OdysseyRe®

A FAIRFAX Company

HITTING OUR STRIDE

ANNUAL REPORT 2015

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HITTING OUR STRIDE

OdysseyRe | *Celebrating* **20 years as a Fairfax Company** & over 100 years of history

For the past 20 years as a Fairfax Company and throughout our history, dating back more than 100 years, OdysseyRe has always strived to keep pace with change by consistently offering quality service, excellent security and innovative solutions to our clients and business partners.

It's been a long race, at times grueling and challenging, but never boring and always rewarding. More than a century in, OdysseyRe is clicking on all cylinders and running comfortably in stride. It's a great place to be – sustaining a steady pace, moving with energy, confidence and strength. No one can tell you when you've hit your stride; you simply know you're there by the way it feels.

"Twenty years into our journey, we are running in stride with vigor, adapting to the changing landscape, attentive to client's needs and excited by the promise of new roads yet to be traveled."

LETTER FROM THE CEO

DEAR FRIENDS, BUSINESS PARTNERS AND COLLEAGUES

As we approach the next leg in our marathon journey, we would be remiss if we did not remember when it all began. OdysseyRe, whose origins date back more than a century, celebrates 20 years as a Fairfax company this July. It has been an amazing run over the past two decades and I have been privileged, as have many of my colleagues, to have been there at the starting line. Under Fairfax's guiding hand and steady influence, we have built a business for the long run that is designed to stand the test of time. Twenty years into our journey, we are running in stride with vigor, adapting to the changing landscape, attentive to client's needs and excited by the promise of new roads yet to be traveled.

Our journey in 2015 was filled with many accomplishments and highlights. We produced a combined ratio of 84.9%, our fourth consecutive year below 90%. We expanded our product offerings in several areas, most notably by establishing a presence in the U.S. accident & health treaty market. OdysseyRe opened a Beijing representative office and Newline, our London-based specialty casualty insurance operation, joined Lloyd's China in Shanghai. Hudson, our U.S. specialty insurance operation, acquired a long-standing program partner, Euclid Managers, which specializes in media and tech professional liability, giving us a foothold in the evolving cyber liability market. We seamlessly implemented leadership succession plans in different parts of the organization while adding to our management depth in many areas. We continued to invest in talent and technology to deliver better products and service to our clients, improve the quality of our data capture and analytics and increase the productivity of our operation. For more details, please refer to the Operational Highlights section of this report.

While it is difficult to generalize about market conditions globally as business cycles are increasingly segmented by product type as well as distribution source and territory, the market, as a whole, continues to suffer from excess capital, reduced buyer demand and rising distribution costs. When the cycle reverses course is difficult to say, but we see no reason to stretch for growth or alter our business strategy in this environment as many around us appear to be doing. Napoleon Bonaparte once said, "Order marches with weighty and measured strides; disorder is always in a hurry." If I have learned anything during my 28 years in this industry, the one quality required to succeed, more than any other, is patience. There are moments to be aggressive and others to be cautious, but exercising discipline and staying true to principles is needed at all times. (This philosophy is embedded into our Mission Statement, which appears on page 4.)

Turning to our results... for the full year 2015, underwriting profits totaled $332 million compared to $357 million in 2014. Over the past four years, OdysseyRe has generated $1.3 billion of underwriting profit and for the second consecutive year achieved underwriting profits in each of our five Divisions on both the reinsurance and insurance side.

The principal contributors to our underwriting good fortune in 2015 were once again benign catastrophe

"Our global reach and local expertise, coupled with our commitment to being a stable, consistent partner, have enabled us to cultivate long-term client relationships that are at the heart of our success."

activity and favorable loss emergence on prior years. Property cat losses in 2015 were $119 million less than expectations and benefited the combined ratio by 5.4 points. This compares to 2014 when property cat losses were $120 million less than expectations, benefiting the combined ratio by 5.1 points.

Loss reserves developed favorably for the eighth consecutive year. Reserve releases in 2015 were $230 million, reducing the combined ratio by 10.5 points, compared to 7.9 points in the previous year. Favorable development was recorded in each of our five Divisions. Nearly 72% of the releases in 2015 were due to decreases in non-property cat loss reserves, compared to 65% in 2014.

Pre-tax income totaled $419 million in 2015 compared to $900 million in 2014. Net income for the year was $299 million compared to $591 million in the prior year as the strong bond gains of 2014 could not be repeated in an environment of slightly rising interest rates in 2015. We finished the year with $8.2 billion of invested assets compared to $9.0 billion at year-end 2014 while shareholders' equity was stable at $4.0 billion. The decline in invested assets included a payment of $200 million in dividends to Fairfax, unrealized losses and the impact of foreign exchange movements, which is hedged.

OdysseyRe's gross premiums written ($2.4 billion) and net premiums earned ($2.2 billion) declined 12.2% and 6.5%, respectively, versus the prior year. The non-renewal of a large quota share reinsurance contract in the U.S., foreign exchange movements and the effect of lower commodity prices on our crop business contributed to the overall decrease.

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 (26%), Latin America Reinsurance (6%), EuroAsia Reinsurance (19%), London Market (11%) and U.S. Insurance (38%). We write business in more than 100 territories through a network of 34 offices located in 12 countries.

We have 33 discrete business units 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. Regional narratives for our reinsurance and insurance operations begin on page 10.

Reinsurance is underwritten through our flagship company, Odyssey Reinsurance Company, headquartered in Stamford, Connecticut. We write a global reinsurance portfolio of $1.3 billion through a branch and representative office network of 13 offices in 10 countries. Our reinsurance results were excellent in 2015, producing a global combined ratio of 81.5%.

We also underwrite a substantial portfolio of specialty insurance through Hudson Insurance Group (Hudson) in the U.S. and Newline Group (Newline) internationally. In 2015, the global gross premiums written generated by our insurance operations was $1.1 billion and the net combined ratio was 90.2%, an improvement of 7.1 points on the prior year's combined ratio. This is an excellent result and very timely since reinsurance margins have deteriorated significantly in recent years. We expect our insurance portfolio to drive growth and underwriting profitability in the next few years.

Property premiums, both insurance and reinsurance, accounted for 35% of gross premiums written in 2015 compared to 39% in 2014. Catastrophe business has been a major contributor to underwriting profitability in recent years, however this class has less appeal today at current prices. While we remain committed to our clients, we have little choice but to exercise increased caution at this point of the cycle.

Our diverse casualty portfolio represented 35% of our global premiums in 2015 compared to 33% of gross premiums written in 2014. Casualty insurance writings have grown steadily the past few years and currently represent 67% of our global casualty portfolio. Although competitive pressures have persisted for nearly a decade in many parts of the world, we have a diverse casualty insurance portfolio that has delivered consistent results over a long period of time, which we fully expect to continue. The casualty reinsurance market is very difficult and

2015 GROSS PREMIUMS WRITTEN

$2.4 BILLION

- 34.6% PROPERTY
- 35.2% CASUALTY
- 30.2% SPECIALTY

- 54.7% REINSURANCE
- 45.3% INSURANCE

- 26.0% NORTH AMERICA
- 6.0% LATIN AMERICA
- 19.3% EUROASIA
- 10.9% LONDON MARKET
- 37.8% U.S. INSURANCE

continues to consolidate as clients seek to rationalize their placements. Fortunately, we have a core stable of quality clients with proven track records that have treated us very well over a long period of time. Even if new opportunities are harder to come by in this market environment, we remain an attractive partner for willing buyers due to our expertise and lead market capabilities.

Specialty business, including crop, surety, credit, marine, aerospace, motor and accident & health, represented 30% of our overall portfolio in 2015, up from 28% in 2014. We are expecting profitable growth in 2016 across all specialty lines apart from aerospace.

Geographically, the U.S. represented 61% of our global premiums written, with 83% of our insurance writings and 42% of our reinsurance premiums emanating from the U.S. This element of our portfolio has increased in size as a result of the stronger dollar and more abundant growth opportunities in the U.S., especially in Hudson.

Our global reach and local expertise, coupled with our commitment to being a stable, consistent partner, have enabled us to cultivate long-term client relationships that are at the heart of our success. As we do well by our clients and business partners, it is vitally important for us to be good community supporters too. We are committed to giving our time and money to support the local communities in which we work and live worldwide. Based on our 2015 results, we have earmarked $4 million for the OdysseyRe Foundation and its business affiliates, which brings our total commitment to $35 million since the Foundation was established in 2007. From inception to date, we have distributed funds to more than 300 charitable organizations around the world.

2016 is very meaningful for us; it not only marks our 20th anniversary as part of Fairfax, but it is also the 20th anniversary of Newline Syndicate 1218, which was the first fully integrated corporate vehicle to have been approved in the history of Lloyd's. We are grateful for our success during the past two decades and while it has been an incredible run, we should remember that our Company's legacy spans more than a century as well. Needless to say, we take great pride in our history and our longevity. I invite you to explore our timeline on page 6, which outlines our milestones dating back to 1900.

To our valued clients and business partners around the world, we would not be here today without your enduring support. On behalf of everyone at OdysseyRe, I thank you for your business, your friendship and the confidence you place in us. We exist to serve you and we know that our well-being is dependent on your success.

To Fairfax, Prem Watsa and Andy Barnard, thank you for your extraordinary leadership during the past 20 years. It is a privilege to be a part of the Fairfax family and we are grateful for your unwavering commitment, patience and support. Under your skillful guidance, OdysseyRe has flourished and is well positioned to hurdle any obstacles that come our way.

Finally, Czech Republic Olympic gold medalist Emil Zátopek once said, "What has passed is already finished with. What I find more interesting is what is still to come." To my dear colleagues, the 948 men and women who serve OdysseyRe proudly, it is an honor and a pleasure to work with you. Congratulations on another outstanding year and thank you for your dedication and continued loyalty. Our future is bright and I look forward to running the road ahead with you.

Brian D. Young
President & Chief Executive Officer

MISSION STATEMENT

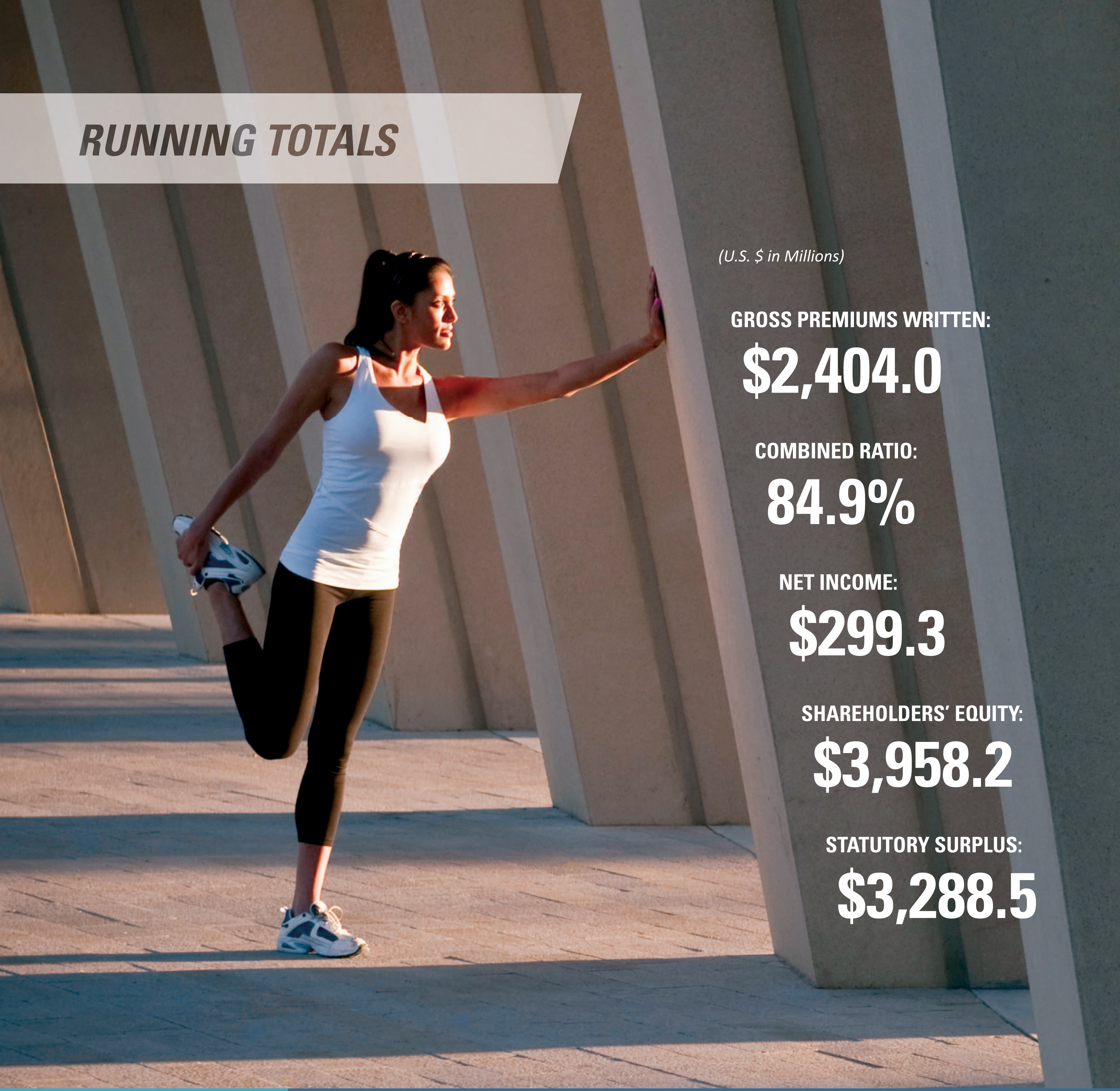
We are an underwriting company that aspires to be a world-class reinsurer and specialty insurer, providing excellent security and high-quality service to our clients.

We seek to maintain a global business focus that emphasizes patient, profitable growth and ultimately supports Fairfax Financial Holdings' goal to achieve a 15% annual return over the long term.

We aim to meet this financial objective by:

- Maximizing underwriting profitability and growing invested assets
- Responding to clients' needs with local resources
- Delivering exceptional service to clients and colleagues alike
- Expanding our global reach through product and territorial diversification
- Possessing superior underwriting, claims and actuarial expertise
- Adapting to changing market conditions while maintaining a consistent, disciplined underwriting approach
- Investing in our employees and providing opportunities for growth within the organization to preserve our culture for the long term
- Embracing Fairfax Financial Holdings' values and guiding principles

We recognize that our prosperity and good fortune are dependent on our underwriting prowess and our clients' success; and when we succeed, those in the communities in which our employees live and work will benefit too.



RUNNING TOTALS

(U.S. $ in Millions)

GROSS PREMIUMS WRITTEN:
$2,404.0

COMBINED RATIO:
84.9%

NET INCOME:
$299.3

SHAREHOLDERS' EQUITY:
$3,958.2

STATUTORY SURPLUS:
$3,288.5

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 $10.4 billion and $4.0 billion in shareholders' equity as of December 31, 2015.

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 $41.5 billion and $12.0 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.

GOING THE DISTANCE

1900

Skandia Insurance Company, Ltd. (SICL) of Stockholm, Sweden, opens a U.S. Branch in New York on May 29.

1918

Hudson Insurance Company (Hudson) is incorporated in New York on January 16.

1935–39

Hudson becomes a professional reinsurer in 1935 and is acquired by SICL on August 25.

1974

Ownership of Hudson is transferred to Skandia America Reinsurance Corporation (Skandia America), the newly formed corporate vehicle for the domestication of the former U.S. branch of SICL on July 1.

1996

Fairfax Financial Holdings Limited (Fairfax) acquires Skandia America, Skandia Canada and Hudson from SICL on May 31, changing Skandia America's name to Odyssey Reinsurance Corporation (ORC) on July 19.

TIG Reinsurance Company (TIG Re) establishes Syndicate 1218 and a Managing Agency at Lloyd's, on November 6.

INVESTMENT PORTFOLIO STARTS AT $1.1 BILLION.

SHAREHOLDERS' EQUITY STARTS AT $300 MILLION.

1997

Fairfax completes acquisition of Compagnie Transcontinentale de Réassurance (CTR) on February 27.

Hudson returns to writing direct insurance.

1998

ORC acquires certain runoff reinsurance operations of Skandia International Insurance Corporation (which becomes ORC's Stockholm representative office) for $115 million on September 4.

1999

Fairfax acquires TIG Holdings, Inc. and its subsidiaries including TIG Re, a Connecticut reinsurer, on April 14. TIG Re is renamed Odyssey America Reinsurance Corporation (OARC) in October. OARC becomes the OdysseyRe Group's flagship reinsurer.

Syndicate 1218 is renamed Newline Syndicate 1218 at Lloyd's on December 1.

2000

New branches of OARC are established in Paris and Singapore to begin writing business previously written by CTR on July 1.

2001

Odyssey Re Holdings Corp. (ORH) is incorporated in Delaware on March 21 to serve as the holding company for the reinsurance-related subsidiaries of Fairfax. The initial public offering of ORH common shares on the New York Stock Exchange occurs on June 14 at a price of $18 per common share. Fairfax retains approximately 70% ownership of ORH, and OARC becomes a wholly-owned subsidiary of ORH.

GROSS WRITTEN PREMIUM REACHES $1 BILLION.

2002

Hudson Healthcare is established. Renewal rights and staff are acquired from TIG Insurance on December 16.

SHAREHOLDERS' EQUITY REACHES $1 BILLION.

2003

OARC acquires General Security Indemnity Company, a New York insurer, from SCOR Re on October 28. The company is renamed Hudson Specialty Insurance Company, concurrent with ORC's name change to Clearwater Insurance Company, on December 4.

GROSS WRITTEN PREMIUM REACHES $2 BILLION.

2004

INVESTMENT PORTFOLIO REACHES $5 BILLION.

2006–07

Newline Insurance Company Limited is formed on June 19, 2006, and is followed by the opening of an office in Singapore, as Newline Asia Services Pte. Ltd., on April 16, 2007, and the acquisition of Connect Liability Solutions Pty. Ltd. (Australia) on August 31, 2007.

SHAREHOLDERS' EQUITY REACHES $2 BILLION.

2008

Hudson acquires Hooghuis Group LLC, which specializes in U.S. directors and officers liability insurance on June 9, and later opens regional offices in Chicago and San Francisco.

Hudson acquires the assets and staff of CropUSA Insurance Agency and forms Hudson's Crop Insurance unit on September 2.

2009

Fairfax announces tender offer to acquire all the common shares of ORH that it did not already own on September 4, ultimately raising the proposed purchase price to $65.00 per share on September 18.

Upon completion of acquisition, ORH becomes 100% owned by Fairfax. ORH common shares are subsequently de-listed from the New York Stock Exchange on October 28.

SHAREHOLDERS' EQUITY REACHES $3 BILLION.

2010

OARC opens an office in Brazil on March 22.

2011

Clearwater is transferred to TIG on January 1, in exchange for the retiring of ORH shares held by TIG. Hudson and Clearwater Select become direct subsidiaries of OARC. On February 18, OARC changes its name to Odyssey Reinsurance Company.

2012–13

Hudson Excess Insurance Company (Hudson Excess) is incorporated in Delaware on May 11, 2012. On April 29, 2013, Hudson Excess receives approval from the Excess Line Association of NY to write excess line business in the State of New York.

Hudson acquires American Safety Insurance Holdings, Ltd.'s (ASI) Surety Team who operate out of Atlanta, Calabasas, and Orlando, to underwrite commercial and contract surety business on October 3, 2013.

INVESTMENT PORTFOLIO REACHES $9 BILLION.

2014

Hudson acquires Motor Transport Underwriters, Inc. (MTU), a leading underwriting, claims and risk management specialist in the long-haul trucking arena on April 1.

Newline Group establishes Newline Malaysia Limited on September 26.

SHAREHOLDERS' EQUITY REACHES $4 BILLION.

2015

Newline Syndicate 1218 joins Lloyd's China on January 1.

Hudson acquires Euclid Managers, LLC of Kansas City, Missouri, a highly regarded underwriting and claims manager for internet, tech, media, manufacturers and miscellaneous professional liability on June 1.

Odyssey Reinsurance Company establishes a representative office in Beijing on October 10.

16.1%	Shareholders' Equity compounded annual increase in book value over 20 years.
$4.7 BILLION	Shareholders' Equity total book value increase over 20 years (net of capital contributions/share repurchases/dividends).
98.0%	Net Combined Ratio average over 20 years.
91.2%	Net Combined Ratio average over the last 5 years.

FINANCIAL HIGHLIGHTS

ODYSSEY RE HOLDINGS CORP.

(dollars in millions)

	2015	2014	2013
Gross premiums written	$ 2,404.0	$ 2,739.5	$ 2,715.5
Net premiums written	2,095.0	2,393.8	2,376.9
Net premiums earned	2,204.1	2,356.6	2,373.6
Net investment income	217.2	216.9	209.5
Operating income before income taxes[a]	535.5	543.1	577.6
Net realized investment (losses) gains	(116.5)	357.1	(426.7)
Income before income taxes	419.0	900.2	150.9
Net income	299.3	590.7	136.9
Total assets	10,396.4	11,021.6	11,026.0
Shareholders' equity	3,958.2	3,983.2	3,730.7
Underwriting income	331.9	357.4	376.0
Combined ratio	84.9%	84.8%	84.2%

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

GROSS PREMIUMS WRITTEN BY DIVISION

(dollars in millions)

	2015	2014	2013
North America	$ 624.2	$ 769.1	$ 855.7
Latin America	145.3	176.4	144.8
EuroAsia	464.3	538.2	582.3
London Market	262.0	272.1	284.7
U.S. Insurance	908.2	983.7	848.0
Total gross premiums written	$ 2,404.0	$ 2,739.5	$ 2,715.5

OPERATIONAL HIGHLIGHTS

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.

SECOND QUARTER

U.S. INSURANCE DIVISION

- Hudson Insurance Group acquired Euclid Managers, LLC of Kansas City.
- Napa River Insurance Services expanded its claims and risk management services into the healthcare and trucking segments.

NORTH AMERICA DIVISION

- Jean Raymond Kingsley named Chief Agent in Canada.

EUROASIA DIVISION

- Johane Coignard named Liability Treaty Manager in Paris.

THIRD QUARTER

NORTH AMERICA DIVISION

- Alice Lumley named Chief Financial Officer of the Canada branch.

LATIN AMERICA DIVISION

- Rogelio Diaz appointed as Head of Property Facultative Reinsurance in Mexico City.

U.S. INSURANCE DIVISION

- Ronald Honken named Senior Vice President and manager of Hudson's Commercial Auto business.
- Chris Morkan named Director of Napa River Insurance Services.

FOURTH QUARTER

EUROASIA DIVISION

- Beijing Representative Office established and Jane (Yan) Zhang named as Chief Agent.

LONDON MARKET DIVISION

- Henry Withinshaw named Chief Operating Officer.

REINSURANCE

PRODUCT OFFERING

TREATY

Property (Assumed & Retro)

Casualty

Surety & Trade Credit

Marine & Aviation

Motor/Auto

Accident & Health

Agriculture

Terrorism

Cyber Liability

FACULTATIVE

Casualty (U.S. and Latin America only)

Property (Latin America only)

Terrorism

Energy

Reinsurance is underwritten through Odyssey Reinsurance Company. Our operations include a global network of 14 branch and representative offices across five regions:

- North America
- Latin America
- Europe, Middle East and Africa (EMEA)
- AsiaPacific
- London

Each region is comprised of talented, dedicated teams of underwriters, actuaries, auditors, claims professionals and catastrophe modelers. We pride ourselves on our consistent, long-term underwriting approach, well-defined risk appetite and commitment to providing quality service.

NEW AND NOTEWORTHY STEPS IN 2015:

- Odyssey Reinsurance Company's Beijing Representative Office was established
- A new Accident & Health unit in the U.S. was launched to offer excess medical and employer stop loss reinsurance
- Management responsibilities in EuroAsia were divided into two regions: EMEA and AsiaPacific

In a market full of challenges, OdysseyRe succeeds by focusing on our business fundamentals, the cornerstones of which are discipline and diversification. Our business approach incorporates continuity, consistency and responsiveness, all of which, and more, have enabled us to create enduring relationships that extend back decades.

Thanks to our expertise and our dedicated, experienced workforce, our reinsurance operations will continue to thrive as we take advantage of our broad product offering and global network.

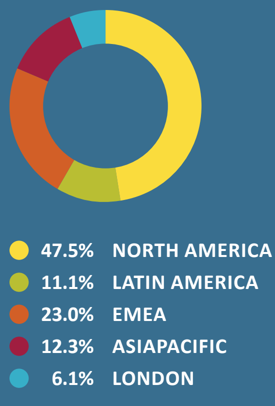
The narratives that follow offer an in-depth view of our business in each region.

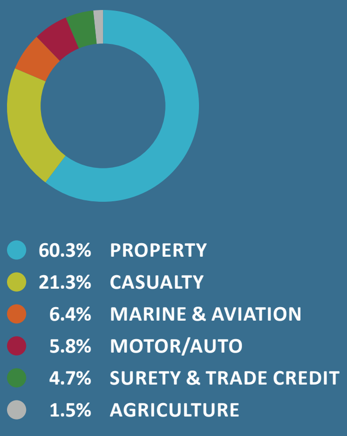
2015 GROSS PREMIUMS WRITTEN

$1.3 BILLION

COMBINED RATIO

81.5%





REINSURANCE

NORTH AMERICA

BRIAN D. QUINN
Chief Executive Officer

Reinsurance in the United States and Canada is underwritten on both a treaty and facultative basis and led by Brian Quinn. We serve the full spectrum of client organizations including large stock, regional/mutual business, specialty and surplus lines, captives and alternative structures. Treaty facilities are based in Stamford with additional offices in Toronto and Montreal. Our casualty facultative offices are located in New York and Chicago.

In February, we enhanced our suite of product offerings by adding a new accident & health facility focused principally on medical excess and employer stop loss.

Our product lines – property, casualty treaty and facultative, surety, marine, aviation, agriculture, and accident & health – are led and staffed by recognized industry names with the requisite underwriting acumen and commercial sensitivities to sustain long-standing relationships. Presently, our reinsurance business profile is weighted more toward shorter tail lines; however, we do maintain a relevant, leading presence across every class. The North America platform contributes scale and diversification to OdysseyRe's global reinsurance effort as it represents 48% of the Company's reinsurance gross premiums written.

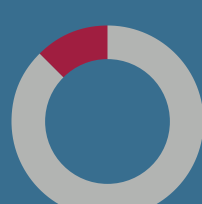
With few exceptions in 2015, market conditions in North America continued to deteriorate across most segments due to excess capacity in the (re) insurance marketplace. During these challenging times, we believe clients benefit from our experience and expertise, a combination which we respectfully submit is unrivaled in North America.

North America recorded a net combined ratio of 75.7% with gross premiums written of $624.2 million. Favorable prior year loss development, a manifestation of prior period underwriting discipline and conservatism, were complemented by benign catastrophe activity. We appreciate these conditions are far from permanent and stand prepared to support our clients to the best of our ability.

NORTH AMERICA

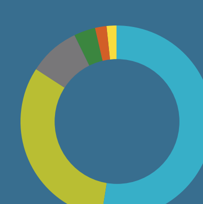
2015
GROSS PREMIUMS WRITTEN

$624.2
MILLION



87.6% U.S.
12.4% CANADA

91.2% TREATY
8.8% CASUALTY FACULTATIVE



52.6% PROPERTY
31.6% CASUALTY
8.8% FACULTATIVE
3.4% SURETY
2.1% MARINE
1.5% ACCIDENT & HEALTH

Understanding exposures, assessing risks, expanding relationships and improving service were fundamental to our success in 2015.

LATIN AMERICA

PHILIPPE E. MALLIER
Chief Executive Officer

OdysseyRe has been serving clients in Latin America for nearly two decades. Led by Philippe Mallier, the Latin America team is comprised of 42 professionals with a wide array of expertise. Our offices in Mexico City, Miami and São Paulo, Brazil enable us to serve all countries in Latin America and the Caribbean. Needless to say, our running shoes are on at all times!

In recent years, we expanded our product offerings for both treaty and facultative reinsurance to better serve our clients. We offer treaty reinsurance for property, casualty, surety, marine, aviation, agriculture and multi-lines. Facultative reinsurance is available for property, machinery & equipment, terrorism, energy, agriculture, general casualty, financial lines and directors & officers liability.

Retaining 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 strategy continues to be strongly focused on providing clients and brokers with reinsurance solutions to meet their needs across all lines. Of utmost importance is providing the highest standards of service at all times.

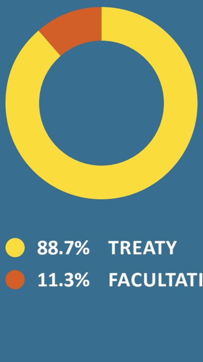
Despite increasingly competitive market conditions across all segments in both underlying insurance business and reinsurance terms and conditions, Latin America reported strong results in 2015. Our net combined ratio of 81.9% was achieved thanks to underwriting discipline and meticulous risk selection. Those factors, compounded with negative foreign exchange rates, impacted several of our largest markets, resulting in gross premiums written of $145.3 million, a 17.6% decrease from 2014.

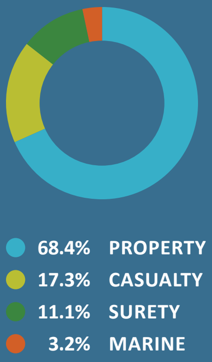
Our strong, local relationships are a result of having an in-depth understanding of the Latin American culture and our willingness to share our expertise. Understanding exposures, assessing risks, expanding relationships and improving service were fundamental to our success in 2015. By listening closely to clients regarding exposures and risks, we were able to offer tailor-made reinsurance solutions that met specific needs. Coordinating efforts between treaty and facultative teams led to successful cross-selling of multiple product lines. We continue to invest in our employees for the future by expanding our training and hiring young, talented professionals with strong analytical skills.

LATIN AMERICA

2015
GROSS PREMIUMS WRITTEN

$145.3
MILLION





REINSURANCE

EMEA

ISABELLE DUBOTS-LAFITTE
Chief Executive Officer

Reinsurance in Continental Europe, the Middle East and Africa (EMEA) is underwritten on a treaty basis and is led by Isabelle Dubots-Lafitte, who manages both the Paris and Stockholm offices. OdysseyRe's presence in EMEA dates back to 1952 as Compagnie Transcontinentale de Réassurance (CTR), which was subsequently acquired by Fairfax in 1997 and became part of OdysseyRe in 2000.

OdysseyRe's Paris-based underwriting team is responsible for writing property and casualty treaties in Western and Central Europe, the Middle East and Africa, while the Stockholm office services the Nordic, Russian and Baltic markets.

Gross premiums written totaled $302.4 million in 2015 with property treaty remaining the dominant class, representing 65% of the total volume. The balance of the portfolio is comprised of motor, credit and bond, marine, aerospace, and casualty treaty business.

The underwriting discipline maintained over the years, combined with long-standing relationships on this very stable portfolio resulted in a combined ratio of 91.3% in 2015, which is in line with the average combined ratio of 93% produced over the last 15 years.

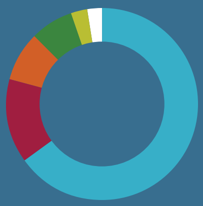
The vast majority of our 70 employees in the region have been with the Company for the past 20 years, and more than a few have been employed even longer. This certainly explains why continuity, consistency and responsiveness to a loyal client base have been the hallmarks of a business approach that has created enduring relationships that extend back decades. This loyalty enables us to truly understand client's exposures and proactively provide solutions to meet unique and changing needs. We have been investing in talent and maintaining this legacy is terrific motivation for our new underwriters and actuaries who bring a fresh perspective and are ready to carry OdysseyRe's baton into the future.

EMEA

2015
GROSS PREMIUMS WRITTEN

$302.4
MILLION

- 71.9% EUROPE
- 21.9% MIDDLE EAST
- 6.2% AFRICA



- 65.1% PROPERTY
- 14.2% MOTOR
- 8.2% MARINE & AEROSPACE
- 7.3% CREDIT & BONDS
- 2.9% CASUALTY
- 2.3% CROP

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

ASIAPACIFIC

LUCIEN PIETROPOLI
Chief Executive Officer

Reinsurance in the AsiaPacific region is underwritten on a treaty basis with a geographical focus on China, Japan, South Korea, Indonesia, Hong Kong, India and other countries within Asia.

Led by Lucien Pietropoli, the Singapore branch office is supported by a representative office in Tokyo, and as of October 10, 2015, a new representative office in Beijing. The establishment of the Beijing representative office marks a milestone in the history of OdysseyRe. The desire to expand the Company's footprint into China dates back several years and we are pleased to have the opportunity to service our clients more closely and be better positioned to respond to their rapidly evolving needs.

2015 was a challenging year in AsiaPacific on many fronts. Market conditions replicated the prior year in terms of overcapacity, pressure on pricing and less than favorable terms. The depreciating Asian foreign exchanges rate vis-a-vis the strengthening of U.S. dollar also impacted the business. Despite the Tianjin blast being the costliest Asian man-made explosion in history, we were spared from major natural catastrophic events and were able to post a net combined ratio of 98.6%.

Gross premiums written totaled $161.9 million, a decrease of 11% from 2014. Property treaty remains the dominant class of business, representing 88% of the region's volume. Motor, credit and bond, marine, aerospace, and casualty treaty business comprise the balance of the book.

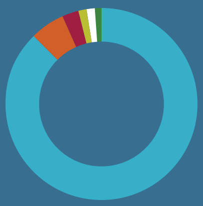
During the past 20 years, the Singapore branch has maintained a solid pace in terms of underwriting. In many years, we crossed the finish line with both pride and success. During rare years we sustained injuries, yet nursed ourselves and bounced back in record time with excellent results.

The AsiaPacific team has demonstrated its stamina in terms of underwriting prowess and financial security. We are proud of our reputation for trust, quality service, and long-term relationships with our clients. Our AsiaPacific employees have significant experience and are veterans in their areas of expertise. We are poised to run the next lap (2016) in good time with strong results.

ASIAPACIFIC

2015
GROSS PREMIUMS WRITTEN

$161.9
MILLION



- **87.7% PROPERTY**
- **5.9% MARINE & AEROSPACE**
- **2.6% MOTOR**
- **1.5% CASUALTY**
- **1.2% CROP**
- **1.1% CREDIT & BONDS**

REINSURANCE

LONDON

CARL A. OVERY
Chief Executive Officer

OdysseyRe's London branch operates as part of the Company's London Market Division and is led by Carl Overy. The London branch underwrites property, casualty, marine and aerospace treaty reinsurance. As well as serving the reinsurance needs of clients based in the London Market, including Lloyd's, the London branch's remit is global in scope allowing access to business where we have particular expertise.

Over the course of 2015 we continued to increase our presence in U.K. motor, overseas marine and terrorism reinsurance. In addition, 2015 demonstrated our ability to provide immediate, significant catastrophe capacity to our clients when requested. During the second quarter, we saw an increase in demand for industry loss warranty cover, an area of the market in which the London branch is a specialist. All these factors contributed to gross premiums increasing by 13.6% to $80.2 million. A benign catastrophe year combined with favorable prior year reserve releases served to produce a combined ratio of 57.6%, representing a profit of $31.0 million.

Our underwriters remain committed to providing clients with innovative solutions and stellar service. In spite of challenging market conditions, great strides were made across all lines of business as we sought to meet clients' reinsurance needs. It is a delicate balance to maintain discipline and be opportunistic when circumstances are ripe. Our expertise and longevity are clearly strengths and in this regard we are poised to keep a steady pace in the coming year.

LONDON

2015
GROSS PREMIUMS WRITTEN

$80.2
MILLION

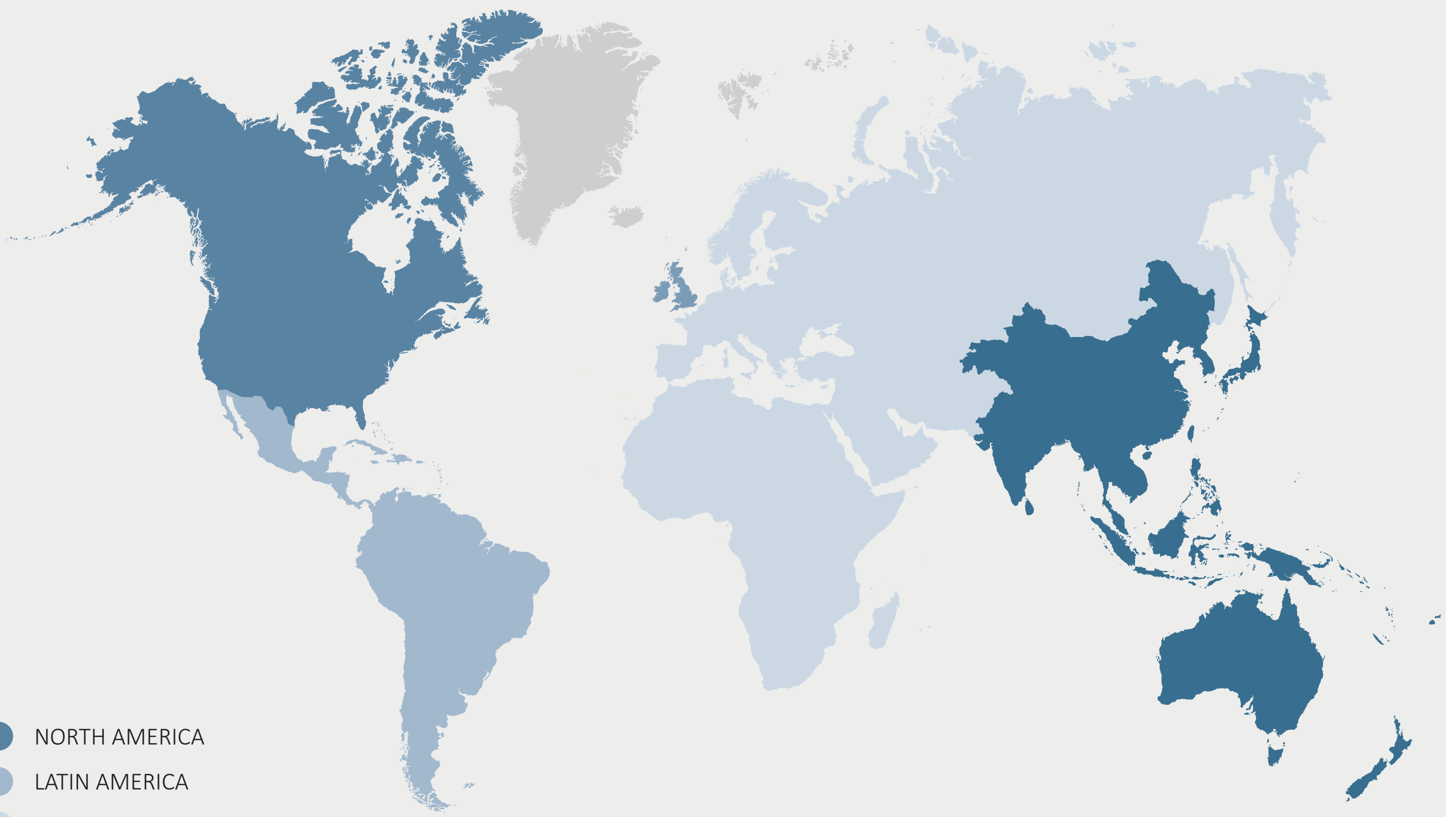
45.7% PROPERTY
40.5% MARINE & AEROSPACE
8.0% MOTOR
5.8% CASUALTY

GLOBAL REACH. LOCAL EXPERTISE.

10 COUNTRIES

14 OFFICES

420 EMPLOYEES



- NORTH AMERICA
- LATIN AMERICA
- EMEA
- ASIAPACIFIC
- LONDON

ODYSSEY REINSURANCE COMPANY
OFFICE LOCATIONS

STAMFORD
300 First Stamford Place
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USA
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BEIJING
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LONDON
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TORONTO
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INSURANCE

PRODUCT OFFERING

WITHIN THE U.S.

Commercial Auto

Crop

General Liability/Package

Management Liability

Medical Malpractice

Personal Umbrella

Professional Liability

Specialty Property & Energy

Surety

OUTSIDE THE U.S.

Cargo & Specie

Crime

Directors & Officers

Liability

Medical Malpractice

Professional Liability

Space

Specialty insurance is underwritten via Hudson Insurance Group in the U.S. and through Newline Group internationally.

Hudson offers a broad range of property and casualty insurance products to corporations, professional firms and individuals through retailers, wholesalers and program administrators. With 16 offices in the U.S. and an office in Vancouver, Canada, Hudson underwrites specialty primary and excess insurance on an admitted and non-admitted basis.

Newline's suite of casualty products is offered through two underwriting platforms, Newline Syndicate 1218 and Newline Insurance Company Limited. The Syndicate transacts business at its underwriting box at Lloyd's, with administrative support at Newline's London office. Service companies, located in Singapore, Melbourne and Malaysia, provide local, customized service and act as "coverholders" for Newline Syndicate, with full binding authority.

NEW AND NOTEWORTHY STEPS IN 2015:

- Newline Syndicate 1218 expanded its global footprint by establishing the Newline Underwriting Division at Lloyd's China in Shanghai.
- Hudson Insurance Group acquired Euclid Managers LLC, which solidified the strong relationship Hudson had with this important professional liability producer in the internet liability, technology E&O and manufacturers E&O segments.

Significant investments were made in people and technology across both operations in 2015. This enabled us to streamline operations, gain efficiency and improve client interfaces. This includes a major systems consolidation to a single platform at Newline and the standardization of business platforms across key lines of business at Hudson.

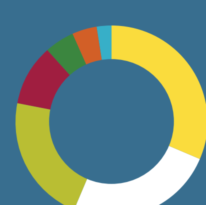
The narratives that follow offer an in-depth view of our insurance business in the U.S. and around the world.

2015
GROSS PREMIUMS WRITTEN

$1.1
BILLION

COMBINED RATIO
90.2%

- 83.3% U.S.
- 16.7% NON-U.S.



- 31.5% SPECIALTY LIABILITY
- 25.1% CROP
- 21.6% PROFESSIONAL LIABILITY
- 10.4% COMMERCIAL AUTO/MOTOR
- 4.8% SURETY
- 4.1% MARINE & AEROSPACE
- 2.5% SPECIALTY PROPERTY

INSURANCE *(FOR THE U.S. ONLY)*

CHRISTOPHER L. GALLAGHER
Chief Executive Officer

Hudson Insurance Group

Hudson Specialty Insurance Company

Hudson Excess Insurance Company

Insurance in the U.S. is provided by Hudson Insurance Group. Led by Christopher Gallagher, Hudson is a market-leading specialty insurer that 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 16 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 claims and underwriting capabilities.

Currently, our nine underwriting units include Commercial Auto, Crop, Financial Products, General Liability & Package, Healthcare Liability, Professional Liability, Specialty Property & Energy, Surety and Tribal.

In 2015 Hudson acquired Euclid Managers LLC, a specialist underwriting agency targeting internet liability, technology E&O and manufacturers E&O. As a partner of Hudson since it was founded in 2003, Euclid Managers will be re-branded as Hudson Professional Liability. This acquisition provides Hudson with the ability to expand its footprint into additional E&O classes. We also expanded Napa River Insurance Services, which now offers claims handling and risk management on a fee for service basis. We anticipate growing and expanding services in our healthcare and trucking segments.

Hudson delivered strong results in 2015, with gross premiums written at $908.2 million. The net combined ratio was excellent at 91.0% compared to 97.8% reported in 2014.

With our expanded in-house underwriting capabilities, deep industry knowledge and vast experience of our talented team of 410 professionals, we are able to offer creative, personalized service tailored to meeting our client's 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.

OFFICE LOCATIONS

NEW YORK
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FORT WASHINGTON
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LAKE MARY
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MINEOLA
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MORRISTOWN
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NAPA
Tel. +1 707 225 3300

OVERLAND PARK
Tel. +1 913 345 1515

SAN FRANCISCO
Tel. +1 415 423 1333

VANCOUVER
Commonwealth Specialty
Tel. +1 604 449 5360

WESTLAKE
Tel. +1 440 925 1995

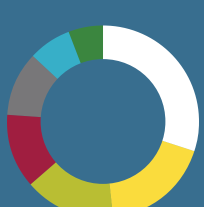
Launching new products and making significant investments in people and technology demonstrate our commitment to providing highly specialized insurance solutions to meet our client's needs.

HUDSON INSURANCE GROUP

2015
GROSS PREMIUMS WRITTEN

$908.2
MILLION

- 74.5% HUDSON INSURANCE COMPANY
- 25.5% HUDSON SPECIALTY INSURANCE COMPANY



- 30.2% CROP
- 18.3% SPECIALTY LIABILITY
- 15.2% PROFESSIONAL LINES
- 12.5% COMMERCIAL AUTO
- 10.9% GENERAL LIABILITY & PACKAGE
- 7.2% SPECIALTY PROPERTY & ENERGY
- 5.7% SURETY

INSURANCE *(OUTSIDE THE U.S.)*

NEWLINE GROUP®

Celebrating
20 years of Syndicate 1218

CARL A. OVERY
Chief Executive Officer

Newline Syndicate 1218

Newline Insurance Company Limited

Operating as the specialty insurance arm of OdysseyRe's London Market Division, Newline Group is comprised of Newline Syndicate 1218 at Lloyd's and Newline Insurance Company Limited. Led by Carl Overy and headquartered in London, Newline has 110 professionals serving clients around the world.

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, cargo and specie. Newline's territorial focus is predominantly the U.K., Continental Europe, Australia, Asia Pacific and Canada. Our global reach is provided through offices in London, Manchester, Melbourne, Singapore, Shanghai (as part of Lloyd's China) and Labuan, Malaysia. Our presence in Shanghai was established in early 2015 and we are very pleased to participate in the China market via the Lloyd's platform.

Throughout 2015, we sought to increase our overseas presence, taking advantage of our international offices, together with distribution channels provided by OdysseyRe and other Fairfax subsidiaries. Notwithstanding this advance, the rating climate remains extremely competitive and discipline is vitally important to maintain in this environment. Overall gross premiums written reduced to $181.7 million from $201.5 million which was largely driven by foreign exchange movements and increased competition in the medical malpractice sector. Despite challenging market conditions, Newline generated a combined ratio of 86.0%.

We would also add that 2016 marks the 20th anniversary of Newline Syndicate 1218, which was established in 1996. Across this period Newline has become an established and well-respected lead market in its business lines. Our people, our underwriting philosophy and the support we have received from our brokers and clients are behind the success of the Syndicate, and we are very grateful for all those who have contributed to our journey.

OFFICE LOCATIONS

LONDON
Corn Exchange
55 Mark Lane
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MANCHESTER
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LABUAN
Tel. +60 87 442899

MELBOURNE
Tel. +61 03 9999 1901

SINGAPORE
Tel. +65 6212 1290

SHANGHAI
Newline Underwriting Division at Lloyd's
Tel. +86 021 6162 8200

Our international casualty specialists possess extensive knowledge and experience to handle complex risk and claim issues.

NEWLINE GROUP

2015
GROSS PREMIUMS WRITTEN

$181.7
MILLION

- 81.0% NEWLINE SYNDICATE AT LLOYD'S
- 19.0% NEWLINE INSURANCE COMPANY LIMITED

- 42.8% LIABILITY
- 22.8% MEDICAL MALPRACTICE
- 14.6% FINANCIAL INSTITUTIONS
- 10.2% PROFESSIONAL LIABILITY
- 5.9% DIRECTORS & OFFICERS
- 3.7% SPACE & MARINE CARGO

EXECUTIVE LEADERSHIP

ODYSSEY RE HOLDINGS CORP.

BOARD OF DIRECTORS

[1] Compensation Committee
[2] Audit Committee

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

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

EXECUTIVE TEAM

ALANE R. CAREY
Executive Vice President
Director of Global Marketing

ISABELLE DUBOTS-LAFITTE
Chief Executive Officer
Europe, Middle East & Africa

CHRISTOPHER L. GALLAGHER
Chief Executive Officer
U.S. Insurance

PHILIPPE E. MALLIER
Chief Executive Officer
Latin America

CARL A. OVERY
Chief Executive Officer
London Market

LUCIEN PIETROPOLI
Chief Executive Officer
AsiaPacific

BRIAN D. QUINN
Chief Executive Officer
North America

JEFFREY M. RUBIN
Senior Vice President
Director of Global Claims

ELIZABETH A. SANDER
Executive Vice President
and Chief Actuary

pwc

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, 2015 and December 31, 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years ended December 31, 2015.

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, 2015 and December 31, 2014 and the results of their operations and their cash flows for the three years ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 4, 2016

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $1,341,079 and $1,890,281, respectively)	$ 1,539,393	$ 2,302,745
Fixed income securities, held for trading, at fair value (amortized cost $2,703,028 and $1,930,443, respectively)	2,592,569	2,056,358
Preferred stocks, held for trading, at fair value (cost $88,874 and $223,041, respectively)	54,155	233,475
Equity securities:		
Common stocks, available for sale, at fair value (cost $150,903 and $412,912, respectively)	191,443	580,079
Common stocks, held for trading and fair value options, at fair value (cost $1,396,476 and $1,227,723, respectively)	1,307,077	1,360,241
Common stocks, at equity	254,725	153,644
Short-term investments, held for trading, at fair value (amortized cost $708,749 and $623,264, respectively)	708,749	623,264
Cash and cash equivalents	460,267	611,715
Cash and cash equivalents held as collateral	200,717	221,421
Other invested assets	903,708	809,537
Total investments and cash	8,212,803	8,952,479
Accrued investment income	46,263	46,829
Premiums receivable	681,323	681,648
Reinsurance recoverable on paid losses	41,471	31,743
Reinsurance recoverable on unpaid losses	690,884	726,196
Prepaid reinsurance premiums	96,516	110,269
Funds held by reinsureds	125,380	137,939
Deferred acquisition costs	156,587	188,549
Federal and foreign income taxes receivable	207,371	—
Other assets	137,844	145,977
Total assets	$ 10,396,442	$ 11,021,629
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,002,422	$ 5,317,465
Unearned premiums	729,447	853,087
Reinsurance balances payable	157,633	111,001
Funds held under reinsurance contracts	42,297	24,037
Debt obligations	89,773	214,597
Federal and foreign income taxes payable	—	96,395
Other liabilities	416,678	421,830
Total liabilities	6,438,250	7,038,412
Commitments and Contingencies (Note 11)		
SHAREHOLDERS' EQUITY		
Non-controlling interest - preferred shares of subsidiaries	29,299	29,299
Common shares, $10.00 par value; 60,000 shares authorized; 49,170 and 47,668 shares issued and outstanding, respectively	492	477
Additional paid-in capital	1,747,017	1,639,236
Accumulated other comprehensive income, net of deferred income taxes	151,164	381,668
Retained earnings	2,030,220	1,932,537
Total shareholders' equity	3,958,192	3,983,217
Total liabilities and shareholders' equity	$ 10,396,442	$ 11,021,629

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2015	2014	2013
		(In thousands)	
REVENUES			
Gross premiums written	$ 2,403,985	$ 2,739,511	$ 2,715,546
Ceded premiums written	309,000	345,678	338,604
Net premiums written	2,094,985	2,393,833	2,376,942
Decrease (increase) in net unearned premiums	109,085	(37,256)	(3,358)
Net premiums earned	2,204,070	2,356,577	2,373,584
Net investment income	217,160	216,851	209,496
Net realized investment (losses) gains:			
Realized investment (losses) gains	(51,388)	461,009	(426,722)
Other-than-temporary impairment losses	(65,120)	(103,887)	(6)
Total net realized investment (losses) gains	(116,508)	357,122	(426,728)
Total revenues	2,304,722	2,930,550	2,156,352
EXPENSES			
Losses and loss adjustment expenses	1,185,774	1,283,997	1,309,591
Acquisition costs	449,083	478,060	476,077
Other underwriting expenses	237,303	237,121	211,882
Other expense (income), net	8,131	18,534	(16,920)
Interest expense	5,463	12,659	24,856
Total expenses	1,885,754	2,030,371	2,005,486
Income before income taxes	418,968	900,179	150,866
Federal and foreign income tax provision (benefit):			
Current	228,267	222,267	(29,115)
Deferred	(108,593)	87,228	43,037
Total federal and foreign income tax provision	119,674	309,495	13,922
Net income	$ 299,294	$ 590,684	$ 136,944

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2015	2014	2013
		(In thousands)	
Net income	$ 299,294	$ 590,684	$ 136,944
OTHER COMPREHENSIVE (LOSS) INCOME, BEFORE TAX			
Unrealized net (depreciation) appreciation on securities arising during the period	(291,276)	193,946	(234,191)
Reclassification adjustment for net realized investment (gains) losses included in net income	(34,436)	37,683	(130,535)
Foreign currency translation adjustments	(27,086)	23,313	(57,030)
Benefit plan liabilities	(1,447)	(23,473)	12,483
Other comprehensive income (loss), before tax	(354,245)	231,469	(409,273)
TAX BENEFIT (PROVISON)			
Unrealized net depreciation (appreciation) on securities arising during the period	101,702	(67,725)	81,892
Reclassification adjustment for net realized investment gains (losses) included in net income	12,053	(13,189)	45,687
Foreign currency translation adjustments	9,480	(8,160)	20,002
Benefit plan liabilities	506	8,216	(4,369)
Total tax benefit (provision)	123,741	(80,858)	143,212
Other comprehensive (loss) income, net of tax	(230,504)	150,611	(266,061)
Comprehensive income (loss)	$ 68,790	$ 741,295	$ (129,117)

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2015	2014	2013
	(In thousands, except common share amounts)		
NON-CONTROLLING INTEREST - PREFERRED SHARES OF SUBSIDIARIES			
Balance, beginning and end of year	$ 29,299	$ 29,299	$ 29,299
PREFERRED SHARES (par value)			
Balance, beginning of year	—	3	3
Series A and B preferred shares redemptions	—	(3)	—
Balance, end of period	—	—	3
COMMON SHARES (par value)			
Balance, beginning of year	477	535	507
Common shares capital contributions	15	155	28
Common shares capital redemptions	—	(213)	—
Balance, end of year	492	477	535
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year	1,639,236	587,994	404,550
Common shares capital contributions	124,985	1,291,012	188,173
Net change due to stock option exercises and restricted share awards	(17,204)	753	(5,071)
Series A and B preferred shares redemptions	—	(7,868)	—
Common shares capital redemptions	—	(232,655)	342
Balance, end of year	1,747,017	1,639,236	587,994
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	381,668	231,057	497,118
Unrealized net appreciation (depreciation) on securities, net of reclassification adjustments	(211,957)	150,715	(237,147)
Foreign currency translation adjustments	(17,606)	15,153	(37,028)
Benefit plan liabilities	(941)	(15,257)	8,114
Balance, end of year	151,164	381,668	231,057
RETAINED EARNINGS			
Balance, beginning of year	1,932,537	2,881,846	2,747,289
Net income	299,294	590,684	136,944
Dividends to preferred shareholders and non-controlling interest	(1,611)	(2,188)	(2,044)
Dividends to common shareholders	(200,000)	—	—
Loss on redemption of Series A and Series B preferred shares	—	(218)	—
Capital redemptions on common shares	—	(1,537,587)	(343)
Balance, end of year	2,030,220	1,932,537	2,881,846
TOTAL SHAREHOLDERS' EQUITY	$ 3,958,192	$ 3,983,217	$ 3,730,734
COMMON SHARES OUTSTANDING			
Balance, beginning of year	47,668	53,440	50,640
Repurchased and retired	—	(21,327)	—
Shares issued	1,502	15,555	2,800
Balance, end of year	49,170	47,668	53,440

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	2014	2013
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 299,294	$ 590,684	$ 136,944
Adjustments to reconcile net income to net cash provided by operating activities:			
Decrease (increase) in premiums receivable and funds held, net of reinsurance	49,546	(13,045)	(144,570)
(Decrease) increase in unearned premiums and prepaid reinsurance premiums, net	(98,730)	39,834	(466)
Decrease in unpaid losses and loss adjustment expenses, net of reinsurance	(130,140)	(6,768)	(73,076)
(Increase) decrease in current and deferred federal and foreign income taxes, net	(177,416)	222,137	(14,278)
Decrease (increase) in deferred acquisition costs	27,077	(6,787)	(8,853)
Change in other assets and liabilities, net	(25,032)	(35,786)	21,201
Net realized investment losses (gains)	116,508	(357,122)	426,728
Bond discount amortization, net	(2,985)	(16,768)	(8,367)
Amortization of compensation plans	13,440	10,008	9,000
Net cash provided by operating activities	71,562	426,387	344,263
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	3,445	5,918	4,088
Sales of fixed income securities, available for sale	158,077	148,923	217,432
Purchases of fixed income securities, available for sale	(8,203)	(48,925)	(80,629)
Sales of equity securities	172,436	123,970	434,070
Purchases of equity securities	(156,786)	(17,999)	(95,896)
Net settlements of other invested assets	310,631	155,548	(470,924)
Purchases of other invested assets	(157,199)	(152,629)	(648,965)
Net change in cash and cash equivalents held as collateral	(12,429)	16,758	(142,218)
Sales of trading securities	1,957,778	3,316,403	4,015,785
Purchases of trading securities	(2,406,470)	(3,896,636)	(3,496,044)
Net purchases of fixed assets	(10,760)	(10,871)	(6,135)
Acquisition of net assets of a business	(9,300)	(7,779)	(10,000)
Net cash used in investing activities	(158,780)	(367,319)	(279,436)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares capital contributions	125,000	202,248	188,201
Capital redemptions on common shares	—	(196,242)	—
Repayment of debt obligations	—	(50,000)	—
Repayment of debt obligations upon maturity	(125,000)	—	(182,827)
Purchase of restricted shares	(30,625)	(9,088)	(13,775)
Dividends paid to preferred shareholders	(1,611)	(2,188)	(2,044)
Repayments of revolving line of credit agreement	—	—	(2,164)
Net cash used in financing activities	(32,236)	(55,270)	(12,609)
Effect of exchange rate changes on cash and cash equivalents	(31,994)	(35,317)	(34,009)
(Decrease) increase in cash and cash equivalents	(151,448)	(31,519)	18,209
Cash and cash equivalents, beginning of year	611,715	643,234	625,025
Cash and cash equivalents, end of year	$ 460,267	$ 611,715	$ 643,234
Supplemental disclosures of cash flow information:			
Interest paid	$ 6,685	$ 12,162	$ 26,223
Income taxes paid	$ 298,026	$ 87,374	$ 27,615
Non-cash activity:			
Dividends paid to common shareholders	$ 200,000	$ —	$ —
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. ORH 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")
    - Hudson Excess Insurance Company ("Hudson Excess") and
    - Napa River Insurance Services, Inc.
- 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"); and
    - Newline Corporate Name Limited ("NCNL"), which provides capital for and receives distributed earnings from Newline Syndicate (1218)

Fairfax Financial Holdings Limited ("Fairfax"), a publicly traded financial services holding company based in Canada, ultimately owns 100% of the common shares of ORH and 100% of the preferred shares of ORH's subsidiaries.

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 $400.0 million to ORH and agreed to assume ORH's $888.3 million note payable to Fairfax (US) in exchange for 15,518 shares of ORH's common stock. In connection with this transaction, Fairfax (US) agreed to release ORH from all obligations relating to the $888.3 million note. ORH's shareholders' equity decreased by $490.3 million as a result of these transactions.

Dividends and returns of capital from the Company are expected to be the source of funds for servicing OUSHI's 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 generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions have been eliminated.

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that could differ materially from actual results affecting 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 $10.6 million and $13.5 million as of December 31, 2015 and 2014, 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. When 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 judgment 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 generally earned on a pro rata basis over the policy period, which is usually one year. A reserve for uncollectible premiums is established when deemed necessary. The Company has established a reserve for potentially uncollectible premium receivable balances of $9.6 million and $8.3 million as of December 31, 2015 and 2014, 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 related liabilities are increased or the reinsurance receivable is reduced, 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. 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 $437.4 million, $479.3 million and $474.4 million for the years ended December 31, 2015, 2014 and 2013, 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 with indefinite lives were not impaired as of December 31, 2015. The Company impaired $1.4 million of intangible assets with finite lives related to its acquisition of an agency producing surety business for the year ended December 31, 2015. The Company did not incur any impairment of its goodwill or intangible assets for the years ended December 31, 2014 or 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, 2015 and 2014 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2014	$ 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
Acquired during 2015	10,498	—	950	11,448
Amortization during 2015	—	—	(5,476)	(5,476)
Impairment during 2015	—	—	(1,402)	(1,402)
Balance, December 31, 2015	$ 59,052	$ 5,813	$ 11,816	$ 76,681

The Company acquired $10.0 million of intangible assets with a finite life during the year ended December 31, 2013. The Company amortized $3.6 million during the year ended December 31, 2013 related to its intangible assets with a finite life.

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

	Years Ended December 31,				
	2016	2017	2018	2019	2020
Amortization of intangible assets	$ 5,092	$ 3,675	$ 2,522	$ 527	$ —

(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, 2015 and 2014, the Company had reflected $7.2 million and $7.8 million in other assets and less than $0.1 million and $2.2 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, 2015 and 2014, 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, 2015 and 2014, 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 that allow 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 the effects of foreign currency forward contracts purchased as an economic hedge against foreign exchange rate volatility and net of tax, on certain line items in the Company's financial statements for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Statement of operations:			
Realized investment gains (losses):			
Foreign currency forward contracts gains	$ 81,354	$ 78,690	$ 2,979
Other investment losses	(77,071)	(92,557)	(10,561)
Total realized investment gains (losses)	4,283	(13,867)	(7,582)
Net investment income	262	1,258	220
Other income, net	13,600	4,548	33,777
Income (loss) before income taxes	18,145	(8,061)	26,415
Total federal and foreign income tax provision (benefit)	6,351	(2,821)	9,246
Net income (loss)	11,794	(5,240)	17,169
Other comprehensive (loss) income, net of tax	(17,606)	15,153	(37,028)
Total effect on comprehensive (loss) income and shareholders' equity	$ (5,812)	$ 9,913	$ (19,859)

(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 in the Company's financial statements as a paid loss at the time the cash is disbursed and is treated as paid 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" represents amounts due to reinsurers arising from the Company's receipt of a deposit from a reinsurer, or the withholding of a portion of the premiums due, in accordance with contractual terms, as a guarantee the reinsurer will meet its loss and other obligations. Interest generally accrues on withheld funds in accordance with contract terms. "Funds held by reinsured" represents amount due from a ceding company that withholds, in accordance with the contractual terms, 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 $26.5 million and $25.8 million as of December 31, 2015 and 2014, respectively, are recorded at amortized 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, 2015, 2014 and 2013 was $9.6 million, $9.0 million and $8.1 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, 2015 and 2014, 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, 2015 with respect to disclosing the nature and expected impact of such events as of March 4, 2016, 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 models that utilize 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, 2015, the Company transferred $128.3 million of a Level 3 security to Level 2 after determining that the underlying invested assets of the investee had changed. For the year ended December 31, 2014, no securities were transferred into or out of Level 3. For the year ended December 31, 2013, the Company transferred $106.9 million in Level 2 securities to Level 3 after determining that the underlying invested assets of the investee had changed.

The Company uses valuation techniques to establish the fair value of Level 3 investments. During the years ended December 31, 2015, 2014 and 2013, the Company purchased $238.9 million, $223.1 million and $594.5 million, respectively, of investments that are classified as Level 3. As of December 31, 2015 and 2014, the Company held $939.8 million and $959.9 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, preferred and common stocks.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

Reclassifications impacting Level 3 of the fair value hierarchy are generally reported as transfers in or out of the Level 3 category as of the beginning of the period in which the reclassifications occur. The Company has determined, after carefully considering the impact of recent economic conditions and liquidity in the credit markets on the Company's portfolio, that it should not re-classify any of its investments from Level 1 or Level 2 to Level 3 for the years ended December 31, 2015, 2014 or 2013. For the year ended December 31, 2013, $2.5 million in 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, 2015 or 2014.

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, 2015 and 2014 (in thousands):

	Fair Value Measurements as of December 31, 2015			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 55,710	$ —	$ 55,710	$ —
States, municipalities and political subdivisions	1,415,628	—	1,415,628	—
Foreign governments	9,090	—	9,090	—
Corporate	58,965	2,212	56,753	—
Total fixed income securities, available for sale	1,539,393	2,212	1,537,181	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	799,270	—	799,270	—
States, municipalities and political subdivisions	1,200,819	—	1,200,819	—
Foreign governments	248,127	—	248,127	—
Corporate	344,353	—	86,042	258,311
Total fixed income securities, held for trading	2,592,569	—	2,334,258	258,311
Convertible preferred stocks, held for trading	54,155	—	54,155	—
Common stocks, available for sale	191,443	187,980	3,463	—
Common stocks, held for trading and fair value options	1,307,077	661,740	558,152	87,185
Short-term investments, held for trading	708,749	681,905	26,844	—
Cash equivalents	254,337	254,337	—	—
Derivatives	167,425	—	106,400	61,025
Other investments	544,342	—	11,108	533,234
Total assets measured at fair value	$ 7,359,490	$ 1,788,174	$ 4,631,561	$ 939,755
Derivative liabilities	$ 13,011	$ —	$ 13,011	$ —
Total liabilities measured at fair value	$ 13,011	$ —	$ 13,011	$ —

	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	$ —

The Company has had cash collateral posted on its behalf by counterparties to derivative transactions in the amounts of $18.6 million and $20.1 million as of December 31, 2015 and 2014, 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, 2015 and 2014 (in thousands):

	Fixed Income Securities	Other Invested Assets	Equity Securities
Balance, January 1, 2014	$ 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
Change in value related to securities sold	10	11,033	1,496
Change in value related to securities held	(46,483)	19,282	(12,256)
Purchases / advances	50,791	146,284	41,873
Settlements / paydowns	(17,329)	(54,256)	(32,248)
Transfers from Level 3 to Level 2	—	—	(128,308)
Balance, December 31, 2015	$ 258,311	$ 594,259	$ 87,185

The following tables present changes in value included in net income related to Level 3 assets for the years ended December 31, 2015, 2014, and 2013 (in thousands):

Year ended December 31, 2015	Net Investment Income	Net Realized Capital Gains (Losses)	Currency Translation	Total
Fixed income securities	$ (2,297)	$ (42,662)	$ (1,514)	$ (46,473)
Other invested assets	—	33,349	(3,034)	30,315
Equity securities	—	(7,416)	(3,344)	(10,760)
	$ (2,297)	$ (16,729)	$ (7,892)	$ (26,918)
Year ended December 31, 2014				
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)

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, 2015 and 2014 (in thousands):

Valuation Technique/Asset Type	As of December 31, 2015	As of December 31, 2014	Significant Unobservable Inputs	Range 2015	Range 2014
Market Approach					
Fixed income securities, held for trading	$ 258,311	$ 271,122	Risk premium for credit risk	6.0%-8.4%	9.0%-9.1%
Preferred stock, held for trading	—	17,501	Risk premium for credit risk	—	9.6%-9.8%
CPI-linked derivatives (1)	61,025	59,384	Broker quotes		
Warrants	—	464	Stock volatility and underlying stock price	—	volatility 27%-39%
Total valued using market approach	319,336	348,471			
Income Approach					
Fixed income securities, held for trading	—	200	Risk premium for credit risk	—	14.5%-14.9%
Preferred stock, held for trading	—	540	Risk premium for credit risk		
Preferred stock, held for trading	—	15,617	Yield to maturity	—	4.0%
Common stock, held for trading	11,551	12,275	EV/EBITDA multiple	7.5x	7.5x
Total valued using income approach	11,551	28,632			
Net Asset Value					
Common stock, held for trading	42,117	128,308	2015: Price/earning multiple 2014: Risk premium for credit risk for underlying loan within the fund	10x	
Partnerships, at fair value (2)	533,234	412,068	Time lag in receiving distributions		
Total valued using net asset value approach	575,351	540,376			
Market Price to Book Value					
Common stocks, fair value option (3)	33,517	42,387	Time lag in receiving book value of comparable companies		
Total — Level 3	$ 939,755	$ 959,866			

(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 interest in twelve 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 currently 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, 2015 and 2014, the Company's interest in Advent was recorded at fair value of $33.5 million and $42.4 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 a realized investment loss of $8.9 million for the year ended December 31, 2015 and realized investment gains of $10.9 million and $6.3 million for the years ended December 31, 2014 and 2013, respectively. The value of the Company's interest in Advent as of December 31, 2015, calculated in accordance with the equity method of accounting, would have been $28.5 million.

The Company owns Class C, E, G, H and J common shares of HWIC Asia Fund ("HWIC Asia"), which is 100% owned by Fairfax and of which the Company owns 32.1% as of December 31, 2015. 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 on a monthly basis.

The carrying value of the Company's investment in the various HWIC Asia common share issues as of December 31, 2015 and 2014, 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 C	HWIC Asia Class G	HWIC Asia Class H	HWIC Asia Class E	HWIC Asia Class J	Total
Fair value as of December 31, 2013	$ 33,033	$ 27,120	$ 83,359	$ —	$ —	$ 143,512
Purchases	12,000	17,850	41,000	306,290	—	377,140
Change in fair value	1,473	(3,950)	3,949	20,345	—	21,817
Currency translation adjustment	—	—	—	(36)	—	(36)
Fair value as of December 31, 2014	46,506	41,020	128,308	326,599	—	542,433
Purchases/(Sales)	—	15,000	8	(23,230)	41,872	33,650
Change in fair value	(6,993)	941	(2,857)	(14,201)	683	(22,427)
Currency translation adjustment	—	—	15	(233)	(438)	(656)
Fair value as of December 31, 2015	$ 39,513	$ 56,961	$ 125,474	$ 288,935	$ 42,117	$ 553,000

HWIC Asia's fair value decreased by $7.8 million for the year ended December 31, 2013.

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, 2015 and 2014, 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, 2015 and 2014, is as follows (in thousands):

2015	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities:				
United States government, government agencies and authorities	$ 43,036	$ 12,674	$ —	$ 55,710
States, municipalities and political subdivisions	1,233,198	182,564	134	1,415,628
Foreign governments	7,349	1,741	—	9,090
Corporate	57,496	1,469	—	58,965
Total fixed income securities	1,341,079	198,448	134	1,539,393
Common stocks	150,903	45,866	5,326	191,443
Total	$ 1,491,982	$ 244,314	$ 5,460	$ 1,730,836

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

Common stocks accounted for under the equity method of accounting were carried at $254.7 million and $153.6 million as of December 31, 2015 and 2014, respectively. Common stocks at equity had gross unrealized appreciation of $0.4 million and $1.1 million and gross unrealized depreciation of $5.9 million and $16.8 million as of December 31, 2015 and 2014, respectively. Other invested assets were carried at $903.7 million and $809.5 million as of December 31, 2015 and 2014, 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, 2015 and 2014 is as follows (in thousands):

	2015 Fair Value	2014 Fair Value
Fixed income securities:		
United States government, government agencies and authorities	$ 799,270	$ 470,673
States, municipalities and political subdivisions	1,200,819	1,001,921
Foreign governments	248,127	280,290
Corporate	344,353	303,474
Total fixed income securities	2,592,569	2,056,358
Preferred stocks	54,155	233,475
Common stocks	1,307,077	1,360,241
Short-term investments	708,749	623,264
Cash and cash equivalents	460,267	611,715
Cash collateral for borrowed securities	200,717	221,421
Total	$ 5,323,534	$ 5,106,474

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2015, by contractual maturity, are shown below (in thousands):

	At December 31, 2015					
	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	$ 42,156	$ 42,870	2.8 %	$ 145,336	$ 138,325	5.3 %
Due after one year through five years	99,149	106,941	7.0	443,243	419,468	16.2
Due after five years through ten years	39,057	45,090	2.9	34,660	35,410	1.4
Due after ten years	1,160,717	1,344,492	87.3	2,079,789	1,999,366	77.1
Total fixed income securities	$ 1,341,079	$ 1,539,393	100.0 %	$ 2,703,028	$ 2,592,569	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 53.4% of the total fair value. In the case of securities containing put options, the actual maturity will be the same as the contractual maturity if the Company elects not to exercise its put option. Total securities containing a 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 sources and components of net investment income for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Interest on fixed income securities	$ 176,320	$ 194,570	$ 178,933
Dividends on preferred stocks	7,398	14,229	15,626
Dividends on common stocks	40,258	17,350	16,917
Net income of common stocks, at equity	9,940	27,287	12,154
Interest on cash and short-term investments	4,048	4,862	5,892
Net income from other invested assets	51,806	35,664	70,438
Gross investment income	289,770	293,962	299,960
Less: investment expenses	72,610	77,111	90,464
Net investment income	$ 217,160	$ 216,851	$ 209,496

The following table summarizes the Company's net realized investment gains and losses for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Available for sale:			
From sales	$ 96,045	$ 62,258	$ 115,287
Other-than-temporary impairments	(65,120)	(103,887)	(6)
Total available for sale	30,925	(41,629)	115,281
Held for trading:			
From sales and settlements	236,280	140,445	(515,337)
From mark to market adjustments	(383,713)	258,306	(26,672)
Total held for trading	(147,433)	398,751	(542,009)
Total net realized investment (losses) gains	$ (116,508)	$ 357,122	$ (426,728)

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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Fixed income securities:			
Realized investment gains	$ 173,615	$ 26,881	$ 20,305
Realized investment losses	2,931	12,954	12,578
Other-than-temporary impairments	1,052	1,704	6
Net realized investment gains	169,632	12,223	7,721
Preferred stock:			
Realized investment gains	—	2,075	—
Equity securities:			
Realized investment gains	2,722	46,656	107,560
Realized investment losses	57,501	400	—
Other-than-temporary impairments	64,068	102,183	—
Net realized investment (losses) gains	(118,847)	(55,927)	107,560
Common stocks, at equity:			
Realized investment losses	19,860	—	—
Total available for sale securities			
Realized investment gains	176,337	75,612	127,865
Realized investment losses	80,292	13,354	12,578
Other-than-temporary impairments	65,120	103,887	6
Net realized investment gains (losses)	$ 30,925	$ (41,629)	$ 115,281

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.

The net realized investment gains or losses on disposal of held for trading securities 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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Fixed income securities:			
Net realized investment gains on disposal	$ 47,669	$ 121,531	$ 32,197
Change in fair value	(234,665)	222,401	(168,201)
Net realized investment (losses) gains	(186,996)	343,932	(136,004)
Preferred stock:			
Net realized investment gains (losses) on disposal	33,816	(32,063)	—
Change in fair value	(45,223)	(21,498)	42,389
Net realized investment (losses) gains	(11,407)	(53,561)	42,389
Equity securities:			
Net realized investment gains on disposal	28,637	117,148	66,328
Change in fair value	(221,497)	(58,060)	189,369
Net realized investment (losses) gains	(192,860)	59,088	255,697
Derivative securities:			
Net realized investment gains (losses) on disposal/settlement	142,350	(53,249)	(615,085)
Change in fair value	87,794	94,188	(115,149)
Net realized investment gains (losses)	230,144	40,939	(730,234)
Other securities:			
Net realized investment (losses) gains on disposal	(16,192)	(12,922)	1,223
Change in fair value	29,878	21,275	24,920
Net realized investment gains	13,686	8,353	26,143
Total held for trading securities:			
Net realized investment gains (losses) on disposal	236,280	140,445	(515,337)
Change in fair value	(383,713)	258,306	(26,672)
Net realized investment (losses) gains	$ (147,433)	$ 398,751	$ (542,009)

(c) Unrealized (Depreciation) Appreciation

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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Fixed income securities	$ (210,885)	$ 177,565	$ (258,372)
Preferred stock	—	(2,049)	2,049
Equity securities	(115,097)	56,113	(108,403)
Other	270	—	—
(Decrease) increase in unrealized net appreciation of investments	(325,712)	231,629	(364,726)
Deferred income tax benefit (provision)	113,755	(80,914)	127,579
Change in net unrealized appreciation of investments included in other comprehensive (loss) income	$ (211,957)	$ 150,715	$ (237,147)

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.

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, 2015 (in thousands):

	Duration of Unrealized Loss Less than 12 Months		
December 31, 2015	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities:			
States, municipalities and political subdivisions	$ 2,895	$ 134	1
Total fixed income securities	2,895	134	1
Common stocks, at fair value	8,179	5,326	1
Total temporarily impaired securities	$ 11,074	$ 5,460	2

As of December 31, 2014, the Company did not own securities classified as available for sale in an unrealized loss position.

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, 2015 and 2014 (in thousands):

	Carrying Value		Goodwill and Other included in Carrying Value		Quoted Market Value	Relative Economic Ownership
	2015	2014	2015	2014	2015	2015
Cara Operations Limited	$ 119,425	$ —	$ 102,104	$ —	$ 158,397	14.6 %
Fairfax India Holdings Corp.	79,587	—	—	—	85,850	8.0 %
Zenith National Insurance Corp.	44,888	43,701	3,928	3,928	n/a	6.1 %
Temple St. Productions Inc.	10,798	—	8,975	—	n/a	21.7 %
Fairfax Asia Limited	—	109,916	—	—	n/a	0.0 %
Other	27	27	—	—	n/a	
Total common stocks, at equity	$ 254,725	$ 153,644	$ 115,007	$ 3,928		

Zenith, and Fairfax Asia are wholly-owned subsidiaries of Fairfax, while Fairfax is the majority shareholder of Cara (56.9%), Fairfax India (95.1%) and Temple (55.0%).

During 2015, the Company exchanged its interest in Fairfax Asia with a note receivable from an affiliate, and later exchanged this note (plus warrants and preferred shares of Cara) for common stock of Cara.

(e) Other Invested Assets

The following table shows the components of other invested assets as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Investment funds and partnerships, at fair value	$ 533,234	$ 412,068
Investment funds and partnerships, at equity	185,211	246,805
Derivatives, at fair value	167,425	132,267
Benefit plan funds, at fair value	11,108	11,667
O.R.E Holdings Limited	6,730	6,730
Total other invested assets	$ 903,708	$ 809,537

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, 2015, 2014 and 2013, the Company recognized net investment income of $46.0 million, $17.5 million and $45.8 million, respectively, from its investment funds and partnership investments. For the years ended December 31, 2015, 2014 and 2013, the Company recognized net realized investment gains of $24.8 million, $34.8 million and $32.5 million, respectively, from its investment funds and partnerships that are held as trading securities. With respect to the Company's $718.4 million in investments in investment funds and partnerships, the Company has commitments that may require additional funding of up to $122.6 million. The Company's investment in O.R.E Holdings Limited 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, commodities futures contracts, credit default swaps and warrants 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, 2015 and 2014, respectively (in thousands):

As of December 31, 2015	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
CPI-linked derivative contracts	$ 33,793,251	$ 228,494	$ 61,025	$ —
Swaptions	26,873,885	83,250	61	—
Short total return swaps	1,924,566	—	73,769	1,654
Forward currency contracts	967,195	—	31,630	7,889
Long total return swaps	62,027	—	940	3,469
Commodity futures contracts	3,613	—	—	—
Total		$ 311,744	$ 167,425	$ 13,012

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

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, 2015 and 2014 (in thousands):

			Effect on Pre-tax:			
As of and for the year ended December 31, 2015	Exposure / Notional Value	Carrying Value	Other Comprehensive Income	Net Investment Income / Realized Gains (Losses)	Net Equity Impact	Net Cash Flow from Disposals
Equity risk exposures:						
Common stocks, at fair value	$ 1,038,529	$ 1,038,529	$ (125,494)	$ (285,778)	$ (411,272)	$ (32,271)
Preferred stocks	54,155	54,155	—	(13,649)	(13,649)	33,816
Bonds - convertible	268,055	268,055	—	(45,152)	(45,152)	—
Partnerships	698,653	698,653	—	67,934	67,934	2,511
Total return swaps - long	59,498	(2,529)	—	(16,915)	(16,915)	(22,473)
Equity warrants	—	—	—	6,014	6,014	6,460
Total equity exposure	$ 2,118,890	$ 2,056,863	(125,494)	(287,546)	(413,040)	(11,957)
Hedging instruments included in other invested assets:						
Total return swaps - short	$ 1,852,451	$ 72,116	—	162,013	162,013	71,894
Total equity hedging instruments	$ 1,852,451	$ 72,116	—	162,013	162,013	71,894
Net equity impact			$ (125,494)	$ (125,533)	$ (251,027)	$ 59,937

As of and for the year ended December 31, 2014	Exposure / Notional Value	Carrying Value	Effect on Pre-tax: Other Comprehensive Income	Net Investment Income / Realized Gains (Losses)	Net Equity Impact	Net Cash Flow from Disposals
Equity risk exposures:						
Common stocks, at fair value	$ 1,430,705	$ 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 included in 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

In the normal course of affecting its economic hedging strategy with respect to equity risk, the Company expects that there may be periods where the notional value of the derivative instruments 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 instruments 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 6.1 years and 7.1 years as of December 31, 2015 and 2014, 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 $12.0 million as of December 31, 2015. 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, 2015 and 2014, the fair value of this collateral was $42.9 million and $20.1 million, respectively.

The Company has entered into swaption agreements with a notional value of $26.9 billion and $33.7 billion, as of December 31, 2015 and 2014, 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 $3.1 million as of December 31, 2015.

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, in 2009, 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 a series of one year equity index total return swaps. Beginning in September 2009 and continuing through 2016, the Company initiated U.S. equity index total return swap contracts to protect against potential future broad market downturns. The aggregate notional values of these contracts were $1.7 billion and $2.0 billion as of December 31, 2015 and 2014, respectively. The collateral requirements related to entering the total return swaps were $91.8 million and $202.2 million as of December 31, 2015 and 2014, respectively. 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, 2015 and 2014, 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. Pursuant to the agreements governing the short equity index total returns 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, 2015, the fair value of this collateral was $31.5 million.

The Company held long position common stock total return swaps, with a total notional value of $62.0 million and $81.2 million as of December 31, 2015 and 2014, respectively, as replications of investments in publicly-listed common stocks. The collateral requirements related to these swaps were $3.8 million and $5.3 million as of December 31, 2015 and 2014, 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, 2015 and 2014. 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, 2015 and 2014, the Company held short position common stock total return swaps with a notional value of $176.7 million and $288.3 million, respectively. The collateral requirement related to these swaps, which terminate throughout 2016, was $7.6 million and $13.1 million as of December 31, 2015 and 2014, 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, 2015 and 2014, respectively. Changes in the fair value of the swaps 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, 2015, the fair value of this collateral was $13.2 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, 2015 and 2014, 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. Pursuant to the forward contract agreements, 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. The fair value of the collateral as of December 31, 2015 and 2014 was $4.0 million and $3.9 million, respectively.

Beginning in 2015, as an economic hedge to protect against the potential adverse impact on its incurred loss and loss adjustment expenses from fluctuations in the commodity prices of crops insured by certain Company crop insurance products, the Company traded commodity futures contracts for various crops. These contracts are bought and sold based upon the daily change in the Company's exposure to yield and price related losses on the related crop insurance policies. The Company maintains a margin account with a commodities broker to which the daily gains and losses from the contracts are added or subtracted. As of December 31, 2015, the margin account had a short futures contract position valued at $3.6 million and a cash position of $1.5 million. Changes in the realized fair value of the contracts of $1.9 million were recorded as decreases in losses and loss adjustment expenses.

Until the first quarter of 2014, the Company held credit default swap contracts under which the Company, as the buyer, agreed 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 were 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 occurred. The interest rate swaps expired in December 2013.

Until the fourth quarter of 2015, the Company had 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, 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.

Prior to December 31, 2014, the Company had 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. Changes in the fair value of the call options were 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 of derivatives 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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
CPI-linked derivative contracts:			
Net realized investment losses on disposal	$ —	$ (33,116)	$ (19,290)
Change in fair value	(17)	6,748	(37,250)
Net realized investment (losses) gains	(17)	(26,368)	(56,540)
Swaptions:			
Net realized investment loss on disposal	(14,198)	—	—
Change in fair value	11,894	(32,348)	(49,216)
Net realized investment (losses)	(2,304)	(32,348)	(49,216)
Short total return swaps:			
Net realized investment gain (losses) on disposal	71,894	(103,516)	(722,043)
Change in fair value	90,119	73,070	(45,722)
Net realized investment gain (losses)	162,013	(30,446)	(767,765)
Long total return swaps:			
Net realized investment (loss) gains on disposal	(22,473)	25,050	125,254
Change in fair value	5,558	(10,757)	15,911
Net realized investment (loss) gains	(16,915)	(14,293)	141,165
Forward currency contracts:			
Net realized investment gains on disposal	100,666	25,835	4,125
Change in fair value	(19,312)	52,855	(1,146)
Net realized investment gains	81,354	78,690	2,979
Credit default swaps:			
Net realized investment (losses) on disposal	—	(2,287)	(1)
Change in fair value	—	2,262	(307)
Net realized investment losses	—	(25)	(308)
Warrants:			
Net realized investment gains on disposal	6,461	9,191	—
Change in fair value	(448)	3,289	(1,420)
Net realized investment gains (loss)	6,013	12,480	(1,420)
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)
Change in fair value	—	—	3,070
Net realized investment loss	—	—	(60)
Total derivatives:			
Net realized investment gain (losses) on disposal	142,350	(53,249)	(615,085)
Change in fair value	87,794	94,188	(115,149)
Net realized investment gains (loss)	$ 230,144	$ 40,939	$ (730,234)

(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. For certain reinsurance contracts, derivative contracts and affiliate guarantees, the Company utilizes trust funds to collateralize its obligations or potential obligations to the ceding companies and counterparties. As of December 31, 2015, restricted assets supporting these deposits and trust fund requirements totaled $1.1 billion, as depicted in the following table (in thousands):

	Fixed Income Securities	Cash Cash Equivalents Short-term investments	Common Stock	Total
U.S. regulatory requirements	$ 80,883	$ 1,499	$ —	$ 82,382
Foreign regulatory requirements	174,249	157,362	39,138	370,749
Derivative collateral requirements	66,849	52,990	—	119,839
Reinsurance collateral requirements	405,066	49,910	56,547	511,523
Guarantee collateral requirements	50,617	—	—	50,617
Total	$ 777,664	$ 261,761	$ 95,685	$ 1,135,110

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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Beginning balance of unrealized net appreciation on securities	$ 365,104	$ 214,389	$ 451,536
Ending balance of unrealized net appreciation on securities	153,147	365,104	214,389
Current period change in unrealized net appreciation (depreciation) on securities	(211,957)	150,715	(237,147)
Beginning balance of foreign currency translation adjustments	44,168	29,015	66,043
Ending balance of foreign currency translation adjustments	26,562	44,168	29,015
Current period change in foreign currency translation adjustments	(17,606)	15,153	(37,028)
Beginning balance of benefit plan liabilities	(27,604)	(12,347)	(20,461)
Ending balance of benefit plan liabilities	(28,545)	(27,604)	(12,347)
Current period change in benefit plan liabilities	(941)	(15,257)	8,114
Other comprehensive income (loss)	$ (230,504)	$ 150,611	$ (266,061)
Beginning balance of accumulated other comprehensive income	$ 381,668	$ 231,057	$ 497,118
Other comprehensive income (loss)	(230,504)	150,611	(266,061)
Ending balance of accumulated other comprehensive income	$ 151,164	$ 381,668	$ 231,057

The following table shows the components of accumulated other comprehensive income and the related deferred income taxes on each component, as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Gross:		
Unrealized appreciation on securities	$ 235,412	$ 561,124
Foreign currency translation adjustments	40,867	67,953
Benefit plan liabilities	(43,916)	(42,469)
Total accumulated other comprehensive income, gross of deferred income taxes	$ 232,363	$ 586,608
Deferred taxes:		
Unrealized appreciation on securities	$ (82,265)	$ (196,020)
Foreign currency translation adjustments	(14,305)	(23,785)
Benefit plan liabilities	15,371	14,865
Total deferred taxes on accumulated other comprehensive income	$ (81,199)	$ (204,940)

The following table shows the changes in the balances of each component of accumulated other comprehensive income (loss), for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Unrealized Gains and Losses on Securities	Foreign Currency Items	Benefit Plan Items	Total
Balance, January 1, 2013	$ 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
Amounts arising during the period	(189,574)	(20,123)	(2,301)	(211,998)
Reclassification adjustment included in net (loss) income	(22,383)	2,517	1,360	(18,506)
Net other comprehensive (loss)	(211,957)	(17,606)	(941)	(230,504)
Balance, December 31, 2015	$ 153,147	$ 26,562	$ (28,545)	$ 151,164

The following table shows the significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended of December 31, 2015, 2014 and 2013 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (a) 2015	2014	2013	Affected Line Item in the Consolidated Statement of Operations Where Net Income is Presented
Unrealized net (appreciation) depreciation of securities:	$ 34,436	$ (37,683)	$ 130,535	Net realized investment gains (losses)
	(12,053)	13,189	(45,687)	Total federal and foreign income provision
	$ 22,383	$ (24,494)	$ 84,848	Net income
Foreign Currency Translations:				
	$ (3,873)	$ (6,304)	$ (2,728)	Net realized investment losses
	1,356	2,206	955	Total federal and foreign income provision
	$ (2,517)	$ (4,098)	$ (1,773)	Net income
Amortization of benefit plan items:				
Amortization of net loss	$ (2,129)	$ (608)	$ (1,437)	Other underwriting expenses (b)
Amortization of prior service costs (credit)	37	19	(9)	Other underwriting expenses (b)
	(2,092)	(589)	(1,446)	
	732	205	507	Total federal and foreign (benefit) income provision
	$ (1,360)	$ (384)	$ (939)	Net income
Total reclassifications for the period	$ 18,506	$ (28,976)	$ 82,136	

(a) Amounts in parentheses indicate decreases to the indicated line item of the consolidated 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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 5,317,465	$ 5,569,515	$ 5,632,322
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	726,196	790,642	813,573
Net unpaid losses and loss adjustment expenses, beginning of year	4,591,269	4,778,873	4,818,749
Add: Net incurred losses and loss adjustment expenses related to:			
Current year	1,419,132	1,473,125	1,524,295
Prior years	(233,358)	(189,128)	(214,704)
Total net incurred losses and loss adjustment expenses	1,185,774	1,283,997	1,309,591
Less: Net paid losses and loss adjustment expenses related to:			
Current year	275,728	275,305	293,266
Prior years	1,048,267	1,010,103	1,066,090
Total net paid losses and loss adjustment expenses	1,323,995	1,285,408	1,359,356
Effect of exchange rate changes	(141,510)	(186,193)	9,889
Net unpaid losses and loss adjustment expenses, end of year	4,311,538	4,591,269	4,778,873
Add: Ceded unpaid losses and loss adjustment expenses, end of year	690,884	726,196	790,642
Gross unpaid losses and loss adjustment expenses, end of year	$ 5,002,422	$ 5,317,465	$ 5,569,515

Estimates of reserves for unpaid losses and loss adjustment expenses, which relate 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, 2015. 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 $1,419.1 million, $1,473.1 million and $1,524.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. The decrease in incurred losses and loss adjustment expenses for the year ended December 31, 2015 was principally attributable to improved results on crop business in the U.S. Insurance division. The decrease in incurred losses and loss adjustments expenses for the year ended December 31, 2014 was principally due to decrease in property catastrophe losses. For the year ended December 31, 2015, current year losses included $55.9 million for the Port of Tianjin explosion. For the years ended December 31, 2015, 2014 and 2013, current year property catastrophe losses were $108.5 million, $148.5 million and $220.4 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.

Net incurred losses and loss adjustment expenses related to prior years included reductions in loss estimates of $233.4 million, $189.1 million and $214.7 million for the years ended December 31, 2015, 2014 and 2013, respectively. The reductions in prior years' incurred losses and loss adjustment expenses for the years ended December 31, 2015, 2014 and 2013 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 $275.7 million, $275.3 million and $293.3 million for the years ended December 31, 2015, 2014 and 2013, 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 effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in decreases of $141.5 million and $186.2 million for the years ended December 31, 2015 and 2014, respectively, and an increase of $9.9 million for the year ended December 31, 2013. 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 $690.9 million, $726.2 million and $790.6 million as of December 31, 2015, 2014 and 2013, respectively. The decreases in ceded unpaid losses and loss adjustment expenses for the years ended December 31, 2015 and 2014 were principally attributable to decreases in ceded unpaid reinsurance recoverables in the London Market and U.S. Insurance 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 $59.4 million and $62.8 million as of December 31, 2015 and 2014, respectively. The amount of case reserve discount was $21.0 million and $23.9 million as of December 31, 2015 and 2014, respectively. The amount of incurred but not reported reserve discount was $21.6 million and $21.2 million as of December 31, 2015 and 2014, 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, 2015, 2014 and 2013 follow (in thousands):

	Year Ended December 31,		
	2015	2014	2013
Premiums Written			
Direct	$ 1,089,892	$ 1,185,239	$ 1,043,864
Add: assumed	1,314,093	1,554,272	1,671,682
Less: ceded	309,000	345,678	338,604
Net	$ 2,094,985	$ 2,393,833	$ 2,376,942
Premiums Earned			
Direct	$ 1,108,264	$ 1,132,357	$ 1,020,575
Add: assumed	1,416,857	1,562,517	1,703,897
Less: ceded	321,051	338,297	350,888
Net	$ 2,204,070	$ 2,356,577	$ 2,373,584

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2015 and 2014 was $732.4 million and $757.9 million, respectively. The reserve for uncollectible reinsurance recoverable was $18.4 million and $19.9 million, as of December 31, 2015 and 2014, respectively, and has been netted against reinsurance recoverables on loss payments in the consolidated balance sheets.

In accordance with the terms of certain reinsurance agreements, the Company has recorded interest expense associated with its ceded reinsurance agreements of less than $0.1 million for each of the years ended December 31, 2015, 2014 and 2013.

8. Reinsurance Recoverables

The Company's ten largest reinsurers represent 59.0% of its total reinsurance recoverables as of December 31, 2015. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $25.6 million, or 3.5%, of reinsurance recoverables as of December 31, 2015, and the average balance is less than $2.0 million. The Company held total collateral of $97.4 million as of December 31, 2015, representing 13.3% of total reinsurance recoverables. The following table shows the total amount as of December 31, 2015 that is recoverable from each of the Company's ten largest reinsurers for paid and unpaid losses, 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 Syndicates (excluding Brit PLC Syndicate 2987)	$ 109,254	14.9 %	$ —	A
Federal Crop Insurance Corporation	57,787	7.9	—	NR
Everest Re (Bermuda) Ltd	40,292	5.5	—	A+
ACE Tempest Reinsurance Company Ltd	38,169	5.2	30,891	A++
Markel Global Reinsurance Co	34,659	4.7	—	A
Brit PLC (Lloyd's Syndicate 2987)	34,119	4.7	—	A
Markel Bermuda Ltd	32,102	4.4	2,603	A
National Indemnity Company	30,289	4.1	—	A++
Lexington Insurance Company	27,708	3.8	—	A
Munich Reinsurance America Inc	27,611	3.8	—	A+
Sub-total	431,990	59.0	33,494	
All other	300,365	41.0	63,949	
Total	$ 732,355	100.0 %	$ 97,443	

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, 2015 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's Syndicates (excluding Brit PLC Syndicate 2987)	$ 109,254	14.9 %	$ —
Fairfax Financial Holdings Ltd	84,802	11.6	27,921
Markel Corporation	69,484	9.5	2,603
Federal Crop Insurance Corporation	57,787	7.9	—
Everest Re Group Ltd	42,366	5.8	—
Sub-total	363,693	49.7	30,524
All other	368,662	50.3	66,919
Total	$ 732,355	100.0 %	$ 97,443

Reinsurance recoverables were $757.9 million and collateral was $93.2 million, or 12.3% of the reinsurance recoverable balance, as of December 31, 2014.

The Company is the beneficiary of letters of credit, cash and other forms of collateral to secure certain amounts due from its reinsurers. Collateral held by the Company as of December 31, 2015 was comprised of the following forms (in thousands):

Form of Collateral	Collateral	% of Recoverables
Letters of credit	$ 51,443	7.0 %
Funds withheld from reinsurers	27,624	3.8
Trust agreements	18,376	2.5
Total	$ 97,443	13.3 %

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, 2015 and 2014 were as follows (in thousands):

	December 31, 2015	December 31, 2014
6.875% Senior Notes due 2015	$ —	$ 124,866
Series A Floating Rate Senior Debentures due 2021	49,863	49,836
Series C Floating Rate Senior Debentures due 2021	39,910	39,895
Total debt obligations	$ 89,773	$ 214,597

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 was payable on demand. Either party could terminate the facility at any time upon demand, at which time all outstanding principal and unpaid interest became due. 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, 2015 and 2014, the average annual interest rate on the Series C Notes was 2.80% and 2.74%, 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, 2015 and 2014, the average annual interest rate on each series of notes was 2.50% and 2.44%, respectively. The Series B Notes 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 was amortized over the life of the notes. Interest accrued on the senior notes at a fixed rate of 6.875% per annum and was due semi-annually on May 1 and November 1. On May 1, 2015, the 6.875% Senior Notes matured with $125.0 million distributed to the noteholders.

As of December 31, 2015, all of the remaining debt obligations of the Company, which total $90.0 million, mature in 2021.

As of December 31, 2015 and 2014, the estimated fair value of the Company’s debt obligations was $92.0 million and $218.4 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 1,502 common shares to a Fairfax affiliate during the second quarter of 2015 in exchange for a $125.0 million capital contribution to fund the payment of the Company’s $125.0 million Senior Notes 6.875%, which matured on May 1, 2015.

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. 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.

The Company declared and paid $200 million common shares dividends for the year ended December 31, 2015. The Company did not declare or pay any common shares dividends for the years ended December 31, 2014 or 2013.

Preferred Shares

As discussed in Note 1, a reorganization of the ownership structure of the Company by Fairfax during the year ended December 31, 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 and 2013 as follows (in thousands):

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

Non-Controlling Interest – Preferred Shares of Subsidiaries

Clearwater Insurance Company ("Clearwater"), a wholly-owned subsidiary of Fairfax, 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 5, 2015, Clearwater Select's Board of Directors declared a preferred dividend to Clearwater in the amount of $0.3 million and 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, 2015. 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 included in the consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

	2015	2014	2013
Current:			
United States	$ 200,240	$ 168,768	$ (15,289)
Foreign	28,027	53,499	(13,826)
Total current income tax provision (benefit)	228,267	222,267	(29,115)
Deferred:			
United States	(99,636)	95,102	42,563
Foreign	(8,957)	(7,874)	474
Total deferred income tax (benefit) provision	(108,593)	87,228	43,037
Total federal and foreign income tax provision	$ 119,674	$ 309,495	$ 13,922

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, 2015 and 2014 are as follows (in thousands):

	2015	2014
Unpaid losses and loss adjustment expenses	$ 94,576	$ 113,388
Unearned premiums	41,039	48,572
Reserve for potentially uncollectible balances	6,192	5,978
Pension and benefit accruals	32,971	26,724
Investments	138,460	26,800
Alternative minimum tax credit	2,331	—
Foreign tax credit	115,062	118,393
Other	598	1,509
Total deferred tax assets	431,229	341,364
Deferred acquisition costs	52,192	63,190
Foreign deferred items	24,509	33,466
Subsidiary net operating loss	34,831	33,604
Total deferred tax liabilities	111,532	130,260
Net deferred tax assets	319,697	211,104
Deferred income taxes on accumulated other comprehensive income	(81,199)	(204,940)
Deferred federal and foreign income tax asset	238,498	6,164
Current federal and foreign income tax payable	(31,127)	(102,559)
Federal and foreign income taxes receivable (payable)	$ 207,371	$ (96,395)

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, 2015, 2014 and 2013 (in thousands):

	2015		2014		2013	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income taxes	$ 418,968		$ 900,179		$ 150,866	
Income tax provision computed at the U.S. statutory tax rate on income	$ 146,639	35.0 %	$ 315,063	35.0 %	$ 52,803	35.0 %
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(1,506)	(0.4)	(193)	(0.0)	(1,132)	(0.8)
Tax-exempt income	(30,827)	(7.4)	(36,398)	(4.0)	(30,535)	(20.2)
Foreign tax expense	209	0.0	33,670	3.7	(7,826)	(5.2)
Other, net	5,159	1.4	(2,647)	(0.3)	612	0.4
Total federal and foreign income tax provision	$ 119,674	28.6 %	$ 309,495	34.4 %	$ 13,922	9.2 %

Pre-tax income (loss) generated in the United States was $340.5 million, $636.6 million and ($174.1) million for the years ended December 31, 2015, 2014 and 2013, respectively. Foreign pre-tax income was $78.5 million, $263.6 million and $325.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The Company has claimed the benefit of a foreign tax credit in the tax year ended December 31, 2015. The Company had elected to expense foreign taxes in its federal income tax returns for the years ended December 31, 2014 and 2013.

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 $298.0 million, $87.4 million and $27.6 million for the years ended December 31, 2015, 2014 and 2013, respectively. As of December 31, 2015, the Company had a current tax payable of $31.1 million, which included $24.7 million payable to Fairfax (US) and a net payable of $6.4 million to various foreign governments. 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. 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 2014 are closed. The Internal Revenue Service ("IRS") is expected to complete their audit of the Company's 2014 returns during 2016. Effective for 2013, 2014 and 2015 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 $115.0 million, of which $0.9 million, $23.9 million and $12.4 million expire in 2019, 2020 and 2025, 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 $343.4 million as of December 31, 2015 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 $59.3 million as of December 31, 2015. 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, in the event Falcon becomes insolvent. The guarantee by ORC was made to assist Falcon in writing business through access to ORC's financial strength ratings and capital resources. ORC is paid a fee for this guarantee of one quarter of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For the years ended December 31, 2015, 2014 and 2013, Falcon paid $0.1 million, $0.2 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 $111.9 million, based on Falcon's loss reserves at December 31, 2015. 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.

During 2015, in consideration for an appropriate fee, ORC agreed to guarantee the payment of all of the obligations of Clearwater Insurance Company ("Clearwater"), a Fairfax affiliate, with respect to a certain contract of reinsurance of asbestos, pollution and health hazard claims (the "APH contract") entered into by Clearwater with an unrelated third party. The guarantee was made to enable Clearwater, an unrated company, to access ORC's financial strength ratings and capital resources for securing the APH Contract. ORC's maximum exposure in connection with this guarantee is $350.0 million; as of December 31, 2015, the Company estimated exposure under the guarantee is $83.4 million, based on Clearwater's loss reserves for the APH Contract at December 31, 2015. The Company i) believes that the financial resources of Clearwater provide adequate protection to support is liabilities in the ordinary course of business; ii) anticipates that Clearwater will meet all of its obligations in the normal course of business and iii) does not expect to make any payments under this guarantee.

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
2016	$ 10,392
2017	9,923
2018	9,698
2019	9,454
2020	7,723
2021 and thereafter	26,228
Total	$ 73,418

Rental expense, before sublease income under these operating leases, was $12.2 million, $11.7 million and $11.5 million for the years ended December 31, 2015, 2014 and 2013, respectively. The Company recovered pre-tax amounts of less than $0.1 million, $0.1 million and $0.1 million for the years ended December 31, 2015, 2014, and 2013, 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 2016, without prior approval, is $449.6 million. ORC declared and paid dividends to ORH of $300.0 million, $325.0 million and $200.0 million during the years ended

December 31, 2015, 2014 and 2013, respectively. The dividends paid in 2014 included an extraordinary dividend of $100.0 million, which was approved by the Connecticut Department. Hudson declared and paid dividends on its preferred shares owned by Clearwater of $1.3 million during each of the years ended December 31, 2015, 2014 and 2013. 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, 2015, 2014 and 2013.

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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Net income	$ 534,723	$ 275,714	$ 133,277
Policyholders' surplus	3,317,809	3,277,963	3,131,848

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 and ceded from and to affiliates as of and for the years ended December 31, 2015, 2014 and 2013, follow (in thousands):

	2015	2014	2013
Assumed:			
Premiums written	$ 22,702	$ 35,814	$ 15,912
Premiums earned	25,963	33,339	12,307
Losses and loss adjustment expenses	12,689	14,698	19,052
Acquisition costs	3,164	9,352	2,198
Reinsurance payable on paid losses	2,474	2,952	1,787
Reinsurance balances receivable	5,117	4,288	5,622
Unpaid losses and loss adjustment expenses	60,684	59,190	66,211
Unearned premiums	6,692	9,960	7,552
Ceded:			
Premiums written	$ 28,622	$ 33,925	$ 8,687
Premiums earned	33,565	23,609	8,925
Losses and loss adjustment expenses	19,057	7,761	(3,361)
Acquisition costs	4,409	5,957	1,100
Ceded reinsurance balances payable	2,579	2,199	2,723
Reinsurance recoverables on paid losses	680	(437)	(271)
Reinsurance recoverables on unpaid losses	83,550	49,203	48,585
Unearned premiums	10,617	12,179	1,806

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 each 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, 2015, 2014 and 2013, total fees, including incentive fees, of $14.5 million, $22.8 million and $28.8 million, respectively, are included in the consolidated statements of operations.

Included in other expense, net, for the years ended December 31, 2015, 2014 and 2013, are charitable contributions expenses of $4.0 million, $6.6 million and $3.1 million, respectively, primarily representing amounts to be funded by ORH 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 $2.1 million and $2.7 million as of December 31, 2015 and 2014, respectively, and amounts payable to affiliates of $1.2 million and $6.1 million as of December 31, 2015 and 2014, respectively.

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, 2015 and 2014; the asset is being amortized over five years. As of December 31, 2015 and 2014, the net present value of the contingent consideration obligation was $2.9 million and $3.3 million, respectively, and was included in other liabilities.

Effective October 2, 2013, Hudson negotiated with TIG Insurance Company ("TIG"), a Fairfax subsidiary, 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, 2015; 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.

During the year ended December 31, 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. 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, 2015 and 2014 (in thousands):

	2015	2014
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 152,601	$ 126,121
Service cost	9,260	8,579
Interest cost	6,257	5,483
Actuarial (gain) loss	(5,507)	17,381
Benefits paid	(2,987)	(4,963)
Benefit obligation at end of year	159,624	152,601
Change in Plan assets:		
Fair value of Pension Plan assets at beginning of year	115,727	102,078
Actual (depreciation) appreciation on Pension Plan assets	(7,818)	10,312
Actual contributions during the year	7,800	8,300
Benefits paid	(2,987)	(4,963)
Fair value of Pension Plan assets at end of year	112,722	115,727
Funded status and accrued pension cost	$ (46,902)	$ (36,874)

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 for the Pension Plan of $46.9 million and $36.9 million, as of December 31, 2015 and 2014, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the Pension Plan is $28.7 million and $20.2 million, before taxes, as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, 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,			
	2015		2014	
Equity securities	$ 32,282	28.6 %	$ 33,301	28.8 %
Fixed income securities	63,109	56.0	65,004	56.2
Money market	17,331	15.4	17,422	15.0
Fair value of Plan assets	$ 112,722	100.0 %	$ 115,727	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, 2015, 2014 and 2013, the Company contributed $7.8 million, $8.3 million, and $7.8 million, respectively, to the Pension Plan. The Company currently expects to make a contribution to the Pension Plan of $7.8 million during 2016.

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, using the three-level hierarchy approach 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. As of December 31, 2015 and 2014, there were no Level 3 assets in the Pension Plan and there was no activity related to the market value of Level 3 assets, for the years then ended. For the year ended December 31, 2013, there was an increase in the market value of $0.8 million for the Pension Plan investments that were classified as Level 3; these assets were sold during the year ended December 31, 2013.

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

	Significant Unobservable Inputs (Level 3)
Balance, January 1, 2013	$ 10,758
Actual return on plan assets	824
Settlements	(11,582)
Balance, December 31, 2013	$ —

The following tables present the fair value hierarchy for those Pension Plan assets measured at fair value on a recurring basis as of December 31, 2015 and 2014 (in thousands):

		Fair Value Measurements as of December 31, 2015	
	Assets Measured at Fair Value December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity securities	$ 32,282	$ 32,282	$ —
Fixed income securities	63,109	—	63,109
Money market	17,331	17,331	—
Total Pension Plan assets measured at fair value	$ 112,722	$ 49,613	$ 63,109

	Assets Measured at Fair Value December 31, 2014	Fair Value Measurements as of December 31, 2014 — Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Measurements as of December 31, 2014 — Significant Other Observable Inputs (Level 2)
Equity securities	$ 33,301	$ 33,301	$ —
Fixed income 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

The following table presents the targeted asset allocation percentages for the Pension Plan's assets by type:

	Targeted Asset Allocation %
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, 2015 and 2014 are as follows:

	2015	2014
Discount rate	4.50 %	4.25 %
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.

The net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013 is comprised of the following (in thousands):

	2015	2014	2013
Net Periodic Benefit Cost:			
Service cost	$ 9,261	$ 8,579	$ 9,070
Interest cost	6,257	5,483	4,934
Return on Plan assets	(6,833)	(6,030)	(5,221)
Recognized actuarial loss	569	—	427
Recognized prior service cost	—	18	46
Net periodic benefit cost	$ 9,254	$ 8,050	$ 9,256
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 20,155	$ 7,074	$ 15,968
Actuarial loss (gain) arising during the year	9,143	13,099	(8,421)
Amortization of actuarial loss recognized in net periodic costs	(569)	—	(427)
Amortization of prior service costs recognized in net periodic costs	—	(18)	(46)
Accumulated other comprehensive loss at end of year	$ 28,729	$ 20,155	$ 7,074

The Company estimates that the net periodic benefit cost for the Pension Plan will be $10.7 million for the year ended December 31, 2016. The Company does not expect any refunds of Pension Plan assets during the year ended December 31, 2016.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Discount rate	4.25 %	4.50 %	4.25 %
Rate of compensation increase	3.80 %	3.80 %	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 $135.2 million and $128.0 million as of the December 31, 2015 and 2014 measurement dates, respectively.

The Pension Plan's expected future benefit payments for the next 10 years are shown below (in thousands):

Year	Amount
2016	$ 11,040
2017	8,890
2018	8,090
2019	7,860
2020	10,100
2021 - 2025	57,740

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic cost are expected to be $1.5 million and $0.0 million, respectively, for the year ended December 31, 2016.

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, 2015 and 2014 (in thousands):

	2015	2014
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 22,644	$ 18,901
Service cost	1,121	944
Interest cost	941	834
Actuarial loss	119	2,861
Benefits paid	(1,012)	(896)
Benefit obligation at end of year	23,813	22,644
Change in Excess Plans' assets:		
Fair value of Excess Plans' assets at beginning of year	—	—
Actual contributions during the year	1,012	896
Benefits paid	(1,012)	(896)
Fair value of Excess Plans' assets at end of year	—	—
Funded status and accrued pension cost	$ (23,813)	$ (22,644)

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 for the Excess Plans of $23.8 million and $22.6 million, as of December 31, 2015 and 2014, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the Excess Plan is $4.7 million and $4.8 million, before taxes, as of December 31, 2015 and 2014, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	4.50 %	4.25 %
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, 2015, 2014 and 2013 is comprised of the following (in thousands):

	2015	2014	2013
Net Periodic Benefit Cost:			
Service cost	$ 1,121	$ 944	$ 893
Interest cost	941	834	766
Recognized net actuarial loss	251	27	110
Recognized prior service cost	(37)	(37)	(37)
Net periodic benefit cost	$ 2,276	$ 1,768	$ 1,732
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 4,835	$ 1,964	$ 2,657
Actuarial loss (gain) arising during the year	119	2,861	(620)
Amortization of actuarial loss recognized in net periodic costs	(251)	(27)	(110)
Amortization of prior service costs recognized in net periodic costs	37	37	37
Accumulated other comprehensive loss at end of year	$ 4,740	$ 4,835	$ 1,964

The Company estimates that the net periodic benefit cost for the Excess Plans will be $2.5 million for the year ended December 31, 2016.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Discount rate	4.25 %	4.50 %	4.25 %
Rate of compensation increase	3.80 %	3.80 %	3.66 %

The accumulated benefit obligation for the Excess Plans was $18.1 million and $17.3 million as of December 31, 2015 and 2014, respectively.

The Excess Plans' expected benefit payments for the next 10 years are shown below (in thousands):

Year	Amount
2016	$ 1,180
2017	1,220
2018	2,010
2019	1,890
2020	1,250
2021 - 2025	18,040

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic costs are expected to be $0.2 million and $0.1 million, respectively, for the year ended December 31, 2016.

As of December 31, 2015, there are no assets held directly by the Excess Plans, as a trust fund established for the Excess Plans was liquidated and closed during 2015. Following the liquidation and closing of this trust, all Excess Plan benefits realized by the participants are paid by the Company. As of December 31, 2014, the carrying value of the trust fund, which was included in other invested assets, was $0.8 million.

The Company expects to contribute $1.2 million to the Excess Plans during the year ended December 31, 2016, which represents the amount necessary to fund the 2016 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, 2015 and 2014 (in thousands):

	2015	2014
Change in accumulated postretirement obligation:		
Accumulated postretirement obligation at beginning of year	$ 64,801	$ 50,752
Service cost	5,114	4,236
Interest cost	2,735	2,268
Actuarial (gain) loss	(5,723)	8,103
Benefits paid	(935)	(685)
Participant contributions	95	72
Retiree Drug Subsidy receipts	—	55
Accumulated postretirement obligation at end of year	66,087	64,801
Funded status and accrued prepaid pension cost	$ (66,087)	$ (64,801)

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 for the postretirement plan of $66.1 million and $64.8 million, as of December 31, 2015 and 2014, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the postretirement plan is $10.4 million and $17.5 million, before taxes, as of December 31, 2015 and 2014, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2015 and 2014 are as follows:

	2015	2014
Discount rate	4.50 %	4.25 %
Rate of compensation increase	3.80 %	3.80 %

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, 2015, 2014 and 2013 is comprised of the following (in thousands):

	2015	2014	2013
Net Periodic Benefit Cost:			
Service cost	$ 5,114	$ 4,236	$ 4,803
Interest cost	2,735	2,268	1,830
Recognized actuarial loss	1,309	581	900
Net periodic benefit cost	$ 9,158	$ 7,085	$ 7,533
Change in accumulated other comprehensive loss (income):			
Beginning balance	$ 17,479	$ 9,957	$ 12,855
Actuarial (gain) loss arising during the year	(5,723)	8,103	(1,998)
Amortization of actuarial loss recognized in net periodic costs	(1,309)	(581)	(900)
Accumulated other comprehensive loss at end of year	$ 10,447	$ 17,479	$ 9,957

The Company estimates that the net periodic benefit costs relating to this plan will be $7.6 million for the year ended December 31, 2016.

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Discount rate	4.25 %	4.50 %	3.95 %
Rate of compensation increase	3.80 %	4.00 %	4.00 %

The postretirement plan's expected benefit payments for the next 10 years are shown below (in thousands):

Year	Amount
2016	$ 1,193
2017	1,396
2018	1,604
2019	1,958
2020	2,292
2021 - 2025	16,323

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic costs are expected to be $0.5 million and $0.0 million, respectively, for the year ended December 31, 2016.

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 6.7% in 2016, gradually decreasing to 4.5% in 2038 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 $12.3 million (18.6% of the benefit obligation as of December 31, 2015) and the service and interest cost components of net periodic postretirement benefit costs by $1.9 million for the year ended December 31, 2015. 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, 2015 by $9.9 million and $1.5 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 results 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, 2015, 2014 or 2013.

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 ($18,000 in 2015 plus an additional $6,000 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 both of these plans, which totaled $3.0 million, $2.7 million, and $2.5 million for the years ended December 31, 2015, 2014 and 2013, 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. Stock-Based Compensation Plans

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 "Fairfax Plans"), in which the Company was allowed to participate. The Fairfax 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 five years. The Company had 201,905 Restricted Share Awards outstanding as of December 31, 2015.

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, 2015, there was $49.6 million of unrecognized compensation cost related to unvested Restricted Share Awards granted from the Fairfax 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, 2015, 2014 and 2013 were $21.1 million, $17.3 million and $18.3 million, respectively. As of December 31, 2015, the aggregate fair value of the Restricted Share Awards outstanding was $56.9 million. For the years ended December 31, 2015, 2014 and 2013, the Company recognized expense related to the Fairfax Plans of $12.9 million, $9.7 million and $9.0 million, respectively.

The following table summarizes activity for the Fairfax Plans for the year ended December 31, 2015:

	Shares / Options	Weighted-Average Value at Grant Date
Awards outstanding as of December 31, 2014	147,243	$ 389.13
Granted	37,694	561.06
Vested	(3,837)	387.26
Forfeited	(4,237)	430.65
Unallocated	25,042	454.52
Awards outstanding as of December 31, 2015	201,905	$ 428.51
Vested and exercisable as of December 31, 2015	2,164	$ 362.87

Employee Share Purchase Plans

Under the terms of the Odyssey Re Holdings Corp. (Non-Qualified) 2010 Employee Share Purchase Plan (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 matches these contributions by purchasing, 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, 2015, the Company purchased 11,218 Fairfax common shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of $507.71. The compensation expense recognized by the Company for purchases of Fairfax’s common shares under the 2010 ESPP was $1.8 million, $1.0 million and $1.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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Celebrating
20 years as a Fairfax Company
& over 100 years of history

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