN MILLIONS)

A
(Excellent)
A.M. Best

A-
(Strong)
Standard & Poor's

Odyssey Re Holdings Corp. and its subsidiaries, collectively referred to as OdysseyRe, is one of the world's leading providers of reinsurance and specialty insurance, with total assets of $11.0 billion and $4.0 billion in shareholders' equity as of December 31, 2014.

Reinsurance is underwritten through Odyssey Reinsurance Company and specialty insurance is underwritten through Hudson Insurance Company, Hudson Specialty Insurance Company, Hudson Excess Insurance Company, Newline Insurance Company Limited and Newline Syndicate 1218 at Lloyd's.

Odyssey Re Holdings Corp. is wholly-owned by Fairfax Financial Holdings Limited, a financial services holding company with total assets of $36.1 billion and $9.7 billion in shareholders' equity. Fairfax is traded on the Toronto Stock Exchange under the symbol FFH.

OdysseyRe is rated "A" (Excellent) by A.M. Best Company and "A-" (Strong) by Standard & Poor's.

AT A GLANCE

With a network of more than 30 offices in 11 countries, OdysseyRe is a global enterprise committed to providing local service. Each of its five operating divisions – North America, Latin America, EuroAsia, London Market and U.S. Insurance – is comprised of a talented, dedicated team of underwriters, actuaries, auditors, claims professionals and catastrophe modelers. We pride ourselves on our ability to understand risk and analyze exposure. This expertise along with our broad array of products enables us to provide clients with customized solutions.

Odyssey Reinsurance Company

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

PRODUCT OFFERING

- Property Treaty (Assumed & Retro)
- Casualty Treaty
- Surety & Trade Credit
- Marine & Aviation
- Motor / Auto
- Casualty Facultative (U.S. & Latin America only)
- Property Facultative (Latin America only)
- Agriculture
- Accident & Health

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, Melbourne, Australia and Labuan, Malaysia.

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

- Specialty Commercial Auto
- Crop
- General Liability / Package
- Specialty Property & Energy
- Professional Liability (Non-Medical)
- Surety
- Healthcare Liability (Hospitals and Physicians)
- Personal Umbrella
- Management Liability (Public, Private and Non-Profit D&O)

FINANCIAL HIGHLIGHTS

Odyssey Re Holdings Corp.

(dollars in millions)

	2014	2013	2012
Gross premiums written	**$ 2,739.5**	$ 2,715.5	$ 2,773.2
Net premiums written	**2,393.8**	2,376.9	2,402.3
Net premiums earned	**2,356.6**	2,373.6	2,315.3
Net investment income	**216.9**	209.5	162.2
Operating income before income taxes[a]	**543.1**	577.6	393.4
Net realized investment gains (losses)	**357.1**	(426.7)	64.7
Income before income taxes	**900.2**	150.9	458.2
Net income	**590.7**	136.9	282.5
Total assets	**11,021.6**	11,026.0	11,217.6
Shareholders' equity	**3,983.2**	3,730.7	3,678.8
Underwriting income	**357.4**	376.0	262.5
Combined ratio	**84.8%**	84.2%	88.7%

[a] Represents income before income taxes excluding net realized investment gains (losses).

Gross Premiums Written by Division

(dollars in millions)

	2014	2013	2012
North America	**$ 769.1**	$ 855.7	$ 942.5
Latin America	**176.4**	144.8	182.8
EuroAsia	**538.2**	582.3	585.9
London Market	**272.1**	284.7	332.9
U.S. Insurance	**983.7**	848.0	729.1
Total gross premiums written	**$ 2,739.5**	$ 2,715.5	$ 2,773.2

DEAR FRIENDS, BUSINESS PARTNERS AND COLLEAGUES

OdysseyRe had a gratifying year in 2014, producing near record underwriting profits and pre-tax earnings. We strengthened our balance sheet, expanded our product offering, established new trading partnerships and solidified existing ones. We acquired Motor Transport Underwriters in April and successfully integrated it as well as the surety operations of American Safety Insurance into our U.S. Insurance Division. We made numerous management appointments across the company to solidify our operations and implemented leadership succession plans in our EuroAsia Division to position that business for future success. We also invested heavily in staff and new systems to deliver better, faster service to our clients and business partners. For additional information about our key business developments, please refer to the Operational Highlights section of the report.

Our 2014 results, and those of our peers, stand in stark contrast to a deteriorating marketplace offering fewer opportunities for profitable growth. New forms of capital have continued to enter the market, buyers have reduced their expenditures and traditional reinsurers, in an effort to preserve market-share and remain "relevant", are driving prices to inadequate levels. This aggressive pursuit of top line growth at any cost has dangerous, long lasting consequences.

In these challenging times, it is easy to panic, become distracted and stray from your principles. Architect Frank Lloyd Wright once said, "…reduce the whole of its parts into the simplest terms, getting back to first principles." At OdysseyRe we try to keep it simple by *focusing on the fundamentals*… underwriting discipline, portfolio diversification, and quality service… that have guided us successfully for nearly 20 years.

For the full year 2014, our combined ratio was 84.8%, well below our targeted combined ratio of 96%. Underwriting profits totaled $357 million, which is in line with our record underwriting profits of $376 million in 2013.

This is our third consecutive year of exceptional underwriting performance. During the period 2012-2014 OdysseyRe generated $1 billion of underwriting profit, benefiting from the strength of our globally diversified platform, benign cat loss activity and favorable prior year loss development.

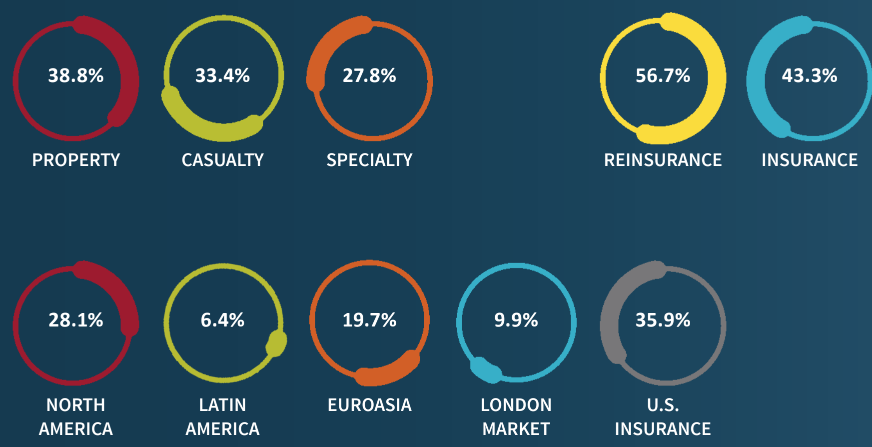
Property cat losses in 2014 were $120 million less than expectations and reduced the combined ratio by 5 points. This compares to 2013 when property cat losses were $95 million less than expectations, resulting in a combined ratio improvement of 4 points.

Loss reserves developed favorably for the seventh consecutive year. Reserve releases in 2014 were $186.5 million, reducing the combined ratio by 7.9 points, compared to 8.8 points the previous year. Favorable development was recorded in each of our five Divisions and in 23 of our business units. Nearly 65% of the releases in 2014 were due to decreases in non-property cat loss reserves, compared to 2013 when property cat reserve decreases represented 58% of the favorable development recorded.

Pre-tax income totaled $900 million compared to $151 million in 2013. Net income for the

2014 GROSS PREMIUMS WRITTEN

$2.7 BILLION



"Diversification is a critical focus of our business strategy as it provides portfolio stability and allows us to rapidly respond to business opportunities as they emerge around the world."

year rose sharply to $591 million from $137 million in the prior period as falling interest rates propelled bond gains and improved investment results.

We finished the year with $9 billion of invested assets compared to $8.7 billion at year-end 2013 while GAAP equity grew by $250 million to $4 billion. Growth in invested assets and GAAP equity would have been significantly higher were it not for the fact that we spent $490 million before year-end to buy back shares of OdysseyRe held by affiliates. This process of consolidation, reducing the number of OdysseyRe shareholders from five Fairfax entities to one, simplifies our ownership structure and enhances Fairfax's financial flexibility. Ignoring the cost of this consolidation, our growth in GAAP equity for the year would have been 20%.

OdysseyRe's gross premiums written ($2.7 billion) and net earned premiums ($2.4 billion) were flat versus the prior year. Reductions in reinsurance volume across our network were more or less offset by growth in our U.S. specialty insurance business.

OdysseyRe is a globally diversified underwriter of property and casualty reinsurance and specialty insurance operating through five Divisions (% of gross premiums written): North America Reinsurance (28%), Latin America Reinsurance (6%), EuroAsia Reinsurance (20%), London Market (10%) and U.S. Insurance (36%). We write business in more than 100 territories through a network of 31 offices located in 11 countries. Divisional narratives highlighting our leadership, products and services follow this letter.

We have 33 discrete business units (U.S. accident & health treaty is the newest unit formed in 2015) organized along different product, territorial and distribution lines with 18 of these focused in the reinsurance arena and 15 dedicated to insurance markets. Diversification is a critical focus of our business strategy as it provides portfolio stability and allows us to rapidly respond to business opportunities as they emerge around the world.

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 $1.5 billion through a branch and representative office network of 12 offices in 9 countries around the world. Our reinsurance results were excellent in 2014 producing a global combined ratio of 77.6%.

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 2014, the global gross premiums written generated by our insurance operations grew 14% to $1.2 billion and the net combined ratio was 97.3%, an improvement of 5 points on the prior year's combined ratio.

Total property premiums, both insurance and reinsurance, accounted for 39% of gross premiums written in 2014 compared to 43% in 2013. In recent years we have highlighted the expansion of our property reinsurance portfolio. Due to market pressures, we reduced the portfolio 10% in 2013 and, as rates continued to decline in 2014, premiums decreased a further 10%. Catastrophe business has been a key driver of underwriting profitability the last few years and while we still believe the sector generates acceptable returns, the profit margins are much less attractive today than they were a few short years ago.

Our casualty portfolio was 33% of the global portfolio in 2014, growing modestly from the prior year when it represented 31% of gross premiums written. Casualty insurance writings have grown steadily the past few years and today 70% of our casualty portfolio is comprised of business underwritten by Hudson and Newline. Casualty insurance pricing fundamentals remain challenging outside the U.S. with many of Newline's core international markets in steady decline for more than a decade. Hudson's casualty rates have been more stable and growth opportunities are plentiful, but early signs in 2015 indicate the rating environment will continue to be challenging. Casualty reinsurance business terms and conditions deteriorated further in 2014 as clients consolidated placements and broadened the scope of coverage while reducing rates and increasing ceding commissions.

Specialty business, including crop, surety, credit, marine, aerospace and motor, represented 28% of our overall portfolio in 2014, up from 26% in 2013. Moving forward, we expect continued growth in our crop and surety insurance portfolios in the U.S. as we are investing heavily in these businesses. We also expect selective growth in motor (re)insurance, aviation reinsurance and marine (re)insurance segments as we take advantage of our global network and access to multiple distribution channels.

Business written in the U.S. represented 60% of our global portfolio, consistent with the prior year. In the insurance segment, 83% of our portfolio was written in the U.S., while 56% 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 continues to outpace business expansion elsewhere.

September 2015 marks the beginning of our twentieth year operating as OdysseyRe. Our history dates back to the latter half of the 1990s when Fairfax acquired and integrated Skandia America, TIG Re and Compagnie Transcontinentale de Réassurance (CTR) into one company: OdysseyRe. The last two decades have been interesting and rewarding, but it is a long race and, if our underwriting performance over the last three years is any indication, then we are just hitting our stride.

When I look back, many of the challenges we faced when we started are no different than the challenges we are confronted with today. Excess capital, regardless of its source, was the primary driver of the cyclical headwinds affecting the business then and it is the main driver of the intense competition we are experiencing now. While we expect the cyclical headwinds to persist for quite some time… how long is anyone's guess… we remain sanguine about our business prospects going forward. Tennis player Venus Williams said before a big match, "I don't focus on what I'm up against; I focus on my goals and ignore the rest." At OdysseyRe, we take the same approach to managing the cycle; we adhere to our underwriting principles, focusing on our goals at all times.

Before closing, I am pleased to advise that our financial good fortune in 2014 has enabled us to earmark $9 million (1% of our pre-tax profit) for the OdysseyRe Foundation and its business affiliates, which support charitable organizations around the world. As Prem Watsa is fond of saying, "When we do well, those in the communities where we work benefit too!"

As always, I would like to thank our many clients and partners from around the world for their friendship, business and gracious support. (Re)insurance is a service business and we are *focused* on serving you the best we can to help you succeed.

To Fairfax, Prem Watsa and Andy Barnard, thank you for your steadfast leadership that has guided us successfully for nearly two decades and for providing a business *focus* that emphasizes patient, profitable growth over the long term.

Finally to the 923 men and women who serve this company proudly, it is an honor and a privilege to work with you. Congratulations on another outstanding year and thank you for your continued *focus on the fundamentals* that have shaped the company and will drive our future prosperity.

Brian D. Young
President & Chief Executive Officer

"Our financial good fortune in 2014 has enabled us to earmark $9 million, which represents 1% of our pre-tax profit, for the OdysseyRe Foundation and its business affiliates."

FOCUSED ON COMMUNITY

"Our employees around the world are proud of OdysseyRe's corporate responsibility and our generosity, which is a part of our organization's culture. When we can support initiatives that closely align the interests of our employees with the work of the OdysseyRe Foundation, it's a rewarding experience for everyone."

Janine Walter, Grants Review Officer, OdysseyRe Foundation

OdysseyRe® FOUNDATION

The OdysseyRe Foundation was formed in 2007 by Odyssey Re Holdings Corp. to provide funding to charitable organizations active in communities in which OdysseyRe employees live and work, as well as to charitable organizations dedicated to worldwide disaster relief efforts.

The Foundation supports a wide range of programs focused on health, education, human services, arts and culture, the environment, the elderly and disaster relief programs that help rebuild homes, schools and hospitals, provide medical supplies, improve access to food and water, assist with community mobilization and enable economic recovery.

Since its inception, the OdysseyRe Foundation, along with its business affiliates, has contributed more than $20 million to non-profit organizations around the world.

OPERATIONAL HIGHLIGHTS

ODYSSEYRE®
A FAIRFAX Company

2014 FIRST QUARTER

Americas Division

- Stephen Darwin named head of U.S. Facultative General Casualty
- John Gavigan named head of U.S. Facultative Corporate Products
- Rafael Sampaio named head of OdysseyRe's Brazilian operations

U.S. Insurance Division

- Hudson Insurance Group completed the integration of American Safety's commercial and specialty surety platform
- Daniel Gasser named President of Hudson Crop Insurance Services, Inc.

London Market Division

- Stephen Gordon named Chief Underwriting Officer of Newline Group

2014 SECOND QUARTER

Odyssey Re Holdings Corp.

- Andrew Barnard, previously Vice Chairman of the Board (and former CEO of ORH), was elected Chairman of the Board of Directors
- Paul Rivett, Peter Clarke and David Bonham, senior officers of Fairfax Financial Holdings Limited, were elected to the Board of Directors

U.S. Insurance Division

- Hudson Insurance Group acquired Motor Transport Underwriters (MTU), a leading underwriting, claims and risk management specialist in long-haul trucking
- Hudson Insurance Group moved its Environmental business unit to sister company Crum & Forster

2014

THIRD QUARTER

Actuarial Management Appointments

- Elizabeth Sander named Chief Actuary, OdysseyRe
- Francis Cerasoli named Chief Reserving Actuary, OdysseyRe
- Gary Maile named Chief Actuary, Americas Division

Americas Division

The Americas Division was renamed as two separate Divisions: North America and Latin America

- Brian Quinn named Chief Executive Officer of the North America Division
- Philippe Mallier named Chief Executive Officer of the Latin America Division

Latin America Division

- Gabriel Buzo named head of Casualty Facultative team

London Market Division

- Newline Group established Newline Malaysia Limited

2014

FOURTH QUARTER

Odyssey Re Holdings Corp.

Odyssey Re Holdings Corp. simplified its ownership structure from five stakeholders to one

U.S. Insurance Division

- Hudson Insurance Group acquired the underwriting operations of Surety Partners of America, Northeast
- James Donovan named head of Professional Liability, including Hudson Healthcare
- Hudson Insurance Group expanded Napa River Insurance Services' operations to include a claims and risk management service business

2015

FIRST QUARTER

EuroAsia Division

- Management responsibilities were divided into two regions: Europe, Middle East and Africa (EMEA) and AsiaPacific
- Isabelle Dubots-Lafitte named Chief Executive Officer for EMEA
- Gaël Le Païh named Chief Underwriting Officer for EMEA
- Lucien Pietropoli named Chief Executive Officer for AsiaPacific

London Market Division

- André-François Rocque named Chief Underwriting Officer of the London branch
- Newline Syndicate 1218 joined Lloyd's China

North America Division

- Launched new Accident & Health reinsurance business unit led by Paul Skrtich, Senior Vice President

IN FOCUS: **NORTH AMERICA**

Reinsurance business in the United States and Canada operates under the North America Division. Led by Brian Quinn and staffed with 264 professionals, the Division writes a broad range of reinsurance products to serve our clients' needs including property, casualty, surety, marine, aviation, agriculture and our new accident and health line launched in early 2015. Treaty facilities are based in Stamford with additional offices in Miami, Toronto and Montreal. Casualty facultative offices are located in New York and Chicago.

Challenging market conditions in essentially all lines of business were mitigated by our long-standing relationships with clients and business partners as well as our focused expertise. The Division achieved success in 2014 as measured by both revenue and underwriting results. North America's gross premiums written totaled $769.1 million. Our net combined ratio of 76.1% demonstrates continued underwriting resilience and the combined impact of lower than expected catastrophe losses and favorable reserve development, both common industry trends.

Much publicized erosion in property terms remained within our range of expectations and acceptability. In casualty, both treaty and facultative, an updated understanding of loss trends permitted relaxed terms for superior operators. Similarly, surety renewals saw material, but warranted improvement from steady customers willing to offer reasonable margins over the long term. Finally, Canadian writings were level, as our market relationships helped offset both M&A-induced lower demand and property catastrophe rate pressure.

FOCUSED ON OUR STRENGTHS

Capitalizing on our extensive skills and experience

We pride ourselves on our ability to assess complex structures as well as our willingness to offer price discovery, meaningful capacity and audit services to help our clients manage their risks more effectively.

NORTH AMERICA DIVISION

2014 GROSS PREMIUMS WRITTEN

$769.1 MILLION

IN FOCUS: **LATIN AMERICA**

The Latin America Division serves all countries in Latin America and the Caribbean. Led by Philippe Mallier, the Division operates with 41 professionals across three offices in Mexico City, Miami and São Paulo, Brazil. In 2014 we increased our facultative reinsurance product offerings by adding financial lines and directors & officers liability to our existing lines of general casualty, property and agriculture. On the treaty side our product offerings include property, casualty, surety, marine, aviation and agriculture.

Latin America reported strong results with a net combined ratio of 70.7%, the second best combined ratio recorded for the Division, as we benefited from our underwriting discipline and favorable reserve releases. Gross premiums written were $176.4 million, which represented a 21.8% increase from last year. Retaining existing business and further developing long-term relationships through both existing and new product lines have been instrumental to our success in the current soft market.

Our strong, local relationships are a result of having an in-depth understanding of the Latin American culture and our willingness to share our expertise. Understanding exposures, assessing risk, expanding relationships and improving service, both internally and externally, were fundamental to our success in Latin America. By listening closely to clients regarding exposures and risks, we were able to offer tailor-made reinsurance solutions that meet specific needs. Coordinating efforts between treaty and facultative teams led to successful cross-selling of multiple product lines. We also focused on building our employees and business for the future by expanding our training and hiring young, talented professionals with strong analytical skills.

FOCUSED ON PATIENT GROWTH

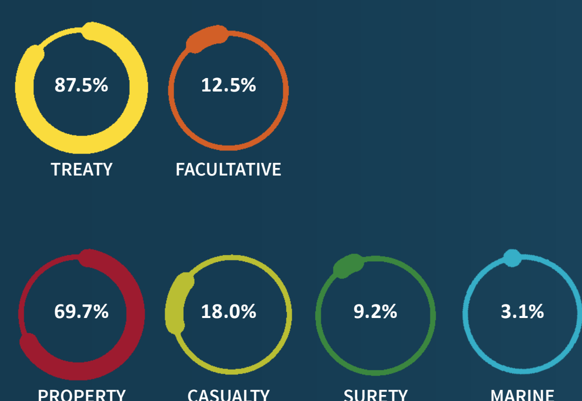
Building for the future

We continue to invest in talented professionals while expanding our product offering and improving service in response to our clients' evolving needs.

LATIN AMERICA DIVISION

2014 GROSS PREMIUMS WRITTEN

$176.4 MILLION



IN FOCUS: **EUROASIA**

The EuroAsia Division underwrites treaty business from its headquarters in Paris with other offices in Stockholm, Singapore and Tokyo. Led by Lucien Pietropoli and supported by 96 professionals, the Division is focused on its long-term client relationships, providing exceptional service and product expertise.

Effective January 2015, EuroAsia is divided into two regions: Europe, Middle East and Africa (EMEA) led by Isabelle Dubots-Lafitte based in Paris and AsiaPacific led by Lucien Pietropoli, who is now based in Singapore.

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 and our Singapore branch, supported by a representative office in Tokyo, underwrites treaty business emanating from the Asia-Pacific region.

Although EuroAsia experienced continued pressure on pricing, we succeeded in maintaining underwriting discipline. The net combined ratio was 84.2%, representing a 1.2% improvement from 2013 and is the second best net combined ratio recorded for the Division. Gross premiums written totaled $538.2 million, a decrease of 7.6% from 2013. All underwriting units were profitable with the largest contributor being our Paris office, representing 61.1 % of the Division's volume. The Singapore office followed at 33.9% and the Stockholm office represented 5.0%.

Property treaty continues to be the dominant class of business representing 75.1% of the Division's volume. The balance of EuroAsia's business portfolio includes motor, credit and bond, marine, aerospace and casualty treaty business.

EuroAsia's success is directly correlated to our clients' success and our talented employees. It is a privilege to have such a loyal client base and numerous long-term employees. This loyalty enables us to truly understand clients' exposures and proactively provide solutions to meet unique and changing needs.

FOCUSED ON OUR RELATIONSHIPS

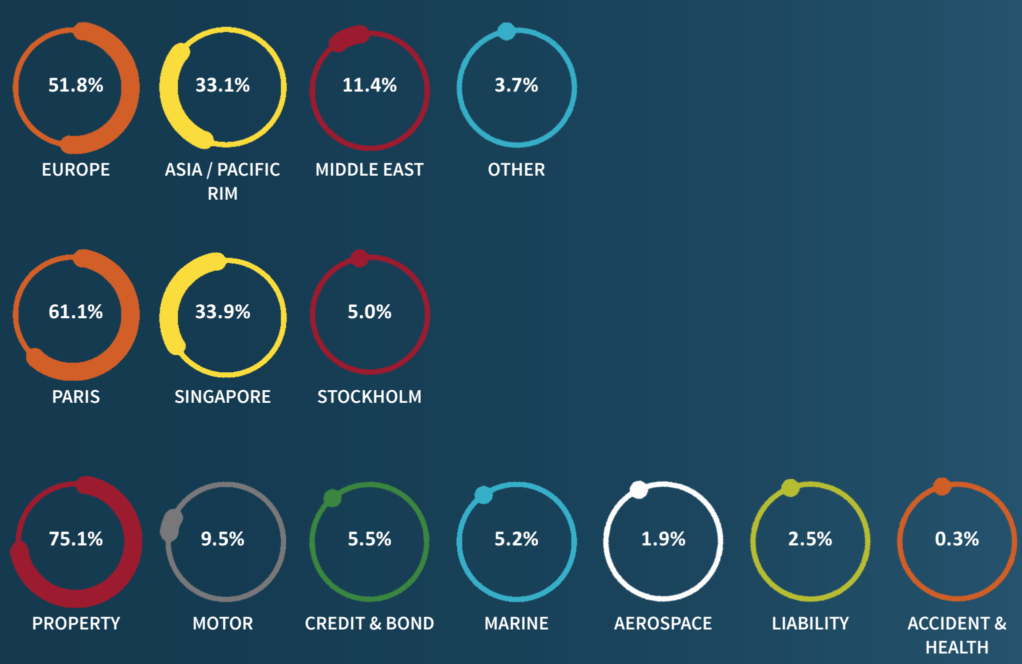
Long-term client relationships established by long-term employees

Continuity, consistency and responsiveness to client needs have been the hallmarks of a business approach that has created enduring relationships that extend back decades.

EUROASIA DIVISION

2014 GROSS PREMIUMS WRITTEN

$538.2 MILLION



IN FOCUS: **LONDON MARKET**

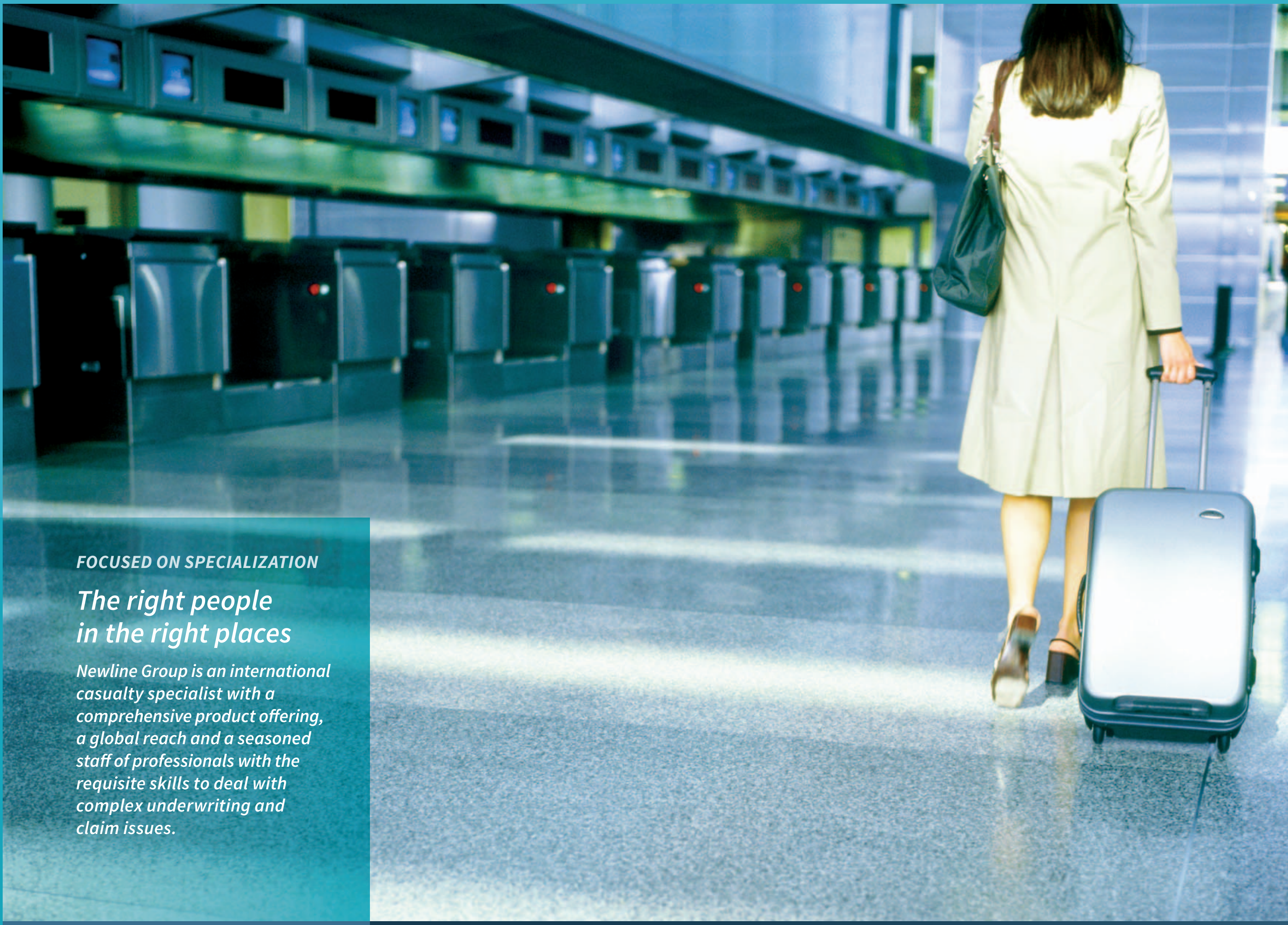
The London Market Division, led by Carl Overy, operates through three underwriting platforms: OdysseyRe's London branch and Newline Group, which is comprised of Newline Syndicate 1218 at Lloyd's and Newline Insurance Company Limited. These three operations are headquartered at the London Underwriting Centre with 125 professionals under a common management team.

In this competitive, soft environment, we are focused on increasing the product offering to insurance brokers and targeting a broader relationship with reinsurance clients. As a result, gross premiums written declined by only 4.4% to $272.2 million in 2014. Our clear risk appetite and strong underwriting discipline were demonstrated in the Division's combined ratio of 81.3%, representing an underwriting profit of $41 million. Profits were generated in both the insurance and reinsurance businesses.

The London Market Division prides itself on its understanding and analysis of risk and service to its customers. Adopting such consistent practices distinguishes us from our competitors and provides the Division with an invaluable, competitive edge in the current market.

Newline Group offers a suite of products on a direct and facultative basis including public liability, employers liability, products liability, commercial crime, bankers blanket bond, professional liability, directors and officers liability, medical malpractice, satellite and cargo & specie. Newline's territorial focus is predominantly the U.K., Continental Europe, Australia, AsiaPacific and Canada. During 2014 Newline Group expanded its global reach by establishing Newline Malaysia as well as becoming part of Lloyd's China in early 2015. These additions complement our existing offices in London, Manchester, Melbourne and Singapore.

OdysseyRe's London branch underwrites property, casualty, marine and aerospace treaty reinsurance. 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.



FOCUSED ON SPECIALIZATION

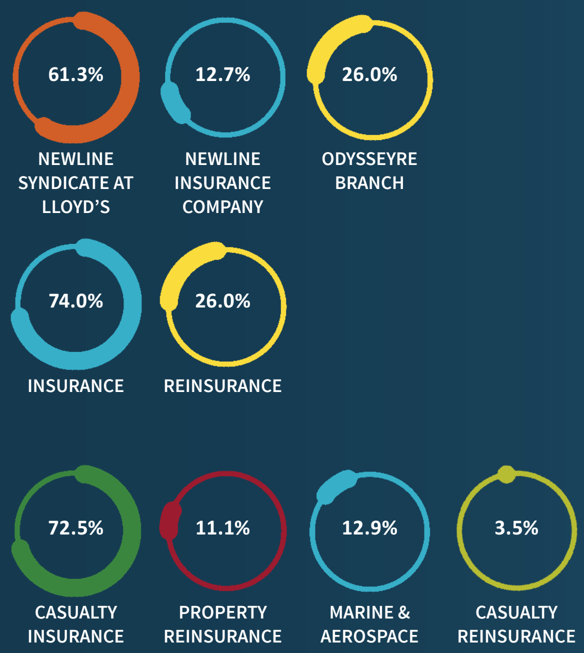
The right people in the right places

Newline Group is an international casualty specialist with a comprehensive product offering, a global reach and a seasoned staff of professionals with the requisite skills to deal with complex underwriting and claim issues.

THE LONDON MARKET DIVISION

2014 GROSS PREMIUMS WRITTEN

$272.2 MILLION



IN FOCUS: **U.S. INSURANCE**

The U.S. Insurance Division, led by Christopher Gallagher, is a market-leading specialty insurer that operates under the brand name Hudson Insurance Group. Hudson underwrites specialty primary and excess insurance on an admitted basis through Hudson Insurance Company and a non-admitted basis through Hudson Specialty Insurance Company and Hudson Excess Insurance Company. We focus our attention and resources on finding high-quality solutions that give our business partners, producers and policyholders a safe harbor for the risks they face.

Based in New York City with 15 additional offices located throughout the U.S. and in Vancouver, Canada, Hudson offers a diverse range of property and casualty insurance products to corporations, professional firms and individuals through retailers, wholesalers and program administrators. We serve market niches that require highly specialized underwriting capabilities. Currently, our nine underwriting units include Auto, Crop, Financial Products, General Liability & Package, Medical Malpractice, Professional Liability, Specialty Property & Energy, Surety and Tribal.

In 2014, Hudson expanded its commercial auto business with the acquisition of Motor Transport Underwriters (MTU), a leading underwriting, claims and risk management specialist in the long-haul trucking arena. We also acquired the underwriting operations from Surety Partners of America, Northeast and completed the integration of American Safety's commercial and specialty surety platform, both of which improve our market position and the growth potential of our surety portfolio.

Hudson delivered strong results in 2014, with gross premiums written at $983.7 million. This 16% increase was a result of growth in general liability, specialty liability, surety and auto. The net combined ratio was excellent at 97.8%, representing a decrease of 5.4 points from 103.2% reported in 2013.

With our expanded in-house underwriting capabilities, deep industry knowledge and vast experience of our talented team of 397 professionals, we are able to offer creative, personalized service tailored to meeting our clients' exact needs. Underwriting teams are supported by dedicated claims, actuarial and risk management professionals with a focus on particular products and industry segments. We are well-positioned to respond to changing market conditions and seize opportunities that will provide future growth.

FOCUSED ON DIFFERENTIATION

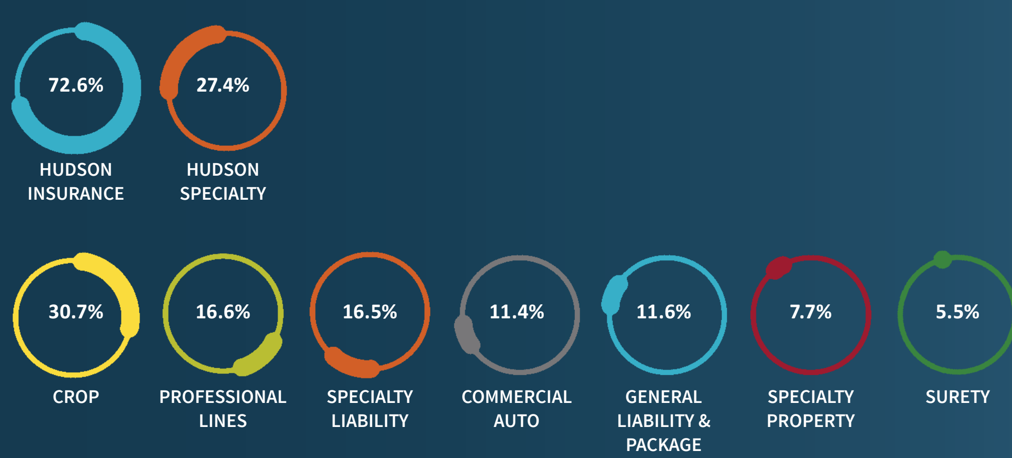
Operating in highly specialized segments of the market

With an extensive array of products and services, we offer customized turnkey solutions to our clients and business partners.

U.S. INSURANCE DIVISION

2014 GROSS PREMIUMS WRITTEN

$983.7
MILLION



EXECUTIVE LEADERSHIP

Odyssey Re Holdings Corp.

Board of Directors

Andrew A. Barnard [1]	*Chairman of the Board, President and Chief Operating Officer,* Fairfax Insurance Group
Brian D. Young	*President and Chief Executive Officer,* Odyssey Re Holdings Corp.
Brandon W. Sweitzer [1][2]	*Dean,* School of Risk Management, St. John's University
David J. Bonham [2]	*Vice President and Chief Financial Officer,* Fairfax Financial Holdings Limited
Peter S. Clarke [2]	*Vice President and Chief Risk Officer,* Fairfax Financial Holdings Limited
Paul C. Rivett	*President,* Fairfax Financial Holdings Limited

[1] Compensation Committee

[2] Audit Committee

Officers

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 Management

Elise M. Ahearn
Bernard Assens
Neil P. Beaton
Gregory A. Bonnell
Lawrence J. Boyle
Hugo A. Cardona
Alane R. Carey
Francis D. Cerasoli
Andrew K. Chu
Michael P. Cifone
Thierry Clarenc
Richard F. Coerver IV
Patrice M. Conboy
Loic Alandou d'Arboussier
James J. Danbrowney
Stephen H. Darwin
Dina G. Daskalakis
Christophe Delélis-Fanien
Matthew J. Deneen
Andrew A. Dickson
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FINANCIAL REPORT

Independent Auditor's Report

To the Board of Directors 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, 2014 and December 31, 2013, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years ended December 31, 2014.

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, 2014 and December 31, 2013 and the results of their operations and their cash flows for the three years ended December 31, 2014 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 6, 2015

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

CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $1,890,281 and $2,011,441, respectively)	$ 2,302,745	$ 2,247,607
Fixed income securities, held for trading, at fair value (amortized cost $1,930,443 and $1,917,023, respectively)	2,056,358	1,823,289
Preferred stocks, available for sale, at fair value (cost $54)	—	2,103
Preferred stocks, held for trading, at fair value (cost $223,041 and $261,074, respectively)	233,475	292,979
Equity securities:		
Common stocks, available for sale, at fair value (cost $412,912 and $561,077, respectively)	580,079	670,951
Common stocks, held for trading and fair value options, at fair value (cost $1,227,723 and $504,561, respectively)	1,360,241	700,148
Common stocks, at equity	153,644	128,944
Short-term investments, held for trading, at fair value (amortized cost $623,264 and $931,576, respectively)	623,264	931,576
Cash and cash equivalents	611,715	643,234
Cash and cash equivalents held as collateral	221,421	255,085
Other invested assets	809,537	965,392
Total investments and cash	8,952,479	8,661,308
Accrued investment income	46,829	55,205
Premiums receivable	681,648	669,798
Reinsurance recoverable on paid losses	31,743	95,810
Reinsurance recoverable on unpaid losses	726,196	790,642
Prepaid reinsurance premiums	110,269	103,976
Funds held by reinsureds	137,939	146,043
Deferred acquisition costs	188,549	182,791
Federal and foreign income taxes receivable	—	205,713
Other assets	145,977	114,711
Total assets	$ 11,021,629	$ 11,025,997
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,317,465	$ 5,569,515
Unearned premiums	853,087	825,649
Reinsurance balances payable	111,001	176,030
Funds held under reinsurance contracts	24,037	4,551
Debt obligations	214,911	264,645
Federal and foreign income taxes payable	96,395	—
Other liabilities	421,516	454,873
Total liabilities	7,038,412	7,295,263
Commitments and Contingencies (Note 11)		
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 and 70,000 Series B shares issued and outstanding for 2013	—	3
Common shares, $10.00 par value; 60,000 shares authorized; 47,668 and 53,440 shares issued and outstanding, respectively	477	535
Additional paid-in capital	1,639,236	587,994
Accumulated other comprehensive income, net of deferred income taxes	381,668	231,057
Retained earnings	1,932,537	2,881,846
Total shareholders' equity	3,983,217	3,730,734
Total liabilities and shareholders' equity	$ 11,021,629	$ 11,025,997

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
REVENUES			
Gross premiums written	$ 2,739,511	$ 2,715,546	$ 2,773,218
Ceded premiums written	345,678	338,604	370,873
Net premiums written	2,393,833	2,376,942	2,402,345
Increase in net unearned premiums	(37,256)	(3,358)	(87,069)
Net premiums earned	2,356,577	2,373,584	2,315,276
Net investment income	216,851	209,496	162,168
Net realized investment gains (losses):			
Net realized investment gains (losses)	461,009	(426,722)	239,623
Other-than-temporary impairment losses	(103,887)	(6)	(174,877)
Total net realized investment gains (losses)	357,122	(426,728)	64,746
Total revenues	2,930,550	2,156,352	2,542,190
EXPENSES			
Losses and loss adjustment expenses	1,283,997	1,309,591	1,414,467
Acquisition costs	478,060	476,077	439,755
Other underwriting expenses	237,121	211,882	198,574
Other expense (income), net	18,534	(16,920)	3,531
Interest expense	12,659	24,856	27,689
Total expenses	2,030,371	2,005,486	2,084,016
Income before income taxes	900,179	150,866	458,174
Federal and foreign income tax provision (benefit):			
Current	222,267	(29,115)	82,615
Deferred	87,228	43,037	93,046
Total federal and foreign income tax provision	309,495	13,922	175,661
Net income	$ 590,684	$ 136,944	$ 282,513

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
Net income	$ 590,684	$ 136,944	$ 282,513
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX			
Unrealized net appreciation (depreciation) on securities arising during the period	193,946	(234,191)	437,886
Reclassification adjustment for net realized investment gains included in net income	37,683	(130,535)	(221,759)
Foreign currency translation adjustments	23,313	(57,030)	(22,257)
Benefit plan liabilities	(23,473)	12,483	(15,720)
Other comprehensive income (loss), before tax	231,469	(409,273)	178,150
TAX (PROVISON) BENEFIT			
Unrealized net (appreciation) depreciation on securities arising during the period	(67,725)	81,892	(153,210)
Reclassification adjustment for net realized investment gains included in net income	(13,189)	45,687	77,616
Foreign currency translation adjustments	(8,160)	20,002	7,790
Benefit plan liabilities	8,216	(4,369)	5,502
Total tax (provision) benefit	(80,858)	143,212	(62,302)
Other comprehensive income (loss), net of tax	150,611	(266,061)	115,848
Comprehensive income (loss)	$ 741,295	$ (129,117)	$ 398,361

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2014	2013	2012
	(In thousands, except common share amounts)		
NON-CONTROLLING INTEREST			
Balance, beginning and end of year	$ 29,299	$ 29,299	$ 29,299
PREFERRED SHARES (par value)			
Balance, beginning of year	3	3	3
Series A and B preferred shares redemptions	(3)	—	—
Balance, end of period	—	3	3
COMMON SHARES (par value)			
Balance, beginning of year	535	507	513
Common shares capital contributions	155	28	1
Common shares capital redemptions	(213)	—	(7)
Balance, end of year	477	535	507
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	587,994	404,550	417,647
Common shares capital contributions	1,291,012	188,173	4,787
Series A and B preferred shares redemptions	(7,868)	—	—
Common shares capital redemptions	(232,655)	342	(5,248)
Net change due to stock option exercises and restricted share awards	753	(5,071)	(12,636)
Balance, end of year	1,639,236	587,994	404,550
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	231,057	497,118	381,270
Unrealized net appreciation (depreciation) on securities, net of reclassification adjustments	150,715	(237,147)	140,533
Foreign currency translation adjustments	15,153	(37,028)	(14,467)
Benefit plan liabilities	(15,257)	8,114	(10,218)
Balance, end of year	381,668	231,057	497,118
RETAINED EARNINGS			
Balance, beginning of year	2,881,846	2,747,289	2,506,712
Net income	590,684	136,944	282,513
Loss on redemption of Series A and Series B preferred shares	(218)	—	—
Capital redemptions on common shares	(1,537,587)	(343)	(39,745)
Dividends to preferred shareholders	(2,188)	(2,044)	(2,191)
Balance, end of year	1,932,537	2,881,846	2,747,289
TOTAL SHAREHOLDERS' EQUITY	$ 3,983,217	$ 3,730,734	$ 3,678,766
COMMON SHARES OUTSTANDING			
Balance, beginning of year	53,440	50,640	51,224
Repurchased and retired	(21,327)	—	(656)
Shares issued	15,555	2,800	72
Balance, end of year	47,668	53,440	50,640

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 590,684	$ 136,944	$ 282,513
Adjustments to reconcile net income to net cash provided by operating activities:			
(Increase) decrease in premiums receivable and funds held, net	(13,045)	(144,570)	16,368
Increase (decrease) in unearned premiums and prepaid reinsurance premiums, net	39,834	(466)	92,468
(Decrease) increase in unpaid losses and loss adjustment expenses, net	(6,768)	(73,076)	8,569
Decrease (increase) in current and deferred federal and foreign income taxes, net	222,137	(14,278)	121,048
Increase in deferred acquisition costs	(6,787)	(8,853)	(35,610)
Change in other assets and liabilities, net	(35,786)	21,201	(59,446)
Net realized investment (gains) losses	(357,122)	426,728	(64,746)
Bond discount amortization, net	(16,768)	(8,367)	(12,377)
Amortization of compensation plans	10,008	9,000	6,155
Net cash provided by operating activities	426,387	344,263	354,942
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	5,918	4,088	21,597
Sales of fixed income securities, available for sale	148,923	217,432	1,171,826
Purchases of fixed income securities, available for sale	(48,925)	(80,629)	(32,184)
Sales of equity securities	123,970	434,070	249,360
Purchases of equity securities	(17,999)	(95,896)	(349,277)
Net settlements of other invested assets	155,548	(470,924)	(31,924)
Purchases of other invested assets	(152,629)	(648,965)	(311,249)
Net change in cash and cash equivalents held as collateral	16,758	(142,218)	(15,330)
Sales of trading securities	3,316,403	4,015,785	4,621,697
Purchases of trading securities	(3,896,636)	(3,496,044)	(5,386,222)
Net purchases of fixed assets	(10,871)	(6,135)	(14,961)
Acquisition of net assets of a business	(7,779)	(10,000)	(4,000)
Net cash used in investing activities	(367,319)	(279,436)	(80,667)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares capital contributions	202,248	188,201	4,788
Capital redemptions on common shares	(196,242)	—	(45,000)
Repayment of debt obligations	(50,000)	—	—
Repayment of debt obligations maturity	—	(182,827)	—
Purchase of restricted shares	(9,088)	(13,775)	(17,693)
Dividends paid to preferred shareholders	(2,188)	(2,044)	(2,191)
(Repayments of) proceeds under revolving line of credit agreement	—	(2,164)	2,164
Net cash used in financing activities	(55,270)	(12,609)	(57,932)
Effect of exchange rate changes on cash and cash equivalents	(35,317)	(34,009)	18,399
(Decrease) increase in cash and cash equivalents	(31,519)	18,209	234,742
Cash and cash equivalents, beginning of year	643,234	625,025	390,283
Cash and cash equivalents, end of year	$ 611,715	$ 643,234	$ 625,025
Supplemental disclosures of cash flow information:			
Interest paid	$ 12,162	$ 26,223	$ 26,522
Income taxes paid	$ 87,374	$ 27,615	$ 55,358
Non-cash activity:			
Receipt of securities for issuance of common shares	$ 200,660	$ —	$ —
Distribution of securities for redemption of common shares	$ 685,958	$ —	$ —
Distribution of securities for redemption of preferred shares	$ 8,090	$ —	$ —

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”) and its subsidiaries:
  - Hudson Specialty Insurance Company (“Hudson Specialty”) and
  - Hudson Excess Insurance Company (“Hudson Excess”)
- Clearwater Select Insurance Company (“Clearwater Select”);
- Newline Holdings U.K. Limited and its subsidiaries (collectively, “Newline”):
  - 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) 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 the Company.

In the fourth quarter of 2014, Fairfax reorganized and aligned the ownership of the Company under a single Fairfax intermediate holding company in the United States, Odyssey US Holdings Inc. (“OUSHI”). To facilitate the reorganization, ORH redeemed from various Fairfax entities i) all of its outstanding preferred shares (253,599 Series A shares and 70,000 Series B shares) for $8.1 million in cash and marketable securities, ii) 10,627 of its outstanding common shares for $882.2 million in cash and marketable securities and iii) 10,700 of its outstanding common shares for $888.3 million in notes issued by ORH payable to Fairfax (US) Inc. (“Fairfax (US)”), which is Fairfax’s top-tier U.S. holding company. All of the remaining outstanding common shares of ORH were distributed in a tax-free spin-off culminating in the ownership of all of ORH’s common stock under OUSHI, a subsidiary of Fairfax (US). After borrowing $400.0 million from Fairfax, OUSHI contributed the $400.0 million to ORH in exchange for 4,818 shares of ORH’s common stock and agreed to assume from ORH (and Fairfax (US) agreed to release ORH from all obligations relating to) the $888.3 million note payable to Fairfax (US) in exchange for 10,700 shares of ORH’s common stock. The net effect of these transactions on ORH’s shareholders’ equity was a decrease of $490.3 million.

Dividends and returns of capital from the Company are expected to be the sole source of funds for servicing OUSHI’s $1.3 billion in debt obligations owed to various Fairfax entities.

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 that 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 \$13.5 million and \$13.9 million as of December 31, 2014 and 2013, 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 $8.3 million and $7.3 million as of December 31, 2014 and 2013, 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 $479.3 million, $474.4 million and $436.5 million for the years ended December 31, 2014, 2013 and 2012, 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, 2014 and 2013.

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, 2014 and 2013 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2013	$ 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
Acquired during 2014	11,820	—	5,673	17,493
Amortization during 2014	—	—	(4,634)	(4,634)
Balance, December 31, 2014	$ 48,554	$ 5,813	$ 17,744	$ 72,111

The Company acquired $8.5 million of intangible assets with a finite life during the year ended December 31, 2012. The Company amortized $2.8 million for the year ended December 31, 2012 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, 2014, 2013 or 2012.

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

	Years Ended December 31,				
	2015	2016	2017	2018	2019
Amortization of intangible assets	$ 5,383	$ 5,189	$ 3,813	$ 2,661	$ 701

(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, 2014 and 2013, the Company had reflected $7.8 million and $8.3 million in other assets and $2.2 million and $2.0 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, 2014 and 2013, 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, 2014 and 2013, 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) *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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Statement of operations:			
Net investment income (loss)	$ 1,258	$ 220	$ (647)
Net realized investment losses	(13,867)	(7,582)	(19,850)
Other income, net	4,548	33,777	14,949
(Loss) income before income taxes	(8,061)	26,415	(5,548)
Total federal and foreign income tax (benefit) provision	(2,821)	9,246	(1,942)
Net (loss) income	(5,240)	17,169	(3,606)
Other comprehensive income (loss), net of tax	15,153	(37,028)	(14,467)
Total effect on comprehensive income (loss) and shareholders' equity	$ 9,913	$ (19,859)	$ (18,073)

(k) *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."

(l) *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.

(m) *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.

(n) *Fixed Assets.* Fixed assets, with a net book value of $25.8 million and $24.1 million as of December 31, 2014 and 2013, respectively, are recorded at cost and are included in other assets. 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, 2014, 2013 and 2012 was $9.0 million, $8.1 million and $6.7 million, respectively.

(o) *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, 2014 and 2013, no contingent liabilities have been recorded (see Note 11).

(p) *Subsequent Events.* The Company has evaluated the significance of events occurring subsequent to December 31, 2014 with respect to disclosing the nature and expected impact of such events as of March 6, 2015, the date these consolidated financial statements were available to be issued.

3. Fair Value Measurements

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

Fair Value Hierarchy

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

Level 1: Level 1 financial instruments are financial assets and liabilities for which the values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access. Market price data generally is obtained from exchange markets. The Company does not adjust the quoted price for such instruments. The majority of the Company’s Level 1 investments are common stocks that are actively traded in a public market and short-term investments and cash equivalents, for which the cost basis approximates fair value.

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

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

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

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

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

Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 include government, corporate and municipal fixed income securities, which are priced using publicly traded over-the-counter prices and broker-dealer quotes. Observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments. 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 swaptions, which are classified as Level 2, the Company utilizes broker-dealer quotes that include observable interest rate yield curves and interest rate volatility. 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 is 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 years ended December 31, 2014 and 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, 2014, 2013 and 2012, the Company purchased $223.1 million, $594.5 million and $251.1 million, respectively, of investments that are classified as Level 3. As of December 31, 2014 and 2013, the Company held $959.9 million and $912.9 million, respectively, of investments that are classified as Level 3. Level 3 investments include certain limited partnerships, 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, and certain bonds, warrants, preferred and common stocks. The Company also 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.

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 for the years ended December 31, 2014, 2013 and 2012. For the year ended December 31, 2013, $2.5 million 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 during the years ended December 31, 2014 or 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, 2014 and 2013 (in thousands):

	Fair Value Measurements as of December 31, 2014			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 187,311	$ —	$ 187,311	$ —
States, municipalities and political subdivisions	2,024,422	—	2,024,422	—
Foreign governments	10,983	—	10,983	—
Corporate	80,029	6,443	73,586	—
Total fixed income securities, available for sale	2,302,745	6,443	2,296,302	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	470,673	—	470,673	—
States, municipalities and political subdivisions	1,001,921	—	1,001,921	—
Foreign governments	280,290	—	280,290	—
Corporate	303,474	—	32,152	271,322
Total fixed income securities, held for trading	2,056,358	—	1,785,036	271,322
Convertible preferred stocks, held for trading	233,475	—	199,817	33,658
Common stocks, available for sale	580,079	576,721	3,358	—
Common stocks, held for trading and fair value options	1,360,241	700,104	477,167	182,970
Short-term investments, held for trading	623,264	574,888	48,376	—
Cash equivalents	518,579	518,579	—	—
Derivatives	132,266	—	72,418	59,848
Other investments	423,735	—	11,667	412,068
Total assets measured at fair value	$ 8,230,742	$ 2,376,735	$ 4,894,141	$ 959,866
Derivative liabilities	$ 53,241	$ —	$ 53,241	$ —
Total liabilities measured at fair value	$ 53,241	$ —	$ 53,241	$ —

	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	$ —

The Company has had cash collateral posted on its behalf by counterparties to derivative transactions in the amounts of $20.1 million and $16.1 million as of December 31, 2014 and 2013, 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, 2014 and 2013 (in thousands):

	Fixed Income Securities	Other Invested Assets	Equity Securities	Debt Obligations
Balance, January 1, 2013	$ 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	(2,164)
Settlements / paydowns	(22,645)	(6,985)	(23,030)	—
Transfers from Level 2 to Level 3	—	—	106,865	—
Balance, December 31, 2013	99,431	652,384	161,035	—
Change in value related to securities sold	—	(26,393)	—	—
Change in value related to securities held	61,041	20,749	13,880	—
Purchases / advances	110,850	70,555	41,713	—
Settlements / paydowns	—	(245,379)	—	—
Balance, December 31, 2014	$ 271,322	$ 471,916	$ 216,628	$ —

The following tables present changes in value included in net income related to Level 3 assets for the years ended December 31, 2014, 2013, and 2012 (in thousands):

Year ended December 31, 2014	Net Investment Income	Net Realized Capital Gains (Losses)	Currency Translation	Total
Fixed income securities	$ 89	$ 62,237	$ (1,285)	$ 61,041
Other invested assets	—	(908)	(4,736)	(5,644)
Equity securities	—	16,982	(3,102)	13,880
	$ 89	$ 78,311	$ (9,123)	$ 69,277
Year ended December 31, 2013				
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)

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, 2014 and 2013 (in thousands):

Valuation Technique/Asset Type	As of December 31, 2014	As of December 31, 2013	Significant Unobservable Inputs	Range 2014	Range 2013
Market Approach					
Fixed income securities, held for trading	$ 271,122	$ 99,231	Risk premium for credit risk	9.0%-9.1%	
Preferred stock, held for trading	17,501	18,856	Risk premium for credit risk	9.6%-9.8%	
CPI-Linked Derivatives (1)	59,384	80,143	Broker quotes		
Warrants	464	20	Stock volatility and underlying stock price	volatility 27%-39%	
Total valued using market approach	348,471	198,250			
Income Approach					
Fixed income securities, held for trading	200	200	Risk premium for credit risk	14.5%-14.9%	14.5%-14.9%
Preferred stock, held for trading	540	540	Risk premium for credit risk		
Preferred stock, held for trading	15,617	17,025	Yield to maturity	4.0%	4.0%
Common stock, held for trading	12,275	9,728	EV/EBITDA multiple	7.5x	7.5x
Total valued using income approach	28,632	27,493			
Net Asset Value					
Common stock, held for trading	128,308	83,359	Risk premium for credit risk for underlying loan within the fund		
Partnerships, at fair value (2)	412,068	372,961	Time lag in receiving distributions		
Total valued using net asset value approach	540,376	456,320			
Market Price to Book Value					
Common stocks, fair value option (3)	42,387	31,527	Time lag in receiving book value of comparable companies		
Par Value					
Other investments	—	199,260	Loan valued at par		
Total — Level 3	$ 959,866	$ 912,850			

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

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, 2014 and 2013, the Company's interest in Advent was recorded at fair value of $42.4 million and $31.5 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 $10.9 million and $6.3 million for the years ended December 31, 2014 and 2013, 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, 2014, calculated in accordance with the equity method of accounting, would have been $34.0 million.

The Company owns or owned Class A, G, C, H and E common shares of HWIC Asia Fund ("HWIC Asia"), which is 100% owned by Fairfax and of which the Company owns 30.0% as of December 31, 2014. 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, 2014 and 2013, 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	HWIC Asia Class E	Total
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
Purchases	—	17,850	12,000	41,000	306,290	377,140
Change in fair value	—	(3,950)	1,473	3,949	20,345	21,817
Currency translation adjustment	—	—	—	—	(36)	(36)
Fair value at 12/31/2014	$ —	$ 41,020	$ 46,506	$ 128,308	$ 326,599	$ 542,433

HWIC Asia's change in fair value was $19.0 million for the year ended December 31, 2012.

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, 2014 and 2013, 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, 2014 and 2013, is as follows (in thousands):

2014	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 147,538	$ 39,773	$ —	$ 187,311
States, municipalities and political subdivisions	1,659,483	364,939	—	2,024,422
Foreign governments	8,976	2,007	—	10,983
Corporate	74,284	5,745	—	80,029
Total fixed income securities	1,890,281	412,464	—	2,302,745
Common stocks	412,912	167,167	—	580,079
Total	$ 2,303,193	$ 579,631	$ —	$ 2,882,824

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

Common stocks accounted for under the equity method of accounting were carried at $153.6 million and $128.9 million as of December 31, 2014 and 2013, respectively. Common stocks at equity had gross unrealized appreciation of $1.1 million and $0.6 million as of December 31, 2014 and 2013, respectively. Common stocks at equity had gross unrealized depreciation of $16.8 million and $14.9 million as of December 31, 2014 and 2013, respectively. Other invested assets were carried at $809.5 million and $965.4 million as of December 31, 2014 and 2013, 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, 2014 and 2013 is as follows (in thousands):

	2014 Fair Value	2013 Fair Value
Fixed income securities:		
United States government, government agencies and authorities	$ 470,673	$ 319,119
States, municipalities and political subdivisions	1,001,921	911,547
Foreign governments	280,290	352,023
Corporate	303,474	240,600
Total fixed income securities	2,056,358	1,823,289
Preferred stocks	233,475	292,979
Common stocks	1,360,241	700,148
Short-term investments	623,264	931,576
Cash and cash equivalents	611,715	643,234
Cash collateral for borrowed securities	221,421	255,085
Total	$ 5,106,474	$ 4,646,311

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2014, by contractual maturity, are shown below (in thousands):

	At December 31, 2014					
	Available for Sale			Held for Trading		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 23,875	$ 23,875	1.0 %	$ 87,479	$ 80,062	3.9 %
Due after one year through five years	39,236	39,333	1.7 %	129,742	124,344	6.0 %
Due after five years through ten years	30,700	35,885	1.6 %	209,765	283,863	13.8 %
Due after ten years	1,796,470	2,203,652	95.7 %	1,503,457	1,568,089	76.3 %
Total fixed income securities	$ 1,890,281	$ 2,302,745	100.0 %	$ 1,930,443	$ 2,056,358	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 56.6% 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 0.5% of the total fair value.

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

The following table sets forth the components of net investment income for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Interest on fixed income securities	$ 194,570	$ 178,933	$ 196,603
Dividends on preferred stocks	14,229	15,626	14,044
Dividends on common stocks	17,350	16,917	17,824
Net income (loss) of common stocks, at equity	27,287	12,154	(834)
Interest on cash and short-term investments	4,862	5,892	6,023
Other invested assets	35,664	70,438	28,681
Gross investment income	293,962	299,960	262,341
Less: investment expenses	77,109	90,462	98,066
Less: interest on funds held under reinsurance contracts	2	2	2,107
Net investment income	$ 216,851	$ 209,496	$ 162,168

The following table summarizes the Company's net realized investment gains and losses for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Available for sale	$ (41,629)	$ 115,281	$ 216,597
Held for trading:			
From sales and settlements	140,445	(515,337)	(234,141)
From mark to market adjustments	258,306	(26,672)	82,290
Total held for trading	398,751	(542,009)	(151,851)
Total net realized investment gains (losses)	$ 357,122	$ (426,728)	$ 64,746

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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Fixed income securities:			
Realized investment gains	$ 26,881	$ 20,305	$ 273,278
Realized investment losses	14,658	12,584	11,537
Net realized investment gains	12,223	7,721	261,741
Preferred stock:			
Realized investment gains	2,075	—	—
Equity securities:			
Realized investment gains	46,656	107,560	129,733
Realized investment losses	102,583	—	174,877
Net realized investment (losses) gains	(55,927)	107,560	(45,144)
Total available for sale securities:			
Realized investment gains	75,612	127,865	403,011
Realized investment losses	117,241	12,584	186,414
Net realized investment (losses) gains	$ (41,629)	$ 115,281	$ 216,597

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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Fixed income securities:			
Net realized investment gains on disposal	$ 121,531	$ 32,197	$ 6,587
Change in fair value	222,401	(168,201)	89,236
Net realized investment gains (losses)	343,932	(136,004)	95,823
Preferred stock:			
Net realized investment loss on disposal	(32,063)	—	—
Change in fair value	(21,498)	42,389	(9,471)
Net realized investment (losses) gains	(53,561)	42,389	(9,471)
Equity securities:			
Net realized investment gains on disposal	117,148	66,328	14,464
Change in fair value	(58,060)	189,369	56,286
Net realized investment gains	59,088	255,697	70,750
Derivative securities:			
Net realized investment losses on disposal	(53,249)	(615,085)	(251,218)
Change in fair value	94,188	(115,149)	(93,836)
Net realized investment gains (losses)	40,939	(730,234)	(345,054)
Other securities:			
Net realized investment (losses) gains on disposal	(12,922)	1,223	(3,974)
Change in fair value	21,275	24,920	40,075
Net realized investment gains	8,353	26,143	36,101
Total held for trading securities:			
Net realized investment gains (losses) on disposal	140,445	(515,337)	(234,141)
Change in fair value	258,306	(26,672)	82,290
Net realized investment gains (losses)	$ 398,751	$ (542,009)	$ (151,851)

The following table sets forth realized investment losses on the other-than-temporary impairment of investments, for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Fixed income securities	$ 1,704	$ 6	$ —
Equity securities	102,183	—	174,877
Total other-than-temporary impairment losses	$ 103,887	$ 6	$ 174,877

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

(c) Unrealized Appreciation (Depreciation)

The following table sets forth the changes in unrealized net appreciation (depreciation) of investments, and the related tax effect, reflected in accumulated other comprehensive income for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Fixed income securities	$ 177,565	$ (258,372)	$ (19,827)
Preferred stock	(2,049)	2,049	—
Equity securities	56,113	(108,403)	235,954
Increase (decrease) in unrealized net appreciation (depreciation) of investments	231,629	(364,726)	216,127
Deferred income tax (provision) benefit	(80,914)	127,579	(75,594)
Change in net unrealized appreciation (depreciation) of investments included in other comprehensive income (loss)	$ 150,715	$ (237,147)	$ 140,533

On a quarterly basis, the Company reviews its investment portfolio classified as available for sale 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 that are classified as available for sale 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.

As of December 31, 2014, the Company did not own any securities classified as available for sale in an unrealized loss position. The following table reflects the fair value and gross unrealized depreciation of the

Company's fixed income securities, and common stocks, at fair value classified as available for sale, aggregated by investment category and length of time that individual securities have been in a continuous unrealized depreciation position, as of December 31, 2013 (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

As of December 31, 2013, the Company did not own securities classified as available for sale with a duration of unrealized losses greater than 12 months.

The Company believes the gross unrealized depreciation for securities classified as available for sale 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, 2014 and 2013 (in thousands):

	2014	2013
Fairfax Asia Limited ("Fairfax Asia")	$ 109,916	$ 99,019
Zenith National Insurance Corp. ("Zenith")	43,701	29,898
Other	27	27
Total common stocks, at equity	$ 153,644	$ 128,944

As of December 31, 2014, the relative ownership held by the Company was 16.3% (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

The following table shows the components of other invested assets as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Investment funds and partnerships, at equity	$ 246,805	$ 250,878
Investment funds and partnerships, at fair value	412,068	372,961
Derivatives, at fair value	132,267	123,548
Benefit plan funds, at fair value	11,667	12,015
Unsecured loan to Fairfax (US) Inc.	—	199,260
O.R.E Holdings Limited	6,730	6,730
Total other invested assets	$ 809,537	$ 965,392

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, 2014, 2013 and 2012, the Company recognized net investment income of $17.5 million, $45.8 million and $4.2 million, respectively, from its investment funds and partnership investments. For the years ended December 31, 2014, 2013 and 2012, the Company recognized net realized investment gains of $34.8 million, and $32.5 million and $36.2 million, respectively, from its investment funds and partnerships that are held as trading securities. With respect to the Company's $658.9 million in investments in investment funds and partnerships, the Company has commitments that may require additional funding of up to $101.5 million. As of December 31, 2014, 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.

(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, 2014, and December 31, 2013, respectively (in thousands):

As of December 31, 2014	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$ 35,886,366	$ 226,836	$ 59,384	$ —
Swaptions	33,682,172	97,448	2,365	—
Short total return swaps	2,295,855	—	27,152	45,154
Forward currency contracts	717,542	—	42,901	—
Long total return swaps	81,231	—	—	8,087
Warrants	1,933	105	465	—
Total		$ 324,389	$ 132,267	$ 53,241

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

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, 2014 and 2013 (in thousands):

As of and for the year ended December 31, 2014	Exposure / Notional Value	Carrying Value	Effect on Pre-tax: Other Comprehensive Income	Effect on Pre-tax: Net Investment / Income Realized Gains (Losses)	Effect on Pre-tax: Net Equity Impact	Effect on Pre-tax: Net Cash Flow from Disposals
Equity risk exposures:						
Common stocks, at fair value	$ 1,430,705	$ 1,430,705	$ 55,425	$ (31,994)	$ 23,431	$ 163,404
Preferred stocks	200,357	200,357	(2,049)	(51,084)	(53,133)	(29,988)
Bonds-convertible	267,890	267,890	—	74,521	74,521	15,430
Partnerships	637,869	637,869	—	52,456	52,456	16,458
Total return swaps-long	73,144	(8,087)	—	14,293	14,293	25,050
Equity warrants	464	464	—	589	589	—
Total equity exposure	$ 2,610,429	$ 2,529,198	53,376	58,781	112,157	190,354
Hedging instruments:						
Other invested assets:						
Total return swaps-short	$ 2,313,858	$ (18,004)	—	(30,446)	(30,446)	(103,516)
Total equity hedging instruments	$ 2,313,858	$ (18,004)	—	(30,446)	(30,446)	(103,516)
Net equity impact			$ 53,376	$ 28,335	$ 81,711	$ 86,838

As of and for the year ended December 31, 2013	Exposure / Notional Value	Carrying Value	Effect on Pre-tax: Other Comprehensive Income	Effect on Pre-tax: Net Investment / Income Realized Gains (Losses)	Effect on Pre-tax: Net Equity Impact	Effect on Pre-tax: 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)

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 various geographic regions in which the Company operates. These contracts had a remaining average life of 7.1 years and 8.0 years as of December 31, 2014 and 2013, 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 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 $44.3 million as of December 31, 2014. 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, 2014 and 2013, the fair value of this collateral was $20.1 million and $14.3 million, respectively.

The Company has entered into swaption agreements with a notional value of $33.7 billion and $36.5 billon, as of December 31, 2014 and 2013, 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 $31.2 million as of December 31, 2014.

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 2014, the Company initiated U.S. equity index total return swap contracts to protect against potential future broad market downturns, which had an aggregate notional value of $2.0 billion and $1.9 billion as of December 31, 2014 and 2013, respectively. The collateral requirements related to entering the total return swaps were $202.2 million and $232.2 million as of December 31, 2014 and 2013, respectively. These total return swap transactions terminate during the second and third quarter of 2015. The equity index total return swaps are recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of December 31, 2014 and 2013, respectively, with the related changes in the fair values recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company held long position common stock total return swaps, with a total notional value of $81.2 million and $134.3 million as of December 31, 2014 and 2013, respectively, as replications of investments in publicly-listed common stocks. The collateral requirement related to these swaps was $5.3 million and $8.4 million as of December 31, 2014 and 2013 respectively. The common stock total return swaps, which are carried at fair value, are recorded in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of December 31, 2014 and 2013. Changes in the fair value of common stock total return swaps are recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

As of December 31, 2014 and 2013, the Company held short position common stock total return swaps with a notional value of $288.3 million and $271.4 million, respectively. The collateral requirement related to these swaps, which terminate throughout 2015, was $13.1 million and $14.0 million as of December 31, 2014 and 2013, respectively. The common stock total return swaps were recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of December 31, 2014 and 2013, respectively. Changes in the fair value are recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

Pursuant to the agreements governing the short common stock total return swaps, 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, 2014, the fair value of this collateral was $26.8 million.

The Company has entered into forward currency contracts to manage its foreign currency exchange rate risk on a macro basis. Under a forward currency contract, the Company and the counterparty are obligated to purchase or sell an underlying currency at a specified price and time. Forward currency contracts are recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of December 31, 2014 and 2013, 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. 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, 2014 and 2013 was $3.9 million and $1.8 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, 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. Changes in fair value were 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, 2014 and 2013, 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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
CPI-linked derivative contracts:			
Net realized investment losses on disposal	$ (33,116)	$ (19,290)	$ (840)
Change in fair value	6,748	(37,250)	(54,560)
Net realized investment losses	(26,368)	(56,540)	(55,400)
Swaptions:			
Change in fair value	(32,348)	(49,216)	(13,519)
Net realized investment losses	(32,348)	(49,216)	(13,519)
Short total return swaps:			
Net realized investment losses on disposal	(103,516)	(722,044)	(263,959)
Change in fair value	73,070	(45,721)	(29,743)
Net realized investment losses	(30,446)	(767,765)	(293,702)
Forward currency contracts:			
Net realized investment gains (losses) on disposal	25,835	4,125	(12,970)
Change in fair value	52,855	(1,146)	(8,170)
Net realized investment gains (losses)	78,690	2,979	(21,140)
Long total return swaps:			
Net realized investment gains (losses) on disposal	25,050	125,254	18,934
Change in fair value	(10,757)	15,911	22,660
Net realized investment gains	14,293	141,165	41,594
Credit default swaps:			
Net realized investment losses on disposal	(2,287)	—	(3,405)
Change in fair value	2,262	(308)	(3,463)
Net realized investment losses	(25)	(308)	(6,868)

	2014	2013	2012
Warrants:			
Net realized investment gains on disposal	9,191	—	13,914
Change in fair value	3,289	(1,420)	(9,006)
Net realized investment gains (losses)	12,480	(1,420)	4,908
Call options:			
Net realized investment gain on disposal	25,594	—	—
Change in fair value	(931)	931	—
Net realized investment gains	24,663	931	—
Interest rate swaps:			
Net realized investment loss on disposal	—	(3,130)	(2,892)
Change in fair value	—	3,070	1,965
Net realized investment losses	—	(60)	(927)
Total derivatives:			
Net realized investment (losses) gains on disposal	(53,249)	(615,085)	(251,218)
Change in fair value	94,188	(115,149)	(93,836)
Net realized investment gains (losses)	$ 40,939	$ (730,234)	$ (345,054)

(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, 2014, restricted assets supporting these deposits and trust fund requirements totaled $1.3 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	$ 75,751	199,092	274,227	$ 452,496	$ 1,001,566
Cash, cash equivalents and short-term investments	1,499	213,049	21,890	19,101	255,539
Common stocks	—	11,530	—	57,719	69,249
Total	$ 77,250	$ 423,671	$ 296,117	$ 529,316	$ 1,326,354

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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Beginning balance of unrealized net appreciation on securities	$ 214,389	$ 451,536	$ 311,003
Ending balance of unrealized net appreciation on securities	365,104	214,389	451,536
Current period change in unrealized net appreciation (depreciation) on securities	150,715	(237,147)	140,533
Beginning balance of foreign currency translation adjustments	29,015	66,043	80,510
Ending balance of foreign currency translation adjustments	44,168	29,015	66,043
Current period change in foreign currency translation adjustments	15,153	(37,028)	(14,467)
Beginning balance of benefit plan liabilities	(12,347)	(20,461)	(10,243)
Ending balance of benefit plan liabilities	(27,604)	(12,347)	(20,461)
Current period change in benefit plan liabilities	(15,257)	8,114	(10,218)
Other comprehensive income (loss)	$ 150,611	$ (266,061)	$ 115,848
Beginning balance of accumulated other comprehensive income	$ 231,057	$ 497,118	$ 381,270
Other comprehensive income (loss)	150,611	(266,061)	115,848
Ending balance of accumulated other comprehensive income	$ 381,668	$ 231,057	$ 497,118

The following table shows the components of accumulated other comprehensive income and the related deferred income taxes on each component, as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Gross:		
Unrealized appreciation on securities	$ 561,124	$ 329,495
Foreign currency translation adjustments	67,953	44,640
Benefit plan liabilities	(42,469)	(18,996)
Total accumulated other comprehensive income, gross of deferred income taxes	$ 586,608	$ 355,139
Deferred taxes:		
Unrealized appreciation on securities	$ (196,020)	$ (115,106)
Foreign currency translation adjustments	(23,785)	(15,625)
Benefit plan liabilities	14,865	6,649
Total deferred taxes on accumulated other comprehensive income	$ (204,940)	$ (124,082)

The following table shows the changes in the balances of each component of accumulated other comprehensive income (loss), as of December 31, 2014, 2013 and 2012 (in thousands):

	Unrealized Gains and Losses on Securities	Foreign Currency Items	Benefit Plan Items	Total
Balance, January 1, 2012	$ 311,003	$ 80,510	$ (10,243)	$ 381,270
Amounts arising during the period	284,676	(10,809)	(10,784)	263,083
Reclassification adjustment included in net income	(144,143)	(3,658)	566	(147,235)
Net other comprehensive income (loss)	140,533	(14,467)	(10,218)	115,848
Balance, December 31, 2012	451,536	66,043	(20,461)	497,118
Amounts arising during the period	(152,299)	(38,801)	7,175	(183,925)
Reclassification adjustment included in net income	(84,848)	1,773	939	(82,136)
Net other comprehensive (loss) income	(237,147)	(37,028)	8,114	(266,061)
Balance, December 31, 2013	214,389	29,015	(12,347)	231,057
Amounts arising during the period	126,221	11,055	(15,641)	121,635
Reclassification adjustment included in net income	24,494	4,098	384	28,976
Net other comprehensive income (loss)	150,715	15,153	(15,257)	150,611
Balance, December 31, 2014	$ 365,104	$ 44,168	$ (27,604)	$ 381,668

The following table shows the significant amounts reclassified out of each component of accumulated other comprehensive income as of December 31, 2014, 2013 and 2012 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (a) 2014	2013	2012	Affected Line Item in the Statement of Operations Where Net Income is Presented
Unrealized net depreciation (appreciation) of securities:				
	$ (37,683)	$ 130,535	$ 221,759	Net realized investment gains (losses)
	13,189	(45,687)	(77,616)	Total federal and foreign income provision
	$ (24,494)	$ 84,848	$ 144,143	Net income
Foreign Currency Translations:				
	$ (6,304)	$ (2,728)	$ 5,628	Net realized investment gains (losses)
	2,206	955	(1,970)	Total federal and foreign income provision
	$ (4,098)	$ (1,773)	$ (3,658)	Net income
Amortization of benefit plan items:				
Amortization of net loss	$ (608)	$ (1,437)	$ (859)	Other underwriting expenses (b)
Amortization of prior service credit (costs)	19	(9)	(11)	Other underwriting expenses (b)
	(589)	(1,446)	(870)	
	205	507	304	Total federal and foreign income provision
	$ (384)	$ (939)	$ (566)	Net income
Total reclassifications for the period	$ (28,976)	$ 82,136	$ 147,235	

(a) Amounts in parentheses indicate decreases to statement of operations.

(b) These accumulated other comprehensive income components are included in the computation of net periodic benefit plan costs (see Note 14 for additional details).

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, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 5,569,515	$ 5,632,322	$ 5,517,600
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	790,642	813,573	767,651
Net unpaid losses and loss adjustment expenses, beginning of year	4,778,873	4,818,749	4,749,949
Add: Net incurred losses and loss adjustment expenses related to:			
Current year	1,473,125	1,524,295	1,566,488
Prior years	(189,128)	(214,704)	(152,021)
Total net incurred losses and loss adjustment expenses	1,283,997	1,309,591	1,414,467
Less: Net paid losses and loss adjustment expenses related to:			
Current year	275,305	293,266	233,620
Prior years	1,010,103	1,066,090	1,132,397
Total net paid losses and loss adjustment expenses	1,285,408	1,359,356	1,366,017
Effect of exchange rate changes	(186,193)	9,889	20,350
Net unpaid losses and loss adjustment expenses, end of year	4,591,269	4,778,873	4,818,749
Add: Ceded unpaid losses and loss adjustment expenses, end of year	726,196	790,642	813,573
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,317,465	$ 5,569,515	$ 5,632,322

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, 2014. 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 $1,473.1 million, $1,524.3 million and $1,566.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. The decreases in incurred losses and loss adjustment expenses for the years ended December 31, 2014 and 2013 were principally due to decreases in property catastrophe losses. For the years ended December 31, 2014, 2013 and

2012, current year catastrophe events were $148.5 million, $220.4 million and $305.0 million, respectively. For the year ended December 31, 2014, current year property catastrophe losses included $39.0 million related to windstorm Ela. 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.

Net incurred losses and loss adjustment expenses related to prior years decreased $189.1 million, $214.7 million and $152.0 million for the years ended December 31, 2014, 2013 and 2012, respectively. The decreases in prior years' incurred losses and loss adjustment expenses for the years ended December 31, 2014, 2013 and 2012 were attributable to decreased loss estimates due to loss emergence lower than expectations in the year in the North America, Latin America, EuroAsia, London Market and U.S. Insurance divisions.

Net paid losses and loss adjustment expenses related to the current year were $275.3 million, $293.3 million and $233.6 million for the years ended December 31, 2014, 2013 and 2012, respectively. The decrease in paid losses and loss adjustment expenses for the year ended December 31, 2014 was principally due to a decrease in payments on crop business in the U.S. Insurance division and a decrease in payments on current year property catastrophe losses. 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 effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in a decrease of $186.2 million for the year ended December 31, 2014. 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. The effects of exchange rate changes were attributable to changes in foreign currency exchange rates for unpaid losses and loss adjustment expenses in the North America, Latin America, EuroAsia, and London Market divisions.

Ceded unpaid losses and loss adjustment expenses were $726.2 million, $790.6 million and $813.6 million as of December 31, 2014, 2013 and 2012, respectively. The decrease in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2014 was principally attributable to a decrease in ceded unpaid reinsurance recoverables in the London Market and U.S. Insurance divisions. 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 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, 2009. Reserves reported at the discounted value were $62.8 million and $61.8 million as of December 31, 2014 and 2013, respectively. The amount of case reserve discount was $23.9 million and $25.0 million as of December 31, 2014 and 2013, respectively. The amount of incurred but not reported reserve discount was $21.2 million and $19.7 million as of December 31, 2014 and 2013, 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 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, 2014, 2013 and 2012 follow (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Premiums Written			
Direct	$ 1,185,239	$ 1,043,864	$ 943,166
Add: assumed	1,554,272	1,671,682	1,830,052
Less: ceded	345,678	338,604	370,873
Net	$ 2,393,833	$ 2,376,942	$ 2,402,345
Premiums Earned			
Direct	$ 1,132,357	$ 1,020,575	$ 997,169
Add: assumed	1,562,517	1,703,897	1,695,434
Less: ceded	338,297	350,888	377,327
Net	$ 2,356,577	$ 2,373,584	$ 2,315,276

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2014 and 2013 was $757.9 million and $886.5 million, respectively. The reserve for uncollectible reinsurance recoverable was $19.9 million and $20.3 million, as of December 31, 2014 and 2013, 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, $0.1 million and $2.1 million for the years ended December 31, 2014, 2013 and 2012, respectively.

8. Reinsurance Recoverables

The Company's ten largest reinsurers represent 63.5% of its total reinsurance recoverables as of December 31, 2014. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $23.5 million, or 3.1%, of reinsurance recoverables as of December 31, 2014, and the average balance is less than $1.8 million. The Company held total collateral of $93.2 million as of December 31, 2014, representing 12.3% 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, 2014, 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	$ 142,698	18.9 %	$ —	A
ACE Tempest Reinsurance Company Ltd	49,219	6.5	35,904	A++
Markel Bermuda Ltd	43,558	5.7	5,097	A
Everest Re (Bermuda) Ltd	42,686	5.6	—	A+
Alterra Reinsurance USA Inc	37,274	4.9	—	A
Federal Crop Insurance Corporation	35,130	4.6	—	NR
Transatlantic Reinsurance Company	34,857	4.6	—	A
Munich Reinsurance America Inc	33,567	4.4	—	A+
Lexington Insurance Company	32,590	4.3	—	A
National Indemnity Company	29,906	4.0	—	A++
Sub-total	481,485	63.5	41,001	
All other	276,454	36.5	52,233	
Total	$ 757,939	100.0 %	$ 93,234	

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, 2014 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's	$ 142,698	18.9 %	$ —
Markel Corp	82,625	10.9	5,097
ACE Limited	52,790	7.0	35,904
Everest Re Group Ltd	43,987	5.8	—
Fairfax Financial	39,032	5.0	11,222
Sub-total	361,132	47.6	52,223
All other	396,807	52.4	41,011
Total	$ 757,939	100.0 %	$ 93,234

Reinsurance recoverables were $886.5 million and collateral was $97.3 million, or 11.0% of the reinsurance recoverable balance, as of December 31, 2013.

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, 2014 is $93.2 million, which represents 12.3% 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	$ 52,567	6.9 %
Funds withheld from reinsurers	12,515	1.7
Trust agreements	28,152	3.7
Total	$ 93,234	12.3 %

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 amortized cost by component of the Company's debt obligations as of December 31, 2014 and 2013 were as follows (in thousands):

	December 31, 2014	December 31, 2013
6.875% Senior Notes due 2015	$ 124,911	$ 124,645
Series A Floating Rate Senior Debentures due 2021	50,000	50,000
Series B Floating Rate Senior Debentures due 2016	—	50,000
Series C Floating Rate Senior Debentures due 2021	40,000	40,000
Total debt obligations	$ 214,911	$ 264,645

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) had entered into a $350.0 million two-way revolving credit facility, under which either party could borrow up to $350.0 million from the other party. Loans under the facility were unsecured and bore interest at a rate of 7.5% per annum, payable quarterly, and the principal amount is payable on demand. Either party could terminate the facility at any time upon demand, at which time all outstanding principal and unpaid interest shall became due. As of December 31, 2014, the Company did not have any outstanding obligations under the revolving credit facility. The credit facility was terminated upon reorganization of the Company's ownership structure as described in Note 1.

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, 2014 and 2013, the average annual interest rate on the Series C Notes was 2.74% and 2.78%, respectively.

On February 22, 2006, the Company issued $100.0 million aggregate principal amount of floating rate senior debentures, pursuant to a private placement. The net proceeds from the offering, after fees and expenses, were $99.3 million. The debentures were sold in two tranches: $50.0 million of Series A, due March 15, 2021 (the “Series A Notes”), and $50.0 million of Series B, due March 15, 2016 (the “Series B Notes”). Interest on each series of debentures is due quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The interest rate on each series of debentures is equal to the three-month LIBOR, reset quarterly, plus 2.20%. The Series A Notes are callable by the Company on any interest payment date at their par value, plus accrued and unpaid interest. For the years ended December 31, 2014 and 2013, the average annual interest rate on each series of notes was 2.44% and 2.48%, respectively. The Series B Floating Rate Senior Debentures were called by the Company on December 15, 2014.

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, 2014, the aggregate stated maturities of the Company’s debt obligations, at face value, were as follows (in thousands):

Year	December 31, 2014
2015	125,000
2021	90,000
Total	$ 215,000

As of December 31, 2014 and 2013, the estimated fair value of the Company’s debt obligations was $218.4 million and $269.9 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

The Company issued 15,555 common shares during the year ended December 31, 2014, of which 15,518 shares related to the reorganization of the Company’s ownership structure discussed in Note 1, and 37 shares related to a cost reimbursement agreement with Fairfax (US). The Company redeemed and retired 21,327 common shares during the year ended December 31, 2014 as a result of the reorganization of the Company’s ownership structure.

The Company issued 2,800 common shares to Fairfax affiliates during the year ended December 31, 2013, of which 2,695 shares related to $182.5 million in capital contributions to fund the payment of a portion of the Company's maturing debt and 105 shares related to a cost reimbursement agreement.

The Company issued 72 common shares to Fairfax (US) during the year ended December 31, 2012, all of which related to a cost reimbursement agreement. The Company redeemed and retired 656 of its common shares held by a subsidiary of Fairfax during the year ended December 31, 2012 for $45.0 million in cash.

The Company did not declare or pay any common stock dividends for the years ended December 31, 2014, 2013 or 2012.

Preferred Shares

As discussed in Note 1, a reorganization of the ownership structure of the Company by Fairfax during 2014 resulted in the redemption of all of the Company's Series A and Series B preferred shares. As of December 31, 2014, no Series A or Series B preferred shares remain issued and outstanding. As of December 31, 2013, subsidiaries of Fairfax owned all of the outstanding shares of the Company's Series A and Series B preferred stock.

The Company's 8.125% Series A preferred shares (253,599 shares outstanding as of December 31, 2013) had a liquidation preference of $25.00 per share and were 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 as of December 31, 2013) were 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 had a liquidation preference of $25.00 per share and were 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 were deferrable on a non-cumulative basis, provided that no dividends or other distributions had 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 were each 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 did 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, 2014, 2013 and 2012 as follows (in thousands):

	2014		2013		2012	
Preferred dividends	**Declared**	**Paid**	**Declared**	**Paid**	**Declared**	**Paid**
Series A	$ 515	$ 515	$ 386	$ 515	$ 515	$ 515
Series B	61	61	46	62	65	65
Total dividends paid and declared	$ 576	$ 576	$ 432	$ 577	$ 580	$ 580

Non-Controlling Interest

Clearwater Insurance Company ("Clearwater"), which is a Fairfax subsidiary, 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 6, 2014, Clearwater Select's Board of Directors declared a preferred dividend to Clearwater in the amount of $0.3 million. On October 6, 2014, Hudson's Board of Directors declared a preferred dividend to Clearwater in the amount of

$1.3 million. Both dividends were paid on October 20, 2014. 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. 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, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012
Current:			
United States	$ 168,768	$ (15,289)	$ 10,937
Foreign	53,499	(13,826)	71,678
Total current income tax provision (benefit)	222,267	(29,115)	82,615
Deferred:			
United States	95,102	42,563	87,208
Foreign	(7,874)	474	5,838
Total deferred income tax provision	87,228	43,037	93,046
Total federal and foreign income tax provision	$ 309,495	$ 13,922	$ 175,661

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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Unpaid losses and loss adjustment expenses	$ 113,388	$ 130,015
Unearned premiums	48,572	46,792
Reserve for potentially uncollectible balances	5,978	5,745
Pension and benefit accruals	26,724	23,840
Net operating loss carry forward	—	23,875
Investments	26,800	49,090
Alternative minimum tax credit	—	32,147
Foreign tax credit	118,393	124,568
Other	1,509	—
Total deferred tax assets	341,364	436,072
Deferred acquisition costs	63,190	60,801
Foreign deferred items	33,466	41,340
Subsidiary net operating loss	33,604	33,604
Other	—	1,997
Total deferred tax liabilities	130,260	137,742
Net deferred tax assets	211,104	298,330
Deferred income taxes on accumulated other comprehensive income	(204,940)	(124,082)
Deferred federal and foreign income tax asset	6,164	174,248
Current federal and foreign income tax (payable) asset	(102,559)	31,465
Federal and foreign income taxes (payable) receivable	$ (96,395)	$ 205,713

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, 2014, 2013 and 2012 (in thousands):

	2014		2013		2012	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes	$ 900,179		$ 150,866		$ 458,174	
Income tax provision computed at the U.S. statutory tax rate on income	$ 315,063	35.0 %	$ 52,803	35.0 %	$ 160,361	35.0 %
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(193)	(0.0)	(1,132)	(0.8)	(3,050)	(0.7)
Tax-exempt income	(36,398)	(4.0)	(30,535)	(20.2)	(32,263)	(7.0)
Foreign tax expense	33,670	3.7	(7,826)	(5.2)	44,213	9.6
Other, net	(2,647)	(0.3)	612	0.4	6,400	1.4
Total federal and foreign income tax provision	$ 309,495	34.4 %	$ 13,922	9.2 %	$ 175,661	38.3 %

Pre-tax income (loss) generated in the United States was $636.6 million, $(174.1) million and $98.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. Foreign pre-tax income was $263.6 million, $325.0 million and $359.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The Company has elected to expense foreign taxes in its federal tax return for the years ended December 31, 2014, 2013 and 2012.

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 $87.4 million, $27.6 million and $55.4 million for the years ended December 31, 2014, 2013 and 2012, respectively. As of December 31, 2014, the Company had a current tax payable of $102.6 million, which included $75.0 million payable to Fairfax (US) and a net payable of $27.6 million to various foreign governments. As of December 31, 2013, the Company had a current tax receivable of $31.5 million, which included $10.5 million receivable from Fairfax (US) and a net receivable of $21.0 million from 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 2013 are closed. The Internal Revenue Service ("IRS") is expected to complete their audit of the Company's 2013 returns during 2015. 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.

The Company has recorded foreign tax credits of $118.4 million, of which $0.9 million and $25.7 million expire in 2019 and 2020, respectively, the remainder of which the carryforward period has not yet begun.

11. 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 $359.4 million as of December 31, 2014 in a deposit trust account in favor of the Society and Council of Lloyd's. The securities may be substituted with other securities at the discretion of the Company, subject to approval by Lloyd's. The securities are carried at fair value and are included in investments and cash in the Company's consolidated balance sheets. Interest earned on the securities is included in investment income. The pledge of assets in support of Newline Syndicate (1218) provides the Company with the ability to participate in writing business through Lloyd's, which remains an important part of the Company's business. The pledged assets effectively secure the contingent obligations of Newline Syndicate (1218) should it not meet its obligations. The Company's contingent liability to the Society and Council of Lloyd's is limited to the aggregate amount of the pledged assets. The Company has the ability to remove funds at Lloyd's annually, subject to certain minimum amounts required to support outstanding liabilities as determined under risk-based capital models and approved by Lloyd's. The funds used to support outstanding liabilities are adjusted annually and the obligations of the Company to support these liabilities will continue until they are settled or the liabilities are reinsured by a third party approved by Lloyd's. The Company expects to continue to actively operate Newline Syndicate (1218) and support its requirements at Lloyd's. The Company believes that Newline Syndicate (1218) maintains sufficient liquidity and financial resources to support its ultimate liabilities and the Company does not anticipate that the pledged assets will be utilized.

ORC agreed to guarantee the performance of all the insurance and reinsurance contract obligations of Compagnie Transcontinentale de Réassurance ("CTR"), a subsidiary of Fairfax, in the event CTR became insolvent and CTR was not otherwise indemnified under its guarantee agreement with a Fairfax affiliate. Fairfax has agreed to indemnify ORC for all its obligations incurred under its guarantee. The Company's potential exposure in connection with this agreement stems from CTR's remaining gross reserves, which are estimated to be $65.6 million as of December 31, 2014. 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 16.28% economic interest owned by the Company. The guarantee by ORC was made to assist Falcon in writing business through access to ORC's financial strength ratings and capital resources. ORC is paid a fee for this guarantee of one quarter of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For the years ended years ended December 31, 2014, 2013 and 2012, Falcon paid $0.2 million, $0.1 million and $0.1 million, respectively, to ORC in connection with this guarantee. ORC's potential exposure in connection with this agreement is estimated to be $114.6 million, based on Falcon's loss reserves at December 31, 2014. 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, 2014, 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 although the hearing has begun, the date of the conclusion 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
2015	$ 9,980
2016	9,222
2017	6,711
2018	6,485
2019	6,118
2020 and thereafter	25,375
Total	$ 63,891

Rental expense, before sublease income under these operating leases, was $11.7 million, $11.5 million and $11.9 million for the years ended December 31, 2014, 2013 and 2012, respectively. The Company recovered pre-tax amounts of less than $0.1 million, $0.1 million and $0.2 million for the years ended December 31, 2014, 2013, and 2012, respectively, from subleases.

12. 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"). 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 maximum ordinary dividend capacity available during 2015, without prior approval, is $324.9 million. ORC declared and paid dividends of $325.0 million to ORH during the year ended December 31, 2014, which included an extraordinary dividend of $100.0 million, which was approved by the Connecticut Department. ORC declared and paid ordinary dividends of $200.0 million to ORH during each of the years ended December 31, 2013 and 2012. Hudson declared and paid dividends on its preferred shares owned by Clearwater of $1.3 million during each of the years ended December 31, 2014, 2013 and 2012. Clearwater Select declared and paid dividends on its preferred shares owned by Clearwater of $0.3 million during each of the years ended December 31, 2014, 2013 and 2012.

The following is the consolidated statutory basis net income and policyholders' surplus of ORC and its subsidiaries, for each of the years ended and as of December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Net income	$ 275,714	$ 133,277	$ 202,448
Policyholders' surplus	3,277,963	3,131,848	3,184,090

13. 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 from and ceded to affiliates as of and for the years ended December 31, 2014, 2013 and 2012, follow (in thousands):

	2014	2013	2012
Assumed:			
Premiums written	$ 35,814	$ 15,912	$ 12,774
Premiums earned	33,339	12,307	15,504
Losses and loss adjustment expenses	14,698	19,052	12,573
Acquisition costs	9,352	2,198	2,491
Reinsurance payable on paid losses	2,952	1,787	3,128
Reinsurance balances receivable	4,288	5,622	1,702
Unpaid losses and loss adjustment expenses	59,190	66,211	82,439
Unearned premiums	9,960	7,552	3,983
Ceded:			
Premiums written	$ 33,925	$ 8,687	$ 7,995
Premiums earned	23,609	8,925	6,611
Losses and loss adjustment expenses	7,761	(3,361)	28,426
Acquisition costs	5,957	1,100	1,510
Ceded reinsurance balances payable	2,199	2,723	1,167
Reinsurance recoverables on paid losses	(437)	(271)	(543)
Reinsurance recoverables on unpaid losses	49,203	48,585	45,917
Unearned premiums	12,179	1,806	2,104

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, 2014, 2013 and 2012, total fees, including incentive fees, of $22.8 million, $28.8 million and $26.7 million, respectively, are included in the consolidated statements of operations.

Included in other expense, net, for the years ended December 31, 2014, 2013 and 2012, are accrued charitable contributions of $6.3 million, $2.1 million and $3.0 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 $2.7 million and $2.9 million as of December 31, 2014 and 2013, respectively, and amounts payable to affiliates of $6.1 million and $8.0 million as of December 31, 2014 and 2013, 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 could 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 were unsecured and bore interest at a rate of 7.5% per annum, payable quarterly, and the principal amount is payable on demand. Either party could terminate the facility at any time upon demand, at which time all outstanding principal and unpaid interest shall become due. During the years ended December 31, 2014, 2013 and 2012, the Company received $17.5 million, $2.5 million and $4.2 million, respectively, of interest from Fairfax (US), related to these loans. During the first quarter of 2013, the Company paid less than $0.1 million of interest to Fairfax (US) on the credit facility. The credit facility was terminated upon reorganization of the Company's ownership structure as described in Note 1.

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 consisted 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, 2014 and 2013; the asset is being amortized over five years. As of December 31, 2014 and 2013, the net present value of the contingent consideration obligation was $3.3 million and $2.8 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 has been recorded as an intangible asset and is included in other assets as of December 31, 2014; 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.

14. 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."

During 2014, the Company adopted revised mortality tables (the "Revised Mortality Tables"), which are based upon new standard mortality tables issued in 2014 by the Society of Actuaries (the "SOA"), to estimate its obligations under certain retirement benefit plans. The SOA issued the new standard mortality tables in response to an increase in life expectancy that had been observed across the broad population of the United States.

Defined Benefit Pension Plan

The Company maintains a qualified, non-contributory, defined benefit pension plan (the "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 Pension 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, 2014 and 2013 (in thousands):

	2014	2013
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 126,121	$ 120,310
Service cost	8,579	9,070
Interest cost	5,483	4,934
Actuarial loss (gain)	17,381	(4,715)
Benefits paid	(4,963)	(3,478)
Benefit obligation at end of year	152,601	126,121
Change in Pension Plan assets:		
Fair value of Pension Plan assets at beginning of year	102,078	88,829
Actual return on Pension Plan assets	10,312	8,927
Actual contributions during the year	8,300	7,800
Benefits paid	(4,963)	(3,478)
Fair value of Pension Plan assets at end of year	115,727	102,078
Funded status and accrued pension cost	$ (36,874)	$ (24,043)

The impact on the Pension Plan of adopting the Revised Mortality Tables in 2014 was an increase to the Company's obligation of $10.5 million, which is included in the actuarial loss for the year ended December 31, 2014 in the table above.

The net amount reported in the consolidated balance sheets related to the accrued pension cost of $36.9 million and $24.0 million, as of December 31, 2014 and 2013, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss is $20.2 million and $7.1 million, before taxes, as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the fair value and percentage of fair value of the total Pension Plan assets by type of investment are as follows (in thousands):

	As of December 31,			
	2014		2013	
Equity securities	$ 33,301	28.8 %	$ 61,404	60.2 %
Fixed income securities	65,004	56.2	17,598	17.2
Money market	17,422	15.0	23,076	22.6
Fair value of Pension Plan assets	$ 115,727	100.0 %	$ 102,078	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, 2014, 2013 and 2012, the Company contributed $8.3 million, $7.8 million, and $7.0 million, respectively, to the Pension Plan. The Company currently expects to make a contribution to the Pension Plan of $7.8 million in 2015.

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, 2014 and 2013, there were no Level 3 assets in the Pension Plan. There was no activity related to the market value for the year ended December 31, 2014. For the years ended December 31, 2013 and 2012, there were increases in the market value of $0.8 million and $2.0 million, respectively, for the Pension Plan investments that are classified as Level 3 which were then subsequently sold during the year ended December 31, 2013. For the year ended December 31, 2012, 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.

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, 2012	$ 8,777
Actual return on plan assets	1,981
Balance, December 31, 2012	10,758
Actual return on pension plan assets	824
Settlements	(11,582)
Balance, December 31, 2013	$ —

As of December 31, 2014, there were no Level 3 assets, due to the settlement that occurred during the year ended 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, 2014 and 2013 (in thousands):

		Fair Value Measurements as of December 31, 2014	
	Assets Measured at Fair Value December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity securities	$ 33,301	$ 33,301	$ —
Debt securities	65,004	—	65,004
Money market	17,422	17,422	—
Total Pension Plan assets measured at fair value	$ 115,727	$ 50,723	$ 65,004

		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)
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

Target asset allocations:	
Equities	33.00 %
Fixed income securities	50.00 %
Money market	17.00 %
Total target asset allocations	100.00 %

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.25 %	4.50 %
Rate of compensation increase	3.80 %	3.80 %

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 Pension Plan benefit obligations and the service and interest cost components of net periodic Pension Plan benefit cost.

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012 is comprised of the following (in thousands):

	2014	2013	2012
Net Periodic Benefit Cost:			
Service cost	$ 8,579	$ 9,070	$ 7,286
Interest cost	5,483	4,934	4,678
Return on Plan assets	(6,030)	(5,221)	(4,655)
Recognized actuarial loss	—	427	—
Recognized prior service cost	18	46	48
Net periodic benefit cost	$ 8,050	$ 9,256	$ 7,357
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 7,074	$ 15,968	$ 3,319
Actuarial loss (gain) arising during the year	13,099	(8,421)	12,697
Amortization of actuarial loss recognized in net periodic costs	—	(427)	—
Amortization of prior service costs recognized in net periodic costs	(18)	(46)	(48)
Accumulated other comprehensive loss at end of year	$ 20,155	$ 7,074	$ 15,968

The Company estimates that it will record a $9.3 million expense related to the net periodic benefit cost during the year ended December 31, 2015. The Company does not expect any refunds of Pension Plan assets during the year ended December 31, 2015.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Discount rate	4.50 %	4.25 %	5.00 %
Rate of compensation increase	3.80 %	3.66 %	3.66 %
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 $128.0 million and $105.8 million as of the December 31, 2014 and 2013 measurement dates, respectively.

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

Year	Amount
2015	$ 10,740
2016	6,310
2017	8,330
2018	7,260
2019	7,250
2020 — 2024	52,240

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic cost during the year ended December 31, 2015 are: 1) $0.6 million for amortization of actuarial loss and 2) $0.0 million for amortization of prior service costs.

Excess Benefit Plans

The Company maintains two non-qualified excess benefit plans (the "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, 2014 and 2013 (in thousands):

	2014	2013
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 18,901	$ 18,557
Service cost	944	893
Interest cost	834	766
Actuarial loss (gain)	2,861	(620)
Benefits paid	(896)	(695)
Benefit obligation at end of year	22,644	18,901
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	—	—
Actual contributions during the year	896	695
Benefits paid	(896)	(695)
Fair value of Excess Plans' assets at end of year	—	—
Funded status and accrued pension cost	$ (22,644)	$ (18,901)

The impact on the Excess Plans of adopting the Revised Mortality Tables in 2014 was an increase to the Company's obligation of $2.0 million, which is included the actuarial loss for the year ended December 31, 2014 in the table above.

The net amount reported in the consolidated balance sheets related to the accrued pension cost of $22.6 million and $18.9 million, as of December 31, 2014 and 2013, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss is $4.8 million and $2.0 million, before taxes, as of December 31, 2014 and 2013, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.25 %	4.50 %
Rate of compensation increase	3.80 %	3.80 %

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 Excess Plans' benefit obligations and the service and interest cost components of net periodic Excess Plans' benefit cost.

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012 is comprised of the following (in thousands):

	2014	2013	2012
Net Periodic Benefit Cost:			
Service cost	$ 944	$ 893	$ 761
Interest cost	834	766	831
Recognized net actuarial loss	27	110	126
Recognized prior service cost	(37)	(37)	(37)
Net periodic benefit cost	$ 1,768	$ 1,732	$ 1,681
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 1,964	$ 2,657	$ 1,956
Actuarial loss (gain) arising during the year	2,861	(620)	790
Amortization of actuarial loss recognized in net periodic costs	(27)	(110)	(126)
Amortization of prior service costs recognized in net periodic costs	37	37	37
Accumulated other comprehensive loss at end of year	$ 4,835	$ 1,964	$ 2,657

The Company estimates that it will record a $2.3 million expense related to the net periodic benefit cost during the year ended December 31, 2015.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2014, 2013 and 2012 are as follows:

	2014	2013	2012
Discount rate	4.50 %	4.25 %	5.00 %
Rate of compensation increase	3.80 %	3.66 %	3.66 %

The accumulated benefit obligation for the Excess Plans was $17.3 million and $14.4 million as of December 31, 2014 and 2013, respectively.

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

Year	Amount
2015	$ 990
2016	1,730
2017	1,020
2018	1,020
2019	1,470
2020 — 2024	17,640

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic costs during the year ended December 31, 2015 are: 1) $0.3 million for amortization of actuarial loss and 2) less than $0.1 million for amortization of prior service credit.

A trust fund, which was established related to the Excess Plans, is included in other invested assets, and had a fair value of $0.8 million and $1.5 million as of December 31, 2014 and 2013, 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, 2015, which represents the amount necessary to fund the 2015 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, 2014 and 2013 (in thousands):

	2014	2013
Change in accumulated postretirement obligation:		
Accumulated postretirement obligation at beginning of year	$ 50,752	$ 46,693
Service cost	4,236	4,803
Interest cost	2,268	1,830
Actuarial loss (gain)	8,103	(1,998)
Benefits paid	(685)	(620)
Participant contributions	72	41
Retiree Drug Subsidy receipts	55	3
Accumulated postretirement obligation at end of year	64,801	50,752
Funded status and accrued prepaid pension cost	$ (64,801)	$ (50,752)

The impact on the Company's postretirement obligations from adopting the Revised Mortality Tables in 2014 was an increase of $5.4 million, which is included in the actuarial loss for the year ended December 31, 2014 in the table above.

The net amount reported in the consolidated balance sheets related to the accrued benefit cost of $64.8 million and $50.8 million, as of December 31, 2014 and 2013, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss, before taxes, is $17.5 million and $10.0 million as of December 31, 2014 and 2013, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2014 and 2013 are as follows:

	2014	2013
Discount rate	4.25 %	4.50 %
Rate of compensation increase	3.80 %	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 postretirement benefit obligations and the service and interest cost 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, 2014, 2013 and 2012 is comprised of the following (in thousands):

	2014	2013	2012
Net Periodic Benefit Cost:			
Service cost	$ 4,236	$ 4,803	$ 4,229
Interest cost	2,268	1,830	1,652
Recognized actuarial loss	581	900	733
Net periodic benefit cost	$ 7,085	$ 7,533	$ 6,614
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 9,957	$ 12,855	$ 10,484
Actuarial loss (gain) arising during the year	8,103	(1,998)	3,104
Amortization of actuarial loss recognized in net periodic costs	(581)	(900)	(733)
Accumulated other comprehensive loss at end of year	$ 17,479	$ 9,957	$ 12,855

The Company estimates that it will record $9.2 million in net periodic benefit costs relating to this plan during the year ended December 31, 2015.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2014, 2012 and 2012 are as follows:

	2014	2013	2012
Discount rate	4.50 %	3.95 %	4.36 %
Rate of compensation increase	4.00 %	4.00 %	4.00 %

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

Year	Amount
2015	$ 909
2016	1,156
2017	1,396
2018	1,645
2019	2,021
2020 — 2024	15,324

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic costs during the year ended December 31, 2015 are: 1) $1.3 million for amortization of actuarial loss and 2) $0.0 million for amortization of prior service costs.

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 6.95% in 2015, 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 $13.2 million (20.4% of the benefit obligation as of December 31, 2014) and the service and interest cost components of net periodic postretirement benefit costs by $1.4 million for the year ended December 31, 2014. 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, 2014 by $10.4 million and $1.1 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, 2014, 2013 or 2012.

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 2014 plus an additional $5,500 if an employee is age 50 or older). 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, which were $2.7 million, $2.5 million, and $2.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, are included primarily 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 uses the 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 are 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 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 %

15. 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, 2014:

	REVRs
Outstanding as of December 31, 2013	55,722
Vested	(55,386)
Forfeited	—
Outstanding as of December 31, 2014	336

As of December 31, 2014 and 2013, the Company recorded a liability of less than $0.1 million and $3.4 million for the REVRs. For the years ended December 31, 2014, 2013 and 2012, the Company recognized an expense related to the REVRs and Restricted Cash Units of $0.9 million, $1.1 million and $6.4 million, respectively. The total tax benefit relating to the REVRs and Restricted Cash Units recognized for the years ended December 31, 2014, 2013 and 2012 was $0.3 million, $0.4 million and $2.2 million, respectively.

The remaining REVRs will fully vest over the next year. The amount of future REVR obligations to be expensed during the next year is less than $0.1 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 146,668 Restricted Share Awards outstanding as of December 31, 2014.

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, 2014, there was $32.4 million of unrecognized compensation cost related to unvested Restricted Share Awards granted from the Plans that was netted against additional paid-in capital, which is expected to be recognized over a remaining weighted-average vesting period of 2.9 years. The total fair value of the Restricted Share Awards granted for the years ended December 31, 2014, 2013 and 2012 were $17.3 million, $18.3 million and $17.7 million, respectively. As of December 31, 2014, the aggregate fair value of the Restricted Share Awards outstanding was $36.1 million. For the years ended December 31, 2014, 2013 and 2012, the Company recognized expense related to the Fairfax Restricted Share Plan of $9.7 million, $9.0 million and $6.2 million, respectively.

The following table summarizes activity for the Fairfax Restricted Share Plan and the Option Plan for the year ended December 31, 2014:

	Shares / Options	Weighted-Average Value at Grant Date
Restricted share awards outstanding as of December 31, 2013	129,675	$ 377.94
Granted	41,509	416.42
Vested	(20,040)	365.45
Forfeited	(4,476)	373.71
Restricted share awards outstanding as of December 31, 2014	146,668	$ 390.66
Vested and exercisable as of December 31, 2014	2,164	$ 362.87

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 net combined ratio in any calendar year that is less than the lesser of i) 100% or ii) the average of the reported net combined ratios of the ten (10) most recent calendar years prior to the current 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, 2014, the Company purchased 10,953 Fairfax common shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of $442.02. The compensation expense recognized by the Company for purchases of Fairfax's common shares under the 2010 ESPP was $1.0 million, $1.0 million and $0.9 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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